

## SUPPORT **HB 3125**; expand the food processing machinery and equipment property tax exemption

**Maintain** and **grow** jobs in Oregon's food processing industry

In 2013, the Oregon Legislature passed House Bill 2735, which allowed newly acquired machinery & equipment used by fruit, vegetables, nuts, legumes and seafood processing businesses to be exempt from local property taxes for 5 years. This tax exemption encouraged food processing plants to replace aging equipment with more energy efficient and modernized equipment. This incentivizes companies to invest and grow their operations here in Oregon. HB 3125 expands on an already successful jobs incentive program by supporting value added agriculture and Oregon's food industry.

HB 3125 expands the tax exemption to include **dairy, egg, bakery and grain processors**. The inclusion of these industries will provide the economic development tool needed to maintain and grow Oregon's food processing jobs. This will also help food processors meet our voluntary carbon reduction goals (25% in 10 years) by upgrading to more energy efficient equipment.

### **The tax exemption has proven results:**

- The exemption was first enacted in 2005 at a time when the industry was reeling from plant closures and declining employment figures. From 2000 to 2003 we saw a 15.3% decline in average annual employment and an **11% decline** (\$61.4 million) in total payroll.
- Since then, the food processing industry has been a bright spot in Oregon's manufacturing sector, adding jobs through the recession and continuing growth locally. From 2005-2011 we have seen an **11.8% increase** in annual employment and a 25% increase (\$166 million) in total food processing payroll.

### **Oregon must compete with neighboring states to grow food processing jobs:**

The recent investment in Idaho, by Chobani brought \$450 million in investments and created 500 jobs. Clif Bar made a \$90 million investment and 250 new jobs. Expanding the property tax exemption to new industries will allow Oregon to be more competitive in recruiting these companies to rural Oregon. Expanding the M&E tax exemption to other Oregon food processors will help level the playing field for these added industries.

### **By the numbers:**

- The bakery and dairy sectors comprise 24% of the total food manufacturing employment in Oregon. Together, both sectors employ roughly 6,286 workers.
- Oregon bakery and dairies would be expected to increase the value of production with expanded sales ranging between \$2-5 million.
- NW Poultry Council members contribute nearly \$120 million to the Oregon economy.
- Since 2009, **36 food processing companies** have received the exemption.
- Oregon Department of Revenue estimates a depreciation rate of about 6% a year, which means that the equipment is taxed at roughly **70% value on year six**.

### **Protect and grow jobs in rural Oregon**

This will provide a much needed shot in the arm for rural counties in need of economic development. The increase of jobs and additional tax revenue from the new equipment after the 5 year exemption will increase rural county budgets.

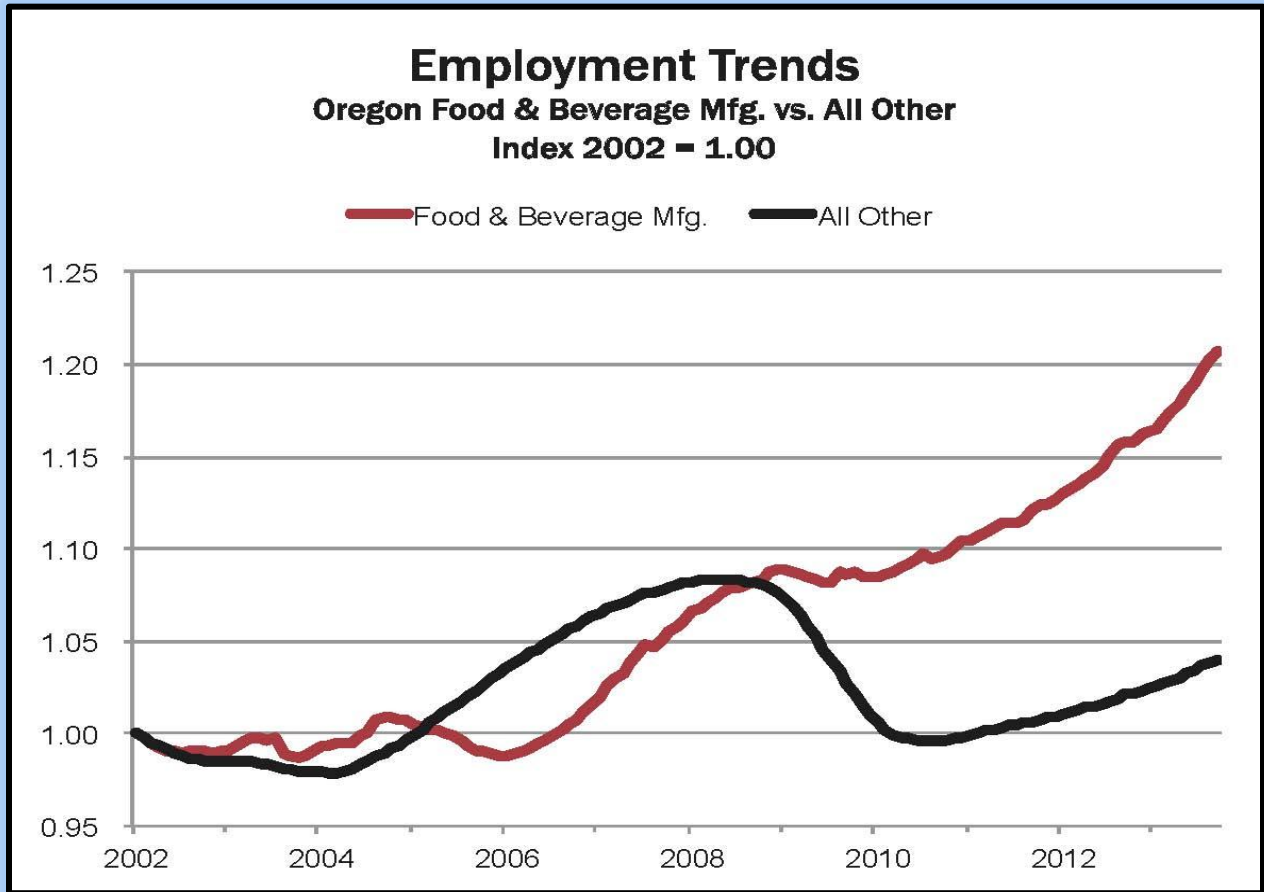
- In Tillamook County the food processing industry makes up 12.6% of total private sector employment and accounts for 16.7% of the total payroll.
- In Umatilla County the food processing industry makes up 9.1% of total private sector employment and accounts for 8.5% of the total payroll.

### **Maintaining Jobs in Oregon**

The property tax exemption could help keep good jobs here in Oregon. The 2012 closure of the Deluxe Ice Cream plant in Salem (also known as Foster Farm Dairy) is one example of how an old plant operation in need of modernization can lead to wider economic losses for Oregon. The owners of the plant cited its age as one of the key factors for the permanent closure. This led to the loss of 75 jobs.

### **Evaluation by the Oregon Department of Agriculture:**

Oregon small to mid size food processors are at a competitive disadvantage in a world marketplace with many large retail buyers. This incentive helps offset costs and aids in economic retention, development, and competitiveness of Oregon based food processors and related jobs. Oregon experienced the loss of many mid-scale food processors over the past two decades. This exemption encourages reinvestment in food processing of local production, on farm value added opportunity, and job creation in this industry. The exemption is narrowly targeted, and serves its purpose of creating investment, retaining and expanding jobs, and creating additional markets for Oregon growers.



Source: ECONorthwest May 28, 2014