

LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

ECONOMIC DEVELOPMENT

BACKGROUND BRIEF

The purpose of Oregon economic development statutes is to “enable the creation, retention, expansion and attraction of businesses that provide sustainable, living wage jobs for Oregonians through public-private partnerships and leveraged funding and to support economic opportunities for Oregon companies and entrepreneurs.” (ORS 285A.020(2))

STATE FUNDING

The main source of revenue for the programs and operations of the Oregon Business Development Department is Lottery Funds. The Oregon Lottery was established in 1984 by Oregon voters to support economic development and job creation throughout the state. In 1995, the dedicated uses of lottery proceeds began to expand, and now also include education, state parks, watershed enhancement, veterans’ services, and outdoor school.

BUSINESS OREGON¹

The Oregon Business Development Department, more commonly known as “Business Oregon,” is the state’s economic development agency. Its mission is to invest in Oregon businesses, communities, and people to promote a globally competitive, diverse, and inclusive economy.

Business Oregon has identified six target industry groups – advanced manufacturing, business services, food and beverage, forestry and wood products, high technology, and outdoor gear and apparel – that have the greatest promise for business retention and expansion. These are all traded-sector industries, meaning that they sell their goods and services outside of Oregon. The Department works with businesses across all traded sectors, but certain industries have competitive advantages that provide the state with unique opportunities for growth, high wage jobs, innovation, and state-wide prosperity.

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¹ Information about Business Oregon is available online at <https://www.oregon4biz.com/>.

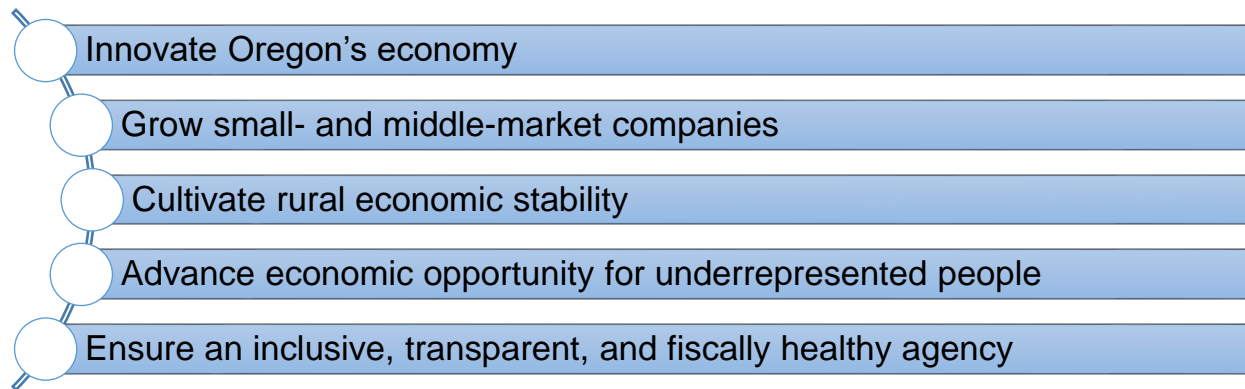
Business Oregon supports the retention and expansion of existing Oregon businesses within traded sectors, carries out strategies to create a dynamic startup and entrepreneurial environment, and recruits companies from outside the state to fill supply chain gaps and grow existing industry clusters. It also operates [infrastructure financing programs](#) that are available to local municipalities for water systems, wastewater systems, port development, roads, and other infrastructure needs related to business growth and community development.

Business Oregon houses the [Oregon Arts Commission](#) and the [Oregon Cultural Trust](#), which administer both federal and state investments in arts and culture. Business Oregon also acts as a fiscal agent for the [Oregon Film and Video Office](#).

The overall work of the Department is guided by the nine-member [Business Oregon Commission](#) with additional input and expertise provided by several other advisory bodies and boards associated with specific programs. These include the [Oregon Infrastructure Finance Authority Board](#), [Oregon Broadband Advisory Council](#), [Oregon Innovation Council](#), [Oregon Growth Board](#), and [Eastern Oregon Border Economic Development Region Board](#).

In 2017, the Department gathered statewide insights to develop a new strategic plan to guide economic development over the next five years. Figure 1 lists the plan's five priorities.

Figure 1. [2018-2022 Strategic Plan](#) Priorities



Source: Legislative Policy & Research Office.

Data: Business Oregon. Business Oregon's Five Year Strategic Plan. <https://www.oregon4biz.com/Publications/Strategic-Plan/>, visited July 3, 2018.

ECONOMIC DEVELOPMENT ACROSS OREGON

Support for economic and business development occurs across Oregon through state, local, and regional economic development corporations, associations, partnerships, and government entities. Business Oregon maintains a list of [economic development organizations](#) and [incubators and accelerators](#) located across the state.

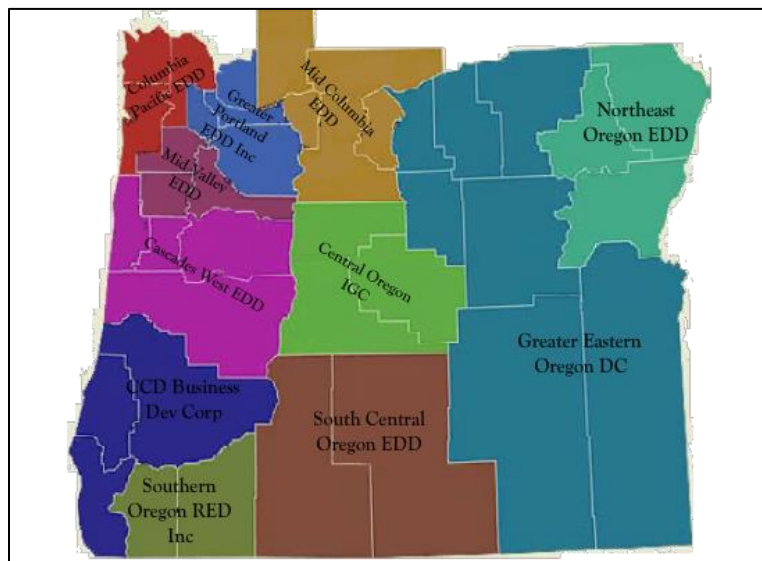
The [2016 Oregon Capital Scan](#) report is the third edition to look at the capital resources available to start-up companies, small businesses, entrepreneurs, and emerging and growth companies in the state. This report concluded that there had been improvement

in support for early-stage company formation, although lack of knowledge about the capital ecosystem and capital accessibility still limits the rate of new company formation.²

The [Oregon Economic Development Association](#) (OEDA) is a statewide non-profit organization that advocates for economic development strategies, supports training for economic development professionals, and develops communication tools and strategies. OEDA also has an [Urban Renewal Committee](#) to promote best practices and support professional development for urban renewal agencies.

Oregon has 12 [Economic Development Districts](#) (EDDs) covering all 36 counties, including one statewide tribal and 11 regional EDDs, as shown in Figure 2. EDDs often originate, package, and administer loans funded by state and federal programs, including the Department of Commerce Economic Development Administration, Small Business Administration, and U.S. Department of Agriculture. EDD loan programs support economic development and business capital purposes within the requirements of their funding sources. The EDDs also provide other business services and regional planning functions.

Figure 2: Economic Development Districts



Source: Legislative Policy & Research Office.

The [Oregon Small Business Development Center Network](#) (OSBDCN) provides advising, training, online courses, and resources for small businesses throughout the state. The network has 19 centers and 42 locations to assist anyone who owns or operates a business or is planning to start a business. The Oregon network launched in 1983 and is a partnership between Oregon's 17 community colleges, two state universities, the U.S. Small Business Administration, and Business Oregon. The OSBDCN administers [SCALE Oregon](#) (formerly Grow Oregon) to grow traded-sector companies with the assistance of experienced business advisors and appropriate tools.

² "Oregon Capital Scan 2016," Lundquist College of Business, University of Oregon, 2016, Page 7.

The [Oregon Manufacturing Extension Partnership](#) (OMEP) exists to help Oregon small- to mid-sized manufacturers reduce costs, increase productivity, and create jobs by becoming more competitive in the global marketplace. OMEP is the official Oregon representative of the Manufacturing Extension Program National Network, a public-private partnership providing any U.S. manufacturer with access to the resources they need to succeed.

TAX INCENTIVES

Oregon offers the property tax abatement and state income tax incentives.

Property Tax Abatement

[Enterprise zones](#) exempt businesses from local property taxes on new investments for a specified amount of time based on the specific zone program (standard or special). Enterprise zones aim to help attract private business investment and help resident businesses to reinvest and grow in communities facing economic challenges. Enterprise zones are sponsored and administered by a city, county, tribe, port, or combination of such governments. There are currently 72 enterprise zones in Oregon ([interactive map](#)): 55 rural and 17 urban.³

Under the [standard enterprise zone program](#), an eligible business receives a three-year total exemption from the property taxes normally assessed on new buildings, structures, and equipment if it locates or expands within an enterprise zone and meets certain employment requirements. Tax abatement may be extended to four or five years if the project has a written local zone sponsor agreement and meets certain new employee compensation and wage requirements. There are three additional enterprise zone programs with special requirements and business tax incentives: [Long-term Rural Enterprise Zone Facilities](#), [Electronic Commerce Zones](#), and [Tribal Zones](#).

The [Construction-in-progress exemption](#) is a property tax exemption of up to two years on non-utility property that is not in use, not occupied, or not yet in service. It is frequently coupled with enterprise zones but can be used on its own. This exemption is generally valid for manufacturing anywhere in Oregon.

The [Strategic Investment Program](#) offers a 15-year property tax exemption on a portion of large capital investments. The program was created in the 1990s to induce large, capital-intensive facilities to locate and grow in Oregon. Projects must serve a traded-sector industry and the actual exemption is on property value in excess of a taxable portion. In urban areas, the taxable portion of a project's market value must be at least \$100 million, while in rural areas the market value starts at \$25 million. Companies pay the respective county a community service fee equal to 25 percent of the abated taxes.

The [Food Processing Machinery and Equipment](#) property tax exemption was reinstated in 2013 for certain types of property acquired and installed by Oregon food processors. The Oregon Department of Agriculture certifies qualified machinery and equipment for the exemption.

³ Business Oregon. *Enterprise Zones*. <https://www.oregon4biz.com/Oregon-Business/Tax-Incentives/Enterprise-Zones/>, visited October 2, 2018.

State Income Taxes

The [Oregon Investment Advantage](#) program helps businesses start or locate new operations in many Oregon counties. Companies setting up operations in an eligible county can be certified as many as 10 consecutive times to annually deduct or subtract taxable income related to those operations, potentially eliminating any state business income tax liability for that period. Requirements of the certified facility include:

- Creation of at least five new full-time, year-round jobs that each have a minimum level of compensation and receive wages averaging 100 percent or more of the current county wage;
- Facility operations are the first of their kind anywhere in Oregon for that company; and,
- They do not compete with local existing businesses.

FINANCE PROGRAMS

Business Oregon offers the following loan, loan guarantee, bond, and other programs.⁴

Loans and Loan Guarantees

The [Oregon Business Development Fund](#) (OBDF) is a revolving loan fund that provides term fixed-rate financing for land, buildings, equipment, machinery, and permanent working capital. Participants must create or retain jobs and must typically be a traded-sector business in manufacturing, processing, or distribution. The program gives preference to projects located in rural and distressed areas, and to small businesses with fewer than 100 employees. Loans can finance up to 40 percent of a project with a maximum amount of \$1,000,000 and a maximum term of 20 years.

The [Small Business Expansion Program](#) is a new alternate financing solution allowing businesses to pay a periodic revenue payment as a percentage of net sales combined with scheduled monthly payments of principal and interest to accommodate growing companies that may not qualify for traditional financing. The company must meet all requirements of the OBDF program with additional evaluation by the Department on sales history, potential for rapid growth, gross profit margins, and collateral or personal guarantees. Financing is available at up to \$250,000.

The [Entrepreneurial Development Loan Fund](#) provides direct loans to help start-ups, micro-enterprises, and small businesses expand or become established in Oregon. This fund fills a niche not provided through traditional lending markets. Loans are a maximum amount of \$100,000 (\$75,000 initial loan), a maximum term and amortization of five years, and a minimum fixed interest rate of prime plus two percent. Participants must have had revenues of less than \$500,000 in the previous 12 months or be a business owned by a severely disabled person.

The [Oregon Credit Enhancement Fund](#) (CEF) is a loan insurance program available to enrolled banks and credit unions to assist almost any business in obtaining access to

⁴ Business Oregon. *Access to Capital*. <http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/>, visited November 5, 2018.

capital. The CEF insures the repayment of loans made by participating lenders that provide working capital or fixed-asset financing to businesses. Loan insurance is typically up to 80 percent of the loan amount for term loans with a maximum insurance exposure of up to \$2 million, and up to 75 percent of the loan for operating lines of credit with a maximum insurance exposure of \$1.5 million.

The [Oregon Capital Access Program](#) helps private lenders (banks and credit unions) make more commercial loans to small businesses and provide capital for start-up or expansion. All types of loans and lines of credit are eligible. Lenders build a loan-loss reserve account to protect against loan losses each time they enroll a loan and the contributions to the account by the lender and borrower are matched by the program.

Bonds

[Oregon Industrial Development Bonds \(IDB\) and Oregon Express Bond Program.](#) IDBs are tax-exempt bonds issued by the state on behalf of qualified businesses for long-term financing for land, buildings, and equipment at interest terms generally below the prime rate. The bonds are available to manufacturers, processors, exempt facilities (e.g., docks or solid waste facilities), and non-profits. They generally provide the greatest benefit to the borrower for bonds of \$5 million or more. The Oregon Express Bond Program streamlines paperwork to save time for the borrower through the process. Express Bonds are placed with the borrower's bank and may be feasible for financing smaller projects, particularly in the \$1 million to \$5 million cost range.

The [Beginning and Expanding Farmer Loan Program](#) provides affordable financing to new farmers to purchase farm land and depreciable farm property. The program, also known as "Aggie Bonds," allows the lender to avoid paying state and federal income taxes on interest the lender receives from the borrower. The lender passes on this savings to the borrower in the form of a lower interest rate. The state does not provide a repayment guarantee, the lender assumes all credit risks, and the borrower is solely responsible for repaying the Aggie Bond. The maximum financing is currently \$520,000.

Other Finance Programs

The Oregon [Business Expansion Program](#) is a forgivable loan that is available to existing companies expanding operations in Oregon or new companies coming into the state. The cash amount is equivalent to the estimated increase in income tax revenue from the new hiring. Companies are eligible if they plan to hire 50 or more full-time-equivalent employees in Oregon and already have at least 150 employees. Annual pay for each of the 50 or more new employees must equal or exceed 150 percent of the state or county average wage, whichever is less, or 130 percent of the state or county average wage, whichever is less, if hired to work in a county outside any federally designated metropolitan statistical area. The company must be traded-sector.

The [Business Retention Services Program](#) provides consulting services to assist Oregon companies facing a period of hardship such as financial or organizational distress. Private-sector consultants are matched to companies based on specific needs and industry requirements. Applicants can receive up to \$30,000 of assistance in conducting feasibility studies, with the applicant required to contribute 25 percent of the

study cost in cash, and up to \$15,000 for consulting services. The company must be in Oregon and be willing to fully disclose its financial status to the assigned consultant.

The [Oregon Brownfields Redevelopment Fund/Oregon Coalition Brownfields Cleanup Fund](#) assists individuals, non-profit organizations, and local governments with financing to evaluate, cleanup, and redevelop properties where expansion or redevelopment is complicated by actual or perceived environmental contamination (brownfields). Financing is primarily through revolving loans and the maximum loan term is 20 years. Funded environmental actions must be linked to site redevelopment that facilitates economic development or community revitalization.

OTHER DEPARTMENT PROGRAMS AND STRATEGIC INITIATIVES

Business Oregon's [Global Trade team](#) helps Oregon businesses access global markets. It offers small- and medium-sized Oregon companies assistance such as export counseling, market research, evaluation of international partners, and other services to help companies develop and expand their products and services in key overseas markets. For example, the [Export Promotion Program](#) offers limited financial assistance for companies to attend trade shows in targeted business or industry cluster areas.

The [Certification Office for Business Inclusion and Diversity](#) assists and certifies minority-owned, women-owned, and service-disabled veteran-owned business owners and emerging small businesses who are interested in contracting with state, county, and city government agencies.

The [Oregon Innovation Council](#), also called "Oregon InC," is a public-private partnership that was created to help entrepreneurs turn cutting-edge research into new companies. The three [Signature Research Centers](#) work directly with Oregon's research universities to commercialize research and development being created on campus and in the private sector.

The [Rural Opportunity Initiative](#) (ROI) is a strategy to build rural prosperity by unifying and strengthening the entrepreneurial ecosystem in rural communities. The initiative supports entrepreneurship-based economic development and invests in local capacity building. Grant funds were awarded to 11 communities in 2018.

The [Oregon Manufacturing Innovation Center](#) (OMIC) is a partnership between industry, higher education, and government to develop new tools, techniques, and technologies to address manufacturing challenges through applied research and advanced technical training. The purpose is to enhance the competitiveness of the metals manufacturing industry through an industry-driven collaborative.

RELATED INCENTIVES

The following are additional state and federal economic development incentives.

The [Opportunity Zones](#) program, created by the federal Tax Cuts and Jobs Act of 2017, establishes a new federal incentive to encourage long-term investment in certain low-income communities. In 2018, each state's governor nominated up to 25 percent of eligible census tracts for designation by the U.S. Department of the Treasury (Treasury) as Opportunity Zones. Oregon submitted and received approval on May 18, 2018 for 86

Opportunity Zones.⁵ Through the program, investors may realize tax relief on the capital gains invested in [Opportunity Funds](#) and their investments.

The [Work Opportunity Tax Credit](#) is a federal tax credit that is designed to incentivize businesses to hire certain individuals who face significant barriers to employment. To qualify, an employer must apply for and receive certification through the Oregon Employment Department.

The Oregon Film and Video Office provides [incentives](#) for film and video productions based in Oregon, such as a 20 percent rebate for Oregon-based goods and services and a cash payment of up to 16.2 percent paid to production personnel.

RECENT LEGISLATION

HB 2012 (2017) – Creates the Eastern Oregon Border Economic Development Board, to identify strategies and practices and make grants or loans for workforce development and economic development in the region.

HB 2066 (2017) - Extends sunset for tax credits for reservation enterprise zones.

HB 2152 (2017) - Permits small business development centers to use grant funds for outreach and marketing.

HB 2242 (2017) - Restricts a business development project to projects that result in, aid, promote, or facilitate development of traded-sector activities.

HB 2833 (2017) – Makes technical corrections to enterprise zone statutes.

HB 3213 (2017) - Expands contents of the Oregon Broadband Advisory Council biennial report to include the role of broadband technology in economic development.

SB 1516 (2018) – Establishes the Small Business Expansion Loan Fund at Business Oregon to provide up to \$2 million for early-stage growth capital for individuals and businesses with 50 or fewer employees. Effective January 1, 2019.

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⁵ Business Oregon. *Opportunity Zone Program*. <https://www.oregon4biz.com/Opportunity-Zones/>, visited November 5, 2018.