

HB 3457 A STAFF MEASURE SUMMARY

House Committee On Revenue

Action Date: 05/11/23

Action: Do pass with amendments and be referred to Tax Expenditures. (Printed A-Eng.)

Vote: 5-2-0-0

Yeas: 5 - Marsh, Nathanson, Nguyen D, Smith G, Walters

Nays: 2 - Levy B, Reschke

Fiscal: Fiscal impact issued

Revenue: Revenue impact issued

Prepared By: Chris Allanach, Legislative Revenue Officer

Meeting Dates: 3/23, 4/27, 5/11

WHAT THE MEASURE DOES:

Increases the investment tax threshold amounts for the Strategic Investment Program and adds an inflation adjustment factor. Requires businesses to post related job announcements through WorkSource Oregon. Disallows the creation of new Strategic Investment Zones. Adds the requirement that at least one individual negotiating on behalf of the local government must have completed a training program prescribed by the Oregon Business Development Department that includes negotiation techniques. Increases the fee cap from \$2.5M to \$5M. Requires local entities that provide emergency services be part of the 75% threshold to reach an agreement. Reduces the maximum amount of annual Gain Share distributions received by any single county from \$16M to \$5M. Increases the amount of real market value that is taxable depending on project size: from \$25M to \$50M, from \$50M to \$60M, and from \$100M to \$150M. Adds a sunset date of July 1, 2030. Changes become applicable on the effective date of the Act and apply to property tax years beginning on or after July 1, 2024. Takes effect on the 91st day following adjournment sine die.

ISSUES DISCUSSED:

- The need for program updates, such as the exemption thresholds
- Impact of SIP projects on emergency services
- The goal of hiring locally
- The interaction of property tax exemptions with the school funding formula
- The length of agreements
- Potential impact on economic development from proposed changes
- The importance of including emergency services in the agreements
- The need to incorporate Ports
- The importance of economic development incentives to the state and local economies
- The importance of adequate public infrastructure to the state and local economies
- Gain Share distributions by county

EFFECT OF AMENDMENT:

Requires businesses to post related job announcements through WorkSource Oregon. Disallows the creation of new Strategic Investment Zones. Adds the requirement that at least one individual negotiating on behalf of the local government must have completed a training program prescribed by the Oregon Business Development Department that includes negotiation techniques. Increases the fee cap from \$2.5M to \$5M. Requires local entities that provide emergency services be part of the 75% threshold to reach an agreement. Reduces the maximum amount of annual Gain Share distributions received by any single county from \$16M to \$5M. Increases the amount of real market value that is taxable depending on project size: from \$25M to \$50M, from \$50M to \$60M, and from \$100M to \$150M. Adds a sunset date of July 1, 2030. Changes become applicable on the

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BACKGROUND:

The Strategic Investment Program (SIP) was created in 1993 as a 15-year tax exemption for large capital investments by "traded sector" businesses. Only the assessed value up to the threshold amount is subject to taxation and that amount increases three percent annually. "Traded sector" is defined in Oregon law (ORS 285A.010) as "...industries in which member firms sell their goods or services into markets for which national or international competition exists." Projects must receive approval from local governments or be located in a pre-established Strategic Investment Zone (SIZ)

For urban areas, the threshold is \$100 million. For rural areas, the threshold depends on the total investment cost. Projects with a cost up to \$500 million have a tax threshold of \$25 million; if the cost is above \$500 million but less than or equal to \$1 billion, the threshold is \$50 million; if the cost is above \$1 billion, the threshold is \$100 million. Rural area is defined as an area outside the urban growth boundary of a city with a population of at least 40,000 or in a Strategic Investment Zone. Program participation requires an annual community service fee equal to 25 percent of tax savings, up to \$2.5 million.

According to the 2023-25 Tax Expenditure Report: "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."

Related to the SIP program, the program known as "Gain Share" was created by the 2007 Legislature. It requires a share of personal income tax revenue from new and retained SIP-related jobs to be redirected from the General Fund to local governments. Since 2015, the income tax shares have been 50 percent for new jobs and 20 percent for retained jobs. The maximum amount any one county may receive is \$16 million. Related to tax year 2021, Washington County received \$16 million and eight other counties collectively received about \$1.4 million.