2.013 ENTERPRISE ZONE BUSINESSES

Oregon Statute: 285C.175
Sunset Date: None (enterprise zone program sunsets 06-30-2025, except for reservation enterprise and reservation partnership zones)
Year Enacted: 1985

2021-22 Estimated Reduction in the Taxable Assessed Value: $4.0 billion

	Loss	Shift
2021-23 Revenue Impact:	$96,900,000	$18,200,000
2023-25 Revenue Impact:	$98,700,000	$18,500,000

DESCRIPTION: Qualified real and personal property owned or leased and newly placed into service by a qualified business firm in an enterprise zone is exempt from property tax for three to five consecutive years. A new or expanding business can qualify for this exemption if the business meets all the conditions outlined in ORS 285C.135 and 285C.200, such as applying locally for authorization prior to construction, engaging in eligible business operations, entering into a “first source” hiring agreement with local publicly funded job training providers, and increasing the number of jobs in the enterprise zone by the greater of one additional job or 10 percent. By resolution, the local zone sponsor may waive the requisite increase in jobs under special circumstances.

To be exempt, the property owned or leased by the business must satisfy timing, location, minimum cost, and other requirements described in ORS 285C.180. Property is disqualified if used for an ineligible activity, such as retail operations, or if the business firm substantially curtails operations or closes during the exemption period. When property becomes disqualified, previously exempt amounts must be repaid. In 2021, the Legislature (HB 2343) provided multiple options for the governing body or bodies of local enterprise zones to change or suspend the employment requirements (or to defer exemption periods) of participating business firms, in 2021 and 2022. Zone sponsors may adopt resolutions waiving the employment requirements in relation to the state of emergency and impacts of the COVID-19 pandemic.

The length of most exemptions is three years, but for many of the larger projects and nearly all projects in the Portland metropolitan region, the length of the exemption is five years. The additional two years of exemption depend on a written agreement executed prior to local authorization between the business firm and the local zone sponsor, which may stipulate additional requirements for the firm. New jobs of the firm (except in the Portland and Salem area urban zones) need to also satisfy special criteria for employee pay, which the Legislature modified in 2017. Any urban enterprise zone may also impose additional conditions related to employment opportunities on any authorized business firm regardless of the exemption period.

Enterprise zones are sponsored, designated, and amended by city, port, or county governments, subject to determination by the Oregon Business Development Department (OBDD) of compliance with economic criteria, local taxing district consultations and other statutory requirements.

In addition, nine federally recognized Indian tribes can each have OBDD designate one reservation enterprise zone comprising any of their tribal lands, or they may create any number of contiguous reservation partnership zones with a local government. These tribal zones are otherwise enterprise zones, but they may continue after 2025, and this expenditure does not sunset for purposes of tribally based designations. Businesses in a tribal zone, even ones not eligible for this exemption, might be able to claim a state income tax credit, see expenditure 1.420, Reservation Enterprise Zone (Income Tax). ORS 285C.300 defines an eligible business in a tribal zone as one that is:

a) Engaged within a reservation enterprise zone in manufacturing or providing goods, products or services to other businesses or the public.

b) Occupies or owns a new business facility within a reservation enterprise zone where the new facility is used in the operation of the business and not just in leasing the facility to another person and has been acquired on or after January 1, 2002.

As of July 2022, Oregon had 76 enterprise zones, of which 58 are categorized as rural, and 18 urban. They are spread throughout the state in 35 of the 36 counties and sponsored by 124 cities, 15 ports, 30 counties, and 2 Indian tribes. In addition, 19 cities, 7 ports and 3 other counties currently consent to zones within their territory that are sponsored by other jurisdictions.

All enterprise zones terminate after 10 to 11 years. A qualified business receiving this exemption when the zone terminates may continue to receive the exemption for the number of years for which it qualified.

The relationship and comparison of this tax expenditure to others in this report are summarized as follows:

- Property of an authorized business under construction or in the process of being installed in the enterprise zone is generally allowed an exemption upon filing for 2.012, Construction in Process in an Enterprise Zone, of up to two consecutive years.
- Up to 15 enterprise zones may also be designated as an Electronic Commerce Enterprise Zone. In addition to the enterprise zone property tax exemption—but with some expanded eligibility for business activities and an even lower cost minimum for many types of personal property items—this overlay designation formerly allowed businesses qualifying for this tax expenditure to also claim an investment tax credit described in expenditure 1.421, Electronic Commerce Enterprise Zone (Income Tax) on certain capital expenses incurred until the business's 2017 income tax year. Qualified e-commerce businesses located in an electronic commerce city would also be eligible for this property tax expenditure.
- Facilities specially approved by the zone sponsor in most rural enterprise zones may alternatively use 2.014, Long Term Rural Enterprise Zones (Property Tax). That 7 to 15-year tax abatement differs from this standard exemption in its approval process, length of exemption period, the treatment of property under construction, necessary county location, and required minimum investment and employment criteria.
- Projects in a Rural Renewable Energy Development (RRED) Zone as described in 2.019, Rural Renewable Energy Development Zone, may receive this same standard enterprise zone exemption, but the RRED Zone program differs in four basic ways: 1) only certain types of renewable energy projects are eligible; 2) the zone areas are more expansive, generally countywide; 3) there is a locally determined limit of up to no more than $250 million for all exemptions with a given RRED Zone designation; and 4) the exemption does not sunset for purposes of RRED Zones.

PURPOSE: "To stimulate and protect economic success … throughout all regions of the state, but especially in those communities at the center of or outside major metropolitan areas for which geography may act as an economic hindrance … by providing tax incentives for employment, business, industry and commerce and by providing adequate levels of complementary assistance to community strategies for such interrelated goals as environmental protection, growth management and efficient infrastructure" (ORS 285C.055).

WHO BENEFITS: Eligible businesses operating in an enterprise zone (or engaged in e-commerce operations in an electronic commerce city). Many of these businesses are manufacturers, across a wide array of subsectors, but they also include financial/service centers, headquarters, data centers, distribution facilities, hotels in some zones by local choice, and various other traded-sector business types.

IN LIEU: Businesses may make payments imposed by or agreed to with the zone sponsor under special cases provided in statute for reasonable additional local requirements. If a business is not satisfying certain program requirements, a one-time payment of that year's tax savings (PiLoD) may be made to the zone sponsor to avoid fully retroactive disqualification. Some applications or property tax filings also entail administrative fees. The cumulative payments and fees collected locally over the years for projects with an ongoing exemption in the 2019-21 biennium were calculated to be $32 million in the *Property Tax Incentives Impact Study*, by Applied Economics (Business Oregon, Salem, February 2022).

EVALUATION: *provided by the Oregon Business Development Department*

This tax expenditure achieves its purpose. The program continues to be associated with numerous job-creating investments (mostly by in-state companies), located in more economically challenged areas of Oregon. The jobs should help improve the material quality of life for many existing residents through employment opportunities and in indirect ways. Although a few zones have been unable to foster new re/investment, most have had at least some activity.

The following data for outcomes come from the latest reports annually prepared for the Department of Revenue by county assessor's offices, and they are subject to diligent follow-up and quality checking annually by OBDD. The data again show a program that has expanded substantially in recent years in terms of business investment and employment.

In the 2021-22 tax year, these county reports show 464 standard exemptions. Those exemptions affected $63.6 million in taxes extended (as directly reported by the counties). Another 115 exemptions each lasting up to 5 years will begin in 2022 on investments completed in 2021 and costing $1.7 billion respective to approximately $1.6 billion in investments each year on average from 2017 to 2020.

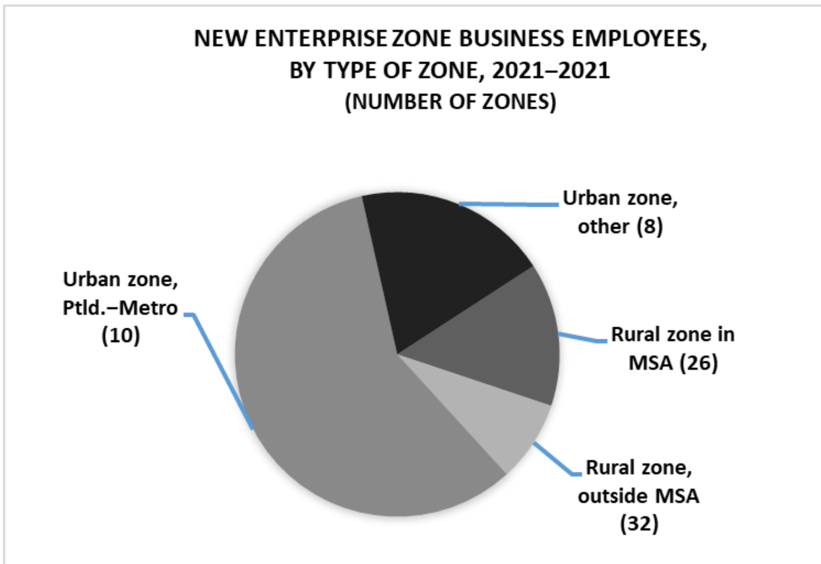
All told, these exemptions encompass 351 distinct projects by about 310 different business firms; at least 70 percent are companies that were already operating inside that enterprise zone. Their employees in full-time, year-round jobs totaled 38,576 in 2021 or by early 2022, of which 18,474 were jobs newly created with the exemption inside an enterprise zone.

Dividing estimated property taxes abated over several years by these new direct jobs yields a range of around $10,400 to $13,500 in property taxes per job depending on the method used. This sort of measure can vary wildly among projects, from less than $100 per job to greater than $100,000, skewing the average, such that property y taxes per job would drop dramatically if calculated excluding a few of the most capital-intensive projects. Consistent, straightforward employment criteria (which local governments can waive in certain situations) control a qualified business firm's receipt of the standard enterprise zone exemption. The respective tax benefit depends simply on how much qualified property the business firm owns or leases at the time. This is how exempting property from taxation works, but the effect as an inducement can be rather blunt.

Given the nonlinear nature of capital investment, it has long been the case that a handful of enterprise zone businesses (10 or less) overwhelmingly account for most exempt property and thus taxes forgone each year. Presently for example, with its data and fulfillment centers, Amazon alone represents 46 percent of exempt value in 2021-22 and 37 percent of new jobs among only ten projects statewide.

Undoubtedly, some enterprise zone investments would have been made even without this tax inducement, but they would tend to be among the many smaller projects comprising relatively little exempt property value overall. As investment size grows, the present-value benefit of avoiding taxes during a project's early years becomes increasingly significant for a firm's cash-flow analysis, not only in encouraging, attracting, and retaining sizeable capital investments and associated traded-sector jobs in Oregon, but also in terms of expediting or expanding the actual business operations. In addition, this program can militate these investments toward places with underutilized economic resources.

Most of program activity and job creation occur in the urbanized Portland region, a good deal of which is again due to Amazon (fulfillment centers). The following chart distributes new jobs among zones in the METRO urban growth boundary, other urban enterprise zones, rural zones inside the 13 Oregon counties that are part of a metropolitan statistical area (MSA), and all other rural designations:



For the impact study referenced above (see In Lieu), the consultant to Business Oregon compiled data from the Oregon Employment Department on the change in payrolls related to business projects that were actively using this expenditure during the 2019-21 biennium. The data were modeled to estimate indirect and induced employment effects in Oregon and overall return on investment (ROI). The study covers various quantitative and qualitative matters, including other local and state costs and benefits and examples associated with Oregon's property tax incentives, but in summary for the standard enterprise zone program, it found that over the course of those projects through 2020 at 279 companies:

- They produced 42,081 jobs, giving rise to total labor income of $2.3 billion and economic output of $7.8 billion in Oregon.
- After adjusting for local in-lieu funds, the resulting net ROI is $29.16 of total economic output for each dollar of foregone property tax revenue.
- They generated $604 million in cumulative state personal income tax revenue relative to $289 million of foregone property taxes- and net ROI of $1.35 per property tax dollar.

- Considering the program's extensive activity and relatively brief period of tax abatement, such robust ROI is not surprising, so that the expenditure could very well pay for itself even if many developments might have soon occurred any ways in one form or another.

- Additional analysis of one-time impacts from $5.5 billion in construction costs estimated another 39,626 jobs and $2.5 billion of labor income.

For illustrative purposes in an appendix, the Study also replicated findings in a 2009 Legislative Revenue Office (LRO) study (#4-09) that demonstrate this expenditure's ability also to break even in a reasonable time frame due to the taxable property added to the rolls following exemption periods.

More immediately in terms of post-exemption properties, $878 million in assessed value of formerly exempt property was added to the 2021 rolls, rendering additional taxes on the order of $13.1 million in the second half of the current biennium, for which Multnomah County does not report, and which does not include disqualified exemptions or special payments (see In Lieu above). Some of this added value would have occurred eventually, of course, possibly with a very different facility by another business, but not necessarily for a long time, as indicated anecdotally with the effect of newly designated enterprise zones on sites that had long gone undeveloped. Much of the once-exempt machinery and equipment is also not retired or removed for many years or may give rise to related/replacement investments that do not qualify for subsequent exemption.

Looking ahead—based on local applications for authorization copied by zone sponsors to OBDD by the beginning of August 2022—83 additional projects were proposed to begin exemptions in 2023 or later years; these potentially future exemptions were conservatively estimated at the time of application to include 1,535 jobs, in addition to about 8,000 existing enterprise zone employees of the authorized business firms, and to entail nearly $1.4 billion of further investment.

Enterprise zones are relatively common; their benefits are the same throughout the state, and the zone typically covers all relevant land or sites for trade-sector development within a defined area. These characteristics allow a wide spectrum of traded-sector businesses to participate while adhering to uniformity and other strictures for taxation in the State Constitution.

This expenditure is also fiscally effective. Administration while highly decentralized is manageable, inexpensive, and minimizes the possibility of abuse. The short time frame of the exemption, three to five years, will tend to moderate revenue impacts. One alternative would be an income tax credit, but that could present greater challenges to administer and enforce, and any anticipated lack of immediate state income tax liability would substantially lessen its attractiveness to businesses. This type of expenditure also affords economic-administrative advantages and efficiencies compared to a directly funded grant to influence business development decisions about where and when to locate or expand.

Diverse enterprise zone programs are still found in most other states, many of which also offer high-impact, statewide incentives that Oregon does not. Oregon's enterprise zone system continues to stand out for its rural basis, local control, and reliance on property tax relief.

Finally, on a broad, statewide level, Oregon enterprise zones are one of, if not the state's premier tool for stimulating increased business investment across many traded-sector industries, including in competition with places outside of Oregon for retaining existing operations in Oregon. While many of the projects indicated above would also involve other local and state attributes, efforts, or programs, the standard exemption from property taxes is oftentimes the only significant inducement that the locality and Oregon can bring to bear.