

**CITY COUNCIL
COMMUNICATION:**

REVISED

ITEM _____

98-310

**OFFICE OF THE CITY MANAGER
CITY OF DES MOINES, IOWA**

AGENDA:
JULY 27, 1998

SYNOPSIS —

SUBJECT:
AGRIBUSINESS
PARK AND
ENTERPRISE
COMMUNITY
ENTERPRISE ZONES

On the July 27, 1998, Council agenda are resolutions to provide for the exemption from taxation for improvements made to real property in the Des Moines Agribusiness Park and Des Moines Enterprise Community Enterprise Zones, and to appoint the Des Moines Enterprise Zone Commission members to administer the Enterprise Zone Program. The Des Moines Agribusiness Park Enterprise Zone is bounded by Dean Avenue to SE 43rd Street (City limits) to the Des Moines River to SE 14th Street. The Des Moines Enterprise Community Zone is bounded by Hickman Road to the Des Moines River to I-235 to ML King, Jr. Parkway.

TYPE:
RESOLUTION
ORDINANCE
RECEIVE/FILE

SUBMITTED BY:
RICHARD CLARK
DEPUTY CITY
MANAGER

The Enterprise Zone Program is a special package of State tax incentives designed to encourage reinvestment in economically distressed areas. One dollar per year for ten years is proposed to be exempted from taxation for improvements made to real property in the Enterprise Zones in order to generate the use of the State investment tax credit, a significant income tax incentive. The first six members of a nine-member Enterprise Zone Commission must be appointed in accordance with State law. Ellen Walkowiak with the City's Office of Economic Development is coordinating the City activities relative to this project.

FISCAL IMPACT –

N/A

RECOMMENDATION –

- 1. Exempt \$1 per year for ten years from taxation for**

improvements made to real property in the Des Moines Agribusiness Park and Des Moines Enterprise Community Enterprise Zones; and

2. Appoint the Des Moines Enterprise Zone Commission members to administer the Enterprise Zone Program.

BACKGROUND –

In May 1997, the Iowa Legislature enacted and the Governor signed into law House File 724 which provides that certain eligible cities and counties may designate areas as enterprise zones and apply to the State of Iowa for enterprise zone certification. The intent of the legislation is to promote reinvestment in economically distressed areas throughout Iowa.

In August 1997, the Board of Directors of the Iowa Department of Economic Development (IDED) certified the Des Moines Agribusiness Park and the Des Moines Enterprise Community Enterprise Zones, which will be effective until August 2007. In December 1997, the IDED Board of Directors approved an amendment to include 13 contiguous acres of Pleasant Hill in the Des Moines Agribusiness Park Enterprise Zone.

In May 1998, the Iowa Legislature enacted and the Governor signed into law House File 2164 which provides after July 1, 1998, the authority for cities with State-certified enterprise zones rather than their respective counties to establish a nine-member Enterprise Zone Commission to administer the Enterprise Zone Program. It also provides more flexibility to offer exemptions from taxation for improvements made to real property in State-certified enterprise zones.

Businesses (excluding retail or those where entrance is limited by a cover charge or membership requirement) that locate or expand in a certified Enterprise Zone may obtain a special package of State tax incentives. Incentives include:

- 3 percent withholding tax credit for job training.
- 10 percent investment tax credit for capital investments of \$500,000 or greater deducted from State corporate income tax with a carry forward of seven years; applies to machinery, equipment, buildings and other improvements.

- 13 percent research activities tax credit deducted from State corporate income tax (refundable).
- 100 percent refund of sales, service, and use taxes paid on materials used and services provided, including utilities, in construction contracts.
- Up to ten-year 100 percent tax abatement on the increase in assessed valuation, as determined by the local government. (We are recommending \$1 per year for ten years.)

In order to obtain incentives, businesses must be located in a certified Enterprise Zone and meet all of the following eligibility criteria. In addition, businesses cannot close or reduce their operations in one area of the State and relocate substantially the same operation into the Enterprise Zone. Businesses must:

- Pay an average wage for all new jobs to be created that is at least 90 percent of the average county wage or average regional wage, whichever is lower, but not less than \$7.50/hour. The average wage is estimated to be \$9.50/hour in Polk County as determined by IDEED.
- Pay at least 80 percent of standard medical and dental insurance premiums for all full-time employees or provide a monetarily equivalent plan.
- Create a minimum of ten full-time jobs within three years and maintain these positions for at least ten years.
- Make a \$500,000 capital investment. Existing businesses that have operated in the Enterprise Zone for at least five years and companies that purchase vacant buildings suitable for industrial use may count up to \$250,000 of the appraised value of their investment in land and buildings to satisfy this requirement.

The 10 percent investment tax credit is one of the most significant incentives in the Enterprise Zone Program. The capital expenditures eligible for the investment tax credit include the costs of machinery and equipment and improvements made to real property. In order to generate the use of it, a partial property tax exemption for the value added by the improvements to real property must be provided under the Enterprise Zone Program. One dollar per year for ten years is proposed to be exempted from taxation. In addition,

companies that invest in the Enterprise Zones are eligible to receive three-year 100 percent or ten-year declining schedule urban revitalization tax abatement previously adopted by Council several years ago.

The first six members of a nine-member Enterprise Zone Commission to administer the Enterprise Zone Program must be appointed in accordance with State law. The affiliation referenced in House File 2164 and the proposed appointees are as follows:

Affiliation	Appointee
Representative of Des Moines City Council	Gene Phillips
Member of Des Moines Plan & Zoning Commission	Robert Mahaffey
Representative of International Labor Organization	Willie James
Representative of Workforce Development Center	Jane Barto
Member of Des Moines Area Community College Board of Directors	Fred Gilbert
Member with Economic Development Expertise Chosen by IDED	Gerard Neugent

The remaining three members of the Commission shall be selected by the above-referenced six members consistent with State law and shall include a representative of the Federal Enterprise Community under Title XIII of the Federal Omnibus Reconciliation Act of 1993, a representative of the City of Pleasant Hill recommended by the Pleasant Hill City Council and an at-large member. Subsequently, the City Council is required to adopt a resolution to affirm the appointments, which is anticipated to occur in August 1998.

Each of the appointees to the Commission shall serve a two-year term, which shall begin on the date the Council initiates the establishment of the Commission. However, in order to stagger terms, the term of membership for the Des Moines Plan & Zoning Commission, Workforce Development Center, and IDED representatives shall initially be for one year. All appointees shall be subject to reappointment by the Council.

The Commission shall adopt policies and procedures to administer the Enterprise Zone Program. After IDED approves the Commission and its policies and procedures, businesses can submit applications for Enterprise Zone benefits. It is projected that by September 1998, applications can be received for timely processing. Several businesses have expressed serious interest in the Enterprise Zone Program and are awaiting Council action to enable it.

The City Office of Economic Development staff will serve as staff to the Commission.

The Enterprise Zone Program will be a significant State tax incentive tool to assist the City of Des Moines in retaining, expanding and attracting new investment in the Federal Enterprise Community and in the development of the proposed Des Moines Agribusiness Park, which will help to secure Des Moines' status as a leader in the growth of value-added agricultural enterprises.