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Background Brief on …

Economic and Community Development

Transition from the Oregon Economic and Community Development Department to the Oregon Business Development Department (Business Oregon)

In May 2008, Governor Kulongoski issued Executive Order 08-11 that directs the Oregon Economic and Community Development Department **(OECDD)** to separate the agency's function of community development from its business development functions.

The Executive Order followed recommendations from the Oregon Economic and Community Development Commission, whose findings and recommendations were the result of six months of evaluation of not only the agency, but of challenges facing Oregon such as competition from other states and countries, population growth, infrastructure needs, and revenue forecasts. The Commission found that while the Business and Trade Development and Innovation and Economic Strategies Divisions had integrated goals of attracting, growing, and retaining business, the Community Development Division had different objectives, project goals, and customers. While both functions of business development and community development are equally important, the Commission determined that separating the functions would provide additional clarity and accountability to each of the agency's primary functions.

House Bill 2112 (2009) is a result of the combined effort of the OECDD, the Commission, and stakeholders. The enacted measure allows both the functions of economic development and community development to continue within the newly named Oregon Business Development Department **(Business Oregon)**, but more independently and with separate governing bodies. As part of the agency restructure, the community development activities are now administered separately by the newly formed Infrastructure Finance Authority (IFA). The Department also houses the Oregon Arts Commission, Oregon Cultural Trust, and the office of Minority, Women, and Emerging Small Business. State economic development efforts are carried out by and coordinated through the Business, Innovation, and Trade Division, made up of three sections:

- Regional Business Development - Business development officers are located throughout Oregon and work directly with businesses, industry associations, and regional governments to grow business. The officers also serve as a gateway to activities such as state financing, incentives, and project development assistance.
- Business Services - The Division handles the management of business financing programs as well as providing services to emerging small businesses.
- Global Strategies - This Division is responsible for providing a variety of services focused on identifying and/or evaluating international partners. Examples include market research and economic data, one-on-one business counseling, and support for partnerships and strategic multi-industry initiatives.

Examples of Available Tax Incentive Programs

Enterprise zones - The purpose of enterprise zones is to help attract private business investment and to help resident businesses to reinvest and grow in communities facing economic challenges. Sponsored by local or tribal governments (either through a city, county, tribe, or port), an enterprise zone typically serves as a focal point for local development efforts and incentives. There are currently 59 enterprise zones in Oregon, with the majority of zones (48) qualifying as rural zones that can offer extended benefits.

If an eligible business locates or expands within an enterprise zone, they receive total exemption from the property taxes normally assessed on new plant and equipment for at least three years, but up to five years, in the standard program. Eligibility is based on whether the project will increase full-time and permanent employment by the greater of either one new job or 10 percent, maintain this employment level during the duration or generally have zero concurrent job losses outside the enterprise zone's boundary, and enter into a first-source hiring agreement with local job training providers. The project must also satisfy additional local conditions if they are applicable. Rural enterprise zones can extend the tax abatement to a maximum of five total years if the project meets additional criteria: new workers' compensation is at least 150 percent of the county's average wage; written approval with the local zone sponsor; and satisfying any additional requirements requested by the local zone sponsor.

The Long-Term Enterprise Zone program extends property tax abatement between seven to 15 years, and is available in rural enterprise zones located in counties with either longstanding annual unemployment rates or per capital income levels as outlined in statute (ORS 285C.400) and based on the latest available statistics. In order to qualify, the total investment costs on the project must be at least greater than .5 or one percent (depending on the agreement terms) of a county's total real market value by the end of the year when operations start, a minimum number of new and full-time employees must be hired within three or five years of commencing operations and maintained during the tax abatement period (depending on the zone location, but ranges from 10 to 75 jobs), and average annual compensation for all employees must be at least 150 percent of the county's average annual wage within at least five years of when operations start (figure established when agreement is signed). Besides receiving approval from the local enterprise zone sponsor and the county board of commissioners (and city council if the project is within city limits), the application must also be approved by the Governor, who sets the length of time for the approved business to receive the abatement.

Oregon Investment Advantage - The Oregon Investment Advantage is a 10-year taxable income exemption for a certified business in an eligible location. In a number of locations, this program can be combined with enterprise zone incentives. In order to qualify, the business's facility site, at the time a preliminary certification is made, must be inside a county that presently or during one of the past qualified years was qualified in terms of annual unemployment or per capita income, based on the most recently available statistics as applied to the year running from July 1 through June 30; and be located on land zoned for industrial uses or located inside the urban growth boundary **(UGB)** of a city with a population of 15,000 or less. There are no restrictions on size of the investment or the firm or what type of business activities can qualify for the exemption, but they must meet all criteria: not operating an identical type of facility anywhere in Oregon; not competing with existing businesses in the local area where the facility is located; and hiring five or more new full-time, year-round employees that receive annual compensation of at least 150 percent of local income or 100 percent if employees receive health insurance coverage equal to or better than local city, port, or county employees.

Strategic Investment Program - The Strategic Investment Program **(SIP)** was created by the 1993 Legislative Assembly to increase Oregon's ability to attract and retain capital-intensive industry and jobs, particularly in the high-technology industry. The program is available statewide for any type of traded sector business, defined in statute as an industry whose businesses sell goods or services into markets where national or international competition exists.

The SIP exempts the project's first-year real market value greater than $25 million from property taxes, or $100 million in urban areas inside the UGB of a metropolitan area or a city with a population over 30,000, and the threshold value increases by three percent per year during the 15 year exemption period. The business must, in return, pay a community service fee equal to 25 percent of the exemption, up to a yearly maximum of $2 million in urban areas or $500,000 in rural areas. The project must either receive local approval through an agreement with a local or tribal government or be located in a pre-established Strategic Investment Zone, and additional requirements can apply.

Business Energy Tax Credit - Administered by the Oregon Department of Energy, the Business Energy Tax Credit (**BETC**) was established to assist commercial investments in a number of industries related to energy conservation, renewable energy, and sustainability. The amount of the tax credit ranges from 35 to 50 percent of eligible energy product costs. The 35 percent tax credit is available for energy efficiency projects in which the incremental cost of the installed system or equipment is beyond standard practice, while a 50 percent tax credit for eligible project costs is available for renewable projects such as solar, wind, and biomass. The BETC is generally taken over five years at a rate of 10 percent per year, with exceptions if the applicant cannot take the full tax credit each year (credit can be forwarded for up to eight years) or if the eligible project costs are less than $20,000 (tax credit can be taken in one year).

*Rural Renewable Energy Development **(RRED)** Zones* - Rural Renewable Energy Development Zones are an exemption from property taxes on wind farms, biofuel production, and other eligible projects in a designated county. Exemption is exactly the same as the standard, three to five-year exemption in an enterprise zone except for the limitation of initial market value amount that may benefit from the exemption, up to a total maximum that is established with the designation of that particular zone. An eligible zone project must meet qualifications for the standard enterprise zone exemption and must involve the generation of electricity from a "renewable energy resource" or the manufacture, storage or distribution of biodiesel, ethanol or similar fuels made from applicable inputs.

Currently, there are RRED Zones in Union, Harney, Wasco, Sherman, Malheur, Polk, Linn, and Crook counties.

Construction-in-Progress - The Construction-in-Progress property tax exemption is for commercial, non-utility facilities while under construction and not in use on January 1st of the assessment year for up to two years. It is generally valid for any manufacturing project located in any part of the state, including any machinery or equipment located in the unoccupied facility on January 1st. The exemption also applies to all qualified property being constructed or installed as part of any authorized enterprise zone project.

Additional Tax Credits and Incentives – A number of state agencies, including the Department of Agriculture, Employment Department, and the Department of Revenue offer a number of tax credits for employers. Examples include tax credits for providing dependent care assistance to employees, tax credits for qualified research activities, installing pollution-reducing technologies or processes, investing in new food processing machinery and equipment, and hiring certain target group members with barriers to employment.

In addition, the Oregon Film and Video Office provides a number of incentives for film and video productions such as a 20 percent rebate for Oregon-based goods and services and a cash payment of up to 16.2 percent paid to production personnel.

Examples of Available Loans and Grants

Oregon Business Development Fund - The Oregon Business Development Fund **(OBDF)** is a revolving loan program for long-term, fixed-rate financing for eligible projects such as manufacturing, processing, and distribution. The fund is divided into three accounts: the Regular OBDF, Targeted OBDF, and the Building Opportunities for Oregon Small Business Today Fund **(BOOST)** OBDF. The Targeted OBDF account is focused on projects located in distressed areas of Oregon, while the other two funds are available statewide.

For all loans made through these accounts, the maximum loan amount is generally no more than 40 percent of eligible project costs, and a private lender is generally required for funding a portion of the project. The loan must be fully secured, and personal guarantees are generally required as well as, in most cases, project equity of at least 10 percent. Individual loans through the Regular and Targeted OBDF accounts cannot exceed $700,000 per project. Loans are directly made to either private individuals or legal business entities that are located in Oregon. Emphasis on loans is made on businesses located in rural and distressed areas and enterprise zones, as well as businesses with 200 or less employees.

Senate Bill 1017 (2010) increases the maximum amount of an OBDF loan to more than 50 percent of the project costs if an applicant has been denied by two or more lenders and has no other available financing.

The BOOST Fund, created by House Bill 3698 (2010), provides direct loans and grants to Oregon-based small business owners, defined as having up to 100 employees. BOOST loans may not exceed $150,000 and grants are awarded an amount of up to $2,500 per full-time job created and retained with a cap of $50,000 per applicant in a calendar year.

Brownfields Redevelopment Fund - A brownfield is a property in which expansion or redevelopment is hindered due to actual or perceived environmental contamination. Activities related to brownfields range from site assessment to property cleanup. The Brownfields Redevelopment Fund provides direct loan and grants to assist in conducting environmental actions on brownfields that will make formerly used industrial and commercial lands viable for reuse.

Entrepreneurial Development Loan Fund - The purpose of the Entrepreneurial Development Loan Fund is to provide initial direct loans for newer businesses to become established in

Oregon. The fund also offers a small business category. Loan applicants must meet two of the three required criteria: be in business for less than three years, have revenues of less than $175,000 in the previous year, and the business be owned by a severely disabled person.

Oregon Industrial Development Revenue Bonds - Bonds issued through this program are tax-exempt and are issued by the state on behalf of qualified businesses for long-term financing for land, buildings, and equipment at interest terms generally below the prime rate. The bonds are available to manufacturers, processors, and nonprofits and generally provide the greatest benefit to the borrower for bonds of $5 million or more. The Oregon Express Bond Program streamlines paperwork to save time and for the borrower through the process.

Oregon Capital Access Program - The program assists lenders in increase small businesses access to commercial loans. All types of loans and lines of credit are available, and the program is designed for both for-profit and non-profit businesses seeking funds for most business purposes. Contributions to the loan-loss reserve account are matched by the state.

Oregon Business Retention Program - Qualified Oregon companies that are facing a period of hardship such as financial or organizational distress can receive consulting services through private sector consultants who are matched based on specific needs and industry requirements. Applicants can also receive up to $30,000 of assistance in conducting feasibility studies, with the applicant required to contribute 25 percent of the study cost in cash.

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