



SB 145 Removing a Tax Break Sunset

Testimony for Senate Finance and Revenue, Feb 9, 2017, Jody Wisser

First, I want to say that I had not opportunity to talk with Chris or members of the tribe after our concerns came to light, and I could be wrong about elements of my testimony. I certainly have questions.

Oregon has only three income tax credits connected to enterprise zones. They are strikingly different, and all are fairly new, and have had few reviews. Further, while the revenue impact of this tax credit currently is very small, that doesn't mean it won't expand.

Ms. Shippentower has said, "The Reservation Enterprise Zone designation and tax credit provision are essential for marketing commercial and industrial land for economic development." I can see why it would be effective for marketing, but not for sustaining its place in the state.

If I understand it correctly, effectively, when the tribe charges [a property or any other type of tax](#) to businesses that locate in their e-zones, the General Fund effectively pays that tax, in forgone revenue. The only limit to the cost to the General Fund is the annual total of all income taxes due from all businesses with at least one store or plant operating within the reservation enterprise zone. That is, if there is a Walmart or Shari's located in a reservation enterprise zone, all income taxes due from profits around the state could be reduced by the amount of any tribal taxes charged.

Additionally, the state receives no property taxes during the three to fifteen year property tax exemption period for a business. We couldn't see any end point to this tax break. If the enterprise zone period is extended beyond the original 10 years, the state might well receive no income taxes or the k-12 share of property taxes --- essentially forever. Yet the state is providing most if not all of our normal services to those businesses, their customers, their employees and the employees families. The only thing the businesses that locate in the reservation enterprise zone provide to the state is jobs, and they needn't be, quality jobs. They might be, but there is no requirement that they be.

Other e-zone income tax credits are for traded sector businesses, this one is for any businesses.

Other e-zone income tax credits have job number and quality requirements, this one does not.

Other e-zone property tax programs require annual reporting on the Oregon transparency website, this one does not appear to do so, [as I could find no report for the 450 jobs at the Umatilla reservation enterprise zone, or the amount of abated property taxes.](#)

[The best description of these zones we found is on the Business Oregon website.](#)

The income tax credit is allowed for both zones on reservation and partnership zones (which is a new creation just added in 2010), the first of which is just now being developed at the Port of Umatilla. We have no experience with the consequences of this new addition to the law, where retail businesses on nearby or even neighboring land would not draw down the state General Fund, but those in reservation partnership zones will. Thus, the state may be negatively impacted as restaurants, gas stations and retail establishments that locate on these properties serve nearby communities that place demands General Fund dollars that the same businesses located elsewhere would not.

Further, it appears, from reading ORS 285c.309 and [the form provided by the DOR](#) that the income tax reduction could be for all of a company's income taxes for all their locations in the state, not just the taxes on income earned at the reservation enterprise zone site.

We appreciate the fact that each year, the business owners can receive tax credits for no more than their currently due income taxes, with no carry forwards, but that doesn't justify removing the automatic periodic review of the tax credit that our periodic sunsets provide.

The use of the reservation enterprise zones and their tax credit against income taxes has only recently begun. The first partnership zone, which is located at the Port of Umatilla, is yet undeveloped. How much more expansion might we see? Each of nine tribes can have 12 square miles of non-contiguous reservation enterprise zone and zones can be anywhere the tribes can find willing public partners. According to the Business Oregon website,

"a tribe can enter into special intergovernmental agreements with city, port or county governments to directly create and co-sponsor any number of contiguous "reservation partnership zones" anywhere in Oregon."

It isn't clear if each tribe is limited to a total of 12 square miles in all on reservation enterprise zone and partnership zone combined. But it is clear that twelve square miles is not a small area. It is 2/3 of Beaverton or Salem, twice as big as Forest Grove, Milwaukie or Newberg, and even more square miles than either McMinnville or Oregon City.

Do we want to offer the opportunity to have up to 15 years with no property taxes, and more years for equipment change outs inside those buildings, and many more years with no income taxes from what might become thriving areas for businesses of types we can't now even imagine, business beyond data centers, solar farms, farm equipment sales or Daimler truck sites, hotels and restaurants, gas stations, distribution centers, battery factories...? It is difficult to see what benefit the state gets from this tax credit program. We do still need to provide all the services the businesses, their customers, and their employees need. No, we need review.

We urge you to consider SB 176 rather than SB 145 in addressing this program's sunset. SB 176 extends this tax credit, rather than eliminating the sunset. Further, we believe you should extend the income tax sunset only if you add job quantity and quality provisions, limit the benefits to traded sector businesses and require transparency of the reservation enterprise zone so you will have data with which to evaluate this, and the property tax provision when they reach their next sunsets.