

**Testimony Before the
House Revenue Committee**

RE: HB 4093 - Enterprise Zones

*Presented by: Mark Landauer, SDAO
February 6, 2012*

Good morning, Mr. Chair and members of the committee; my name is Mark Landauer, and I appear before you today representing the Special Districts Association of Oregon. The Special Districts Association of Oregon represents approximately 900 special service districts throughout the State of Oregon. These districts include rural fire protection, water, sanitary, library, parks and recreation and several other types of districts who are governed by unpaid elected officials committed to serving their communities through public service.

SDAO opposes HB 4093, which would expand the number of enterprise zones, increase the authorized geographic size and increase the additional amount of time a property tax exemption could be given for a qualified business within an enterprise zone. Over the years, SDAO has expressed several concerns with the Enterprise Zone program and I would like to share those concerns with you today.

In 1985, Oregon enacted enterprise zone legislation that would improve employment opportunities and income conditions for residents of the more economically depressed areas of the state. The underlying policy for this legislation was to improve the welfare of Oregon's more economically disadvantaged residents.¹

According to the 2011-2013 Oregon Tax Expenditure Report, Oregon's Enterprise Zone Program exempted \$1.3 billion of assessed property value in 2009-2010. The property tax loss in 2009-2011 is estimated to be \$32.9 million and \$34.6 million in 2011-2013.²

Currently, only cities and counties are eligible to seek and gain designation of enterprise zones. When a city or county is granted an enterprise zone designation, they are given the unilateral ability to exempt those qualifying businesses from paying the property tax of other overlapping taxing jurisdictions.

¹ ORS 285C.055

² 2011-2013 Oregon Tax Expenditure Report, pg. 222

Those overlapping taxing jurisdictions include school districts, community colleges, and special districts.

As a result, the ability of special districts that rely of property taxes to deliver essential and expected services can become more challenging. Because cities and counties can voluntarily choose to create an Enterprise Zone, we believe that overlapping taxing jurisdictions should have the ability to choose whether to participate, thereby exempting their share of property tax, or have the ability to not participate in the exemption their property taxes. I have little doubt that cities and counties would want similar treatment if a special district had the ability to unilaterally exempt their a portion of their property tax.

Furthermore, according to the Department of Revenue's Oregon Report on Property Tax Statistics for Fiscal Year 2009-2010, K-12 Education & Education Service Districts receive 42% of property taxes, cities receive 22%, counties receive 19%, special districts receive 13% and community colleges receive 4%. As a result, we believe that allowing a special district to opt-out will have a marginal impact on the amount of property tax exempted in these zones. We also believe that this will result in greater transparency and dialogue between all the taxing jurisdictions that are impacted by this program.

Another concern that we have with this program is the amount of revenue exempted per job created. In 2006, the Legislative Revenue Office conducted a study (LRO Research Report #3-06) that showed the average of exempted property tax per job created was \$4,618. This same study also showed in one case the amount of exempted property tax was over \$554,000 per job created. The report also stated that information about job or company retention after the abatement had expired was not being monitored. As a result, we as a state do not have a good grasp of whether these abatements result in short-term or permanent job creation and company retention.

Another point that should be made is that this program originally began as a way to benefit and enhance rural Oregon's economy, and over the years has developed into nearly a statewide program that provides reduced economic development advantages to truly rural communities. Furthermore, the original legislation authorized the creation of up to 30 Enterprise Zones. Since that time, the Legislature has nearly doubled that number.

285C.055 Legislative findings. The Legislative Assembly finds and declares that the health, safety and welfare of the people of this state are dependent upon the continued encouragement, development, growth and expansion of employment, business, industry and commerce throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance. The Legislative Assembly further declares that there are areas in the state that need the particular

attention of government to help attract private business investment into these areas and to help resident businesses to reinvest and grow and that many local governments wish to have tax incentives and other assistance available to stimulate sound business investments that support and improve the quality of life. Therefore, it is declared to be the purpose of ORS 285C.050 to 285C.250 to stimulate and protect economic success in such areas of the state by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure.

In 2007, SDAO commissioned a study by three individuals at The Center for Urban Studies at Portland State University. Among other programs they studied and made several recommendations related to Oregon's Enterprise Zone Program. SDAO believes that these modest recommendations ought to be included in any re-authorization of this program.

- Gathering sufficient data by which to conduct independent quantitative analysis of the program impacts on local communities;
- Requiring independent verification of investment and job creation figures (excluding the valuation of the property);
- Requiring local jurisdictions to conduct cost/benefit analysis, or fiscal impact analysis;
- Provide for representation of all affected taxing districts in the exemption decisions;
- Mandate specific data, reporting, and evaluation requirements related to investment and employment on the part of companies and administrative entities, including the tracking of the performance of firms after their use of the program.

Without providing an opt-out for special districts, more rigorous reporting requirements, and providing more strategic focus to truly distressed areas, SDAO opposes a further expansion of this program. However, we do believe that there are alternatives that the Legislature could create or expand that could incent the creation of new jobs, the expansion of existing businesses, and attract new business. Some of those alternatives include:

- Extending the new construction tax exemption to two or even three years for industrial and commercial construction rather than the existing one-year exemption. The advantage to this would be creation of a level the playing field for all communities across the state and budgetary savings that would result by the elimination of the program at the Oregon Business Development Department.
- Eliminate the ability of OBDD to designate new zones and re-designate expiring zones and simply make the State of Oregon an Enterprise Zone. Businesses seeking to relocate or expand in the state would have to meet

the standards in ORS 285C.135 and could have their property taxes on improvements and capital exempted for up to three years, provided they are meeting those requirements.

- Rather than providing property tax abatement or exemptions, provide corporate income tax exemptions for the businesses.

The result of these policy suggestions would send a strong signal that our whole state is open for business. They would also result in an evening of the playing field for all communities in Oregon seeking to attract new businesses or incent the expansion of existing businesses.

Thank for the opportunity to appear before you today.