



ECONOMIC DEVELOPMENT

LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

BACKGROUND BRIEF

States invest in economic development to encourage companies to locate or expand operations in certain areas, create jobs, increase business investment, and grow the economy. These investments often include:

- tax incentives for business, including breaks or credits on property, sales, or income taxes; and
- financial assistance, including the issuance of tax-exempt industrial revenue bonds, low-cost loans, or the sale of underpriced land.¹

The purpose of Oregon’s 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.”²

STATE FUNDING

The main source of revenue for Oregon economic development programs 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 OREGON

Overview

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.

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¹ Jackson Brainerd, *Tax Break Tug-of-War*, State Legislatures, 28-31 (September/October 2019).

² [ORS 285A.020 \(2019\)](#).

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 provide Oregon with unique opportunities for growth, high-wage jobs, innovation, and statewide prosperity.³ These are all traded-sector industries, meaning that they sell their goods and services outside of Oregon.

Commission and Advisory Bodies

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](#);
- [Eastern Oregon Border Economic Development Region Board](#); and
- [Futures Commission](#).⁴

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

Strategic Plan

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

- innovate Oregon's economy;
- grow small- and middle-market companies;
- cultivate rural economic stability;
- advance economic opportunity for underrepresented people; and
- ensure an inclusive, transparent, and fiscally healthy agency.⁵

Programs

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 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.

³ Business Oregon, *Business Oregon's Target Industry Groups*, <<https://www.oregon4biz.com/Oregon-Business/Industries/>> (last visited January 5, 2021).

⁴ Business Oregon, *Commissions & Boards*, <<http://www.oregon4biz.com/About-Us/commission.php>> (last visited January 5, 2021).

⁵ Business Oregon, *Business Oregon's Five Year Strategic Plan*, <<https://www.oregon4biz.com/Publications/Strategic-Plan/>> (last visited January 5, 2021).

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.

INNOVATION AND ENTREPRENEURSHIP

Oregon Innovation Council

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 council provides funding to accomplish its goals through the following programs:

- [Signature Research Centers](#) focus on emerging industry sectors and work directly with Oregon's research universities to commercialize research and development being created on campus and in the private sector;
- [High Impact Opportunity Projects](#) are discrete projects to support the growth of industry sectors by removing barriers, supporting product development and testing, or expediting technology commercialization; and
- [Small Business Innovation Research \(SBIR\) Support Program](#) helps small businesses access federal funding designed to stimulate technological innovation and provide opportunities for small businesses to conduct research and development with commercialization potential.

Futures Commission

The 30-member [Futures Commission](#) was established in 2020 and is responsible for reviewing Oregon's existing innovation ecosystem, engaging with innovation stakeholders, and providing recommendations to elevate innovation as an economic development priority. The commission has been tasked with creating a 10-year [Innovation Plan](#) to set direction for innovation policy as a part of the overall economic development recovery strategy for Oregon. The plan is expected to be finalized by March 2021.

Oregon Growth Board

The [Oregon Growth Board](#) was created by the 2012 Legislative Assembly to spur economic growth in Oregon by leveraging state resources to improve the availability of capital for Oregon-based high-growth companies. The board manages two sources of investment capital: the [Oregon Growth Fund and the Oregon Growth Account](#). These typically fund other investment funds with the following purposes:

- The Oregon Growth Fund is a capital source for smaller and sometimes newer investment vehicles based in Oregon. Its investments are made for the purpose of growing the capital ecosystem in Oregon to promote economic development.
- The Oregon Growth Account is a capital source for larger in-state and out-of-state investment vehicles with significant track records that make funding available for Oregon-based companies. Its primary function is to generate returns for the Education Stability Fund.

TAX INCENTIVES

Property Tax Abatements

Enterprise Zones. [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. Enterprise zones are categorized as urban or rural depending on whether they are located inside or outside the urban growth boundary (UGB) surrounding the city or cities at the core of a federal metropolitan statistical area (MSA). There are currently 74 enterprise zones in Oregon ([interactive map](#)): 57 rural and 17 urban.⁶

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.

The [Long-term Rural Enterprise Zone Facilities](#) program is available in most rural enterprise zones located in a county that either meets certain criteria for per capita income, unemployment rate, or migration, or that is outside of all metropolitan statistical areas and has a relatively higher property tax rate.⁷ Business Oregon maintains an online list of [eligible counties and zones](#) based on these factors.⁸ The program offers property tax abatement during the entire construction period and then seven to 15 years after the facility is operational. Any type of business activity is eligible with local approval and minimum levels for investment size, job creation, and employee compensation.

[Electronic Commerce Zones](#) (“e-commerce”) are enterprise zones having received special status to further encourage electronic commerce investments. E-commerce

⁶ Business Oregon. *Enterprise Zones*, <<http://www.oregon4biz.com/dev/www/BOR/Oregon-Business/Tax-Incentives/Enterprise-Zones/>> (last visited January 6, 2021).

⁷ [ORS 285C.400 \(2019\)](#).

⁸ Business Oregon. *Eligibility for Long-term Rural Enterprise Zone Facility Tax Incentives, effective January 1, 2021*. <<https://www.oregon4biz.com/assets/docs/ElgZoneChart.pdf>> (last visited January 6, 2021).

zones are limited to 15 zones statewide and designation requires additional notification of and consultation with Business Oregon.⁹

The purpose of [Tribal Enterprise Zones](#) is to create equity that enables reservations to attract and retain private business investment and remove tax disincentives that inhibit such investment.¹⁰ Each of the nine federally recognized Indian Tribes in Oregon can have a single “reservation enterprise zone” designated to encompass up to 12 square miles of its tribal lands throughout the state. A tribe may also enter into special intergovernmental agreements with a local government to create and co-sponsor any number of contiguous “reservation partnership zones” anywhere in Oregon.

Other Property Tax Abatements. The Construction-in-Process exemption allows an unfinished qualified property to be exempt from local property taxes for up to two years while under construction. It is frequently coupled with enterprise zones but can be used on its own. The standard enterprise zone version of this exemption can fully cover all qualified properties of any locally authorized project (except hotels and resorts) that are still not in service.¹¹

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 the 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. Projects are approved through an agreement between a business and the county and city (if applicable) or through designation of a Strategic Investment Zone by the Business Oregon Commission that allows all eligible projects in an area to receive the tax exemption. Companies pay the respective county a community service fee equal to 25 percent of the abated taxes.¹²

The [Food Processing Machinery and Equipment Certification](#) provides an exemption from property tax for newly acquired machinery or equipment used by a food processing business. The machinery and equipment may be new or used, provided it is newly acquired by the food processor; is certified by the Oregon Department of Agriculture; and is exempt for five years following certification. In some cases, after 2019, local use of this exemption may be restricted by city or county ordinance.¹³

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

⁹ [ORS 285C.095 \(2019\)](#).

¹⁰ [ORS 285C.303 \(2019\)](#).

¹¹ [ORS 285C.170 \(2019\)](#).

¹² [ORS 285C.600 – 285C.626 \(2019\)](#).

¹³ [House Bill 2164 \(2019\)](#).

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 that are the first of their kind in the state for that company; and
- the new facility does not compete with local existing businesses.¹⁴

FINANCE PROGRAMS

Table 1 lists the business finance programs administered by Business Oregon.

Table 1: Business Finance Programs

Program	Type	Description
Oregon Business Development Fund (OBDF)	Loan	OBDF provides term fixed-rate financing for capital expenditures for the creation or retention of jobs in manufacturing, processing, or distribution.
Oregon Royalty Fund (ORF)	Loan	The ORF allows growing businesses that do not yet qualify for traditional financing to pay a monthly royalty payment as a percentage of sales.
Entrepreneurial Development Loan Fund (EDLF)	Loan	EDLF provides direct loans to help start-ups, micro-enterprises, and small businesses expand or become established in Oregon.
Credit Enhancement Fund (CEF)	Loan Insurance	The CEF insures the repayment of loans made by participating lenders who provide working capital or fixed-asset financing to businesses.
Capital Access Program (CAP)	Loan-loss Reserve	The CAP helps private lenders make more commercial loans to small businesses and provide capital for start-up or expansion.
Industrial Development Bonds (IDB)	Bonds	IDBs are tax-exempt bonds issued by the state on behalf of qualified businesses for lower-cost, long-term financing of land, buildings, and equipment.
Aggie Bond Program (Beginning and Expanding Farmer Loan Program)	Bonds	The program reduces a borrower's interest rate by allowing the lender to avoid paying state and federal income taxes on the interest paid by the borrower.
Business Expansion Program (BEP)	Forgivable Loan	BEP is a cash-based incentive (forgivable loan) equivalent to the estimated increase in income tax revenue from new hiring from an expansion or relocation project.
Business Retention Services Program	Consulting Services	The program provides consulting services to assist Oregon companies facing difficult times.
Oregon's Brownfields Program	Revolving Loans	The program provides financing for the full range of environmental activities—assessment through cleanup—associated with brownfields redevelopment.

Data: Business Oregon¹⁵

¹⁴ [ORS 285C.503 \(2019\)](#).

¹⁵ Business Oregon, *Access to Capital*, <<http://www.oregon4biz.com/How-We-Can-Help/Finance-Programs/>> (last visited January 8, 2021).

ECONOMIC DEVELOPMENT ECOSYSTEM

Support Organizations

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 [business incubators and accelerators](#) located across the state.

The [Oregon Economic Development Association](#) (OEDA) is a statewide nonprofit organization that advocates for economic development strategies, supports training for economic development professionals, and develops communication tools and strategies. OEDA also has a [Tax Increment Financing Committee](#), formerly called the Urban Renewal Committee, to promote best practices and support professional development for tax increment financing agencies.

Oregon has 12 [Economic Development Districts](#) (EDDs) covering all 36 counties, including one statewide tribal and 11 regional EDDs. EDDs often originate, package, and administer loans funded by state and federal programs, including the U.S. Department of Commerce Economic Development Administration, U.S. Small Business Administration (SBA), 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.

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 SBA, and Business Oregon.

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.

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.

Oregon Capital Scan

The Oregon Capital Scan reports every two years on data, trends, and gaps in business capital. These reports note the different sources of capital available and trends in the number of loans or deals made but do not report on the capital gaps or additional resource needs.

The [2018 Oregon Capital Scan](#) found:

- strong improvement in the early stages of the company formation ecosystem;
- increases in equity investments and crowdfunding;
- increased funding for clients of the Small Business Development Centers;
- continued state support for innovation;
- strong Small Business Administration-backed lending; and
- decreases in traditional lending.¹⁶

The 2018 report recommended that the state continue to support Oregon-based venture capital funds; measure the impact of all capital across regions, demographics, and stages of growth; and measure more frequently.¹⁷

Other Incentives

The [Opportunity Zones](#) program, created by the federal Tax Cuts and Jobs Act of 2017, established a new federal incentive to encourage long-term investment in certain low-income communities. Oregon submitted and received approval in 2018 for 86 Opportunity Zones.¹⁸ 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 working in Oregon.

RECENT LEGISLATION

[Senate Bill 1603 \(2020 First Special Session\)](#) identified telecommunications services subject to the universal service surcharge beginning on January 1, 2021; established a

¹⁶ Lundquist College of Business, University of Oregon, *Oregon Capital Scan 2018: Trends for the Future* (2018) available at <<https://oregoncf.org/assets/PDFs-and-Docs/PDFs/oregon-capital-scan-2018.pdf>> (last visited January 5, 2020).

¹⁷ *Id.*

¹⁸ Business Oregon. *Opportunity Zone Program*. <<https://www.oregon4biz.com/Opportunity-Zones/>>, (last visited January 5, 2020).

Broadband Fund; required Business Oregon to develop broadband program rules; and established procedures for distributing grants or loans from the Fund.

[House Bill 4209 \(2020 First Special Session\)](#) allowed the Eastern Oregon Border Economic Development Board to operate up to 10 active programs to award grants or loans through an agreement with a third-party administrator.

[House Bill 4212 \(2020 First Special Session\)](#) made various changes to statute to address COVID-19 impacts, including allowing an enterprise zone that would otherwise terminate on June 30, 2020, to terminate on December 31, 2020; and making zones re-designated between June 30, 2020 and January 1, 2021 effective on January 1, 2021.

[House Bill 2054 \(2019\)](#) made program changes and authorized the Oregon Innovation Council to make equity investments from the Oregon Innovation Fund and to contract with one or more management companies to manage those equity investments.

[House Bill 2173 \(2019\)](#) created the Oregon Broadband Office within the Oregon Business Development Department, defined Office responsibilities, repealed the sunset on the Oregon Broadband Advisory Council, added members to the Council, and expanded the Council's duties.

[House Bill 2174 \(2019\)](#) changed the requirements for notification, review, and input by each taxing district affected by an urban renewal plan prior to approval; required concurrence for public building projects by three of the four taxing districts estimated to forgo the most property tax revenue when a plan, amendment, or certain scopes of work occur after the measure effective date; and made other modifications to the urban renewal statutes.

[Senate Bill 1516 \(2018\)](#) created the Small Business Expansion Loan Fund administered by Business Oregon. Loans from the fund can provide up to \$2 million for early-stage growth capital for individuals and businesses with 50 or fewer employees. The measure authorized the department to set aside up to 20 percent of moneys in the fund for loans to applicants with low to moderate income who operate businesses with a majority share owned by minorities, women, or honorably discharged veterans, or that are located outside the Portland metropolitan area.

[House Bill 2012 \(2017\)](#) created 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.

[House Bill 2066 \(2017\)](#) extended the sunset for tax credits for reservation enterprise zones.

[House Bill 2152 \(2017\)](#) permitted small business development centers to use grant funds for outreach and marketing.

[House Bill 2242 \(2017\)](#) restricted business development projects to projects that result in, aid, promote, or facilitate development of traded-sector activities.

[House Bill 2833 \(2017\)](#) made technical corrections to enterprise zone statutes.

[House Bill 3213 \(2017\)](#) expanded the contents of the Oregon Broadband Advisory Council biennial report to include the role of broadband technology in economic development.

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