HB 2199 & HB 3011

Property Tax Exemption: Oregon Enterprise Zones

House Committee on Revenue

LRO | 4/20/2023

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

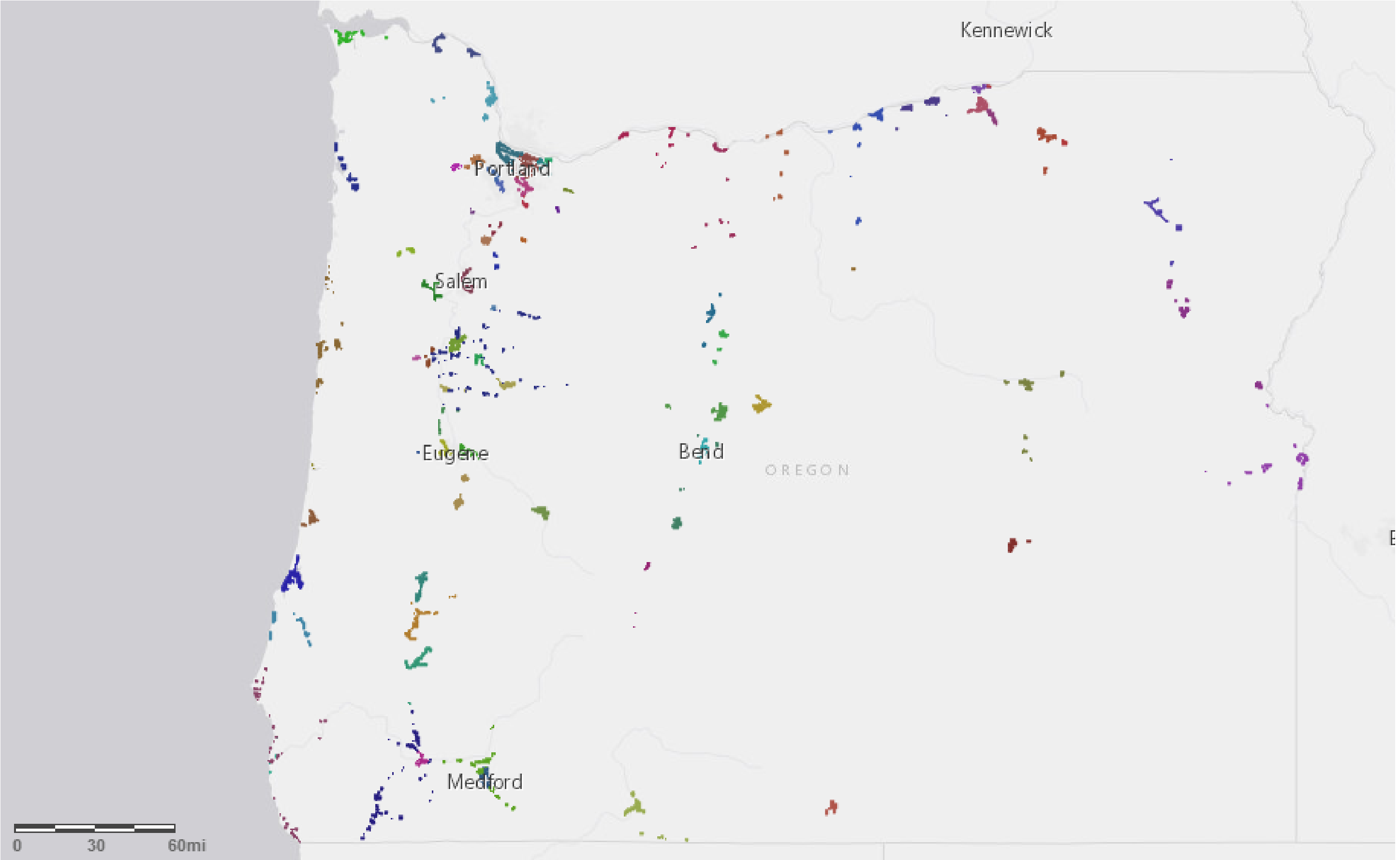
Oregon EZs (cont.)

- 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

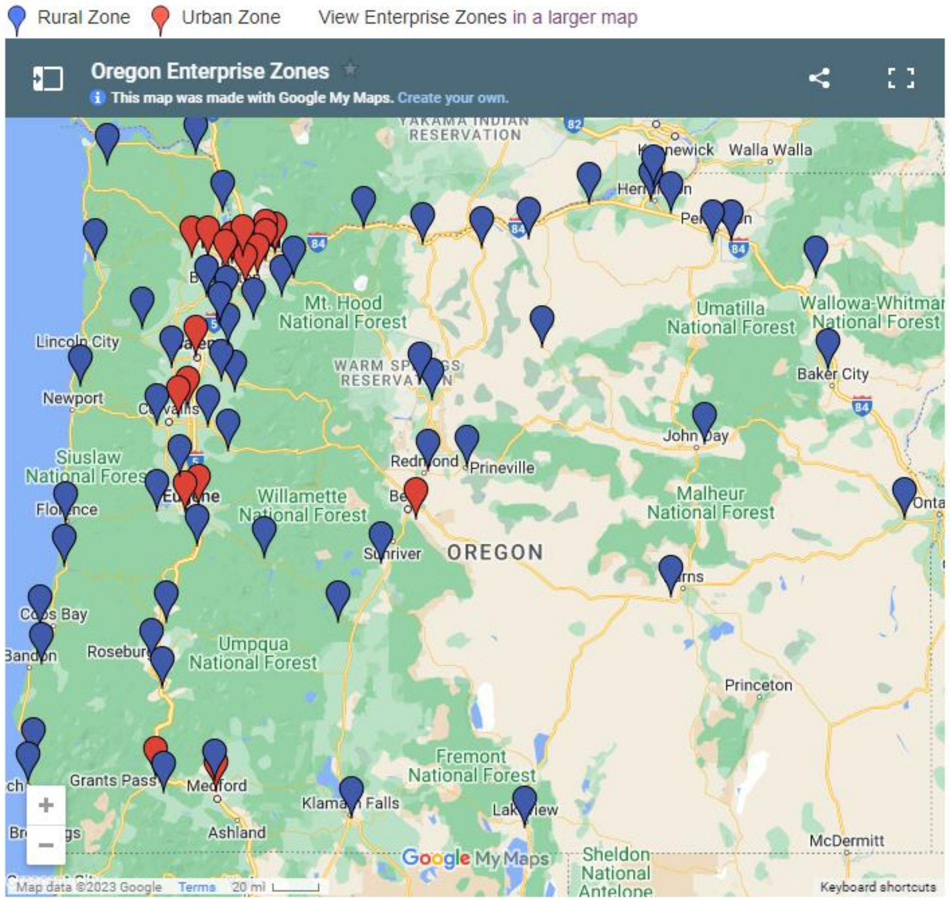
- Standard Enterprise Zone (SEZ) - Designated rural or urban
- Long Term Rural Enterprise Zone (LRZ) - Designated rural, in 25 eligible counties that meet particular conditions. Contain 39 of 58 rural zones
- Reservation Enterprise Zone (REZ) & Reservation Partnership Zones (RPZ) - Designated rural
-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

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

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 e-commerce Zone
- 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 <u>reservation enterprise zone</u>
- 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
- <u>Reservation partnership zone</u> 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

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

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

- <u>Reservation Enterprise Zone & Reservation Partnership Zones</u> - Same exemption as SEZ or LRZ. Enacted 2015

- <u>Electronic Commerce Enterprise Zone</u> - Same exemption as existing SEZ or LRZ. Enacted 2015

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

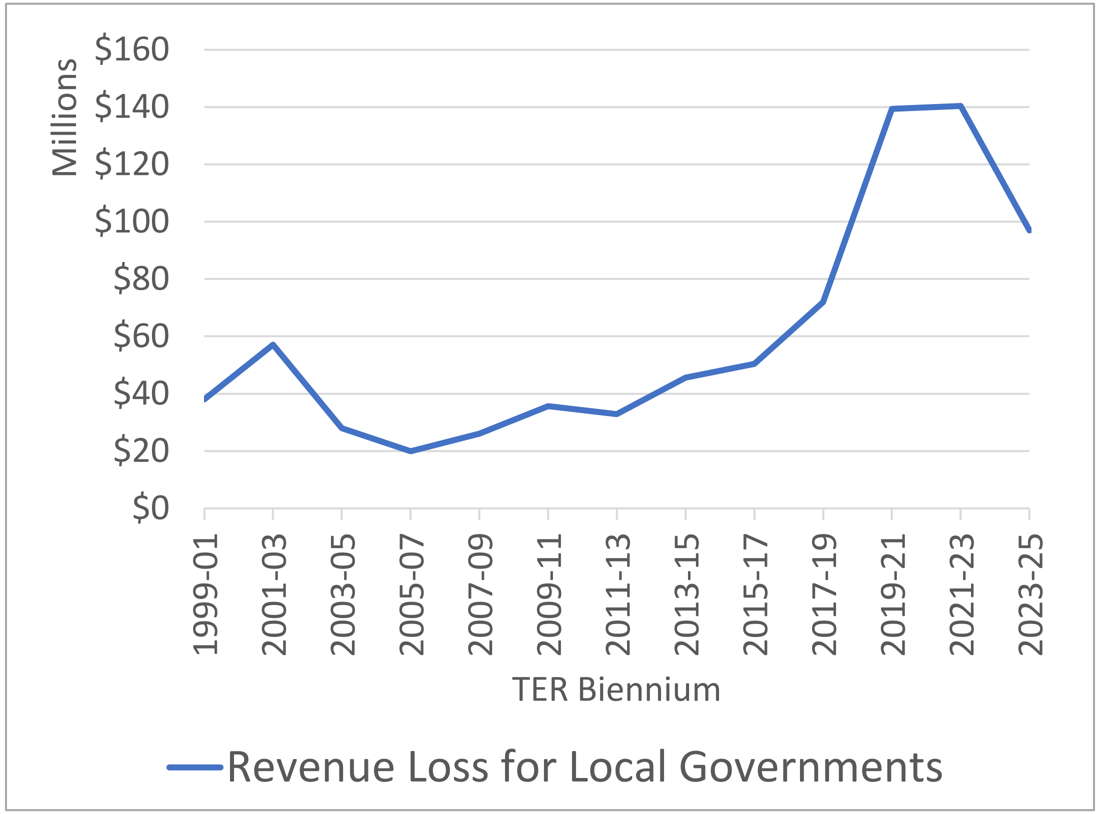
- Sunsets June 30, 2025
- EZs, except REZ and RPZ, are terminated on sunset. Similar to terminations due to end of zone designation, eligible firms can receive exemption up to 10 years after termination
- A REZ may be designated and a RPZ may be cosponsored after sunset, and both may receive exemption

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

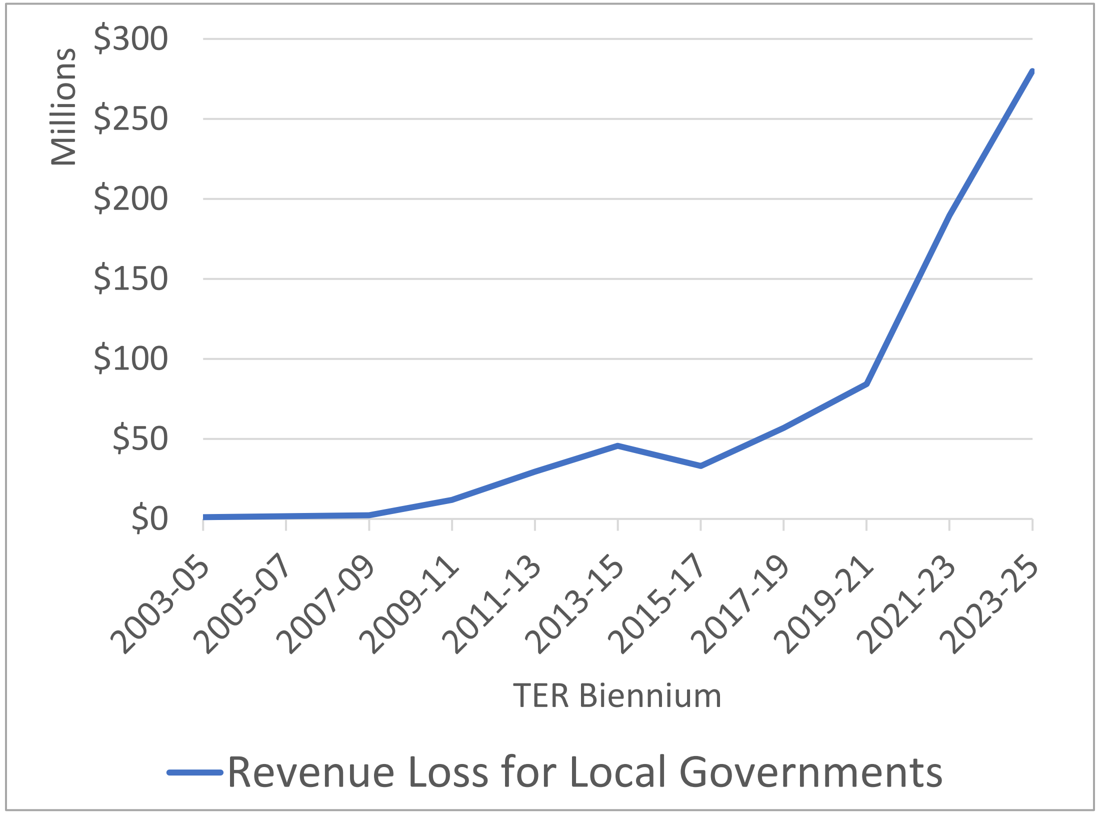
Data and studies - TER

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

Responses to Questions from 4/18 Informational Meeting

What is the justification for EZs to have a different exemption term? (cont.)

- 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 […]" (ORS 285C.055)
- Anecdotally, higher incentives may be needed in rural areas to:
  - Encourage greater parity with urban areas or business investment in less economically developed areas. For example:
    - New Industrial Property in Rural Areas (property tax exemption 2.017)
    - Rural Medical Practice (Oregon income tax credit 1.408)
    - Volunteer Rural Emergency Medical Providers (Oregon income tax credit 1.409)
    - Long Term Rural Enterprise Zone Facilities (Oregon income tax credit 1.419)
    - Leased Rural Health Care Property (property tax exemption 2.017)
    - Rural Renewable Energy Development Zone (property tax exemption 2.019)
    - New Rural Health Care Facilities (property tax exemption 2.096)
    - Railroad Right of Way in Rural Fire District (property tax exemption 2.124)

    → No tax expenditures in TER have "urban" in the title

What is the justification for EZs to have a different exemption term? (cont.)

- 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 […]" (ORS 285C.055)
- Anecdotally, higher incentives may be needed in rural areas to:
  1) Encourage greater parity with urban areas or business investment in less economically developed areas. For example:
     - New Industrial Property in **Rural** Areas (property tax exemption 2.017)
     - **Rural** Medical Practice (Oregon income tax credit 1.408)
     - Volunteer **Rural** Emergency Medical Providers (Oregon income tax credit 1.409)
     - Long Term **Rural** Enterprise Zone Facilities (Oregon income tax credit 1.419)
     - Leased **Rural** Health Care Property (property tax exemption 2.017)
     - **Rural** Renewable Energy Development Zone (property tax exemption 2.019)
     - New **Rural** Health Care Facilities (property tax exemption 2.096)
     - Railroad Right of Way in **Rural** Fire District (property tax exemption 2.124)

     → No tax expenditures in TER have "urban" in the title

What is the justification for EZs to have a different exemption term? (cont.)

- Purpose of federal zones is to “revitalize”
  - “Federal Empowerment Zones, Enterprise Communities, and Renewal Communities are federally designated geographic areas characterized by high levels of poverty and economic distress, where businesses and local governments may be eligible to receive federal grants and tax incentives.”
  - “[…] to revitalize selected areas affected by unemployment and a decline in economic activity, despite increased concern over the size and sustainability of the long-term budget outlook.”

Source: Congressional Research Service, R41639. 2011

What is the justification for EZs to have a different exemption term? (cont.)

- Anecdotally, higher incentives may be needed in rural areas to:

  2) Encourage larger, capital intensive business investment. May be good fit for areas with more land availability and more ability to build new facilities. Longer term exemption in rural area may result in same loss to local government revenue as shorter term exemption in urban, given lower property value in rural (relative impact on local government revenue should be considered)

     → However, SIP is an incentive for large investment in capital intensive industry

Is the exemption transferrable?

- Per ORS 285C.175(2)(b) “If qualified property of a qualified business firm is sold or leased to an eligible business firm in the enterprise zone during the period the property is exempt under this section, the purchasing or leasing firm is eligible to continue the exemption of the selling or leasing firm for the balance of the exemption period, but only if any effects on employment within the zone that result from the sale or lease do not constitute substantial curtailment under ORS 285C.210.”
- ORS 285C.201 explains when operations of an EZ firm are substantially curtailed

Policy considerations

- Whether robust EZ program is prerequisite to compete for federal funding from CHIPS and Science Act, given that semiconductor fabs are capital intensive
- 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