

**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

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

**99-271**

**SYNOPSIS -**

**AGENDA:**

JUNE 21, 1999

**SUBJECT:**

IOWA ENTERPRISE  
ZONE  
CERTIFICATIONS-  
AMENDED  
AGRIBUSINESS  
ENTERPRISE ZONE  
AND PROPOSED  
GATEWAY  
ENTERPRISE ZONE

**TYPE:**

**RESOLUTION**  
ORDINANCE  
RECEIVE/FILE

**SUBMITTED BY:**

RICHARD CLARK  
DEPUTY CITY  
MANAGER

On the June 21, 1999 Council agenda are two resolutions to submit applications to the State of Iowa for Enterprise Zone certifications for the amended Agribusiness Enterprise Zone and the proposed Gateway Enterprise Zone and to provide for partial exemption from property taxation for the value added by improvements made to real property by businesses within the amended Agribusiness Enterprise Zone and the proposed Gateway Enterprise Zone. This action will result in designating a total of 3,721 acres or nearly 1 percent of Polk County for enterprise zone certification, which is the maximum land area allowed. The Enterprise Zone Program is a special package of State tax incentives designed to encourage reinvestment in economically distressed areas.

The boundaries of the Agribusiness Enterprise Zone are proposed to be amended and the Gateway Enterprise Zone to be created in order to focus reinvestment in areas that have the greatest redevelopment potential. The amended Agribusiness Enterprise Zone is proposed to be bounded generally by Dean Avenue to the north, SE 36th Street to the future SE Diagonal Highway and SE 43rd Street to the east, the north line of the Des Moines River floodplain to SE 14th Street to Scott Avenue to the south, and the Des Moines River to the west, including 13 contiguous acres in the City of Pleasant Hill that have already been certified. The Gateway Enterprise Zone covers the Central Business District including Gateway East and West and the Riverpoint area. It is proposed to be bounded generally by I-235 to the north, Pennsylvania Avenue/East 7th Street to East Vine Street to the Raccoon River to the east, the Raccoon River to the south, and the Des Moines River and 19th Street to Ingersoll Avenue to 10th Street to the west.

Council is requested to approve the resolutions to amend the Agribusiness Enterprise Zone, create the Gateway Enterprise Zone, and exempt \$1 for ten years from taxation for improvements made to real property in the above-referenced

enterprise zones. This is essential in order to generate the use of the State investment tax credit-a significant income tax incentive.

Ellen Walkowiak with the City's Office of Economic Development is coordinating the City activities relative to this project.

**FISCAL IMPACT -**

N/A

**RECOMMENDATION -**

**Staff recommends approval of:**

- 1. Amending the Agribusiness Enterprise Zone and creating the Gateway Enterprise Zone;**
- 2. Authorizing the Mayor to execute, where necessary, the applications and any additional documents which may be required in the future to certify the Agribusiness Enterprise Zone and the Gateway Enterprise Zone, and the City Manager or his designee to provide the necessary follow-up assistance to pursue certification; and**
- 3. Exempting \$1 for ten years from taxation for improvements made to real property in the amended Agribusiness Enterprise Zone and the Gateway Enterprise Zone.**

**BACKGROUND -**

In May 1997, the Iowa Legislature enacted and the Governor signed into law House File 724 which was amended by House Files 2164, 2395 (Section 17), and 2538 in May 1998. The law 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 economic development in economically distressed areas throughout Iowa.

Beneficiaries of the Enterprise Zone Program include primarily

office and industrial businesses and housing developers. Businesses (excluding retail or those whose 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 with a carry forward of seven years; applies to machinery, equipment, buildings and other improvements, and newly acquired land.
- 13 percent research activities tax credit (refundable).
- 100 percent refund of sales, service, and use taxes paid on materials used and services provided, including utilities, in construction contracts.

Housing developers that construct or rehabilitate housing in a certified Enterprise Zone may obtain:

- 10 percent income tax credit with a carry forward of seven years.
- 100 percent refund of sales, service, and use taxes paid on materials used and services provided, including utilities, in construction contracts.

In order to obtain incentives, office and industrial 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 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. This is estimated to be \$9.61/hour in Polk County as determined by the Iowa Department of Economic Development (IDED).
- Pay at least 80 percent of standard medical and dental insurance premiums for all full-time employees or provide an equivalent plan.
- Create a minimum of ten full-time jobs 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 may count up to \$250,000 of the appraised value of their investment in land and buildings to satisfy this requirement.

Housing developers must meet all of the criteria listed below.

- Build or rehabilitate a minimum of four single-family homes not to exceed \$120,000 per home OR one multiple dwelling unit (three or more units) not to exceed \$120,000 per unit.
- Homes/units must include necessary amenities and must meet United States Department of Housing and Urban Development (HUD) housing quality and local safety standards.
- Construction or rehabilitation must be completed within two years from start of construction.

In August 1997, the IDED Board of Directors certified the Agribusiness Enterprise Zone, located in east/southeast Des Moines, and the Enterprise Community Enterprise Zone, located north of the downtown, which will be in effect until August 2007 including any future amendments to these zones. In December 1997, the IDED Board of Directors approved an amendment to the Agribusiness Enterprise Zone by including 13 contiguous acres of Pleasant Hill.

The City is applying to the State of Iowa for enterprise zone certifications for the amended Agribusiness Enterprise Zone and the proposed Gateway Enterprise Zone. The purpose is to designate land as enterprise zones in areas that meet the State's eligibility criteria and that have the greatest redevelopment potential. Only 1 percent of Polk County can be certified as enterprise zones, excluding federally recognized areas. The Enterprise Community Enterprise Zone, a federally designated area, does not count toward Polk County's 1 percent allotment. It will continue to be a certified enterprise zone. According to IDED, a total of 3,786 acres may be certified as enterprise zones.

The boundaries of the amended Agribusiness Enterprise Zone and the new Gateway Enterprise Zone are described in the synopsis. Changes to the existing Agribusiness Enterprise Zone include deleting the floodplain along the Des Moines River

between SE 14th and SE 43rd Streets, Laurel Hill Cemetery, and the predominantly gravel quarry area in the vicinity of Dean Avenue to the proposed SE Diagonal Highway between SE 36th and SE 43rd Streets. The new zone will include an industrial area between SE 18th and SE 22nd Streets from East Walnut to Dean Avenues and between the east bank of the Des Moines River to SE 14th Street from the railroad tracks south of Vine Street to Scott Avenue. The amended Agribusiness Enterprise Zone will contain 2,511 acres and an additional 13 acres in Pleasant Hill. The proposed Gateway Enterprise Zone will comprise 1,210 acres. The combined areas will contain 3,734 acres or .99 percent of the county area. This proposal meets the size area restriction for Polk County.

The amended Agribusiness Enterprise Zone meets the State's eligibility criteria for certification by having a per capita income of \$9,101 (average of Census Tracts 21, 52 and 53), which is less than the maximum of \$9,600; a family poverty rate of 18 percent (average), which is greater than the minimum of 12 percent; and is a blighted area as defined in Iowa Code Section 403.17. The proposed Gateway Enterprise Zone meets the State's eligibility criteria for certification by having a family poverty rate of 37.8 percent (Census Tract 51) and, although the core of this area is experiencing an economic resurgence, there are a substantial number of deteriorated structures, underutilized parcels, real and potential environmental contamination (i.e. DICO EPA Superfund site) and other factors that preclude economic growth which substantiate a finding of blight as defined in the Iowa Code.

The amended Agribusiness Enterprise Zone certification will be in effect until August 2007 and the proposed Gateway Enterprise Zone will be effective for ten years after the date of State certification. Although incentives must be conferred prior to the end of the ten-year period, the benefits provided may extend beyond this timeframe.

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, equipment, newly-acquired land, buildings, and other 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. A minimum of \$1 for ten years is proposed to be exempted

from taxation in the amended Agribusiness Enterprise Zone and the Gateway Enterprise Zone. 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.

Enterprise Zone certification will assist the City in retaining, expanding, and attracting new investment to several economically distressed areas. It will be significant in securing Des Moines' status as a leader in the growth of value-added agricultural enterprises. It will assist in maximizing the development potential of Gateway East and West and the area along the new Martin Luther King, Jr. Parkway, including the Riverpoint area. The use of State tax incentives will act as leverage and may reduce the amount of City funds required to encourage new investment.