

MEMORANDUM

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FROM: Julie Herlands, AICP, Vice President
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RE: Memo of the Uptown/D-2 District Revenue Strategies

INTRODUCTION

Uptown, or D-2 District, is an area in the City of Portsmouth close to downtown, which has potential for economic development and redevelopment. The study area has a number of existing economic incentives that support redevelopment and reinvestment. Each of the existing tools and potential new tools that could be implemented in the study area are addressed in more detail including how they function and the benefits they could bring to the City, particularly the D-2 District.

Key revenue strategies for the D-2 District in the City of Portsmouth are the following:

- Economic Development Authority's Local Incentive Program;
- Virginia Enterprise Zone;
- Historically Underutilized Business Zones;
- Port of Virginia;
- Foreign Trade Zone;
- Federal New Market Tax Credits, and;
- Community Development Authorities.

ECONOMIC DEVELOPMENT AUTHORITY'S LOCAL INCENTIVE PROGRAM (LIP)

The Economic Development Authority (EDA) has local incentive programs for redevelopment in the City of Portsmouth. Majority of the D-2 District is within the EDA's local incentive boundary for Midtown and Uptown. The EDA offers a **Façade Improvement Grant (FIG)** that is a matching grant of up to \$25,000 to be used on facades of existing buildings and/or enhancement of the streetscape. Another opportunity offered is the **Interior Build Out Grant**, which is a matching grant of up to \$10,000 to address rehabilitation of ground floor interior space. A **Safety and Security Grant** is available for a 100 percent reimbursement up to \$2,000 for costs relating safety and security improvements, such as fire suppression systems, lighting, video surveillance, and wages for security

staff. Lastly, **Windows of Opportunity Grant** is a 100 percent reimbursement of up to \$2,000 to assist commercial property owners to enhance their street-level retail space. The property owner would use the funds for window artwork and effective messaging.

Limitations

A limitation of this program is that the new construction is not eligible for the FIG and Interior Build Out Grant. Also both are matching grants, so the business and property owner would need to have finances available. All opportunities need to be permanent improvements that will stay with the building.

Potential

The D-2 District can use these four grants in the short term, in hopes that they can be catalysts for redevelopment in the district.

VIRGINIA ENTERPRISE ZONE (VEZ)

Much of the D-2 area, particularly areas with commercial land uses, falls within Zone 1 of the Virginia Enterprise Zone (VEZ). An enterprise zone is defined by the state code as an economically distressed, distinct geographical area of a county, city, or town. Through this partnership between state and local government, economic development, job creation, and private investment are encouraged through grant-based incentives as well as local incentives. State grants offered are the **Job Creation Grant** and the **Real Property Investment Grant** by the Virginia Department of Housing and Community Development. The state also offers a **Major Business Facility Job Credit**, which is available to any business in the state other than a retail establishment. The credit is \$1,000 for all qualifying jobs in excess of the threshold. Local incentives include the **Development Fee Rebate**, **Business Personal Property Investment Grant**, the **Machinery and Tool Investment Grant**, the **Tax Exemption for Rehabilitated Structures**, and an **Environmental Restoration Site Tax Exemption**. For Zone 1, local incentives further include the **Commercial Façade Loan Program**, a **Corridor Streetscape Improvement Incentive**, and a **Mixed-Use Development Incentive**. The purpose of all these grants and incentives is to encourage job creation and investment within enterprise zones with private enterprise.

Limitations

Limitations of this program are that most grants and incentives are rebates, matches or loans, requiring businesses and property owners to be able to have the upfront costs and capital for the projects that are available for the program. An Enterprise Zone Grant and a Major Business Facility Job Tax Credit may be claimed by the same business but cannot be claimed for the same job. Major Business Facility Job Tax Credit are available for taxable years before January 1, 2020 and unused credits may be carried over ten years.

Potential

Enterprise Zones can leverage private sector investment in the D-2 District by using the various grants and incentives mentioned above. VEZ has a lot of potential since the programs are through a partnership of various funding sources and resources. It also offers help to current business and property owners for reinvestment and to new businesses. A VEZ is authorized for ten years by the state, which gives the area time to take advantage of all the grants and incentives that are available.

HISTORICALLY UNDERUTILIZED BUSINESS ZONES (HUBZone)

HUBZone is a program out of the U.S. Small Business Administration and was enacted into law by the Small Business Reauthorization Act of 1997. The main purpose of the HUBZone is to increase employment opportunities, stimulate capital investment, and empower communities through economic leveraging. This is done by establishing preferences and providing access to more federal contracting opportunities. There is a goal set that 3 percent of all dollars for federal prime contracts are awarded to HUBZone certified entities. Some of the benefits for a company are competitive contracting, receiving a 10 percent price evaluation preference during the competitive contracting process, sole source awards, and subcontracting opportunities.

Limitations

A limitation of this program is that it provides incentives for small businesses located within a HUBZone, at least 35 percent of the employees have to live within the HUBZone, need to follow the SBA standards for small businesses, and the business be 51 percent owned and controlled by U.S. citizens. HUBZones can change every 6 to 9 months, which leaves this strategy less stable than others.

Potential

The D-2 District is currently completely inside the boundaries of the HUBZone. Being within the HUBZone can help attract businesses by advertising the opportunity to become a HUBZone certified small business.

PORT OF VIRGINIA

The Port of Virginia is another tool the City of Portsmouth can utilize in its redevelopment efforts in the D-2 District. The D-2 District falls inside the Port of Virginia Economic and Infrastructure Development Zone which offers a one-time grant of up to \$500,000 from the Virginia Port Authority. The purpose of the grant is to locate a new operation or expand an existing one. The Port of Virginia also offers an **International Trade Facility Tax Credit** to create new jobs or capital investment in an international trade facility. The credit can be either be \$3,500 per employee from the increased trade activity or an amount equal to 2 percent for capital investment expenses due to increased trade activities.

Limitations

The one limit of this grant offering is that the company that has claimed employees for the Major Business Facility Job Tax Credit or International Trade Facility Tax Credit may not use the grant for the claimed jobs.

Potential

Again, like the HUBZone, this grant opportunity can help attract new businesses as well as provide opportunities for current businesses looking to expand in the D-2 District.

FOREIGN TRADE ZONE (FTZ)

The FTZ is a geographic designation in the United States, yet are areas legally outside Customs

territory, meaning companies located in these zones can diminish, delay, or even eliminate duties. This is granted by the Port of Virginia and would offer several benefits including duty deferral, inverted tariffs, weekly entries, no time constraints, and customs compliance.

Limitations

A limitation of this program is that this might not be a good fit for many current or potential business owners in the D-2 District.

Potential

Opportunities further exist for D-2 in that it is in a Foreign Trade Zone. Portsmouth has the additional advantage of being in a strategic Mid-Atlantic location.

FEDERAL NEW MARKET TAX CREDITS (NMTC)

NMTC is available in the City of Portsmouth and in the D-2 District. Investors can invest in Community Development Entities (CDEs) and in return receive tax credits that are 39 percent of the original investment over the course of 7 years. The CDEs use the investments for loans to businesses for construction or renovation of new facilities.

Limitations

Limitations of this program are that it has only happened in the City twice and is better suited for larger commercial and mixed use developments.

Potential

This is another tool that could be used in conjunction with others. The benefit is that the funding is flexible in nature and also gives a benefit to investors through tax credits.

COMMUNITY DEVELOPMENT AUTHORITY (CDA)


A CDA is a tool that Portsmouth has used before and could look into using again. This tool allows a partnership to happen with the private sector and the City to provide infrastructure or other services through a revenue stream generated within the CDA. It can be used for a specific development. CDAs are authorized and created for the purpose of providing public infrastructure associated with the development or redevelopment of an area.

Limitations

In order to create a CDA, a petition by the owners of at least 51 percent of the land area within the proposed CDA boundary is needed. This can be difficult to obtain especially when you have multiple land owners within the proposed district. Also bond repayment is contingent upon an expected revenue stream. Past efforts in the City have been unsuccessful and use of this tool is likely to be met with hesitation or resistance. However, CDAs are valuable tools for redevelopment and can be established in a manner that provides financial protection to the City.

Potential

CDAs can leverage private sector investment in the D-2 District by being able to provide certain



services such as street cleaning, trash removal, grounds keeping or even infrastructure to the District. If put in place, the CDA could issue revenue bonds to finance infrastructure or other facilities (street lights, landscaping, storm water management, security facilities) needed in the District to help with redevelopment. Funding could be set up where the required assessment is paid at the time of closing as opposed to an ongoing tax assessment or increment, thus mitigating some of the risk to the City.

EVALUATION OF REVENUE STRATEGIES/CONCLUSION

The EDA has been functioning as a redevelopment authority by acquiring some parcels of land in partnership with a non-profit organization and the housing department. This can also be a tool that could be expanded into the D-2 District.

Many of these tools are worthwhile for the City of Portsmouth to promote and offer in efforts to redevelop and help address the roughly 36 acres of vacant buildings and parcels with no active use or occupant in the D-2 District. Potential new business and property owners have an opportunity to use multiple tools together to leverage maximum incentives for their redevelopment projects.

A key approach for the City of Portsmouth in the short term is to provide potential business and property owners a roadmap of all the offerings, when to apply for them, how to apply for them, and other key strategies to help make their business a successful piece of the redevelopment in the D-2 District. In the mid to long term it may be beneficial for the City to pursue areas in the D-2 District for a CDA as more growth happens so it can take advantage of the opportunity to build infrastructure in the district as part of the redevelopment efforts. While past efforts in the City with CDAs have been unsuccessful, this tool is one of few available for redevelopment efforts in Virginia. There have been successful models elsewhere in the Commonwealth and as reinvestment in the City occurs, a CDA may be a viable tool again in the future.