2.100 STRATEGIC INVESTMENT PROGRAM

Oregon Statute: 307.123
Sunset Date: None
Year Enacted: 1993

2021-22 Estimated Reduction in the Taxable Assessed Value: $18 billion

	Loss	Shift
2021-23 Revenue Impact:	$562,000,000	$111,000,000
2023-25 Revenue Impact:	$630,000,000	$125,000,000

DESCRIPTION: A portion of property from a new project with large capital investment is exempt from property tax for qualified businesses for a 15-year period. The property tax exemption relates to the amount of the eligible project's real market value that exceeds a certain threshold amount. The project's real market value up to the threshold amount is fully taxable. The taxable portion increases 3 percent each year during the 15-year exemption period. This property tax exemption is known as the Strategic Investment Program (SIP).

For SIP projects in urban areas, the initial threshold amount is $100 million. For a new project with a total investment cost of $175 million, $75 million would be exempt from property taxation and $100 million would be fully taxable in the first year of the exemption. That taxable amount would then increase annually.

For SIP projects in rural areas, if the total investment cost is less than or equal to $500 million, the threshold amount is initially $25 million. If the total investment cost is more than $500 million but not more than $1 billion, the threshold amount is $50 million. For projects of more than $1 billion, the threshold amount is $100 million. Prior to legislation in 2017 (SB 936), all rural projects had $25 million thresholds. For this property tax exemption, a rural area is currently defined as an area located outside current urban growth boundaries surrounding any city of 40,000 or more in population.

The new investment must be in a traded-sector industry, which is one that sells goods or services in markets with national or international competition, including but not limited to manufacturing. The business making the investment and operating the project needs to enter into a "first source" hiring agreement with local publicly funded job training providers.

Approval of a SIP project requires a county public hearing, written agreement between the business and the county (and city if applicable), and formal action by the county governing body. The Oregon Business Development Commission (OBDC) makes a final determination of project eligibility in order for it to receive SIP tax treatment.

In contrast to local negotiation of a unique agreement each time with case-by-case approval, a county may request that the OBDC designate a Strategic Investment Zone (SIZ), in which eligible projects are then subject to standardized local requirements and a streamlined approval process. Three SIZs were designated in 2009 and 2010, one of which in rural Clackamas County was used in 2020 for approval of a distribution center as an eligible project.

In applying to the state for this exemption, businesses must pay fees equal to $10,000 ($5,000 in rural areas). An additional $50,000 ($10,000 in rural areas) is due with the OBDC's determination of eligibility, from which the Department of Revenue receives 50 percent for administrative purposes. The remaining funds are deposited in the Oregon Business, Innovation and Trade Fund.

A business using this property tax exemption must also pay the county an annual fee in support of community services (see In Lieu below) in addition to other requirements under the agreement with the county, which often prescribes further payments to local governments. In 2017, the Legislature (SB 936, 2017) not only increased the taxable portion of property for larger rural projects (see above), but the yearly cap on community service fees was also raised from $500,000 and $2 million in rural and urban areas, respectively, to $2.5 million for any new project not using a SIZ.

Starting in 2011, the 2007 Legislature provided for local "gain share" of annual personal income tax revenue from state tax collections attributable to new and retained employment at SIP projects first exempt in or after 2008. A percentage of the estimated amount of state revenue is transferred to the county for local distribution under the same formula as the community service fee (see In Lieu below). In 2015, the Legislature (SB 129):

- Extended gain-share provisions through 2024. (2022 Legislature (SB 1524) extended this date an extra year to July 15, 2025).
- Capped the total that any one county could receive at $16 million per year (currently affecting only Washington County).
- Reduced from 50 percent to 20 percent, the portion of estimated tax revenue from retained jobs subject to transfer (still 50 percent for new-job revenue).

PURPOSE: "…to improve employment in areas where eligible projects are to be located and [the Legislative Assembly] urges business firms that will benefit from an eligible project to hire employees from the region in which the eligible project is to be located whenever practicable" (ORS 285C.603).

WHO BENEFITS: By tax year 2021-22, 23 SIP projects were receiving this property tax exemption, and six others had been formerly exempt. The Intel Corporation is the program's only urban user and has dominated program activity with large investments in high-technology semiconductor commercialization and fabrication in Hillsboro and Aloha since 1994, accounting for more than 70 percent of the program's total property value at present. Other current projects include paper products, biopharmaceuticals, data centers, and power generation (mostly wind) in rural areas.

IN LIEU: Businesses that have exempt property value under SIP pay a community service fee each year equal to 25 percent of the property taxes that would have otherwise been imposed. For future projects, the maximum fee is $2.5 million per year. In 2021, businesses in the Strategic Investment Program paid $10.5 million in statutory community services fees in addition to more than $82 million in other locally negotiated payments primarily made to county governments, as well as $15.7 in property taxes on the taxable portion of SIP projects. Community service fees are generally divided up among the county, city (if any), and (non-school) taxing districts in the project's property tax code area under a special local intergovernmental agreement or otherwise by OBDC action. For the *Property Tax Incentives Impact Study*, by Applied Economics (Business Oregon, Salem, February 2022), cumulative fees, payments and taxable portion revenues collected locally over the years for projects with an ongoing exemption in the 2019–21 biennium were calculated to be $490 million.

EVALUATION: *provided by the Oregon Business Development Department*

The program appears to achieve its purposes by giving local governments an option in pursuing well-structured arrangements for extraordinarily large, highly capital-intensive investments, such that companies are paying more reasonable taxes relative to direct public service impacts in communities that particularly value those companies' construction spending, employment impacts, negotiated concessions, franchise taxes and other benefits. As such, local officials have thoughtfully approved 36 SIP projects.

Anecdotal evidence, at least, suggests that these mutually beneficial arrangements have been crucial for attracting and maintaining exceptionally large investments and associated operations in Oregon. OBDD does not have sufficient data to determine that participating businesses do not simply realize lower taxes on property that might have existed any way, or that local/regional economies are sustainably better off than they would otherwise be.

The 2003 Legislature may not have expected the lower threshold for rural projects to be a panacea for all of Oregon's struggling rural economies (business investments greatly exceeding even $25 million are still rather unusual). Nevertheless, that policy change has had an impact with operating projects in Clackamas, Clatsop, Columbia, Gilliam, Morrow, Sherman, Umatilla, and Union counties and recent proposals in Klamath, Lake, Lincoln and Wasco counties. Many rural projects comprise major energy investments, for which parts of Oregon offer distinct advantages, even if some amount of negotiated property tax relief might have still been critical relative to other locations. The number of other of industries involved in the program statewide has been expanding.

In 2020–21, businesses in the program enjoyed net savings of $271 million in property taxes, before subtracting $93 million of nontax fees or other payments under local SIP agreements, so that the net revenue foregone by local governments (after also adjusting for levy shifts, tax payment discounts and other factors by county) was approximately $109 million.

The taxable portions of these SIP projects generated as much as $15.7 million in property taxes, aside from the taxes on former project property, other property of these businesses, and the property of their suppliers, contractors and so forth. Also, worth considering might be how these amounts compare to the taxes levied on commercial or other developments relative to demands on public services.

With respect to outcomes, as reported under the gain-share provisions discussed above, there are 16,029 full-time equivalent jobs created or retained directly with these current projects (overwhelmingly at Intel) with average annual incomes of about $130,720. These payrolls generated an estimated $145 million in state personal income taxes in 2021, of which $17.4 million was paid out by the state in gain-share distributions to the county governments, which consistent with business' community service fees, share gain-share funds with cities and special service districts.

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 SIP, it found that over the course of those projects through 2020 at 13 companies:

- They produced 25,039 jobs, giving rise to total labor income of $2.4 billion and economic output of $8.6 billion in Oregon.
- After adjusting for local in lieu funds, the resulting net ROI is $6.24 of total economic output for each dollar of forgone property tax revenue.
- They generated $1.2 billion in cumulative state personal income tax revenue relative to $1.7 billion of forgone property taxes—and a net ROI of $0.03 per property tax dollar.
- Considering the massive amounts of property exempted under SIP, including projects in the study from the early 2010's, such positive ROI results are due in large part to in lieu of funds and exceptional payroll paid by Intel in particular, as well as its modeled supply chain; the Study also highlights other benefits to the community.
- Additional analysis of one-time impacts from $34.9 billion in construction costs estimated another 245,241 jobs and $15.7 billion of labor income.

Looking forward, Intel has only partly begun (relatively speaking) to invest the $100 billion allowed under its 2014 SIP agreement with Washington County and the City of Hillsboro—covering potentially multiple projects. Similarly, the 15-year period for Amazon's data center project in Umatilla County is in the early stages. Wind, solar, energy storage, and other projects are also approved or underway in a few other counties.