

**REVENUE IMPACT OF  
PROPOSED LEGISLATION  
79th Oregon Legislative Assembly  
2017 Regular Session  
Legislative Revenue Office**

**Bill Number: HB 3146 - A12  
Revenue Area: Property, Personal &  
Corporate Inc. Taxes  
Economist: Kyle Easton  
Date: 6/30/2017**

***Only Impacts on Original or Engrossed  
Versions are Considered Official***

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**Measure Description:**

Reduces wage compensation minimum threshold requirements for workers hired by businesses benefiting from certain economic development programs located in specified rural areas. Affected economic development programs are: Enterprise Zone, Oregon Investment Advantage and Oregon Business Retention and Expansion. Changes to compensation requirements are structured to affect requirements relating to applications filed on or after effective date of act. Takes effect on 91st day following adjournment sine die.

Reduces wage compensation minimum threshold requirements for workers hired by businesses benefiting from property tax standard or long term rural enterprise zone programs that are located in a qualified rural county. Annual compensation requirement reduced from 150% of county average annual wage, as determined at time of authorization, to 130%. Defines qualified rural county as county that is outside all metropolitan statistical areas as defined by most recent federal decennial census and in which, on most recently certified property assessment roll, the total property taxes imposed by all taxing districts within county are equal to or greater than 1.3% of the total assessed value of all taxable property located in county.

To qualify for additional one or two years of exemption under standard enterprise zone program, requires average wage received by the newly hired employees of the firm to equal or exceed 100 percent of the average wage in the county.

To maintain qualification for long term rural enterprise zone property tax exemption, requires annual average wage at the facility to equal or exceed 100% of the average wage in the county.

For purposes of qualifying for the income and corporate excise tax exemption allowed by Oregon Investment Advantage program, requires average wage received by the newly hired employees to equal or exceed 100% of the average wage in the county.

**Revenue Impact:** Indeterminate, see impact explanation

**Impact Explanation:**

Property Taxes

*Standard Enterprise Zone Program*

Measure as amended reduces annual compensation requirement for an eligible business firm seeking additional one or two-year enterprise zone exemption authorization from 150% of county average annual wage, as determined at the time of authorization, to 130% if firm is located in a qualified rural county.

Requires average wage of all new employees hired by firm, regardless of whether firm is inside or outside a qualified rural county, to equal or exceed 100 percent of the average wage in the county.

Based upon analysis of past computed property tax benefit resulting from eligible businesses receiving additional one or two years of exemption in qualified rural counties, impact on property tax revenues by measure as amended is indeterminate. Historically, a small number of businesses in qualified rural counties have benefitted from additional year(s) of property tax exemption. As measure reduces wage requirement for eligible business in such counties, a potential increase in businesses qualifying for additional years of exemption may occur. Additional years of exemption are permissive to enterprise zone sponsor and zone sponsor may require additional reasonable requirements.

Adding 100% average wage requirement may limit firm qualification as existing law requirements are based upon firm's average employee compensation as compared to county average wage. As wage is a component of compensation, instances may occur where a business meets 150% or 130% compensation requirement but fails to meet 100% wage requirement. While 150% and 130% compensation requirements are measured against county average annual wage as determined at time of authorization, which is a fixed figure, the underlying county average wage that average wage of newly hired employees is measured against, will change each year (the 100% wage requirement). As enterprise zone extension is for a maximum of two years, this changing of the wage base against which newly hired employee average wage is measured, is expected to minimally impact businesses that are able to initially qualify for exemption extension.

#### *Long Term Rural Enterprise Zone (LTREZ)*

Use of LTREZ tax incentives is relatively infrequent. Referencing most recent LTREZ assessor reports, ten projects are benefitting with two companies accounting for about two-thirds of the overall computed tax benefit (\$34 million in TY 2015-16) associated with LTREZ exemptions. Reducing the required employee wage compensation requirement from 150% to 130% of average wage in the county will make LTREZ associated tax benefits available to more business firms and proposed facilities. Because impact upon revenues is dependent upon such a small number of projects, measure's estimated impact upon property tax revenues is indeterminate.

Adding ongoing 100% average wage requirement may limit firm qualification as existing law requirements are based upon firm's average employee compensation as compared to county average wage. As wage is a component of compensation, instances may occur where a business meets 150% or 130% compensation requirement but fails to meet 100% wage requirement. While 150% and 130% compensation requirements are measured against county average annual wage as determined when compensation requirement is initially met (a fixed figure), the underlying county average wage that average wage at the facility is measure against, will change each year (the 100% wage requirement). As duration of long term rural enterprise zone tax exemption can last up to 15 years, requiring an ongoing average wage requirement of 100% that exceeds county average wage (a figure that will adjust annually) may limit initial participation in the program, cause participants that initially qualified to no longer qualify if wage-increases at facility do not generally keep pace with average wage-increases in county. As use of program is infrequent and LTREZ program is permissive to county/city governing bodies, impact upon revenue due to 100% wage requirement is indeterminate.

While a corporate tax credit associated with investments in facilities qualifying for a rural enterprise zone property tax exemption is available to corporations, for a corporation to qualify, approval must be received by the Governor. As such, impact on the LTREZ income tax credit is indeterminate. Local certification of the credit is scheduled to sunset 6/30/2018.

Income/Excise Taxes

*Long Term Rural Enterprise Zone (LTREZ) Income Tax Credit*

While a corporate tax credit associated with investments in facilities qualifying for a rural enterprise zone property tax exemption is available to corporations, for a corporation to qualify, approval must be received by the Governor. As such, impact on the LTREZ income tax credit is indeterminate. Local certification of the credit is scheduled to sunset 6/30/2018.

*Oregon Investment Advantage*

Use of the Oregon Investment Advantage income/corporate excise tax exemption is relatively infrequent. Eleven businesses were certified to potentially receive tax benefit in fiscal year 2015-16. Lowering the minimum annual compensation requirement, in counties outside all MSAs, from 150% of county per capita personal income to 130% could impact revenues in multiple ways. For example, a greater number of businesses and/or facilities may qualify for exemption causing an increased computed tax expenditure loss in revenues. Determination of exemption amount is computed in part using the business's payroll at the certified facility in relation to payroll statewide. A decrease in payroll at the certified facility, following the lowering of compensation requirements, would ceteris paribus, reduce amount of exemption. Adding an ongoing 100% wage requirement could decrease business qualification, but as exemption is in part a factor of payroll at the certified facility, increasing wage requirement could induce a company to pay a higher wage as increased costs to companies are potentially offset by income/excise tax exemption. Due to the small number of qualifying businesses/facilities and the potential offsetting components to the exemption, the impact on personal and corporate income/excise taxes is indeterminant.

Other

*Oregon Business Retention and Expansion Program*

The Oregon Business Retention and Expansion Program provides forgivable loans to companies that have at least 150 employees and plans to hire 50 or more full-time employees in Oregon whose compensation will average the lesser of: at least 150% of the county or state average in annual per employee compensation. Measure as amended reduces compensation requirement from 150% to 130% if employees are to be hired in a county outside all MSAs.

Loan amounts are limited to the personal income tax revenues estimated to be substantially equivalent to the amount of tax that eligible employees of an eligible employer will be required to pay in the two consecutive tax years beginning with the tax year following the tax year in which the employer receives certification. The program is capitalized with State Lottery Funds and as such, no impact upon revenue exists. Dynamic impacts of program's ability to encourage business expansion could result in positive impacts on revenues.

**Creates, Extends, or Expands Tax Expenditure:**      Yes  No

The policy purpose of this measure is assist economic development in relatively rural areas of this state through tax incentives and forgivable loans while ensuring that the wage received by employees of such incentivized business development exceeds average wages paid by all employers within the county in which the incentivized economic development occurs.