

**OREGON ENTERPRISE ZONE TAX ABATEMENT  
ECONOMIC DEVELOPMENT STUDY AND URBAN  
RENEWAL STUDY**

John L. Hall  
Anthony M. Rufolo  
Hongwei Dong

Center for Urban Studies  
Portland State University  
PO Box 751  
Portland, OR 97207

For

Special Districts Association of Oregon  
P.O. Box 12613  
Salem, OR 97309

PORTLAND STATE UNIVERSITY SUPPORTS EQUAL OPPORTUNITY IN ADMISSIONS, EDUCATION, AND USE OF FACILITIES,  
PROHIBITING DISCRIMINATION IN THOSE AREAS BASED ON RACE, SEX, SEXUAL ORIENTATION, COLOR, RELIGION, NATIONAL  
ORIGIN, HANDICAP, OR AGE. THIS POLICY IS IN ACCORD WITH STATE AND FEDERAL LAW



## **EXECUTIVE SUMMARY**

The State of Oregon uses a number of tax incentive programs to attempt to achieve a variety of social and economic policy objectives. In the category of community economic development, two of these programs are the Oregon Enterprise Zone Program and the designation of urban renewal areas. The Enterprise Zone Program uses property tax abatements to attract development to specific areas, and urban renewal uses property tax revenue redirection to support investments in renewal areas to alleviate local economic distress or blight.

The abatement or redirection of local property tax revenues affects not only city and/or county tax revenues; revenues to “special districts” are affected as well. As a consequence, special district revenues may be limited or reduced while service demands are increased due to tax incentives offered by cities and counties, without the explicit authorization of the affected districts.

The purpose of this report is to evaluate the effectiveness of the Oregon Enterprise Zone Program as a place-based economic development program, provide some summary service level impacts, and provide an overview of the performance of the City of Wilsonville Urban Renewal Area(s) and Clackamas County Town Center Urban Renewal Area.

### **Enterprise Zone Program Findings**

- The program has undergone a number of legislative and administrative changes since its inception that have generally resulted in an expansion of the number of zones, an expansion of the definition of the types of uses that qualify for tax exemption within the zones, a lengthening of the potential exemption period, and a decoupling of the link between investments made in the zone and the hiring of zone residents;

- The program continues to suffer from insufficient data by which to conduct an independent quantitative analysis of zone level programmatic impacts, and the reporting process offers no independent verification of investment and job creation figures;
- Investment statewide has increased consistently since 1997-1998, so we should expect to see local area investment increase as well, regardless of enterprise zone designation. Comparison of growth rates between cities with and without enterprise zones finds that cities with zones grew at a slower pace than cities without such zones;
- Within enterprise zones, the impact of the abatement on employment also seems to be limited. The cost per job created appears to be relatively high, and this cost comparison is based on the questionable assumption that none of the employment growth would have taken place without the abatements. The comparison of reported employment growth with data from the Employment Department indicates that the reported employment growth may be overstated, which would further increase the abatement cost per job created;
- While we have no specific information on the resident location of the employees of enterprise zone firms, it appears they are unlikely to be residents of the zone given commuting patterns, the proximity of a number of zones to metropolitan labor markets, and the lack of a residency requirement;
- With the passage and implementation of Ballot Measures 5 and 50, tax abatements directly affect revenue for local taxing entities;
- There are existing local economic conditions related to land costs, transportation infrastructure, labor, financing, and regulatory practices that tax incentives cannot overcome; and
- The proliferation of zone designations in metropolitan labor markets that display unemployment rates equal to or lower than the state average suggest an inappropriate benchmark in the establishment of economic distress and/or the fact that almost any area can find a basis for zone application or designation

### **Enterprise Zone Program Recommendations**

- Clarify program objectives to reflect either a commitment to community economic development (i.e. the creation of jobs for local residents), or as a firm recruitment and retention strategy;
- Reduce program size by limiting designation to the most severely distressed areas;
- Prevent the creation of zones in areas that are not truly distressed, thereby strengthening the relative tax advantages of designations in severely distressed areas;
- Require a thorough fiscal impact assessment for projects seeking exemption from local property taxes, which includes review and comment by affected taxing districts;
- Provide an opt out provision for those tax entities that can demonstrate a net negative impact resulting from the proposed exemption;
- Mandate specific data, reporting, and evaluation requirements related to investment and employment on the part of companies and administrative entities;
- Mandate annual, specific data, reporting, and evaluation requirements related to economic distress criteria on the part of local zone sponsors and state administrative agencies

### **Urban Renewal Findings**

- The definition of “blight” in Oregon is broad enough to allow for the potential designation of a wide variety of geographic areas as urban renewal districts;
- Urban renewal funds may be used for activities that do not appear to be consistent with plan objectives;
- Expenditure of allocated tax increment funds on general purpose activities results in the diversion of funds from special districts for activities normally funded by other government units;

- A significant portion, 20 percent, of the capital expenditures in the Wilsonville URA were used to construct a new city hall;
- Overlapping special districts in the Wilsonville area incur a substantial and direct revenue loss as a result of the urban renewal division of revenue;
- Wilsonville staffing and administrative expenses have represented as high as 22 percent of total annual expenditures for urban renewal and are proposed to represent 4 percent in the current fiscal year;
- The Clackamas Town Center URA plan was adopted in 1981 and tax increment monies are planned for collection through 2012;
- The Clackamas Town Center URA has funded both Community Use projects benefiting the community at large, and projects benefiting private interests;
- Overlapping special districts in the Clackamas Town Center area incur a substantial and direct revenue loss as a result of the use of urban renewal activities, including a direct revenue loss of approximately \$333,000 in fiscal year 2005-2006 for Fire District 1;
- Staffing and administration for the Clackamas URA are part of a larger three area pool that includes 10 full-time employees; and
- Material and services expenditures for the Clackamas URA were estimated at 73 percent in fiscal year 2004-2005, and were requested at 2.4 percent in 2005-2006

### **Urban Renewal Recommendations**

- Narrow the definition of “blight” so as to limit the number of areas qualifying for designation;
- Narrow the types of eligible activities for which tax increment monies can be spent in urban renewal areas;
- Limit the number of years that property can remain off the tax rolls by limiting the life of the district;
- Increase transparency in the reporting of the expenditures of tax increment monies from urban renewal districts; and
- Provide for representation of all affected taxing districts on urban renewal boards

## **TABLE OF CONTENTS**

<b>LIST OF FIGURES</b>	<b>8</b>	
<b>LIST OF TABLES</b>	<b>8</b>	
<b>SECTION 1 INTRODUCTION</b>	<b>9</b>	
<b>SECTION 2 LITERATURE REVIEW</b>	<b>13</b>	
<b>SECTION 3 ENTERPRISE ZONE HISTORY AND STRUCTURE</b>	<b>19</b>	
<b>SECTION 4 OREGON ENTERPRISE ZONE PROGRAM IMPACTS</b>	<b>27</b>	
<b>SECTION 5 URBAN RENEWAL DISTRICT EVALUATIONS</b>	<b>51</b>	
<b>SECTION 6 CONCLUSIONS AND RECOMMENDATIONS</b>	<b>67</b>	
<b>REFERENCES</b>	<b>71</b>	
<b>APPENDIX A</b>	<b>Types of Special Districts in Oregon</b>	<b>A-1</b>
<b>APPENDIX B</b>	<b>Oregon Enterprise Zone Authorization Application</b>	<b>B-1</b>
<b>APPENDIX C</b>	<b>Overview of Activity in Oregon Enterprise Zones</b>	<b>C-1</b>
<b>APPENDIX D</b>	<b>Oregon Department of Justice Opinion No. 8236</b>	<b>D-1</b>

## LIST OF FIGURES

<b>FIGURE 1</b>	<b>2006 Locations of Oregon Enterprise Zones</b>	<b>41</b>
<b>FIGURE 2</b>	<b>1994 Locations of Oregon Enterprise Zones</b>	<b>42</b>
<b>FIGURE 3</b>	<b>Wilsonville Urban Renewal Area</b>	<b>53</b>
<b>FIGURE 4</b>	<b>Clackamas Town Center Urban Renewal Area</b>	<b>54</b>

## LIST OF TABLES

<b>TABLE 1</b>	<b>Employment Growth Rates, By City, 1990 to 2000 For Cities with Enterprise Zones in both 1990 and 2000</b>	<b>31</b>
<b>TABLE 2</b>	<b>Employment Growth Rates, By City, 1990 to 2000 For Cities without Enterprise Zones in both 1990 and 2000</b>	<b>32</b>
<b>TABLE 3</b>	<b>2005 Unemployment Rates by Metropolitan Statistical Area</b>	<b>40</b>
<b>TABLE 4</b>	<b>Unemployment Rate by County, 1990 to 2005</b>	<b>44</b>
<b>TABLE 5</b>	<b>Estimated Revenue Impact by Tax District for Proposed 3 and/or 5 Year Property Tax Exemption, Milwaukie/North Clackamas County Enterprise Zone</b>	<b>47</b>
<b>TABLE 6</b>	<b>Wilsonville Eastside Urban Renewal Projects</b>	<b>55</b>
<b>TABLE 7</b>	<b>Estimated Revenue Loss for Overlapping Tax Districts Attributable to the Wilsonville URA, 2004-2005</b>	<b>58</b>
<b>TABLE 8</b>	<b>Past Projects Funded and Completed in the Clackamas Town Center Urban Renewal District through FY 2004-2005</b>	<b>61</b>
<b>TABLE 9</b>	<b>Current Project cost Estimates, Recently Completed Projects And Proposed Projects, Clackamas Town Center URA</b>	<b>62</b>
<b>TABLE 10</b>	<b>Estimated Revenue Loss for Overlapping Tax Districts Attributable to the Clackamas Town Center URA, 2005-2006</b>	<b>63</b>

## **SECTION 1 - INTRODUCTION**

The State of Oregon uses a number of tax incentive programs to attempt to achieve a variety of social and economic policy objectives. Program summaries and general fund impacts can be found in the “Tax Expenditure Report” that is jointly produced, for each legislative session, by the Budget and Management Division of the Department of Administrative Services and the Research Section of the Department of Revenue. In addition to State programs, there also exists authority in State law for local jurisdictions to participate in tax incentive programs and, in some cases, to provide local tax incentives without State assistance.

In the category of community economic development, two of these programs include the Oregon Enterprise Zone program, and tax increment financing common to urban renewal areas. Both of these programs are what are generally known as “place-based” economic development programs because their primary purpose is to stimulate economic development within specific geographic areas. In order for local governments to use these programs, designated areas must meet some threshold of economic “distress” in the case of the Enterprise Zone program or “blight” in the case of urban renewal. In both cases, local property tax incentives are used to induce new capital investment and stimulate local employment growth. The Enterprise Zone Program uses property tax abatements to attract new investment, and urban renewal uses property tax revenue redirection to finance improvements intended to alleviate local economic distress or blight.

In using geographic-specific changes in the local property tax structure to attempt to generate long-term growth in the local tax base and stimulate local employment, potential current property tax revenues are traded for future potential increases in employment, investment, and revenues which, in turn, are anticipated to lead to improved local economic conditions. Under current law, cities, counties, and/or port districts may seek Enterprise Zone designations within their boundaries, and cities and counties, or their urban renewal agencies, may designate and manage urban renewal districts.

The abatement or redirection of local property tax revenues does not, however, only affect city and/or county tax revenues; revenues to “special service districts” are affected as well. (A list of the types of special districts authorized under Oregon law, ORS 198, is shown in Appendix A). As a consequence, special district revenues and service levels can be adversely affected by tax incentives offered by cities and counties, without the explicit authorization of the affected district. As a result, revenues to special districts providing services in the area can be negatively impacted, while the district continues to carry the burden for service delivery.

It is worth noting that this impact on special districts is a relatively recent phenomenon. Prior to the passage of Measure 5 in 1991, tax abatements granted to one taxpayer or diversion of revenue to an urban renewal district did not typically affect the amount of money collected. Districts received voter approval for a specific dollar amount to be collected, and this amount was used as the basis to set property tax rates. Therefore, lower taxes on some property were typically offset by higher taxes on other property. With the passage of Measure 5, abatements or diversion of revenue that raised the tax burden on other taxpayers had the potential to cause “compression” and to affect the revenue available for other governments. In these cases, revenue abated or allocated to urban renewal reduced the revenue available for other general government functions.

Measure 50 in 1997 created a permanent tax rate for each taxing district that is applied to the assessed value of property in the district. Declines in taxes from one source are no longer offset by increases from other taxpayers. Districts have always been responsible for providing any additional services companies seeking abatements require, but in the post Measure 5/50 era districts now see their revenue negatively affected. This factor works in the opposite direction when property tax abatements expire. Under the old system, there would be no increase in revenue, while under Measure 50, the assessed value brought onto the tax roll generates revenue as the district’s permanent tax rate is applied to the assessed value. Therefore, an important concern from the special district perspective is whether enterprise zones are effective in generating new property values.

The effect is similar for urban renewal areas; however, unlike enterprise zones the time frame in which new property value is generated can be much longer.

The purpose of this report is to evaluate the effectiveness of the Oregon Enterprise Zone Program as a place-based economic development program, provide some summary service level impacts, and provide an overview of the performance of the City of Wilsonville Urban Renewal Area(s), and Clackamas County Town Center Urban Renewal Area.

### **Evaluation Approach and Report Structure**

There are currently 55 Enterprise Zones, over 60 urban renewal districts, and approximately 950 special districts in Oregon. The interaction of enterprise zone and urban renewal district objectives relative to special district revenue and service level impacts suggests two central questions:

First, are program policy objectives being met? That is, is there evidence that the problems of economic distress and blight are being mitigated by these programs? Second, what are the corresponding revenue and service level impacts on special districts?

The primary purpose of this report is to first provide an evaluation of the Oregon Enterprise Zone program and its impacts. This includes a literature review and program overview. The report then provides a fairly limited amount of information on two specific urban renewal areas.

The Enterprise Zone analysis provides information on the program's economic impacts such as job creation, job growth, new investment, and some examples of the fiscal impacts in the form of tax district revenue calculations. The urban renewal analysis is primarily focused on evaluating the performance of specific districts relative to their original plans, and summarizing their fiscal impacts on local taxing districts. The

analysis also highlights policy concerns that all taxing districts and the Oregon Legislature should be aware of.

An overarching constraint to the enterprise zone analysis that is, unfortunately, common in trying to evaluate economic development programs, is the lack of any program measures that allow for structured evaluations. Specifically, there is no control group against which to measure program performance. Therefore, trying to answer the question of what would have happened in the absence of the program is somewhat problematic. In addition, the program relies almost entirely on self-reported data that cannot be directly verified with any data collected independently by the State. These problems are discussed in greater detail later in the report. The next section of this report provides a summary of the experience of other states that have, or are using, enterprise zones.

## SECTION 2 - LITERATURE REVIEW

The following review of enterprise zone literature is designed to inform a discussion on the specific question of the impact to distressed areas of zone designation and operation. In addition, it provides background on evaluation needs and methods and summarizes suggested evaluation methods and program reforms found in the literature. Further, this review focuses on programmatic impacts on *places* and is in contrast to much of the literature that addresses the impact on *firms*. There is a great deal of research to suggest that firms benefit from tax breaks, which conforms to theory, experience, and common sense. Specifically, for example, research on the relationship between tax rates and business activity suggests that a 10 percent reduction in overall state and local taxes will result in an increase in business activity of 1 to 6 percent (Bartik, 1991); however, place specific incentives provide tax reductions only for firms in the appropriate zone. These incentives are less likely to provide broad effects.

Clearly firms benefit from tax abatements, but do communities? When an enterprise zone attracts firms, do the firms represent new activity or simply a movement of activity from outside the zone to inside the zone? Finally, how much of the reported activity would have occurred without the enterprise zone?

An overarching constraint to the analysis of enterprise zone impacts is a general lack of data. Evaluations are rarely mandated and, as a result, data collected by states are generally not intended to produce the information needed to effectively evaluate program results. If no evaluation component is built in when the program is created then the necessary data will not be available for later evaluation (Hill, 1994; JLARC, State of Washington, 1999). There are two dimensions to evaluation of the impact of an enterprise zone. The first is whether the assisted firms achieve the targeted outcomes, and the second is whether there is any aggregate effect from the zones.

Ohio is unique among states in that it subjects participating firms to annual review by the State Tax Incentive Review Council (TRIC), and the Ohio Department of Development

maintains a statewide database of firm and zone data (Cassell, 2003). This, however, is not the case in other places. Once authorizing legislation is passed, abatements tend to become entitlement programs in practice, and control groups and other forms of experimental design become impossible to implement (Hill, 1994). In the case of the Louisville Enterprise Zone, the evaluation yielded no specific conclusions because “No State or local agency kept consistent records on the costs of any aspect of the program.” (Lambert and Coomes, p. 178, 2001)

As a result of a general lack of data, there are a limited number of analytical techniques that can be employed. Prior to Papke (1991) most enterprise zone evaluations were based on surveys of participating firms, zone administrators, and case studies (Lynch and Zax, 2004).

These approaches present several problems in attempting to draw general conclusions regarding program benefit and impact. First, since the survey participants are invested in the survey results they cannot be objective in their assessments. Second, since only participating firms and zone administrators are surveyed, the sample suffers from selection bias; that is, the responses of firms that did not participate in the program are not captured, and there is no comparable information from firms that located in areas not designated as enterprise zones.

Recent empirical work suggests that relying on self-reporting, by either the participating firms or zone administrators, will bias evaluations towards overestimating the positive effects of the program. This is because rapidly growing firms are more likely to self-select into program participation precisely because their rate of growth demands higher needs for assistance. Further, their growth would likely have been higher in the future, when compared to non-participating firms, even if they had not received assistance (Bartik, 2002). Distressed places, or those places simply meeting designation criteria, also self-select during the enterprise zone designation application process, so here, too, bias can occur. Bias can occur among places because application may also be made by

areas not in distress. That is, places that simply meet designation criteria, but may not be truly distressed, may self-select into the program.

In addition, many states depend on sunset provisions in the enabling legislation to ensure a review of program effectiveness, but do not require a specific performance audit or evaluation relative to the outcomes articulated in the original policy in determining program impacts (JLARC, State of Washington, 1999).

Lack of available data is also troublesome since policy objectives can change over time, and where data exist, it is often unclear against which objectives performance should be measured. Although Ohio's program was initially intended to reduce blight in distressed areas, amendments between 1987 and 1994 changed the program purpose to one of reducing property taxes in order to retain and attract companies to the state. This made it more difficult to keep the program targeted on distressed areas. (Talanker, Davis, and LeRoy, 2003).

Conflict between policy objectives and program implementation can also occur. While many states articulate job creation and/or job opportunities for local residents as an explicit objective, they tend to implement tax abatement, or credit, mechanisms that favor capital investment over labor. Of course this creates an incentive for firms to develop more capital intensive practices. If the incentive creates a substitution effect — capital for labor — that is large enough, it is possible that the net effect of zone incentives is to lower employment rather than increase it (Peters and Fisher, 2002).

In addition to mismatches between policy objectives and implementation objectives, there may be other existing economic factors that tax breaks cannot overcome. Land cost, locational advantages, skilled labor, financing, and regulatory compliance are all issues which can counteract the effects of any tax incentive. In fact, Dowall (1996) found that only 23 percent of surveyed firms participating in the California Enterprise Zone Program reported that program incentives influenced their location decisions. In another analysis across 13 states, by business sector, the incentive packages were equivalent to a

1.6 to 7.1 percent decline in wages. That is, a relatively small differential in wage levels can overwhelm the effects of a tax incentive (Peters and Fisher, 2002). Further, in the case of intra-metropolitan location decisions where there may be some parity among economic location factors, tax breaks have a greater effect in simply moving investments around rather than generating new investment, so that one jurisdiction's gain is another's loss (Peters and Fisher, 2002).

Empirical findings utilizing econometric modeling to assess the economic impacts of enterprise zone designation and operation are fairly consistent. In a six-state analysis, enterprise zones were found to have no positive impact on housing markets, income, or employment (Engberg and Greenbaum, 1999). Bondonio and Engberg (2000) conclude that the value of incentives has no impact on employment growth. Most of the variation in job generation found in enterprise zones is due to changes in state and local economic and market conditions, not the presence of an enterprise zone (Elling and Sheldon, 1991). A 1996 study of New Jersey enterprise zones found that zone designation had no significant impact on employment or property values (Boarnet and Bogart, 1996). Finally, in some of the most recent comprehensive work conducted to date, Fishers and Peters (2002, p. 225) conclude, "At best the evidence shows that enterprise zones have no impact on the growth of establishments. It is almost certain then that they have little impact on employment growth. Our conclusions here are in line with much, but not all, of the econometric work on enterprise zones and growth."

With respect to fiscal impacts on local governments, the research indicates that the direct revenue effects of enterprise zones are strongly negative. This is because abatements tend to be "front-loaded," denying local governments the ability to finance needed local services (Peters and Fisher, 2002). That is, abatements are granted to firms in the early years of their investment when values are highest, and the need for local governments to make new service investments is the most immediate. From the perspective of local government, property tax exemptions only make sense when the jurisdiction is able to rely on other forms of tax revenue (Cassell, 2003).

Given the research summarized above, it is natural to ask why enterprise zones continue to find acceptance. Certainly one reason is that their costs are hidden. They can be presented as a tax-cut rather than expenditure program which, in part, enhances their political viability (Peters and Fisher, 2002).

## **Conclusions**

This literature review has provided information on a variety of research issues related to the use of enterprise zones, methods of evaluating impacts, and outcomes. Research in this area can be summarized as follows:

- Program evaluations are rarely mandated and therefore the data necessary to effectively evaluate program impacts is generally not collected;
- Information that is collected tends to rely on self-reporting by program participants and cannot be viewed as objective;
- Self-reported data suffers from self-selection bias;
- Self-reporting bias results in overestimation of the positive impacts of enterprise zone programs;
- The use of sunset provisions in enabling legislation is not commonly accompanied by requirements for program evaluations;
- Enterprise zone program policy objectives can change over time from a strategy designed to reduce poverty to a business recruitment and retention strategy;
- Programs that use property tax abatements provide incentives to firms to develop more capital intensive practices that create the possibility for programs to lower, rather than increase, employment;
- There are existing local economic conditions related to land costs, transportation infrastructure, labor, financing, and regulatory practices that tax incentives cannot overcome;
- Most of the change in job levels in enterprise zones is related to changes in general state and local economic conditions, not the presence of an enterprise zone; and

- The direct revenue impacts of enterprise zones on local governments is strongly negative

Some of the reforms suggested in the literature include:

1. Mandating specific data, reporting, and evaluation requirements. (JLARC, State of Washington, 1999)
2. Reducing program size by limiting designation to the most severely distressed areas, and prioritizing designation for those areas with the most well developed economic development plans. (California Budget Project, 2006)
3. Prevention of the creation of zones in areas that are not truly distressed, which weakens the relative tax advantages of designations in severely distressed areas (Peters and Fisher, 2002)

## **Section 3 - Enterprise Zone Program History and Structure**

The purpose of this section is to provide context for the analysis that follows. Any program evaluation depends on an understanding of both the policy context within which the program operates and the availability of information by which to conduct an evaluation.

### **General Program History**

The Oregon Enterprise Zone Program is now over 20 years old. There have been a number of policy changes reflected in statute that have affected both program objectives and operation. An excellent detailed summary of changes in the program can be found in Research Report #3-06, “2006 Oregon’s Enterprise Zone Program,” Legislative Revenue Office of the State of Oregon.

The program was enacted in 1985 to improve employment and income levels in “economically lagging areas” throughout the State. An area was determined to be economically lagging if it demonstrated an unemployment rate at least 2 percent higher than the rate for the state, and at least half the households in the proposed zone had incomes less than 80 percent of the median household income for the state.

The mechanism designed to improve employment and income levels in lagging areas was the creation of local “zones” within which jurisdictions could offer 5-year abatements of local property taxes on new investments in real property. The amount of real property eligible for tax abatement began at 100 percent in the first year and declined 20 percent per year thereafter. This was changed to a 3-year, 100 percent exemption in 1989. Cities and/or counties could apply for zone designation, depending on whether the area under consideration for designation was inside or outside an incorporated area, and could do so without the approval of other affected local tax districts. Designated zones sunset after 10 years, but can be renewed.

The enabling legislation limited the total number of zones to 30, and effectively limited the number of zones in urban areas to four. At that time there were four “urban” areas within the state defined as Standard Metropolitan Statistical Areas (SMSAs) by the U.S. Census Bureau. The areas are Portland, Salem, Eugene/Springfield, and Medford. Zone designation occurred when economically lagging cities and/or counties made application for “sponsorship” to the state, for evaluation by the then Oregon Economic Development Department (OEDD), and designation by the Governor through Executive Order.

There have been a number of changes in the program since its inception. The most significant changes include:

- An increase in the number of zones that can be designated to 59;
- An expansion of the types of zones that can be designated to include e-commerce zones;
- An expansion of the types of investments that qualify for exemption from manufacturing (and in some cases hotels/motels), to not only manufacturing, but also processing plants, distribution centers, maintenance facilities, warehouses, bulk clerical tasks, and after-sale technical support. Some locations also grant exemptions for electronic commerce and hotel/motel operations;
- The addition of a 5-year, 100 percent exemption for firms meeting wage requirements;
- The addition of the rural Long Term Enterprise Zone (LTEZ) exemption, which provides for a 7- to 15-year exemption for firms meeting threshold investment levels;
- Repeal of the local residency hiring requirement that a certain number of employees be residents of the enterprise zone;
- Implementation of first-source hiring agreements (FSAs) with a local publicly funded job training provider, which requires the firm to consider referrals from the local agency, but does not require them to hire a particular candidate;
- A provision allowing for the waiver of the requirement for increases in employment if the firm can demonstrate an increase in productivity (waiver of a

requirement for a 10 percent increase in employment if the firm can demonstrate a 10 percent increase in productivity);

- The dedication of a portion of the corporate tax revenues from firms in the LTEZ to local affected special districts;
- A shift in the authority for zone designation and zone boundary amendments from the Governor to the Economic Development Department Director; and
- Greater flexibility in the definition of zone boundaries allowing for non-contiguous zones. That is, zones with boundaries that tend to reflect a collection of parcels rather than an identifiable community

In short, changes in the program can be generally characterized as increases in the program's scope and complexity as it relates to providing incentives for businesses. In addition there has been general reduction in the program aspects that link economic outcomes to local communities. Specifically, business tax incentives have been increased, while resident hiring requirements have been decreased.

As a place-based strategy for economic development, the potential *economic impact* of this approach rests on several crucial assumptions for success. First, that by offering real property tax incentives, capital investments in economically lagging areas would increase over what might have otherwise occurred. Second, investments in capital would lead to increases in employment. Third, any new employment created by new capital investment would draw on the local labor market, thereby decreasing local unemployment rates and increasing local income. Fourth, zone designation provides a competitive advantage in attracting new investment that derives from limiting the number of zones within the state.

In the past a key *fiscal* component of the program for local governments was that property tax abatements would not result in a direct revenue loss because the tax burden was simply shifted to other taxpayers in the affected taxing district(s). With the passage of Measures 5 and 50 this is no longer the case.

### **New Investment and the Hiring of Zone Residents**

Clearly the ability of the Enterprise Zone Program to affect the unemployment rates and income levels of designated economically lagging areas depends on whether or not the firms making new investments and receiving property tax abatements hire local residents. Two methods were built into the program when it was created to accomplish this objective. First, a requirement that a certain percentage of the employees hired be residents of the zone, and second, the use of a First Source Hiring Agreement (FSA) that requires employers to *seek* potential new hires through the local employment agency, often the local office of the Oregon Employment Department.

The first requirement, that a certain number of employees be residents of the zone within which the firm is making an investment, is generally known as a municipal hiring requirement. This requirement was reviewed by the Oregon Department of Justice (ODOJ) in 1995, and a copy of the opinion is included as Appendix D. Based on an analysis of Article IV, section 2, clause 1 of the United States Constitution, known as the Privileges and Immunities Clause, and relevant case law, the ODOJ concluded that the hiring requirement discriminated against individuals who are not residents of the zone, and, “If Oregon’s Enterprise Zone Act were challenged, we seriously doubt that the state could successfully defend its discriminatory hiring provisions.” (ODOJ, No. 8236, p.6, April 1995). Subsequent to the issuing of the ODOJ opinion the hiring requirement was eliminated from the program.

The First Source Agreement remains as a required component of the program. However, firms are not bound by law to hire individuals referred to them by the local employment office. They are only to consider them first, or prior to the consideration of any job candidates regardless of the method by which a candidate came to apply for a job, or regardless of their place of residence.

From the point of view of program effectiveness related to economic development, the inability to link jobs related to new investment, and more importantly jobs within the zone to the hiring of zone residents, means that it’s likely that new investment and

property tax abatements will occur without affecting zone unemployment rates or income levels. As a consequence, continuing to use these measures as a gauge by which to determine if the program has been effective, and should continue, will not yield meaningful results. It is this approach that allows zones to continue to qualify for redesignation even when substantial new investment may have occurred within the zone. Worse yet, continuing to rely on these measures in zone designation and program reauthorization creates the impression that encouraging new investment impacts local employment and income levels when in fact they do not. This also may distract policy makers from engaging in other activities that could address these problems. Further, the locally borne fiscal impacts - revenue losses - are not offset by the intended economic benefits – jobs for local residents.

### **Data Requirements and Reporting**

Relative to measures of economic development, there are three entities involved in providing information: the firm, the zone manager, and the Economic and Community Development Department.

Prior to making an investment, a firm that intends to apply for property tax exemption completes an authorization application that is filed with the local zone manager. (See Appendix B). The authorization form requires the firm to identify the location where the investment will be made, a timeframe within which the investment will take place, an estimate of the dollar value of the new investment, the type of business activity that will take place, existing employment levels, and expected new employment associated with the new investment. A completed investment is then subject to an approval process by both the local zone manager and the county assessor. Once the exemption period begins the firm is required to submit annual compliance reports.

On an annual basis the zone manager produces a report for their local zone that includes a list of participating firms, the amount(s) of their investment(s), the length of each firm's exemption period, and employment information supplied by the firm. These reports are submitted to the Oregon Economic and Community Development Department (OECDD).

OECD then produces an annual summary report that is used for presentation to the legislature and other interested parties. A copy of the tables and charts from their most recent report is included as Appendix C.

## **Conclusions**

This overview of program history and structure has provided background necessary to identify questions for further consideration and evaluation. The key issues identified can be summarized as follows:

- The program has undergone a number of legislative and administrative changes since its inception that have generally resulted in an expansion of the number of zones, an expansion of the definition of the types of uses that qualify for tax exemption within the zones, a lengthening of the potential exemption period, and a decoupling of the link between investments made in the zone and the hiring of zone residents;
- The program continues to suffer from insufficient data by which to conduct an independent quantitative analysis of zone level programmatic impacts;
- The reporting process offers no independent verification of investment and job creation figures with the exception of the valuation of the property;
- No information is collected on firms that do not participate in the program. Therefore, figures on new investment and job creation that occur independent of the program are not captured, and there is little basis for comparison between participating firms and other firms in the region;
- The existing reporting procedure tends to imply that all of the new investment and employment created by participating firms are the result of the enterprise zone program benefits, and would not have otherwise occurred;
- Local jurisdictions are not required to conduct any type of cost/benefit analysis, or fiscal impact analysis, which could more completely capture the impacts of the new investment and a contemplated exemption, nor does the state conduct such analyses;

- No information is required to document how a zone is performing relative to the criteria required for status as an economically lagging area; and
- With the passage and implementation of Ballot Measures 5 and 50, tax abatements result in a direct revenue loss for local taxing entities



## **Section 4 - Evaluation of Oregon Enterprise Zone Program Impacts**

This section provides some evaluation of the enterprise zone program in terms of overall economic impact and the fiscal impact on special districts. There are two possible approaches to evaluating the economic performance of an Enterprise Zone. The intent of such a zone is to increase the amount of economic activity. Therefore, the best measure of success or failure would be whether a zone leads to an increase in economic activity over what would have occurred in its absence. In the absence of this type of information, one can consider whether the zone designation leads to increased economic activity within the zone and whether firms provide substantial amounts of investment and employment in exchange for the tax abatements received.

The first type of question — whether there is more economic activity than if the zone did not exist — cannot be answered directly, but various statistical measures may indicate whether the zones are associated with higher rates of activity than would be expected based on various other characteristics. At the simplest level, one may look at whether zone areas are growing faster or slower than the state average or compare areas with zones with similar areas without zones. More complex analyses based on a variety of statistical controls for the factors that affect economic growth or activity can also be performed. As noted in the literature review, such analyses are complex and those that have been performed seldom find much overall effect from enterprise zones. However, this may be due to the size of enterprise zones relative to the overall economy or other statistical issues. In the absence of an overall evaluation of impact on the economy, we look at the performance of areas with zones relative to other areas and relative to the state performance.

The second type of question — whether firms provide substantial amounts of investment and employment in exchange for the abatements — can be examined more directly. While one can never know whether the investments and employment would have occurred without the abatements, the effects observed place an upper limit on the impact of the abatements. The most significant problem with this evaluation is finding

appropriate data on the impact by firm. Much of the information that is available is self-reported by the firms, and there are limited methods to verify the information provided. One area where the potential for outside confirmation exists is to compare reported employment numbers with the State Employment Department data on employment. Hence, we report on various measures of economic impact, such as amount of abatement per job created, and then compare the reported employment impact with Employment Department employment numbers for selected firms in enterprise zones.

Prior to considering aggregate employment impacts, investment, and job creation estimates, an important caveat must be issued. Implicit in OECDD's annual presentation of program summary impacts (See Appendix C for the most recent summary) is the assumption that new investment and subsequent job creation would not have occurred "but for" the enterprise zone incentive. Clearly this is an overreaching assumption. A July 1996 report titled "An Analysis of the Impacts of Industrial Investment Property Tax Incentives in Oregon," prepared by the Department's Policy and Research Services section, makes this point clear in several places.

"Naturally, perhaps half of this property tax payment probably would have occurred without the program, but in locations that are less needy." p. 12.

"It is likely that some of the jobs created under the Enterprise Zone Program would have been created in Oregon even without the program benefits, either within the zone or, more likely, elsewhere in Oregon." p. 13

"...the percentage of jobs created within the zones that would have been created in the state even without program benefits probably is between 30 percent and 70 percent." p. 13

These comments suggest that it would not be unreasonable to reduce statements of the programs *economic* benefits by one-half as a starting point. In addition, since the program's inception, the number of zones that may be authorized has doubled from 30 to 59, thereby reducing the competitive advantage any individual zone, and suggesting that the redistributive impacts of the program may also be overstated as well.

The *fiscal* impact of enterprise zones on special districts can be viewed more directly, although it also presents both conceptual and data problems. The most direct measure of the impact is the amount of revenue that is abated. This represents the maximum impact that the enterprise zone has on the revenue of a district since it measures the revenue that would accrue to the district if the investment had taken place in the absence of the abatement. The other side of the fiscal impact is the cost imposed on the district to provide service to the new investments. In many cases the direct cost is not obvious since there are no expenditures linked directly to the development. However, providing service to additional users typically means either a reduction in service to other users or additional cost of providing service.

## **ECONOMIC IMPACTS**

### **Growth Rate Comparisons**

The first comparison is of employment growth rates over time for cities that have enterprise zones and those that do not. Tables 1 and 2 show the actual employment numbers and growth rates from 1990 to 2000, by city, for cities with enterprise zones and those without enterprise zones. Note that that not all cities in the state are reported since some cities may have had an enterprise zone at either the beginning or end of the decade, but not both. These cities were eliminated from further comparison.

The cities without enterprise zones grew considerably faster on average than the cities with enterprise zones -- 41 percent compared to 22.5 percent. The difference in growth rates may be attributable to a number of factors. First, the firm-siting process involves more than just tax considerations. As identified in the literature review (Section 2), location, land availability, workforce issues, regulatory constraints, and infrastructure considerations are all critical in site selection. As a result, to the extent distressed areas continue to suffer from inferior locational attributes over time as compared to other cities, we would expect them to continue to grow more slowly. Stated more directly, it may be that enterprise zone benefits cannot overcome the locational disadvantages persistent in some areas.

It is also likely that severely distressed cities tended to apply for enterprise zones where other cities' areas did not (i.e. self-selection bias), and possibly would have grown even less rapidly without zone status. However, it is worth noting that there is no evidence to suggest that enterprise zone designation had any impact on local employment growth, since growth during this period was substantial for the state as a whole and both sets of cities. This raises the question about the need for incentives to promote growth. Further, there is substantial variation in growth rates within each of the groups, making it even less likely that there is a consistent effect of enterprise zones on a city's employment growth.

County comparisons have not been included in this study since all but one of Oregon's counties has an enterprise zone located within the county.

**Table 1**  
**Employment Growth Rates, By City, 1990 to 2000**  
**For Cities with Enterprise Zones in both 1990 and**  
**2000**

<u>Cities</u>	<u>1990</u> <u>Employment</u>	<u>2000</u> <u>Employment</u>	<u>Percent Change</u> <u>1990 to 2000</u>
Baker City	3487	3712	6.45
Cave Junction	278	397	42.81
Clatskanie	660	700	6.06
Columbia City	420	766	82.38
Condon	251	332	32.27
Coos Bay	6076	6446	6.09
Coquille	1489	1652	10.95
Dallas	3703	5287	42.78
Garibaldi	341	360	5.57
Haines	167	175	4.79
Independence	1655	2538	53.35
Klamath Falls	7255	8346	15.04
La Grande	5068	5611	10.71
Lakeview	1047	1011	-3.44
Lebanon	4263	5327	24.96
Myrtle Point	968	862	-10.95
Newport	3838	4357	13.52
North Bend	3930	4178	6.31
Nyssa	907	1096	20.84
Oakridge	1033	1216	17.72
Ontario	3926	4221	7.51
Port Orford	349	398	14.04
Portland	218750	276081	26.21
Rainier	760	745	-1.97
Redmond	3170	6466	103.97
Riddle	445	359	-19.33
Salem	46474	60661	30.53
Springfield	20281	24855	22.55
St. Helens	3360	4604	37.02
Sweet Home	2311	3083	33.41
Union	624	707	13.30
Vale	543	809	48.99
Westfir	88	122	38.64
<b>Average Employment Growth Rate 1990 to 2000</b>			<b>22.52</b>
<b>Median Employment Growth Rate 1990 to 2000</b>			<b>15.04</b>

**Source: US Census, Population Research Center, Portland State University.**

**Table 2**  
**Employment Growth Rates By City, 1990 to 2000**  
**For Cities without Enterprise Zones**

<u>Cities</u>	<b>Percent Change</b>		
	<u>1990</u> <u>Employment</u>	<u>2000</u> <u>Employment</u>	<u>1990 to 2000</u>
Adair Village	208	258	24.04
Adams	121	147	21.49
Adrian	47	54	14.89
Amity	449	652	45.21
Antelope	15	29	93.33
Ashland	7759	9798	26.28
Athena	383	486	26.89
Aumsville	658	1387	110.79
Aurora	298	295	-1.01
Banks	244	688	181.97
Barlow	63	73	15.87
Beaverton	30118	40922	35.87
Bend	10651	26565	149.41
Bonanza	111	176	58.56
Brookings	1684	2169	28.80
Brownsville	537	644	19.93
Butte Falls	64	187	192.19
Canby	4242	6195	46.04
Cannon Beach	650	847	30.31
Canyonville	434	465	7.14
Carlton	561	779	38.86
Central Point	3308	5629	70.16
Chiloquin	217	188	-13.36
Cornelius	2988	4594	53.75
Corvallis	20306	23881	17.61
Cove	170	259	52.35
Creswell	989	1549	56.62
Culver	246	318	29.27
Dayton	605	863	42.64
Dayville	65	47	-27.69
Detroit	153	106	-30.72
Donald	156	291	86.54
Drain	403	460	14.14
Dufur	252	252	0.00
Dundee	724	1243	71.69
Dunes	405	446	10.12
Durham	405	675	66.67
Eagle Point	1231	2062	67.51
Echo	227	307	35.24
Elkton	44	53	20.45
Fairview	1151	3838	233.45
Falls City	280	339	21.07
Gaston	301	276	-8.31

Gates	146	187	28.08
Gearhart	458	490	6.99
Gervais	352	872	147.73
Gladstone	5036	5494	9.09
Glendale	283	290	2.47
Gold Hill	347	522	50.43
Halfway	101	147	45.54
Halsey	288	370	28.47
Happy Valley	816	2323	184.68
Helix	46	58	26.09
Hubbard	847	1180	39.32
Idanha	127	120	-5.51
Imbler	123	136	10.57
lone	121	129	6.61
Irrigon	236	722	205.93
Jacksonville	796	1007	26.51
Jefferson	727	1070	47.18
Johnson City	291	324	11.34
Jordan Valley	205	104	-49.27
Keizer	10781	15425	43.08
King City	239	382	59.83
Lafayette	486	1120	130.45
Lake Oswego	16632	18305	10.06
Lakeside	463	439	-5.18
Lexington	108	112	3.70
Lonerock	2	3	50.00
Long Creek	78	67	-14.10
Lowell	269	401	49.07
Lyons	387	439	13.44
Malin	352	225	-36.08
Manzanita	167	233	39.52
Maupin	162	172	6.17
Maywood Park	425	412	-3.06
McMinnville	8003	11437	42.91
Merrill	334	372	11.38
Mill City	545	626	14.86
Milton-Freewater	2417	2408	-0.37
Mitchell	48	91	89.58
Monroe	197	315	59.90
Monument	53	46	-13.21
Mosier	88	226	156.82
Mount Angel	1120	1281	14.38
Nehalem	89	128	43.82
Newberg	6209	9079	46.22
North Plains	481	790	64.24
North Powder	180	193	7.22
Oregon City	7280	12830	76.24
Paisley	152	104	-31.58
Philomath	1446	1885	30.36
Phoenix	1315	1780	35.36

Powers	217	221	1.84
Prescott	21	33	57.14
Richland	42	52	23.81
Rivergrove	161	167	3.73
Rogue River	483	570	18.01
Sandy	1860	2609	40.27
Scappoose	1634	2521	54.28
Scio	236	278	17.80
Scotts Mills	132	111	-15.91
Seneca	56	99	76.79
Shady Cove	497	893	79.68
Shaniko	16	7	-56.25
Sherwood	1511	6593	336.33
Silverton	2310	3260	41.13
Sisters	284	447	57.39
Sodaville	78	139	78.21
Spray	46	45	-2.17
St. Paul	137	214	56.20
Stanfield	635	886	39.53
Stayton	2015	2824	40.15
Sublimity	538	785	45.91
Summerville	44	48	9.09
Sumpter	56	60	7.14
Talent	1171	2393	104.36
Tangent	272	426	56.62
Tigard	15904	21893	37.66
Troutdale	4038	7186	77.96
Tualatin	8532	12523	46.78
Turner	492	505	2.64
Ukiah	107	103	-3.74
Unity	43	40	-6.98
Veneta	1004	1065	6.08
Vernonia	663	893	34.69
Warrenton	1119	1862	66.40
Waterloo	80	99	23.75
West Linn	8669	11484	32.47
Weston	246	294	19.51
Wheeler	116	163	40.52
Willamina	586	850	45.05
Wilsonville	3757	7451	98.32
Wood Village	1519	1438	-5.33
Woodburn	4776	7448	55.95
Yachats	181	248	37.02
Yamhill	343	441	28.57
Yoncalla	335	391	16.72

**Average Employment Growth Rate 1990 to 2000** 41.15  
**Median Employment Growth Rate 1990 to 2000** 31.42

**Source: US Census, Population Research Center, Portland State University.**

## **Investment**

One obvious intent of property tax abatements as an incentive is to induce businesses to invest in more development than they otherwise would have. In the case of enterprise zones, tax abatement means that special districts receive no additional revenue over the period of abatement, but that they do receive additional revenue when the abatement ends. The amount of additional revenue is affected by the type of investment and by the duration of the abatement. Businesses in Oregon pay property tax both on the “real” property and “tangible personal” property of the business. The former is the land and structure while the latter includes things like machinery and equipment. “Real” property tends to maintain value or grow in market value over time, while “personal” property tends to depreciate over time. Hence, abatements for personal property would tend to generate considerably less in future taxes than abatements for real property investment.

Increases in investment value, both inside and outside enterprise zones, over the past several years would be expected based on statewide trends. An increase in the real market value of property statewide has taken place in every year since 1997-1998. The total real market value of property in Oregon has been steadily increasing, up 9.9 percent in 2005-2006 from the previous year. In addition, three counties displayed increases in excess of 20 percent during 2005-2006 including Coos, Josephine, and Curry.

Aggregate estimates of either initial taxable value and value remaining at the end of the exemption period, are used by Oregon Economic and Community Development Department (OECDD) to measure program performance. Their estimates of aggregate statewide taxable value remaining at the end of the exemption period, by year, are shown below. These estimates assume a 5 percent annual rate of depreciation. As shown, the estimated remaining value peaked in 2001 and has fluctuated since then. It is worth noting that even at the relatively conservative depreciation rate of 5%, the remaining taxable values returned to the tax rolls are substantially lower than initial investment values. Therefore the investment benefit to the community is lower than that suggested by initial investment values. Fiscally, for local taxing districts, this means that after providing services without corresponding increases in revenues during the exemption

period, the ability to generate revenues is substantially lower than what is suggested by initial investment values.

<u>Tax Year</u>	<u>Estimated Remaining Taxable Value (millions)</u>
1998	\$67.6
1999	\$89.2
2000	\$172.5
2001	\$572.9
2002	\$430.1
2003	\$195.9
2004	\$118.1
2005	\$177.0
2006	\$233.3

### **Abatement Per Job Created**

Another common measure of the effectiveness of an enterprise zone is the relative cost of the economic activity generated. While investment itself may be considered economic activity, the enterprise zone designation also focuses on employment generated. The cost per job created is a relatively common method to evaluate the overall effectiveness of an abatement program to generate employment. Although tax structures and, consequently, the types of tax incentives – property versus income - vary across states, undiscounted measures of the value of total tax abatements per job are in the range of \$20,000 to \$60,000. (Peters and Fisher, 2002) The estimates of the annual amount of taxes abated per job (column 2) provided below come from OECDD and are calculated as the annual amount of taxes abated, times the mean exemption period, divided by the annual estimate of “new” full-time jobs associated with the enterprise zone investment. An undiscounted estimate of the total tax incentive has been calculated by simply multiplying these figures times the mean abatement period to estimate the value of the abatement in total over the full period of the abatement. These findings are consistent with the findings of other studies that show incentive amounts increasing faster than inflation over time. Again, these figures implicitly assume that none of the investment, or job creation, would have occurred but for the enterprise zone incentive.

<u>Tax Year</u>	<u>Annual Taxes Abated Per Job (X)</u>	<u>Mean Length of Abatement</u> =	<u>Total Abatement Per Job</u>
2002	\$6,090	3.82 years	\$23,263
2003	\$17,457	4.15 years	\$72,446
2004	\$20,632	4.27 years	\$88,098
2005	\$13,955	4.42 years	\$61,681

It is interesting to note that over the four year period for which information is available, the mean abatement period has been steadily increasing:

#### **Mean Length of Abatement Period in Years**

<u>Year</u>	<u>Mean Length of Abatement</u>
2002	3.82 years
2003	4.15
2004	4.27
2005	4.42

#### **Job Creation**

The benefit to the public from the granting of tax incentives is, of course, the potential for new local employment, and the calculation of taxes abated per job shown above are based on self-reported employment figures. A key constraint to evaluating the impact of enterprise zones is the reliance on self-reported data. While firms may not intentionally mislead, the data reported is often based on forecasts and may be optimistic. An audit by the Secretary of State's Office in 2001 found that independent data did not confirm the reported employment impact for many firms assisted by the Department of Economic Development. This did not necessarily show that the firms did not reach their employment objectives, but it did raise doubts about the accuracy of the reported numbers. We compared the reported employment by firm with confidential employment figures from the State Employment Department for 112 firms making enterprise zone investments. While there may be some inconsistency between the two sets of numbers, in most cases the Employment Department data should correspond with the firm's reported employment. The Employment Department data is aggregate employment data by location, but firms may have different sets of activities at the same location. In this

case, the enterprise zone abatement may be targeted at only one of the activities, while the Employment Department data cover all of the activities. In these cases, the Employment Department employment numbers are larger than the numbers in the abatement application. Hence, we limited our analysis to cases where the initial employment numbers were consistent.

Our findings support those of the 2001 Secretary of State's Office. In a sample of 112 firms listed as participating in the enterprise zone program, we were able compare their reported employment – for the purposes of enterprise zone reporting – with employment department records. Data was available for 83 of the 112 participating firms. Our findings are as follows:

- 63 of the firms had total employment levels generally consistent with the self-reported data. However, 20 of the 83 firms (24 percent), had total employment levels that were lower than what had been reported in the enterprise zone reports;
- 27 of the 83 firms, or 32.5 percent, had employment declines in the most recent year for which employment department data was available, which is not consistent with the self-reported data; and
- 17 of the 83 firms, or 20.5 percent, had employment increases that were lower than what had been reported in the enterprise zone reports, but still represented employment increases

Combined, these findings suggest that employment among enterprise zone firms may be lower than program reports suggest. If true, the tax abatement per “new” job created is substantially higher, and the number of “new” jobs available to local residents are lower.

### **Employee Commuting Patterns**

As previously discussed, the program no longer retains municipal hiring requirements; that is, a requirement that a certain number of employees hired by the benefiting firm are residents of the zone. Compounding the impact of the absence of a requirement to hire local residents is the tendency of workers to commute significant distances to work. To the extent that enterprise zones are located near areas where workers are willing to

commute to and from, the likelihood that new enterprise zone investment and any associated new employment will impact zone unemployment rates, or income levels, is further minimized. As a part of the 2000 Census, the Census Bureau reported the following commute times for workers in selected counties:

**Average Commute Time in Minutes**

Oregon	21.9
Benton County	17.2
Clackamas County	25.7
Deschutes County	18.5
Douglas County	20.6
Jackson County	18.2
Josephine County	20.0
Klamath County	18.2
Lane County	19.8
Linn County	22.5
Marion County	22.2
Multnomah County	23.7
Polk County	26.2
Umatilla County	18.5
Washington County	23.4
Yamhill County	25.4

**Source: U.S. Census Bureau, 2000 Census.**

As noted, this table reflects average commute times and therefore implies that some workers are willing to travel farther than 20 minutes to get to work. This is an important consideration in the context of a place-based strategy for economic development. Specifically, it suggests selective placement of zones is important if the objective is to benefit local residents. A zone in or near a major labor market will tend to simply draw on commuting workers to satisfy the employment demands of new investment rather than offering new opportunities for local residents.

Figure 1 shows the locations of the State’s 55 Enterprise Zones. Presently, 21 of the zones are within 20 miles of the Interstate 5 corridor, 16 are in one of the state’s six

Metropolitan Statistical Areas (MSAs), and eight are in the Portland region. This I-5 corridor and metropolitan area focus is of even greater concern when we examine unemployment rates. As shown in Table 3 below, five of the State’s MSAs have unemployment rates lower than or equal to the statewide average, and the Salem MSA unemployment rate is only 0.1% higher than the state rate.

**Table 3**  
**2005 Unemployment Rates by Metropolitan Statistical Area**

<u>Area</u>	<u>2005 Rate</u>
State of Oregon	6.1 percent
Bend MSA	5.5 percent
Corvallis MSA	4.8 percent
Eugene-Springfield	6.1 percent
Medford MSA	6.0 percent
Portland-Vanc./Beaverton MSA	5.8 percent
Salem MSA	6.2 percent

**Source: Oregon Employment Department**

Figure 2 shows the locations of the State’s enterprise zones in 1994. When compared to Figure 1, we easily see the proliferation of zones in the Portland region specifically, and along the Interstate 5 corridor generally.

**Measuring Local Economic Conditions Against Statewide Performance**

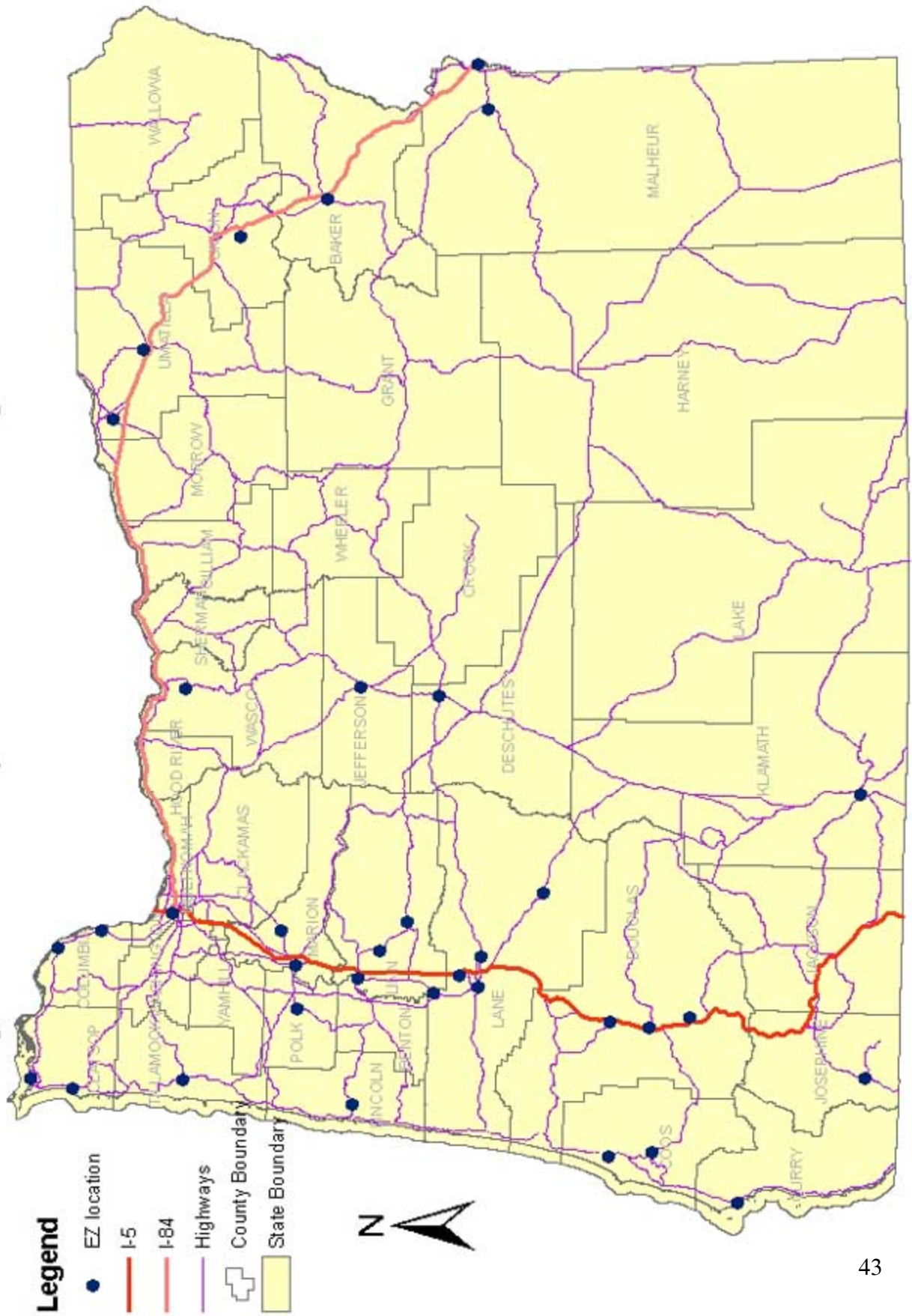
Another structural problem with zone designation, redesignation, and program reauthorization has to do with the program’s reliance on statewide averages when benchmarking local area economic performance. In large part the program uses the state unemployment rate as a standard against which to measure a local area’s degree of economic distress. This can be construed to suggest that local areas should be moving toward economic performance resembling that of the state as a whole. In fact, we should

expect to see variation across economic geographies within the state, particularly between rural and urban areas.

Figure 1 -- Enterprise Zones in Oregon in 2006



Figure 2 -- Enterprise Zones in Oregon in 1994



A comparison of the 16-year average county unemployment rates to the state average for the period 1990 to 2005 (shown in Table 4), confirms that the long-term unemployment rates for rural areas tend to be higher than for urban areas, even during a period of widespread economic expansion as experienced during the nineties.

In fact, of Oregon's 36 counties, 30 displayed long-term unemployment rates higher than the state average for the same period. In addition, four of the counties that did display rates lower than the state average (Clackamas, Multnomah, Yamhill, and Washington) are part of the Portland region. Differences in economic performance between urban and rural areas persist because urban areas offer individual firms the advantage of place-specific scale economies. Access to a large skilled labor pool, and a highly developed system of infrastructure, are just two factors that contribute to the economic advantages of urban areas. These are not factors that we should expect can be overcome by offering tax incentives, nor do we observe, as reflected to differences in unemployment levels, that this has been the case.

An over reliance on statewide averages, which arguably allows the Portland region to drive the benchmark for measuring distress, also runs the risk of allowing any local area to find a census tract that meets the distressed standard and qualify for zone designation. While a census tract by census tract evaluation of unemployment is beyond the scope of this study, it is clear from published census data that this potential exists. The U.S. 2000 Census for Population and Housing for Oregon (Summary Social, Economic, and Housing Characteristics, Tables 7 and 8) reports that of Oregon's 337 cities, towns, parts of towns, and census designated places, 104 had unemployment rates that were 2 percent higher than the state average of 6.5 percent. That is, roughly one-third of the places in the state meet enterprise zone designation criteria on the basis of the census reported unemployment rates alone.

Table 4

Unemployment Rate By County, 1990 to 2005, and 16 Year Average

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg. 1990 to 2005
<b>Oregon</b>	5.4	6.4	7.3	6.9	5.5	4.9	5.6	5.6	5.7	5.5	5.1	6.4	7.6	8.1	7.3	6.1	5.8
<b>Metropolitan Statistical Areas</b>																	
Bend MSA	5.4	6.8	8.2	8.3	7.3	6.6	8.1	7.6	7.3	6.2	5.4	6.4	7.6	7.6	6.6	5.5	5.5
Corvallis MSA	4.9	4.3	4.1	3.2	2.6	2.2	2.6	2.4	3.2	2.9	3.9	4.5	5.3	5.7	5.4	4.8	4.9
Eugene-Springfield MSA	6.1	7.0	7.3	7.3	5.5	5.3	5.5	5.5	5.7	5.3	5.4	6.8	7.1	8.0	7.3	6.1	6.1
Medford MSA	6.5	8.0	8.2	8.2	6.8	6.6	7.9	7.3	7.2	6.4	5.5	6.5	7.4	7.6	7.0	6.0	6.3
Portland-Vancouver-Beaverton MSA	4.3	5.4	6.5	5.7	4.4	3.8	4.3	4.1	4.2	4.3	4.5	6.1	7.8	8.3	7.1	5.8	5.1
Salem MSA	5.4	5.9	6.7	6.8	5.4	4.7	5.4	5.6	5.8	5.8	5.4	6.3	7.1	7.7	7.3	6.2	5.8
<b>Counties</b>																	
Baker	7.3	8.1	9.5	9.2	8.1	8.1	10.9	9.8	9.0	8.3	6.9	8.4	9.0	9.5	8.9	7.5	7.4
Clackamas	3.4	4.4	5.5	5.1	3.7	3.2	3.8	3.8	3.6	3.9	4.1	5.3	6.9	7.5	6.6	5.4	4.4
Clatsop	6.9	7.5	8.4	8.2	6.4	5.1	6.0	6.4	6.0	5.5	5.0	5.7	6.9	7.5	6.8	5.7	6.3
Columbia	6.2	7.0	9.3	9.1	6.5	4.9	5.8	5.9	5.2	5.8	5.6	7.8	9.4	10.4	9.0	7.3	6.8
Coos	8.2	9.3	10.8	10.4	8.7	7.5	8.8	9.3	10.4	8.6	7.3	8.3	8.6	9.0	8.8	7.3	7.8
Crook	6.8	8.4	8.4	9.3	7.6	7.9	11.1	9.7	9.8	8.5	7.2	8.3	9.2	9.5	8.1	6.7	6.8
Curry	6.3	7.1	9.0	8.7	7.8	7.6	9.1	9.0	9.3	7.1	6.9	6.9	7.7	8.0	7.1	6.5	6.4
Douglas	8.1	10.7	11.8	11.3	9.2	8.1	8.5	8.4	9.7	8.6	7.4	8.3	8.8	9.8	9.2	8.1	8.1
Gilliam	3.6	3.3	4.0	4.8	3.7	3.3	3.7	5.3	5.6	5.4	4.4	5.9	6.6	7.0	6.2	5.8	4.7
Grant	8.5	10.5	10.6	11.5	9.7	10.4	11.4	13.0	14.0	11.8	9.4	9.3	9.5	10.6	10.1	9.9	9.2
Harney	8.8	8.3	9.8	11.5	10.1	11.3	12.5	9.5	7.8	7.5	8.5	12.4	9.7	11.1	9.8	9.1	9.0
Hood River	8.0	9.5	10.2	10.1	8.0	8.4	10.1	10.3	9.3	8.5	6.5	7.7	8.3	8.7	7.5	6.4	7.2
Jefferson	6.3	7.4	8.3	8.5	6.6	6.1	7.4	6.4	6.8	6.2	5.0	6.8	6.9	7.1	6.4	6.1	6.2
Josephine	7.0	8.6	9.8	10.3	9.2	8.5	9.5	9.1	9.2	8.3	6.9	8.2	8.5	8.8	8.0	6.9	7.0
Klamath	8.9	9.6	10.1	10.4	8.7	7.5	8.3	9.4	9.7	8.5	7.4	8.6	9.0	9.8	9.4	7.6	8.3
Lake	8.8	8.4	8.7	9.1	8.3	8.6	11.2	11.3	12.3	9.9	8.2	9.2	8.8	9.6	9.8	8.5	8.7

Lincoln	5.9	6.1	7.1	7.3	6.1	7.1	7.1	8.3	8.2	7.5	6.4	7.1	8.0	8.9	8.0	6.7	6.3
Linn	7.4	8.6	9.6	9.1	7.1	6.1	6.7	7.1	8.8	7.8	6.5	7.7	9.0	10.1	9.1	7.4	7.4
Malheur	4.9	6.8	8.4	8.5	7.0	6.6	8.2	8.3	9.2	9.2	7.5	8.3	9.1	9.9	10.1	8.8	6.9
Marion	5.3	6.0	6.9	7.0	5.5	4.8	5.6	5.7	6.0	6.0	5.5	6.4	7.3	7.9	7.5	6.4	5.9
Morrow	7.8	9.9	10.4	10.0	8.3	7.5	8.9	8.6	9.1	10.7	7.7	7.6	7.5	8.1	8.1	7.5	7.7
Multnomah	5.0	5.7	7.0	6.3	4.9	4.2	5.0	4.8	4.7	5.0	4.7	6.3	8.2	8.6	7.7	6.2	5.6
Polk	5.5	5.7	5.9	5.9	4.6	4.0	4.5	4.8	5.1	5.1	4.8	5.7	6.3	6.7	6.4	5.5	5.5
Sherman	5.3	7.0	8.5	10.0	6.4	7.2	7.3	5.5	5.5	5.3	5.6	10.2	10.2	10.9	9.6	7.2	6.3
Tillamook	5.8	6.4	6.8	6.1	4.9	5.0	5.7	6.3	6.4	5.1	5.1	6.1	6.6	7.3	7.0	6.0	5.9
Umatilla	8.2	8.7	8.9	8.6	7.1	7.0	8.0	7.7	6.4	6.4	6.2	7.0	7.7	8.2	8.1	7.9	8.1
Union	6.8	7.4	8.2	7.4	6.4	6.4	7.4	7.6	7.2	5.8	5.4	6.3	6.5	7.4	7.3	6.9	6.9
Wallowa	7.4	8.8	10.0	10.0	9.4	10.7	11.1	10.3	10.5	8.6	7.3	9.1	8.5	9.7	9.0	7.6	7.5
Wasco	6.9	7.7	9.0	8.9	7.4	7.1	8.3	8.5	7.9	7.4	6.1	8.6	9.1	9.7	8.7	7.1	7.0
Washington	3.3	4.7	5.9	5.0	3.8	3.1	3.6	3.7	3.8	3.9	3.9	5.5	6.9	7.4	6.2	5.2	4.3
Wheeler	10.4	13.4	9.5	11.6	11.1	7.2	8.3	11.3	9.2	9.3	7.0	8.1	7.7	7.6	7.9	6.4	8.4
Yamhill	5.2	5.7	6.8	5.7	4.5	4.0	4.6	4.8	4.5	4.6	5.0	6.2	7.4	8.2	7.3	6.1	5.7

Source: Oregon Employment Department, 2006.

From an economic development perspective, all other things being equal, the greater the number of enterprise zones the less the competitive advantage any particular zone offers to a potential firm. In addition, the greater the number of zones, the greater the potential for competition among zones. This competition will tend to favor those areas that can offer an exemption *and* other locational advantages. So, for example, a site with an exemption on Interstate 5 will tend to be favored over a site with an exemption off Interstate 5.

### **Fiscal Impacts**

While economic impacts can accrue and are often measured generally, fiscal impacts are very specific to the affected districts in which a firm locates and a property tax abatement is granted. This problem requires particular attention in Oregon where local government revenue streams are almost wholly dependent on property taxes.

With the passage of property tax limitation Measures 5 and 50 limiting the total combined schools and non-school tax rate at \$15 per thousand dollars of valuation, the revenue impacts on local governments can no longer be borne as a shift from properties receiving tax abatements to those that do not. Instead there is now a direct loss of revenue to local taxing districts.

The impact on local school districts can be viewed as mitigated at the local level by the statewide equalization formula. However, this simply shifts the burden to the State where the impact becomes somewhat more problematic, depending on whether or not funding is based on a fixed percentage of the State budget.

However, this is not true for other local taxing districts. The important point here is that the Enterprise Zone Program was created prior to these tax limitation measures when local government revenues were left unaffected (through a shift in tax burden) by the granting of tax abatements. In the pre-Ballot Measure 5 environment the desire of a city and/or county to grant a tax exemption had no impact on the revenue of other local

special taxing districts. As previously stated, this is no longer the case. This is most easily seen through an example.

Shown below are calculations of revenue impacts prepared by Clackamas County for a proposed enterprise zone exemption related to \$26.8 million in proposed new investment.

**Table 5**  
**Estimated Revenue Impact by Tax District**  
**for Proposed 3 and/or 5 Year Property Tax Exemption**  
**Milwaukie/North Clackamas County Enterprise Zone**

<b>Affected Tax District</b>	<b>Total Revenue Impact for a 3-year Exemption</b>	<b>Total Revenue Impact for a 5-year Exemption</b>	<b>Total Revenue Impact as a Percent of Total</b>
Clackamas Comm. College	\$ 51,047	\$ 90,369	4.6
Clackamas ESD	23,940	42,381	2.2
N. Clack. School District	371,603	657,860	33.7
<b>City of Milwaukie</b>	265,981	466,614	23.9
<b>Clackamas County</b>	146,533	257,065	13.2
Clack. Co. Fire District #1	157,983	279,791	14.3
N. Clackamas Parks District	32,414	57,406	2.9
Port of Portland	4,566	8,083	0.4
Metro Service District 2	18,363	32,510	1.7
Vector Control	2,101	3,719	0.2
Trimet Transit District	7,692	13,618	0.7
<b>City of Portland</b>	3,230	5,384	0.3
Clackamas County Rural	14,900	29,252	1.5
Clackamas County Sheriff	3,423	6,720	0.3
<b>TOTAL</b>	<b>\$1,103,775</b>	<b>\$1,950,772</b>	<b>100.0 percent</b>

**Source: Clackamas County, Department of Business and Community Services, and Center for Urban Studies, Portland State University, 2006.**

Of the districts affected, three (City of Milwaukie, Clackamas County, and the City of Portland) are zone sponsors and therefore have the authority to grant exemption through

zone designation. They are highlighted above. Yet, combined, these three districts represent only 37 percent of the revenue impacts. The remaining 63 percent of the tax impacts are borne by districts that have no legal authority in the zone designation or abatement process. These districts are also shown above.

## **Conclusions**

Enterprise zones are intended to promote economic development, and it is relatively easy to identify the firms assisted and to argue that all of their activity is caused by the assistance. For a variety of reasons, however, this is likely to be an overstatement of the impact. While this analysis is certainly not definitive, it does not support the contention that enterprise zones are a significant spur to economic activity and there appears to be no overall effect on economic growth. In summary:

- Comparison of growth rates between cities with and without enterprise zones finds that cities with zones grew at a slower pace than cities without such zones. This may be due to other factors that made these cities seek enterprise zone designations, but it does not support the premise that enterprise zones are substantial spurs to economic activity;
- When combined with evidence from other studies of enterprise zones (as indicated in the literature review), the most likely conclusion is that enterprise zone abatements had more of an impact on moving activity that would have occurred in other locations into the zone than on increasing the total amount of economic activity;
- Within enterprise zones, the impact of the abatement on employment also seems to be limited. The cost per job created appears to be relatively high, and the comparison of reported employment growth with data from the Employment Department indicates that the reported employment growth may be overstated, which would further increase the abatement cost per job created;
- Investment statewide has increased consistently since 1997-1998, so we should expect to see local area investment increase as well, regardless of enterprise zone designation, and as suggested in the literature;

- While we have no specific information on the resident location of the employees of enterprise zone firms, it appears they are unlikely to be residents of the zone given commuting patterns, the proximity of a number of zones to metropolitan labor markets, and the lack of a residency requirement;
- The proliferation of zone designations in metropolitan labor markets that display unemployment rates equal to or lower than the state average suggest an inappropriate benchmark in the establishment of economic distress and/or the fact that almost any area can find a basis for zone application or designation;
- Prior to the passage of Measures 5 and 50, abatements resulted in a revenue neutral impact on local taxing districts by shifting the tax burden for exempt property to other taxpayers in the district;
- The passage and implementation of property tax limitation measures since program creation has created a condition in which abatements result in direct revenue losses for taxing entities that are not represented in the zone designation and abatement decision process;
- As of December 2006, the Oregon Employment Department estimated Oregon statewide employment at approximately 1.8 million persons. Even if we accept OECDD estimates of 2006 program job creation impacts as correct, say 6,000 jobs, this represents only .3 percent of total employment;
- Two-thirds of the OECDD stated program induced investment, or approximately \$1.0 billion of \$1.5 billion, is represented by projects in only four enterprise zones; and
- 20 of the zones had no activity in 2005-2006. Although six of the zones were new, that leaves 14 zones, or one-quarter of the designated zones, which failed to attract any new investment in 2005-2006

## **Section 5 - Urban Renewal District Evaluations**

Urban renewal districts or areas (URAs) have a different impact on special districts than do enterprise zones. With urban renewal, property assessments within the district are frozen and all taxes associated with new assessed value or increased assessed value on existing property are redirected to the urban renewal district. These funds are intended to finance the construction of infrastructure within the zone. Due to the long term duration associated with urban renewal districts, the impact on special district finances can be substantial. Many districts have large developments that provide no property tax revenue to the special districts. However, large amounts of development may impose substantial service costs on special districts. These costs must either be financed by other taxpayers in the district or result in lower levels of service. While the development may eventually result in higher tax revenue for the special district, the long life of the urban renewal district (20 years or more) makes this of limited value.

An initial step in defining an urban renewal area is the need to establish a condition of “blight.” That is, some condition requiring public intervention. Based on the work of an interim committee, the 1979 Oregon legislature expanded the definition of blight to include “a growing or total lack of proper utilization of areas, resulting in a stagnant and unproductive condition of land potentially useful and valuable for contributing to the public health, safety, and welfare.” (Johnson and Tashman, 2002, p. 8) While this can be viewed as providing a great deal of flexibility in the remediation of public health, safety, and welfare issues, it is also a broad enough definition to qualify a wide variety of geographic areas and urban renewal activities.

In general urban renewal activities fall into the categories of improvements to infrastructure (e.g. roads, utilities, parks), building rehabilitation, property acquisition, and property resale. In addition, projects with a citywide or regional influence are also permitted provided the following occurs:

“The urban renewal agency is expected to demonstrate a clear connection between such projects and the particular objectives of the urban renewal plan. In

terms of funding such projects, the agency should allocate tax increment funds in general proportion to the benefits received by the urban renewal area compared to the community as a whole.” (Johnson and Tashman, 2002, pp. 14-15)

It is in the context of the above discussion that this section presents summary information on two urban renewal districts: the Wilsonville Eastside Urban Renewal Area (shown in Figure 3), and the Clackamas Town Center Urban Renewal Area (shown in Figure 4). Information is presented on each area’s intended purpose, completed projects, impacts on overlapping tax districts, and reported staff and administrative expenses.

### **WILSONVILLE URBAN RENEWAL AREA (URA)**

The Wilsonville “Eastside” URA was formed in 1992 and currently includes an estimated 636 acres. For planning purposes, information on the district is also characterized as the Year 2000 Plan.

#### **District Purpose**

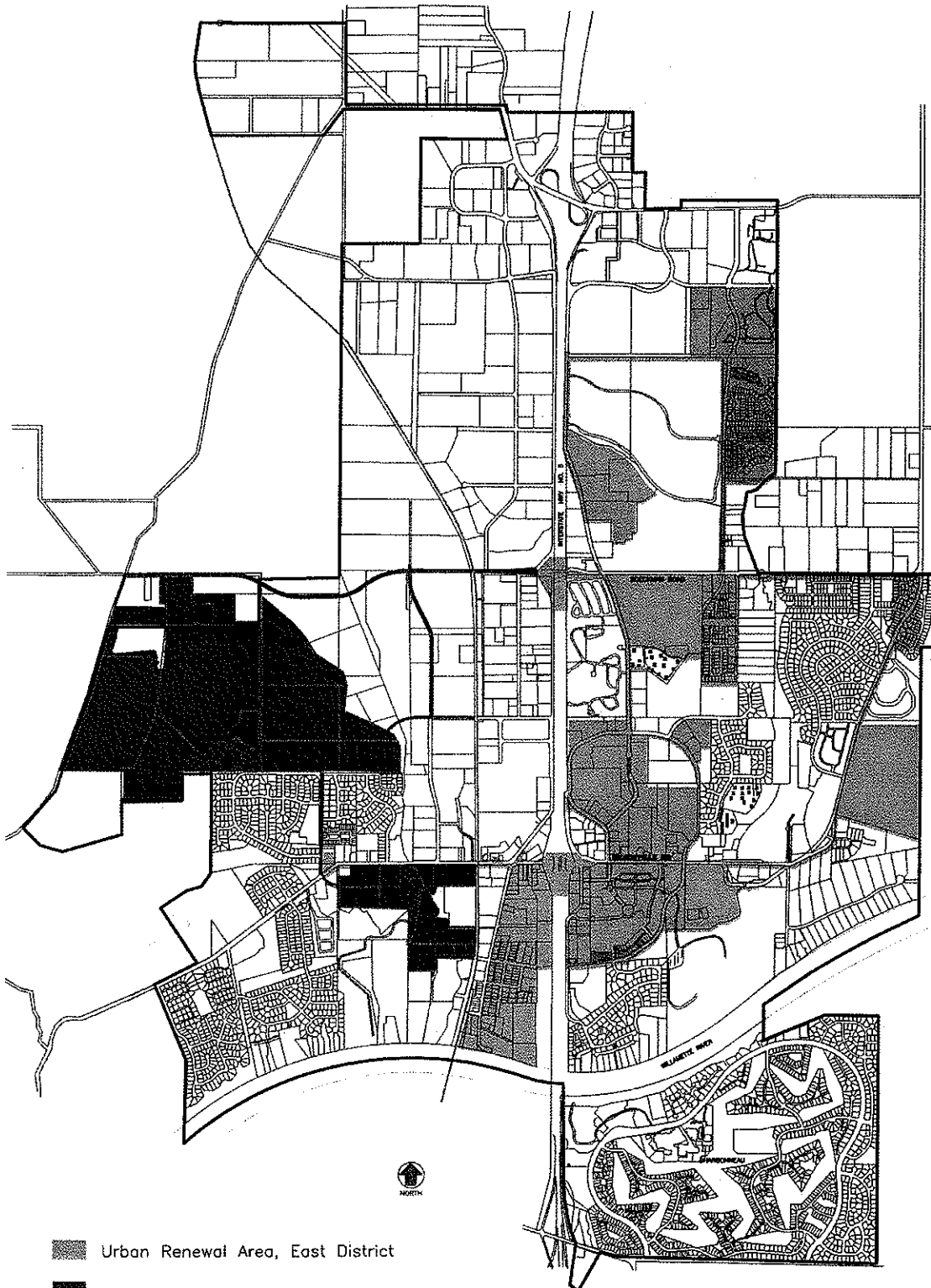
The mission of the plan is:




“To eliminate blight in areas within the Agency’s jurisdiction, and in the process, attract aesthetically pleasing, job producing private investments that will improve and stabilize property values and protect the area’s residential livability and its environmental values.” Wilsonville Urban Renewal Agency Annual Report, 2004-2005, p. 5.

#### **Completed and Proposed Projects**

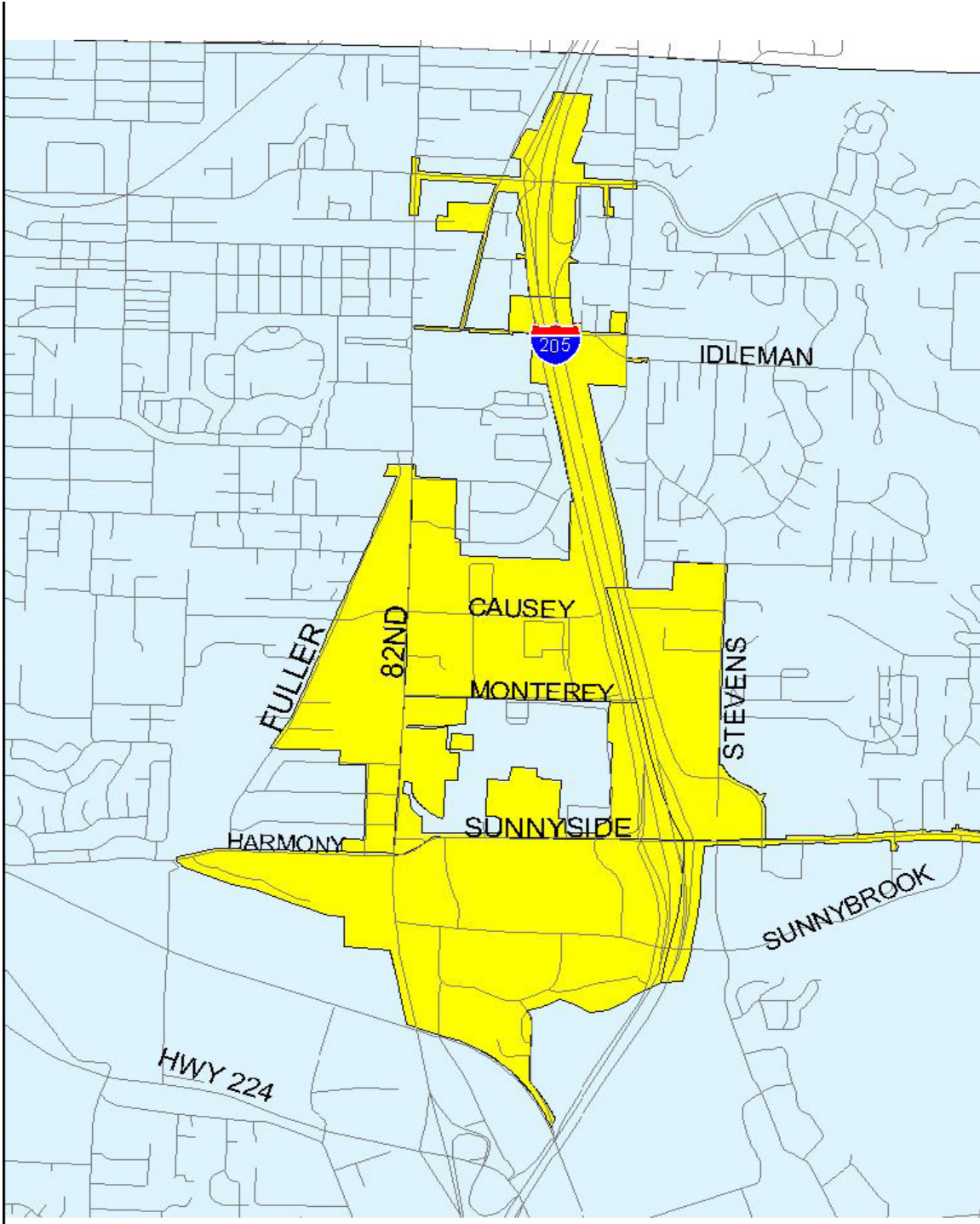
The projects shown in Table 6 have been completed, or are anticipated for completion, in an effort to accomplish this mission.

As shown, through the proposed 2006-2007 tax year, the largest expenditures include improvements to Wilsonville Road at \$15.4 million, or roughly 31 percent of total capital expenditures; City Hall Development at \$10 million, or 20 percent of total expenditures;



-  Urban Renewal Area, East District
-  West Wilsonville Urban Renewal District
-  City Limits

As of May 2005



Clackamas Town Center Area

**Table 6  
Wilsonville Eastside Urban Renewal Projects**

<u>Project</u>	<u>2004-2005 and Prior Years</u>	<u>2005-2006 (Actual)</u>	<u>2006-2007 (Proposed)</u>	<u>Project Totals</u>	<u>Percent of Plan Total</u>
Align Canyon Creek South	\$336,304	\$0	\$0	\$336,304	0.68 %
Bailey Street Construction	\$229,283	\$0	\$0	\$229,283	0.46 %
Bike path, Meadows/Arbor	\$10,232	\$0	\$0	\$10,232	0.02 %
Biosolids Handling	\$5,000	\$0	\$0	\$5,000	0.01 %
Boeckman Improvements to Stafford	\$133,051	\$0	\$0	\$133,051	0.27 %
Boones Ferry Reconstruction	\$13,988	\$0	\$0	\$13,988	0.03 %
Boones Ferry widening	\$162,723	\$0	\$0	\$162,723	0.33 %
Boozier Property Acquisition	\$1,517,263	\$0	\$0	\$1,517,263	3.05 %
Canyon Creek South Phase I	\$65,938	\$50,153	\$0	\$116,091	0.23 %
City Hall Development	\$0	\$8,000,000	\$1,998,872	\$9,998,872	20.11 %
City Hall Offices	\$984,248	\$0	\$0	\$984,248	1.98 %
Civic Center Park	\$918,845	\$5,100,000	\$100,000	\$6,118,845	12.31 %
Civic Center Park Pedestrian Crossing	\$1,053	\$0	\$0	\$1,053	0.00 %
High School Traffic Signal	\$349,340	\$25,996	\$0	\$375,336	0.75 %
I-5 Wilsonville Interchange	\$3,287,978	\$0	\$0	\$3,287,978	6.61 %
Kaiser Land Acquisition/Street Improvements	\$50,000	\$1,450,000	\$350,000	\$1,850,000	3.72 %
Library Access Improvements	\$4,452	\$10,000	\$80,000	\$94,452	0.19 %
Library Expansion	\$5,953	\$0	\$0	\$5,953	0.01 %
Livability Projects	\$376,785	\$46,603	\$0	\$423,388	0.85 %
Main Street	\$377,714	\$0	\$0	\$377,714	0.76 %
Memorial Drive at Parkway	\$127,120	\$0	\$0	\$127,120	0.26 %
Memorial Drive Construction	\$1,204,743	\$0	\$0	\$1,204,743	2.42 %
Monument Signs - City Buildings	\$0	\$0	\$25,000	\$25,000	0.05 %
Parkway N. of Boeckman	\$267,684	\$0	\$0	\$267,684	0.54 %
Smaller Projects	\$96,475	\$0	\$0	\$96,475	0.19 %
Town Center Park Phase 2	\$2,032,801	\$150,000	\$0	\$2,182,801	4.39 %
Tranquil Park/Brown Road Pathway	\$17,500	\$0	\$0	\$17,500	0.04 %
Wall Repair - Canyon Creek North	\$0	\$0	\$0	\$0	0.00 %
West Side Barber Street Extension	\$1,950	\$0	\$0	\$1,950	0.00 %
Wilsonville High School	\$2,156,577	\$0	\$0	\$2,156,577	4.34 %
Wilsonville High School Girl's Field Improve.	\$0	\$350,000	\$0	\$350,000	0.70 %

Wilsonville High School Public Facility	\$1,134,704	\$0	\$0	\$1,134,704	2.28 %
Wilsonville Rd. - TCLE to Bridge	\$681,861	\$0	\$0	\$681,861	1.37 %
Wilsonville Rd. Bikeway & Pedestrian	\$816,348	\$0	\$0	\$816,348	1.64 %
Wilsonville Rd. Construction	\$3,077,215	\$0	\$0	\$3,077,215	6.19 %
Wilsonville Rd. Landscaping	\$91,813	\$0	\$0	\$91,813	0.18 %
Wilsonville Rd. Phase 2a	\$524,982	\$0	\$0	\$524,982	1.06 %
Wilsonville Rd. Phase 3 Alignment	\$191,164	\$0	\$0	\$191,164	0.38 %
Wilsonville Rd. Phase 3a, 2b, and 3b	\$6,333,937	\$19,203	\$0	\$6,353,140	12.78 %
Wilsonville Rd. Phase 4	\$2,669,071	\$0	\$0	\$2,669,071	5.37 %
Wilsonville Rd. Planning	\$824,340	\$0	\$0	\$824,340	1.66 %
Wilsonville Rd./I-5 Interchange Turn Lanes	\$362,008	\$521,069	\$0	\$883,077	1.78 %
WWTP Upgrade	<u>\$3,858</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,858</u>	<u>0.01 %</u>
<b>TOTAL</b>	<b>\$31,446,301</b>	<b>\$15,723,024</b>	<b>\$2,553,872</b>	<b>\$49,723,197</b>	<b>100 %</b>

**Source: Urban Renewal Budget Committee,  
City of Wilsonville, FY 2006-2007.**

and Civic Center Park at \$6.1 million, or 12 percent of the total.

Relative to the evaluation criteria of consistency with plan goals and allocation of expenditures, city hall expenditures seem somewhat problematic. First, while site development may eliminate some form of blight and in the process “attract aesthetically pleasing, job producing private investments,” the link seems somewhat tenuous. Second, presumably the benefits of a city hall accrue to all residents of Wilsonville and therefore would seem more appropriately funded through general fund expenditures, or at least by a significant portion thereof. In this case it appears urban renewal funds have been used exclusively to fund city hall construction. This example raises the question of how the allocation of urban renewal funds to public building projects benefiting the community as a whole should be evaluated..

### **Impacts on Overlapping Tax Districts**

The tax year 2004-2005 impacts on taxing districts that overlap with the Wilsonville Eastside URA are shown in Table 7. It should be emphasized that these are annual revenue losses and cannot be compared directly to the expenditures noted above. Many of the expenditures are financed by bond revenue and will require a long term revenue stream for repayment. It is also worth noting that the URA has essentially no impact on total revenue to the schools and Educational Service District (ESD). The state sets a target level of funding for schools and then subtracts local property tax revenues in determining the state contribution for schools. Hence, lower property taxes for schools are in essence offset by higher payments from the state. However, the reductions for other taxing districts are actual reductions in revenue. This is important because, like new development in enterprise zones, service providers are being asked to increase service levels while suffering a revenue loss.

**Table 7**  
**Estimated Revenue Loss for Overlapping Tax Districts**  
**Attributable to the Wilsonville Urban Renewal Agency**  
**2004-2005**

<u>Overlapping Tax District</u>	<u>Total Taxes Levied</u>	<u>Percent Allocated to Wilsonville URA</u>	<u>Dollars Allocated Wilsonville URA</u>
City of Wilsonville	\$4,643,461	18 percent	\$835,823
Clackamas County	\$66,397,916	1 percent	\$663,979
West Linn/Wilsonville Schools	\$27,788,436	5 percent	\$1,389,422
Tualatin Valley Fire & Rescue	\$9,460,663	5 percent	\$473,033
Clackamas ESD	\$7,501,642	1 percent	\$75,016
Clackamas CC	\$11,357,246	1 percent	\$113,572
Vector Control	\$179,514	1 percent	\$1,795
Port of Portland	\$1,935,984	1 percent	\$19,360
Metro Service District	\$1,971,294	1 percent	\$19,713
<b>TOTAL</b>	<b>\$131,236,156</b>		<b>\$3,591,714</b>

**Source: Wilsonville Urban Renewal Agency Annual Report, Fiscal Year 2004-2005.**

### **Staffing and Administrative Expenses**

No explicit staffing or administrative expenses are available for this urban renewal area only; however, the following material and services requirements are identified in the Fiscal Year 2006-2007 Budget Summary:

<u>Year</u>	<u>Amount</u>	<u>Percent of Total</u>
2003-2004 (Actual)	\$1,482,494	21.7 percent
2004-2005 (Actual)	\$1,130,974	10.4
2005-2006 (Adopted)	\$1,249,501	2.7
2005-2006 (Est. Actual)	\$1,239,335	5.1
2006-2007 (Proposed)	\$1,304,024	4.1

### **CLACKAMAS TOWN CENTER URA**

The Clackamas Town Center URA was formed in 1980 and includes approximately 819 acres with a taxable value of approximately \$450 million.

## **District Purpose**

The purpose of the district is to:

“Provide transportation and community facilities in a formerly blighted area that is not the county’s largest regional commercial center.” Clackamas County Development Agency, Annual Report, 2005-2006, p. 5

Slightly different wording appears in the 2005-2006 proposed budget for the district, with the inclusion of an emphasis on job creation.

“The purpose of the Clackamas Town Center Program is to implement projects in the Plan area which remove influences that inhibit or impede orderly development and redevelopment, thereby creating jobs and increasing assessed value for County area residents and businesses.” Clackamas County Proposed Budget, 2005-2006.

## **Completed and Proposed Projects**

We could not obtain a single list identifying all of the projects, and their funded amounts, in the district since its inception. A summary description of past projects was provided in the District’s 2004-2005 annual report. Table 8 is a listing of projects taken from the annual report. A list of projects scheduled for development for fiscal years 2005-2006 through 2012-2013 is shown in Table 9.

Similar to Wilsonville there are “Community Use” projects in Table 8 that would appear to benefit a wide base of citizens both inside, and outside, the urban renewal area. It is unclear, in some cases, exactly what portion of funding came from urban renewal, and how much came from other sources. This argues for not only caution in using urban renewal funding for project financing, but also greater transparency in reporting. In addition, it is unclear how these projects directly contribute to private sector job generation.

In addition to the Community Use projects in Table 8, the “Mall Development” line item, in Table 9, at \$24.9 million, or 26.6 percent of total expenditures, presents some

confusion relative to district objectives. In the Clackamas Town Center Area description (p.3) provided by the Clackamas County Development Agency, the mall development is described as follows:

“Clackamas Town Center Mall Redevelopment: Through an agreement approved June 2, 2005, the Agency has partnered with General Growth Properties, owner of Clackamas Town Center, in a redevelopment effort. This is the first upgrade to the property since 1981. The Agency will construct a five-deck parking structure between Sears and Nordstrom on the north side of the site, plazas and landscaping to create an attractive open air "public space" and pedestrian promenade, and infrastructure, including utilities, sidewalks, retaining walls, etc. General Growth will provide 245,000 square feet of new retail/entertainment space, including internal and external renovations, movie theater expansion and two detached restaurant pads. The layout is in a "Family Lifestyle Center" concept with shops that open to the public plazas and walkways rather than into the larger structure.”

This expenditure can be described as a transportation related improvement, a public space improvement, and/or a parking garage. It would appear from the above description though that it primarily benefits an already successful regional mall.

**Table 8**  
**Past Projects Funded and Completed in the Clackamas Town Center Urban  
Renewal District through Fiscal Year 2004-2005**

**Transportation**

- Sunnybrook boulevard from SE 82<sup>nd</sup> to I-205
- 82<sup>nd</sup> Avenue and Monterey Road improvements
- Realignment of Stevens/Sunnyside intersection and Harmony/82<sup>nd</sup> interchange
- Causey Avenue extension
- New road development – 84<sup>th</sup>, 85<sup>th</sup>, 86<sup>th</sup>, 90<sup>th</sup>, 93<sup>rd</sup>, Sunnybrook and Boyer Drive
- New interchange at I-205 (Johnson Creek)
- Lane additions and signalization on Sunnyside Road
- 92<sup>nd</sup> Road improvements
- Monterey overpass and I-205 frontage road
- Sunnybrook East Extension
- Sunnybrook Split Diamond Interchange

**Community Use**

- 224 units of moderate income housing at the Easton Ridge apartments.  
(Developed through a cost-sharing program)
- Clackamas County law enforcement training facility through Clackamas Community College (CCC)
- Acquisition of Ickes and Harmony schools for CCC and the Oregon Institute of Technology campus
- Clackamas County branch library at the Clackamas Corner Shopping Center
- Causey Fire Station and facility, and associated road improvements
- Mt. Scott School recreation facilities
- Property acquisition at, adjacent to, the Regional Swim Center
- Offsite roadway improvements necessary to the Regional Swim Center

**Storm Drainage and Water Supply**

- Coordinated system of storm drainage and water supply projects
- Flood control facility on 84<sup>th</sup> and Ambler Road
- Water pump station, supply mainline, and partial funding of a water storage reservoir

**Redevelopment**

- Mixed-use commercial area south of Sunnyside Road including development agreements for a hotel and a total of approximately 350,000 square feet of office space.
- Purchase and razing of Batten Elementary school
- Development of a 41,000 square foot medical building through agreement with the Mt. Scott Professional Center

**Table 9**  
**Current Project Cost Estimates, Recently Completed Projects and Proposed Projects**  
**Clackamas Town Center URA (\$000)**

<u>Project</u>	<u>Est. Cost</u> <u>2005-2006</u>	<u>Expenditures By Year</u>										<u>TOTAL</u>	
		<u>FY 05-06</u>	<u>FY 06-07</u>	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>FY 11-12</u>	<u>FY 12-13</u>	<u>TOTAL</u>			
Transitways	\$36,333		\$35,333										\$35,333
Sunnyside Road Improv.													\$0
Sunnybrook Widening													\$0
Sunnybrook Extension	\$400	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$400
I-205 Frontage Road/Monterey OP													\$0
Monterey West to Price Fuller	\$2,100				\$318			\$1,967					\$2,285
Pedestrian/Bikeways	\$410							\$462					\$462
Phillips Creek Cleaning													\$0
Parks and Plazas													\$0
Ph.1 of 82nd Ave. Improvements	\$300											\$378	\$378
Multi-use Development Programs	\$10,500									\$4,956	\$5,154	\$2,457	\$12,567
Low/Moderate Income Housing Study													\$0
Mail Development	\$23,735	\$6,600	\$17,135	\$1,178									\$24,913
80th-CTC Entry													\$0
Monterey Widening 82nd to 90th	\$9,800	\$1,400	\$7,004										\$8,404
Causey Extension East/I-205	\$300	\$300											\$300
OIT/CCC	\$630		\$649										\$649
Sunnybrook West to Harmony	\$7,500		\$206	\$3,713	\$4,152								\$8,072
Harmony Road Widening													\$0
82nd Ave. (Ph. II)													\$0
Johnson Creek Blvd. Interchange													\$0
<b>TOTAL</b>	<b>\$92,008</b>	<b>\$8,350</b>	<b>\$60,377</b>	<b>\$4,941</b>	<b>\$4,520</b>	<b>\$2,478</b>	<b>\$5,006</b>	<b>\$5,204</b>	<b>\$2,885</b>	<b>\$93,762</b>			
<b>TOTAL with inflation and contingency</b>	<b>\$101,207</b>	<b>\$9,185</b>	<b>\$66,415</b>	<b>\$5,436</b>	<b>\$4,973</b>	<b>\$2,726</b>	<b>\$5,507</b>	<b>\$5,725</b>	<b>\$3,173</b>	<b>\$103,138</b>			

## Impact on Overlapping Tax Districts

The impacts on overlapping tax districts from the Clackamas Town Center URA are shown in Table 10. The impact – revenue loss -- on special districts, in particular Clackamas County Fire District 1, is significant.

**Table 10**  
**Estimated Revenue Loss for Overlapping Tax Districts**  
**Attributable to the Clackamas Town Center URA**  
**2005-2006**

<u>Overlapping Tax District</u>	<u>Amount of Taxes Levied Used for Urban Renewal</u>	<u>Percent Allocated to Clackamas Town Center URA</u>
Clackamas ESD	\$50,039	1.59 percent
Clackamas Comm. College	\$75,757	2.05 percent
Clackamas Co. Law	\$81,296	6.80 percent
Fire District #1	\$325,885	4.39 percent
Metro	\$13,110	2.05 percent
N. Clackamas Parks	\$73,043	6.05 percent
N. Clackamas Schools	\$660,957	5.44 percent
Port of Portland	\$9,514	1.51 percent
Unincorp. Clack. Co.	\$403,977	3.26 percent
Vector Control	<u>\$882</u>	1.51 percent
<b>TOTAL</b>	\$1,694,460	

**Source: Clackamas County Development Agency, Annual Report, 2005-2006, p. 17.**

## Staffing and Administrative Expenses

The proposed 2005-2006 budget identified the 10 full-time equivalent staff positions related to three urban renewal areas, and the following material and services expenses for the Clackamas Town Center URA:

<u>Year</u>	<u>Amount</u>	<u>Percent of Total Budget</u>
2002-2003 (Actual)	\$1,561,566	9.3 percent
2003-2004 (Actual)	\$1,360,628	15.5
2004-2005 (Budgeted)	\$7,262,315	6.9
2004-2005 (Estimated)	\$1,484,696	37.3
2005-2006 (Requested)	\$1,837,586	2.4

## Conclusions

This section has presented information on the activities and expenditures in the Wilsonville and Clackamas Town Center Urban Renewal Areas. The key findings include:

- The definition of “blight” in Oregon is broad enough to allow for the potential designation of a wide variety of geographic areas as urban renewal districts, and enables a wide range of urban renewal activities to take place;
- Urban renewal funds may be used for activities that do not appear to be consistent with plan objectives;
- Expenditure of allocated tax increment funds on general purpose activities results in the diversion of funds from special districts for activities normally funded by other government units. A significant portion, 20 percent, of the capital expenditures in the Wilsonville URA were used to construct a new city hall;
- Overlapping special districts in the Wilsonville area incur a substantial and direct revenue loss as a result of the use of urban renewal activities;
- Wilsonville staffing and administrative expenses have represented as high as 22 percent of total annual expenditures for urban renewal and are proposed to represent 4 percent in the current fiscal year;
- The Clackamas Town Center URA has funded both Community Use projects benefiting the community at large, and projects benefiting private interests;
- Overlapping special districts in the Clackamas Town Center area incur a substantial and direct revenue loss as a result of the use of urban renewal activities, including Fire District 1 that incurred a direct revenue loss of approximately \$333,000 in fiscal year 2005-2006;
- Staffing and administration for the Clackamas URA are part of a larger three area pool that includes 10 full-time employees; and

- Material and services expenditures for the Clackamas URA were estimated at 73 percent in fiscal year 2004-2005, and were requested at 2.4 percent in 2005-2006



## **SECTION 6 - CONCLUSIONS AND RECOMMENDATIONS**

Enterprise zones and urban renewal programs are in widespread use in Oregon and throughout the county. In Oregon there are 55 Enterprise Zones and over 60 urban renewal districts. By using property tax incentives to attempt to stimulate investment and job creation, these areas have a significant impact on the revenues of the State's 950 special districts.

The specific conclusions and recommendations related to enterprise zones are listed below, and are generally consistent with the findings and recommendations of other studies and the experience of other states. Conclusions and recommendations related to urban renewal are more limited because of the limited nature of the evaluation.

### **Oregon Enterprise Zone Program Evaluation Conclusions**

- The program has undergone a number of legislative and administrative changes since its inception that have generally resulted in:
  - An expansion of the number of zones;
  - An expansion of the definition of the types of uses that qualify for tax exemption within the zones;
  - A lengthening of the potential exemption period; and
  - A decoupling of the link between investments made in the zone and the hiring of zone residents;
- Investment statewide has increased consistently since 1997-1998, so we should expect to see local area investment increase as well, regardless of enterprise zone designation;
- Comparison of growth rates between cities with and without enterprise zones finds that cities with zones grew at a slower pace than cities without such zones. This may be due to other factors that made these cities seek enterprise zone designations, but it does not support the premise that enterprise zones are substantial spurs to economic activity;

- While we have no specific information on the resident location of the employees of enterprise zone firms, it appears they are unlikely to be residents of the zone given commuting patterns, the proximity of a number of zones to metropolitan labor markets, and the lack of a residency requirement;
- The program continues to suffer from insufficient data by which to conduct an independent quantitative analysis of program impacts on local communities;
- The reporting process offers no independent verification of investment and job creation figures with the exception of the valuation of the property;
- Local jurisdictions are not required to conduct any type of cost/benefit analysis, or fiscal impact analysis, which could more completely capture the impacts of the new investment and a contemplated exemption, nor does the state conduct such analyses;
- Once an area has been designated as an enterprise zone no information is required to document how the program is impacting unemployment, income, and/or poverty;
- There are existing local economic conditions related to land costs, transportation infrastructure, labor, financing, and regulatory practices that tax incentives cannot overcome;
- With the passage and implementation of Ballot Measures 5 and 50, tax abatements result in a direct revenue loss for local taxing entities;
- Within enterprise zones, the impact of the abatement on employment also seems to be limited. The cost per job created appears to be relatively high, and the comparison of reported employment growth with data from the Employment Department indicates that the reported employment growth may be overstated, which would further increase the abatement cost per job created;
- The proliferation of zone designations in metropolitan labor markets that display unemployment rates equal to or lower than the state average suggest an inappropriate benchmark in the establishment of economic distress and/or the fact that almost any area can find a basis for zone application or designation;

## **Oregon Enterprise Zone Program Recommendations**

- Clarify program objectives to reflect either a commitment to community economic development (i.e. the creation of jobs for local residents), or as a firm recruitment and retention strategy;
- Reduce program size by limiting designation to the most severely distressed areas;
- Prevent the creation of zones in areas that are not truly distressed, thereby strengthening the relative tax advantages of designations in severely distressed areas;
- Require a thorough fiscal assessment of the impact on local taxing districts for projects seeking exemption from local property taxes, which includes review and comment by affected taxing districts;
- Provide for representation of all affected taxing districts in exemption decisions;
- Provide an opt out provision for those tax entities that can demonstrate a net negative impact resulting from the proposed exemption;
- Mandate specific data, reporting, and evaluation requirements related to investment and employment on the part of companies and administrative entities, including the tracking of the performance of firms after their use of the program;
- Mandate annual, specific data, reporting, and evaluation requirements related to economic distress criteria on the part of local zone sponsors and state administrative agencies

## **Urban Renewal Conclusions**

- The definition of “blight” in Oregon is broad enough to allow for the potential designation of a wide variety of geographic areas as urban renewal districts, and enables a wide range of urban renewal activities to take place.
- Overlapping tax districts incur a substantial and direct revenue loss as a result of urban renewal activities;

- The appropriate criteria for evaluating urban renewal activities are first, consistency with plan objectives; and second, the degree to which the expenditure of allocated tax increment funds is spent in proportion to the benefits received by the urban renewal area compared to the community as a whole;

### **Urban Renewal Recommendations**

- Narrow the definition of “blight” so as to limit the number of areas qualifying for designation;
- Narrow the types of eligible activities for which tax increment monies can be spent in urban renewal areas;
- Limit the number of years that property can remain off the tax rolls by limiting the life of the district;
- Increase transparency in the reporting of the expenditures of tax increment monies from urban renewal districts; and
- Provide for representation of all affected taxing districts on urban renewal boards

## REFERENCES

- Bartik, Timothy (1991) *Who Benefits from State and Local Economic Development*. Kalamazoo, MI. WE Upjohn Institute for Employment Research.
- Bartik, Timothy (2002) "Evaluating the Impacts of Local Economic Development Policies On Local Economic Outcomes: What Has Been Done and What is Doable?" Kalamazoo, Michigan. W.E. Upjohn Institute for Employment Research
- Boarnet, Marlon and William Bogart (1996) "Enterprise Zones and Employment: Evidence from New Jersey," *Journal of Urban Economics*, 40, 198-215. 1996
- Bondonio, Daniele and John Engberg (2000) "Enterprise Zones and Local Employment: Evidence from States' Programs," *Regional Science and Urban Economics*, 30: 519-549.
- California Budget Project (2006) "California's Enterprise Zones Miss the Mark," Sacramento, California.
- Cassell, Mark (2003) "Zoned Out: Distribution and Benefits in Ohio's Enterprise Zone Program," *Policy Matters Ohio*, Kent State University.
- Dowall, David E. (1996) "An Evaluation of California's Enterprise Zone Programs," *Economic Development Quarterly*, 10(4), 352-368.
- Elling, R.C. and A.W. Sheldon (1991) *Comparative Analyses of State Enterprise Zone Programs*. In: Green (Ed.), *Enterprise Zones: New Directions in Economic Development*. Newbury Park: Sage.
- Engberg, John and Robert Greenbaum (1999) "State Enterprise Zones and Local Housing Markets," *Journal of Housing Research* 10(2): 163-187
- Hill, Edward (1994) "Tax Abatement: War Within a State: Ohio's Enterprise Zone Tax Abatement Program," Report, The Urban Center, Cleveland State University.
- Johnson, Nina and Jeffery Tashman (2002) "Urban Renewal in Oregon: History, Case Studies, Policy Issues, and Latest Developments," Tashman Johnson LLC for the Portland Development Commission on behalf of the Association of Oregon Redevelopment Agencies.
- Joint Legislative Audit and Review Committee (1999) "Rural Area Marketing Plan Evaluation," State of Washington.
- Lambert, Thomas and Paul Coomes, (2001) "An Evaluation of the Effectiveness of Louisville's Enterprise Zone," *Economic Development Quarterly*, 15(2), 168-180

Legislative Revenue Office of the State of Oregon (2006) “2006 Oregon’s Enterprise Zone Program,” Research Report #3-06.

Lynch, Devon and Jeffrey Zax (2004) “An Evaluation of Colorado’s Enterprise Zone Program: Measuring the Impact on Establishment-Level Employment and Earnings per Worker,” Center for Economic Analysis, Department of Economics, University of Colorado at Boulder.

Oregon Economic Development Commission (1996) “An Analysis of the Impacts of Industrial Investment Property Tax Incentives,” Oregon Economic Development Department, Policy and Research Services.

Peters, Alan and Peter S. Fisher (2002) *State Enterprise Zone Programs: Have They Worked?*, Kalamazoo, Michigan. W.E. Upjohn Institute.

Talanker, Alyssa, Kate Davis and Greg LeRoy (2003) *Straying from Good Intentions: How States are Weakening Enterprise Zone and Tax Increment Financing Programs*, Good Jobs First, Washington, DC

APPENDIX A  
TYPES OF SPECIAL DISTRICTS IN OREGON

## **Types of Special Service Districts in Oregon**

**198.010 Definitions.** As used in this chapter, except as otherwise specifically provided, “district” means any one of the following:

- (1) A people’s utility district organized under ORS chapter 261.
- (2) A domestic water supply district organized under ORS chapter 264.
- (3) A cemetery maintenance district organized under ORS chapter 265.
- (4) A park and recreation district organized under ORS chapter 266.
- (5) A mass transit district organized under ORS 267.010 to 267.390.
- (6) A metropolitan service district organized under ORS chapter 268.
- (7) A special road district organized under ORS 371.305 to 371.360.
- (8) A road assessment district organized under ORS 371.405 to 371.535.
- (9) A highway lighting district organized under ORS chapter 372.
- (10) A health district organized under ORS 440.305 to 440.410.
- (11) A sanitary district organized under ORS 450.005 to 450.245.
- (12) A sanitary authority, water authority or joint water and sanitary authority organized under ORS 450.600 to 450.989.
- (13) A vector control district organized under ORS 452.020 to 452.170.
- (14) A rural fire protection district organized under ORS chapter 478.
- (15) An irrigation district organized under ORS chapter 545.
- (16) A drainage district organized under ORS chapter 547.
- (17) A water improvement district organized under ORS chapter 552.
- (18) A water control district organized under ORS chapter 553.
- (19) A weather modification district organized under ORS 558.200 to 558.440.
- (20) A port organized under ORS 777.005 to 777.725 and 777.915 to 777.953.
- (21) A geothermal heating district organized under ORS chapter 523.
- (22) A transportation district organized under ORS 267.510 to 267.650.
- (23) A library district organized under ORS 357.216 to 357.286.
- (24) A 9-1-1 communications district organized under ORS 401.807 to 401.857. [1971 c.23 §2; 1975 c.782 §48; 1977 c.756 §1; 1981 c.226 §18; 1987 c.671 §10; 1987 c.863 §10; 1989 c.793 §19; 1993 c.577 §15]

As used in ORS 198.190, unless the context requires otherwise, “district” has the meaning given that term by ORS 198.010 (2) to (5) and (7) to (23). In addition, “district” means any one of the following:

- (1) A county service district organized under ORS chapter 451.

(2) A diking district organized under ORS chapter 551.

(3) A corporation for irrigation, drainage, water supply or flood control organized under ORS chapter 554.

(4) A soil and water conservation district organized under ORS 568.210 to 568.808 and 568.900 to 568.933.

(5) The Port of Portland created by ORS 778.010. [1971 c.403 §1; 1975 c.782 §48a; 1977 c.756 §2; 1981 c.226 §19; 1983 c.740 §53]

APPENDIX B  
OREGON ENTERPRISE ZONE AUTHORITIES APPLICATION

# OREGON ENTERPRISE ZONE AUTHORIZATION APPLICATION

• Complete form and submit to the local enterprise zone manager **before** breaking ground or beginning work at the site. • Please type or print neatly.

## APPLICANT

Enterprise Zone or Rural Renewal Energy Development Zone (where business firm <b>and</b> property will be located)		County	
Name of Business Firm		Telephone Number (      )	
Mailing Address	City	State	ZIP Code
Location of Property (street address if different from above)	City	State	ZIP Code
Map and Tax Lot Number of Site	Contact Person	Title	

My firm expects to apply for this property tax exemption in the following year(s): \_\_\_\_\_

- Check here if your firm has or has had another exemption in this enterprise zone. Note the first year of such exemption: \_\_\_\_\_
- Check here that your firm commits to renew this authorization application. Renew this application on or before April 1 every two calendar years, until the tax exemption on qualified property is claimed.
- Check here if you are requesting an **extended abatement** of one or two additional years of exemption. This is subject to minimum average annual "compensation" for employees and written agreement with local zone sponsor. Sponsor may request additional requirements.

### Zone Manager Use Only (after written agreement but before authorizing firm):

County Average Annual Wage: \$ \_\_\_\_\_ Total Exemption Period: \_\_\_\_\_ (consecutive) years

## BUSINESS ELIGIBILITY

**Eligible Activity**—Check all activities that apply to proposed investment within the enterprise zone:

- Manufacturing    Fabrication    Bulk Printing    Shipping    Agricultural Production    Energy Generation
- Assembly    Processing    Software Publishing    Storage    Back-office Systems
- Other**—describe the activities that provide goods, products, or services to other businesses (or to other operations of your firm): \_\_\_\_\_

- Check here if your business firm does or will engage in **ineligible activities** within the enterprise zone (such as retail sales, health care, professional services, or construction). Describe below (or in an attachment) these activities and their physical separation from "eligible activities" checked above: \_\_\_\_\_

**Special Cases**—Check all that apply:

- Check here if a **hotel, motel, or destination resort** in an applicable enterprise zone.
- Check here if a **retail/financial call center**. Indicate expected percent of customers in local calling area: \_\_\_\_\_%.
- Check here if a **"headquarters" facility**. (Zone sponsor must find that operations are statewide or regional in scope and locally significant.)
- Check here if an **electronic commerce investment** in an e-commerce enterprise zone. (This also provides for an income tax credit.)

## EMPLOYMENT IN THE ENTERPRISE ZONE (see worksheets on last page)

Do not count temporary, seasonal, construction, FTE, part-time jobs (32 hours or less per week), or employees working at ineligible operations.

**Existing Employment**—My business firm's average employment in the zone over the past 12 months is \_\_\_\_\_ jobs.

**New Employees**— • Hiring is expected to begin on (date or month and year): \_\_\_\_\_

• Hiring is expected to be completed by (month and year): \_\_\_\_\_

• Estimated total number of new employees to be hired with this investment is: \_\_\_\_\_

**Commitments**—By checking all boxes below, you agree to the following commitments as required by law for authorization:

- By April 1 of the first year of exemption on the proposed investment in qualified property, I will increase existing employment within the zone by one new employee or by 10 percent, whichever is greater.
- When the exemption claim is also filed by April 1 following each calendar year of exemption, total employment in the zone will not have shrunk by 85 percent at one time or by 50 percent twice in a row, compared to any previous year's figure.
- My firm will maintain at least the above minimum level as an annual average employment during the exemption period.
- My firm will comply with local additional requirements as contained in: (1) a written agreement for an extended agreement, (2) zone sponsor resolution(s) waiving required employment increase, or (3) an **urban** enterprise zone's adopted policy, if applicable.
- My firm will verify compliance with these commitments, as requested by the local zone sponsor, the county assessor or their representative, or as directed by state forms or administrative rules.
- My firm will enter into a **first-source hiring agreement** before hiring new eligible employees. (This **mandatory** agreement entails an obligation to consider referrals from local job training providers for eligible job openings within the zone during at least the exemption period.)

**OREGON EMPLOYMENT OUTSIDE THE ENTERPRISE ZONE**

**Check only those that apply:**

- Check here if your firm or a commonly controlled firm is, or will be, closing or curtailing operations in the state **beyond 30 miles of the zone's boundary**. Indicate timing, location, number of any job losses, and relationship to the proposed enterprise zone investment:
  
- Check here if you are transferring any operations into the zone from site(s) **within 30 miles of the zone boundary** (existing businesses only): My firm's average employment at the site(s) over the past 12 months is \_\_\_\_\_ jobs.
- Check here if your firm commits to increase the combined employment at the site(s) (within 30 miles) and in the zone to 110 percent of the existing combined level by April 1 and on average during the first year of exemption.

**PROPOSED INVESTMENT IN QUALIFIED PROPERTY**

**Anticipated Timing**—Enter dates or months/years

Action	Site and Building & Structures			Machinery and Equipment		
	Preparation	Construction*	Placed in Service	Procurement**	Installation	Placed in Service
To commence or begin on						
To be completed on						

\* And/or new reconstruction, additions to, or modifications of existing building(s) or structure(s).  
 \*\* May precede application by up to three months.

**Special Issues:**

- Check here for building/structure acquired/leased for which construction, reconstruction, additions, or modifications began prior to this application (attach executed lease or closing documents).
- Check here for **Work-in-Progress** tax exemption for qualified property that is not yet placed in service and is located on site as of January 1. (Attach description and list of such probable property. See "Special Issues Worksheet," on the last page.)

**Qualifying Property:** Estimates of cost (please attach a preliminary list of machinery and equipment).

Type of Property		Number of Each/Item	Expected Estimated Value	Check if any Item will be Leased
Real Property	Building or structure to be newly constructed		\$	<input type="checkbox"/>
	New addition to or modification of an existing building/structure		\$	<input type="checkbox"/>
	Heavy or affixed machinery and equipment		\$	<input type="checkbox"/>
Personal Property Item(s) Costing:	\$50,000 or more		\$	<input type="checkbox"/>
	\$1,000 or more (E-commerce zone or used exclusively for tangible production)		\$	<input type="checkbox"/>
<b>Total Estimated Value of Investment</b>			\$	

**Additional Description:** In addition to what is explained elsewhere, briefly comment below (or in an attachment) on the scope of your investment, the particular operations and output that are planned, and the intended uses of the qualifying property.

---



---



---



---

**DECLARATION**

I declare under penalties of false swearing [ORS 305.990(4)] that I have examined this document and attachments, and to the best of my knowledge, they are true, correct, and complete. If any information changes, I will notify the zone manager and the county assessor and submit appropriate written amendments. I understand that my business firm will receive the tax exemption for property in the enterprise zone, only if my firm satisfies statutory requirements (ORS Chapter 285C) and complies with all local, Oregon, and federal laws that are applicable to my business.

**MUST BE SIGNED BY AN OWNER, COMPANY EXECUTIVE, OR AUTHORIZED REPRESENTATIVE OF THE BUSINESS FIRM**

Signature <b>X</b>	Date
Title (if not an owner or executive, attach letter attesting to appropriate contractual authority)	

**Local enterprise zone manager and county assessor must approve this application (with Enterprise Zone Authorization Approval, form 150-303-082)**

# OREGON ENTERPRISE ZONE AUTHORIZATION APPLICATION INSTRUCTIONS

## For More Information

Please see the Economic and Community Development Department's guidance booklet, *Enterprise Zones in Oregon*.

Visit the Web site at [www.econ.state.or.us/enterthezones](http://www.econ.state.or.us/enterthezones).

## Applicant

This application form serves to authorize your business firm to receive a standard three-year exemption on qualified property that you will own or lease at the specified site in the enterprise zone. The local zone manager and the county assessor's office authorize your firm (not the proposed investment) using an *Enterprise Zone Authorization Approval* form (150-303-082).

### Mandatory Timing in Being Authorized:

- Complete and submit this form to the local zone manager before beginning physical project work (construction, installations, etc.) or hiring new employees. Work may then proceed even before approval.
- See "Proposed Investment in Qualified Property" for exceptions—work that might normally precede application.
- No exemption is allowed on property for which work began prior to the **effective date** of the zone's designation or amendment to include the site, or for any property already assessed by that date.
- After submitting this application but before being authorized, you and the zone manager will hold a **pre-authorization consultation**, at which the assessor's office might participate, to formally address special issues or contingencies for qualification.
- If seeking an **extended abatement** of four or five years in total, a written agreement with the zone sponsor must be executed when your firm is approved for authorization.

### First Year Claiming Exemption from Property Taxes:

- The first year of exemption is the year following the year in which the qualified property is "placed in service." This means when the property is first used or occupied, or is ready for use or occupancy, for intended commercial purposes.
- To claim the exemption, you must file with the county assessor after January 1, but on or before April 1, of that first year. Attach a schedule of the property to be exempted.
- Submit the exemption claim (without property schedule) after each year of exemption, in order to confirm compliance.

### Keeping Authorization Active:

- This application needs to be renewed after two full years between January 1 and April 1, if your firm is not ready to claim an exemption. Submit a letter with the zone manager and assessor stating your continuing interest and intent.
- Failure to submit such a statement every two years (while the zone exists) classifies your authorization as "inactive." A fee is then required in order to claim the exemption.

## Business Eligibility

A key function of authorization is to ascertain and assure a business firm's eligibility for exemption.

- The program is primarily limited to for-profit organizations that provide goods or services to other business operations.
- **Ineligible operations** include: tourism, retail food service, entertainment, childcare, financial services, property management, housing or construction, retail sales or goods or services, health care, or professional services.

- An eligible **call center** may receive customer requests and orders by various means, but at least 90 percent must originate from areas that would entail a long-distance charge if performed by telephone.
- **E-commerce** investments receive special treatment in four enterprise zones and in the city of North Plains.
- **Central facilities** for management, marketing, design, etc., are eligible if serving statewide or wider operations of a company. (Investment needs to conform to authorized description.)
- More than 60 percent of the enterprise zones have elected to make **hotels, motels, and destination resorts** eligible. The choice may differ among a zone's sponsoring jurisdictions.

## Employment in the Enterprise Zone

To be authorized, the eligible business firm must commit to satisfy job-creation requirements:

- The number of jobs in the zone must rise and be maintained during the exemption at a minimum of 110 percent of the average level from the time of the authorization application.
- Failure to reach this level precludes the exemption.
- Failure to maintain this level represents "substantial curtailment," as would a big drop in total employment.
- Your firm must enter into a **first-source hiring agreement** before hiring new employees. The local zone manager will direct you to the contact agency.
- Your firm and the zone sponsor are solely responsible for compliance/verification of local additional requirements.
- Also see "Special Issues Worksheet" on the last page.

## Employment Outside the Enterprise Zone

The business firm is disqualified if:

- The transfer of operations into the enterprise zone results in Oregon job losses more than 30 miles from the zone boundary.
- The movement of employees into the zone from within 30 miles of its boundary results in less than a 10 percent increase of the overall employment level in the zone and outside the zone.

## Proposed Investment in Qualified Property

To assist eligible business firms in understanding the property tax benefit they may receive for investing in an enterprise zone, the authorization application asks for the best available information on the cost, extent, and timing of planned investments. It is critical for communication between the firm, the local zone manager, and the county assessor.

### Pre-application Activity at Site:

In general, physical investment including site preparation must begin after this application is submitted. Exceptions include, but are not limited to, the following:

- A project started and abandoned at least six months earlier.
- Demolition, hazard removal, or environmental cleanup.
- Property acquired from another authorized business firm.
- Purchase or lease from a third party of a newly constructed or newly improved building. In this case, work may already be underway or completed, but approval of this application must include a copy of the sale/lease agreement and must happen before any use or occupancy of the building.

**Work-in-progress:** Qualified property, on-site as of January 1, may be exempt for up to two years before being placed in service. File the regular *Application for Cancellation of Assessment on Commercial Facilities Under Construction* form (150-310-020) with the county assessor on or before April 1, if work is still underway on January 1.

**Property Criteria:**

- For a significant building or structure to be exempt, the authorization must include some description of it. Also, if no machinery and equipment is indicated, then no such property qualifies.
- All property needs to be new, meaning it was not used or occupied in the zone more than one year before exemption begins.
- Machinery and equipment must be newly acquired or newly transferred from outside of the county (except for major retrofit or refurbishment of real property idle for 18 months).
- Any or all property may be leased from any party, if your firm (the lessee) is obligated to pay the property taxes.
- All real property—buildings, structures, and heavy/affixed machinery and equipment—listed on the exemption claim property schedule must cost \$50,000 or more in total.
- Personal property machinery and equipment is readily movable and qualifies based on **per-item** cost minimum.

- Land, vehicles, motorized/self-propelled devices, rolling stock, non-inventory supplies, and idle or ineligibly used property do **not** qualify.
- The investment in property needs to be for the furtherance of income. For example, it may not be for personal use.

**Additional Property and Future Projects:**

- With an ongoing investment, subsequent property that is not placed in service until the first or second year of exemption on the initial property may be exempted as well.
- In other words, property schedules may be filed with up to three consecutive claims, pursuant to a single authorization.
- Any major change of plans should be amended into the application, in writing to both the zone manager and the county assessor, before the first year of an initial exemption.
- Another authorization application is necessary for qualified property at a different location in the same or another zone.

**APPLICABLE PROPERTY TAX RETURNS MUST STILL BE FILED ANNUALLY**

Please complete the following worksheets either before or during the pre-authorization consultation with the local zone manager

**Employment Worksheet**

Use this worksheet to determine your business firm’s annual average employment over the 12 months preceding the date on which you submit the authorization application, and as required during the period of the enterprise zone exemption:

$$\begin{aligned} & \text{_____}(1) + \text{_____}(2) + \text{_____}(3) + \text{_____}(4) + \\ & \text{_____}(5) + \text{_____}(6) + \text{_____}(7) + \text{_____}(8) + \\ & \text{_____}(9) + \text{_____}(10) + \text{_____}(11) + \text{_____}(12) = \\ & \text{_____} \div 12 = \text{_____} \text{ *Average Annual Existing Jobs} \end{aligned}$$

1. Identify those employees or positions within the zone that are: (a) working a majority of their time in “eligible” activities or in direct support of those activities; (b) paid on average for more than 32 hours per week; (c) **not** employed solely to construct property; (d) **not** seasonal; and (e) **not** temporary—not hired, leased, or contracted for less than one year or on an as-needed/ad hoc basis. **Don’t** use “full-time equivalents” (FTE).
2. Determine the number of the above employees at the end of each pay period, calendar month, or quarter over the prior 12 months.
3. Total the number of employees from each period and divide this sum by the number of periods. If not using **months**, include a suitable attachment in place of the following with your application:

4. If your Average Annual Existing Jobs\* (from number 3, above) is:
  - a) Five or more, multiply by 1.1, as follows:  
\* \_\_\_\_\_ × 1.1 = \_\_\_\_\_, **or**
  - b) Less than five, add one, as follows:  
\* \_\_\_\_\_ + 1 = \_\_\_\_\_.
5. Round the total from 4a or 4b to the nearest whole number (for example, 25.49 becomes 25 and 25.50 becomes 26). Your rounded figure is the level of employment required by April 1 of the first year of exemption.

For purposes of compliance, repeat steps 1–3 and 5 above for each year that qualified property is exempt.

**Special Issues Worksheet**

This worksheet is simply a checklist to guide you through certain issues that may need to be addressed as soon as possible. Check if the answer is “yes” or “maybe.”

- Will the requisite increase of enterprise zone employment be difficult to achieve, even with the new investment? Or could it be somewhat unapparent? In any case, work out verification options with local zone manager. Copies of unemployment insurance reports or other records should be kept on file to assure manager and assessor.
- If the number of jobs will likely not grow by 10 percent, do you want local waiver by resolution(s) adopted by zone sponsor with authorization? Waiver allowed if investment costs \$25 million or more, or with a 10 percent rise in productivity combined with workforce training fund.
- Do you anticipate any January 1 **work-in-progress** property? File by April 1 with the county assessor’s office using the *Application for Cancellation of Assessment on Commercial Facilities under Construction* form (150-310-020) for the regular “Construction-in-Process” (CIP) program. (Not available for centrally assessed/utility property.)
- Are you interested in publicly owned and otherwise available real estate that might exist in the zone and that an authorized business firm generally has a right to buy or lease if promptly developed for authorized use?

- Would you like to know about local incentives that city/county sponsor may offer to authorized businesses, such as fee waiver, regulatory expedition, and so forth?
- Will a qualified building be partially occupied by another business/tenant or used for ineligible operations? In such cases, work with the local zone manager to determine the units or proportion of space for the assessor to exempt.
- Would you like your enterprise zone employment to be combined with the job figure for (100-percent) commonly owned firm/corporation(s)? If so, attach a statement with the name of the other company(s). Without such election, even subsidiaries of the same parent corporation are treated as distinct business firms within an enterprise zone.
- Is investment pending the site’s inclusion in the zone? This application may be approved under such circumstances, but make arrangements with the local zone manager to ensure that site work does not begin until on or after the effective date of the boundary change. (Same applies to designation of a new enterprise zone.)
- Is the enterprise zone terminated? This normally precludes authorization or qualification, but an already authorized/qualified firm can “grandfather” and may be authorized up to 10 years after the termination of the zone.

APPENDIX C  
OVERVIEW OF ACTIVITY IN OREGON ENTERPRISE ZONES

*Oregon Economic and Community Development - 12/4/2006*  
SUMMARY

**Basic Enterprise Zone Facts (2006)**

TABLE A (next page)

**DESIGNATED ENTERPRISE ZONES:**

- 55 Enterprise zones currently exist, of which ...
- 46 Are *Rural*
- 96 Cities sponsor these zones, along with ...
- 2 Ports, and ...
- 29 Counties (Zones are actually located in 35 of Oregon's 36 counties), plus ...
- 1 Federally recognized Indian Tribe

(page 9)

**PROJECTS RECEIVING STANDARD EXEMPTION DURING 2005-2006 TAX YEAR:**

- 114 Separate business development projects, with ...
- 5,884 New, full-time jobs
- 8,720 Existing full-time employees (proximate measure of retention)
- \$1.3 Billion was exempt in the 2005-2006 Tax Year, saving ...
- \$18.6 Million in property taxes for qualified business firms

(page 21)

**RECENTLY COMPLETED INVESTMENTS FIRST QUALIFYING IN 2006:**

- 43 New business development projects (excluding add-ons to current exemptions), with ...
- 1,219 New, full-time jobs, and about ...
- \$242 Million invested in new property to be exempt for three to five years (including add-ons to current exemptions)

(page 29)

**PROPOSED INVESTMENTS TO BE COMPLETED IN 2006 OR LATER:**

- 106 Separate business development projects, with ...
- 3,132 New, full-time jobs, at a minimum, and about ...
- \$2.1 Billion, estimated to be invested in new property for future exemption

TABLE B (pages 6-8)

**NOTE:**

\$2.5 Billion is conservatively estimated to be on property assessment rolls for taxation today, because of now-expired standard exemptions since the inception of Oregon enterprise zones during late eighties.

TABLE A

# List of Current Oregon Enterprise Zones

State Map of Enterprise Zones at - [www.oregon4biz.com/enterthezones](http://www.oregon4biz.com/enterthezones)

Name of Enterprise Zone	Basic Category	Year (Re-) Designated	State Economic Revitalization (SEE REFERENCE I)	Principal County		Local Government (Co)sponsorship	
				Location	Cities*	Ports	Counties
Baker City / County	Rural	1996	Eastern	Baker	2		1
Bay Area	Rural	1996	Southwest	Coos	2	1	1
Cascade Locks/Hood River †	Rural	1999	Northwest	Hood River	2	0	1
Columbia River [Boardman]	Rural	1998	Eastern	Morrow	1	0	1
Cottage Grove / South Lane Co.	Rural	2002	Valley/Mid-Coast	Lane	1		1
Coquille Valley	Rural	1997	Southwest	Coos	3	0	1
CTUJR Tribal	Reservation/Rural	2002	Eastern	Umatilla	0	0	0
Eugene	Urban	2005	Valley/Mid-Coast	Lane	1		0
Dallas, Independence, Monmouth	Rural	1998	Valley/Mid-Coast	Polk	3		1
Florence †	Rural	2000	Valley/Mid-Coast	Lane	1	0	0
Forest Grove	Urban	2006	Northwest	Washington	1	0	0
Fossil	Rural	2006	Central Corridor	Wheeler	1		0
Gold Beach	Rural	2002	Southwest	Curry	1	0	1
Gilliam County	Rural	2002	Central Corridor	Gilliam	2	0	1
Grants Pass Area †	Rural	1997	Southwest	Josephine	1		1
Grande Ronde [Union County]	Rural	1998	Eastern	Union	4		1
Grant County	Rural	1999	Eastern	Grant	4		1
Gresham	Urban	2006	Northwest	Multnomah	1	0	0
Harney Co. / Burns / Hines †	Rural	2006	Eastern	Harney	2		1
Hillsboro	Urban	2006	Northwest	Washington	1	0	0
Harrisburg	Rural	2005	Valley/Mid-Coast	Linn	2		1
Hermiston	Rural	2004	Eastern	Umatilla	1	0	0
Huntington	Rural	1999	Eastern	Baker	1		1
Jefferson County	Rural	2006	Central Corridor	Jefferson	2		1
Josephine Champion	Rural-federal	2000	Southwest	Josephine	1		1
Klamath Falls / County	Rural	1996	Central Corridor	Klamath	1		1
Lower Columbia Maritime	Rural	1997	Northwest	Columbia	2	0	2
Lakeview	Rural	1996	Central Corridor	Lake	1		1
Lincoln County †	Rural	1999	Valley/Mid-Coast	Lincoln	6	0	1

TABLE A

# List of Current Oregon Enterprise Zones

State Map of Enterprise Zones at -- [www.oregon4biz.com/enterthezones](http://www.oregon4biz.com/enterthezones)

Name of Enterprise Zone	Basic Category	Year (Re-) Designated	State Economic Revitalization (SEE REFERENCE I)	Principal County Location	Local Government (Co)sponsorship		
					Cities*	Ports	Counties
Lower Umpqua [Readsport]	Rural	2006	Southwest	Douglas	1	1	1
Medford Urban †	Urban	1997	Southwest	Jackson	1		0
Molalla	Rural	2006	Northwest	Clackamas	1	0	0
Malheur County	Rural	1999	Eastern	Malheur	3		1
Milwaukie / No. Clackamas County *	Urban	1997	Northwest	Clackamas	2	0	1
N/NE Portland * †	Urban	1996	Northwest	Multnomah	1	0	0
Oakridge / Westfir	Rural	1997	Valley/Mid-Coast	Lane	2		1
Prineville / Crook County	Rural	2002	Central Corridor	Crook	1		1
Pendleton / Pilot Rock	Rural	1997	Eastern	Umatilla	2	0	1
Port Orford Area	Rural	1997	Southwest	Curry	1	0	1
Roberts Creek [Roseburg-Dillard] †	Rural	2004	Southwest	Douglas	2		1
Redmond	Rural	1998	Central Corridor	Deschutes	1		1
South Douglas County	Rural	1999	Southwest	Douglas	2		1
St. Helens / Columbia City	Rural	1996	Northwest	Columbia	2	0	1
Salem †	Urban	1998	Valley/Mid-Coast	Marion	1		0
Sutherlin / Oakland	Rural	1997	Southwest	Douglas	2		1
Springfield	Urban	1999	Valley/Mid-Coast	Lane	1		1
Sherman County	Rural	1999	Central Corridor	Sherman	4		1
South Santiam	Rural	1996	Valley/Mid-Coast	Linn	3		1
Sweet Home	Rural	1996	Valley/Mid-Coast	Linn	1		1
The Dalles / Wasco County	Rural	1996	Central Corridor	Wasco	1	0	1
Tillamook	Rural	1997	Northwest	Tillamook	4	0	1
Umatilla	Rural	1997	Eastern	Umatilla	1	0	1
Willow Creek Valley [Heppner]	Rural	1999	Eastern	Morrow	1	0	1
Wallowa County	Rural	1999	Eastern	Wallowa	4		1
Western Yamhill County	Rural	1997	Valley/Mid-Coast	Yamhill	1		0
<b>55</b>	<b>46 Rural   9 Urban</b>	<b>1996-2006</b>	<b>5 REGIONS</b>	<b>35</b>	<b>96</b>	<b>2</b>	<b>29</b>

\* City of Portland sponsors two different urban enterprise zones but only counted once in "Cities" Total.

† Electronic Commerce designation

APPENDIX D  
OREGON DEPARTMENT OF JUSTICE OPINION NO. 8236

1 of 2 DOCUMENTS

OFFICE OF THE ATTORNEY GENERAL OF THE STATE OF OREGON

No. **8236**

*1995 Ore. AG LEXIS 7; 47 Op. Atty Gen. Ore. 243*

April 20, 1995

**REQUESTBY:**

[\*1]

This opinion responds to two questions from Jon Jaqua, Deputy Director, Economic Development Department, concerning the constitutionality of hiring requirements in the Enterprise Zone Act (Act), ORS 285.570 to 285.617.

**OPINIONBY:**

THEODORE R. KULONGOSKI, Attorney General

**OPINION:**

[\*\*243]

FIRST QUESTION PRESENTED

Is *ORS 285.605*, which provides that an eligible business must hire a certain number of residents from a certain area in order to receive a property tax exemption under the Act, constitutional?

ANSWER GIVEN

If presented with the issue, we believe that a court would likely hold the enterprise zone hiring requirements in *ORS 285.605* unconstitutional under the Privileges and Immunities Clause of the United States Constitution.

SECOND QUESTION PRESENTED

If the Act's hiring requirements are not constitutional, are there any other hiring restrictions that would be permissible?

ANSWER GIVEN

Yes. The state could condition the receipt of a tax exemption upon various hiring requirements so long as those requirements were not based on residency. Several alternatives are discussed below.

DISCUSSION

I. Enterprise Zone Statutes

The purpose of the Act is set out in *ORS 285.573*, which provides:

The Legislative [\*2] Assembly finds and declares that the health, safety and welfare of the people of this state are dependent upon the continued encouragement, development, growth and expansion of employment, business, industry and commerce within the state, and that there are areas in the state that need the particular attention of government to

*help attract private business investment into these areas.* Therefore, it is declared to be the purpose of *ORS 285.570 to 285.620 to stimulate employment, business and industrial growth in those areas of this state* by providing assistance to businesses and industries and by providing tax incentives in those areas.

(Emphasis added.) In general, the Act's purpose is to encourage businesses to locate in the zones, thereby creating jobs and reducing unemployment. *See also ORS 285.570(5), 285.575(2), 285.577(1)(e).* When the enterprise zones were originally designated by the Governor, and later by the Director of the Economic Development Department, the criteria used by the department [\*\*244] included higher than average unemployment rates and lower than average incomes in the area to be included in the zone. *See ORS 284.180 (1987); Or Laws 1993, ch 773, [\*3] § 5; ORS 285.585(2)(c).* However, there also are other criteria for designation. *See OAR 123-65-010, 123-65-040* (commuting distance to nearest zone, population decline, prior economic development activities, immediate investment prospects).

In order to receive a property tax exemption under *ORS 285.597*, an eligible business must satisfy the hiring requirements of *ORS 285.605*, as follows:

1) For businesses in urban enterprise zones receiving five-year property tax exemptions, at least 50 percent of all new employees "immediately prior to being hired, shall reside within the regional or metropolitan urban growth boundary." *ORS 285.605(2)(a).*

2) For businesses in the Portland enterprise zone receiving five-year property tax exemptions, at least 50 percent of all new employees "are residents of the enterprise zone for a period of at least 90 days before their employment date." *ORS 285.605(4)(b).*

3) For businesses in the Portland enterprise zone receiving three-year property tax exemptions, at least 25 percent of all new employees "shall reside within the boundaries of the enterprise zone for a period of at least 90 days before their employment date." *ORS 285.605(5)(a).*

4) For [\*4] businesses in nonurban enterprise zones receiving five-year property tax exemptions, at least 50 percent of all new employees "immediately prior to being hired, shall reside in the county or counties within which the enterprise zone is located." *ORS 285.605(6)(a).*

## II. Privileges and Immunities Clause

Article IV, section 2, clause 1 of the United States Constitution, the Privileges and Immunities Clause, provides that "[t]he Citizens of each State shall be entitled to all Privileges and Immunities of Citizens in the several states." The terms "citizens" and "residents" are interchangeable when analyzing statutes under the Privileges and Immunities Clause. *United Building & Constr. Trades v. Mayor (Camden), 465 US 208, 216, 104 S Ct 1020, 79 L Ed2d 249 (1984).* Thus, the United States Constitution guarantees the residents of each state the same privileges as residents of other states.

### A. Privilege Covered by the Clause

The first issue is to determine whether the statutes being analyzed burden a privilege protected by the Privileges and Immunities Clause. The clause does not prohibit all discrimination against nonresidents. Rather, its primary purpose [\*\*245] is to prevent states [\*5] from enacting measures that discriminate against nonresidents "with respect to those 'privileges' and 'immunities' bearing upon the vitality of the Nation as a single entity." *Baldwin v. Montana Fish and Game Comm'n, 436 US 371, 383, 98 S Ct 1852, 56 L Ed2d 354 (1978).*

Statutes that discriminate against nonresidents "seeking to ply their trade, practice their occupation, or pursue a common calling" are within the purview of the Clause. *Hicklin v. Orbeck, 437 US 518, 524, 98 S Ct 2482, 57 L Ed2d 397 (1978).* Employment in private industry is a privilege covered by the Privileges and Immunities Clause. *Id.*; *see also Camden, 465 US at 221-22.*

## B. Applicability of Clause to Municipal Residency Requirements

In order to receive the tax exemption, *ORS 285.605* requires businesses to hire employees based not upon their residence in Oregon, but upon their residence within the zone, the urban growth boundary or the county. Therefore, the next issue is whether the Privileges and Immunities Clause applies only to state residency requirements or also to municipal residency requirements. In *Camden*, 465 US 208, the United States Supreme Court held that municipal residency requirements [\*6] also must comport with the Privileges and Immunities Clause. The Court concluded that a municipal ordinance requiring public works contractors to use good faith efforts to hire 40 percent of their employees from residents of the City of Camden violated the Privileges and Immunities Clause. The Court stated:

A person who is not residing in a given State is ipso facto not residing in a city within that State. Thus whether the exercise of a privilege is conditioned on state residency or on municipal residency he will just as surely be excluded.

\* \* \*

We conclude that Camden's ordinance is not immune from constitutional review at the behest of out-of-state residents merely because some in-state residents are similarly disadvantaged.

*Id.* at 217-18. See also *Salem Blue Collar Workers Ass'n v. City of Salem*, 832 F Supp 852, 856 (D NJ 1993) ("[O]ut-of-state residents burdened by a municipal residency ordinance must be accorded the protections of the Clause.").

## C. Permissible Discrimination Against Nonresidents

However, the fact that a statute discriminates against nonresidents with respect to a protected privilege does not end the inquiry because the Privileges and Immunities [\*7] Clause is "not an absolute." *Toomer v. Witsell*, 334 US 385, 396, 68 S Ct 1156, 92 L Ed 1460 (1948). In order for a statute that discriminates against nonresidents to withstand a challenge under the Privileges and Immunities Clause, it must pass two tests: 1) The nonresidents must constitute a peculiar source of the evil at which the statute is aimed, and 2) there must be [\*\*246] a reasonable relationship between discrimination worked against the nonresidents and the evil that they present. *Id.* at 396-99.

### 1. Source of Evil at Which Statute is Aimed

In almost all cases challenging nonresident hiring restrictions, the courts have found that the statutes failed the first test, i.e., the nonresidents were not the source of the evil at which the statute was aimed. Discrimination is permitted only if there is a "substantial reason" to justify it, *Toomer v. Witsell*, 334 US at 396, and the nonresidents are "a peculiar source of the evil," *Hicklin v. Orbeck*, 437 US at 525.

Generally, the purpose identified by state statutes imposing nonresident hiring restrictions has been to alleviate unemployment in the state. In *Hicklin v. Orbeck*, 437 US 518, the Court analyzed the "Alaska [\*8] Hire" statute, which imposed a preference for Alaska residents over nonresidents upon companies involved in any way with oil or natural gas development in Alaska. The purpose of the "Alaska Hire" statute was to reduce unemployment in Alaska. The Court invalidated the preference because the evidence indicated that Alaska's high unemployment rate was not due to the influx of out-of-state persons.

Even assuming that a State may validly attempt to alleviate its unemployment problem by requiring private employers within the State to discriminate against nonresidents \* \* \* it is clear that \* \* \* Alaska Hire's discrimination against nonresidents cannot withstand scrutiny under the Privileges and Immunities Clause. \* \* \* [N]o showing was made on this record that nonresidents were "a particular source of the evil" Alaska Hire was enacted to remedy, namely, Alaska's "uniquely high unemployment." What evidence the record does contain indicates that the major cause of Alaska's high unemployment was not the influx of nonresidents seeking employment, but rather the fact that a substantial number of Alaska's jobless residents -- especially the unemployed Eskimo and Indian residents -- were

unable [\*9] to secure employment either because of their lack of education and job training or because of their geographical remoteness from job opportunities \* \* \*.

*Id.* at 526-27 (citations omitted, footnote omitted).

In *Robison v. Francis*, 713 P2d 259 (Alaska 1986) *rev'd on other grounds* 777 P2d 202 (Alaska 1989), the court found unconstitutional a statute requiring public works contractors to employ 95 percent residents of Alaska where they are "available and qualified." *Id.* at 761 n 1. The purpose of the statute was to reduce unemployment in Alaska. However, the court accepted the findings by the trial court that there was insufficient evidence that nonresident workers were a particular source of unemployment among residents "anymore than they would be in any other state." *Id.* at 266. Yet, the court went even further, questioning whether excluding nonresidents in order to increase the employment of residents could ever be justified. The court stated that: [\*\*247]

Restricting entry by non-residents into a job market will make more positions available to residents. It is not difficult to make a case to a sympathetic legislature, whose members are accountable only to [\*10] residents, that residents are deserving of protection because some of them are unemployed. But the universality of this condition is itself a reason why it is impermissible as a justification in privileges and immunities analysis. If every state could exclude or severely limit non-resident workers because some of its residents were unemployed our country would be "little more than a league of states" rather than "the Union which now exists." Such a result would run strongly counter to the policy of national economic unity on which the privileges and immunities clause is based.

*Id.* at 267-68 (citations omitted).

Whether nonresidents are a particular source of the "evil" of unemployment is, in the first instance, a factual question. *First Westco Corp. v. Schl. Dist. of Philadelphia*, 811 F Supp 204 (ED Pa 1993) *rev'd on other grounds* 6 F3d 108 (3rd Cir 1993), is instructive in this regard. The Philadelphia School District required public works contractors to hire Pennsylvania residents in order to reduce the unemployment rate among Pennsylvania construction workers. Residency was defined as living in Philadelphia for 90 days prior to hire. Both sides presented statistical [\*11] evidence that showed the statute would reduce unemployment only marginally (significantly less than one percent). The court concluded that this marginal effect on the unemployment rate among Pennsylvania construction workers was proof that nonresidents were not the peculiar cause of unemployment among construction workers.

ORS 285.573 states that the "health, safety and welfare" of the citizens of Oregon require that businesses be given tax exemptions to locate in Oregon and increase employment. ORS 285.573 further states that the purpose of the Act is to encourage economic development and to raise the incomes of Oregonians. However, it is not evident that hiring nonresidents negatively impacts economic development in Oregon or reduces the income of Oregonians or that nonresidents are the cause of unemployment within enterprise zones. n1 Thus, we [\*\*248] believe that the Act's discriminatory hiring requirements likely would not meet the first test for constitutionality for lack of evidence that nonresidents are the particular source of the evil at which the statute is aimed.

n1 In *United Building & Constr. Trades v. Mayor*, 465 US 208, 104 S Ct 1020, 79 L Ed2d 249 (1984), the City of Camden argued that the evils at which the 40 percent resident preference were directed were: High unemployment (11.6 percent compared to 7.6 percent for the county), a decrease in city population and a decrease in the number of businesses located within the city, which was decreasing the tax base. The city also contended that nonresidents were "living off" Camden without "living in" Camden. The Court remanded the case to the lower court to determine whether these reasons were substantial and whether the non-residents were the peculiar source of the evil to be cured by the ordinance. The case was settled so we do not know whether Camden met its burden of proof.

Significantly, in *Robison v. Francis*, 713 P2d 259 (Alaska 1986), the lower court had made extensive

findings about the Alaska economy: Alaska's population was increasing faster than other states, property values were increasing in Alaska, Alaska was not depressed, the economy was expanding and employment was increasing, the construction industry was strong, construction employment fluctuated during the year, the state was the largest purchaser of construction services, unemployment in rural areas of Alaska exceeded unemployment in urban areas, there was more construction in urban than rural areas, and rural Alaskans had less training in construction. Similar to the findings made in *Robison*, the Oregon Progress Board has collected data indicating that the population in Oregon is increasing, property values are increasing, the Oregon economy is expanding, employment is increasing and economic development is greater in the Willamette Valley than elsewhere in the state. Thus, it may be particularly difficult to establish that nonresidents are a particular source of the "evil" at which the Act is aimed. See, Day, *Hiring Preference Acts: Has The Supreme Court Rendered Them Violations Of The Privileges And Immunities Clause?*, 54 *FORDHAM L REV* 271, 289-91 (1985).

[\*12]

## 2. Relationship Between Discrimination and Evil at Which Statute is Aimed

Even if the presence or activity of nonresidents causes or exacerbates the problem the state is trying to remedy, the second test requires there to be a reasonable relationship between the danger represented by the nonresidents as a class and the discrimination against them.

The *Hicklin* court found that the "Alaska Hire" statute also failed this test because the statute's discrimination against nonresidents did not bear a substantial relationship to the evil the nonresidents were said to present. 437 *US* at 527. The discriminatory means chosen by the state in its attempt to reach unemployment was not sufficiently tailored to achieve that end; all Alaskans, regardless of employment status, education or training received a preference over nonresidents. Thus, the court noted that a highly skilled resident who had never been unemployed would receive the same preference as a resident who was unemployed. *Id.*

In *Robison v. Francis*, the court found the "local hire law" that excluded nonresidents from public construction jobs in order to make more jobs available to Alaskans similarly flawed because [\*13] it gave preferential treatment to residents who did not need it. 713 *P2d* at 268. See also *First Westco Corp.*, 811 *F Supp* at 204 (statute not narrowly tailored because it did not require replacement of nonresidents with unemployed Pennsylvania workers).

ORS 285.605 provides an absolute preference for Oregonians over nonresidents, regardless of the employment status, training or wage of the [\*\*249] Oregonian. If the Act's purpose is to reduce the unemployment rate in Oregon and within the enterprise zones, the statute is not narrowly tailored to do so.

## III. Potential Challenges

ORS 285.605 could only be challenged under the Privileges and Immunities Clause by an individual residing outside Oregon or by an association representing individuals residing outside Oregon. See *Camden*, 465 *US* at 217. A business could not challenge the statute. *W.C.M. Window Co., Inc. v. Bernardi*, 730 *F2d* 486, 492-93 (7th Cir 1984) (only "natural persons" protected by Privileges and Immunities Clause).

Once the challenger shows that ORS 285.605 discriminates explicitly against nonresidents in employment, the state would have the burden of justifying the discrimination. Thus, the state would [\*14] need to demonstrate: (1) the particular evil the Act is intended to address, (2) that the nonresidents constitute the peculiar source of that evil, and (3) that the Act's discriminatory hiring policy bears a substantial relationship to that evil. *Id.* at 498; *1st Westco Corp.*, 811 *F Supp* at 207.

An argument might be made that the Oregon statute should survive a constitutional challenge because it does not

require private employers to hire residents, but merely encourages them to do so through tax benefits. There is no doubt that a state lawfully may provide tax incentives to private businesses to locate in particular areas of the state. Rather, the issue is whether the state may compel private businesses to discriminate against nonresidents as a condition for receiving tax benefits. We have not found any court cases that address this issue. Nevertheless, we do not believe that the state may use tax incentives to achieve indirectly the type of discriminatory hiring that the constitution prohibits the state from doing directly. See *Gomillion v. Lightfoot*, 364 US 339, 347, 81 S Ct 125, 5 L Ed2d 110 (1961) ("When a State exercises power wholly within the domain of state [\*15] interest, it is insulated from federal judicial review. But such insulation is not carried over when state power is used as an instrument for circumventing a federally protected right."); see also *Allen v. County School Board of Prince Edward County*, 198 F Supp 497 (ED Va 1961) (county tax credits to aid private racially segregated schools unlawful).

Forty states and the District of Columbia have enterprise zone programs, 17 of which condition enterprise zone benefits on the businesses' hiring residents. Although no enterprise zone statute has been challenged under the Privileges and Immunities Clause, the cases discussed above involve hiring provisions similar to those in Oregon's [\*\*250] Enterprise Zone Act. A chart listing these states and the relevant statutes is attached as an Appendix. If Oregon's Enterprise Zone Act were challenged, we seriously doubt that the state could successfully defend its discriminatory hiring provisions.

#### IV. Possible Amendments to Act to Avoid Unconstitutionality

Although the court cases strongly suggest that discriminatory hiring against nonresidents is unconstitutional, we believe that the state could condition the receipt of tax exemptions [\*16] on the eligible businesses' using certain hiring requirements so long as those requirements were not based on residency. For example, the Act could require a business not only to enter into a First-Source Hiring Agreement between the business and a publicly funded job training provider, ORS 285.570(5), but also to hire a certain number of qualified workers who are referred pursuant to that Agreement.

Alternatively, the hiring requirement might be based upon a certain percentage of the employees' meeting one or more of the following criteria:

- 1) Receiving unemployment insurance or other public benefits, such as Aid to Dependent Children,
- 2) participating in a publicly funded job training program,
- 3) being "unemployable," as determined by traditional standards or a lack of basic skills,
- 4) being an "eligible participant," as defined by the Job Training Partnership Act, Pub L No. 99-570, § 4, or a "dislocated worker," as defined by the Economic Dislocation and Worker Assistance Adjustment Act, Pub L No. 100-418, § 301,
- 5) having an annual income less than a specified amount prior to being hired, or
- 6) having a physical or mental handicap.

We believe that such an approach, if [\*17] carefully and narrowly crafted to remedy an identified "evil," would likely withstand a facial challenge under the Privileges and Immunities Clause, although that conclusion is not without some uncertainty. See *Hicklin v. Orbeck*, 437 US at 528 ("Even if a statute granting an employment preference to unemployed residents or to residents enrolled in job-training programs might be permissible, Alaska Hire's across-the-board grant of a job preference to all Alaskan residents clearly is not."). [\*\*251]

#### APPENDIX

STATE	RESIDENCY REQUIRED FOR TAX RELIEF	STATUTORY SECTION
AB	YES	ACA § 41-23-30
AZ	YES	ARS § 41-1525
AR	YES	ACA § 15-4-807
CA	YES	CAL. GOV'T CODE § 7082
CO	NO	CRSA § 39-30-103.5
CN	NO	CGSA § 32-70
DE	?	DCA § 31-?
DC	NO	DCCA § 5-1404
FL	YES	FSA § 220.182(10)
GA	YES	GCA § 91A-362.1
HA	YES	HRS § 209E-9, § 209E-4(b)(1)
IL	NO	220 ILCS § 5/9-222.1
IN	YES	IC § 6-3-2-8, IC § 6-3-3-10
KA	NO	KSA § 74-50,113
KN	NO	KRS § 154.45-001
LA	YES	LSA § 51.1787
ME	NO	MRSA § 30A-5251
MD	NO	MDSA § 83A-5304
MI	YES	MCLA 125.2121(6)(b),(c)
MN	NO	MSA § 469.171
MS	NO	MSA § 57-61-9
MO	YES	VAMS 135.225(2), 135.230, 135.235
NE	YES	NRS § 52:27H-62
NV	YES	NRS § 274.220
NJ	NO	NJRS § 52:27H-62
NM	NO	NMSA § 5-9-6
NY	NO	NY 15 ECON. DEV. LAW § 230
OH	YES	RC § 5709.64
OK	NO	62 OSA § 690.4
OR	YES	ORS § 285.323(3), § 285.330(5)(c)
PA	NO	72 PS § 4729
RI	YES	RI § 42-64.3-3.3
SC	NO	SCCA § 41-43-150
SD	NO	SDCL 13-28-103
TN	NO	TCA § 13-14-101
TX	NO	VTCA 10-2303.401

STATE	RESIDENCY REQUIRED FOR TAX RELIEF	STATUTORY SECTION
UT	YES	UCA § 9-2-412
VA	NO	VCA § 59.1-279
WI	NO	WSA § 560.70, § 560.765
WV	NO	WVCA § 5B-2B-2(C)

**[\*18]**

**Legal Topics:**

For related research and practice materials, see the following legal topics:

Energy & Utilities Law  
Federal Oil & Gas Leases  
Alaskan Interests & Leases  
General Overview  
Real Property Law  
Zoning & Land Use  
Growth Control  
Tax Law  
State & Local Taxes  
General Overview