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To: Chair, Sen. Mark Hass and members of the Senate Committee on Finance and Revenue

Re: Support of SB 129—SIP/Gain Share

ECONOMIC DEVELOPMENT TOOL

Oregon's Strategic Investment Program (SIP) is **one tool in the toolbox that cities can use to encourage economic development and investment in Oregon.**

The number of tools in the economic development toolbox is very limited, and thus **the League of Oregon Cities supports extending the sunset for this successful program as SB 129 provides.** The Strategic Investment Program provides any trade-sector business with a property tax exemption on a portion of their new business capital for a qualified project.

PROPERTY TAX REVENUE LOSS OFFSET IN PART BY INCOME TAX REVENUE

To qualify for the SIP property tax abatement program, the investment must be very large (>\$100 million or \$25 million if rural). Counties, cities and special districts, where the project is approved and will be located, give up very large property tax revenues when entering into such a SIP agreement as property taxes are abated on the property investments over the \$100/25 million thresholds. Since 2007, the **tradeoff to local governments for the risk and for the property tax revenue loss in the SIP has been gain share.** Gain share is the sharing of a portion of the personal income tax revenue generated by the retention and creation of SIP-project related jobs back to the counties, cities, and special districts that gave up the property taxes for significant business investment for the benefit of the whole state. **Millions of dollars of property taxes are foregone by local government (applicable county, city, and special districts where the project is located) but the gain share income tax payments partially offset the losses.**

CITIES ARE ESSENTIAL TO CONTINUED ECONOMIC DEVELOPMENT

Cities are the hub of economic development. **Four out of five jobs in Oregon are located in cities.** And, more than 84% of the state's income taxes revenues are generated by cities residents. To ensure that cities are desirable places to live and to work, **cities must have the financial resources to provide sustainable, quality public services and infrastructure.**

On average, property tax revenues make up 60% of a city's budget revenue stream. Thus, property tax revenues are essential for providing city services to residents and businesses. **The**

gain share offset makes the Strategic Investment Program (SIP) possible for cities because those revenues backfill the lost property tax revenues.

Of the limited number of economic development tools available to cities (e.g. enterprise zone, urban renewal, electronic zones, etc.) SIP/gain share is the only program that the state has some skin in the game (through income taxes). **This successful partnership is important and tailored to bring in the largest investments to the state--- the League supports the Program's continuation.**

DISTRIBUTION OF GAIN SHARE REVENUES

Presently, Oregon statute requires gain share distributions to be based on the SIP agreement. SIP agreements typically parrot the distribution percentages that would have been used if the dollars were property tax dollars (rather than the income tax dollars) and thus cities, counties and special districts where the project is located receive an appropriate percentage vis à vis each other. The gain share state income tax distributions constitute a much lower amount of tax revenues than what would have been received had local governments taken the property taxes instead of abating them in the SIP. SB 129 would alter the distribution formula in such a way that cities (where projects are located in counties with gain share distributions over \$5 million) would take an even lower percentage of the gain share and thus take even a lesser amount of tax revenues.

While the League is concerned with the state altering and lowering distributions, the League will support a gain share distribution formula for these very large projects that ensures preservation of the desired levels of services in our cities where these projects are located, continues economic development incentives, and is easy to administer.

Lastly, as written, SB 129 would distribute a portion of the gain share revenues to economic development through the Local Economic Opportunity Fund. This shares the economic development success of SIP/Gain Share throughout Oregon and continues economic development investments. The League supports that new provision but notes that devil will be in the details as our 242 members have differing needs and resources.