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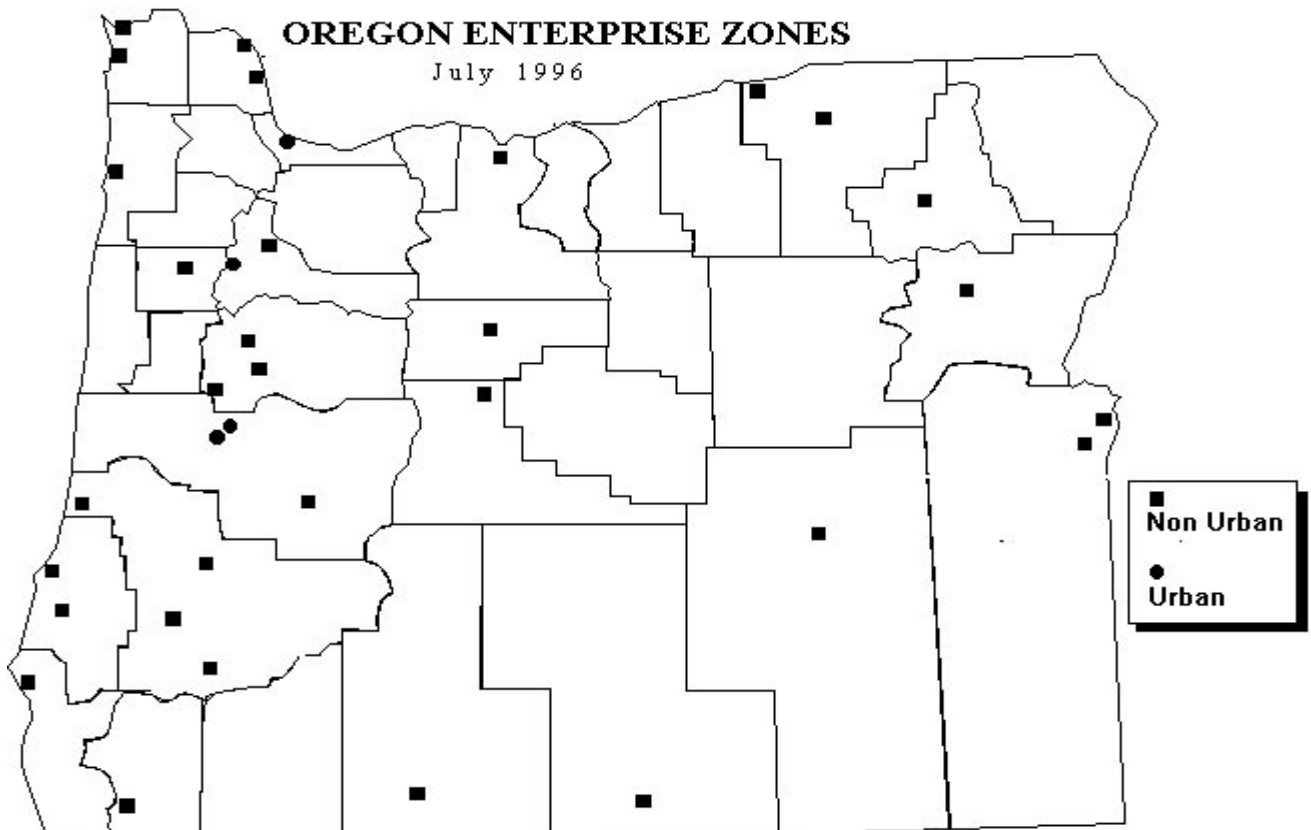
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Basics About . . . **Business Investment Property Tax Incentives**

Oregon's industrial investment tax incentives, the Enterprise Zone and Strategic Investment ("SIP") Programs, were designed to create jobs without major negative impacts on local government revenues. Both programs allow local governments to waive some property tax payments for businesses that meet particular job creation and related criteria.

Enterprise Zones: Enacted in 1985 and modified in 1989, Oregon's Enterprise Zone Program, ORS 285.560 to 285.617, allows tax abatement in qualifying economically-depressed areas of the state. There are now 35 such zones, up to twelve square miles each, one in the Portland metropolitan area, eight in the Willamette Valley, two in Columbia County, seven along the coast, six in southern Oregon, and eleven in central and eastern Oregon.



To qualify for the initial three-year enterprise zone tax exemptions, businesses must hire and maintain a specified number of new full-time employees. Two additional years of tax breaks are possible, if the jobs created are well above the area's average in total compensation. The Oregon Economic Development Department (OEDD) estimates that 150 businesses now receive Enterprise Zone tax

breaks, effecting some 3,600 jobs. OEDD reports \$4.7 million in taxes abated during the 1995-96 tax year, compared with the \$2.2 billion in taxes assessed to all property in all of Oregon. OEDD also reports over \$300 million in new business investment in Enterprise Zones since June 1993. A recent well-publicized Enterprise Zone applicant is Eugene's Hyundai project.

SIP (Strategic Investment Program): The SIP, ORS 285.398 to 285.402 and ORS 307.123, was enacted in 1993 and modified in 1995 to address job creation/retention and business recruitment efforts. For some industries, namely high technology and metals, it was determined that because of the high level of investment in buildings and equipment associated with each job, the existing tax structure was not appropriate. While typical manufacturing industry investments average less than \$100,000 per job, high tech and metal industries invest \$1 million or more for each job.

Oregon's existing tax structure disproportionately impacts these high levels of investment per job, so the SIP program was designed to give local governments the tools needed to entice more industrial investment and job creation. The SIP abates property taxes on a project's assessed value in excess of \$100 million. The abatement can last for 15 years, but the cap increases by 6% annually, so the value of the tax break gradually decreases. In addition, the companies pay a "community service fee" that is one-quarter the amount of the abated taxes, and may have additional responsibilities as determined under each locally-negotiated SIP agreement.

Five SIP applications have been approved in Oregon, all Portland metropolitan area high tech projects: Intel's \$705 million expansion in Aloha (7/15/94), IDT's \$800 million project in Hillsboro (7/26/94), another \$2.2 billion Intel investment in Hillsboro (10/4/94), Fujitsu's \$1 billion plant in Gresham (5/8/95), and LSI Logic's \$4 billion plant in Gresham (6/14/95). One SIP project, Sumitomo's proposed \$912 million plant in Newberg, was not approved (3/24/95). There are no applications pending, and future use of the program is expected to be rare.

According to OEDD, the five projects are projected to pay property taxes totaling \$132 million and community service fees totaling \$60.7 million, and to receive property tax breaks totaling \$259 million, over 15 years. The first phases of the five projects are projected to create 2,467 jobs. The later phases, if completed, are projected to add another 2,708 jobs. Applying a commonly-accepted 2.5 multiplier (for related support jobs in the community) yields a grand total of about 13,000 new jobs directly or indirectly attributable to the five SIP projects.

Summary: Comparing the tax breaks with the jobs they created leads to the conclusion that both programs may have accomplished their purposes. But, because they involve tax breaks for business, growth implications, and local decision-making, the programs are complicated and controversial.

At Issue:

- Are there effective local controls over these programs? Should there be?
- Do businesses need tax breaks? Is it fair to give tax breaks to some and not others?
- Do business tax incentives lead to unwanted population growth and congestion?
- Have Oregon's business investment tax incentives been effective at creating "family-wage" jobs for Oregonians in places where jobs are needed?

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