Before the House Committee on Revenue, May 7, 2019, Public Hearing on A-Engrossed House Bill 2053

Chair Nathanson, Vice-Chairs Findley and Marsh, and members of the committee, thank you for hearing HB 2053A, which Business Oregon has proposed to simplify and better align criteria for five economic development programs (primarily business incentives).

Relevant Economic Development Tools

Three types of programs include compensation criteria that the bill seeks to modify:

1. Estimates of incremental personal income tax revenue from new employment are used to compute:
   (I.) maximum forgivable-loan awards under Business Retention and Expansion Program (BEP), and
   (II.) reimbursements of local expenditures to prepare a Regionally Significant Industrial Site (RSIS).
2. Pursuant to an agreement between the local zone sponsor and a locally approved business firm, new property in an enterprise zone is exempt from property taxes for:
   (I.) two extra years for a total of five years of standard exemption (EXTENDED ABATEMENT), or
   (II.) 7 to 15 years on a long-term rural facility (LTREZ), as allowed in a subset of rural enterprise zones.
3. Business may subtract taxable income attributed to new facility operations on state tax returns for 10 years starting 24 months after operations commence at certain locations in 15 economically lagging counties under the Oregon Investment Advantage (OIA) program.

See box below for further program information.

Program list

BEP–Business Retention and Expansion Program—forgivable loan to traded-sector businesses. Requirements relate to business's employment anywhere in the state. Rural is based on employee location outside an MSA. Only private-sector wages are normally used for compensation test.

EXTENDED Enterprise Zone ABATEMENT*—to go from three to five years of exempting new qualified property from local taxes for eligible, non-retail business firms. Average employee pay requirements relate to firm's full-time jobs newly created zone-wide and must be met in all five years for compensation requirement that includes benefits. Zone is rural if outside regional urban growth boundary (UGB) based on MSA. Currently, 56 of 73 enterprise zones are rural; 17 are urban. Zone designation is subject to economic hardship criteria.

LTREZ–Long-term Rural Enterprise Zone Facility*—7–15-year exemption from property taxes, only in rural zones that are inside a qualified rural county or a county meeting economic tests. All facility employees are subject to average employee pay requirements, beginning by the fifth full year of exemption period.

OIA–Oregon Investment Advantage—10-year state taxable income exemption beginning two years after new facility operations commence. Minimum pay requirements relate only to at least five new full-time hires at facility. OIA is inherently rather rural, as it is allowed only in economically challenged counties, as well as only on industrial sites or within UGB of city of no more than 15,000 in population.

RSIS–Regionally Significant Industrial Site—diverts revenue to reimburse local site readiness costs, which has not actually happened since program creation in 2013. The bill would also clarify the rural-site definition to be simply outside the UGB of any city with a population greater than 30,000 in line with infrastructure-financing programs, instead of the law's currently confusing use of MSAs and UGBs.

MSA – federally designated metropolitan statistical area (Oregon now has 8 MSAs)
***With approval of local zone sponsor through written agreement with business, which may have additional requirements.

Summary of changes proposed in House Bill 2053A

HB 2053A contains housekeeping and technical tweaks that may appear consequential but are mostly for clarification, codification, consistency and so forth. This summary focuses on HB 2053A's more substantive and key technical change to requirements on businesses for new-employee pay.

Substantive changes

To align two agency programs, BEP and RSIS, for which new jobs need to be exceptionally well paying in order to directly produce sufficient income tax revenue within a couple of years:

- **Urban—**No change, 50+ jobs averaging at least 150% of annual county/state wage are still required.
- **Rural under HB 2053A**
  - Reduce BEP's hiring target from 50 to 25 (in line with RSIS), so that BEP might have a chance to work in a non-MSA county, where none of its 8 awards have occurred.
  - Reduce RSIS's average pay requirement from 150% to 130% of county/state wage (in line with BEP) to improve the feasibility of using RSIS on rural sites.

  Adjustments to RSIS would also allow using private-sector wages like with BEP and that new jobs are counted across possibly multiple businesses located at a single site.

Key technical change

To make program administration and customer service much more straightforward, HB 2053A would collapse the following layers and differences into a single criterion for enterprise zone exemptions longer than three years and for OIA. **Currently**, a business firm must satisfy two types of requirements:

1. Average employee wages need to be at least 100% of the current county wage in most cases, and
2. With respect to annual compensation that also includes non-mandatory employee benefits (*e.g.*, medical coverage, retirement)
   - Applicable enterprise-zone employees must receive on average 130% of the average wage in one of 16 qualified rural counties; it is 150% for rural zones in other counties, as well as the six urban zones outside the Portland and Salem metropolitan areas.
   - For OIA, each of five hires must be paid at least 100%, 130% or 150% of *per capita* income.
   - The county wage or income, to which these percentages are compared, is set early in the process, so that compensation is based on a figure that is 4 TO 17 YEARS IN THE PAST.

The proposed single criterion would use the same definitions as BEP and RSIS, to be standardized across agency statutes by HB 2053A, such that this criterion would be:

- Based only on wages (including paid leave) without benefits. Applicable benefits are difficult to define and explain, and misunderstandings arise with data collection and calculations. We would assume decent to excellent employee benefits at the firms receiving these incentives.
- Compared in all cases to simply the latest county or state average annual wage, whichever is lower. As that number increases year-to-year, the wages of the business firm's employees would need to stay higher, which in some cases could increase stringency.
- Applied to all 17 urban enterprise zones in the same way, which could also increase stringency for some extended abatements.

Going to 110-percent wage-to-wage requirement for enterprise zones and OIA

HB 2053A would require employee wages without benefits to average 110% or more of the county/state wage. For full-time manufacturing workers, according to the Bureau of Labor Statistics,[1] taxable income (wage or salary) is on average about 84% of compensation.

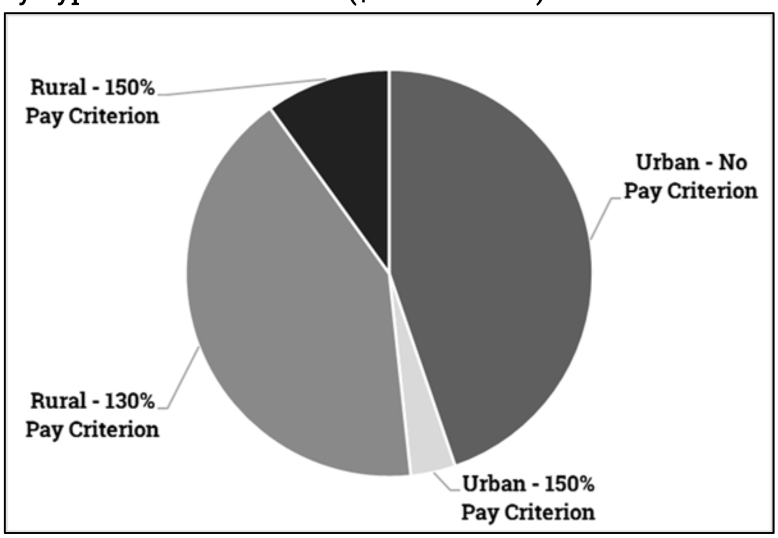
So, to generally maintain the same stringency as current law, 110% without benefits is equated to 130% with benefits because 84% of 130% is nearly 110%. It would be quite uncommon for employees receiving $20 to $30 per hour worked to not have benefits.

Enterprise Zone Extended Abatement

In terms of general activity or frequency of use, HB 2053A would matter most significantly for this element of the standard enterprise zone program, whereby local zone sponsors extend the normally three-year exemption period on new property by two additional years:

- The current statutory pay requirement is 0% ($0) for a business firm seeking a two-year extension in an urban enterprise zone in the Portland–Salem area, whereas the firm needs to pay 150% of the county wage if it locates in Eugene ($63,966), Ashland ($62,129), Coos Bay ($57,048) or Molalla ($77,586). Under HB 2053A, business firms in all cases will need to have wages (without benefits) of $43,000 to $63,000 annually through 2023.[2]
- The pie chart below shows the relative amount of abatements by type of enterprise zone. Amazon data centers in two counties account for most of the property in rural zones, for which the business firm's employees are subject to 130% average compensation.[3] Otherwise, the Portland–Salem-area urban zones dominate at 45% of the total, as shown below. HB 2053A would help address these imbalances by placing all zones on a more even footing throughout the state.

Enterprise Zone Extended Abatement Property Value by Type of Zone in 2017–18 ($2.9bn in total)



- Although HB 2053A would be somewhat less stringent for enterprise zones currently at 150%, those zones would not likely experience much of a jump in such abatements, because of other challenges,

[1] National Compensation Survey (ECEC – September 2018), released December 2018.

[2] HB 2053–A would allow any urban zone sponsor to set an alternative to the statutory compensation requirement pursuant to a locally adopted policy, for which the bill would also establish a base level of stringency. Existing law provides for urban zones to impose such additional conditions on any standard exemption, and Portland-area zones have used these provisions in the way that the bill would standardize.

[3] Amazon (AWS) also has 3-year exemptions on (personal) property in Morrow and Umatilla counties and is shifting to other programs (LTREZ and the Strategic Investment Program) for future investments.

such as logistics, that many such communities face. The point in all this is not to compel businesses to pay workers more, but rather to further induce firms with better-paying jobs to do more and hopefully hire more at locations in Oregon.

- With area in both Clatsop and Columbia counties, the Lower Columbia Maritime Enterprise Zone offers an outlier example of how convoluted these criteria can be. Introduced by 2017 Oregon Law is the definition of a qualified rural county (QRC)—outside a federal metropolitan statistical area (MSA) and a general tax rate of 1.3% or higher. Belatedly in 2018, Clatsop County's general tax rate was found to have jumped by nearly 7 percent, so that it is now a QRC and subject to the 130% criterion rather than 150%. That also became the case throughout the zone for EXTENDED ABATEMENTS even in Columbia County which is part of the Portland MSA. Meanwhile under existing law, the Columbia County average annual wage applies to abatements in Clatsop County, because the Columbia County wage is higher.

Purpose of Changes to Compensation Criteria

Accompanying materials document in increasing detail the proposed modifications to requirements that businesses need to satisfy in terms of the pay received by applicable employees, for which:

a) Complexity is reduced by aligning definitions and other features for how criteria operate, smoothing out wrinkles, and clarifying legal points, even as differences, nuances and exceptions would remain across the programs for geographic and other reasons.

b) Programs are made more straightforward for businesses and others to understand and use—improving statewide communication, administrative efficiency, and the ability to gather data.

c) On balance, the stringency of these requirements is not increased or decreased.

Budgetary Consequences

The following comments are to inform considerations of fiscal and revenue interactions:

- BEP's compensation criteria are merely clarified, although a discrete change would help rural counties by cutting the job target there in half. Nevertheless, appropriations ultimately cap BEP awards.
- RSIS draws directly from revenue streams to reimburse local governments, although it has yet to actually do so since its creation in 2013. The law's annual cap on total reimbursements would remain.
- With EXTENDED ABATEMENTS in any enterprise zone—even if for technically all the right reasons—improving the ability of local and state organizations to market and administer these abatements could itself increase the number of 5-year exemption periods at the margin. Offsetting this is the sensitivity of property tax revenue impacts to even a slight dampening of EXTENDED ABATEMENTS in the Portland region as discussed above, as well as yearly updating of the reference county/state wage.
- The LTREZ program is lightly used (in terms of the number of facilities), and these changes would only somewhat boost the ability of only a handful of zones in challenged rural areas to attract such a facility.
- Modifications to OIA should have a neutral impact on business income tax revenue.