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78th LEGISLATIVE ASSEMBLY
SENATE COMMITTEE ON BUSINESS & TRANSPORTATION

State Capitol
900 Court St. NE, Rm. 453
Salem, OR 97301
503-986-1813
FAX 503-986-1814

To: Senator Mark Hass and Representative Phil Barnhart, Co-Chairs, Joint Committee on Tax Credits

From: Senator Lee Beyer, Chair and Senator Fred Girod, Vice-Chair, Committee on Business and Transportation

Date: April 23, 2015

Subj: Senate Bill 45 – Quality Low Income Community Investment

The Senate Business and Transportation Committee heard Senate Bill 45 and referred the measure without recommendation to the Joint Committee on Tax Credits. The measure was properly noticed and scheduled as well as part of a public hearing. The Coalition for Capitol, a non-profit nationwide coalition of supporters for economic development, appeared in support of the measure.

Below are responses to questions posed in Appendix D, on page 101 of the Legislative Revenue Office's Research Report No. 2-15, *2016 Expiring Tax Credits* (RR 2-15). The responses are based upon the report's findings and the Business and Transportation Committee's deliberations.

- **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**

  The public policy purpose appears to have been to increase private capital investments in Oregon small businesses operating in low-income communities. It is intended to achieve this by reducing the cost of financing business development in qualified regions of the state. Since this tax credit is tied to the federal New Markets Tax Credit (NMTC), the state can also leverage the competitive nature of the federal process as well as possibly see an increase in its share of federal NMTC investments.

  The timeline for this credit's goals are influenced by its recent enactment (2011) and graduated credit deployment (no tax credits allowed for the first two years, 7% in year three, and 8% in years four through seven). There is no tax return data available yet. With that being said, the employment effect would be permanent and continue to result in personal income taxes paid to state beyond these above time periods.

- **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?**

The primary beneficiaries include:

1. Taxpayers who make a Qualified Equity Investment (a.k.a. investors)
2. Qualified Active Low-Income Community Businesses (a.k.a. businesses receiving investment dollars)
    i. Low-income communities are located in census tracts with a poverty rate of 20% or more or where median income is below 80% of state median income or metro median income, whichever is lower.
3. Community Development Entities (a.k.a. the entities distributing the cash or loans to businesses; i.e. Enhanced Community Development, Wells Fargo Community Development and Advantage Capital)

The maximum amount of tax credits that may be claimed by all Oregon taxpayers is $16 million. This cap translates into a maximum amount of Oregon NTMC project allocation of $200 million. The maximum amount of an Oregon NMTC project allocation invested in any single project is $8 million. Fifteen percent of the total $200 million ($30 million) project allocation is targeted for clean energy projects.

The effectiveness of this tax credit is difficult to measure according to RR 2-15. First, the preferred research method of studying the change of investment levels in the low-income communities over time does not have sufficient data. The second method is to evaluate the NTMC program looking to see if an investor would have made the investment without the available state tax credit. The results of this second method are mixed due to the complexity and lack of transparency with the financial structures of these investments.

According to Business Oregon, the initial projects certified through June 2014[1] totaled 21 projects with $140 million invested. A total of $32.5 million in federal tax credits and $31.7 million in Oregon tax credits were issued. A total of nine CDEs invested in the 21 Oregon businesses. The CDEs reported to Business Oregon, an estimated 893 jobs were created or retained through these investments. Those approximately 900 jobs had an average salary of just under $33,600 resulting in a combined annual income of

[1] The program is now effectively full because the tax credit cap was reached in December 2014.

approximately $30 million, which translates into $1.8 million in annual personal income taxes in the first year.

- **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**

  One of the key aspects to the sunset or reduction questions, are the federal tax credits. The federal tax credit may be sufficient to encourage investment.

- **What background information on the effectiveness of this type of credit is available from other states?**

  According to RR 2-15, several states also have leveraged the federal program in crafting their own policies, including AL, AK, AR, FL IL, KY, LA, ME, MS, NE, NV and OH. Interestingly, OR's cap is one of the lowest at $16 million with AR ($166 million) and NV ($200 million) being the highest. There is no effectiveness data for the credits in these states.

- **Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?**

  The administrative costs of this tax credit are primarily born by Business Oregon. The implementing legislation provided the department with .5 FTE funded at $102,000 (salary and other payroll expense). The actual total administrative cost for the 2013-15 biennium is currently projected to be just under $200,000 ($142,000 for salary and other payroll expense; and $58,000 for Attorney General and other costs). Experience with the program to date indicates that the current funding level is inadequate and Business Oregon is likely to ask the Legislature for additional funding for a full FTE.

- **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

  The maximum amount of tax credits that may be claimed by all Oregon taxpayers is $16 million. This cap translates into a maximum amount of Oregon NTMC project allocation of $200 million.

- **Could this credit be modified to make it more effective and/or efficient? If so, how?**

  One of the modifications that could be made is to establish a competitive tax credit allocation process and to enable Business Oregon to approve or deny projects.