HB 2199 & HB 3011

Property Tax Exemption: Oregon Enterprise Zones

House Committee on Revenue

LRO | 4/18/2023

Outline

- Measure history and what the bills do
- Oregon enterprise zones (EZ)
- EZ process and property tax exemption
- Data and studies
- Policy considerations

Measure history

- HB 2199
  - 2/28 - Public Hearing, Economic Development and Small Business
  - 3/7 - Work Session, Economic Development and Small Business (Heard)
  - 3/16 - Work Session, Economic Development and Small Business (11-0-0-0)
  - 4/4 - Public Hearing, Revenue
- HB 3011
  - 3/21 - Work Session, Economic Development and Small Business (11-0-0-0)
  - 4/4 - Public Hearing, Revenue

What the bills do

- HB 2199 extends EZ program ten years by moving sunset date from June 30 of 2025 to 2035
- HB 3011
  - Requires standard enterprise zone (SEZ) and long term rural enterprise zone (LRZ) to have greater transparency for purposes of:
    - Coordination with adjacent local governments whose infrastructure may be impacted
    - Adopting resolutions that set forth agreements, arrangements, and accommodations
  - Changes eligibility of retail sector for SEZ and LRZ
  - Changes eligibility requirements for SEZ and LRZ to be more restrictive for counties with a population greater than 420,000 (currently Clackamas, Multnomah, Washington)
  - Changes exemption period for LRZ from 7-15 years to 8 years, with option for additional 2 years with exemption reduced 50%
  - Clarifies conditions for continued exemption of real and personal property in a LRZ
  - Addresses Strategic Investment Program (SIP) but these proposed changes may move to HB 3457

Oregon EZs

- Policy Purpose:
  - “To stimulate and protect economic success […] throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance […] by providing tax incentives for employment, business, industry and commerce […]”

Oregon EZs (cont.)

- To incentivize new business investment, eligible business property in an enterprise zone (EZ) is exempt from local property tax
- EZ sponsored by city, county, port, or tribal governments (or combination)
  - Responsible for creating and managing EZs until sunset on June 30, 2025
- Sponsors are 124 cities, 15 ports, 30 counties, and 2 Indian tribes. In addition, 19 cities, 7 ports and 3 other counties currently consent to zones in their territory that are sponsored by other jurisdictions

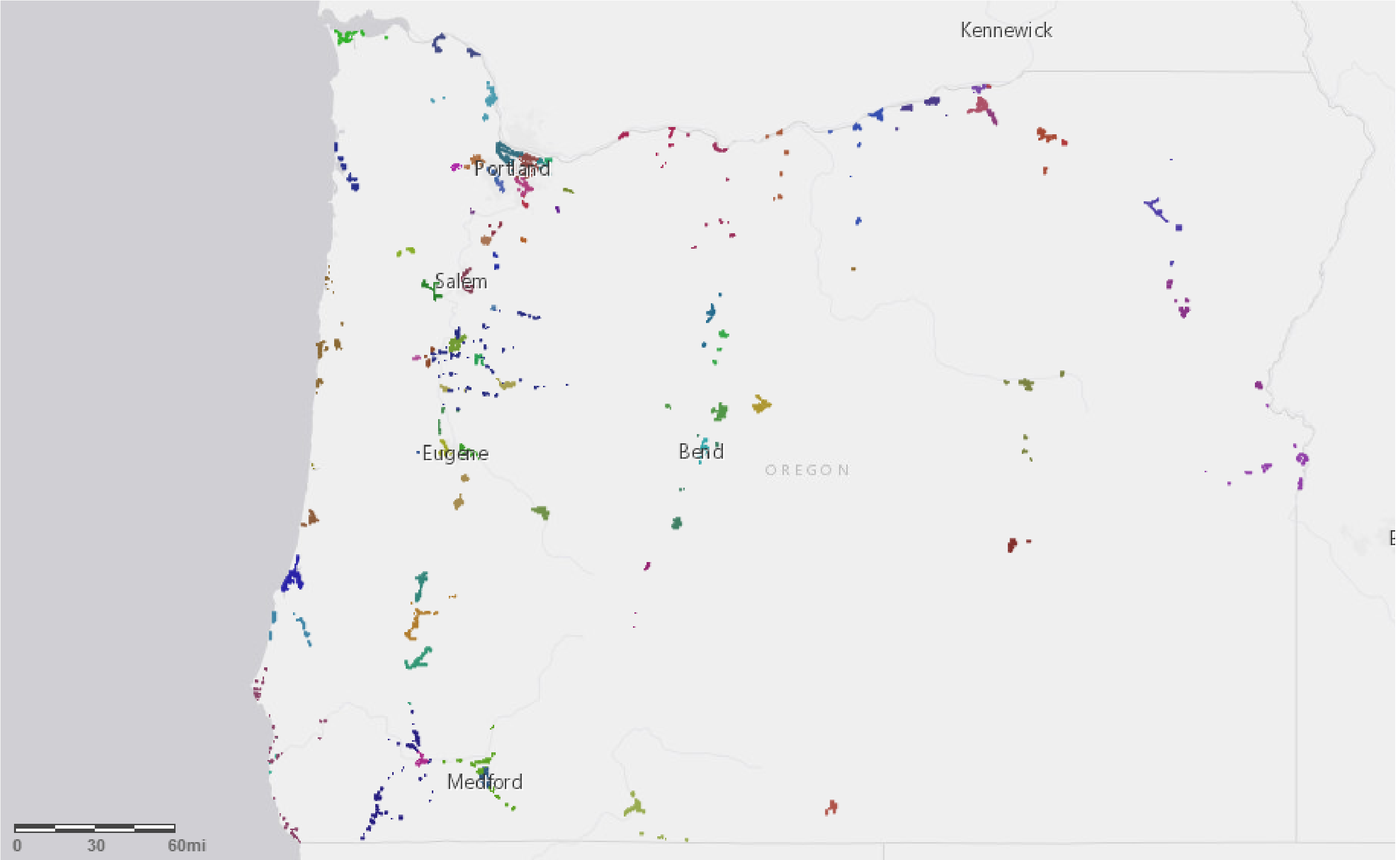
Oregon EZs (cont.)

- Oregon has 76 enterprise zones, 58 are rural and 18 are urban
- In 35 of 36 Oregon counties
- Businesses include many manufacturers, also financial/service centers, headquarters, data centers, distribution facilities, hotels, and other traded-sector businesses

Types of EZs

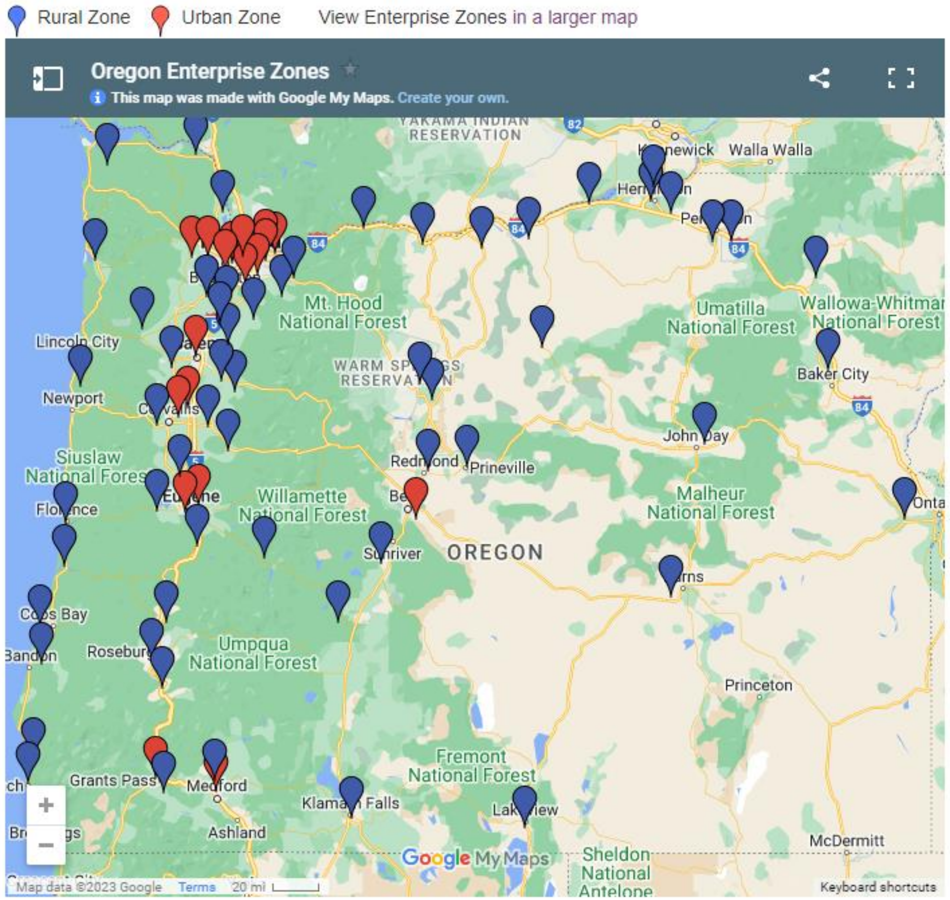
- Standard Enterprise Zone (SEZ) - Designated rural or urban
- Long Term Rural Enterprise Zone (LRZ) - Designated rural, in 25 eligible counties that meet particular conditions. Contain 39 of 58 rural zones
- Reservation Enterprise Zone (REZ) & Reservation Partnership Zones (RPZ) - Designated rural
- Electronic Commerce Enterprise Zone (e-commerce Zone) – Overlays existing rural or urban EZ

Oregon EZ footprint



Source: Oregon Business Development Department (OBDD)

Rural and urban EZs



Source: OBDD

Exemption or abatement?

- Exemption reduces taxable assessed value of property, fully or partially. Applying tax rate to lower taxable assessed value lowers tax owed. Alternatively, abatement reduces tax owed directly
  - Analogous to difference between income tax deduction and tax credit
- Full exemption has same result as abatement, zero tax owed
- Oregon EZs provide full property tax exemption of qualified property

EZ Process

- Zone designation
- Eligible business firm
- Authorization
- Qualified property
- Business & employment or investment qualifications
- Property tax exemption
- Disqualification from exemption
- EZ termination
- EZ program sunset

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EZ designation - urban

- Urban EZs are in a metropolitan statistical area (MSA) that is in a regional or metro urban growth boundary (UGB)
- Designated by city, county, or port (or combination of these in some circumstances)
- Any of following must be met:
  - 50% or more of households have income below 80% of OR median income
  - Unemployment rate at least 2% points higher than OR rate
  - OBDD case by case basis of economic hardship at least as severe as previous two points
- Up to 12 square miles, not required to be contiguous. Unconnected areas can be up to 5 miles apart

EZ designation - rural

- Rural EZs are in area that urban EZ can not be
- Same types of cosponsors as urban, and same requirements for households below median income, unemployment, and OBDD case-by-case determination
- Up to 15 square miles, not required to be contiguous. Unconnected areas can be up to 15 miles apart if particular requirements are met

EZ designation - e-commerce

- Sponsor of existing rural or urban zone may designate it as <u>e-commerce Zone</u>
- Limit of 15 statewide
- 1 city, North Plains, can be designated as e-commerce city (on HWY 26 between Portland, Hillsboro, and Banks)
  - Not required to be an existing enterprise zone
  - Not required to meet income, unemployment or OBDD case by case basis requirement

EZ designation - reservation

- 9 federally recognized Indian tribes may request OBDD to designate 1 reservation enterprise zone
- Up to 12 square miles, not required to be contiguous
- Land to be designated must be one of following:
  - Held in trust
  - In process of being held in trust
  - Located within boundaries of tribe's reservation
- Reservation partnership zone cosponsored by tribal government and county, city, or port. Up to 12 square miles

Qualified property

- Types of property that qualify:
  - Newly constructed building or structure
  - New addition or modification of an existing building or structure
  - Real property machinery or equipment or personal property that is installed and is newly purchased/leased or newly transferred into EZ from outside of county
- Minimum cost requirements also apply
- Specific requirements for hotel, motel or destination resorts

Firm and employment qualifications (cont.)

Employment

- Following year in which qualified property is first placed in service in EZ, firm employment is at least greater of:
  - 110% of annual average employment of firm
  - Annual average employment of firm plus one employee;
- Does not diminish employment outside EZ
- Does not “substantially” curtail operations inside EZ
- LRZ facility must hire 10-75 employees within 3-5 years of commencing operations in EZ

Exemption

- Standard Enterprise Zone (TER 2.013) - 3-5 year property tax exemption for qualified real and personal property owned/leased and newly placed into service. Enacted 1985

- Long Term Rural Enterprise Zone (TER 2.014) - Alternative to SEZ. 7-15 year property tax exemption for all new property and improvements at qualifying facilities. Enacted 1997

- Reservation Enterprise Zone & Reservation Partnership Zones - Same exemption as SEZ or LRZ

- Electronic Commerce Enterprise Zone - Same exemption as existing SEZ or LRZ

EZ termination/redesignation

- Zone designation lasts 10 years
- Zone sponsor may redesignate, also lasts 10 years
- When zone terminates, eligible firms can receive exemption up to 10 years after termination

EZ program sunset

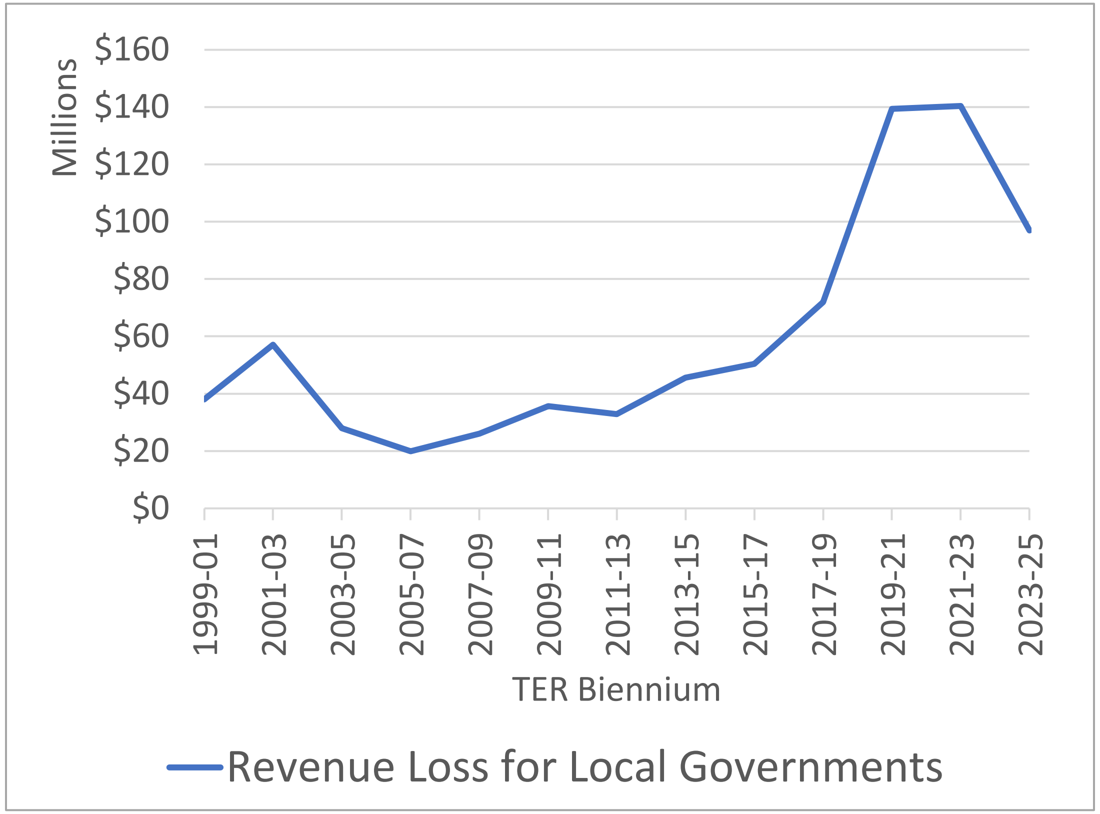
- Sunsets June 30, 2025
- EZs, except REZ and RPZ, are terminated on sunset. Similar to terminations due to end of zone designation, eligible firms can receive exemption up to 10 years after termination
- A REZ may be designated and a RPZ may be cosponsored after sunset, and both may receive exemption

Data and Studies

- TER 2.013 and 2.014 (data)
- Property Tax Incentives Impact Study. Applied Economics and TadZo, for OBDD. 2022
- Strategic Assessment of Incentives. Smart Incentives, for OBDD. 2021
- Legislative Revenue Office. Research Report 4-09. 2009

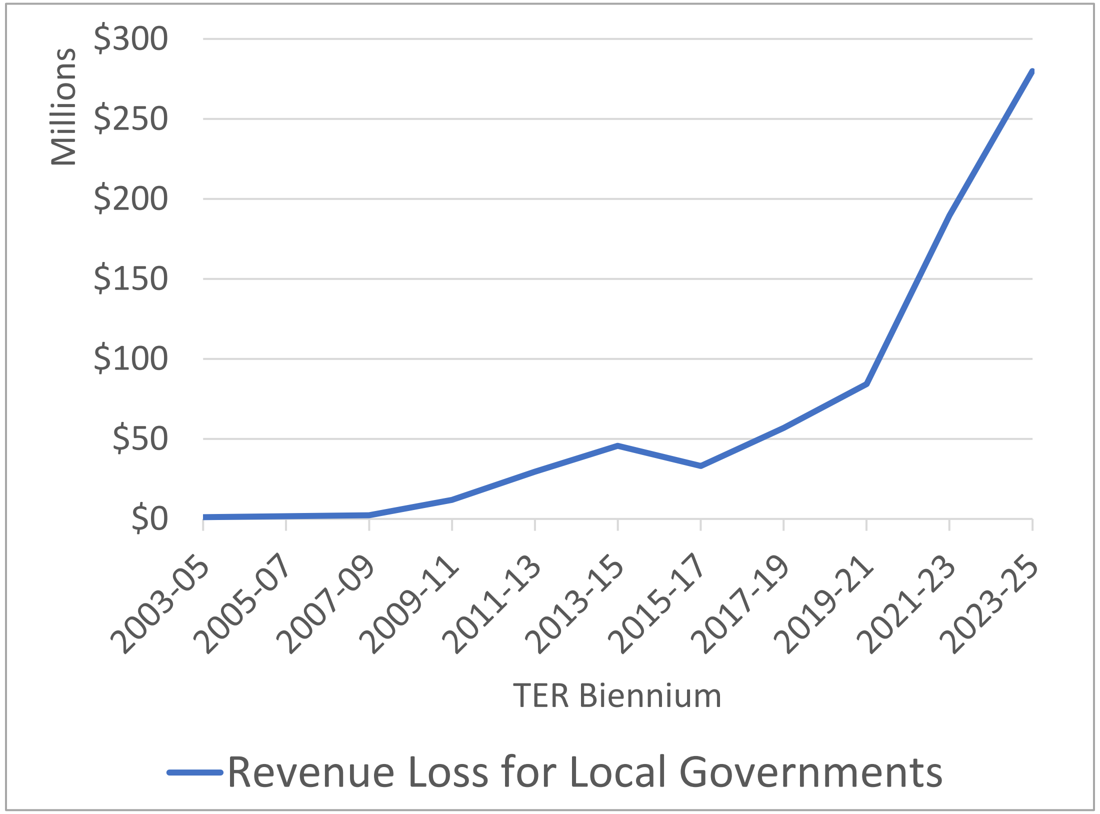
Data and Studies - TER

Standard Enterprise Zone



Data and Studies - TER

Long Term Rural Enterprise Zone



Data and Studies - Applied Economics 2022

- Main finding: “total economic impact of job and payroll growth […] far exceeds the amount of property taxes foregone”
- ROI for net property taxes exempted versus total economic output:
  - SEZ $29.16
  - LRZ $1.18
  - SIP $6.24
- Direct, indirect, and induced effects estimated from time a firm first entered program, until exemption in effect in 2019 or 2020
  - Covers exemption period “up to 15 years, or as little as one year”
- “any combination of low employment and high capital investment […] can result in a very low (or even negative) return on investment based on the approach used here.”

Source: Property Tax Incentives Impact Study. Applied Economics and TadZo, for OBDD. 2022

Data and studies – Smart Incentives 2021

- Qualitative analysis: Interviews, comparison to other states, and analysis of alignment between strategic plan priorities and following business incentive programs:
  - SEZ (property tax)
  - LRZ (property tax)
  - SIP (property tax)
  - Oregon Investment Advantage (state income tax)
  - Governor's Strategic Reserve Fund (lottery funds)
  - Business Expansion Program (part of Strategic Reserve Fund appropriation)
- "business development incentives "likely" or "possibly" or "partially" support OBDD 2018-22 strategic plan priorities to grow small and middle-market companies, advance economic opportunity for underrepresented people, and ensure transparency."
- "incentives are largely designed to cultivate rural economic stability, but, as configured, do not help innovate Oregon's economy."

Source: Strategic Assessment of Incentives. Smart Incentives, for OBDD. 2021

Data and Studies – LRO 2009

- SB 151 (2007) directed Legislative Revenue Officer to prepare report that evaluates performance of EZs and related tax incentives
- From highlights of results:
  - Larger employment and payroll gains for firms in EZs directly receiving property tax exemption
  - By all measures of economic activity used in study—job growth, total payroll and average wage—firms in rural EZs lagged comparison areas
  - 7 years on average to recover undiscounted value of property taxes forgiven
  - Cost of property tax exemptions per new full time job is ≈$7,800-$11,200

Source: Legislative Revenue Office. Research Report 4-09. 2009

Policy Considerations

- Whether robust EZ program is prerequisite to compete for federal funding from CHIPS and Science Act
- ROI, as measured in Applied Economics study, may increase after exemption ends as long as some new employment persists
- Whether employment gains attributable to EZ persist after 1-5 year employment qualifications end of exemption
    - If yes, shortening exemption term, particularly for EZs with a longer exemption term, may increase ROI. Still may result in net increase in employment

Legislative Revenue Office

https://www.oregonlegislature.gov/lro

503-986-1266