2.014 LONG TERM RURAL ENTERPRISE ZONE (PROPERTY TAX)

Oregon Statute: 285C.409
Sunset Date: 06-30-2025 (local certification)
Year Enacted: 1997

2021-22 Estimated Reduction in the Taxable Assessed Value: $9.2 billion

	Loss	Shift
2021-23 Revenue Impact:	$280,000,000	$30,200,000
2023-25 Revenue Impact:	$334,000,000	$37,400,000

DESCRIPTION: The value of all new property and improvements at qualifying facilities in a rural enterprise zone can be exempt from property tax for 7 to 15 years as determined by an agreement between the business operating the facility and the local zone sponsor (city, county, or port). This new property can also be exempt while under construction for an unlimited number of years. To receive these exemptions, the business must also have approval by resolution of the city and county in which the proposed facility is located. Unlike business operations receiving a three- to five-year exemption under ORS 285C.175 (see 2.013, Enterprise Zone Businesses), any type of business activity is eligible for this tax expenditure.

In addition to being in a rural enterprise zone at the time of the agreement, the facility also needs to be inside one of presently 25 eligible counties (containing 39 of Oregon's 58 rural zones) that:

- Meets statutorily prescribed criteria for net out-migration or chronically low per capita income or high unemployment, or
- Is a qualified rural county (QRC), defined as a county outside a federal metropolitan statistical area (MSA) with a general countywide property tax rate of at least 1.3 percent.

The locally certified business must then meet specific requirements for minimum investment costs, new full-time hires, and average annual employee wages and compensation at the facility, as shown in the table below for facilities that begin their exemption in or after 2018. If a qualified business fails to meet those requirements, previously abated taxes must be repaid.

Minimum qualifications: Long-term rural enterprise zone facility

Criteria	Minimums
Investment ($) by end of year when operations begin (including existing, nonexempt property)	1% of total county real market value (RMV) up to $25 million – or 0.5% of county RMV up to $12.5 million if facility ≥ 10 miles from Interstate 5 (I-5)[1]
Full-time hires by business at facility	75 by end of 5th year[2] – or if ≥ 10 miles from I−5: 50, 35 or 10 by end of 3rd year[2,3]

Criteria	Minimums
Average annual employee compensation (including benefits, **all** facility workers)	At least 130%[4] if in QRC or 150% of county average annual wage by end of 5th year,[2] based on the most recent final wage figure, … and thereafter maintain at that level
Average annual employee wage (**all** facility workers)	At least 100% of county wage (as updated) in every year after meeting compensation criterion[4]

1 If > $200 million, then only 10 or more jobs are required
2 (Only) after the year in which facility operations commence
3 35 if county population ≤ 40.000; 10 if population ≤ 10,000
4 Not applicable to 7–15-year exemptions that began before 2018.

A business locally certified before July 1, 2018 may also claim a corporate excise tax credit if formally allowed by the Governor. See tax expenditure 1.419, Long Term Rural Enterprise Zone Facilities (Income Tax).

PURPOSE: The statute that allows this expenditure does not explicitly state a purpose for this expenditure. Presumably, it expands on the purpose of enterprise zones generally: "To stimulate and protect economic success … throughout all regions of the state, but especially … outside major metropolitan areas for which geography may act as an economic hindrance … by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure" (ORS 285C.055).

WHO BENEFITS: Businesses operating certain specially certified facilities in rural communities. As of 2022, a total of 16 facilities of 10 distinct companies were receiving a long-term rural enterprise zone facility (post-construction) exemption.

IN LIEU: The agreement between the business and the sponsor of the rural enterprise zone may include additional requirements requested by the sponsor, including but not limited to contributions for local services or public infrastructure benefiting the facility. Agreements typically have stipulated a schedule of other local payments during the exemption period, which benefit sponsoring governments and the local community. For the *Property Tax Incentives Impact Study*, by Applied Economics (Business Oregon, Salem, February 2022), cumulative payments collected locally over the years for projects with an ongoing exemption in the 2019-21 biennium were calculated to be $34 million.

EVALUATION: *provided by the Oregon Business Development Department*

In addition to a lumber manufacturer, this program currently consists of facilities that process either data or food, including massive, follow-on investments by Apple, Facebook, and Google in Crook and Wasco counties. Since 2001 to 2021, the facilities in this program have been located in the following counties: Clatsop, Crook, Douglas, Morrow, Umatilla, and Wasco, in which the original exemption for Google expired in 2022. Other certified facilities yet to begin a 7 to 15-year exemption include:

- Red Rocks biofuel producer in Lake County

- Amazon data centers in Umatilla County and a third one in Morrow County (until very recently in both counties, Amazon had instead been using tax expenditure 2.013, Enterprise Zone Businesses)
- Klean Industries, tire recycling, also in Morrow County
- Wilsonart laminated lumber production in Klamath County
- SA Piazza & Associates pizza processing in Deschutes County

The recent Big Beam/Fort George Brewery facility in Clatsop County demonstrates that new facility investments can be far from the massive for a business to utilize this program.

It is possible, and perhaps likely, that if Oregon did not have this program, these major investments in rural areas would not have happened there, and other prospective investors would not be looking so seriously at rural Oregon, which faces considerable economic challenges compared to metropolitan areas. In addition, these are very extraordinary projects, for which there is strong probability that nowhere near that amount of taxable property would otherwise exist at those locations or elsewhere in the state. That Oregon offers other advantages for these investments—for example, cost of electricity, climate, and absence of any sales and use tax in the case of data centers—does not diminish that assessment. Businesses considering major investments will typically have comparably profitable options, such that property tax relief might still be indispensable for such rural development opportunities.

For purposes of the distribution of state revenue in association with the (former) state tax credit noted above, counties provide a limited report to Department of Revenue on the property taxes currently being forgone under this tax expenditure at the end of each calendar year. Program administration and compliance are entirely a local, *ad hoc* matter, with nothing by way of statutory provisions. The Oregon Business Development Department (OBDD), however, has created administrative tools to assist in monitoring hiring and other criteria. Informal outreach by OBDD to local zone sponsors has met with increasing success in collecting data to complement county reports for the figures and analysis below. Regular information on local, additional requirements or fee payments is not currently obtainable.

From 2019 to 2021, the exempt value of 15 facilities receiving 7 to 15-year property tax abatements under this expenditure grew from $5.5 to $9.2 billion due to growth at certain data centers and additional food-processing and other projects. This corresponds to about $350 million in property taxes abated during three years, among 15 facilities. The exempt value of these facilities ranges from several million to a couple billion dollars. By 2021, the 15 facilitates had added 1,088 full-time employees, with average annual wages well above county norms, at just a little more than $80,000 on average. These jobs' total compensation, including benefits, averaged more than $95,000 annually in 2021. In addition, (non-construction) contractors and vendors employed nearly another 600 on-site at data center facilities using the program.

For the Impact Study referenced above (see In Lieu), the consultant to Business Oregon compiled data from the Oregon Employment Department on the change in payrolls related to business projects that were actively using this expenditure during the 2019–21 biennium. The data were modeled to estimate indirect and induced employment effects in Oregon and overall return on investment (ROI). The Study covers various quantitative and qualitative matters, including other local and state costs and benefits and examples associated with Oregon's property tax incentives, but in summary for long term rural enterprise zone facilities, it found that over the course of those projects through 2020 at eight companies:

- They produced 4,172 jobs, giving rise to total labor income of $277 million and economic output of $1.1 billion in Oregon.
- After adjusting for local in lieu funds, the resulting net ROI is $1.18 of total economic output for each dollar of forgone property tax revenue.
- They generated $81 million in cumulative state personal income tax revenue relative to $535 million of forgone property taxes—and net ROI of −$0.85 per property tax dollar.
- Considering the amounts and periods of property tax abatement, this program cannot rival the robust ROIs of 2.013, Enterprise Zone Business, or even 2.100, Strategic Investment Program, which have recently been associated with so much direct job creation or in lieu of moneys, so that a fuller ROI assessment depends on the value of economic development and quality jobs in relevant geographies and the improbability of so much taxable property otherwise existing in Oregon relative to rather modest additional burdens on public services.
- Additional analysis of one-time impacts from $10.1 billion in construction costs estimated another 72,728 jobs and $4.6 billion of labor income.