

# Council Communication

Office of the City Manager



Date

February 20, 2006

Agenda Item No. 32  
Roll Call No. 06-  
Communication No. 06-076

Department: Economic Development

## AGENDA HEADING:

Resolution authorizing applications for Enterprise Zone certification as follows:

- a. Forest Avenue Enterprise Zone
- b. High Street Enterprise Zone
- c. River South One Enterprise Zone
- d. River South Two Enterprise Zone

## RECOMMENDATION:

Recommend approval to designate the above-referenced areas as Enterprise Zones and to submit applications to the State of Iowa for Enterprise Zone certification.

## FISCAL IMPACT:

The Enterprise Zone Program is a special package of State tax incentives designed to encourage reinvestment in economically distressed areas.

## ADDITIONAL INFORMATION:

In May 1997, the Iowa Legislature enacted and the Governor signed into law House File 724, as amended, 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 economic development in economically distressed areas throughout Iowa.

Beneficiaries of the Enterprise Zone Program include housing developers and office and industrial businesses. Housing developers that construct or rehabilitate housing in a certified Enterprise Zone may obtain:

- 10% income tax credit with a carry forward of 7 years.
- 100% refund of sales, service and use taxes paid on materials used and services provided, including utilities, in construction contracts.

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:

- 10% investment tax credit for capital investments of \$500,000 or greater with a carry forward of 7 years; applies to machinery, equipment, buildings and other improvements, and newly-acquired land.
- 3% withholding tax credit for job training.
- 13% research activities tax credit (refundable).
- 100% refund of sales, service and use taxes paid on materials used and services provided, including utilities, in construction contracts.

Housing developers must meet all of the criteria listed below.

- Build or rehabilitate a minimum of four single-family homes not to exceed \$140,000 per home OR one multiple dwelling unit (3 or more units) not to exceed \$140,000 per unit.
- Homes/units must include necessary amenities and must meet U.S. Department of Housing and Urban Development housing quality and local safety standards.
- Construction or rehabilitation must be completed within two years from start of construction.

Office and industrial businesses must be located in a certified Enterprise Zone and must 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:

- 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.
- Pay an average wage that is at least 90% of the average county wage or average regional wage, whichever is lower, but not less than \$7.50/hour. This is estimated to be \$14.33/hour in Polk County, as currently determined by the Iowa Department of Economic Development.
- Pay at least 80% of standard medical and dental insurance premiums for all full-time employees or provide an equivalent plan.
- Create a minimum of 10 full-time jobs and maintain these positions for at least 10 years.

On August 21, 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. On July 22, 1999, the Board certified the Gateway Enterprise Zone, located in the Central Business District, which will be in effect until August 2009. On January 19, 2006, the Board certified the Ingersoll Enterprise Zone, located on Ingersoll Avenue between 19<sup>th</sup> and 20<sup>th</sup> Streets, which will be in effect until January 2016.

The City is applying to the State of Iowa for enterprise zone certification for four new enterprise zones. These include the proposed Forest Avenue Enterprise Zone, High Street Enterprise Zone, River South One Enterprise Zone and River South Two Enterprise Zone. When combined, these areas total slightly less than 40 acres, which is the remaining amount of land that can be designated as enterprise zones in Polk County under current State law.

The proposed Forest Avenue Enterprise Zone contains approximately 5.59 acres and is located generally between the vacated alley east of 21<sup>st</sup> and 23<sup>rd</sup> Streets on the north and south sides of Forest Avenue. It meets the State's eligibility criteria for certification because the area has (a) a per capita income of \$10,466, which is less than the allowable maximum of \$12,648 based on the 2000 census, (b) a family poverty rate of 43.2%, which is more than 12% based on the 2000 census, and (c) 16.5% of the housing units are vacant in the applicable block group of the census tract containing the area based on the 2000 census, which is greater than the required 10%.

The proposed High Street Enterprise Zone contains approximately 5.08 acres and is located generally between High Street and Ingersoll Avenue from 17<sup>th</sup> to 19<sup>th</sup> Streets. It meets the State's eligibility criteria for certification because the area has a family poverty rate of 32% (Block Group 4 of Census Tract 51), which is greater than the required minimum of 12%, and is a blighted area as defined in *Iowa Code* Section 403.17 due to the deteriorated condition of the site and lower assessed value than other properties in the immediate vicinity.

The proposed River South One Enterprise Zone contains approximately 23.84 acres and is located generally between Indianola Avenue and SE 4<sup>th</sup> Street and north of Jackson Avenue and East Livingston Avenue. It meets the State's eligibility criteria for certification because the area has a family poverty rate of 18.3% in Block Group 1 and 15.2% in Block Group 2 (Census Tract 42), which is greater than the required minimum of 12%, and is a blighted area as defined in *Iowa Code* Section 403.17 due to the dilapidated appearance of the site, substandard width of lots and other factors that preclude economic growth.

The proposed River South Two Enterprise Zone contains approximately 4.88 acres and is located generally between Indianola Avenue and SE 1<sup>st</sup> Street and between Jackson and Granger Avenues. It meets the State's eligibility criteria for certification because the area has a family poverty rate of 15.2% (Block Group 2 of Census Tract 42), which is greater than the required minimum of 12%, and is a blighted area as defined in *Iowa Code* Section 403.17 due to the deteriorated condition of the site, substandard width of lots and other factors.

The IDED Board of Directors is anticipated to take action on the City's applications in March 2006. All remaining Enterprise Zones must be certified in March 2006 based on current State law. Upon certification, the proposed Enterprise Zones will be in effect for 10 years until March 2016. Although incentives must be conferred prior to the end of the 10-year period, the benefits provided may extend beyond this timeframe.

Enterprise Zone certification will assist the City of Des Moines in attracting new investment to these areas. The use of State tax incentives will act as leverage and may reduce the amount of City funds required for redevelopment.

**PREVIOUS COUNCIL ACTION(S):**

Date: 12/19/05

Roll Call Number: 05-2994

Action: Resolution Authorizing Application for Enterprise Zone Certification for the Proposed Ingersoll Enterprise Zone

**BOARD/COMMISSION ACTION(S):**

Date: N/A

Roll Call Number: N/A

Action: N/A

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

N/A