adult foster homes. The owner of the facility must file with the county assessor a copy of a certificate issued by the Senior and People with Disabilities Division of the Oregon Department of Human Services. Adult foster homes must have an average residency rate of at least 60 percent of residents eligible for Medicaid, whereas all other qualifying facilities must have a residency rate of 50 percent. (ORS 443.888). The facility will only receive a property tax exemption from those taxing districts granting the exemption.

PURPOSE: ORS 307.808 states that "…owners of long term care facilities that devote substantial proportions of those facilities to providing long term care to residents eligible for medical services under Medicaid provide an essential community service. The Legislative Assembly declares that a property tax exemption will enable these essential community provider long term care facilities to increase the quality of care provided to facility residents."

WHO BENEFITS: In fiscal year 2013-14, three accounts in Jefferson County received this exemption.

EVALUATION: Not evaluated.

2.099 STRATEGIC INVESTMENT PROGRAM

Oregon Statute: 307.123
Sunset Date: None
Year Enacted: 1993

2013–14 Assessed Value of Property Exempted: $11.7 billion

	Loss	Shift
2013-15 Revenue Impact:	$367,600,000	$75,400,000
2015-17 Revenue Impact:	$520,500,000	$106,800,000

DESCRIPTION: A partial property tax exemption is allowed for up to 15 years on eligible projects if the real market value of the new investment is equal to or exceeds $100 million ($25 million in rural areas). The assessed value of the property below this threshold in the first year is subject to taxes; the remainder, in excess of the threshold, is exempt. The exemption threshold then increases 3 percent a year during the exemption period.

The new investment must benefit a traded-sector industry, which is one that sells goods or services in markets with national or international competition, including but not limited to manufacturing.

Approval of an SIP project requires a county public hearing, written agreement between the business firm and the county and city, and formal action by the county governing body. The Oregon Business Development Commission (OBDC) makes the final determination for the project to receive SIP tax treatment.

In contrast to local negotiation of a unique agreement each time and case by case approval, a county may request that the Oregon Business Development Commission establish a Strategic Investment Zone (SIZ), in which eligible projects are then subject to standardized local requirements and a streamlined approval process. In 2009, one SIZ was established in Gresham (Multnomah County). In September 2010, two additional SIZs were designated in Clackamas County, one urban and one rural. There has not yet been an eligible project in an SIZ.

A business firm that benefits from this provision must also enter into a "first source" hiring agreement with local publicly funded job training providers and pay an annual community service fee (see In Lieu below) in addition to other requirements under the local agreement.

The 2003 Legislature reduced the minimum investment needed to qualify for the exemption in rural areas; these areas are defined as outside the urban growth boundary as of December 1, 2002, of large cities and metropolitan areas.

In 2007, the Legislature provided for local sharing of annual personal income tax revenue from state tax collections, resulting from the direct employment at SIP projects between 2011 and 2020. Fifty percent of the estimated amount of personal income tax revenue is deposited into the Shared Services Fund and distributed locally under the same formula agreed to among taxing districts for the community service fee.

Upon application for this exemption, businesses must pay fees equal to $10,000 ($5,000 in rural areas). An additional $50,000 ($10,000 in rural areas) is also required to be paid on determination of eligibility by the OBDC. Fifty percent of these fees go to Department of Revenue for administrative purposes, and the remaining funds are deposited in the Oregon Business, Innovation and Trade Fund.

PURPOSE: "…to improve employment in areas where eligible projects are to be located and [the Legislative Assembly] urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable." (ORS 285C.603).

WHO BENEFITS: By 2014, 16 SIP projects were receiving the property tax exemption, two more were expected to begin receiving an exemption during the 2015-17 biennium, and four other projects had been formerly exempt. Intel continues to increasingly dominate the program with investments in high technology semiconductor fabrication; other projects include paper product, biopharmaceuticals and electricity generation.

IN LIEU: Businesses that have value exempt under SIP pay a community service fee each year equal to 25 percent of the property taxes that would have otherwise been imposed. The fee is capped at a maximum of $2 million ($500,000 in rural areas) per year. In 2013, businesses in the Strategic Investment Program paid $10 million in statutory community services fees in addition to $24 million in locally negotiated fees. The community service fees are distributed to local taxing districts.

In addition to the community service fees, statute in effect requires that local taxing districts also receive an annual distribution which represents half of the estimated personal income tax revenue attributable to new jobs created as a result of SIP projects.

EVALUATION: *by the Oregon Business Development Department*

The program appears to achieve its goal of leveling the proverbial playing field, thus encouraging extraordinarily large, highly capital-intensive investments in Oregon, particularly in high technology and power generation industries.

A key question in evaluating this expenditure is whether or not the investments receiving tax benefits under this program would have been made without the program. That question cannot be answered with certainty, but both state and local officials have seen evidence that this program was crucial for Oregon locations being chosen as the site of exceptionally large investments in new property and for keeping key existing industries in the state. The fact that local officials have thoughtfully approved more than 20 applications under the program suggests that these local officials consider these tax expenditures to have a net positive value on their communities. In addition, a very sizable increase in state income tax and corporate excise tax revenues can be attributed to this program.

Economists have a range of opinions as to whether or not industrial investment tax incentives such as this are beneficial to local, regional and national economies. Some contend that such incentives merely benefit participating companies, who receive lower tax bills at the expense of the participating jurisdictions that either receive lower tax revenue or must charge existing taxpayers more than otherwise. Other experts would show how both participants gain from well-structured arrangements, with companies paying more reasonable taxes in communities that place a higher value than other communities on obtaining the companies' jobs, local purchases and other benefits, and that these incentives generally stimulate growth and competitiveness.

With the 2003 law (HB 2299), a lower rural threshold of $25 million was added so that the program might see greater diversity in terms of geography and industry types, and to provide an alternative to enterprise zones for relative huge projects in rural areas. SIP offers a more flexible tool and politically better process compared to enterprise zone tax incentives in cases of certain very large and potentially controversial developments, and even outside of rural areas, $25 million still signifies an unusually large and special project. Recent events indicate that this rural version of SIP is having the desired effect, although it was in no way intended as a panacea for Oregon's rural economies.

Ultimately, the proper way to evaluate a program like SIP is over the long term. Nearly $50 billion in eligible investments has been approved, with still much of it yet to occur and most of it in the Hillsboro semiconductor industry. In light of the gross property taxes that arise, such quantities of private capital expenditure might be very unlikely without SIP or something like it.

In fiscal year 2012-13, businesses in the program enjoyed net savings of $101 million in property taxes less $34 million of in lieu, nontax fees paid under SIP, representing around $78 million in net revenue loss to local government (after adjusting for levy shifts) — amounts that might exceed the taxes paid by residential or commercial developments with equivalent or even far greater impacts on public services. (The amount of taxable value exempted by SIP are expected to nearly double in the current fiscal year.)

Offsetting the above amounts, as reported for the Shared Services Fund noted above, are aggregate full-time equivalent (FTE) jobs, created or retained directly by these projects, numbering 9,433, and earning income of more than $133,000 per year on average, and thereby, generating an estimated $77 million in state personal income taxes in 2013.

Such investments and employment will also generate indirect and induced economic effects that cycle through to additional public revenues, in addition to direct revenue from other taxes and fees paid by the businesses.