HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

HB 2053 Business Oregon Program Modifications

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Over the course of several days, a small Tax Fairness Oregon team has taken a close look at this complex bill submitted by Business Oregon.

HB 2053 has language and technical edits for several of Business Oregon's tax incentive programs, including the Oregon Business Retention and Expansion, Urban and Rural Enterprise Zones, Long-Term Enterprise Zones, Oregon Business Expansion and the Small City Business Development Exemption programs. What we found is that for several of these programs, this bill would reduce the required job numbers and employee compensation standards required to qualify. HB 2053 would make it much easier for businesses to take advantage of the very substantial tax breaks these programs offer, thereby increasing Oregon tax expenditures and diminishing revenue that is so needed for schools, healthcare and other vital programs.

Economic Development Accountability: Most remarkable to us is that these Business Oregon tax incentive and forgivable loan programs *do not* state each program's goals with a *timeframe*, *metrics* and *expected return on investment to the state* for these large investments. Has a cost per job been calculated? At best, there are some annual reporting mechanisms and clawbacks for non-compliance. However, the property and business excise tax exemptions and property tax abatements for business development can be renewed, credits can be carried forward and continued for many, many years at great financial loss to the state. In addition, ORS 285 A, B and C lack definitions for "living wage job" and "raising real wages" among other terms.

HB 2053 specifics: By changing definitions and calculations, the proposed wage requirements would *reduce* the current wage standards and *undermine* the stated "living wage jobs" goals for economic development [ORS 285A.020 sections 2 and 3(a) and 5(a)]. For example, **SECTION 7** of this bill (extension of the standard enterprise zone) would change the current wage requirement for *all* new hires at ***150%*** (urban) or ***130% (rural) of the county average wage*** (now $20-$28 per hour) to instead receive "***compensation** that **averages 110% of the county or state average wage"*** [3a] *or:* ***"at least 85% of the new hires each receive 135% of the [local] minimum wage*** *[4c]* (which currently is $10.50-10.75)!

Here's an example of what that would mean for new hire wages here in Marion County with an average county wage of $23.10 and a minimum wage of $10.75 an hour:

Now: $72,322 in average **compensation** (wages, salaries, commissions and any other form of remuneration paid to employees for personal services) with wages alone averaging at least $48,214.

Proposed: $53,036 (110% of the county average wage) *or* 85% of the new hires each receive $30,186 a year (at 135% of the county ***minimum*** wage). And, should a business hire one new employee at $30,186 with few benefits, and one at $75,886 (which would exceed the 110% criterion) they would get two more years without any property taxes. Unless employees are receiving employer paid benefits equal to 40% of wages, this is clearly a big reduction!

SECTION 10 of this bill has 4 options for long term enterprise zones, depending on the facility cost (or assessment), with differing job numbers required for each, but all wages are reduced to either 115% or 110%, down from the 150%/130% of the average county wages now in effect.

Likewise, in **SECTION 13** concerning the Small City Business Development (285C.503) income tax exemption, the current 150%/130% county per capita personal income now required for all new hires is changed to 'no fewer than five [of the new hires] …are to receive 110% of the average wage where the facility is located." This is yet another reduced wage requirement!

The point is that we have a broad set of programs that continue to expand with continuing diminution of revenues to the state but without a comprehensive assessment of overall benefits and impacts, particularly on jobs, education, and social service funding. According to the most recent Tax Expenditure Report, 114 additional standard enterprise projects with at least 3,800 additional jobs are proposed to begin exemptions in 2019.

Due to its complexity and potential implications, HB 2053 needs additional scrutiny. We are very concerned that some of the changes proposed will both reduce individual wages and overall wage levels in some areas, while reducing revenue for critical programs, without a clear understand of the potential benefits. The overall ROI to taxpayers is complicated and HB 2053, as currently proposed, appears to be concerned with courting business at the expense of both wages and revenue. We support efforts to encourage business, particularly in rural areas, but we do not think this bill, inasmuch as it affects a broad spectrum of programs, should be moved forward without further evaluation and analysis of its overall impacts

We read the bills and follow the money