

From the Secretary of State's Audit of Business Oregon

Report Number 2016-34 December 2016 Evaluation and Transparency of Incentives and Loans

The analysis found high tax exemptions per job in the long-term rural enterprise zone program -- \$54,500 in 2015 versus \$4,200 in standard zones. And it found high exemptions per job for data centers built by Apple, Facebook, Google, Amazon and others.

FINANCE PROGRAMS

We analyzed 21 projects that received funding through the Strategic Reserve Fund (SRF) or Business Expansion Program (BEP) forgivable loans, and an additional 210 Business Finance projects from 2011-12.

The analysis indicated both positive results and issues that need more examination and public discussion.

POSITIVE RESULTS-- ♣ About two-thirds of businesses had net job growth by 2015 resulting in about 2,900 new jobs, well above projected job growth. About 2,100 jobs (73%) were generated by businesses receiving SRF) or BEP forgivable loans ♣ SRF and BEP projects combined returned about \$3.60 in estimated state personal income tax revenues for every dollar invested. However, this result did not include private investment and other state investments in the projects, such as tax credits. ♣ Business Finance loans returned about \$1.20 in estimated income tax revenues for every dollar invested. This result assumed full repayment of the revolving loans and guarantees. The positive results are not surprising. The period selected, 2011 through 2015, generally had strong job growth statewide. The analysis also included only two years of discretionary awards, too few to establish a definite trend. PG 12

BUT--

♣ The majority of 2011-12 awards – and **about half the funds invested -- went to businesses with average wages below that of the county they operated in**, an important result given the agency's mission to encourage living-wage jobs. The agency has not defined a living wage; we used average county wages as a proxy. ♣

From 2006 to 2015, **some Business Finance programs** focused heavily on specific parts of the state. For example, nearly half of the Capital Access Program's awards went to banks in just two counties, with no activity in the state's eastern region. A more detailed review could help identify reasons why banks in these areas are not using the program. ♣ In the same period, rural areas – which have had slower employment growth than urban areas -- received 45% of the Business Finance investment and 30% of the agency's forgivable loan investment. PG 13

ENTERPRISE ZONES IN WELL-OFF COUNTIES

The Legislature established the standard zones in 1985, targeted to the state's "economically lagging areas." In recent years, the Legislature has allowed the program to expand substantially, particularly in urban counties that are relatively strong economically. Eleven of the 13 zones in Clackamas, Multnomah and Washington counties were added since 2005, including zones in Beaverton, Hillsboro, Portland, and Tigard/Lake Oswego. In 2015, Multnomah and Washington counties accounted for 43% of the new jobs reported for the two programs combined. Counties considered "non-distressed" under state law reported nearly 60% of the job growth and tax exemptions under the combined programs. Those numbers are consistent with the counties' share of Oregon's workforce population, and urban areas have economic development needs, too. But the concentration of benefits in relatively well-off urban and non-distressed areas is at odds with the enterprise zone programs' original focus on lagging areas that have more economic need. PG 15-16

Assessors reported about \$33 million each in 2015 property tax exemptions for both the standard 3-5 year and the long-term 15 year programs. But the standard program includes far more projects and far more new jobs.

STANDARD ZONES: 184 PROJECTS, 7,676 NEW JOBS COSTING \$4200/JOB in 2015
RURAL ZONES: 9 PROJECTS, 620 NEW JOBS, COSTING \$54,500/ JOB in 2015

DATA CENTERS: centers combine high investment in equipment, such as computer servers and cooling systems – and therefore relatively large property tax exemptions – with relatively few direct jobs at the facilities. In 2015, exemptions per job ranged from \$87,000 to nearly \$800,000. The centers have used both types of enterprise zone programs.

MISSING INFORMATION

About one-fifth of the standard enterprise zone projects assessors reported in 2015 had missing job or wage information.

Reports for the long-term rural enterprise zone program include no information on wages and jobs created or retained. The reports also include no information about local taxes, such as franchise fees, or community service fees paid by businesses in the zones. These are important benefits that would improve transparency if disclosed. PG 19