



Date: June 2, 2023

To: Co-Chairs and Members of the Joint Committee on Tax Expenditures

From: Scott Bruun, OBI

RE: Testimony in opposition to HB 2009 / EZ, SIP and OZ diminishment

Good morning, Co-Chairs Nathanson and Meek, and Members of the Committee,

I am Scott Bruun, director of tax, fiscal and manufacturing policy for Oregon Business & Industry. OBI is a statewide association representing businesses from a wide variety of industries and from each of Oregon's 36 counties. In addition to being the statewide chamber of commerce, OBI is the state affiliate for the National Association of Manufacturers and the National Retail Federation. Our 1,600 member companies, more than 80% of which are small businesses, employ more than 250,000 Oregonians.

Thank you for the opportunity to testify. We are in opposition to HB 2009, as written; and we are supportive of SB 1084, as written.

Maybe the best way to describe HB 2009 is one small step forward, and three big steps back.

R&D Tax Credit - Small Step Forward

The small step forward is the SB 5 -5 component of HB 2009. Here, you would be offering a very positive incentive to a very small subsector of Oregon's economy. Namely, semiconductor suppliers. If you are a small or smaller supplier who sells most or all your products in Oregon, meaning you are a homegrown supplier to Intel, then this R&D credit is excellent, perhaps among the best in the nation. But if you are a larger traded sector semiconductor player, or if you are in any other industry other than semiconductors, then this R&D credit is of little or no value.

The R&D provisions of SB 1084, available to all Oregon advanced manufacturers, is a much better incentive. The R&D policy within SB 1084 would perfectly position Oregon semiconductor players to benefit from federal CHIPS Act incentives, and would also position Oregon's clean energy, hydrogen, clean transportation, and energy storage industries to position themselves for federal Inflation Reduction Act incentives. Even without federal incentives, the R&D policy would position Oregon to be a global leader in research and innovation in advanced manufacturing. The R&D aspect of SB 1084 would be the crown jewel of Oregon's larger economic development and job creation efforts.

Enterprise Zones - First Big Step Back

The EZ provisions of HB 2009 are damaging. It should be noted that Oregon's enterprise zone program as it stands today is not exceptional, just about every other state has an equivalent. Those states also have other incentives that we don't, like R&D and capital expenditure credits. And we should recognize that many of the states we compete against do not have the same land use and regulatory challenges that Oregon's employers must contend with.

The bottom line is that Oregon's enterprise zone program does not put us on some super-competitive footing, it just helps us tread water. But that's okay. Treading water beats drowning. The carve-out of

school district exemptions after 5 years, as now called for in HB 2009, would effectively halve the value of the program according to data provided by Business Oregon.

SIP - Second Big Step Back

HB 2009 is also very bad for our SIP program. We need to remember that the SIP is a top-level strategic tool. It is meant for those very big, very rare, traded sector opportunities that help guide Oregon's economic strategy. It is a tool, used correctly, for the Governor of Oregon to have in her pocket to negotiate for the most important and coveted national and international investment opportunities, and the resulting world-class jobs. The SIP is a game changer. But the diminishment called for in HB 2009 would significantly curtail the program and reduce its effectiveness as a strategic tool.

It should also be noted that the changes in the SIP called for in HB 2009 are completely antithetical to the work you did with SB 4 and other efforts toward growing Oregon's semiconductor industries and attracting federal CHIPS Act grants, or even Inflation Reduction Act grants, for that matter.

Opportunity Zones - Third Big Step Back

Finally, the "odd man out" is the inclusion in HB 2009 of a policy that would curtail investments into Oregon's Opportunity Zones. We are opposed to this because we believe that, by disincentivizing Opportunity Zone investments in Oregon, HB 2009 will further limit the tools at our disposal toward economic revitalization and job creation in distressed areas. For most Oregon investors, HB 2009 would add an additional 9.9% marginal tax for Opportunity Zone investments. While this may not totally kill Opportunity Zone investments in Oregon, it would most certainly curtail them. It also means, importantly, that Oregon investors who still decide to use the Opportunity Zone program, are much more likely to invest into states that do not penalize the capital gain as Oregon would with passage of HB 2009 in its current form.

HB 2009 Will Not Create More Revenues

HB 2009 would not, as some seem to believe, create more tax revenues for the state. In fact, just the opposite. It would lead to a smaller "pie," as they say, and larger fights over it as public services and agencies compete – even amongst themselves – for stagnating revenues. Only the most static, non-realistic view of how incentives work could somehow construe that removing incentives is a money raiser. A healthy, growing and thriving private sector economy is how we raise public monies. Not by chasing away employers, or never encouraging them to come in the first place.

HB 2009 - Codifying Economic Mediocrity

HB 2009 is not balanced, it's not break-even. It's moving Oregon backward. It's a clear message to the world that Oregon is not serious about economic development, job creation, innovation, or future investment. HB 2009 would codify economic mediocrity.

Incentives matter and Oregon already has few of them. They matter because they help mitigate Oregon's overall high tax, high regulation, and high-cost environment. We would note that CEO Magazine, in its 2023 report on Best & Worst States for Business, ranked Oregon 46th overall, down a spot from 2022. We believe that we should take very seriously things that tell us that Oregon has one of the worst business climates in the country. And then we should ask ourselves, if we are doing poorly now, what will be the perception of Oregon's business climate after we decide to significantly curtail tools like the SIP, Enterprise Zones and Opportunity Zones?

Co-Chairs, Committee, respectfully, we urge you to reject HB 2009 in its current form.

Thank you.

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