

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Action: Resolution Authorizing Application for an Electronic Commerce Designation in the West Eugene Enterprise Zone

Meeting Date: April 14, 2014
Department: Planning and Development
www.eugene-or.gov

Agenda Item: 3
Staff Contact: Denny Braud
Contact Telephone Number: 541-682-5536

ISSUE STATEMENT

The council is asked to consider a resolution that would add an electronic commerce designation to the existing West Eugene Enterprise Zone.

BACKGROUND

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 existing West Eugene Enterprise Zone (see Attachment A) was designated in 2005, and is jointly sponsored by the City of Eugene and Lane County. 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 exemption, with the long-term goal of job creation and increasing tax revenue for taxing districts following the exemption period. A qualified business is basically a (non-retail) manufacturing, processing, call-center, headquarters, distribution, or warehousing business that will increase its base employment by at least 10 percent. The West Eugene Enterprise Zone designation expires in 2015.

Oregon state statutes (ORS 285C.095) allow enterprise zones to receive a special overlay to further encourage electronic commerce ("e-commerce") investments. The overlay applies to all of an existing enterprise zone boundary. E-commerce means engaging in business transactions predominantly (more than 50 percent) over the Internet or a computer network, utilizing the Internet as a platform for transacting business, or facilitating the use of the Internet by other persons for business transactions, and may be further defined by the Oregon Business Development Department. 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.

On July 23, 2012, the council approved a resolution authorizing application for an e-commerce designation in the West Eugene Enterprise Zone; however, that application was not successful. The state is requiring an updated resolution for this application.

State Income Tax Credit

The state income tax credit 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 investment must be incurred in that income tax year. Qualified investments include property used in the business, the cost of which may be depreciated for federal income tax purposes. 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.

Enterprise Zone Property Tax Abatement

In any Oregon enterprise zone, an e-commerce operation would likely qualify for the property tax exemption without the e-commerce zone designation. In a designated e-commerce zone, however, the newly installed personal property machinery and equipment that qualifies for exemption is more broadly defined. Without the e-commerce designation, property that costs less than \$50,000 per item qualifies only if used in the production of tangible goods. With an e-commerce designation, using personal property for electronic commerce suffices for the exemption. Qualified new investments also will include those for operations that support or ensue from the e-commerce activity - for example, shipping and storage facilities to fulfill orders mostly arising from e-commerce.

E-Commerce Designation

To receive the e-commerce designation, the governing bodies of the zone sponsor must both approve resolutions. Following the zone sponsor approvals, the State of Oregon must approve the e-commerce designation. Originally, statutes only allowed a total of 10 e-commerce designations. (There are 59 enterprise zones in Oregon.) The following 10 enterprise zones currently have e-commerce designations: Bend, East Portland, Greater Redmond Area, Hillsboro, Jackson County, Medford, Portland, Roberts Creek, Rogue, Salem. The 2014 State Legislature passed HB 4005 which increases the total number of e-commerce designations to 15. HB 4005 takes effect later this year and Eugene will need to be positioned to apply in a timely manner for one of the newly available e-commerce designations.

In accordance with Oregon Administrative Rules related to designation of e-commerce zones, applications to the state for designation are accepted and approved based on the demonstration of readiness for a qualified e-commerce investment. The potential purchase of the vacant Hynix facility has proposed a major data center investment that would anchor the facility and attract technology companies that would utilize the valuable data center infrastructure. The initial data center investment would likely be eligible for the existing enterprise zone exemption. However, the e-commerce designation would be attractive to qualifying e-commerce and technology companies seeking to utilize the data center capacity. These types of companies have significant job creation potential.

RELATED CITY POLICIES

The enterprise zone and e-commerce designation are enabled by state statute. Encouraging e-commerce investments resulting in economic development activity in the targeted core area is consistent with numerous adopted planning and policy documents. 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

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 that can enhance our existing business and community

COUNCIL OPTIONS

1. Adopt Resolution No. ____ (see Attachment B) authorizing application for an e-commerce designation in the West Eugene Enterprise Zone.
2. Do not adopt the resolution.

CITY MANAGER'S RECOMMENDATION

The City Manager recommends adoption of the resolution authorizing application to the State of Oregon for an e-commerce designation in the West Eugene Enterprise Zone.

SUGGESTED MOTION

Move to adopt Resolution 5104, authorizing application to the State of Oregon for an e-commerce designation in the West Eugene Enterprise Zone.

ATTACHMENTS

- A. Map - West Eugene Enterprise Zone Boundary
- B. Resolution

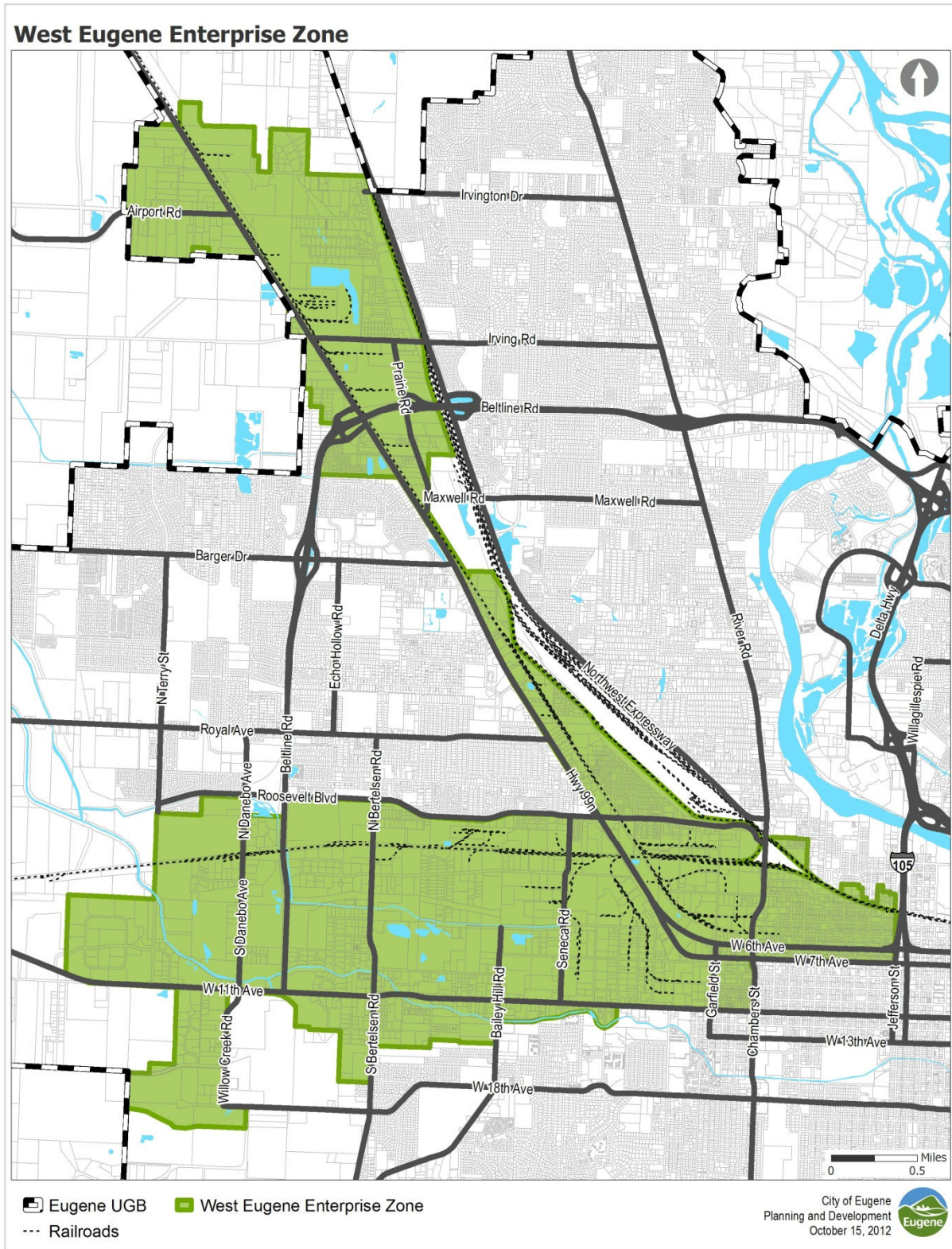
FOR MORE INFORMATION

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Attachment A



Caution: This map is based on imprecise source data, subject to change, and for general reference only.

Attachment B

RESOLUTION NO. _____

A RESOLUTION REAFFIRMING REQUEST THAT THE WEST EUGENE ENTERPRISE ZONE BE DESIGNATED FOR ELECTRONIC COMMERCE.

The City Council of the City of Eugene finds that:

A. The City of Eugene and Lane County are co-sponsors of the West Eugene Enterprise Zone previously authorized and approved by the State of Oregon.

B. The West Eugene Enterprise Zone is a successful economic development tool for the City of Eugene, contributing to the establishment and expansion of diverse businesses and the creation of family wage jobs.

C. The City of Eugene has established itself as a community that can support businesses engaged in electronic commerce, particularly in west Eugene.

D. On July 23, 2012, the Eugene City Council adopted Resolution No. 5070 requesting that the State of Oregon Business Development Department designate the West Eugene Enterprise Zone as an Electronic Commerce Zone and authorizing the City Manager to submit the Resolution to the State as part of an application for the designation.

E. Application to the State of Oregon for designation of the West Eugene Enterprise Zone as an Electronic Commerce Zone was not successful. The State of Oregon has requested an updated Resolution from the City of Eugene in order to process the designation.

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a Municipal Corporation of the State of Oregon, as follows:

Section 1. The City of Eugene reaffirms its request that the State of Oregon Business Development Department designate the West Eugene Enterprise Zone as an Electronic Commerce Zone.

Section 2. The City Manager or his designee is authorized to submit this resolution, together with a similar resolution from the Lane County Board of Commissioners, as part of the application for the Electronic Commerce designation for the West Eugene Enterprise Zone.

Section 3. This Resolution is effective immediately upon its passage by the City Council.

The foregoing Resolution adopted the ____ day of April, 2014.

City Recorder