SMART GROWTH COALITION

June 2, 2023

Co-Chair Mark Meek
Co-Chair Nancy Nathanson
Joint Committee on Tax Expenditures
Oregon State Legislature
900 Court Street NE
Salem, OR 97301

Sent electronically

RE: Concerns Regarding HB 2009 and SB 1084 ("Tax Incentives" Omnibus)

Dear Co-Chairs Meek and Nathanson, Vice-Chairs Boquist, Reschke, and Walters, and Members of the Joint Committee,

Thank you for the opportunity to submit these comments on behalf of the Smart Growth Coalition regarding SB 1084 and HB 2009, which propose changing the state's tax incentive offerings to attract new investments. We very much support the legislature's pursuit of a robust package of economic development tools to lure new investments and to leverage the opportunity presented by the federal Chips and Science Act. However, we are concerned that both measures violate the fundamental tax policy principle of neutrality. This principle is paramount because it ensures a fair and efficient economic environment, mitigates market distortions, and fosters competition and innovation. We implore the committee to advance a neutral incentive package that does not pick winners and losers in the economy.

About the Smart Growth Coalition

The Smart Growth Coalition is a consortium of traded sector businesses with significant operations in Oregon. Our coalition was formed in 1999 to add technical expertise to state legislative proceedings regarding proposed reforms to state tax law affecting businesses who have made investments in jobs and capital projects in the state. Our members are unified in their commitment to sound tax policies that encourage investment in Oregon and provide technical simplicity and clarity to the state tax code.

Maximizing the Economic Opportunity with an Inclusive R&D Credit

As we have commented in previous hearings, the research and development (R&D) tax credit included in SB 1084 is preferable to the one in HB 2009 (previously SB 5). If Oregon restores and enhances the R&D credit but only does so for a select few taxpayers, the state will miss the spillover benefits and revenue gains arising from investments in the innovation economy. Oregon companies are driving the next generation of technologies in dozens of industry sectors, including material science, sustainability, and biotechnology. While this activity *can* occur here without incentives, states across the country are working to lure these investments away. Oregon must recognize the statewide significance of these investments and the economic and revenue opportunity cost of singling only the semiconductor industry as worthy of an incentive.

Unproductive Changes to the Enterprise Zones Program

Like the R&D credit, the other incentive proposals must not pick winners and losers. While we prefer the package offered in SB 1084, it is not without a significant flaw. In Section 17, paragraph (2), subsection (c), the language excludes warehouses from participating in the Enterprise Zones program. Shipping and warehousing are crucial in facilitating commerce in today's economy, allowing tens of thousands of businesses to transmit goods to consumers. By excluding these businesses from the program, Oregon risks burdening small businesses with higher costs or fewer supply chain options which impede their opportunities for growth.

We are also concerned about the proposed changes in Sections 24 through 27 of HB 2009. These sections limit the applicability of the exemption to school property taxes only during the initial years of the exemption. We understand the arguments over school funding made by proponents; however, we believe those arguments are misguided. Oregon's economic development strategy relies on leveraging local governments to recruit, retain, and expand business investments to grow the state's economy. These investments feed new income into the state's tax system to support vital programs, including public schools. As a practical matter, limiting the applicability period drastically changes the attractiveness of the incentive. Since school district property taxes comprise roughly a third of all property taxes, the exemption loses substantial value for businesses seeking to make long-term investments in a community. If the legislature is serious about attracting new investments in competitive industries, the proposal to curtail the value of the exemption has no place in this legislation.

Pulling the Rug Out on Gain Share

Finally, we are concerned about the proposal in HB 2009 to significantly scale back the Gain Share program. The program is a crucial piece of the state's economic development regime, which relies almost entirely on local governments to recruit and retain investments that drive growth in state revenues. Under the state's current economic development regime, local governments bear all the risk in recruiting new businesses while the state reaps the benefits through the income tax. Gain Share is the state's "skin in the game" for economic development, and it has proven a crucial and successful tool for encouraging these activities.

During the 2015 session, the legislature drastically reduced the local distributions available through the Gain Share program by capping the program at $16 million per year. Under HB 2009, the legislature would pull the rug out of that agreement by limiting those distributions to only $5 million. If the legislature pursues these changes, Oregon would effectively tie its hand behind its back on economic development at a time the state should be encouraging local governments to push harder to recruit these investments. We believe the committee should either advance the increases in the local distribution as proposed in SB 1084 or, at the very least, maintain the current distribution formula.

Conclusion

In conclusion, we greatly appreciate and support the legislature's attention and prioritization of tax incentives during this session. However, it is crucial to make sure the state advances the appropriate mix of policies that will effectively and fairly work to build a stronger and more resilient economy. We ask the committee to endorse a tax incentive package that strengthens the state's policy tools to recruit new investments and avoid using those tools to pick winners and losers.

We look forward to continuing to work with you through this process.

Sincerely,

Jeff Newgard
Smart Growth Coalition
jeff@peakpolicy.com