Before the House Committee on Economic Development,
February 6, 2019, Public Hearing on HB 2053

Chair Lively and members of the committee, thank you for hearing House Bill 2053, which Business Oregon has proposed to tweak five economic development programs – primarily business incentives – in various ways to simplify criteria for how much business firms need to compensate their new hires.

Relevant Economic Development Tools

Three types of programs include compensation criteria that the bill seeks to modify:

1. Estimates of incremental personal income tax revenue from new employment are used to compute:
   (I.) maximum forgivable-loan awards under Business Retention and Expansion Program (BEP), and
   (II.) reimbursements of local expenditures to prepare a Regionally Significant Industrial Site (RSIS).
2. Pursuant to an agreement between the local zone sponsor and a locally approved business firm, new property in an enterprise zone is exempt from property taxes for:
   (I.) up to two extra years of standard exemption with an EXTENDED ABATEMENT for five year in total, or
   (II.) 7 to 15 years on a long-term rural facility (LTREZ), as allowed in a subset of rural enterprise zones.
3. Business may subtract taxable income attributed to new facility operations on state tax returns for 10 years starting 24 months after operations commence at certain locations in 15 economically lagging counties under the Oregon Investment Advantage (OIA) program.

Purpose of Changes

Accompanying materials document in increasing detail the proposed modifications to requirements that businesses need to satisfy in terms of the pay received by applicable employees, for which:

a) In and among the above five programs, complexity is reduced by aligning definitions and other features for how criteria operate, smoothing out wrinkles, and clarifying legal points.
b) Differences, nuances and exceptions would remain across the programs for geographic and other reasons.
c) These changes would make the programs more straightforward for businesses and others to understand and use—improving statewide communication, administrative efficiency, and the ability to gather data.
d) Although the objective is to maintain the same substantive stringency for employee compensation, an effectively higher or lower requirement compared to current law might apply in any number of cases, which could potentially allow or disallow a particular project's benefiting from a program.
e) Simplifying is neither simple nor easy, as shown in the attached documents; inherently, the issues get complicated, and the various moving parts confound assessment of the proposed changes' net effect.
f) Balance appears to be achieved in maintaining equivalent stringency overall, but some of what is deleted has a point—having to weigh minor policy implications against the bill's overarching goal is unavoidable.
g) Finally, insofar as inducement of new development or hiring were to become more likely, that would occur in smaller metropolitan regions, as well as rural areas of Southern or Eastern Oregon.

Budgetary Consequences

The following comments are to inform considerations of fiscal and revenue interactions:

- BEP's compensation criteria are merely clarified, but in a discrete change, so that the program can help in rural counties, the job target there is cut in half. Nevertheless, appropriations ultimately cap BEP awards.

- RSIS draws directly from revenue streams to reimburse local governments, although it has yet to do so since its creation in 2014. Further adjustments for greater program use are proposed in SB 34, with which reconciliation may be called for. In any case, the law's annual cap on total reimbursements would remain.
- With EXTENDED ABATEMENTS in any enterprise zone—even if for technically all the right reasons—improving the ability of local and state organizations to market and administer the program should itself increase the number of 5-year exemption periods at the margin. Offsetting this is the sensitivity of property tax revenue impacts to even a slight dampening of EXTENDED ABATEMENTS in the Portland region, which amounted to $1.2 billion or 24% of all exemptions in 2017–18, or 60% of exemptions remaining after setting aside Amazon's data centers in two Eastern Oregon counties.*
- The LTREZ program is lightly used (in terms of the number of facilities), and these changes would only somewhat boost the ability of only a handful zones in challenged rural areas to attract such a facility.
- Modifications to OIA should produce a notably positive impact on General Fund revenues, not so much because of revised compensation criteria, but rather due to a discrete change that caps the amount of income that even existing corporate taxpayers are allowed to subtract per year going forward.

Further Explanation and Example

EXTENDED ABATEMENTS, LTREZ and OIA would generally replace current requirements that include benefits with a 110% requirement based only on the employees' average taxable income relative to the average county or state wage. Taxable income is around 84 percent of average payroll for workers in manufacturing and goods-producing industries, according to the Bureau of Labor Statistics, National Compensation Survey (ECEC – June 2018), after taking out payroll taxes and government-mandated costs, which the programs presently exclude by administrative rule. Eighty-four percent of the current 130% criterion is just shy of 110%. In addition, the county/state wage would increase over several years and not lock in at an early point as it does now, which will tend to reinforce stringency.

With area in both Clatsop and Columbia counties, the Lower Columbia Maritime Enterprise Zone offers an outlier example of how convoluted these criteria can be. Introduced by 2017 Oregon Law is the definition of a qualified rural county (QRC)—outside a federal metropolitan statistical area (MSA) and a general tax rate of 1.3% or higher. Belatedly in 2018, Clatsop County's general tax rate was found to have jumped by nearly 7 percent, so that it is now a QRC and subject to the 130% criterion rather than 150%. That also became the case throughout the zone for EXTENDED ABATEMENTS even in Columbia County which is inside an MSA. Meanwhile under existing law, the Columbia County average annual wage applies to EXTENDED ABATEMENTS in Clatsop County, because the Columbia County wage is higher.

* These include both 3-year and 5-year standard exemptions; Amazon (aws) is shifting to other programs for the future.