



Oregon

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MEMORANDUM

To: The Honorable Phil Barnhart, Chair, House Revenue Committee

From: Mark McMullen
State Economist
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Date: February 5, 2014

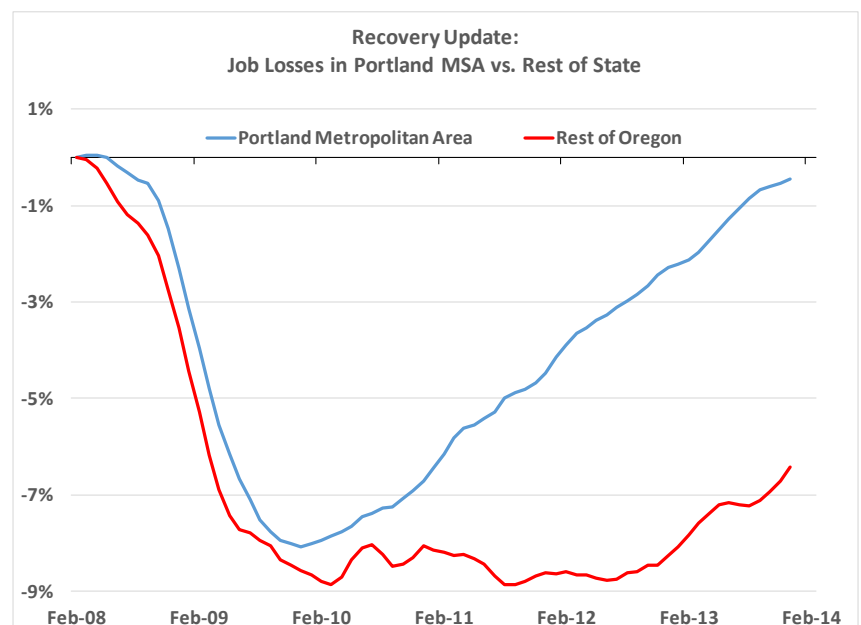
Subject: Background Information for HB4142

The following memo provides background information on investment activity in rural areas. It does not reflect the policy position of the Department of Administrative Services or Governor's Office on any pending legislation.

Rural Economies Are in Need of Investment

Many regional economies in rural Oregon are approaching a crossroads. Soon, policymakers and businesses will need to decide whether to invest or divest in many areas before the damage done to workforces and infrastructure becomes irreversible.

In order to make a broad-based impact on rural economic performance, policymakers must focus on investments that have the potential to improve the productive capacity of a wide range of households and local industries. Typically, investments in infrastructure projects and in the education of the local workforce cast the widest net.



Until only recently, much of rural Oregon had been missing out on the statewide economic recovery. Now, with housing-related industries growing once more, and public sector cuts having slowed, some of our hardest-hit areas of the state are finally adding jobs again.

Infrastructure investments are of particular importance for many of Oregon's isolated regions, where the ease of access for people and goods is of paramount concern. As our rural infrastructure ages, capital improvements and repairs have become a difficult sell in areas that have suffered losses of major employers and skilled workers. Public infrastructure funds tend to flow to other regions that are experiencing immediate capacity constraints.

Rural Investors Require Flexible Rules

Local planning and development officials in rural areas have often expressed frustration to the Office of Economic Analysis about constraints on their ability to compete for private and public investment dollars. In particular, planning decisions are often based on a long-term outlook for population and job growth. When these forecasts call for little or no growth, it can become difficult to attract business investment, and land use constraints can stand in the way.

Prior to the passage of HB2254 by the 2013 legislature, OEA population forecasts had a direct role in land use planning decisions. In this role, many local stakeholders expressed to us the concern that a pessimistic forecast did damage to their growth potential:

"...if population rates are projected as status quo, businesses may not want to relocate to a small city due to a negative forecast....the fact that we are positioning ourselves for growth will not be pertinent. Based on the current projections we are marked for decline and we are concerned if this is not corrected and believe it could turn out to be a self-fulfilling prophecy."

---City Manager, City of Coos Bay

Policymakers can address these concerns by supporting some aspiration-based investment in cases when risks are manageable and the intent of land use law is honored.

Rural Investment under the Strategic Investment Program

To date, participation of rural communities in the Strategic Investment Program has been limited to several wind energy projects and a paper mill in Clatsop County. Wind energy firms have made sizable investments in equipment, for which they have received a significant amount of property tax relief. However, with few local employees required to operate the facilities, these investments have not brought with them large transfers back to rural counties through the Gain Share program.

Current SIP Projects by County

	Property Taxes Saved Property Tax Year 2010-11		Gain Share Transfers Issued FY2014	
Clatsop	\$1,915,299	3.3%	\$109,012	0.5%
Gilliam	\$6,085,046	10.5%	\$12,940	0.1%
Sherman	\$23,117,641	39.8%	\$74,803	0.3%
Umatilla	\$1,868,652	3.2%	\$13,763	0.1%
Union	\$1,078,173	1.9%	\$22,361	0.1%
Washington	\$22,092,096	38.0%	\$23,885,858	98.9%
Gilliam & Morrow	\$1,151,857	2.0%	\$8,916	0.0%
Morrow & Umatilla	\$831,313	1.4%	\$14,180	0.1%
Total	\$58,140,077	100.0%	\$24,141,834	100.0%

Source: Oregon Business Development Department

cc: Legislative Revenue Office