REPORT ON AGENCY-BASED

INCENTIVE PROGRAMS & FUNDS

SB 5508 Budget Note

OREGON
ECONOMIC & COMMUNITY DEVELOPMENT COMMISSION

November 2008

December 1, 2008

The Honorable Peter Courtney
Senate President
Oregon State Senate
900 Court St. NE, S–201
Salem, OR 97301

The Honorable Jeff Merkley
Speaker of the House
Oregon House of Representatives
900 Court St. NE, H–269
Salem, OR 97301

Dear President Courtney and Speaker Merkley:

The Oregon Economic and Community Development Commission, as directed by the 2007 Legislative Assembly's budget note to SB 5508, respectfully submits its budget note report regarding the Oregon Economic and Community Development Department's (OECDD) incentive programs and funds.

In particular, the budget note directed the commission to develop a report that itemized the success of economic development efforts for each program receiving support through OECDD funds, including performance data for department administered programs and funds or for which participation is subject to commission or department approval, certification or recommendation.

For the purposes of this incentive report, the department evaluated those programs that induce direct investment into the state of Oregon to further job retention, expansion and recruitment opportunities. This includes reviewing those non-tax/monetary programs and income tax-related incentives. Furthermore, the report includes a brief discussion of those incentive programs where the department partners with other state agencies, as well as local communities to further development activities.

It should be noted that in addition to this report, the 2007 Legislative Assembly directed the Legislative Revenue Office (LRO) to deliver a report to the 75th Legislative Assembly in February on the Enterprise Zone program. OECDD plays a limited, statutorily prescribed role with respect to the program and does not request, nor approve, zone designations. While this report touches upon the basics of this program and clarifies the department's role, the LRO report will discuss the Enterprise Zone program and the cost-benefit in greater detail.

The commission appreciates the opportunity to present this report on the programs and funds that OECDD administers to further economic and community development throughout the state. We hope the report presents a greater understanding on the programs the department administers and their impact on the state's economy.

Sincerely,

E. Walter Van Valkenburg

E. Walter Van Valkenburg, Chair
Oregon Economic and Community Development Commission

THE INCENTIVE PROGRAMS REPORT

Dear President Courtney and Speaker Merkley:

The 74th Oregon Legislative Assembly directed the Oregon Economic and Community Development Commission, through a budget note to SB 5508, to provide an incentive report to the Governor and the Legislative Assembly by December 1, 2008. This *Incentive Programs and Funds* report itemizes the success of economic development efforts for each program receiving support through Oregon Economic and Community Development Department (OECDD) funds, including performance data for each program or fund administered by OECDD, or for which participation in the program or support through the fund is subject to the approval, certification or recommendation of the commission or OECDD.

For purposes of the report, the working definition of "incentive" is taken to mean

endeavors to induce private, for-profit business firms to make new investments or to increase or maintain employment in Oregon through a material benefit to the firm, as a motivating factor for actually undertaking, expediting or enlarging the project, or as competitive factor, vis-à-vis alternative locations.

Each of these programs and funds are summarized to provide a brief understanding about how the incentive works and the major findings highlighting the program's success.

The attached report provides detailed information about the incentive programs and funds that OECDD administers, there are some key guiding principles the department uses when administering these programs:

- The department's incentive programs mostly serve to help existing Oregon companies to expand and grow.
- The incentives tend to be targeted—though not exclusively—at rural Oregon, areas of economic hardship, or to help spur renewable energy usage.
- Administrative processes and burdens on benefiting businesses are generally minimal.
- Incentive programs are geared toward investments in regular capital assets, in contrast to labor or human capital.
- In combination with other programs, the incentive programs significantly improve growth prospects and competitiveness for Oregon's economy.

The department administers the following major incentive programs:

1. **Governor's Strategic Reserve Fund (forgivable loan):** The Governor's strategic reserve fund is a discretionary grant program. Though modestly sized compared to such tools in some other states, it is crucial for advancing diverse business projects throughout Oregon. These funds are used as a strategic investment focused upon creating, recruiting and retaining jobs for existing Oregon businesses. The loans are usually the last money invested in a project and often help firms purchase new equipment and provide training for their existing employees.
2. **Industrial Development Revenue Bonds (loans) & Oregon Business Development Fund (loans):** The department administers two programs that offer favorable terms for debt financing of new investments: (1) Special bonds under federal law for which the interest is tax-free; (2) A revolving loan fund that is used to supplement the business firm's other borrowing.
3. **Special Public Works Fund (primarily loans):** Monies that go to local governments to provide special, immediate extensions of public services or infrastructure to a site for business development. They typically include a loan paid back by a municipality.
4. **Strategic Investment Program:** Exempts large investments from much of the property taxes that they would otherwise need to pay over 15 years. The Economic and Community Development Commission must make a final determination on projects primarily driven by local/county agreements. SIP remains instrumental for our high-tech industry—a mainstay for jobs in Oregon. In recent years, it has been serving rural areas, especially wind-energy development.

5. **Oregon Investment Advantage:** This new, innovative program offers a 10–year exemption from income taxes on the income arising from any business's new operations. The department technically administers the certification of business facilities, which to be eligible must be located in one of presently 20 counties based on economic hardship statistics. In such rural counties, there are already 23 projects at least preliminarily approved and hundreds of full–time jobs expected to be created.

This budget note does not encompass reporting on all state or local incentives that act to spur business development. Many of the more recognizable incentives like the Business Energy Tax Credit (BETC) and the Immediate Opportunity Funds (IOF) approved by the Oregon Transportation Commission are described only briefly in the full report.

In addition, it is important to clarify OECDD's limited role in relation to Enterprise Zone tax abatements granted throughout the state. The department has a limited, statutorily prescribed role regarding the standard exemption on new taxable property in an enterprise zone. These exemptions are administered and approved solely by local jurisdictions. The department does manage the Rural Enterprise Zone Facility Tax Credit. Thus far, the department and Governor's office has approved this corporate excise tax abatement for two major companies. However, at this time, neither firm has exercised the credit.

The commission hopes this report helps increase the understanding of OECDD's critical and ongoing role in spurring economic development and creating new jobs throughout the state of Oregon. We look forward to your suggestions and questions concerning these important programs.

For those desiring a copy of the full *Incentives Programs and Funds* report, please contact Paul Grove, OECDD Legislative Affairs Director, at 503–986–0192 or visit the web at http://econ.oregon.gov/OECDD/pubs.shtml.

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Strategic Reserve Fund (SRF)

The Strategic Reserve Fund (SRF) is a forgivable loan program administered by OECDD. The Governor has sole discretion over how the investment funds are spent in Oregon. Oregon's SRF program offers a flexible incentive that can be offered in discreet amounts for development purposes according to a company's needs. The ultimate goal of the SRF is to both help maintain jobs and create new jobs.

Though modestly sized compared to such tools in other states, it is crucial for advancing diverse business projects throughout Oregon. During 2005–07, for every dollar invested in SRF loans, the state's general fund on average received $1.35 back in income tax revenue on the jobs created or retained.

These funds are used as a strategic investment focused upon creating, recruiting and retaining jobs for existing Oregon businesses. The loans are usually the last money invested in a project and often help firms purchase new equipment and provide training for their existing employees.

In the course of developing an incentive package, OECDD Business Development Officers and local partners determine if the SRF needs to be utilized to increase Oregon's competitiveness. A recommendation is made to senior management and the director of OECDD. If the total company package is acceptable and desirable, the SRF proposal is submitted to the Governor for approval.

It should be noted that job retention or creation targets are a requirement for each SRF award. As an added safeguard, clawback provisions—a retroactive penalty or requirement to pay back the benefit, if the business firm fails to satisfy certain criteria and requirements—are a standard feature of the program to ensure the state's investment is protected.

In addition, the loans are forgivable once the borrowers reach the term of the loan agreement.

Highlight

Coca Cola Bottling Company

OECDD provided $175,000 in SRF funds to Coca Cola for the recruitment and expansion of the company's northwest regional manufacturing and distribution hub in Wilsonville. The contract requires creation of 45 new jobs and most importantly retains 301 jobs, 50 percent of which were at risk if the company had decided to locate the center outside of Oregon.

Highlight

Eugene Pipe, LLC

Eugene Pipe, a manufacturer of plastic pipe, started operations in the same location previous operated by pipe manufacturer PW Eagle. The company created jobs for the skilled employees that were laid off due to the plant closure. The $50,000 SRF investment provided funds for costs associated with the start-up and the loan contract requires creation of 40 jobs. Lane County also provided $50,000 in project incentives and the company invested $9 million in the facility.

Financial snapshot

	2005–07	2007–09
Legislative funding[1]	$9,043,190	$10,950,000
Amount of business incentive[1]	$9,363,666	Not Available
OECD administrative/other costs[2]	$156,349	$176,394 (est.)
Application fees	0	0
Affected, contingent tax revenue[3]	Not Applicable	Not Applicable
Return on $1 investment	$1.35 (35%)	Not Applicable

[1]excludes carryover from prior biennia, which is used for awards. Amount in 2007–09 includes workforce funds of $1.7 million from HB 5035.

[2]paid out of other agency funds

[3]projects may enhance future public revenues

Source: OECDD

Highlight

New Energy Works Timberframers

This out-of-state recruitment established a market niche in the Pacific Northwest for an east coast company that specializes in heavy timber post and beam structures that utilize green construction and reclaimed timber products. The $50,000 SRF award provided funds for costs associated with refurbishing equipment for the facility in McMinnville and the loan contract requires creation of 10 jobs for high-skilled workers.

Economic impact analysis 2003–05, 2005–07

Industry*	Direct	Indirect	Induced	Total
Employment	8,066	5,244	5,105	18,415
Labor income	$427,775,165	$253,375,437	$174,422,821	$855,573,423
Output	1,756,757,240	782,115,307	528,428,475	3,067,301,022
Personal income tax*	$20,618,763	12,212,686	$8,307,180	$41,238,639

*The overall average wage for all SRF projects is $35,895 and the 2006 tax rate for this income level is 4.59%. However, this analysis assumes a two-earner household income and that househould income is $15,000–$20,000 higher than the average SRF wage. As a result of these assumptions we use the 4.82% tax rate , the rate that applies to households with an adjusted gross income between $50,000 and $60,000 per year.

Source: November 2008 OECDD

Industrial Development Revenue Bonds (IDRB)

The Oregon Economic & Community Development Commission is authorized by statute to issue industrial bonds for qualified projects throughout Oregon. It's five–member Finance Committee approves IDRB projects for eligibility and for closing.

Generally, bonds are issued for manufacturing and processing facilities in Oregon at interest rates that are 75 to 80 percent of conventional rates. The loan amounts can range from $1.5 million to $10 million, often carrying a tax-exempt status that lowers the overall cost of capital for companies using the program.

The Oregon Express Bond program is designed to reduce the cost of issuance and uses highly standardized documents to make bond financing feasible for amounts starting as low as $500,000.

Industrial Development Revenue Bonds are not direct obligations of the state. The entity on whose behalf they are issued is legally obligated to repay them. The state has no obligation to repay the bondholders and does not guarantee the bonds.

During the last three biennia, (through 9/30/08), the program generated 13 bond issuances totaling more than $45 million. The bond issues used 100 percent private investment funds and resulted in an average project size of about $3.5 million each. Most transactions were private placements from Oregon banks to smaller Oregon manufacturing companies for business expansion of plant and/or purchase of equipment. More than 60 percent of these projects were located in economically distressed areas in 11 Oregon counties. The funding helped create a projected 226 new, full–time jobs as well as a projected retention of an additional 500 jobs.

Highlight

Apparel Manufacturing Group

The Apparel Manufacturing Group received proceeds of a $2.4 million industrial development bond early this year. The full-service apparel manufacturer will use the funds to purchase land and finance the construction of building and the purchase of new equipment. The financing will allow the company to relocate to location in Hillsboro and add an estimated 13 new employees, a nearly 50 percent increase to its current 28–person workforce.

Highlight

Holliday Enterprises

Prineville's Holliday Enterprises, a solid waste management company doing business as Prineville Disposal, received proceeds of a $1.22 million revenue bond last summer. As the city of Prineville passed the 10,000-population mark, state recycling requirements kicked in. The company will use the bond proceeds to finance the purchase of the trucks, roll carts, steel containers, baling and packing equipment and facility improvements necessary to implement the state-mandated recycling program. In addition, the company plans to add three full–time employees to its 17–member firm.

Highlight

Climax Portable Machine Tools, Inc.

Newberg's Climax Portable Machine Tools, Inc., an international maker of portable machine tools used by shipbuilders, received a $5 million development bond late last year. The bond will help the company add an estimated 57 new jobs to its current workforce of 75 in Newberg. The company was recently listed as one of the fastest growing of its size in the nation by *Inc. magazine*.

Financial snapshot

	2005–07	2007–09
Bond revenue[1]	$25,100,000	$16,224,000
Amount of business incentive[2]	Not Available	Not Available
OECD administrative/other costs[3]	$161,069	$79,940
Application fees[3]	$150,250	$105,560
Affected, contingent tax revenue[4]	Not Applicable	Not Applicable

[1]Bond revenue represents amount of private bond activity approved by the commission and administered through this program. 2007–09 total reflects closed bonds only.

[2]present value of net differential in future interest payments relative to comparable market rates not readily determinable

[3]2007–09 amounts are through September 30, 2008

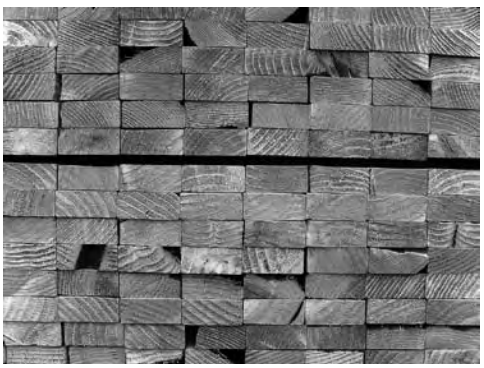
[4]projects may enhance future public revenues; minor effect from bondholders who are Oregon residents and may exempt interest from taxable Oregon income.

Source: OECDD

Highlight

Swanson Group

Lane County's Swanson Group, a timber industry manufacturer producing dimension lumber, received proceeds of a $6 million development bond last year. The company, located in Noti, plans to add five new jobs to its current 106 employees. The bonds allowed the company to purchase new equipment and ensure the efficiency of its current operations.



Program impact 7/2003–11/2008

Company Type	City	Loan Amount	Est. Jobs Created	Projected Jobs Retained
Manufacturing	Boardman	$2,000,000	5	30
Other	Eagle Point	$1,880,000	23	81
Manufacturing	John Day	$3,000,000	10	70
Manufacturing	West Linn	$2,000,000	24	39
Manufacturing	St. Helens	$1,700,000	15	60
Food Processing	Portland	$6,700,000	33	59
Manufacturing	Bend	$2,600,000	15	41
Manufacturing	Newberg	$5,000,00	57	0
Manufacturing	Gresham	$9,000,000	11	0
Manufacturing	Newberg	$1,600,000	12	75
Manufacturing	Glendale	$6,000,000	5	0
Manufacturing	Portland	$2,400,000	13	28
Solid Waste/Recycling	Prineville	$1,224,000	3	17
TOTAL		**$45,104,000**	**226**	**500**

Oregon Business Development Fund (OBDF)

The Oregon Business Development Fund is a revolving loan fund that provides long–term, fixed-rate financing for land, buildings, equipment, machinery and permanent working capital for Oregon businesses. In most instances, the interest rate for an OBDF loan is the U.S. Treasury rate plus one percent. Participants must create or retain jobs and be a traded-sector business in manufacturing, processing or a regionally significant tourist facility.

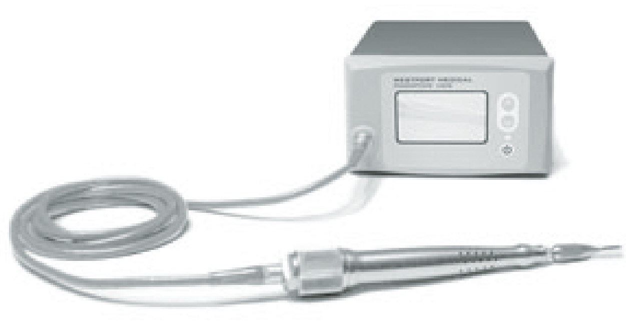
The program focuses upon rural and distressed areas and businesses with fewer than 100 employees. The loans may represent as much as 40 percent of a project up to a maximum of $700,000, and may be subordinated to a senior lender. Borrowers are required to repay the debt and the state does not guarantee the bonds and, therefore, is not obligated to repay them. Most of the bond proceeds must finance capital expenditures (i.e., land, new equipment or new construction) and borrowers are required to find a bank or other private lender to finance part of the project.

The commission's finance committee approves all applications for financing. In addition, the OBDF features a Targeted Development Account for distressed areas of Oregon that works to provide additional preferred benefits or loan rates.

Highlight

Westport Medical, Inc.

Last August, Westport Medical, Inc., a Salem manufacturer of dental equipment, received a $300,000 OBDF loan (combined with a $100,000 Strategic Reserve Fund grant) in partnership with Sterling Savings Bank. The $2 million project financed the costs of purchasing equipment related to the startup of the business, which expects to employ 23 full–time workers.



Highlight

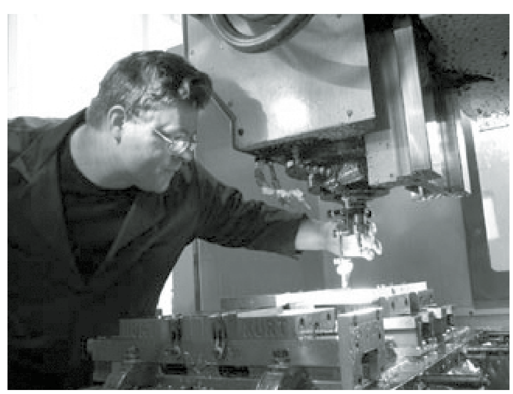
Krauss Craft, Inc.

In Grants Pass, Krauss Craft, Inc., received a $500,000 OBDF loan in partnership with U.S. Bank. The April 2008 loan helped finance a $1.79 million building expansion and the purchase of new equipment. The company manufactures state-of-the-art playground equipment including Playcraft Systems. The expansion is expected to create 40 new jobs in addition to the 65–employee workforce.

Highlight

Usher Precision Manufacturing

In Forest Grove, Usher Precision Manufacturing received a $185,600 OBDF loan last June to partner with West Coast Bank for the purchase of an adjacent building as part of an expansion. The machine shop specializes in producing aircraft parts, baseball bats and security locks for customers across the nation. The expansion is expected to create 13 new jobs at the 36–employee company.



Highlight

Baker Aircraft

In Baker City, Baker Aircraft received a $247,000 OBDF loan last July in partnership with the Bank of Eastern Oregon. The loan helped the company purchase a Bell UH-1H helicopter for their business and create six new jobs. The company operates out of the Baker City Airport and provides fixed wing and charter helicopter flights, flight training and search and rescue services in the area. The new helicopter will be used as part of a six–year contract with the Oregon Department of Forestry to provide fire suppression services for the state.

Financial snapshot

	2005–07	2007–09
New fiscal infusion[1, 2]	$2,853,929	$1,934,177
Amount of business incentive[3]	Not Available	Not Available
OECD administrative/other costs[2]	$616,676	$590,791
Application fees[2]	$78,364	$70,494
Affected, contingent tax revenue[4]	Not Applicable	Not Applicable

[1]lottery funds, revenue bond proceeds, interest and other income (not principal repayments)

[2]only first 15 months of 2007–09

[3]present value of net differential in future interest payments relative to comparable market rates not readily determinable

[4]projects may enhance future public revenues

Source: OECDD

Program impact 2007–11/2008

Company Type	City	Loan Amount	Estimated Jobs Created
Manufacturing	Prineville	$500,000	21
Manufacturing	John Day	$80,980	42
Manufacturing	Beaverton	$203,000	10
Distributing	Portland	$110,000	9
Manufacturing	Medford	$200,000	5
Manufacturing	Eugene	$220,000	8
Manufacturing	Klamath Falls	$50,000	28
Manufacturing	Albany	$500,000	40
Manufacturing	Springfield	$262,000	17
Manufacturing	Grants Pass	$500,000	40
Manufacturing	Baker City	$139,702	16
Distributing	Portland	$300,000	21
Manufacturing	Hermiston	$500,000	20
Manufacturing	Hillsboro	$500,000	12
Manufacturing	Burns	$40,000	2
Manufacturing	Bend	$300,000	5
Manufacturing	Forest Grove	$185,600	13
Other	Baker City	$247,000	6
Manufacturing	McMinnville	$60,000	2
TOTAL		**$5,198,282**	**340**

Special Public Works Fund (SPWF)

The Special Public Works Fund is a revolving loan fund that is used to help finance municipally-owned facilities in Oregon that support community development and public works projects, as well as create economic opportunities. Loans and grants are provided to municipalities for planning, designing, purchasing, improving and constructing municipally-owned facilities such as water/wastewater systems, airports, roadways, telecommunications facilities and other infrastructure projects. Loans range from less than $100,000 up to $9 million for a period of up to 25 years or the useful life of the project. Additional grants are available up to $500,000, or 85 percent of the project cost, for projects that will create or retain jobs in industries competing nationally and globally.

As noted, the Special Public Works Fund assists municipalities with various public works and infrastructure projects that further the quality of life for Oregon's communities. Of the 147 projects financed during this period, more than 70 addressed community development/infrastructure needs of municipalities across the state and were not directly related to job retention or creation activities.

For the purposes of this report, however, the commission and department have chosen to focus on those projects that have helped induce direct investment to the state that further job creation and retention and produce a more readily accountable return on the investment.

During the past two biennia, between three to eight SPWF awards were made per year to local governments that included grant money directly tied to business development. Of these 18 projects, eight were recruitment related, and they received about half of the $7.3 million in grants for this period. As a result of these investments, it is projected that more than 1,800 full–time jobs will be created and 351 jobs retained.

The geographical distributions of these 18 projects spanned across the state from Clackamas, Clatsop, Coos, Hood River, Deschutes, Jackson, Klamath, Lane, Linn, Marion, Morrow and Umatilla counties.

Highlight

City of Bandon

In May 2006, the city of Bandon received a Special Public Works Fund award totaling $1.24 million (loan + grant) to extend city water and sewer services to the industrial property located near the Bandon Airport. Hardin Optical owns seven acres of land at the airport and the city of Bandon owns 15 acres. The extension of public utilities allowed Hardin Optical to build its new facilities at this site and expand its operations to meet the needs of their customers. Without the expansion, the company would have lost 25 existing jobs. Instead, the company retained all 47 existing jobs and added 53 new ones. This project also provided water and sewer services to the city-owned property at the industrial site making it more attractive for other businesses to locate at the airport site.

Highlight

Confederated Tribes of the Umatilla Indian Reservation

The Confederated Tribes of the Umatilla Indian Reservation received $1.4 million from the Special Public Works Fund (matched by $3.5 million in other non-state funds) to extend water and sewer services to the Coyote Business Park located near the interchange of I-84 and Highway 331 east of Pendleton. The tribe owns in excess of 500 acres of industrial-zoned land at this site and is improving approximately 95 acres as a result of this project. The extension of public utilities has thus far resulted in two new buildings at this site and has helped create jobs at the reservation. Prior to the project, the median household income per capita at the reservation was $12,032 (57% of state per capita income) and the unemployment rate was 11%. These improvements and the approximately 260 jobs created helped to generate an estimated $19 million in private investment.

Financial snapshot

	2005–07	2007–09
New fiscal infusion[1, 2]	$96,299,991	$16,362,524
Amount of business incentive[3]	$2,425,000	Not Available
OECD administrative/other costs[2, 4]	$3,176,236	$2,292,672
Application fees	0	0
Affected, contingent tax revenue[5]	Not Applicable	Not Applicable

[1]lottery bond proceeds, interest and other income (not principal repayments)

[2]only first 15 months of 2007–09

[3]only grant commitments to municipality directly with private business investment

[4]includes staff and related costs for ***all*** loans and projects

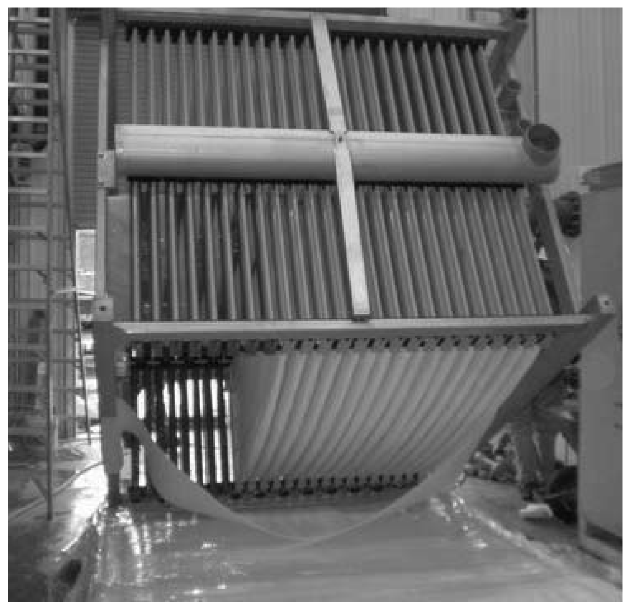
[5]projects may enhance future public revenues

Source: OECDD

Highlight

Odell Sanitary District

The Odell Sanitary District, in Hood River County, received a Special Public Works Fund award to bring its wastewater facility into compliance with Oregon Department of Environmental Quality regulations. The project was designed to mitigate two main issues related to temperature and residual Chlorine impacts to Odell Creek. The district chose an advanced, state-of-the-art, Membrane Bio-Reactor process. Now, this process enables the district to reduce contaminants enough to provide a "water quality" effluent into Odell Creek. This new treatment facility enabled Cardinal Glass to retain 75 jobs and create an additional 50-plus jobs. The project was completed in October 2008 and received funds—loans, grants and a federal EPA match—totaling $5.59 million.



SPWF recruitment-related projects

Recipient	Project/Investment Type	Loan Amount	Grant Amount	Total Award
Ashland	Jefferson and Washington Street improvements	$500,000	$400,000	$900,000
Springfield	Beltline-Gateway Intersection improvement project	$0	$300,000	$300,000
Columbia County/Clatskanie	Port Westward access road corridor improvements	$5,894,818	$400,000	$6,394,818
Confederated Tribes of Umatilla	Coyote Business Park	$900,000	$500,000	$1,400,000
Port of Morrow	East Beach infrastructure improvements	$2,000,000	$500,000	$2,500,000
Molalla	Four Courners industrial park infrastructure phase I	$0	$300,000	$300,000
Bandon	Airport industrial water and sewer	$740,410	$500,000	$1,240,410
Port of Astoria	LEKTRO manufacturing plant	$850,000	$0	$850,000

Source: OECDD

Regional Investment Fund (RIF)

The Regional Investment Fund operates as a legislatively directed pass-through of program funds from the department to 13 Regional Investment Boards throughout the state who direct funds locally for various economic and community development purposes. These purposes included making awards that acted as incentives for private business projects or hiring. Legislative funding was curtailed during the current biennium because of state budget considerations.

While some of the requirements vary by region and project, state rules require that grants to private businesses be valued at no more than $5,000 per full-time equivalent jobs created and that these jobs must be created within two years and maintained for at least one year.

The size and scope of the awards ranged from $2,000 to $190,000, with the average business incentive award being approximately $41,000. About 55 percent of the Regional Investment Board monies were used as incentives for business investments to create new jobs.

In 2003–05, the fund was used to help assist businesses and communities on 94 projects throughout the state. It is estimated that 3,071 full–time equivalent jobs were reported as associated with projects that received some level of RIF assistance.

The 2007 Legislature included a budget note in the department's 2007–09 Budget that allocated $2 million for the Regional Investment Boards to complete three key tasks: 1) continue administration of their existing portfolio of projects; 2) develop a needs and issues list and an infrastructure needs list; and 3) update their strategies to further the economic development goals in Senate Bill 350, (which is the department's Strategic Plan).

At its July 2007 meeting, the Oregon Economic & Community Development Commission approved allocating the $2,000,000 to the 13 Regional Investment Boards based on cost estimates from the boards for completing the tasks outlined in the budget note.

Highlight

Metal Fabrication Training

In Douglas County, North River Boats was awarded training funds to assist with metal fabrication training. Umpqua Community College participated in the training program. The project received $100,000 in RIF and helped to create 128 jobs.

Highlight

Baker City

In Baker City, regional/rural investment funds from the Baker-Morrow Regional Partnership helped Chaves Consulting, Inc. upgrade and procure new equipment/software for training employees. The upgrade resulted in 15 new jobs.

Financial snapshot

	2005–07	2007–09
Legislative funding[1]	$7,094,474	$2,000,000
Amount of business incentive[1, 2]	Not Available	0
OECD administrative/other costs[3]	$179,206	$209,554
Application fees	0	0
Affected, contingent tax revenue[4]	Not Applicable	Not Applicable

[1]amount in 2007–09 for administration of ongoing projects; excludes carryover from prior biennia, which is used for awards

[2]other expenditures would include local/regional administration and grants for community infrastructure, capacity-building, technical assistance, revolving loan funds for small businesses, etc

[3]paid out of other agency funds, does not include local/regional board administration

[4]projects may enhance future public revenues

Source: OECDD

Highlight

Downtown Revitalization

The city of Carlton used a small Regional Investment Fund grant from the Mid-Willamette Valley Partnership to cover a financial gap in a much larger downtown revitalization project. The construction included new sidewalks in downtown Carlton—part of the city's strategy to attract major new investment as a center of the state's growing wine industry.

July 2007 Regional Investment Board funding allocations

Regional Investment Board	Funding Amount	Regional Investment Board	Funding Amount
Baker, Morrow	$121,792	Marion, Polk, Yamhill	$182,688
Benton, Lane, Lincoln, Linn	$207,432	Clackamas, Hood River, Wasco	$157,690
Crook, Deschutes, Jefferson	$144,674	Umatilla, Union, Wallowa	$154,418
Coos, Curry, Douglas	$154,188	Clatsop, Columbia, Tillamook	$139,237
Jackson, Josephine	$122,554	Klamath, Lake	$136,792
Gilliam, Sherman, Wheeler	$175,739	Grant, Harney, Malheur	$168,504
Multnomah, Washington	$134,292		

Oregon Investment Advantage (OIA)

This program is designed to help businesses start or locate in Oregon, especially in rural and distressed areas. Companies setting up new operations in a qualifying city or county are eligible for a 10–year waiver on all of the income/excise taxes related to the operation. To qualify, the company must create at least five new, full–time jobs and be the first of its kind in Oregon so as not to compete with similar operations in the local economy.

This program works for very small firms or large companies, and without regard to capital outlays. Among the 23 businesses that have received preliminary certification, large global corporations own four of them. The remainder is divided between small companies employing fifty or fewer employees and mid–sized businesses with 50 to 200 employees. All of the businesses are in traded-sector industries, but new retail businesses also are eligible for this program. Seventy–eight percent of the preliminary certified facilities are manufacturers which produce a wide variety of goods including wood pellets, saws, lumber, rubber gaskets, safes and other products. The non-manufacturing businesses are engaged in shipping or communications.

The program has encouraged job creation in 15 separate cities or communities, which are located in some of the state's most economically disadvantaged counties—Baker, Coos, Douglas, Grant, Lake, Linn, Malheur, Morrow and Umatilla. The fully certified facilities aided through this program have confirmed 730 full–time employees hired.

Highlight

Potato dough

In late 2006, the department issued preliminary certification to a joint venture that has constructed a new processing plant to make potato dough for export. The facility is near Boardman in Morrow County. The plant was operating within a year, and the firm applied to the department for its first annual certification, which it received for the tax year ending in 2007. The company reports the hiring of 47 full–time employees.

Highlight

Rubber gasket manufacturing company

In November 2005, a California businessperson submitted an application for preliminary certification to the department for a small facility that manufactures rubber gaskets in Lebanon in Linn County. The project encountered delays due to land use and other regulatory matters, but it ultimately received effective assistance from city officials and commenced operations in 2007. The department promptly approved the business firm's first application for annual certification respective to its 2007 tax year. How much in income taxes the business owner might save will depend on particular tax return issues, but at its most basic, total taxable income will decrease with subtraction of facility-related income. The company reports the hiring of nine full–time employees.

Financial snapshot

	2005–07	2007–09
OECD administrative/other costs[1]	$25,000	$35,000 (est.)
Application fees	$6,200	$6,800 (est.)
Affected, contingent tax revenue[2]	0	< $50,000 (est.)

[1]approximate staff time for processing applications, program development and so forth

[2]Estimate of taxes not paid (foregone) as a result of the program benefit.

Source: OECDD

Highlight

Lowe's Distribution Center

Lowe's, the world's second-largest home improvement retailer, with sales of more than $30.8 billion and 147,000 employees in 45 states, broke ground in 2005 on their new West Coast distribution center. After an extensive search and evaluation process, Lowe's selected Lebanon, Oregon, as the location for its distribution center. The facility, located on a department certified industrial site, is the state's third largest building at 1.4 million square feet—roughly the size of 31 football fields under one roof.

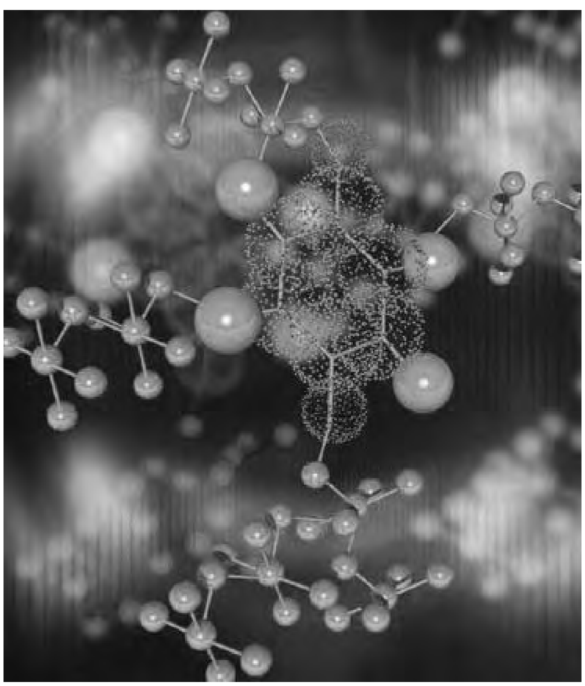
Program impact: project investments

Facility/Operations	City	Project Investment	Est. Jobs Created
Rubber gasket manufacturer	Lebanon	$568,000	9
Distribution center	Lebanon	$115,053,137	637
Process potatoes into "dough"	Boardman	$24,500,000	47
Market research/call center	Tangent	$414,000	40

Strategic Investment Program (SIP)

Under Oregon's Strategic Investment Program (SIP), eligible companies who make significant investments in new real and personal property may qualify to pay lower property tax rates. Business investment in excess of $25 million in rural areas and more than $100 million in urban areas may qualify a company for reduced property taxes for 15 years. The company receiving the SIP benefits must obtain local approval through an agreement with the county and city in which the project is located. A business is required to pay a community service fee equal to 25 percent of the abated taxes, up to a yearly maximum of $2 million (urban) or $500,000 (rural). The community service fees are subject to local distribution agreements. The county, cities and non-school local taxing districts must participate in the execution of this agreement.

The SIP program was instrumental in helping assist the high-tech industry growth in Oregon during the 1990s. Now, it is a critical component of the state's efforts to establish a vibrant, renewable energy industry in Oregon. According to payroll data, approximately 6,300 jobs in the semiconductor industry have been created based on 13 SIP projects that have been approved by OECD Commission since 1994. Data also indicates that recent local and state government approval of several wind-energy farms located in counties of North Central and Northeastern Oregon are bringing hundreds of millions of dollars in capital investments to those regions.



Highlight

Genentech, Inc.

The SIP incentive played a critical role in attracting an investment of more than $300 million by Genetech, Inc., in Washington County. Construction of the new biopharmaceutical manufacturing facility was well underway by 2007. Rigorous licensing requirements of the U.S. Food and Drug Administration will prolong full completion. Nevertheless, after the maximum two years of tax abatement for construction-in-process, the 15–year SIP period will begin in 2010.

Hiring is already up to 145 full–time employees out of an expected 275 jobs. Operation at full capacity will eventually support 250 full– and part–time jobs per year at the facility, earning an average of $74,000 per full–time employee.

Construction activity alone would employ 960 full– and part–time workers. This construction activity will ripple through the Oregon economy, ultimately accounting for 2,180 full– and part–time jobs earning an industry average of $42,600 per year.

A study of the facility estimated a net positive fiscal impact for local and state governments of $1.4 million per year, in addition to a $3 billion estimate of greater economic output or activity throughout Oregon over the 15–year abatement period.

Financial snapshot

	2005–07	2007–09
OECD administrative/other costs[1]	$20,000	$30,000 (est.)
Application fees[2]	$45,000	$75,000 (est.)
Affected, contingent tax revenue[3]	$115,990,281	$126,864,459 (est.)

[1]approximate staff and commission time for applications, program development

[2]less transfers to Department of Revenue

[3]Estimate of taxes not paid (foregone) as a result of the program benefit. Estimate does not net out CSF/other local fees.

Source: OECDD

Highlight

Wind energy project

In 2006, Sherman County and an Oregon-based utility commenced negotiations for SIP tax treatment on a large, wind-energy project. The county-business agreement follows a model seen in other rural SIP accords along the Columbia River. The project has a total capital investment of $870 million and began using SIP in 2008. Property tax savings for the project are especially difficult to forecast, but they should provide critical net relief of around $20 to $40 million, while local entities will receive income of approximately $70–80 million, over 20 years. Given the small, local economy, construction and ongoing employment associated with such developments is having a dramatic impact on the region's fortune. This particular wind farm will add up to 30 permanent jobs at the general location of the project.

Commission approved investments 2007–09

Company	City	Investment Amount	Proposed New Jobs
Portland General Electric Department of Revenue	Biglow Canyon	$870,000,000	22
Invenergy Wind North American Invenergy/Willow Creek Wind Department of Revenue	Willow Creek	$123,400,000	8
Iberdrola Energy Inc	Hay Canyon	$600,000,000	12
Iberdrola Energy Inc.	Pebble Springs	$950,000,000	13
TOTAL		**$2,543,400,000**	**55**

PARTNERSHIP INCENTIVE PROGRAMS

The department works with other Oregon state agencies to offer incentives from the following programs:

Rural Enterprise Zone Facility Income Tax Credit

The Enterprise Zone program, sponsored by cities, counties, ports and tribes across the state, serves local governments that wish to employ incentives and other assistance available to stimulate business investment and job creation in their communities. There are currently 59 enterprise zones (48 rural and 11 urban) throughout the state that impact more than 100 cities, across 35 counties.

Under the administration and discretion of local governments that sponsor the zone, this incentive program is used by hundreds of companies of all sizes across the state. The standard enterprise zone exemption abates taxes on new property for three to five years. To receive this exemption, statute requires, among other things, that a business firm be engaged in an eligible activity such as manufacturing, assembly, fabrication or processing and that the business firm maintains a specified employment and wage level.

OECDD plays a limited, statutorily prescribed role with respect to the program and does not request, nor approve, zone designations. The department provides technical review of applications requesting the standard exemption on new taxable property in an enterprise zone. However, these exemptions are administered and approved solely by local jurisdictions.

In addition, there are several other Enterprise Zone tax credits administered by the Oregon Department of Revenue including: Long–term Enterprise Zone Credit, Reservation Enterprise Zone Credit and the Electronic Commerce Enterprise Zone Credit.

The department does manage the Rural Enterprise Zone Facility Tax Credit. Thus far, The department and Governor's office has approved this corporate excise tax abatement for two major companies. However, at this time, neither firm has exercised the credit.

NOTE: In addition to this report, the 2007 Legislative Assembly (SB 151) directed the Legislative Revenue Office (LRO) to deliver a report to the 75th Legislative Assembly in February 2009 on the enterprise zone program.

Business Energy Tax Credit (BETC)

Commercial businesses, industrial facilities, transportation businesses and agri-businesses in Oregon need a lot of energy to operate. But businesses throughout the state are discovering that it is possible to help both their bottom line and the environment by saving some of that energy.

The Oregon Department of Energy offers tax credits to businesses to encourage them to invest in energy conservation, recycling, renewable energy resources, transportation efficiency, sustainable buildings and less-polluting transportation fuels. The Business Energy Tax Credit (BETC) is 35 percent of the eligible cost of the project for conservation projects. Projects that use solar, wind, hydro, geothermal or bio-mass to produce energy, or displace energy, may qualify for a tax credit that is 50 percent of eligible costs. Renewable resource projects must replace at least 10 percent of the energy used. The energy can be used on site or sold.

Through 2006, more than 13,000 Oregon energy tax credits have been awarded. Trade, business or rental property owners with a business site in Oregon are eligible to apply for the tax credit.

To qualify for a tax credit, retrofit projects (except for lighting projects) must be 10 percent more efficient than existing installation. Lighting retrofit projects must be 25 percent more efficient than existing lighting. You also can qualify for a tax credit for installing energy-efficiency measures during new construction. Measures must reduce energy use by at least 10 percent compared to a similar building that meets the minimum requirements of the state energy code. New construction projects must have a simple payback of 1 to 15 years.

In the last two years alone, seven solar manufacturers have announced projects in Oregon totaling approximately $1.5 billion in capital investments and more than 2,000 new high-wage jobs across the state. It is estimated that for each $100 million invested in renewable energy resources there is an associated increase of 1,250 jobs.

Immediate Opportunity Fund (IOF)

The Immediate Opportunity Fund (IOF) is part of the Oregon Department of Transportation's (ODOT) Modernization Program. These funds support street and road improvements that are directly tied to awards that serve business sites. They may be used when other sources of financial support are unavailable or insufficient, and they are limited to economic development projects that affirm job creation and/or retention. The maximum amount available for a single project is $1 million. Project proposals are expected to provide a match of 50 percent or more of the total funds used for public roadway improvements. Public or private sources may provide the match to these funds.

Although these funds are used for expansion and retention of existing firms, IOF's also have a significant positive impact upon state recruitment efforts. Such recruitments often require extensions of transportation infrastructure in order to undertake substantial operations at relatively undeveloped locations.

Highlight

Salem road improvement

The city of Salem received an IOF grant of $325,000 to improve Turner Road. This helped assist Garmin Industries to expand its facilities. The company has now grown its operations by approximately 93 jobs. This was a cooperative project with the city of Salem and Garmin Industries. The total project cost was approximately $725,000.

Other business incentive programs

Incentive	Managing Agency/Entity	Description of Incentive
Energy Trust of Oregon, Inc.	Oregon Public Utility Commission (OPUC)	Awards based on investments that conserve conventional energy in participating parts of the state.
Biofuels Raw Materials Credit	Department of Energy (DOE) Department of Revenue	$–rate per quantity of biomass produced/collected for Oregon-based biofuel
Dependent Care Credit	Employment Department (OED) Department of Revenue	50% of annual expenses for assistance to employees with child care, etc.
Research Credit	Department of Revenue and IRS	5% of annual Oregon expenses above IRC-defined base
Construction-in-Process	County Assessor	up to 2–year exemption on property for which construction or installation is still underway on January
Food Processors	Department of Agriculture Department of Revenue	5–year exemption on new machinery and equipment

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