



May 16, 2023

Dear Members of the Joint Tax Expenditure Committee:

As the co-chairs of the Joint Committee on Semiconductors, we had the opportunity to participate in a significant and thorough examination of Oregon's semiconductor industry ecosystem, exploring and testing pathways for Oregon to maintain and expand its status as a globally leading hub for semiconductor innovation. Oregon has the most concentrated semiconductor talent cluster in the U.S., with more than 15% of the national chip-making workforce. Semiconductors are our state's top export, and the jobs provided by this industry pay wages that are significantly higher than in other industries, and at all education levels.

Passage of the U.S. CHIPS Act presents Oregon with an opportunity to boost its Silicon Forest research and development environment, which currently produces more than 1,000 patents each year. Already, Oregon State University has been awarded an initial National Science Foundation Grant to support semiconductor technology development, with a potential total value of \$160 million over ten years. Intel's recent announcement that it will develop a major lithography research center in Oregon only furthers Oregon's international stature in semiconductor manufacturing and research and development.

This legislature has already passed Senate Bill 4, and to a person this Committee understands that passage of SB 4 was the first part in a legislative package that the Oregon Legislature must pass to remain competitive and compete effectively against other states. The legislative package has been clearly defined from the start by the Semiconductor Competitiveness Task Force and is a comprehensive roadmap for success with each interrelated component critical to Oregon's success.

We are compelled to write you today, as stewards of several critical components of that roadmap. When speaking at the CHIPS for America conference a few weeks ago, U.S. Secretary of Commerce Gina Raimondo advised states to do the following in order to compete for CHIPS investments:

- Fast-track permitting.
- Make sure you have places that are ready for huge industrial capacity.
- **More state and local incentives – every state will have to compete amongst themselves.**
- Invest in workforce development and career and technical education.

She noted that each of these issues were collectively vital for states to compete. The -5 Amendment to SB 5 would serve as one of the most ambitious semiconductor focused research and development tax credits in the nation, but we heard the need for broader eligibility in Committee. We are concerned with the direction HB 3457 and HB 2199 are currently headed, as these measures are counterproductive to our work on SB 4 and will erode Oregon's national competitiveness in the semiconductor industry.

SB 5 – Research and Development Tax Credit



Since the Joint Committee on Semiconductors convened in January, there has been wide recognition of the importance of including a targeted Research and Development (R&D) Tax Credit in a Semiconductor Investment Package. The state's lack of any R&D credit is a glaring omission and significantly disadvantages Oregon in the hunt to locate more of that activity here. As a result, it disadvantages Oregon in the competition to locate CHIPS Act-aided investment here. Oregon is one of only 12 other states without an R&D tax credit and is the only state without one among those (including NY, AZ, OH, TX) putting the most effort in attracting CHIPS-eligible projects. A tax credit is critical if Oregon wants to spur innovation, enhance the competitiveness of Oregon businesses in a global marketplace, and maintain our position as a leader in the semiconductor industry.

During the public hearings on SB 5, industry stakeholders responded to the proposal from the R&D Tax Credit Work Group appreciative that the proposal included elements that matched, or exceeded, other states credits. In crafting an extraordinarily competitive credit, the workgroup's recommendation and subsequent amendments would unfortunately exclude Oregon's largest investor in semiconductor research and development from the credit and, as a result, could limit the overall economic benefits that we envisioned for Oregon. Based on testimony, we know the amendments need additional work, including removing any employee cap for receiving the designed tax benefits, but success is well within reach and your work is critical to Oregon's success. We urge you to finish the work on SB 5 – be bold, swift, and inclusive.

HB 3457 – Strategic Investment Program (SIP) and Gain Share

Business Oregon found that companies using SIP agreements created 16,029 full time jobs with an annual average wage of over \$130,000, which generated \$145 million in income tax revenue for the state in 2021 alone. The SIP is a proven, effective economic development tool with a high return on investment with benefits that flow statewide. SIP projects require cities and counties to do significant long-term planning and invest heavily in infrastructure to support the large, capital-intensive businesses that would qualify for a SIP. The SIP has proven to be effective because the local government has the flexibility to bring the best value to the community in negotiating benefits through the SIP contract. However, HB 3457 removes the flexibility for effective negotiations.

Additionally, placing a sunset on the program is counterproductive and not in line with the recommendations of the Semiconductor Competitive Task Force. We should not inject uncertainty into the most important economic development tool for securing the exact types of projects we are seeking to locate in Oregon through the federal CHIPS Act. We urge you to remove the sunset placed on the SIP.

Gain Share works in tandem with the SIP to enable cities and counties to attract large-scale, private investment – bringing jobs and tax revenue along with it. SIP projects have brought economic growth to nine counties with recent proposals in four more counties, most of them rural. The theory of Gain Share is to incentivize local governments to do the necessary long-term land use and transportation planning, engage in economic development efforts with local, national, and international firms, and make investments in critical infrastructure to support private investment and job creation that benefits local communities and the state at large.



The Gain Share program, which needs an extension, shared back \$17.4 million of the \$145 million in income tax to the local governments across the state last year. Two months of hearings in our committee demonstrated that Gain Share is vital to communities that want to use the SIP to step up as partners in the CHIPS Act process to share in the economic benefits that accrue to the state. For communities that want to be new or continued partners in the CHIPS Act efforts, Gain Share is a vital investment in their work. In addition to retaining the certainty of the SIP, we urge you to extend the Gain Share Program and remove the reduction to the statutory cap. These programs are critical to the shared prosperity promise of our work and the local and state partnership that is required by the CHIPS Act.

HB 2199 – Enterprise Zones

Enterprise Zones allow local governments to attract long-term economic activity to their regions by temporarily abating property tax provided the investments bring sustainable jobs with wages exceeding local averages. Local governments (ports, cities, and counties) and tribes use strict discretion when foregoing property tax revenue and often negotiate additional benefits to the local community while the state benefits from the growth in income tax revenue. Oregon’s 58 rural and 18 urban enterprise zones touch 35 counties, 143 cities, 15 ports and lands of 2 tribes. The [Tax Expenditure Report](#) found that “Oregon enterprise zones are one of, if not the state’s premier tool for stimulating increased business investment across many traded-sector industries, including in competition with places outside of Oregon for retaining existing operations in Oregon.” The testimony in our committee was overwhelming – this program is critical to Oregon’s semiconductor industry and must be extended this session without changes that reduce its effectiveness.

We stand in partnership with you as you finalize the remaining components of the semiconductor package of bills in a way that complements the work we have already done and carries forward the responsibility of stewarding generations of opportunity for all Oregonians.

Sincerely,

Co-chair Sollman

Co-chair Bynum

cc: Senate President Rob Wagner
Senate Majority Leader Kate Lieber
House Speaker Dan Rayfield
House Majority Leader Julie Fahey