HB 2053A: Business Oregon Program Modifications

House Revenue Committee – Jody Wiser – 5.7.2019

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. It covers five different business subsidies which together are expected to cost $234 million next biennium in state and local property, personal income and corporate income tax exemptions. One of the programs has not yet been deployed, so its cost would be in addition to that $234 million.

What we found is that for several of these programs, this bill would reduce the required job numbers and employee wage standards required to qualify. In most cases HB 2053 would make it much easier for businesses and land developers to take advantage of the very substantial tax subsidies these programs offer, thereby increasing Oregon tax expenditures and diminishing revenue that is so needed for schools, healthcare and other vital programs. **There are noteworthy good changes in what Business Oregon has proposed. Our testimony focuses on the work yet to be done.**

We understand the desire to move to requiring certain levels of average *wages* rather than *wages+benefits*; it is difficult to verify the amounts spent on benefits. We agree that the current wage+benefit requirements of 150% and 130% need to be reduced to wages only, and are surprised that the bill doesn't do so for two of the programs in the bill.

But the department has testified that wages in traded sector businesses average 84% of compensation. Our math says the new requirements should therefore be 126% and 109% of county average wage, not 115% and 110% proposed in the bill.

By changing definitions and calculations, these 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)].

NOTE: the bill defines "compensation" to mean "wages" or "taxable income" (see page 1, line 24). We think "wages" is the word that should be defined and used throughout the bill rather than the easily confused word "compensation" which has heretofore meant wages+benefits.

SECTION 7 of this bill covers extension of the standard enterprise zone to 4 or 5 years. It would change the current requirement for *all* new hires to receive wages+benefits of ***150%/130% (urban/rural) of the county or state average wage, whichever is less*** to instead receive "<u>**compensation** *(ie wage) that* ***averages 110% of the county or state average wage"***</u> [3a] *or:* ***"<u>at least 85% of the new hires each receive 135% of the [local] minimum wage</u>*** <u>*[4c]*</u> (which is now $10.50-$12.00 an hour).

Here's an example of what the SECTION 7 change would mean for new hire wages here in Salem for the extension of its urban enterprise zone property tax exemption to 4 or 5 years. Salem currently has an average county wage of $23.18 and a minimum wage of $10.75 an hour:

<u>Current requirement:</u> average **compensation** (wages+benefits) at 150% of county average wage of $23.18 x 2080 hours) = $72,322
<u>Proposed requirement in HB 2053A:</u> in average **wages** (110% of the county average wage of $23.18 x 2080 hours) = $53,036

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, they would average 110% of the county wage, and they would get two more years of property tax exemption. Unless all employees are receiving employer paid benefits totaling 40% of wages, this is clearly a big reduction!

<u>We propose the requirement should be:</u> the average of <u>all</u> employees' wages shall be 126%/109% (urban/rural) of the county average wage. It is unclear to us how Business Oregon could verify average wages for new hires vs all hires without huge gymnastics.

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.

SECTION 13 concerning the Small City Business Development (285C.503) income tax exemption, likewise changes the current 150%/130% county per capita personal income now required for all new hires 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 tax incentive programs that continue to expand with continuing diminution of revenues to the state but without a comprehensive assessment of overall benefits and impacts of these economic development incentive programs, 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 2053A 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 2053A, 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 would be happy to participate in a workgroup.

A second major issue is that Business Oregon seems to have interpreted bills the legislature has passed as saying there must be at least a certain number of new jobs, and that many jobs must meet the bill's average pay requirements, but any additional jobs above those 5, 25 or 50 can have any level of pay. We have never heard anything in your discussions that would make us believe that is your intention. This must be clarified. We think there should also be job retention requirements for five years after the property tax exemptions, with clawbacks.

A third major issue is that Business Oregon frequently states that they don't have authority over 3-year enterprise zones. The reporting on the transparency website leads us to believe that job creation numbers are not always being met, yet tax exemptions continue. It appears that additional property is exempted without additional job creation being required. Morrow County is exempting $20 million in taxes for 3 and 5 year exemptions and providing no job numbers. If these programs are to continue, **this bill should give Business Oregon both the authority and the responsibility to require complete annual reporting, with verification by Business Oregon and the Employment Division that the standards are being met and with qualification/disqualification reported annually to county assessors.**

In studying the transparency website we also found some outliers that point to the need for subsidy limits. In a couple of cases, a single job is giving business owners $1.5 m per year in tax exemptions for 5 years. In a handful of other examples the subsidies are $100,000 to $300,000 per job. Shouldn't there be a limit? For example, the property tax exemption should be no more than the payroll at the site? Or another cap on the subsidy per job created?

These property tax exemption programs were designed long ago, and they need standards set for today's realities.

It appears that the same business might be eligible for 3-15 years of property tax exemption, be receiving corporate income tax reductions for up to 10 years, and 50% of the income taxes of their employees could be diverted from the General Fund as well. Shouldn't businesses and the local communities choose which one of the benefits they most want, rather than allowing the subsidies to be stackup?

HB 2053 Needs amendments before it leaves your committee

1. **Define wages/taxable income as "wages" not "compensation."**

2. **Consistently set wage requirements as 109% and 126% of county average wage, updated annually.**

3. **Clarify if the average of ALL new hires salaries, or only 5, 25, or 50 hires must meet wage standards.**

4. **Require businesses report annually and Business Oregon to review reports, verify & affirm eligibility for all e-zone businesses in 3, 5 and 15 year zones.**

5. **Limit property tax exemptions to no more than the annual payroll.**

6. **End double dipping – businesses & developers choose which <u>one</u> subsidy they want or simply end BEP, RSIS and OIA*.**

These are income tax rebate programs: BEP - the Business Retention Expansion Program, RSIS – the Regionally Significant Industrial Site Development Program, OIA – Oregon Investment Advantage.