



LPRO: LEGISLATIVE POLICY AND RESEARCH OFFICE

ENTERPRISE ZONES

ISSUE BRIEF

Enterprise zones exempt businesses from local property taxes on new investments for a specified amount of time based on the specific zone program. They aim to help attract private business investment and to help resident businesses reinvest and grow in communities facing economic challenges.

BACKGROUND

The [Enterprise Zone Program](#) was first enacted in 1985. The original bill created targeted property tax exemptions and allowed a maximum of 30 zones that would last for 10 years. The maximum number of enterprise zones was increased four times before 2015, when the Legislative Assembly lifted the statewide cap and vested the power to designate zones with local government.

Enterprise zones are sponsored and administered by a city, county, tribe, port, or any combination of such governments. Local government designation requires a resolution by the governing body, following consultation with local taxing districts. The Oregon Business Development Department, more commonly known as “Business Oregon,” ensures that designated zones comply with statutory requirements and assists local sponsors and businesses.¹ The local sponsor appoints a local zone manager to administer zone operations and coordinate with Business Oregon, businesses, and the county assessor.

There are currently 72 enterprise zones in Oregon.² Enterprise zones are categorized urban or rural depending on whether they are located inside or outside the urban growth boundary (UGB) surrounding the city or cities at the core of a federal metropolitan statistical area (MSA). Business Oregon has an online, [interactive map](#) to explore zone locations and details.

State statutes specify the economic hardship criteria that must be demonstrated for zone designation. A zone must have 50 percent or more households with incomes below 80 percent of the state median, an unemployment rate that is two or more percentage points higher than the state unemployment rate, or similar severe economic hardship.³ Most zone boundaries do not need to be contiguous but must conform to

¹ ORS 285C.060, ORS 285C.065, ORS 285C.067

² Business Oregon. *Enterprise Zones*. <https://www.oregon4biz.com/Oregon-Business/Tax-Incentives/Enterprise-Zones/>, visited October 2, 2018.

³ ORS 285C.090

total maximum areas and distances within the zone. Zone boundaries may be amended at any time if they meet certain requirements.⁴

Each enterprise zone terminates by law on June 30 after more than 10 years has passed since zone designation. Zones may also be terminated at any time upon request of the local zone sponsor. A sponsor of a zone that sunsets may redesignate the zone. All non-tribal zones terminate with the program sunset on June 30, 2025. Termination of a zone does not affect ongoing, approved exemptions.

A qualifying business operates within the enterprise zone and provides goods, products, or services to other business operations, organizations, or itself. Qualifying activities include manufacturing, assembly, processing, fabrication, shipping, or storage. Under certain conditions, call centers, headquarter-type facilities, and hotel, motel, or destination resorts may also be eligible. A business that provides goods and services to the public or for personal or household use is not eligible. Health care, entertainment, finance, professional services, childcare, housing, property management, construction, and retailing goods or services are not eligible to receive enterprise zone benefits.⁵

In addition to the standard enterprise zone program, there are also four special enterprise zone programs: Long-term Rural Enterprise Zone Facilities, Electronic Commerce Zones, Tribal, and Rural Renewable Energy Development Zones.

STANDARD PROGRAM

Under the [standard enterprise zone program](#), an eligible business receives a three-year total exemption from the property taxes normally assessed on new buildings, structures, and equipment if it locates or expands within an enterprise zone. To qualify, a business needs to:

- increase full-time, permanent employment in the zone by the greater of one new job or 10 percent;
- maintain this employment level during the exemption period;
- have no concurrent job losses elsewhere in the state;
- enter into a first-source hiring agreement with local job training providers; and
- satisfy any additional local conditions.

The tax abatement may be extended up to two years if the project has a written local zone sponsor agreement and it meets new employee compensation and wage requirements.

The Construction-in-Process exemption allows an unfinished qualified property to be exempt from local property taxes up to two years while under construction. The county assessor must receive a filing by April 1 of each year. The standard enterprise zone version of this exemption can fully cover all qualified properties of any locally authorized project (except hotels and resorts) that are still not in service.⁶

⁴ ORS 285C.115, ORS 285C.117

⁵ ORS 285C.135

⁶ ORS 285C.170

LONG-TERM RURAL ENTERPRISE ZONE FACILITIES

The [Long-term Rural Enterprise Zone Facilities](#) program is available in most rural enterprise zones located in a county that either meets certain criteria for per capita income, unemployment rate, or migration, or that is outside of all metropolitan statistical areas and has a relatively higher property tax rate.⁷ Business Oregon maintains an online list of [eligible counties and zones](#) based on these factors.⁸

The program offers property tax abatement during the entire construction period and then for seven to 15 years after the facility is operational. Any type of business activity is eligible with local approval and minimum levels for investment size, job creation, and employee compensation, including:

- Total investment costs need to be greater than one percent (or 0.5 percent if more than 10 miles from Interstate 5) of a county's total real market value by the end of the year when operations begin. This base amount varies from \$1 to \$25 million, depending on the location.
- Within three to five years of commencing operations, the business must hire a minimum number of new, full-time employees to be maintained during the tax abatement period.
- By the fifth year after commencing operations, average annual compensation (including benefits) for all workers at the facility must be at least 130 percent (if in a qualified rural county) or 150 percent of the county average annual wage.
- For each subsequent calendar year over the remainder of the abatement period, average compensation needs to remain at least that high relative to the county wage when first met, and the average wages of facility employees must be at least 100 percent of the county's current average annual wage.⁹

Prior to beginning construction or hiring, a business must apply to the local enterprise zone manager and county assessor and be certified through both a written agreement with all local government sponsors and adoption of a resolution by the appropriate local government approving the property tax exemption. The written agreement between the business and zone sponsor specifies the length of the tax abatement, if the business continues to meet the investment, job creation, and compensation conditions.

If the project was locally certified before July 1, 2018,¹⁰ the Governor could approve a tax credit equal to 62.5 percent of gross payroll at the facility. Credits could be claimed over five to 15 years against state corporate excise/income tax liabilities relating to the facility, over and above a minimum annual tax payment, which might be as high as \$1 million. Unused tax credits may be carried forward for five additional years.

⁷ ORS 285C.400

⁸ Business Oregon. *Eligibility for Long-term Rural Enterprise Zone Facility Tax Incentives, effective January 1, 2018.* <https://www.oregon4biz.com/assets/docs/ElgZoneChart.pdf>, visited November 1, 2018.

⁹ ORS 285C.412

¹⁰ ORS 285C.406 requires certification by June 30, 2018.

ELECTRONIC COMMERCE ZONES

[Electronic Commerce Zones](#) (“e-commerce”) are enterprise zones having received special status to further encourage electronic commerce investments. E-commerce zones are limited to 15 zones statewide and designation requires additional notification of and consultation with Business Oregon.¹¹

Electronic commerce is defined as engaging predominately in transactions via the internet or an internet-based computer platform. In these zones, being engaged in electronic commerce is an eligible activity for the standard property tax abatement. Qualified new investments can include operations connected to the electronic commerce activity and newly installed personal property that is used for electronic commerce.

Until 2017, qualifying businesses in e-commerce zones were also able to claim a state income tax credit of up to \$2 million per year, equal to 25 percent of the investment in capital assets for use in electronic commerce operations, for which investment costs were incurred before the end of the company’s 2017 income tax year.¹²

TRIBAL ENTERPRISE ZONES

The purpose of [tribal enterprise zones](#) is to create equity that enables reservations to attract and retain private business investment and remove tax disincentives that inhibit such investment.¹³ There are two types of tribal enterprise zones.

- Each of the nine federally recognized Indian Tribes in Oregon can have a single “reservation enterprise zone” designated to encompass up to 12 square miles of its tribal lands throughout the state.
- A tribe may also enter into special intergovernmental agreements with a local government to create and co-sponsor any number of contiguous “reservation partnership zones” anywhere in Oregon.

In both zones, the local property tax abatement for qualifying businesses is the same as other rural enterprise zones: three to five years under the standard program or seven to 15 years under the long-term rural facility program.

There are also special tax credits against state income tax liability in these zones benefiting any type of qualifying business operation. These credits can be claimed annually on the state tax return for any income tax year no later than 2027. The state tax credit equals 100 percent of all tribal taxes (income or excise, property, gross receipt, or sales and use taxes) in the first year of operations, and all annual tribal property taxes after that, with no carry-forward of unused credit amounts.

¹¹ ORS 285C.095

¹² ORS 315.507 and Chapter 730, Oregon Laws 2011, which specifies that a credit may not be claimed for tax years beginning on or after January 1, 2018.

¹³ ORS 285C.303

RURAL RENEWABLE ENERGY DEVELOPMENT ZONE

[Rural Renewable Energy Development \(RRED\) Zones](#) offer an incentive to encourage new investments that either:

- Harness wind, geothermal, solar, biomass, or other unconventional forms of energy in Oregon to generate electricity, or
- Produce, distribute, or store any of a wide variety of biofuels.

A city, county, or combination of contiguous counties can set up a RRED zone that covers the territory in the jurisdiction(s) outside the urban growth boundary of any city with a population of 30,000 or more.¹⁴ RRED zones are approved by the director of Business Oregon following an application that includes resolutions by the applicable governing bodies. Designation includes setting a maximum exemption amount for the real market value of the zone's qualified property of \$250 million or less.¹⁵

The incentive is the standard three to five-year exemption from local taxes on qualified property available in any enterprise zone, except that in a RRED zone it is only for investments in renewable energy activities. Since 2013, the local government sponsor has been able to waive the requirement to create full-time employment with a new project if the cost of the investment is \$5 million or more.¹⁶

ENTERPRISE ZONE REPORTS ON TRANSPARENCY WEB SITE

Long-Term Rural Enterprise Zone Facilities Program Reports are received by the Department of Revenue during the first quarter of the year. After receipt, they are reviewed and then posted on the [Oregon Transparency Website](#). The Transparency Website also contains enterprise zone reports from county assessors and local zone managers.¹⁷

STAFF CONTACT

Melissa Leoni, Analyst
Legislative Policy and Research Office
melissa.leoni@oregonlegislature.gov
503-986-1813

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¹⁴ ORS 285C.350

¹⁵ ORS 285C.353

¹⁶ ORS 285C.362

¹⁷ Oregon Transparency. *Economic Development – Enterprise Zones*.

https://www.oregon.gov/transparency/Pages/Economic_Development.aspx#Enterprise_Zones:2013, visited October 1, 2018.