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Area Development Fund Guidelines

The Area Development Fund (ADF) was established by the 1976 General Assembly to fund capital projects, which contribute to community or industrial development. Funds are distributed through Area Development Districts (ADDs) and applications must be approved by the local ADD Board of Directors before being submitted to the Department for Local Government (DLG) for final approval.

Fund Allocation

ADF allocations are calculated on the basis of the following formula:

- Sixty percent (60%) of the fund is distributed according to the percent of state population in the district.
- Twenty percent (20%) of the fund is distributed according to an inverse ratio of the percent of total state manufacturing employment in the district.
- Twenty percent (20%) of the fund is distributed according to an inverse ratio of the percent of the state's average per capita income in the district.

Since the state's population centers also have the higher levels of manufacturing and per capita income, the formula achieves incentive for economic diversification to those districts now lacking it, as measured by indices both of relative wealth or financial resources and of current industrial employment as opposed to farm, service or extractive economic activity (i.e., mining coal, minerals, oil, natural gas). The population factor acts as the counterbalance to provide equity for those areas of the state with more significant levels of diversification and, consequently, greater financial resources.

Any balance remaining in the fund at the close of any fiscal year will not lapse, but will continue into and be available for expenditure during the next succeeding fiscal year.



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Project Selection

Pursuant to KRS 42.350(2) and (3), money in the fund can only be used for capital projects that contribute to the community or industrial development in the

Commonwealth. The Boards of Directors of two (2) or more ADDs may propose joint capital projects to be financed by funds allocated to each participating ADD.

Eligible projects include: construction, reconstruction or other improvements to real estate, acquisition of and interests in real property, major equipment purchases, industrial site development, extension and installation of utilities to public facilities and industrial sites, solid waste management or disposal systems to be in compliance with law, debt retirement for debt incurred within the past five years for eligible projects and architectural, engineering and legal fees in conjunction with capital projects.

Ineligible activities primarily relate to “soft” costs, such as feasibility studies, master plan for any capital improvement project or the purchase of consumable supplies. Of particular importance, the statute *“expressly prohibits projects relating to any administrative salary, or other operating or capital expense of any area development district,”* and goes on to prohibit *“the acquisition, construction, reconstruction, renovation or maintenance of any building or property of schools, state institutions of higher learning, or any road, street, bridge or highway.”*

Application Process

A project proposal shall be submitted to the Department for Local Government on a Project, Scope and Budget Form, which includes: a detailed project description; a statement of the public benefit to be derived from the project; design plans and specifications for the project (if possible); and a statement of the sources and amounts of funds available from any other source for the project. In addition, each proposal submitted by an ADD shall be accompanied by:

1. The minutes of the ADD board meeting specifying project approval and the amount of area development funds allocated to the project
2. Itemized cost estimates prepared within thirty (30) days prior to the date of submission by a licensed architect or engineer; or A price quote on each item from one (1) or more vendors or contractors obtained within thirty (30) days prior to submission. Cost estimates must be on official company letterhead.

3. If a bid has already been acquired, all bid documentation including a copy of the advertisement, bid tabulation, a certification that the opening time and place was accurate, the contract, change order, purchase order, letter of award, minutes or state price contract. **Bids are required for projects over the amount of \$20,000.**
4. Statement of Assurances by the chief executive officer of the beneficiary agency that all applicable laws and administrative regulations will be met with attestation of the county clerk that the written assurances required by KRS 42.355 are recorded in the office of the county clerk in the county in which the project is located.

The following conditions require the inclusion of the specific documentation below:

- a. A proposal to acquire real property or acquire interest in real property shall be accompanied by a licensed attorney's statement, which sets forth the present holder of title, book and page number of the deed by which the holder received the title and sets forth each lien, mortgage, and claim against the property;
- b. If the beneficiary agency owns property rights by lease, the proposal shall be accompanied by a copy of the executed lease, which shall be for a term longer than the life expectancy of the project, generally not less than a twenty-five (25) year period;
- c. A proposal to extend new water, sewer or other utilities shall be accompanied by easements, rights-of-way, or attorney determination and certification of existence of those easements or rights-of-way; and
- d. A proposal for purchase of real property shall be accompanied by an appraisal, and a survey by a licensed surveyor.

Project Approval

Once submitted to DLG, each project application is reviewed to ensure that the proposed project conforms to the requirements of KRS 42.350 to 42.370, that the estimated costs are reasonable, and that the beneficiary agency will be able to carry-out the project during its estimated useful life. The final decision to either approve or disapprove any project proposal shall be made no later than forty-five (45) days following receipt of the proposal by DLG.

Project Completion

Each beneficiary agency has two (2) years to implement and complete the ADF project from the date of approval.

Upon project completion, beneficiary agencies are required to submit project completion reports to DLG. These reports must include copies of cancelled checks, copies of statements or invoices, paid receipts, and bid information (if not submitted with the application). Beneficiary agencies are liable to repay granted funds for failure to submit full project completion reports within a reasonable period of time, or for the expenditure of grant funds in violation of statutes and regulations.

Excess grant money disbursed to a beneficiary agency but not expended, as of close of business on June 30 of the last year of a biennium, shall be returned in accordance with KRS 42.355(2).

A project is not considered “completed” until all work has been completed and approved, and the project completion report is submitted to DLG. Until a project is considered “completed,” that beneficiary agency is not eligible for additional ADF project funding.

Records Retention

All beneficiary agencies receiving ADF grants must keep and maintain complete and accurate records of accounts of all expenditures of grant moneys, which will be subject by the Commonwealth, for a period of five (5) years after completion of the project.

All required forms can be found on the Department for Local Government website at www.dlg.ky.gov.

Governing Statutes

- KRS 42.345 – Definitions for KRS 42.350 to 42.370
- KRS 42.350 – Area Development Fund for Capital Projects
- KRS 42.355 – Examination and approval of Projects – Grants – Administration – Conditions
- KRS 42.360 – Rules and Regulations for Implementation of KRS 42.350 and 42.355
- KRS 42.370 – Amounts to be Expended from Fund
- 109 KAR 9:010 – Area Development Fund