



Board Summary Report

File #: 24-209

Agenda Date: 4/23/2024

Agenda #:

To: Board of County Commissioners

Through: Bryan Weimer, Director, Public Works and Development

Prepared By:

Larry Mugler, Planner, Long Range Planning, Public Works and Development; Loretta Daniel, Long Range Planning Program Manager, Public Works and Development

Presenter: Larry Mugler, Planner, Long Range Planning Division, Public Works and Development

Subject:

3:30 PM *Proposal for Participation in the South Metro Enterprise Zone Program

Purpose and Request:

Staff is requesting direction from the BOCC to move forward with a 2024 boundary change to the Colorado Enterprise Zone (EZ) Program to include areas in the eastern part of the county and to work with the City of Englewood on an agreement to administer the new areas. At the Board study session on October 10, 2023, staff described the Colorado Enterprise Zone (EZ) Program and outlined an opportunity to include portions of unincorporated Arapahoe County in the program. The Board directed staff to continue to pursue this opportunity and to research ways to manage the program. Colorado’s Enterprise Zone program provides tax incentives to encourage businesses to locate and expand in designated economically distressed areas of the state. The Colorado Office of Economic Development and International Trade (OEDIT) manages the Colorado Enterprise Zone Program and is about to undertake a required review of the 16 EZs in the state that occurs every ten years. This provides both a chance to re-evaluate the South Metro EZ and a constraint on any immediate major changes.

OEDIT expects their evaluation to take all of 2024 and some of 2025 with final actions anticipated in January 2026. This could mean nearly a two-year delay in adding new areas to the South Metro EZ. Staff is recommending that the County request a boundary change in 2024 to add the eastern communities along I-70 to the South Metro EZ. The Colorado Economic Development Commission considers boundary adjustments at its June meeting, so requests need to be submitted by the end of May. Rather than transferring the EZ administrator role from the City of Englewood to Arapahoe County, this interim action would leave Englewood in that role and County staff working with the new areas under the current EZ administrator’s guidance.

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Background and Discussion: The South Metro EZ is composed of the City of Englewood, portions of the Cities of Sheridan and Littleton, and the Town of Parker as shown on the attached map (Attachment 1). To be included in the Enterprise Zone, an area must meet one of the following criteria:

- five-year population growth rate below 25 percent of the state average
- unemployment rate that is 125 percent or greater than the state average

- per capita income below 75 percent of the state average.

Urban enterprise zones are limited to a maximum population of 115,000 and the current South Metro EZ has a population of slightly over 50,000.

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Businesses (including farms and ranches) and taxpayers investing in Enterprise Zones can earn credits on their Colorado income tax by carrying out specific economic development activities. The Colorado EZ Program includes two major tools for local economic development: business tax credits and income tax credits for contributions to local nonprofits. The specific business tax credit categories are attached. None of these tax credits affect local tax revenues such as property taxes.

In the fiscal year 2021-22, the South Metro EZ reported business tax credits totaling over \$1 million. In the state's fiscal year of 2021, almost 6,000 businesses were certified for EZ tax credits and were eligible for \$57.58 million in EZ tax credits. To better understand the benefits to businesses in the South Metro EZ, the table below presents data for the qualified tax credits claimed and the types of tax credits from 2021 to 2023. The number of businesses that take advantage of the tax credits varies each year, but generally, over \$1 million in tax credits was obtained by around 100 businesses each year over this period. The most popular tax credit was the Investment Credit where businesses can earn a tax credit of three percent on the purchase of business equipment and other property.

| Tax Credit | 2021 | 2022 | 2023 |
|--|---------------------|---------------------|---------------------|
| 1 Investment Credit | \$ 846,416 | \$ 803,974 | \$ 912,525 |
| 2 Job Training Credit | \$ 448,878 | \$ 443,025 | \$ 350,157 |
| 3 Employer Sponsored Health Insurance Credit | \$ 16,000 | \$ 17,000 | \$ - |
| 4 All New Employee Credit | \$ 128,034 | \$ - | \$ 61,069 |
| 5 Vacant Commercial Building Rehab Credit | \$ 50,000 | \$ - | \$ - |
| 6 R&D Credit | \$ 52,793 | \$ 27,922 | \$ 3,403 |
| 7 Commercial Vehicle Investment Credit | \$ - | \$ - | \$ - |
| Total Business Tax Credits | \$ 1,542,121 | \$ 1,291,921 | \$ 1,327,154 |
| No. of Businesses filing tax credits | 105 | 99 | 120 |
| Average tax credit per business | \$ 14,686.87 | \$ 13,049.71 | \$ 11,059.62 |
| No. of jobs created in the EZ | * | 51 | 56 |
| Total Capital Investment in the EZ | * | \$ 95,453,664 | \$ 45,977,745 |

* Data not available

The second category of tax credits is the Contribution Tax Credit which provides a tax credit to Colorado taxpayers who contribute to identified EZ projects that are nonprofits. The EZ Administrator is responsible for certifying that the contribution was made to an eligible project. When taxpayers make a certified contribution, they can claim:

- 25 percent of a cash donation as a state income tax credit
- 12.5 percent of an in-kind donation as a state income tax credit.

For the South Metro EZ, a major contribution project is the Craig Hospital which comprised a large portion of the estimated \$422,457 in credits reported in 2020-2021. Nonprofit entities in the EZ areas (including the local governments) could increase their revenues through the use of the contribution tax credit program. South Metro EZ currently has one contribution project, Craig Hospital. In 2023, the hospital raised over \$1 million through this program for research projects, facility improvements, and patient and family support. Some other EZs have many contribution projects and report credits of more than one million dollars a year. Nonprofit organizations that are located in or serve a population in the EZ can get significant benefits from the contribution tax credit in the EZ program. Deer Trail and special districts could use the contribution tax credit to fund special projects. For example, the Town of Bennett used this program to help fund water system improvements.

Darren Hollingsworth of the City of Englewood's Community Development Department serves as the EZ Administrator for the South Metro EZ. He has reported that Parker no longer meets the EZ eligibility criteria and has not been active in the required annual reporting process.

Proposal for a boundary adjustment to the South Metro EZ

The Colorado Office of Economic Development and International Trade is required by state statute to undertake a review of the EZ Program every ten years. OEDIT plans to begin the review in 2024 and propose changes to the Economic Development Commission (EDC) for action before January 2026. While the staff had conversations with Englewood and OEDIT about transferring the Administrator role, such a major change would be part of the ten-year evaluation. That would not provide any benefits to Arapahoe County businesses for almost two years.

To expand on the rationale for the County to assume the role of EZ Administrator for the long term, the staff sees it as a very effective way to assist businesses in identified economically distressed areas of the county, both the rural and urban areas. The tax credits can have a significant impact not only for a business, but on the jobs created, skills enhanced, and other benefits such as health care for employees.

PWD Staff were requested by business owners in eastern Arapahoe County to look into enterprise zones for their area to enhance economic development opportunities. To provide more immediate assistance to businesses in the rural, eastern part of the county, the staff approached the South Metro EZ Administrator to request that the area of the South Metro EZ could be expanded through a “boundary adjustment” process. This is an annual opportunity for EZ Administrators to make changes to the areas in their enterprise zone with EDC approval, usually in June. Attachment 3 shows three eligible block groups that include Strasburg, Byers, and Deer Trail. Working with the South Metro EZ Administrator, the staff would request that these three block groups be added to the South Metro EZ in 2024.

Arapahoe County planning staff would provide support to the South Metro EZ Administrator in managing the new areas, but the EZ Administrator would continue to carry out certain duties (e.g., review of certifications) for the new area. This would provide staff the opportunity to learn the processes for certifying businesses for tax credits and exploring contribution projects from nonprofits. That information would be very helpful in determining the long-term future of the South Metro EZ in terms of the area covered, the duties of the EZ Administrator, and the cost of operating an EZ, and the future role of Arapahoe County staff. Since the change will not be effective until late June, the remaining six months in 2024 would focus on explaining the EZ program to entities in the new area. Some businesses may be very eager to be certified for tax credits. Planning staff should spend less than 10 hours per week through the remainder of 2024. The staff sees this as a pilot to explore the scale of responsibilities for a long-term EZ program. Staff has heard from the South Metro EZ Administrator that the EZ responsibilities require about five percent of his time, and from the new Adams County EZ Administrator, that the EZ duties require about an hour a day. The staff recognizes that initiating the program would require more time for preparing materials, hosting informational workshops, and responding to questions.

There are several benefits of expanding the South Metro EZ to include the rural areas of the county since the core benefits of EZs are tax credits for capital investment, research and development, new jobs, and hiring local workers. The goal of adding the eastern area to the EZ is to create more economic vitality by attracting investment, growing businesses, and increasing employment opportunities. For businesses in the east county, it decreases the amount of taxes a business pays. For residents, it may have the benefits of job creation and increased economic vitality in their community. It also provides an opportunity for residents to invest in their community through nonprofits. For the County, it may lead to building permit fees for new construction and tenant improvements and a general increase in economic sustainability for the eastern communities.

While exploring options for providing EZ benefits to these eastern communities, we reached out to the Adams County EZ Administrator. At that time the Administrator was located in the Adams County Regional Economic Partnership, a nonprofit group. Their EZ had reached their population cap and did not even include their portion of Strasburg. Since then, the EZ Administrator role has shifted to county staff in the Community and Economic Development office. We have begun conversations with the new EZ Administrator to see if the earlier assumption holds.

Leveraging Economic Development Partnerships in East County

This proposal to include the eastern area of the county in the South Metro EZ would require educating the business community, farmers, and ranchers about the EZ tax credits and resources available. After the initial

evaluation period, should County staff assume the administrative responsibilities for the east county area, the staff would work closely with the three organizations receiving County funds to support economic development to leverage outreach and education opportunities to inform businesses. The overall goal is to support community-serving businesses and those businesses which offer recreational and tourism opportunities.

The three partners would be the I-70 REAP, the I-70 Corridor Chamber, and Unincorporated Arapahoe County Economic Development. Together, these organizations are receiving County funding of \$34,500 in 2024 to support businesses and economic development in the eastern part of the county. By informing the membership of these groups and utilizing their network of contacts, information to businesses can be distributed. The I-70 REAP Executive Director has offered to organize in-person seminars, add EZ information to their website, meet with key businesspeople, and generally champion the EZ benefits to businesses in the east county.

During 2024 and while undertaking the proposed pilot approach, the staff could explore other options for administering the EZ Program such as 1) not changing current roles, 2) County staff assuming the EZ responsibilities, 3) utilizing one of the economic development entities currently receiving County funds, or 4) a combination. These include groups such as the Denver South and I-70 REAP. While not one of these groups is currently countywide, one of them might have an interest in managing the EZ Program. The County is the only entity at this time that has a countywide perspective which is one of the reasons that Englewood would like to be replaced as the EZ Administrator. State staff has identified many other parts of Arapahoe County that meet the criteria for EZ designation. The County has the ability to work with other Arapahoe County jurisdictions on the future of the South Metro EZ.

Comprehensive Plan Policies

To provide the policy framework to support this proposal, the Arapahoe County Comprehensive Plan includes several goals, policies, and strategies related to economic development. Some that are relevant to the EZ Program include:

Policy EH 2.1 - Support Employment and Commercial Development in Designated Growth Areas at Appropriate Locations

Arapahoe County will support employment and commercial development land uses in Designated Growth Areas in designated locations.

Strategy EH 2.1(a) - Collaborate with the Business Community and Economic Development Groups

The County will work with the business community and economic development organizations to continue to encourage and support economic development in appropriate areas to increase private investment, provide jobs, attract new business and improve economic opportunities for residents.

Policy EH 2.3 - Encourage Employment and Commercial Development in the Rural Town Centers

To reinforce the role of the Rural Town Centers as rural service centers, Arapahoe County will encourage employment and commercial uses to develop within the “downtown” or core of the Rural Town Centers, consistent with the Sub-area Plans. Commercial uses will be at a scale and design compatible with the “downtown” and must have adequate services at the time of development.

Strategy EH 2.3(a) - Support Downtown Improvement Efforts to Attract Business to the Rural Town Centers

The County will work with local business organizations and support local efforts to attract business. In addition, the County should consider funding for public improvements that may attract private investment.

Strategy EH 2.3(b) - Provide Incentives for Commercial Development in the Downtowns of the Rural Town

Centers

The County will evaluate and consider creating incentives for employment and commercial development to occur in downtown areas of the Rural Town Centers. (For example, incentives may be lower impact fees in the communities than in the Rural Area).

In summary, the Colorado EZ Program provides benefits to businesses in the county by offering the opportunity to partially offset investment costs through tax credits. The proposal to include the rural, eastern part of the county would provide County support to businesses through benefits that may lead to business expansion and resiliency, potential new jobs, and greater investment in the rural communities.

Fiscal Impact: Assuming that the City of Englewood continues as the South Metro EZ Administrator, we have estimated the time commitment from existing PWD staff members would be 260 hours for the remainder of 2024 or 5 % of their time, which can be accommodated with the workload projected. That person or persons would be focused on outreach to businesses in the new EZ areas, assisting them with certification, and providing the needed data to the EZ Administrator. Support of the PWD Communication Business partner will be needed for outreach components of the program. This also accounts for changes that will need to be accommodated with legislation that could pass this 2024 session.

Alternatives: The staff recommendation is to request that three block groups be added to the South Metro EZ, and that County staff support the South Metro EZ Administrator in serving this new area. An alternative would be to defer any EZ changes until OEDIT completes its ten-year review and use that time to determine the best way to manage the South Metro EZ with a proposed expansion of the area. A third alternative would be to discontinue any efforts to include unincorporated portions of Arapahoe County in the EZ Program. Should the Board decide to support the proposal to add the eastern area of the county to the South Metro EZ, a draft letter of support to the EDC is attached.

Alignment with Strategic Plan:

- Be fiscally sustainable
- Provide essential and mandated service
- Be community focused

Staff Recommendation: Staff recommends that the Board support the proposal to revise the South Metro EZ to include the I-70 communities in Arapahoe County. If such a goal is supported, PWD staff will proceed with preparing a boundary adjustment proposal and work with the South Metro EZ Administrator to obtain EDC approval.

Concurrence: The South Metro EZ Administrator, I-70 REAP, and the I-70 Chamber of Commerce will support this recommendation with letters of support (attached).