

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: West Eugene Enterprise Zone & E-Commerce Zone Re-Designation

Meeting Date: May 23, 2016
Department: Planning and Development Department
www.eugene-or.gov

Agenda Item Number: A
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ISSUE STATEMENT

The West Eugene Enterprise Zone program (WEEZ) is set to expire on June 30, 2016. The council will be asked to consider the continuation of the program prior to expiration. If re-designated, the WEEZ program would continue for 10 years. The Electronic Commerce (E-Commerce) Zone overlay will also expire along with the WEEZ. This work session is an opportunity to discuss the WEEZ and E-Commerce programs. Action will be scheduled at a later date.

BACKGROUND

West Eugene Enterprise Zone

The Oregon Enterprise Zone program is a State program established by the legislature in 1985 for the primary purposes of job creation, encouraging new investment, diversification, and competitiveness. The program offers a three-year property tax exemption for new buildings, renovation and expansion of buildings, and equipment investments made by qualified businesses located within a designated area defined by the zone sponsor. The exemption is designed to encourage new investment via a short-term property tax exemption, with the long-term goal of job creation and increased tax revenue for taxing districts after the exemption period. A qualified business is a (non-retail) manufacturing, processing, call-center, headquarters, distribution, or warehousing business that will increase its base employment by at least 10 percent. The short-term property tax exemption is limited to new, authorized investments that a qualified business makes in the WEEZ.

Currently, there are 69 designated enterprise zones throughout the State, and there is no longer a limit on the number of enterprise zones that may be designated state-wide. Lane County zones include Eugene, Springfield, Oakridge/Westfir, Cottage Grove/Creswell/South Lane, Florence, Veneta, and Junction City/Harrisburg (Lane and Linn County).

The existing WEEZ was designated in 2005, and is jointly sponsored by the City of Eugene and Lane County. The WEEZ boundary includes approximately 7.53 square miles in West Eugene (See Attachment A map). Lane County is a co-sponsor because a portion of the boundary is within the Urban Growth Boundary. The boundary includes most of the industrial-zoned property in West

Eugene. The boundary was expanded in 2010 to take in a small area that included Oakshire Brewing and Hop Valley Brewing.

During the past 10 years, there have been 33 applications from eligible companies. With the exception of Hynix, all of the companies that used the program were existing local businesses. The average investment in the West Eugene zone was approximately \$4.8 million. Not including Hynix, authorized investments in the WEEZ since 2005 totaled \$148 million. (See Attachment B – West Eugene Enterprise Zone Activity.)

State law allows zone sponsors to adopt local criteria for businesses authorized for participation in the enterprise zone program. Prior to 2005, when the City and County were seeking enterprise zone designation, they undertook a process to develop and adopt Public Benefit Criteria for the WEEZ. The process began with the convening of a joint City/County committee composed of two elected officials from each governing body and a total of four community representatives, two of whom were appointed by each governing body. The committee met through January, 2006, providing opportunities for stakeholder participation and community involvement, including public hearings, and developed a proposal for public benefit criteria as contained in Ordinance No. 20368. (See Attachment C.) The additional local criteria is listed in Exhibit A of Ordinance No. 20368 and include factors such as the following:

- Attractive wages
- Employer-provided benefits (health insurance, paid time off, childcare, life insurance, retirement, profit sharing etc.)
- Support for small business
- Redevelopment of existing facilities
- Local referral agency hiring
- Responsible construction goals
- Size of investment.

If a WEEZ business receives a property tax exemption but fails to meet enough of the additional local criteria, then the business would be required to pay back up to 25 percent of the property tax exemption benefit. Additionally, the local criteria caps the tax exemption benefit at \$32,000 per year per job. If the investments exceed the cap, the excess above the cap is repaid as a public benefit contribution. The maximum contribution under the cap is one-third of the tax exemption. State Statutes limits the amount of tax exemption that can be recaptured (“clawed-back”) to one-third of the tax exemption.

E-Commerce Zone Overlay

In 2012, the City and County successfully applied for an E-Commerce overlay zone in the WEEZ. Although the E-Commerce zone is fairly new, it will expire when the WEEZ expires on June 30, 2016. State law (ORS 285C.095) limits the number of E-Commerce zones to 15. Since there are 69 designated enterprise zones in the state, the E-Commerce zone designation is highly competitive.

Once designated, the E-Commerce zone program applies to all of an existing enterprise zone boundary. E-commerce is defined as engaging predominantly in transactions via the internet or an internet-based computer platform. These transactions can include taking orders, closing sales,

making purchases, providing customer service or undertaking other activities that serve the business's overall purpose. The most significant feature of these E-Commerce designations is that qualifying businesses may receive a state income tax credit against the business's annual state income or corporate excise tax liability.

The state income tax credit that is available to qualified e-commerce businesses equals 25 percent of the investment cost made in capital assets used in e-commerce operations inside the enterprise zone. The annual maximum credit amount is \$2 million per year. Unused tax credit amounts may be carried forward over the next five years. The credit is claimed directly on corporate or individual tax returns. To be eligible for the credit, companies must be in compliance with the enterprise zone eligibility criteria. There have been no qualified E-Commerce projects within the WEEZ to date.

The following enterprise zones currently have E-Commerce designations: Beaverton, Bend, East Portland, Dallas/Independence/Monmouth, Greater Redmond Area, Gresham, Hillsboro, Hermiston, Jackson County, Medford Urban, Portland, Rogue, Salem, Springfield Community, and West Eugene.

Next Steps

After this discussion, the next steps for re-designating the WEEZ include a council resolution authorizing the City Manager to apply to the state for re-designation. Once the council takes action, then the Lane County Board of Commissioners will be asked to pass a similar resolution. With the resolutions in place, the City Manager will put together the requisite application materials and submit the application to the state. The enterprise zone re-designation will be effective as soon as the state approves the application.

For the E-Commerce designation, the council and County Board will need to approve resolutions authorizing application to the State of Oregon. Applications are submitted when one or more of the E-Commerce Zone designations becomes available. Eugene's expiring E-Commerce Zone is the only one available, and there appears to be strong interest across the state for such designation. If Eugene is re-designated, there will be a gap between the beginning of the re-designated WEEZ and an E-Commerce designation.

RELATED CITY POLICIES

The enterprise zone and E-Commerce designations encourage economic development activity targeted in the core area that supports adopted planning and policy goals and objectives. Examples include:

Envision Eugene Pillars

Provide ample economic opportunities for all community members

1(a). Plan for an employment growth rate of 1.4 percent. This growth rate translates into an increase of 35,800 jobs over 20 years.

1(c). Work with property owners of current vacant or developed industrial lands, especially those larger than 25 acres, to reduce the financial and regulatory obstacles to development, with a goal of making these sites ready for development.

Regional Prosperity Economic Development Plan

- *By 2020, create 20,000 net new jobs in the chosen economic opportunity areas; reduce the local unemployment rate to, or below the state average; and increase the average wage to or above the state average.*
- *Strengthen Key Industries*
 - Identify strategies to address unique and logistical needs of existing and emerging industries
 - Develop associations or networks among targeted cluster businesses for innovative networking, information-sharing and provide opportunities for business growth
 - Pursue opportunities to expand and recruit businesses, ideas, and entrepreneurs into our region
 - Enhance our existing business and community

COUNCIL OPTIONS

Information only.

CITY MANAGER'S RECOMMENDATION

No recommendation provided at this time. Options, recommendations, and draft resolutions for the WEEZ and E-Commerce Zone re-designations will be provided at a future meeting.

SUGGESTED MOTION

Information only.

ATTACHMENTS

- A. West Eugene Enterprise Zone Map
- B. West Eugene Enterprise Zone Activity
- C. Ordinance No. 20368 (Includes Public Benefit Criteria)

FOR MORE INFORMATION

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