SB 537: Gain Share should end, not be extended 12 years without change

Senate Finance and Revenue – Jody Wiser – 2.27.2023

We urge you to eliminate Gain Share by moving neither of the Gain Share bills out of committee. **Gain Share is not necessary to recruit companies and the math doesn't justify Gain Share.**

Gain Share is not bringing businesses. They don't get anything.
The money goes to counties and cities.

Certainly, Gain Share should not be extended until 7.2035. That is twice as long as our typical sunset period.

- Advocates of Gain Share say counties receiving Gain Share should be compensated for the property-tax breaks they give to businesses. Their argument ignores other facts:

    - Twelve states don't tax business personal property like equipment at these facilities at all. In those states there wouldn't be a tax break similar to the SIP or the Gain Share concept.

    - Counties collect both partial property taxes and significant fees from SIP businesses. In 2019-20 their collections totaled $104 million ($15 million in property taxes and $89 million in fees). Further the bond and local option taxes not paid by SIP businesses are shifted to other local property taxpayers, not lost revenue. Some agreements are providing more money to local communities than would standard property taxes, thus only statewide school funding is lost.

    - Counties across the state employ SIPs, LTREZs and the Standard 3-5 year Enterprise Zones, but only SIPs entitle counties to Gain Share revenues.

    - The state equalizes school funding across districts. When counties give businesses property tax breaks, 32% of what they give up is actually statewide funding for K-12, ESD and Community College. Any shortages at the local level are backfilled with General Fund money by the funding formulas. In FY2019-20, the SIP exemptions reduced local education dollars by $84 million.

    - Additionally, counties collect property taxes from the homes of these generally well-paid employees (who are the goal of SIPs).

- How is Gain Share justified? Local governments have produced no documentation of their costs serving SIP businesses. That's the kind of information one would expect in a review of the Gain Share program.

- **If local communities need or want more revenue from their SIP projects, rather than getting Gain Share they can:**

  - **Negotiate for more fees from SIP businesses**
  - **Ask the legislature to increase the thresholds taxed ($100M was set in 1993; inflation would increase that to $205M[4]).**
  - **Ask the legislature to change the exemption to a 75% or 80% reduction on taxable value over the thresholds rather than the current 100% exemption.**
  - **Ask the legislature to remove the cap on the community service fee, a fee of 25% of the exempted taxes, capped at $2.5 million. This cap means if a business invests $3 billion they'll pay the same in taxes and fees as if they'd invested only $670 million under the required payments in the program.**

- People think of property taxes as local taxes, and for a long time that was true when schools were mostly funded with local resources in Oregon.

  But today, because of the way K-12, ESD and Community College funding works in Oregon, when property taxes are exempt, whether for low income housing, a college campus, state office buildings, federal forestland or industrial development, 32%[2] of that money is statewide education funding.

- In 2015 Gain Share was extended until July 15, 2024 and last year it was given an additional year extension so there would be time for review. **Now is the time for that thorough review.**

BACKGROUND ON GAIN SHARE.

- Most recently, Gain Share sent $16 million a year to Washington County, Oregon's richest county, and $800,000 Clatsop, Columbia, Gilliam, Morrow, Sherman, Umatilla, and Union counties. SIP projects in Clackamas, Klamath, Lake and Lincoln Counties will come on soon.

- What is Gain Share? It is the payment of General Fund revenue to cities and counties that have granted 15-year partial property tax exemptions under the state's Strategic Investment Program (SIP) to businesses, mostly to Intel and numerous wind farms, but increasingly to data centers and other energy projects, and most recently to a distribution center.

- What is SIP? It is a property tax exemption for businesses with extremely valuable machinery. It provides a 100% property tax exemption of the amount a project's real market value exceeds a certain threshold amount. In urban counties, the threshold amount is $100M, in rural areas the threshold amount is $25M, $50M or $100M depending on the value of the project. The project's real market value up to the threshold amount is fully taxable. The taxable portion increases 3 percent each year during the 15-year exemption period.[1] The remaining property value is tax free, whether it is $200,000 or $20 billion. Communities negotiate significant additional fees.

- Since changes in 2015, Gain Share has been calculated as 50% of new employees' income tax and 20% of retained employees' income tax. Those tax receipts are funneled from the state back to the county of the employer and shared among some taxing jurisdictions. When Washington County's take was projected to reach $40 million, Gain Share's maximum payout to a county was limited to $16 million with legislation in 2015.

- The theory behind Gain Share is that employees of SIP companies pay a large amount in state income taxes, and so the state should "share" some of its "gain" with the jurisdictions that granted the property tax reductions.

[1] For more information on SIP and Gain Share, see the description, history and revenue impact in the Tax Expenditure Report, page 300.

[2] DOR's *Oregon's Property Tax Statistics 2020-21* (page 37): shows that $2.4 billion of the $7,540,158 in property taxes was for K-12, ESDs and Community Colleges ($2,060,872,000 + $145,629,000 + $201,322,000). Thus 31.9% of property tax revenue is regular school funding. This 31.9% does not include taxes collected for bonds or local option levies as they don't impact the education funding formulas.

[3] The tax numbers used in this document come from Oregon Business Development Commission Prosperity for All Oregonians. Page 46 reports on SIP for the 2019-2020 property tax year.

[4] https://www.usinflationcalculator.com/