

GINNY BURDICK
State Senator
DISTRICT 18
MULTNOMAH COUNTY
WASHINGTON COUNTY



Office: Oregon State Senate
Salem, OR 97301
(503) 986-1718
E-mail: sen.ginnyburdick@state.or.us
District: 6227 SW 18th Dr.
Portland, OR 97239
(503) 244-1444

OREGON STATE SENATE

DATE: March 25, 2015
TO: Honorable Senator Hass, Chair
Senate Committee on Finance and Revenue
FROM: Senate President Pro Tempore Ginny Burdick
SUBJECT: Senate Bill 848

Chair Hass and Members of the committee, for the record, my name is Ginny Burdick. I serve as the State Senator for District 18, which includes the city of Tigard and portions of west Portland.

I am here today to discuss Senate Bill 848- a much needed change to the existing Gain Share program, which is currently projected to direct some \$95 million from the general fund to Washington County in 2015-17, with no strings attached. Gain Share was adopted in the 2007 legislative session (SB 954) at the request of Washington County. It was intended to be a modest compensation package to help offset the impact on infrastructure of employees added under the Strategic Investment Program (SIP). Though a total of seven counties receive Gain Share benefits, to date, Washington County has received 98.7 percent of all the funds distributed.

In its advocacy for Gain Share, Washington County argued that compensation from the general fund is justified because the SIP agreements with Intel and Genentech reduce potential property tax revenue by millions. In reality, as we learned in a 2012 report from ECO Northwest, Intel is the largest property taxpayer in Oregon, and is responsible for approximately \$106 million in direct and indirect property taxes in Washington County per year. Intel has helped make Washington County one of the richest counties in Oregon, with a per capita income that is close to \$5000 higher than the state average.

In addition, the revenue impact statements provided when we passed SB 954 proved to be too low by orders of magnitude. The original revenue impact statement forecasted \$600 thousand in Gain Share payments for the 2009-11 biennium and \$4.5 million for the 2011-13 biennium.

But the first two Gain Share payments made in the fiscal years of 2013 and 2014 totaled over \$70 million. For the 2015-17 biennium, Washington County is expected to receive an additional \$94.2 million in Gain Share funds. Nearly 80 percent of the revenue is for jobs already in place when the 2005 SIP with Intel was signed. In contrast, the other six counties combined are expected to receive around \$700 thousand.

By diverting \$94.2 million from the general fund to Washington County, we are robbing schools of \$61 per ADMw for the 2015-17 biennium, based on the current 40 percent allocation. If that

GINNY BURDICK
State Senator
DISTRICT 18
MULTNOMAH COUNTY
WASHINGTON COUNTY



Office: Oregon State Senate
Salem, OR 97301
(503) 986-1718
E-mail: sen.ginnyburdick@state.or.us
District: 6227 SW 18th Dr.
Portland, OR 97239
(503) 244-1444

OREGON STATE SENATE

same \$94.2 million were put directly into the school funding formula, Oregon School districts would receive an additional \$134 per ADMw for the 2015-17 biennium.

Colleagues, this was not the intent of the original legislation. If we don't take action, Washington County alone will receive nearly \$200 million from the general fund by the time Gain Share sunsets in 2019. A modest compensation package has morphed into a program that hemorrhages millions of dollars from our general fund, and disproportionately benefits one county while reducing available school funding statewide. We simply cannot afford to leave the Gain Share program untouched.

Senate Bill 848 will change the existing formula and distribution model to ensure that schools and other local governments will share in the economic benefits that the SIP program has provided in Washington County. Additionally, Washington County will still receive an estimated \$5.6 million in the 2015-17 biennium, which would still be more than the original revenue impact statement predicted.

Specifically, Senate Bill 848 will reconcile Gain Share with the original intent of the legislation by capping payments to new jobs created. Of these funds, Washington County would receive 30 percent, while 40 percent would go to the State School Fund and another 30 percent would be distributed to the proposed State Economic Development Fund.

While I believe the Gain Share program is unfair and unnecessary, I could accept a limited sunset extension if schools are held harmless, as they are under SB848; if the benefits are shared with other parts of the state; and if the Gain Share payments are based on new jobs only, which I believe was the intent of the original legislation.

Thank you for your consideration of SB 848. I would be happy to answer any questions you may have.

Gain Share

Background:

During the 2007 session, Washington County persuaded the Legislature to refund half of the tax revenues from employees hired or retained under Strategic Investment Program (SIP) tax incentives. It was understood that the primary beneficiary of this "Gain Share" would be Washington County and its taxing districts because of the SIP agreements signed with Intel and Genentech. SB 954 passed by a wide margin as legislators agreed with the notion that Washington County should receive some compensation for the impact of new employees on county infrastructure. However, no one predicted that Washington County would receive nearly \$200 million from the general fund by the time the Gain Share allocations were scheduled to stop on the sunset date of January 1, 2019.

The original revenue impact statement forecasted \$600 thousand in Gain Share payments for the 2009-11 biennium and \$4.5 million for the 2011-13 biennium. However, the first two payments in fiscal years 2013 and 2014 exceeded \$35 million. To date, Washington County has received close to \$73 million from the General Fund, with nearly 80 percent of the revenue being allocated for jobs already in place when the 2005 SIP with Intel was signed.

In the 2015-17 biennium Washington County is expected to receive an additional \$94.2 million in Gain Share funds from the General Fund. This is in stark contrast to the other six counties participating in the fund, which will receive a combined total of around \$700 thousand. If Gain Share were eliminated completely, Oregon School districts would receive an additional \$36.8 million, or \$61 per ADMw, for the 2015-17 biennium, based on the current 40 percent allocation. If the entire \$94.2 million was put into the School Funding Formula, Oregon School districts would receive an additional \$134 per ADMw for the 2015-17 biennium, or \$67 per ADMw per year.

Washington County recently signed another SIP agreement with Intel, for 30 years. This new agreement is currently projected to add another \$26 million to Washington County's Gain Share allocation by the 2019 sunset date. If the sunset is extended, the allocations from the General Fund to Washington County could balloon, as new investment packages under the SIP come on line.

In retrospect, the original premise behind Gain Share is flawed. While Washington County argues that the SIP reduces potential property tax revenue by millions, in reality Intel has helped make Washington County one of the richest counties in Oregon. Each year, Intel accounts for some \$106 million in direct and indirect property taxes in Washington County, making it by far the largest property taxpayer. Driven in large part by Intel, Washington County has consistently exceeded the State in job growth for the last twenty-two years, with a per capita income that is close to \$5,000 higher than the state average.

Not surprisingly, Washington County is pushing for elimination or extension of the 2019 sunset date, ensuring that Gain Share payments continue into the future. Also not surprisingly, legislators from other counties are becoming increasingly concerned about the impact of Gain Share on the General Fund -- specifically, its impact on the School Funding Formula, the largest component of General Fund expenditures -- as well as the perceived inequalities in other counties, some of which are struggling to maintain even the most basic services.

Moving Forward:

As the Legislature considers Gain Share in 2015, it should weigh potential consequences very carefully before approving any change in the sunset date. At a minimum, Gain Share should apply to new jobs only, with a cap to ensure that no one county receives a windfall at the expense of the State School Fund and other vital programs. That would keep faith with the original intent to help counties with infrastructure demands from new employees; and would cut the impact on the General Fund substantially, while making no change in the allocations to counties that now receive small Gain Share payments.

Senate Bill 848

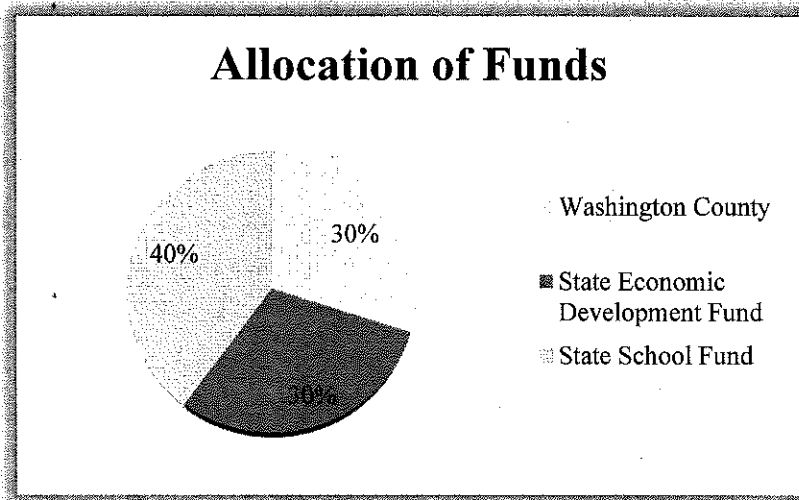
The State Legislature made a serious miscalculation in 2007 when it approved Washington County's request for revenue sharing (Gain Share) to compensate for property tax breaks granted under state implementation plans. The original revenue impact statement forecasted \$600 thousand in Gain Share payments for the 2009-11 biennium, and \$4.5 million for the 2011-13 biennium. However, the first two payments in fiscal years 2013 and 2014 exceeded \$35 million. In the 2015-17 biennium, Washington County is expected to receive another \$94.2 million in payments from the General Fund.

If that money stayed in the General Fund, approximately 40 percent would go into the School Funding Formula, which would amount to \$54 per ADMW for every district in Oregon.

The original intent of the legislation was to provide Washington County with some compensation for the impact of new employees on county infrastructure. However, 80 percent of the funds allocated to Washington County are for jobs that were already there when SIPs with Intel were approved.

Senate Bill 848 aims to true up Gain Share with the original intent of the legislation by capping payments to new jobs created. Of these funds, Washington County would receive 30 percent, while 40 percent would go to the State School Fund and another 30 percent would be distributed to the proposed State Economic Development Fund. (See diagram below.)

Proposed allocation changes under Senate Bill 848



The State Economic Development Fund will be overseen by the Oregon Business Development Department and the revenue will be distributed in grants that any county can apply for.

By changing the formula and the distribution model, Washington County would receive an estimated \$5.6 million in the 2015-17 biennium, which would still be more than the original forecasted revenue impact statement. Additionally, schools and other local governments would share in the economic benefits that the SIP program has provided in Washington County.