

**REVENUE IMPACT OF
PROPOSED LEGISLATION**
82nd Oregon Legislative Assembly
2024 Regular Session
Legislative Revenue Office

Bill Number: SB 1526 - 7
Revenue Area: Income Tax & Property Tax
Economist: Easton/Olen/Hart
Date: 2-26-2024

Only Impacts on Original or Engrossed Versions are Considered Official

Measure Description:

The measure is an omnibus bill that makes many technical changes to income tax and property tax statutes. It also makes some policy changes that affect tax revenues. The relevant policy provisions are described separately.

Short Line Railroad Rehabilitation Credit

Aligns applicability of tax credit policy changes made in HB 3406 (2023) with underlying sunset of tax credit as extended by HB 2071 (2023), which extended credit applicability through tax year 2029.

Industrial Site Readiness

Extends sunset of initial program qualification by six years. Moves sunset from July 1, 2023, to December 31, 2029. Changes employment level and wage qualification language to align with available data. Ensures \$10 million cap applies to income tax increment payments and not loans.

Semi-Conductor Related Activities in E-Commerce City

Adds semiconductor-related development activities in a designated E-Commerce City to property that may qualify for a three- to five-year property tax exemption under the E-Commerce provisions of the Enterprise Zone program.

Solar Improvement on Tribal Land

Clarifies that certain solar energy systems that otherwise would be centrally assessed property are exempt under the current property tax exemption for permanent improvements on land owned by the United States and held in trust for a federally recognized Indian tribe or member.

Revenue Impact (in \$Millions):

	Fiscal Year		Biennium		
	2023-24	2024-25	2023-25	2025-27	2027-29
General Fund					
Short Line Railroad Tax Credit	\$0	\$0	\$0	-\$0.4	-\$0.9

Other provisions expected to have minimal impact are described below.

Impact Explanation:

Short Line Railroad Rehabilitation Credit

Measure extends to tax years 2026 through 2029, modifications to credit made by HB 3406 A (2023). Modifications to the credit made in 2023 expanded the potential value of the credit for larger non-publicly owned short line railroads by eliminating the credit tier 1 and tier 2 distinction. Additionally, measure disallows from use in determining Oregon short line rehabilitation tax credit, rehabilitation costs that are used, or could be used, to claim federal short line railroad rehabilitation tax credit. If the biennial tax credit certification cap of \$4 million is reached, tax credits are first reduced to no more than \$400,000 annually for a single railroad. If further reduction is required, tax credits are then allocated proportionally based on the amount each taxpayer would have otherwise received. Changes to credit by measure apply to tax years beginning on or after January 1, 2026, and before January 1, 2030.

Credit modifications are estimated to increase the use of the short line railroad tax credit in the respective tax years causing a reduction in General Fund revenue in the 2025-27 and 2027-29 biennia. Eliminating the tier 1 and tier 2 distinction is expected to increase the value of the tax credit for three short line railroads currently classified as tier 1. The increased value of the credit will likely cause the biennial limit to be reached in 2027-29, which will cause individual short line railroads to be limited to \$400K in that biennium. Proportional reduction for all other short line railroads is not expected. Requirement that costs used to qualify for Oregon tax credit must first be used to offset a potential federal tax credit may reduce Oregon credit amount depending on the amount of rehabilitation costs incurred during the year for the respective short line railroads. This revenue impact estimate was made through an analysis of Oregon Department of Transportation tax credit certification data.

Industrial Site Readiness

The industrial site readiness program allows local government project sponsors investing in the preparation of industrial sites to receive site preparation costs offsets from either a loan (possibly forgivable) or cost reimbursement from the state. Qualifying local governments may enter into a loan agreement with the Oregon Business Development Department (OBDD) that can include loan forgiveness under specified terms (funding through OBDD for the loan program has not been available to date but is being considered in HB 4042). Local government project sponsors may also enter into a tax reimbursement arrangement with OBDD where the project sponsor receives full reimbursement for eligible site preparation costs through a sharing of 50% of the estimated personal income taxes paid by the eligible employees hired at the industrial site by an eligible employer. To qualify, employers must hire a specified minimum number of employees that exceed specified wage thresholds. Current law requires local government project sponsors to have entered into agreements with OBDD before July 1, 2023 (existing agreements remain in effect after this date) and limits total loans and reimbursements to all project sponsors to \$10 million annually.

Measure modifies definition of eligible employer, to align with data availability, through changes to specifications of employment level and wage qualification required of employees employed at the Regionally Significant Industrial site. While changes to wage/employment qualification remove full time equivalency requirements for new hires, applicability of average wage minimum is expanded to all employees at site rather than only new hires. Measure also extends initial period in which project sponsors may enter into agreements with OBDD to December 31, 2029. Extending applicability period is expected to increase the number of project sponsors and/or project sites entering into agreements with OBDD. However, incremental income tax revenue

redirected from the General Fund to project sponsor reimbursements is limited to \$10 million per year and is proportionately shared to project sponsors should the cap be reached. While the cap has not yet been reached, over \$500 million in projected costs are associated with the twelve projects presently qualified. Additional project qualification could impact the amount proportionally shared, though impact on General Fund is unlikely to occur within the near term estimate horizon due to existing annual cap.

Semi-Conductor Related Activities in E-Commerce City:

The City of North Plains has not had a qualified business firm since obtaining the E-Commerce Zone designation in 2001 (SB 229). It is unlikely that a firm would locate a multi-billion-dollar semiconductor fabrication facility because of a three- to five-year property tax exemption (and potentially the existing 2-year exemption for construction in process in an enterprise zone). It can take more than a decade for a semiconductor fabrication facility to become fully operational. The City of North Plains currently does not have enough vacant space to accommodate such a facility. However, there are several ways in which a revenue impact on local governments that is more than minimal may arise:

- The May 2024 Primary Election will include a vote on whether the City of North Plains will expand its UGB, more than doubling the size of the city and adding hundreds of acres of industrial lands.
- Semiconductor-related firms may benefit from the exemption. Applicable business activities in E-Commerce Zones include professional services, retail, other operations, and business activities of third parties (OAR 123-662-0100).

Personal property costing as little as \$1,000 can qualify for the E-Commerce Zone property tax exemption. This is lower than the \$50,000 threshold in a Standard Enterprise Zone.

Solar Improvement on Tribal Land:

Although the policy has no direct revenue impact on local governments, it reduces property taxes that otherwise would have been imposed on energy systems connecting to centrally assessed transmission lines. The amount of taxes that otherwise would have been imposed is approximately \$7M in the first tax year after project completion (FY 2027). That assumes a total tax rate of \$14 per \$1,000 of assessed value would have been applied to the project’s permanent improvements, consisting of a 250 MW photovoltaic solar and 250 MW battery system. New centrally assessed solar projects typically have an assessed value of approximately \$2M per MW, where 75 percent of the value is attributable to solar facilities and 25 percent is attributable to battery storage. The taxes that otherwise would have been imposed decline in future years, consistent with the depreciating value of the solar energy system. Construction of the 1,500-2,000 acre project is expected to take 18 months and be completed by January 1, 2026.

Creates, Extends, or Expands Tax Expenditure: Yes No

Policy Purposes:

Short Line Railroad Rehabilitation Credit

The policy purpose of this measure is to encourage improvement and development of short line railroads by equalizing the value of the tax credit for all short line railroads.

Semi-Conductor Related Activities in E-Commerce City

The policy purpose of this measure is to incentivize growth, innovation, and high-quality jobs in Oregon’s semiconductor-related industries.

Solar Improvement on Tribal Land

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The policy purpose of this measure is to recognize that for the 1,500-2,000 acre project, consisting of a 250 MW photovoltaic solar and 250 MW battery system, the practice that Tribes largely have discretion over property taxation within Tribal boundaries will continue.