Property Tax Incentives Impact Study

by Applied Economics, February 2022

Interim House Committee on Revenue

Interim Senate Committee on Finance and Revenue

Oregon State Legislature

September 22, 2022

First, primer on Oregon programs

- **Point of incentives is not to make a bad investment good, or to subsidize, but rather marketing to induce solid business opportunities, for which other efforts and factors remain indispensable**
- **Abatement of local property taxes notably predominate Oregon's incentives for business development**
  - Set by state tax law, with local discretion and control in certain situations
  - Decentralized administration, limited state-level roles …, reliance on collaboration, including for business accountability, data gathering, etc.
  - Inherently tied to amount of investment in physical capital (intensity)
  - No income tax credits or high-impact, state-run offering like elsewhere
- **Frequently competitive and targeted—at manufacturing implicitly, as well as economic hardship and rural areas**
- **Widely used, statewide, including many eligible, small businesses in enterprise zones**

Property tax abatement programs

—new plant & equipment tax-exempt, not land or existing assets

- **Contrast to permanent, categorical exemptions (e.g., domestic use, farm equipment, inventories or small business personal property)**
- **Up to 2 years of 'construction-in-process' exemption generally available for non-utility/manufacturing structures, regardless of enterprise zone …, as well as special version with the following**
- **Standard enterprise zone (SEZ), qualified property 100% exempt**
  - For 3 years, as-of-right for eligible (nonretail) firms increasing number of employees inside zone – at least 10% increase but local waiver available
  - With zone sponsor agreement, 1−2 extra years, subject to excellent employee compensation and wages per statutes *
  - Local authorization (pre-project application); cover 1–3 years' investments
  - Then, file annual claim starting in year after property's placed in service

* Except urban zones inside Salem and Portland metropolitan areas

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Other property tax abatements

- **Most rural zones can exempt new facility for 7 to 15 years (LRZ)**
    - By local agreement, with special approvals and usually negotiated fees
    - Facility hiring and investment criteria vary by location according to state law, as well as wage & compensation criteria relative to county wage
    - Current use by food-processing, household-name data centers, LVL, and non-massive (<$13 million total Capex) Astoria brewery project
    - Unlimited construction-period exemption, and any business type
- **Strategic Investment Program (SIP) … definitely, for big projects**
    - Anywhere in state (rural and urban versions) for traded sector, notably by Intel, energy projects, Amazon, Columbia Distributing, Georgia-Pacific
    - 15-year partial exemption in excess of (growing) taxable portion (starting at $25, 50 or 100 million), with statutory community service fee (≤ 25% of tax savings or cap); **no** employment requirement in law
    - County-based process for local agreement, usually with other payments (established zone-based version available)
    - State application for final oversight through State commission

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Enterprise zones in Oregon, today

- **Currently 76 designated by local action—58 are rural designations**
  - For cities/ports/counties:
    - Since 2015, no statewide cap on number of zones allowed
    - Still subject to longstanding statutory requirements (e.g., local hardship)
    - Designation lasts 10−11 years (or until **2025**)
    - Urban means exclusively inside principal−regional UGB(s) within MSA
  - Also, reservation/tribal opportunities (or federally based)
- **Sponsorship: currently as result of designation or boundary change**
  - Cities – 124
  - Ports – 15
  - Counties – 30 …, with zones located in 35 of 36
  - Tribes – 2 (CTUIR and Warm Springs)
- **Sponsor duties and discretion – appoint manager, assist assessor, processes, marketing, local incentives & conditions as applicable, …**

Latest on three programs
—for relative perspective

Program	Counties	Projects	Firms	New Jobs*	Exempt Property Value ($_billions)
SEZ	28	287	≈260 †	14,714	$4.0 ‡
LRZ	6 §	15	8	1,088	$9.2
SIP	9 §	20	13	9,973	$16.9 ¶

* Different data source from Impact Study, which drew from QCEW/UI records.

† Nearly 70% already exist inside enterprise zone.

‡ 10 Amazon projects account for 46%. (Median exemption is only around $1 million; many SEZ projects receive 2 or 3 overlapping exemptions)

§ 3 more with proposed LRZ projects, and 4 more with proposed SIP projects.

¶ From 2020; 2 Intel projects (the only urban ones) account for 73%.

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Role of Impact Study

- **Common part of incentives policy–program evaluation – but rather unprecedented for Oregon – also, impending EZ sunset**
- **Resources ultimately secured to rigorously quantify return on investment ('ROI') of property tax abatement programs**
- **Concurrent with more general Strategic Assessment of Incentives (SAI) by different consultant**
- **Input–output simulation based on labor income and inter-industry factors in Oregon for metrics of efficiency based on impacts—**
  - Contribution to growth in state economy
  - Fiscal or rather revenues – additional tax receipts
- **Doesn't answer everything—other issues and data to explore as addressed in Study, SAI, …, but long called for evidence, as grist for the mill of public policy dialogue**

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Impact Study Background

- **In 2020**
  - Organize (technical) steering group to guide investigations and review excellent responses to joint RFP for two projects
  - Select Applied Economics/TadZo bid (great experience, great value)
  - Work begins, setting up interviews to inform consultants
- **2021: evaluate interview feedback on various issues; build datasets for IMPLAN model, and perform ROI calculations**
- **Datasets based on project–abatements in effect during 2019 or 2020 (some w/LRZ & SIP are several years old; many still ongoing incl. w/SEZ)**
- **Major effort successfully linked 362 projects to 300 confidential, unduplicated payroll tax accounts at Employment Department, of which 279 are SEZ (mostly smaller investments):**
  - Total employment at dataset businesses (direct) - 55,788 by 2019/2020
  - Net increase since entering program - 27,688 with average wage of $98,169

Inputs to simulation and so forth

- **Direct jobs = employment change in ongoing operations (not construction or equipment); this generates inside Oregon:**
  - Indirect jobs & wages of suppliers, suppliers of suppliers … and so on …
  - Induced jobs & wages due to spending by direct and indirect employees
  - Economic output and labor income to estimate personal income taxes
- **Property taxes as assembled and validated by Business Oregon (from position of researcher not administrator) are ROI denominator**

Program	Total New Jobs*	Average Income*	Raw Prop. Tax Data †	Less True Levies †	Less Compression †	Less Dis-count †	Adjusted Property Taxes †	… with Inflation ‡
SEZ	42,081	$54,189	$355	−$55	−$17	−$10	$273	$289
LRZ	4,172	$66,282	$549	−$37	−$11	−$14	$487	$535
SIP	25,039	$96,033	$1,920	−$315	−$35	−$53	$1,521	$1,672

* Including direct, indirect and induced; 2020 dollars.
† Millions of dollars; adjusted using Dept. of Rev. county-based factors – 19.3%, overall.
‡ In millions of 2020 dollars from study.

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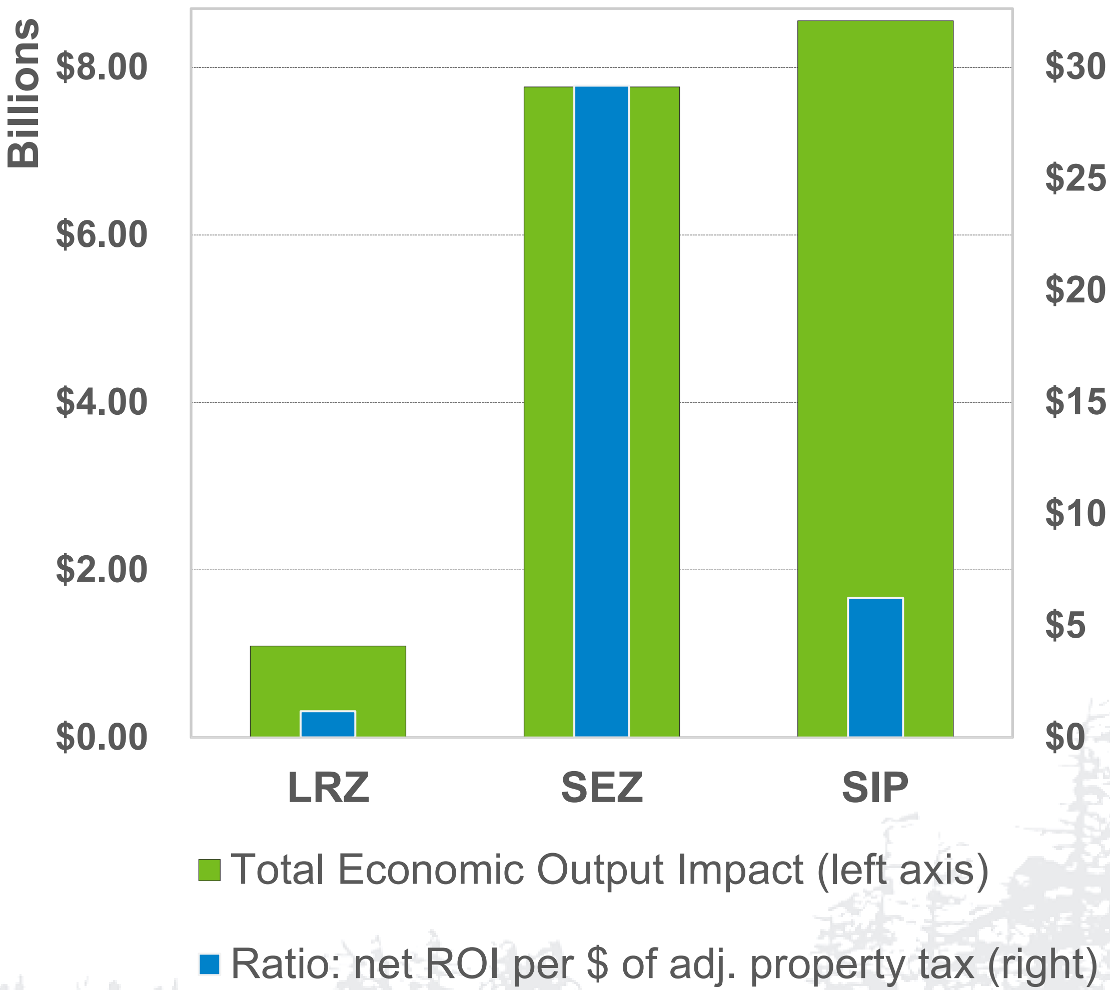
Additional annual economic output
–in 2020 dollars



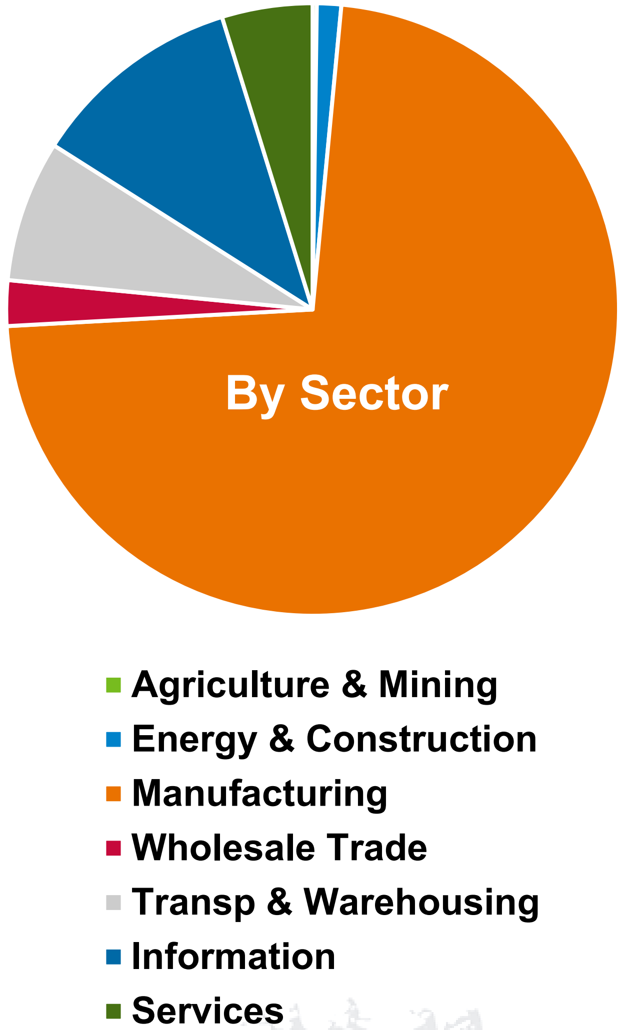
Overall, from the three programs' dataset projects:

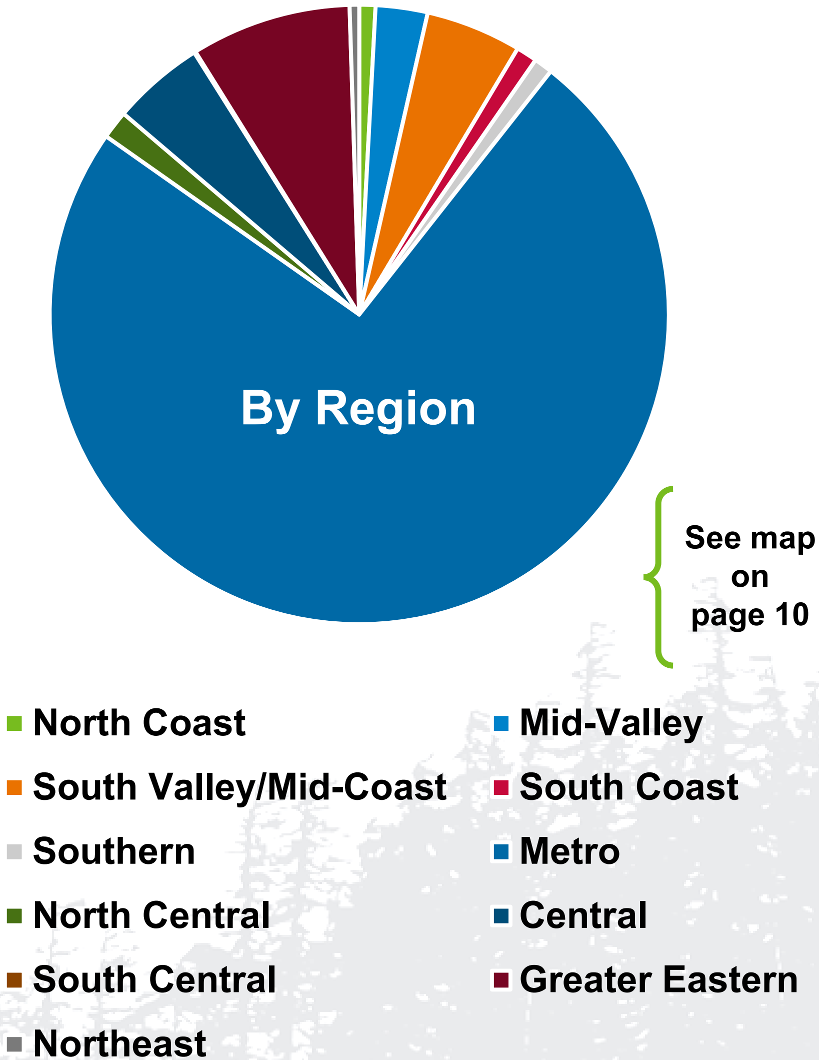
- $17.4 billion
- $8 per $ of adjusted property tax ROI

Output affected by:

- Job quantities
- Pay levels
- Industry mix & model's 6-digit NAICS code factor for in-state supplier relationships and so forth

State economic impact breakdowns





See map on page 10

Mfg.: 73% compared to 60% of jobs (Figure 7, page 14)

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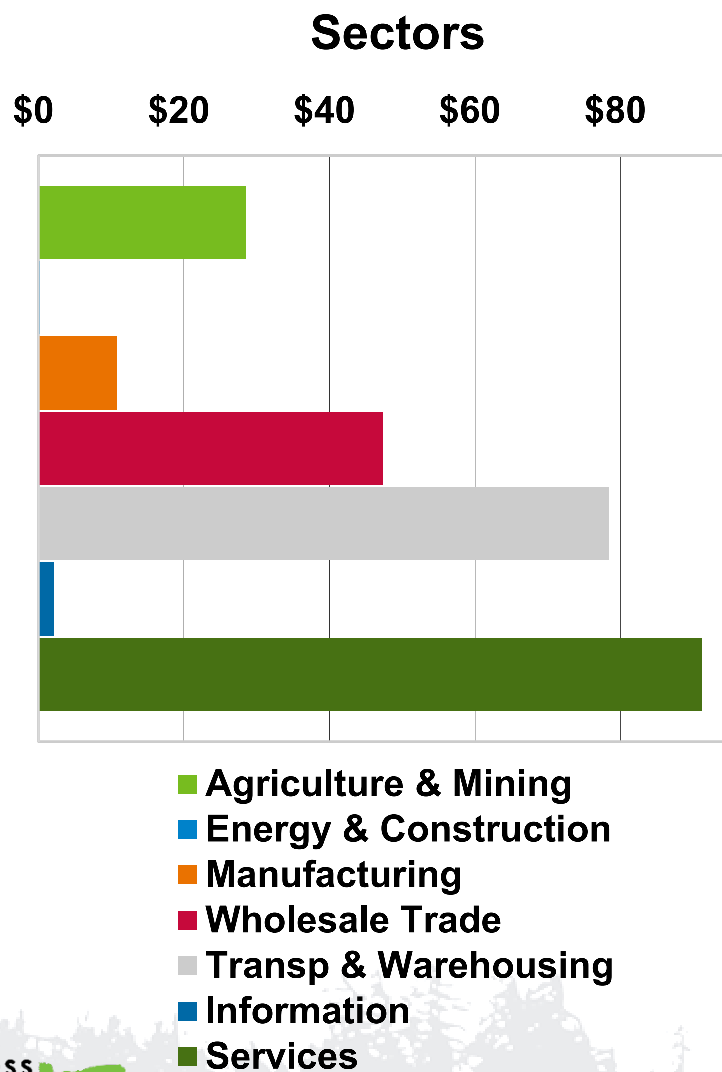
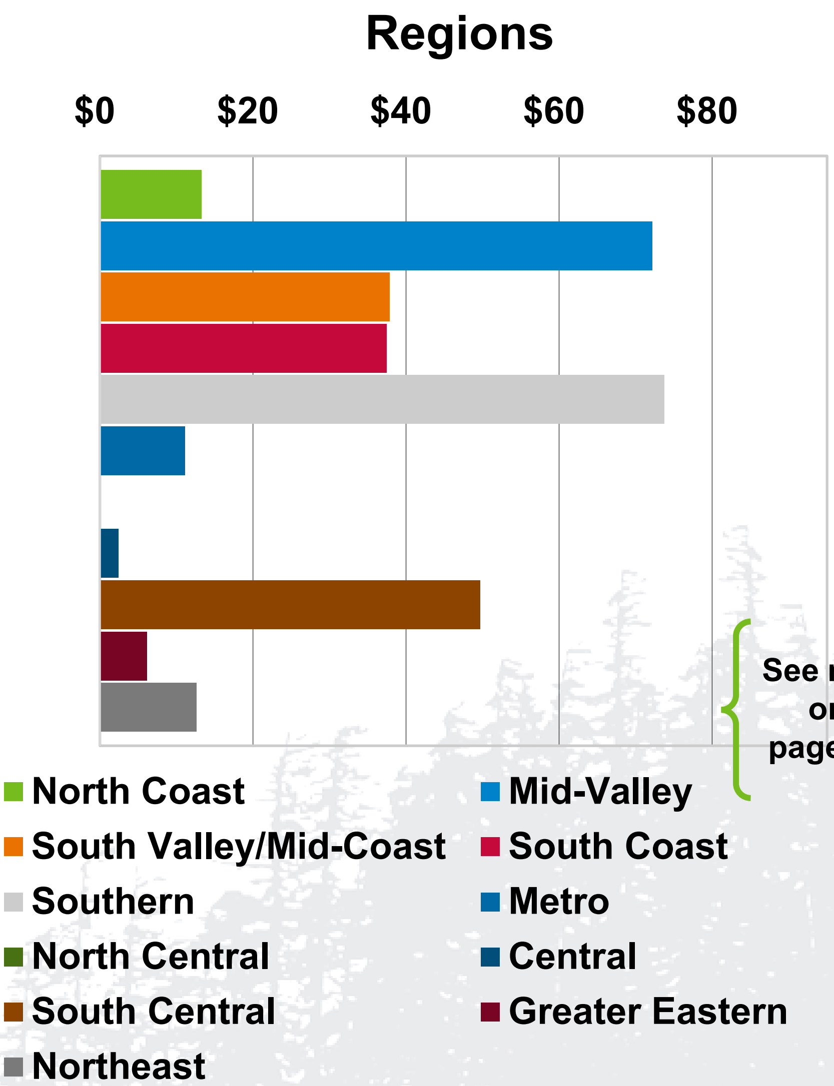
Output efficiency by sector | region
–Net ROI per $ of property tax (2020 dollars)





See map on page 10

Bottom-line payback, so far
–in 2020 dollars

Benefit/cost factor	Explanation
$1,901,720,000	Estimate income taxes to state from employment growth over several years, though largely in 2015–2019*
+ $566,580,000	Local/application fees & payments (based on special research effort) and SIP taxable portion
$2,458,300,000	Total **revenue return** (benefit) for main analysis
− $2,496,290,000	Total **investment** (cost) in local property taxes from projects THROUGH 2020
− $37,990,000	Net ROI across all three programs, or …

1.5% of total property tax foregone (> −2¢ per $ of property tax)—
pretty much breaking even with the projects extant in last biennium

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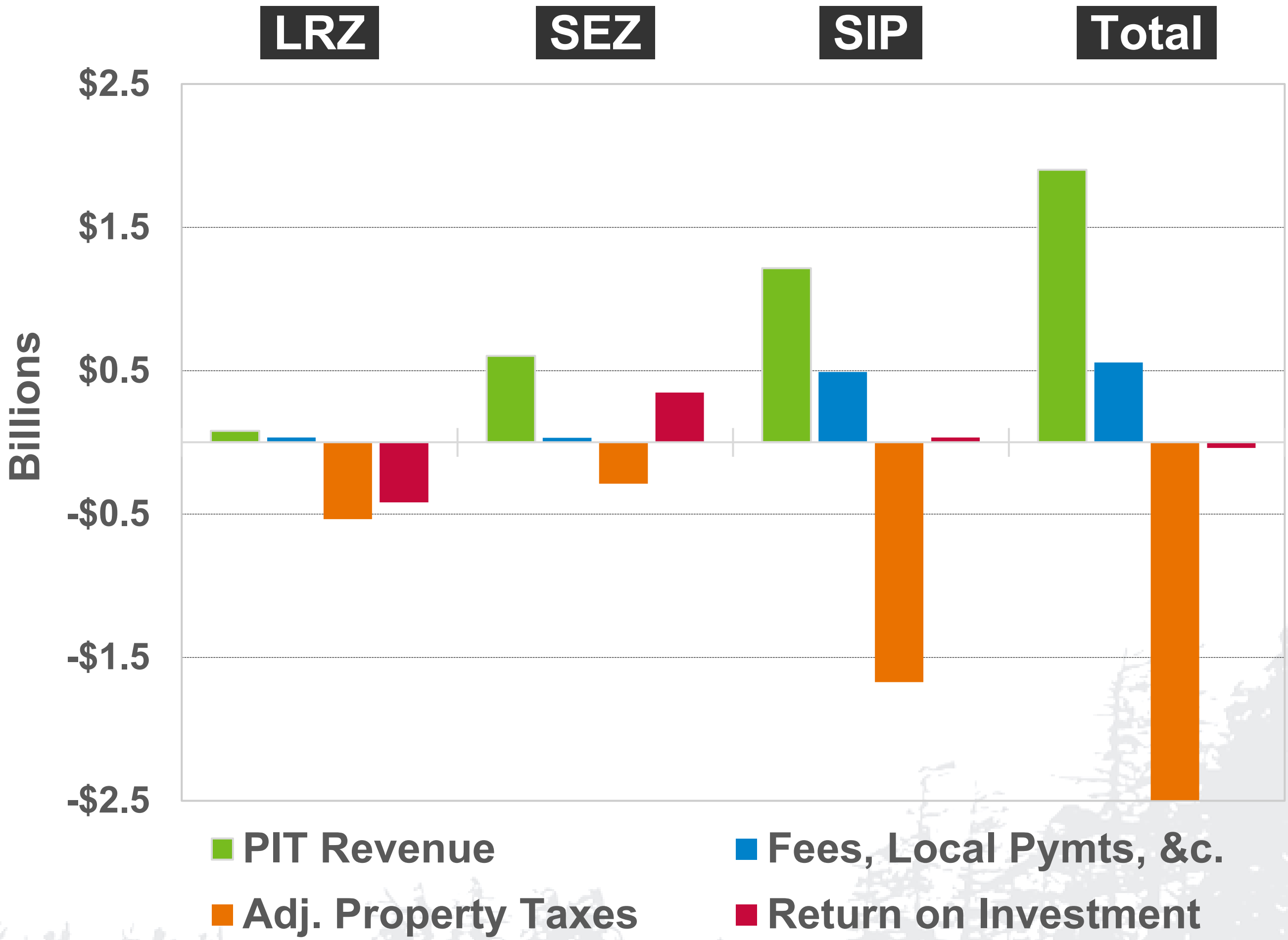
*Based on average labor income of total employment (including indirect and induced) in current dollars and on each year's personal incomes tax (PIT) laws since business entered program—*i.e.*, concurrently with each project's use of abatement—mostly until ONLY 2019 (**NO** projection of ongoing revenue); then, existing employment netted out after converting to constant (2020) dollars.

Revenue ROI by program
–in 2020 dollars



PIT affected by:

- Job quantities
- Pay levels
- In-state industry mix and factors

Property taxes affected by:

- Amount and trend of value
- Regional nature of adjustments

Both, by period for cumulation until 2019/2020 (e.g., SEZ only up to around 4 years on average)

Public revenues, recently

- **Included formally in study's main analysis are:**
  - State personal income taxes (PIT) from labor
  - Project-specific application fees, community service fees, and other local payments under agreements and urban zone policies (99.9% local)
  - Adjusted property taxes paid by SIP businesses on taxable portion
- **Excluded for lack of data, method or resources are changes to:**

State taxes (±)	Local revenues (±)
• Business income taxes • Gross receipts taxes (CAT) • One-time effect on PIT, etc., from capital spending– · Construction (analyzed separately) · In-state M&E purchases (− Expired E-zone tax credits) { State funds (incl. lottery) go toward schools, other local services and SIP gainshare }	• Franchise fees (local tax on utility usage) • Normal development fees and charges • Misc. taxes: business income, construction excise (schools), lodging, transit payroll, others? • Property taxes arising from: · Non-exempt property (e.g., changes to land/ valuations, at suppliers/utilities, SEZ PP, …) · Increased bonding capacity · Induced residential or commercial development (which has attendant public service costs!) (− Construction-in-process abatements?)

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Other local benefits
—aside from current revenues

- **Jobs, training opportunities, etc. perceived as better than norm, according to interviews (listed in appendix A)**
- **Non-monetary conditions on companies, such as tracking local supplier use, green design, and community–social–public benefits with hiring, career paths, and other agreed-to/required actions**
- **Strictly voluntary charitable contributions and community involvement by company, executives or employees**
- **Customers & orders for local businesses (e.g., hotels) during construction …, and separate research looked at such spending:**
  - Using available data on $61.6 billion in capital spending, $26.4 billion attributed to construction (lack in-state multipliers for M&E purchases)
  - Modeling – $50.5 billion in total, one-time spending for 357,596 jobs and $22.8 billion of labor income (again, largely SIP-related) in Oregon
- **Post-abatement effects on property tax base (top benefit for many)**

Further issues

- **Always question of effectiveness on investment and hiring compared to counterfactual—hard to prove even in specific case …, rarely if ever simple …, rather, nuanced and multi-variable …**
- **Study/interviews include project examples, business climate discussion, as well as other considerations:**
  - Costs or economic leakages from demands on land supply, traffic, public services in excess of associated funding, or labor & cost of labor – with or without state/local immigration – and public perceptions and reactions
  - Contrasting success among various rural and metro areas
  - Other incentives (grants, UR–TIF) and economic development programs, complementary or redundancy
  - Complexity of and among local requirements
  - Ever-growing amount of affected property taxes
    - For local school district or ESD – not unlike bond levies – essentially a wash, due to statewide equalization of funding …, but other districts
    - Overall statewide school funding reduced by around 2% (significant money, see appendix E) before considering payback through state funds

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Final thoughts

- **Sample of possible topics for further exploration**
  - Socioeconomic improvement at regional or community level, which would be ultimate purpose of enterprise zones?
  - Ensuring/enhancing benefits/opportunities for rural and historically underserved groups?
  - Big-picture interplay with housing stock, social policies, cost of growth? …, analytically very challenging and complicated
  - Limited resources or data, while still grappling with job-counting basics relative to other states, for example, …, and should something like the impact study be regularly repeated?
  - Fiscal–administrative costs not measured …, but possibly too light?
- **STRATEGIC ASSESSMENT OF INCENTIVES – concurrent investigation that included other programs, as well as DEI, rural, small business and other topics, with benchmarking of other states**

Contact and further information

Webpage: Business Oregon : Incentives Reports : Reports, Publications, and Plans : State of Oregon
<https://www.oregon.gov/biz/reports/Pages/incentives-reports.aspx>

Next Wednesday: Hour-long webinar workshop, as part of regular series, with more detail on Study

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