SB1524A: In support of the -20 that removes the Gain Share extension

Testimony for the House Revenue Committee – John Calhoun– 3.1.2022

We are pleased to see the -20 amendment to SB 1524A which removes the Gain Share extension. Without the -20, Gain Share would have avoided legislative scrutiny for 14 years. We look forward to robust discussions between now and the end of next session.

Gain Share currently costs the General Fund nearly $17 million a year. The cost will likely grow as additional facilities are approved under the Strategic Investment Program (SIP).

What is Gain Share? It is the payment of General Fund revenue to cities and counties that have granted 15-year partial exemptions from property taxes under SIP to businesses such as wind farms, data centers—and Intel. The theory is that employees of SIP companies pay a considerable amount in state income taxes, and so the state should "share" some of its "gain" with the jurisdictions that granted the property tax deductions.

Advocates of Gain Share say counties receiving Gain Share should be compensated for their losses under property tax breaks they give to businesses. Their argument ignores other factors:

- Counties are collecting $104 million in partial property taxes and fees from SIP businesses.
- Counties are collecting property taxes on the homes of the same generally well-paid employees of the businesses that the Gain Share advocates claim are filling the state coffers with income tax revenue.
- 41% of county property tax reductions are for K-12 funds covered by the state so, the counties only really give up 59% of the property taxes they claim to lose.

Gain Share doesn't currently sunset until July 2024. In 2009, the legislature enacted a provision to require periodic review of tax measures like Gain Share. The legislature should not allow Gain Share to escape review for 14 years. The only reason given for this early extension of Gain Share is that Washington County contends it needs early reauthorization to accommodate planning. That rationale could be used for every state tax program, which would violate the value of the 2009 law.

We believe that there is enough evidence that the Gain Share program is an unfair shifting of revenues from different parts of the state to counties that are already better off because of SIP investments and that proper evaluation should be done before granting an extension. We hope that you will pass the -20 amendment with Gain Share removed and then study this program over the next year.

Tax Fairness Oregon analyzed revenues to local jurisdictions and to K-12 under agreements with Intel in Washington County, Amazon's data center in Umatilla County and the Shepherds Flats wind farm in Morrow County. By studying the data at the end of our written testimony you will learn that in each case, K-12 funding across the state is losing more from SIP property tax breaks than are cities, counties, fire, park and water districts, when one adds up the property taxes and the fees collected from SIP businesses.

Gain Share was created without taking this into consideration. Between the taxes received on the first $25M, $50M or $100M of property taxes and the fees that locals negotiate, local communities are losing less with SIP property tax breaks than K-12 is statewide.

This program deserves sunset review next session. We urge you to vote for the amendment to strip Gain Share out of SB 1524, and we support the other provisions in the amendment before you today.

By the numbers: Gain Share and SIPs

The facts below challenge the argument that the local jurisdictions are giving up all "their" property taxes and the state is giving up nothing, and therefore the State should pay local communities Gain Share. Since the General Fund makes education funding equivalent across all parts of the state, K-12 funding exempted locally effects K-12 funding across the state.

Further, many communities have similar 15-year tax exemptions for industrial properties, and they get no Gain Share. Why should counties with one kind of 15-year exemption get money from the state when others do not?

Intel Corporation in Washington County (2019-2020 property tax year)

$ 4,165,000 paid in property taxes*
$211,727,000 exempt from paying under two SIP agreements

Of that exempt amount:
$ 89,537,000 was K-12 funding (41.34% of property taxes are K-12 funds)
$124,190,000 was local jurisdiction property taxes

$124,190,000 while local jurisdictions didn't receive this in property taxes, they did receive fees
-$59,121,000 fees paid local jurisdictions and if shared with local K-12, it would be outside the school funding formula
$ 65,069,000 losses to local jurisdictions

Comparing the two:
$ 89,537,000 losses to K-12 funding
$ 65,069,000 losses to local jurisdictions

Under the SIP agreements with Intel, the state has forgone more in property tax funding for K-12 than have all the local jurisdictions. K-12 children across the state received less funding.

Did the local jurisdictions lose much from SIP? How many services do they need to provide to buildings filled with super expensive equipment? Do the $4 million in property taxes and $59 million in Community Service Fees pay for the public services provided to the businesses?

Data centers and wind farms also likely require no more local spending than facilities with more employees and fewer pieces of expensive equipment.

Similarly, the most recent SIP agreement in Umatilla County shows the local jurisdiction is receiving more in fees than they gave up in property taxes. Umatilla County appears to have the best negotiators. they make money on SIP agreements.

Amazon's Vadata Data Center in Umatilla County

$ 365,000 paid in property taxes*
$ 4,787,000 exempt from paying under Oregon's newest SIP agreement

Of that exempt amount:
$ 1,979,000 was K-12 funding (41.34% of property taxes are K-12 funds)
$ 2,808,000 was local jurisdiction property taxes

$ 2,808,000 while local jurisdictions didn't receive this in property taxes, they did receive fees
$ 4,500,000 fees paid local jurisdictions
$ 1,692,000 extra income - local jurisdictions got more with the SIP than they would get without it!

Comparing the two:
$ 1,979,000 losses to K-12 funding
$ 1,692,000 extra income to local jurisdictions, and if they share some of this to local K-12, it would be outside the school funding formula

Shepherds Flats in Morrow County, one of several SIP wind farms in various counties

$ 317,000 paid in property taxes*
$7,290,000 exempt from paying under the SIP agreement

Of that exempt amount:
$ 3,014,000 was K-12 funding (41.34% of property taxes are K-12 funds)
$ 4,276,000 was local jurisdiction property taxes

$ 4,276,000 while local jurisdictions didn't receive this in property taxes, they did receive fees
-S1,686,000 fees paid local jurisdictions. Any given to local K-12 is outside the school funding formula
$ 2,590,000 losses to local jurisdictions

Comparing the two:
$ 3,014,000 losses to K-12 funding
$ 2,590,000 losses to local jurisdictions

*We used figures on page 39 of DOR's 20-21 Oregon Property Tax Statistics to derive the 41.34%. We divided school taxes collected ($3,117,420,222) by total taxes collected ($7,540,157,634) = .4134

The tax number used in this document come from Oregon Business Development Commission Prosperity for All Oregonians. Page 46 reports on SIP for the 2019-2020 property tax year.