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Tax credits encourage hiring of city workers

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When Betty Moorer is at the cash register, hardly anyone enters the South Broad Street Krystal restaurant without getting a smile and a greeting.

The Krystal cashier regularly welcomes visitors to Chattanooga before ringing up their breakfast orders. And, as a downtown worker and resident, Ms. Moorer also is ringing up savings for her employer through a new tax incentive program.

Under a federal **Renewal Community** program targeted at Chattanooga's inner city, Krystal and other downtown businesses are eligible to receive a \$1,500 annual tax credit for each worker they hire from the downtown area.

"We expect to get at least \$81,000 in tax credits this year," said Larry Bentley, chief financial officer for Krystal, a Chattanooga-based fast-food chain. "This certainly gives us an incentive to employ people from the downtown area at our headquarters and South Broad Street restaurant." The employment credits are among a number of tax advantages the federal government has extended to Chattanooga for businesses and workers in inner-city census tracts.

Within the downtown and Southside communities included in the **Renewal Community** designation, businesses may qualify for everything from faster depreciation on new buildings to a complete removal of capital gains taxes in some circumstances.

Once fully developed over the next few months, the commercial \$12 million a year in business tax deductions for each of the next 10 years.

"Within this **Renewal Community**, there are some tremendous incentives for businesses to invest or expand their operations and to hire people from within the targeted area," Chattanooga Mayor Bob Corker said. "Combined with all of our other downtown initiatives, this should really help us propel the revitalization of the entire downtown and Southside areas."

Chattanooga is one of just 40 cities selected by the U.S. Department of \$17 billion of benefits from the federal program, developed under the 2000 Community Renewal Tax Relief Act. Memphis is the only other Tennessee city to be selected as a **Renewal Community**.

The incentives are being offered to businesses in parts of Alton Park, the M.L. King Boulevard area, the Southside and inner city of Chattanooga.

"This gives us the first targeted federal tax credits unique for our area," said Amy Walker Cherry, the mayor's economic development advisor.

The city was chosen, in part, because of its lingering problems, officials said. The median income in the targeted area was less than a third of the rest of the metropolitan area in the 2000 census. Since then, the shutdown of Wheland Foundry only has aggravated that gap, officials said.

But the designated area also includes some of Chattanooga's strongest \$120 million in public buildings, and the M.L. King Boulevard area, where nearly \$100 million in University of Tennessee at Chattanooga dorms, elementary schools and new apartments are being completed.

Preliminary estimates prepared by the Chattanooga Area Chamber of Commerce indicate nearly 8,000 people live in the **Renewal Community**. Nearly 27,000 employees work at one of 2,124 businesses there, according to the estimates.

Those businesses now are being courted by City Hall to take advantage of the new tax incentives.

The largest initial interest has come from the employment tax credits, officials said. Any private business within the **Renewal Community** that \$1,500 a year in tax credits.

That should generate a \$270,000 savings this year for ConAgra, which operates two downtown poultry plants, company officials said. ConAgra estimates about 12 percent of its 1,500-employee staff in Chattanooga now live in the **Renewal Community**.

"I like my job and the fact that I can walk to work every day," said Bobby Bell, a 53-year-old ConAgra employee who lives in Alton Park.

ConAgra officials said they could use the program to recruit still more workers from the inner city or to upgrade the company's downtown operations.

"We're still digging into all of the ways we might be able to use these credits for our Chattanooga operations," said Terry Paschall, general manager of ConAgra's Chattanooga operations.

Employers that hire persons from high-unemployment groups may receive up \$2,400 in tax credits and up to \$5,000 in credits for hiring long-term welfare recipients.

But the **Renewal Community** incentives go beyond just employment credits.

One of the greatest business opportunities could come from the capital gains exemption allowed for businesses that have at least 35 percent of their workforce from the **Renewal Community** area and keep the asset for at least five years. A small startup firm with seven employees, for instance, could qualify for the capital gains exemption on building and business appreciation if just three of its workers live downtown and if they keep the venture until at least 2007.

That could prove especially appealing for technology startup firms that Chattanooga officials hope to lure to downtown through its new MetroNet high-speed Internet link or to retail and other commercial businesses eligible for local government's tax abatement programs.

"If you've got the right type of business and have enough downtown workers, you have a wonderful opportunity to eventually keep the capital gains tax free," said Tom Scott, an attorney hired by the city as a consultant for **Renewal Community** incentives.

Mr. Smith said other businesses can realize even quicker tax advantages by writing off up to half of eligible commercial building projects in the first year and depreciating the entire project in only 10 years. Normally, such projects have to be written off over a 40-year period, he said.

The specific rules in Tennessee for the commercial revitalization credits still are being written by the state and will be interpreted by a local board, similar to how the Industrial Development Board of Chattanooga approves tax-exempt bond issues for private businesses in Chattanooga.

So far, most of the new tax breaks are rewarding businesses for workers they already have on staff or building projects already in the works before the **Renewal Community** program began, officials said. Critics of such targeted tax credits question the value of the program, since it may not necessarily generate an overall economic gain.

"These are mainly subsidies to businesses who would have done the desired activity with or without the credits," said Chris Edwards, director of fiscal policy studies for the Washington, D.C.-based Cato Institute. "To the extent the credits do change behavior, they often just redirect investment from one part of the community to another without any real overall gain. The complexity of all of these credits also encourages businesses to spend time and resources to try to get a tax break instead of trying to build a successful business."

But downtown boosters insist the **Renewal Community** incentives will encourage more business development in the inner city, where they said it is needed most.

"Obviously, this is another great tool in our toolbox for downtown development," said Ken Hays, president of RiverCity Co., the nonprofit agency that promotes downtown development. "As this program takes shape, I think we can market it around town and around the country."

Although some of the initial beneficiaries will receive credits for hiring and building projects they may have done anyway, Mr. Hays said the credits should spur more downtown development. Mayor Corker already has called upon developers to add 750 more housing units downtown within three years.

"I think we've rediscovered over the past 20 years the importance of having strong urban areas for the benefit of the entire community," Mr. Hays said. "Downtowns are everybody's neighborhoods and they are the icons that define a city. It's critical that we maintain and develop the inner-city areas."

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