

## ‘We need more transparency’



Inside Intel’s D1X research factory at the company’s Gordon Moore Park campus in Hillsboro.  
Walden Kirsch



*Mike Rogoway - The Oregonian/OregonLive*

### **Property tax breaks go largely to Big Tech, with varied results and unintended consequences**

Oregon awards hundreds of millions of dollars in property tax breaks every year, incentives that go overwhelmingly to large tech companies and produce uneven results for the state.

Tax incentives for manufacturers provide a boost to Oregon’s economy, according to an analysis commissioned last year by the state’s economic development agency. But tax breaks for data centers are money losers, the report found, giving away more than they bring in from personal income taxes.

Oregon doesn't rank who gets the biggest incentives. So, with a major tax break program up for renewal during the current legislative session, The Oregonian/OregonLive compiled its own listing of the largest tax break recipients by calling individual county assessors all over the state.

The tally shows the vast majority of Oregon property tax breaks go to wealthy technology businesses. Intel, Amazon and Elon Musk's Twitter are among the big winners. The money they save on taxes would otherwise go to local communities to spend on public safety, health care, roads, parks and school construction.

In some cases, the tax breaks likely attracted corporate spending that would otherwise have gone to other states and other countries. In other cases, the tax incentives appear to have played no role in site location decisions — or Oregon may have awarded bigger tax breaks than necessary to win the investment.

Oregon hasn't quantitatively studied just how big its incentives need to be to attract big corporate investments.

Oregon's program of "enterprise zone" tax breaks, aimed at attracting investment to specific industrial sites, is set to expire and lawmakers are debating this session whether to extend the incentives. Advocates for reviving the state's chip industry have made extending the program one of their top priorities, arguing it's a key tool for bringing large semiconductor manufacturers to Oregon.

The analysis by The Oregonian/OregonLive, though, finds that almost none of the state's current enterprise zone tax breaks go to chipmakers.

(Intel's big tax breaks come from a different program.)

Instead, the enterprise zone program has had the opposite effect of what semiconductor advocates say they want. Enterprise zone incentives largely go to data centers and e-commerce warehouses, which have consumed hundreds of acres of industrial land in the Portland area over the past 15 years.

Economic development officials are frantically searching for properties just like that to make room for more chipmakers, which employ far more people at much higher wages than the data centers and warehouses.

Tax watchdogs are pitching reforms that would limit the types of businesses that can receive the incentives and require more accountability from the public

officials who award them.

“We should stop subsidizing data centers in urban areas because they will come anyway and they use up valuable land for few well-paid jobs,” said Jody Wiser of Tax Fairness Oregon.

“And we need more transparency about the deals local governments are making with businesses.”

## **TAX BREAKS GROWING**

Oregon’s property tax breaks come from two similar programs that give cities and counties the authority to negotiate tax breaks over a period of five to 15 years, though incentives can be extended in some circumstances.

Oregon property tax breaks totaled \$2.5 billion from 2007 to 2020, according to a recent state report. The scale of the exemptions is increasing — tax breaks awarded in the three years since are worth at least another \$1 billion, according to the analysis by The Oregonian/OregonLive.

Since Oregon has no sales tax, and its corporate tax structure exempts data centers and some large manufacturers like Intel from most business income taxes, property taxes are often the only thing left to give away in recruitment efforts.

The tax breaks are very popular with cities and counties across Oregon, in both urban and rural areas. Local governments welcome the authority to negotiate their own deals and customize them to meet the needs of their communities.

“The state largely depends on local governments, whether they be county or city, for economic development. And that has historically been Oregon’s approach to attracting new businesses and new investment from existing businesses,” said Jim McCauley, legislative director for the League of Oregon Cities.

“We’ve got a proven tool that many communities have had success with,” McCauley said.

Oregon’s enterprise zone program dates to the 1980s, originally envisioned as a way to help economically distressed communities attract small manufacturers.

Beginning in 2006, though, the nation's biggest technology companies discovered the tax incentives and began using them to finance data centers in communities from Hillsboro to Hermiston.

Data centers didn't exist when Oregon created the enterprise zone program, and most of the companies now running them didn't, either. No one imagined huge buildings full of computers collectively worth hundreds of millions of dollars, and no one put an upper limit on the size of the communities' tax break authority.

An analysis this year by the real estate firm Cushman & Wakefield reported that the Hillsboro data center market is among the hottest in the country, tied with Northern Virginia at the top of the rankings. The study found that Oregon's tax climate is among the most favorable in the world for data centers, behind only Hong Kong.

An analysis last year by The Oregonian/OregonLive found that three-quarters of enterprise zone tax breaks go to data centers. Updated figures show these server farms saved more than \$180 million last year alone.

In the 1990s, Oregon created a separate set of incentives, known as the Strategic Investment Program, specifically to help attract big investments from Intel and other large chip manufacturers. The SIP incentives have more rigid requirements for tax payments and service fees, but also place no upper limit on the tax abatements.

SIP incentives have helped attract billions of dollars in Intel spending over the past 30 years, helping establish Intel as the state's largest corporate employer, with 22,000 employees assigned to its Washington County campuses. SIP deals have also saved Intel more than \$780 million in the past five years alone.

In the past few years, some local communities have shifted from negotiating enterprise zone agreements with data centers to using SIP incentives. At least partly as a result of that shift, the communities have negotiated deals that are more favorable to public coffers and less lucrative to the tech companies.

## **VALUE SCRUTINIZED**

Business Oregon commissioned a study last year to assess the property tax incentives. The report found they all contribute to the state's economy, though to widely varying degrees depending on who receives the incentives.

For example, Oregon's "standard" enterprise zone program offers tax breaks from three to five years. The state study found it generates \$1.35 in personal income tax revenue for each dollar in property tax breaks. And in total economic output, it generates \$29 for each dollar in foregone taxes.

Contrast that with the long-term rural enterprise zone program, used for data centers in small communities like Morrow County and Prineville. The state study found these 15-year deals roughly break even in terms of economic output.

In terms of personal income taxes, though, such long-term incentives lose 84 cents for each dollar in property taxes they forgo.

"This program certainly is maybe not paying its way back as well as some of the others might," Art Fish, incentives coordinator for the state's economic development agency, told a legislative committee last year.

A 2016 state audit reached a similar conclusion. Standard enterprise zones awarded \$4,200 in incentives per job created. But the long-term enterprise zone deals, 15-year exemptions used primarily by the biggest data centers, give away \$54,500 in tax breaks for each job created.

That probably reflects the fact that data centers aren't major employers. Some data centers in Hillsboro employ just one or two people. Amazon has about 740 employees at its data centers in eastern Oregon and Google employs 200 at its data centers in The Dalles.









