2/12/2013

NORTHWEST FOOD PROCESSORS ASSOCIATION

HB 2735: Extending Oregon's food processing equipment property tax exemption

Background
Newly acquired machinery or equipment used by food processing businesses is exempt from property taxation for five years. This encourages investment in replacing aging equipment, ensuring that companies can **expand and reinvest in plants *in Oregon*.**

The exemption was enacted in 2005 at a time when the industry was reeling from plant closures, declining employment figures and a significant drop in total payroll in Oregon. Since then, the industry has been a bright spot in Oregon's manufacturing employment, adding jobs through the recession and continuing economic growth locally. The exemption was extended in 2011 but expires in 2013. **The exemption should be continued because it is working.**

State of the industry in 2005
- 15.3% decline in average annual employment from 2000 to 2003
- 11.0% decline ($61.4 million) in total food processing payroll from 2000 to 2003
  (source: Globalwise Inc., economic analysis prepared for NWFPA)

State of the industry since 2005*
- 11.8% increase in annual employment from 2005 to 2011
- 25.0% increase in total food processing payroll from 2005 to 2011

Compared to all manufacturing*
- -17.5% change in annual employment from 2005 to 2011
- 3.0% increase in total manufacturing payroll from 2005 to 2011

Compared to all private sector employment*
- -3.2% change in annual employment from 2005 to 2011
- 3.0% increase in total private sector payroll from 2005 to 2011

(*source: Oregon Employment Department, Labor Market Information System)

Outlook for the food processing industry
Food processing in Oregon has been outperforming private sector employment generally, and manufacturing specifically, through the most difficult economic period since the Great Depression. The property tax exemption has helped the industry regain its footing locally and we have seen slow but steady economic growth after a period of sharp declines in the early 2000's. ***Increased competition in global markets and across state lines, however, means that an increase in tax obligations for Oregon plants (by allowing the exemption to expire) would make Oregon look less attractive for new investment.***

The exemption is temporary
After five years, equipment subject to the exemption comes back on the tax rolls. Though the equipment is then taxed at a lower rate than it would have been at initial installment, the difference after depreciation is taken into account is more than made up for in continued operation and expansion of the food processing industry in Oregon.

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Here is a brief look at Department of Revenue data used in developing the revenue impact statement:

Total assessed value of property exempted (2011-12) →	$110 million
Total estimated loss of revenue (2011-12)→	$2.8 million

Over a five year period, counties would not collect $7 million in tax revenue according to this analysis. ***What do Oregon counties get in exchange? Payroll growth!***

Food processing industry total payroll grew by **$91 million** from 2007-2011, during the Great Recession. Middle class families benefit from this growth, and the money is then reinvested directly back into local communities by consumers.

<u>It's about more than just taxes…</u>

- **Energy:** The exemption encourages reinvestment in newer, more energy-efficient equipment. NWFPA is committed to reducing member-wide energy intensity by 25% in 10 years and 50% in 20 years through innovation, new technologies and new resources.
- **Food safety:** Policies that encourage modernization of machinery can also help reduce incidents of recall or food borne illness resulting from outdated manufacturing processes.
- **Internal competition:** Plants often compete within a company for investment, so facilities in WA or ID could get the edge for new equipment and upgrades if OR tax obligations increase.
- **Local impacts:** Not only are many of these food processors home-grown, their suppliers are too. Continued reinvestment in new and existing facilities will benefit local vendors.
- **Sustainability:** NWFPA supports environmental efforts to balance the use of limited resources today with the resource needs of tomorrow. Efficiency upgrades in food processing equipment can reduce environmental impacts for everything from water usage to cold storage energy needs.

<u>Food processing is particularly important to rural Oregon</u>

Here is a look at food processing employment statistics for a few individual counties compared to the statewide average (2011 figures):

Tillamook County –12.6% of total private sector employment, 16.7% of total payroll
Umatilla County – 9.1% of total private sector employment, 8.5% of total payroll
Statewide – 1.8% of total private sector employment, 1.5% of total payroll

<u>Ensures Oregon-based processors stay here</u>

Oregon looks more attractive for reinvestment than Washington when taking into account the exemption, but if it goes away, Washington looks more attractive. It is dangerous to believe that the food processing industry is captive and will not vote with their feet.

<u>Benefits are felt by other Oregon businesses</u>

Plants compete within companies and when those investments are made in Oregon, new plants and additions are most often performed by local, Oregon contractors and suppliers. The exemption helps keep homegrown food processors here but also keeps the businesses and surrounding communities they support vibrant and growing.

<u>Attracts new business from out-of-state</u>

Companies that operate in more than one state often take into account tax rates and new investment and expansion will go where it makes the most economic sense. A stable and predictable tax environment is critical to long term business investment decisions.

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HB 2735 Supporting data

Food manufacturing

Year	Avg. Annual Employment	Total Payroll	Total Units
2005	21,611	$661,915,457	527
2006	22,136	$699,190,932	539
2007	22,865	$736,896,461	554
2008	23,412	$773,567,323	562
2009	23,261	$780,331,281	557
2010	23,755	$804,678,379	578
2011	24,176	$827,929,808	606
Total % increase	11.80%	25.00%	14.90%
Avg. annual % increase	1.96%	4.16%	2.48%

Compared with:
Manufacturing

Year	Avg. Annual Employment	Total Payroll	Total Units
2005	203,262	$9,797,923,434	5940
2006	206,741	$10,278,085,560	6058
2007	203,241	$10,512,262,355	6028
2008	194,851	$10,352,488,179	5971
2009	166,577	$8,920,817,722	5772
2010	163,239	$9,371,719,368	5631
2011	167,598	$10,093,174,182	5621
Total % change	-17.50%	3.00%	-5.30%
Avg. annual % change	-2.90%	0.50%	-0.89%

And:
Total private sector

Year	Avg. Annual Employment	Total Payroll	Total Units
2005	1,387,032	$50,237,001,611	116,821
2006	1,434,040	$54,068,152,323	122,629
2007	1,457,343	$57,094,052,092	125,772
2008	1,437,214	$57,451,841,059	123,717
2009	1,329,873	$53,174,588,085	121,989
2010	1,318,757	$54,036,750,075	122,179
2011	1,343,075	$56,954,064,776	123,892
Total % change	-3.17%	13.40%	6.10%
Avg. annual % change	-0.52%	2.20%	1.00%

(Source: Oregon Employment Department, Labor Market Information System)

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Over a five year period, counties would not collect $7 million in tax revenue according to this analysis. ***What do Oregon counties get for forgoing $7 million in property tax revenue over a five year period? Payroll growth!***

Food processing industry total payroll grew by **$91 million** from 2007-2011, during the Great Recession.

Year	Avg. Annual Employment	Total Payroll	Total Units
2007	22,865	$736,896,461	554
2011	24,176	$827,929,808	606
		+ $91,033,357	

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