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METRO COUNCIL PRESIDENT TOM HUGHES

January 31, 2013

MEASURE: ________
EXHIBIT: F
Senate Finance and Revenue 77th Session
DATE: 2/6/2013 PAGES: 6
SUBMITTED BY: ________

Senate Finance and Revenue Committee
Oregon State Capitol
900 Court Street NE
Salem, Oregon 97301

Re: SB 954 (2007) Shared Services Fund

Dear Chair Burdick and Members of the Committee:

In 2007, the Oregon Legislative Assembly passed Senate Bill 954. The law provides a share of state income tax receipts to local governments and districts that utilize the Strategic Investment Program (SIP) to abate property taxes to induce employers to locate or expand and invest in Oregon. The state income tax share to local governments and districts derives directly from the new or retained jobs generated as a result of these investments.

I served as Mayor of Hillsboro in 2007. At that time, 5 of the 6 SIP projects in existence in Oregon were within our city. In an appearance before the House Revenue Committee, I offered the following testimony in support of the bill:

> Hillsboro doesn't want to be a bedroom community and that was decided in the '70s. We wanted to create jobs which sustain our own community. The SIP has been used as the primary tool to bring Intel and subsequent investments into the communities.
>
> Using this tool has provided us with a tool to realize the vision we had for our community back in the '70s. It is not without cost. Our fire department is a different type of fire department from other communities of our size which don't have Intel and...[other] large high-tech companies. We have more hazmat training and equipment and the like which have costs which are borne by the community as being the hometown for...these high-tech, specialized needs companies. We do it because it is who we are and what we're saying here is on the revenue side we sacrifice revenue in order to be that kind of city. The result is that the state benefits dramatically in the form of income tax collected from the jobs which are brought to our community by these companies. What we're asking for is a reasonable compromise. It is a share of the income tax from those jobs created directly by the SIP.[1]

[1] Testimony of Mayor Tom Hughes, City of Hillsboro, before the House Revenue Committee—June 6, 2007

Submitted: Not read

The Legislature took us up on this reasonable compromise and passed SB 954. Since that time, the SIP projects in Hillsboro have added considerably to Oregon's state treasury. In 2009, the SIP investments in Hillsboro alone created $270 million in personal income tax from 90,000 jobs. Local governments and tax districts serving Hillsboro have deferred more than $65 million of property taxes in 2011 to facilitate investments made as a result of SIP agreements.

The testimony I offered in 2007 stands the test of time. Today our cities, counties and other tax districts are meeting the needs of global employers housed in our communities like never before. We are also enhancing our capacity to deliver more and greater services in order grow industry clusters to bring more living wage jobs to Oregon. From investments in basic infrastructure like water, sewers and roads to broader competitive demands like workforce training, parks and recreation offerings, local government is responding to the call of businesses who want to put Oregonians to work serving the most world's most competitive markets.

Until now, local governments and districts have largely borne these costs alone. However, in 2007, we knew the day would come when a new partnership with the state would need to emerge to sustain us as we grew. The good news is: we're growing. We're adding jobs and investments in the midst of global economic uncertainty. The harder reality is that local governments and districts can no longer shoulder this burden alone. We need the benefit of the bargain we struck with this Committee and with this Assembly in 2007. We need the Shared Services Fund.

Thank you for your consideration.

Sincerely,

Tom Hughes

Tom Hughes
Metro Council President

Jeff Cogen, Multnomah County Chair

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February 5, 2013

Senate Finance and Revenue Committee
Oregon State Capitol
900 Court Street NE
Salem, Oregon 97301

Re: Gain Share

Dear Chair Burdick and Members of the Committee:

I write in strong support of efforts to maintain the current 50-50 Gain Share split for the duration of the Strategic Investment Program (SIP) tax abatement.

The 15-year property tax abatement from the SIP is the most powerful of Oregon's economic development tools because it attracts large capital investments--and thus long-term commitments by businesses--to Oregon. Creation of Gain Share by the 2007 Legislative Assembly strengthened the partnership between local governments and the State of Oregon by allocating 50 percent of the personal income tax revenue attributable to an SIP investment to a local jurisdiction that approved the SIP for that investment.

Before Gain Share, 100 percent of the risk and cost of attracting SIP investments fell unfairly on local jurisdictions such as Washington County and Multnomah County that rely heavily on property tax revenues. By contrast, because the State's General Fund relies almost exclusively on personal income tax revenues, the State bore none of the risk or cost of the SIP. And yet the State reaped the benefit of increased income taxes from newly created jobs.

The 50-50 income tax revenue split of Gain Share fixed this unjust allocation of risk, cost and reward. And it helped generate two critically important changes in how counties view the SIP.

First, Gain Share creates a strong incentive for counties to pursue more SIP investments. Prior to Gain Share, a county commissioner might hesitate to approve a SIP application because a business investment could require the county to provide more services at the same time the county was foregoing revenue. By adding the prospect of Gain Share's

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personal income tax revenue to the decision, Gain Share has made responsible county commissioners much more likely to view SIP applications favorably.

Second, Gain Share increases the incentive for counties to pursue investments by companies that both employ large workforces and pay high wages. Prior to Gain Share, the SIP structure created an incentive for counties to favor capital-intensive projects with fewer employees because fewer new employees in the community would prompt only a small increase in need for services. With Gain Share's 50-50 income tax revenue split counties now have even more incentive to pursue investments that will require large workforces in well-paid jobs because those factors will lead to increased income tax revenue that can be reinvested in the community.

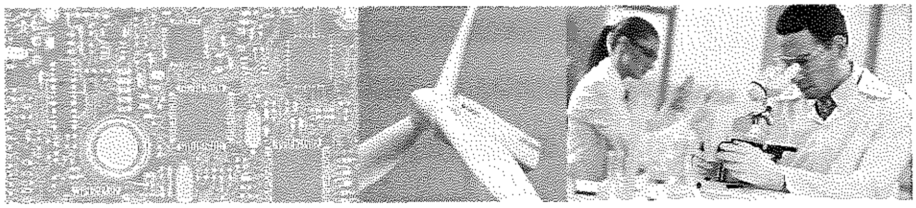
If economic growth remains an important goal for the State, then Gain Share should be part of the future without reducing the benefit to the counties. Weakening Gain Share weakens the SIP and undermines the State's most powerful tool for lasting economic development.

As the Chair of the most populous county in Oregon, I support efforts to maintain the current 50-50 Gain Share split for the duration of the SIP tax abatement. I hope the committee members here today share my view that we need to be doing more, not less, to promote economic growth in Oregon, and I thus urge the committee not to weaken the SIP by reducing Gain Share.

Sincerely,

Jeff Cogen
Multnomah County Chair

Strategic Investment Program & Gain Share



The Strategic Investment Program (SIP)

The SIP is an economic development program created by the Oregon Legislature in 1993 to "stimulate and protect economic success" in Oregon. It allows businesses willing to make large capital investments in Oregon (at least $100 million in urban areas and $25 million in rural areas) to negotiate property tax incentives with local governments, including cities, counties, and special tax districts. The negotiated alternate property tax structures are good for 15 years.

The Benefits of SIP

The SIP has greatly outperformed expectations, making Oregon a better state to work and do business. It has proven very successful in attracting and retaining companies that provide high-quality jobs, which are generally high-paying and attract well-educated, skilled workers. These jobs generate a significant ROI for counties, and dramatically increase tax revenues for the state's General Fund, which is used to pay for schools and other important public services.

The benefits of SIP include:

- New and Retained Jobs
- Highly Educated Workers, Highly Paid Jobs
- New and Improved Infrastructure
- Private-Sector Investment in Oregon
- Increased State Tax Revenue

SIP Accountability

Any company that negotiates a SIP must annually report specific economic data to Business Oregon, part of the Department of Administrative Services. This reporting ensures accountability and helps demonstrate the continuing success of the SIP. Business Oregon uses the data to 1) analyze and evaluate the impact of each SIP project and 2) calculate the personal income tax generated by that project. SIP recipients must report the following data annually.

- Current Employment Numbers
- Newly Created Jobs
- Compensation and Wage Data

Sharing Oregon's Success: The SIP and Gain Share

In any SIP project, the participating local government invests in infrastructure and other improvements necessary to attracting and retaining businesses. These projects are funded not by the state but rather local taxpayers. The state nonetheless benefits from the new private sector jobs, increased tax revenues, and improved infrastructure.

In order to achieve a sense of fairness, the Legislature passed Senate Bill 954 in 2007 with overwhelming support. The bill grants local governments a share of the personal income tax revenue generated by the creation and retention of new and retained jobs. This model of tax-sharing is known as Gain Share.

Gain Share is an important part of ensuring the long term success and vitality of the SIP. It allows the state to benefit from the SIP while also helping counties and local taxpayers recoup their investment costs. Most importantly, Gain Share fosters an important partnership between the state and local governments to improve economic development and job creation.

It is important to note that Gain Share only applies to the jobs that are created and retained by companies involved in a SIP. The income taxes generated from construction jobs, suppliers, vendors, and other secondary jobs resulting from a SIP investment are not included in the Gain Share dividends paid to local governments.

The Process for a Better Oregon

1. **Business Recruitment and Retention**
   Local governments and the state work together to attract and retain private-sector businesses willing to invest significant capital in Oregon.
2. **Agreement Negotiated Locally**
   Local governments negotiate with partnering businesses to apply an alternative property tax structure for qualified investments.
3. **State Approval**
   Locally negotiated SIP agreements must first be approved by the Oregon Business Development Commission before taking effect.
4. **Private Sector Investment Begins**
   Participating businesses begin to invest and create jobs through the SIP. Induced and indirect jobs are also created, and economic growth occurs.
5. **New Income Tax Revenue is Generated and Shared**
   The state collects personal income taxes attributed to facility covered by a SIP agreement. The state retains half of these funds and distributes the remainder to local governments through the Oregon Department of Administrative Services.

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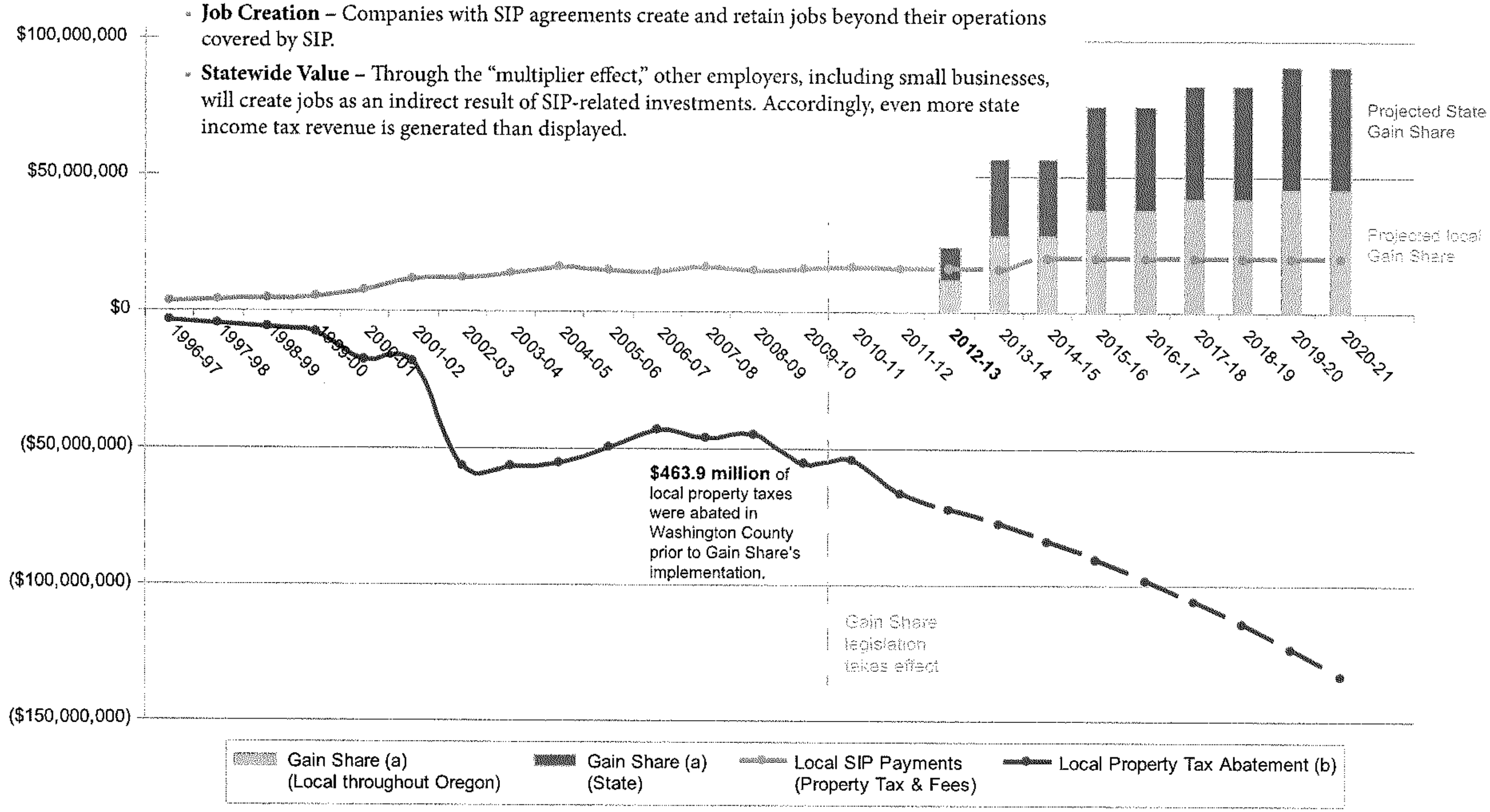
Measuring the Success of Oregon's Gain Share

Gain Share is intended to balance the local risks and costs of infrastructure improvements and property tax abatements with the state benefits of job creation and increased income tax revenue.

- **Local Taxing Districts** – Participating cities, counties, and special districts now share half of the income tax revenue related to new and retained jobs associated with a SIP project.
- **Job Creation** – Companies with SIP agreements create and retain jobs beyond their operations covered by SIP.
- **Statewide Value** – Through the "multiplier effect," other employers, including small businesses, will create jobs as an indirect result of SIP-related investments. Accordingly, even more state income tax revenue is generated than displayed.



(a) Anticipated statewide distribution from the Department of Administrative Services as projected by the Oregon Office of Economic Analysis, "Oregon Quarterly Economic and Revenue Forecast" (November 20, 2012).

(b) Abated ad valorem property taxes (red) and SIP-related payments and fees (blue) for Intel and Genentech SIP agreements in Washington County. Actuals and estimates are represented from fiscal years 1996-97 until 2011-12. A hypothetical scenario of investment and payment amounts is represented for the remaining years.