

June 3, 2015



To: Chair Hass and the State Senate Committee on Finance and Revenue,
Oregon Legislative Assembly

From: Arthur Fish, Business Incentives Coordinator

C: Sen. Beyer; Rep. Lively; Ivo Trummer, Policy & Government Affairs Manager

SUBJ: B-Engrossed House Bill 2643 – Enterprise Zone Creation

As discussed further on the next page, policies proposed by HB 2643 as introduced were not substantially affected by House Amendments contained in HB 2643-A; subsequent House Amendments removed the extension to all enterprise zones of the E-commerce personal property treatment with the standard exemption from taxes for qualified business firms.

The Pro's & Con's of the remaining policies are provided below – without support or opposition.

Cap removal: unlimited enterprise zone designations for cities, ports and counties

P R O	<ul style="list-style-type: none">• Potentially new business hiring and development with likely minimal (property tax) impact• More capacity to meet local communities' aspirations on their time table• Flexibility for the communities to seek individual designations and satisfy local preferences• Greater ease in rapidly serving local interests and opportunities• Reverse denial, which is presently unavoidable (for first time in 13 years), of one of five applications received this spring from local community for only four available designations under current law• Legislation will no longer be needed to authorize more designations, from time to time
C O N	<ul style="list-style-type: none">• There might be disappointingly little capacity for business development in areas that do not already have a zone, that might want one, and that can satisfy requirements for designation• Possibly a great many new designations, leading to fiscal impact or inability of Business Oregon to maintain information about or for zone sponsors, or effectively assist them and eligible business firms• Eliminate reason for jurisdictions to join together and cooperate in sponsoring, administering and marketing a single designation (which can be like arranged marriages)• Potential of enterprise zones with inadequate zone manager capacity (<i>e.g.</i>, lone small town)• General issues with property tax effects, business incentives, control & so forth

Altered protocol for re-/designating enterprise zones and changing zone boundaries

P R O	<ul style="list-style-type: none">• The logic here of local self-designation and so forth is complemented by above cap removal• Greater sense of ownership on the part of local leaders and constituents, as well as perhaps, more comfort and motivation in proactively exercising an enterprise zone's primary function to induce business investments and employment by abating local property taxes, including with respect to growing their existing companies• No revenue impact
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C O N	<ul style="list-style-type: none"> • If above cap removal is dropped from legislation, administrative glitches and awkwardness result, compelling further amendments of HB 2643–B to ameliorate as much as possible • Disappointed local communities, because what would really prevent a local area from having an enterprise zone designation are statutory requirements that the bill would retain and Business Oregon will uphold • Potential misunderstanding about Business Oregon’s role over many years in working collaboratively with local governments
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Procedural change in how a city or enterprise zone receives electronic commerce overlay

P R O	<ul style="list-style-type: none"> • At least the appearance of administrative streamlining and local control, in that the zone sponsor would “designate” the E-commerce overlay, whenever possible • No revenue impact
C O N	<ul style="list-style-type: none"> • Under HB 2643–B, the primary benefit of an E-commerce designation would remain the state income tax credit, so that the philosophical case for locally based action is not necessarily as strong • Possibly unmet expectations, in that statutory restrictions for the overlays would remain: <ul style="list-style-type: none"> ◦ Only 15 are allowed out of 68 or more existing enterprise zones statewide ◦ Only one city, specifically North Plains, which has already designated itself* • Refereeing a first-come, first-serve process—of whom furnished executed resolution(s) before whom—might be no fairer or no less messy than <i>status quo</i> of state discretion

House Amendments to A–Eng. House Bill 2643, dated May 28

Prior to these amendments that removed revisions to ORS 285C.185, the bill would have allowed personal property items used in electronic commerce that cost only \$1,000 or more, rather than \$50,000, to be exempt in all 68 or more enterprise zones – instead of only in the 15 allowed overlays.

The \$1,000 minimum *per item* also currently applies to personal property used exclusively in the production of tangible goods for qualifying in any enterprise zone. Personal property in Oregon refers only to readily movable property. Real property qualifies in an enterprise zone if the *collective* amount of such new property costs \$50,000 or more.

House Amendments to House Bill 2643, dated March 27

These amendments cleaned up language to remove administrative and other pitfalls and so forth with the various revisions to statutory sections, as well as reduce potential fiscal impacts, in the bill as introduced. They were prepared by Business Oregon with detailed explanation provided to bill sponsors and to staff.

Further housekeeping was limited to adding two statutory sections to the “ORS 285C.050 to 285C.250” series, repealing a long inoperative section (ORS 285C.195), and tweaking ORS sections already in the bill as introduced:

1. Existing provision for very late filing and more appropriate & consistent wording in ORS 285C.175, which enables the standard exemption of 3–5 years—§21(2)(c) & (d), lines 12–16, page 14 of B–Engrossed bill
2. The start date for investments that earn electronic commerce tax credits under ORS 315.507—§26(2)(c), lines 5–6, page 18 of B–Engrossed bill—in order to reduce potential slipups with businesses and to fit better with income tax administration and the corresponding property tax processes.

* No qualified business firm has yet used this city-based electronic commerce designation in North Plains.