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Date: December 20, 2012

Subject: Resolution Establishing Three State of North Carolina Urban Progress Zones

Executive Summary

This item recommends the approval of a resolution re-establishing three State of North Carolina Urban Progress Zones (UPZ) as authorized in G.S. §143B-437.09(a)(3)(c), which provide economic incentives to stimulate new investment and job creation in economically distressed areas. This item also recommends the re-authorization to submit three UPZ applications to the North Carolina Department of Commerce for consideration.

The proposed UPZ's are within the Central, Southwest and Northwest Durham areas.

Recommendation

The Office of Economic and Workforce Development (OEWD) recommends that City Council adopt the Resolution Re-Establishing Three State of North Carolina Urban Progress Zones and authorize the submission of three UPZ applications to the North Carolina Department of Commerce for consideration.

Background

In an effort to expand OEWD's financial tools for the business community, staff has been working aggressively in researching economic incentive programs that can complement the existing Economic Development Financial Assistance and Incentive Policy for Job Creation and Capital Investment which was adopted by City Council in 2008 and subsequently revised and adopted by City Council on May 17, 2010, and again on April 4, 2011. The existing financial programs which are applicable to the City-the Downtown Development Tier (including Parrish Street), the Community Development Area (CDA) outside the Downtown Development Tier (including targeted corridors) and targeted areas in the Urban Growth Area (UGA) can work in concert with the UPZ Program, which incentivizes businesses that locate in designated UPZ's. The incentives come in the form of tax credits, which were authorized in Article 3J of House Bill 270, which was passed by the NC General Assembly in July 2006 with the intent of stimulating new investment and job creation in economically distressed urban areas. Municipalities with a population of at least 10,000 can define qualifying areas of poverty as Urban Progress Zones.

Projects located within these zones receive enhanced Article 3J Credits. The City of Durham successfully submitted three applications for designation as Urban Progress Zones on May 3, 2011.

Article 3J makes two types of tax credits possible for eligible Durham corporate taxpayers when they engage in the following qualifying activities:

- Tax Credit for Creating Jobs
- Tax Credit for Investing in Business Property

These credits may be combined to offset up to 50 percent of the taxpayer's state income and franchise liability.

The criteria to establish an UPZ is outlined below by North Carolina Department of Commerce.

A State of North Carolina Urban Progress Zone must meet the following minimum criteria specified in the General Statutes:

(a) Urban Progress Zone Defined. – An urban progress zone is an area that meets all of the following conditions:

- (1) It is comprised of part or all of one or more contiguous census tracts, census block groups, or both, in the most recent federal decennial census.
- (2) All of the area is located in whole within the primary corporate limits of a municipality with a population in excess of 10,000 according to the most recent annual population estimates certified by the State Budget Officer.
- (3) Every census tract and census block group that composes the area zone meets at least one of the following conditions:
 - a. It has a population that meets the poverty level threshold. The population of a census tract or census block group meets the poverty level threshold if more than twenty percent (20%) of its population is below the poverty level according to the most recent federal decennial census. twenty percent (20%) of its population is below the poverty level according to the most recent federal decennial census.
 - b. It is located adjacent to a census tract or census block group whose population meets the poverty level threshold and at least fifty percent (50%) of the part of it that is included in the area is zoned as non-residential. No more than thirty-five percent (35%) of the area of a zone may consist of census tracts or block groups that satisfy this condition only.
 - c. It has a population that has a poverty level that is greater than the poverty level of the population of the State and a per capita income that is at least ten percent (10%) below the per capita income of the State according to the most recent federal decennial census, and it has experienced a major plant closing and layoff within the past ten (10) years. A census tract or census block group has experienced a major plant closing and layoff if one its industries has closed one or more facilities in the census tract or census block group resulting in a layoff of

at least three-thousand (3,000) employees working in the census tract or census block group and if the number of employees laid off is greater than seven (7%) of the population of the municipality according to the most recent federal decennial census.

(b) Limitations. – No census tract or block group may be located in more than one urban progress zone. The total area of all zones within a municipality may not exceed fifteen percent (15%) of the total area of the municipality unless the smallest possible area in the municipality satisfying all of the conditions of subsection (a) of this section exceeds fifteen percent (15%) of the total area of the municipality. In the case of a municipality where the smallest possible area in the municipality satisfying all of the conditions of subsection (a) of this section exceeds fifteen percent (15%) of the total area of the municipality, the smallest possible area in the municipality satisfying all of the conditions of subsection (a) of this section may be designated as an urban progress zone.

(c) Designation. – Upon application of a local government, the Secretary of Commerce shall make a written determination whether an area is an urban progress zone that satisfies the conditions and limitations of subsections (a) and (b) of this section. If the application is approved, the UPZ designation will be effective until December 31 of the year following the year in which the determination is made.

The following areas are proposed for designation:

1. Northwest Durham Urban Progress Zone - The proposed Northwest Durham UPZ according to the map entitled “Durham, NC Northwest Durham Urban Progress Zone Application” dated December 20, 2012 and prepared by Durham GIS and generally described as: all of the Census Block Group 001502.1 and adjacent nonresidential portions of Census Block Groups 001706.1 and 000402.1. It extends from Erwin Road on the southern side to Hillsborough Road to the north and from the Durham-Chapel Hill Blvd on the western side to Broad Street and #4 Alley behind Broad Street on the eastern side;
2. Southwest Durham Urban Progress Zone - The proposed Southwest Durham UPZ according to the map entitled “Durham, NC Southwest Durham Urban Progress Zone Application” dated December 20, 2012 and prepared by Durham GIS and generally described as: all of the Census Block Group 002015.2 and adjacent nonresidential portions of Census Block Group 002015.1. It extends from Old Chapel Hill Road on the southern side to Forest at Duke Drive and Durham-Chapel Hill Blvd in the north; and from Shannon Road, Westgate Drive and Hwy 15-501 Bypass on the western side to West Cornwallis, Chapel Road, Academy Road and Dixon Road on the eastern side; and
3. Central Durham Urban Progress Zone - The proposed Central Durham UPZ according to the map entitled “Durham, NC Central Durham Urban Progress Zone Application” dated December 20, 2012 and prepared by Durham GIS and generally described as: all Block Groups within Census Tracts 10.01, 10.02, 11, 12.01, 12.02, 13.01, 14, 3.01, 8.01, 8.02 and 9. It also contains Census Block Groups 000101.2, 000002.2, 000302.3, 000005.2, 000005.3, 000005.4, 000007.1, and 001303.1 in their entirety. It further contains adjacent (primarily nonresidential) portions of Census Block Groups 000002.1, 001304.1, 001709.3, 000101.1, 000102.1, 000006.1, 000006.2, 000007.2, 000708.1, 001710.1, 001801.2, 001801.3, 001802.1, 001802.2, 001802.3, 001805.1, 002009.1, and 002014.1. The Central

Durham UPZ covers nearly 14 square miles of central-eastern Durham. It includes high poverty areas and adjacent nonresidential areas of the City of Durham extending from Hebron Rd in the north to E Cornwallis Rd and Riddle Rd on the southern side. It ranges from Jersey Ave and Swift Ave on the western side to Glenn Rd, Midland Terrace, Junction Rd and US Hwy 70 on the eastern side.

Issues and Analysis

OEWD has reviewed the State of North Carolina's UPZ criteria's specified in the General Statutes and have concluded that the proposed three designations meet the qualifications. The designations were based on continuous 2000 census tracts and census block groups as defined by the United States Bureau of Census. OEWD staff recommends that Council approves a submission of the applications with the proposed zones for the following reasons:

1. If the State approves the applications within the usual two week timeframe, the City will have the full benefit of the zones for 12 months.
2. Although the 2000 census figures serve as the basis for the zone areas as proposed, all of the zones include the targeted economic development areas -the Downtown Development Tier (including Parrish Street), the Community Development Area (CDA) outside the Downtown Development Tier (including targeted corridors) and targeted areas in the Urban Growth Area (UGA). The selections of those areas were based upon 2007 economic and demographic statistics. Therefore, the zone areas proposed are still appropriate.
3. Since these areas expire December 31, 2014 and we will have to reapply in order to have zones designated, the application at that time will be based upon the 2010 census figures.

The designations of UPZ's within the Southwest, Northwest and Central Durham areas would provide additional economic incentives to stimulate new investment and job creation in OEWD's targeted distressed communities. It would prove beneficial to businesses that are looking to retain and expand by lessening their tax burden and making distressed areas more appealing and competitive.

The UPZ designations would also support Citywide Strategic Plan Goal 1: A Strong and Diverse Economy: Maintain and grow a strong and diverse economy through a variety of businesses, industries, and employment opportunities for the community; and particularly, stimulate economic investment and job creation in the areas targeted within the economic development plans adopted by City Council- Neighborhood Assessment, Downtown Durham Master Plan, Comprehensive Plan and the May 17, 2010, adopted revised 2008, "Resolution Establishing an Economic Development Financial Assistance and Incentive Policy for Job Creation and Capital Investment."

In an effort to market the UPZ designations to potential developers, OEWD and Technology Solutions will identify the UPZ designation areas on the department's website; provide a UPZ overlay on the Incentive Grant Eligibility GIS mapping tool application used to determine if a potential property address is eligible for the City's economic financial incentives; issue press release and collaterals to be distributed to stakeholders; and through the utilization of social media platforms, such as Facebook and Twitter, etc.

Alternatives

The City Council could elect not to adopt a Resolution Establishing Three State of North Carolina Urban Progress Zones and not to authorize the submission of three UPZ applications to the North Carolina Department of Commerce for consideration. This alternative would prevent businesses from capitalizing on economic incentives that are available to stimulate new investment and job creation in our economically distressed areas.

Financial Impact

There could be impacts on the City General Fund if Council approves the resolution, the State approves the application and businesses qualify to receive franchise tax credits. Because businesses could qualify for credits on franchise taxes and portions of franchise taxes are shared between the State of North Carolina and the City tax credits for franchise taxes could mean lower tax revenues to the City.

However, if more jobs are created and more business property is purchased, the City could receive more sales tax revenue and that it would have received had investments not been made in targeted communities. Furthermore, taxable business property investments could also increase the levels of property taxes derived from the property improvements if such investments increase the value of real property.

SDBE Summary

An SDBE summary is inapplicable because there are no SDBE's that are involved in this item.

Attachments

Resolution Requesting Designation of Three Urban Progress Zones (1 Page)

Proposed Three UPZ Designation Applications (Proposed Map of the three UPZ's) (10 Pages)