HB 2675

Requiring Prevailing Wage in Enterprise Zones

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HB 2675 would require private employers engaged in private construction projects worth more than $5 million in enterprise zones to comply with prevailing wage law.

Oregon's 60 Enterprise Zones are sponsored by local governments (city, county, tribe or port) and serve as a focal point for local development efforts by exempting eligible traded sector businesses from local property taxes on investments in _new_ plants and equipment for three to five years in a standard zone and up to 15 years in a rural zone in exchange for agreeing to locate or expand new plants and equipment. One hundred six cities, 29 counties and ten ports currently use enterprise zones to create better economic opportunities.

Generating both construction and full time permanent jobs and increasing the assessed value of properties are the goals for local sponsorship of enterprise zones.

Enterprise zones serve as a major economic development tool because they lower the initial cost of investment and an effective tool job creation at the local level. It is important to retain the attractiveness of Enterprise zones because securing new investment and jobs is extremely competitive not just on the local level but also on the state, national and international level.

Requiring prevailing wages for private investment can significantly boost the cost of construction and increase compliance paperwork. It can offset the savings from the property tax abatements, thus making this economic development tool less attractive.

For example, assuming an investment value of $5 million with a $16 per thousand tax rate, a firm's total tax savings for one year would equal about $80,000. The total property tax savings over three years are estimated at $240,000. If construction labor costs are about 40 percent of the project or around $2 million and prevailing wage adds another 10 to 20 percent, the increase of $200,000 to $400,000 due to prevailing wage would more than offset the savings from the lower property taxes. Furthermore, the added regulations associated with prevailing wage can reduce the attractiveness of locating in an enterprise zone.

Under this bill, public entities (state, or local governments (as zone sponsors jointly or separately) would be required to have a contractual obligation and take on responsibility for the operation of all private businesses locating in enterprise zones who take advantage of the enterprise zone abatement. This would clearly require the state or local governmental entity to assume liability for the business, increasing the costs for operation and maintenance and monitoring of the businesses within the program.

This bill not only takes away the advantage to the business for locating and expanding into the area and thus creating jobs and paying taxes, but it also increases the costs for the zone sponsors (cities, counties, ports, tribes). Local governments want to do their job, but they can ill afford the increased costs and liability that are assumed here. Counties, cities and ports located in areas of the state that sorely need new investment simply cannot afford this obligation—with no staff to do the work.

Zone sponsors and local elected officials care about employing local workers at a wage that is consistent with the area. Zone sponsors currently have the ability to include contractual requirements such purchasing locally or using union rates during construction.

Enterprise Zone companies receiving a four or five year period of abatement are already required by law to pay 150% of minimum or average wage full-time permanent jobs to participate in the program. Many companies exceed these minimum requirements for many positions and offer benefits for their workers.

In summary, we are opposed to HB 2675 because it will result in less investment and fewer jobs. Enterprise Zones will lose its attractiveness because the costs to comply with prevailing wage will more than offset the benefits to private businesses to locate in an Enterprise Zone.