September 2012

Inside this Brief

Legislative Committee Services
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Background Brief on …

Economic and Community Development

In May 2008, Governor Ted Kulongoski issued an executive order to restructure the Oregon Economic and Community Development Department **(OECDD)**. The order, which was based on a commissioned third-party evaluation of the OECDD's structure and programs, directed the Department and the Oregon Economic and Community Development Commission to separate the operation and administration of community development and business development functions. The end result was for both 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 Infrastructure Finance Authority **(IFA)**. State economic development efforts are carried out by and coordinated through the Department's Business, Innovation, and Trade Division, made up of three sections: Regional Business Development, which works directly with businesses, industry associations, and regional governments to grow business and provide a gateway to services such as state financing, incentives, and project development assistance; Business Services, which handles business financing programs and services to emerging small businesses; and Global Strategies, responsible for providing a variety of services focused on identifying and/or evaluating international partners such as market research and economic data, one-on-one business counseling, and support for partnerships and strategic multi-industry initiatives.

Business Oregon also coordinates with other state agencies to carry out the Department's mission of creating, retaining, expanding, and attracting businesses to the state. The Department is overseen by the Oregon Business Development Commission. Additional boards, councils and commissions are also associated with the Department's programs, such as the Oregon Innovation Council, Oregon Small Business Advisory Council, and Oregon Broadband Advisory Council, and the newly created Oregon Growth Board (see *Recent Legislation* section for more information).

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 60 enterprise zones in Oregon, with the majority of zones (48) qualifying as rural zones that can offer extended benefits.

Under the standard enterprise zone program, 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 three years. Eligibility is based on whether the project will increase full-time, permanent employment within the enterprise zone 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 inside Oregon; 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. The tax abatement can be extended 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 agreement 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 for between seven to 15 years, and is available in most rural enterprise zones. In order to qualify, the total investment costs on the project must be at least one percent or .5 percent if more than ten miles from Interstate 5 of a county's total real market value by the end of the year when operations start; a minimum number[1] of new and full-time employees must be hired within three or five years of commencing operations and maintained during the tax abatement period; 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). Upon eligibility, the business and all local government sponsors must enter into a written agreement, which can include specific additional requirements to be met by the business/facility, and the county board of commissioners (and city council if the project is within city limits) must adopt a resolution sanctioning the exemption. Following local certification as described above, which must occur no later than June 30, 2018, the Governor of Oregon may issue an approval for the tax credit and set the length of time it can be claimed. Property tax incentives are unaffected if the tax credit is not granted; otherwise, thirty percent of corporate taxes collected by the state with respect to the facility are rebated to local taxing districts. Other conditions to receive the tax credit include the corporation owning the facility and the credit being used only against the tax liability relating to the facility.

Several enterprise zones are designated as an electronic commerce **(e-commerce)** zone, defined as engaging predominately in transactions via the internet or an internet-based computer platform. The most significant feature of the this type of zone is that qualifying businesses[2] may receive a credit against the business's annual state income or corporate

[1] 10, 35, 50, or 75 jobs, depending on location.
[2] Investment must be made either after the enterprise zone application has been approved or any time during the three to five year period of the standard enterprise zone exemption.

excise tax liability of 25 percent of the investment cost made in capital assets used in e-commerce operations, up to $2 million per year. Unused tax credit amounts can be carried forward over the next five years; the business must make its investment and initial claim no later than the income tax year beginning during 2017.

The nine federally recognized Indian tribes in Oregon can have a single reservation enterprise zone of up to twelve square miles in its tribal lands throughout Oregon, as well as enter into intergovernmental agreements with local governments to create and cosponsor any number of contiguous reservation partnership zones anywhere in Oregon. For both types of zones, the qualifications are the same as allowed in any rural enterprise zone, as well as a special tax credit against state income tax liability.

Oregon Investment Advantage - The Oregon Investment Advantage is a multi-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 an eligible 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.

Qualified companies can be certified at least eight times to annually deduct or subtract taxable income related to those operations which begins at least 24 months after the commencement of new operations. Generally, eligibility requirements include 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.

The SIP exempts the project's first-year real market value greater than $25 million from property taxes, for a 15 year time period. The exemption threshold value increases by three percent per year during the exemption period. The business must in return pay a community service fee equal to 25 percent of each year's tax savings, up to a yearly maximum of $2 million in urban areas or $500,000 in rural areas. The project must either receive approval through an agreement with a county/city or tribal government or be located in a pre-established Strategic Investment Zone **(SIZ)**, and additional local requirements can apply. As of May 2011, there are three SIZ in Oregon.

Rural Renewable Energy Development Zones - Rural Renewable Energy Development Zones **(RRED)** are an exemption from property taxes on projects that harness wind, geothermal, biomass, or other alternative forms of energy that generate electricity; or produce, distribute or store biofuels. The exemption is the same as the standard, three to five-year exemption in an enterprise zone except that the exemption is only for renewable energy activities, and the total amount of property amongst one or more projects that qualify is subject to a locally-set cap within each Zone designation of $250 million or less in initial market value. There are currently 12 RRED Zones in Oregon.

Oregon New Market Tax Credit – The Oregon Low Income Community Jobs Initiative, otherwise known as the Oregon New Market Tax Credit **(NMTC)** program, helps finance investments and creates jobs in low income communities by delivering below market rate investment options to Oregon businesses.

Community Development Entities[3] **(CDEs)** that service Oregon are eligible to apply; in turn, the tax credit is provided to investors who invest in projects within low income communities. Tax credits are structured to be used for investments over a seven-year course, with the total credit not to exceed $4 million per project.

Additional Tax Credits and Incentives – A number of state agencies, including the Department of Agriculture and Employment Department administer a number of tax credits and grants 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 **(BOOST)** OBDF. The Targeted OBDF account is focused on projects located in distressed areas of Oregon, while the other two funds are available statewide.

Program guidelines include a maximum loan amount of no more than 40 percent of eligible project costs, and individual loans may not exceed $700,000. 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. 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 100 or less employees.

Loans from the BOOST are on different terms than other loans from the OBDF. No private lender or local economic development group financing is required. These loans may not exceed $150,000; grants are also 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. BOOST loans are for Oregon-based small business owners, defined as having up to 100 employees, and can create or retain at least one full time job for each $50,000 loaned.

Brownfields Redevelopment - A brownfield is a property in which expansion or redevelopment is hindered due to actual or perceived environmental contamination. The Brownfields Program is for individuals, nonprofit organizations, and local governments to assist in conducting environmental actions on brownfields that will make formerly used industrial and commercial lands viable for reuse. Activities related to brownfields range from site assessment to property cleanup. Business Oregon manages both the Oregon Redevelopment Fund, which is funded by proceeds from state revenue bond sales, and the Oregon Coalition Brownfields Cleanup Fund, which is capitalized through a revolving grant from the United States Environmental Protection Agency **(EPA)**.

Both programs focus primarily on revolving loan programs. Limited grants can be rewarded on a case-by-case basis for publicly owned projects. Business Oregon sets the interest rate and loan repayment terms with consideration with the applicant’s ability to repay, credit

[3] Has primary mission of serving or providing investment capital for low income individuals and certified as a CDE by the federal Community Development Financial Institutions Fund.

worthiness, the project's economic benefit, and the use of proceeds as defined in the project.

Entrepreneurial Development Loan Fund - The Entrepreneurial Development Loan Fund **(EDLF)** is to provide direct loans for start-up, micro-enterprises and small businesses to expand or become established in Oregon. The fund also offers a small business category. Loan applicants must meet one or both required criteria: have revenues of less than $500,000 in the previous year, or be a business owned by a severely disabled person. Loans are up to $50,000, with a maximum term and amortization of five years and a fixed interest rate of Prime plus two percent APR.

Oregon Industrial Development Bonds/Oregon Express Bond Program – Issued bonds 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 for the borrower through the process. Express Bonds are placed with the borrower's bank and may be feasible for financing smaller projects, particularly within the $500,000 to $5 million cost range.

Oregon Capital Access Program - The Capital Access Program **(CAP)** assists banks and credit unions with increasing small businesses access to commercial loans and provides capital for start-up or expansion. 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 CAP.

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 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; and up to $15,000 for consulting services. The company must be in Oregon and willing to fully disclose its financial status to the assigned consultant.

Oregon Credit Enhancement Fund -The Oregon Credit Enhancement Fund **(CEF)** is a loan insurance program that lenders can utilize in assisting traded-sector manufacturing, production, processing, and distribution companies in obtaining access to capital. The CEF guarantees loans that provide working capital or fixed-asset loans, and typically up to 80 percent of the loan amount up to $2 million exposure for term loans, up to 75 percent of the loan up to $1.5 million exposure for operating lines of credit.

Infrastructure Finance Authority (IFA) Programs

The IFA was created to ensure that the state's infrastructure needs, particularly around safe drinking water and wastewater systems are better identified and prioritized to ensure the best use of the state's resources. The IFA assists communities in building infrastructure capacity that addresses public health safety and compliance issues and supports their ability to attract, retain, and expand businesses; and works with local government, state agencies, and property to prepare industrial land for certification. The IFA's authority is overseen by members of the Governor-appointed Infrastructure Finance Authority Board. Examples of financing programs include:

Community Development Block Grants: Available to non-metropolitan cities and counties for a number of community facilities, public works projects, and housing rehabilitation, funding amounts are based on applicant need, availability of funds, and other restrictions defined in the program's guidelines.

Port Revolving Loan Fund: Loans are provided for the construction and/or improvement of facilities and infrastructure that promote the commercial activities of Oregon's ports, maritime shipping, and aviation. In order to qualify for a loan, the proposed project must be a reasonable risk from both practical and economic standpoints; have all necessary federal, state, and local permits; and the applicant's financial resources are adequate to provide working capital needed to ensure the project's success.

Special Public Works Fund: The Special Public Works Fund **(SPWF)** provides funds for publicly owned facilities in Oregon that support economic and community development, such as airport facilities, telecommunications facilities, storm drainage systems, wastewater systems, and water systems. Cities, counties, county service districts, ports, special districts, and airport districts are eligible to apply for the SPWF, which funds loans for development projects and grants for construction projects that create or retain traded-sector jobs.

Recent Legislation

Tax Credits: House Bill 3672 (2011) extends the sunset date of a number of tax credits, including the e-commerce enterprise zone, rural enterprise zone, and film and video incentives to January 1, 2018.

Business Retention and Expansion: Senate Bill 219 (2011) establishes the Oregon Business Retention and Expansion Program, in which successful applicants may enter into an agreement with Business Oregon (who is responsible for administrating the program in consultation with the Department of Revenue) for a forgivable loan to expand operations and increase hiring. Eligible businesses must have at least 150 employees and plan to hire at least 50 new full-time employees whose average compensation meets specified levels. The business must operate in a traded sector industry and cannot be a retailer. The measure applies to tax years beginning on or after January 1, 2012, and before January 1, 2022.

Industrial Development: Senate Bill 766 (2011) creates the Economic Recovery Review Council (ERRC), which is charged with administering the Industrial Development Projects of State Significance, which expedites the permitting of up to ten industrial projects per biennium; and Regionally Significant Industrial Areas, which between five to 15 regionally significant areas are planned and zoned for industrial use that have site characteristics that give the area significant competitive advantages that are difficult or impossible to replicate in the region. The ERRC is made up of agency directors from Business Oregon, Department of Environmental Quality **(DEQ)**, Department of Land Conservation and Development **(LCD)**, Department of State Lands **(DSL)** and the Department of Transportation **(ODOT)**.

Enterprise zones: House Bill 3017 (2011) extends the sunset of enterprise zones from the original date of June 30, 2013 to June 30, 2025. House Bill 4093 (2012) increases the current statutory limitation of designated rural enterprise zones from 17 to 20 zones and the number of enterprise zones from 15 to 20 zones, as well as clarifying the size of a rural enterprise zone. The measure allows sponsors of a terminated enterprise zone, if the termination was voluntary or due to not meeting their statutory duties as a sponsor, to reapply for a new zone ten years after the termination.

Economic Gardening: House Bill 2879 (2011) extends the sunset of the Grow Oregon Council (formerly known as the Task Force on Stage Two Business Development and Economic Gardening) to January 2, 2016, and expands the Council membership to 19 members. The measure expands the Council's charges to include the exploration of opportunities for connecting market research and economic gardening service to capital access programs and facilitating access of stage two, high-growth business to international markets.

Economic Development Investment: House Bill 4040 (2012), otherwise known as the Oregon Investment Act, creates the Oregon Growth Board that is charged with coordinating the state's economic development efforts under a single system, and identifying and consolidating the state's economic development resources into a single fund (Oregon Growth Fund). The Board consists of seven voting members with expertise in banking, credit union operation, investment management and small business; and one to three nonvoting members, including the State Treasurer and the Director of Business Oregon.

The measure also abolishes the Oregon Growth Account Board, which was created in 1995 to oversee the Oregon Growth Account and inject seed capital to launch and expand new and emerging Oregon companies, and transfers oversight of the Oregon Growth Account to the Oregon Growth Board.

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