CITY OF GRESHAM 1333 N.W. Eastman Parkway | Gresham, OR 97030

June 1, 2015

The Honorable Mark Hass, Chair
Members of the Senate Finance and Revenue Committee
900 Court Street NE
Salem, OR 97301

RE: HB 2652

Dear Chair Hass and Members of the Committee:

Thank you for the opportunity to provide testimony regarding HB 2652, which seeks to correct a historic fluke in the way that “urban” and “rural” are defined for purposes of Oregon’s Strategic Investment Plan and its companion, the Strategic Investment Zone (SIP/SIZ).

The City of Gresham believes that this tool is a very important part of Oregon’s approach to economic development, but that the issues around the urban and rural definition in statute undermines the integrity of the tool, creates an uneven playing field in larger metro areas, with statute effectively picking winners and losers, and by inappropriately extending the “rural” incentive to clearly urban areas, the statute effectively eliminates the rural incentive from having an advantage in distinctly rural areas.

The Background:

For background, urban SIPs offer an abatement of property taxes after a company’s assessment reaches $100 million or more in investment, and they pay a community services fee in addition to that, which is a set percentage of the abated taxes. The crafters of the legislation also created a specific rural incentive with a lower, $25 million cap, recognizing that it is more difficult to attract major investment to areas in Oregon that are outside of larger metropolitan areas.

The Problem:

The original legislation says that land is “rural” for purposes of an SIP/SIZ if it is not within the urban growth boundary of a city larger than 30,000 people on a specific date in time, December 1, 2002. Because the definition is specific to a historic date, it has resulted in a situation where distinctly urban cities in large metropolitan areas have brought industrial land into their cities after that specific date, and as a result, are able to market it with the much lower “rural” abatement value. This is both overly generous, and unnecessary, and it leaves other urban jurisdictions in the same regions with large tracts of industrial land only able to offer the “urban” level incentive. As an unintended and unnecessary result, statute is effectively picking winners and losers within the same region, and eliminating the strategic value of the “rural” incentive for truly rural areas because the same incentive can be offered in large urban areas.

The Solution:

House Bill 2652 would correct the inequities described above through a very simple and small change to the definition of urban and rural. Instead of the definition hinging on the composition of the urban growth boundary in 2002, HB 2652 would delete the reference to December 1, 2002 and instead have it depend on the composition of the urban growth boundary on the actual date in which an application is submitted for a Strategic Investment Plan. Further, HB 2652 grandfathers existing SIP/SIZs, so there would be no negative impact to existing companies. This would immediately restore the strategic value of the “rural” incentive for truly rural areas, and help to correct the unintended inequity that was created between similar jurisdictions in urban areas. Further, it would bring the definitions of urban and rural in line with those used for the Enterprise Zone program, bring consistency across multiple economic development tools in Oregon, and increasing predictability for companies.

In addition, HB 2652 makes a small change to the population figure that defines rural areas, increasing it from 30,000 residents to 40,000 residents. This is a small change to help bring along truly rural areas that have seen population increases that have placed them slightly higher than the previous threshold. Specifically, the only jurisdictions with current populations greater than 30,000 but lower than 40,000 are Lake Oswego, Kaiser, Oregon City, Grants Pass, and McMinnville, with Lake Oswego and Oregon City within the Clackamas County urban SIZ, and Kaiser within the Salem/Kaiser urban SIZ, leaving just Grants Pass and McMinnville effectively impacted by the population change.

Revenue Impact:

The City of Gresham does not believe a significant revenue impact will be created by HB 2652. The increase to the population constituting a “rural” area only effectively impacts two jurisdictions, both of which already had populations under 30,000 when the Strategic Investment Program was originally created in 1993.

Further, limiting the “rural” incentive to truly rural areas will have the additional benefit of decreasing the amount of property tax revenue that can be abated in urban areas. As one important example, property tax revenue helps fund schools, which are otherwise funded through revenue from the State of Oregon.

It is unlikely that removing the rural incentive from urban jurisdictions will have a net-negative impact on Oregon's ability to attract economic investment. Urban jurisdictions would still be able to offer an Enterprise Zone for the lower levels of investment, and true urban SIPs for higher levels of investments. If companies are dramatically motivated to locate under a rural SIP, they would still be able to do so in any truly rural jurisdiction in Oregon.

The changes proposed under HB 2652 are small definitional and population threshold adjustments. While they are powerful changes in creating regional equity and restoring the incentive structure intended for truly rural areas, we do not anticipate that they will have significant revenue impacts on the State of Oregon.

Sincerely,

Eric Chambers
Government Relations Director