

**Commentary on Enterprise Zone Study of Special Districts Association of Oregon (SDAO)**  
Oregon Economic & Community Development Department, 2007

The Oregon Economic and Community Development Department has reviewed a study from the Special District Association of Oregon (SDAO),<sup>1</sup> as it relates to Oregon's system of enterprise zones. And while valid issues are raised, the Department respectfully disagrees with the study's analysis and findings.

In General:

- Some good issues are raised, such as the inducement of capital investment versus labor and payroll, but in general, the study's overall analysis fails to address key issues that relate to Oregon's Enterprise Zone system.
- Common issues are notably unmentioned—for example, the quality of jobs being created, benefit/costs of traded-sector development relative to overall growth, or concerted and ongoing outreach/arrangements between zone-sponsoring governments and other local taxing districts.
- The study does not accurately reflect the historic place of local hiring as a policy objective, and it omits a critical statutory change for urban enterprise zones by the 1995 Legislature, in response to the State Attorney General's prohibition of explicit residency-based requirements. (See pages 2 & 6 below)
- The completed study seems to lack important information and assessments, in light of the Request for Proposals (RFP) of March 2006, as well as evaluations of geographic/census information.
- Future research and analysis might attempt to fill in these oversights, with studies that address:
  - Historic change in various economic statistics (including income and poverty, not just city-level employment) using well-defined geographic local areas and control groups.
  - Comparisons of fiscal/revenue benefits & costs (local, state or both) of enterprise zone projects, adjusting for additive effects attributable to the tax abatement, present value of long-run property tax collections, and direct, indirect & induced employment and economic activity.
  - Accounting for property tax revenue actually foregone by taxing districts relative to overall district budgets, as well as how much industrial-type development in an enterprises zone really burdens taxing districts in terms of actual service demands.

Further analysis and evaluation would clearly be of value and interest, in order to better understand the operations and effect of the property tax abatements available to certain types of job-creating business investments in an Oregon enterprise zone.

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<sup>1</sup> John L. Hall, Anthony M. Rufolo and Hongwei Dong, *Oregon Enterprise Zone Tax Abatement Economic Development Study and Urban Renewal Study*, Special Districts Association of Oregon, Salem, Oregon (undated).

**First Executive Summary Point:**

- *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;*

**Comments:2**

- Most every legislative session has considered bills affecting the enterprise zone statutes—in many other ways, as well—with accompanying policy debate and evaluations of the program and proposed amendments. Inception of the program in 1985 was followed by lackluster results. After fundamental reform of the statutes by the 1989 Legislature, activity progressively grew.
- In the intervening 18 years, aside from clarifying restrictions, the Legislature has effectively added only two types of business uses or operations to the definition of what is “eligible” for the standard (3- to 5-year) exemption on qualified property:<sup>3</sup>
  1. Call centers (other than telemarketing)
  2. Administrative and other (headquarters-like) centers.
- During this same time, in response to local community interest, the Oregon Legislative Assembly increased by 87 percent the number of non-tribal designations permitted by law, or 27 additional enterprise zones — including 20 of them since the passage of Ballot Measure 50.
- Legislatures have also made special provisions for exemption periods longer than three years, which have proven critical for many key projects and are contingent on:
  1. Local written agreement between the business firm and the zone sponsor, in which local additional requirements may be reasonably made of the firm (in this way issues for special service districts are often materially addressed), and
  2. In most cases, rather high average annual compensation for new employees.
- Local hiring criteria were never a major focus of statewide policy. Most enterprise zones have never contained residential areas. Only one had a general hiring requirement based on zone residency: 70 percent in North/Northeast Portland. The three other urban zones had easily achieved requirements of 50-percent hiring within their metropolitan/regional urban growth boundary.
- Pursuant to the 1995 Opinion of the Oregon Attorney General, the Legislature allowed urban zones, of which four existed at the time, to instead set additional conditions on businesses by local policy and standards for exemptions of any length, to among other things, enhance local employment of certain “groups of persons.”

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2 Other program history points on pages 20 & 21 of the study require notable correction and qualification.

3 Hotel/resorts are allowed by local option since 1989. E-commerce activity in 10 e-commerce designations is not significantly different from what is eligible in any case for property tax abatement; rather they provide an additional state income tax credit.

**Second Executive Summary Point:**

- *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;*

**Comments:**

- What is meant by “insufficient” is not clarified, and the study also does not define “zone level programmatic impacts” to be analyzed.
- Data and methodologies can be developed for a variety of quantitative assessments, presumably with respect to the evaluations that the authors of the study might have in mind, which are not specifically discussed in their report.
- Additional research and analysis could certainly be very interesting and worthwhile, but it will require financial and other resources.
- Further evaluations will likely suffer from disputes and differences of opinion regarding data quality, subjective assumptions, baselines, control groups, and other technical, scientific and philosophical matters. There is really no satisfactorily conclusive way to quantitatively prove or disprove critical policy questions or assumptions related to enterprise zones and tax incentives.
- A great deal of activity data for enterprise zone employment and property is collected through ***rigorous filing procedures***, whereby business firms interact with county assessors and local zone managers to claim the exemption from property taxes.
- The 2003 Legislature’s overhaul of the enterprise zone statutes thoroughly stipulated these procedures, in terms of:
  - Data compilation and reporting by assessors to the Department of Revenue,
  - Annual business firm submissions of actual job counts four to six times to local officials,<sup>4</sup>
  - Recourse to verification or denial by local officials,
  - Penalties for non-reporting and provisions (which are implemented) for disqualification and the payment of back taxes.
- Any further level of “independent verification” would involve costly and bureaucratic auditing of company records, without compelling justification in terms of program compliance.
- No reason is given to doubt the integrity of this activity data, and in fact, it is of better quality and quantity than is typically enjoyed by most other tax and non-tax programs.

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<sup>4</sup> See OREGON ENTERPRISE ZONE EXEMPTION CLAIM, Department of Revenue, form #150-310-075.  
<http://www.oregon.gov/DOR/PTD/docs/310-075.pdf>

### Third Executive Summary Point:

- *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;*

### Comments:

- The first sentence suggests some important considerations. Enterprise zones are not indispensable for business investment. Many communities grow without such economic development tools (especially in good times), while other places with enterprise zones experience less success (even when the overall economy is rather strong).
- The study's comparison of city-level employment raises concerns in taking this approach:
  - Enterprise zone impacts are poorly captured by city-level data.<sup>5</sup> Rural designations typically relate to unincorporated areas, too, while urban zones are aimed at particular neighborhoods. More specific census data is readily accessible through Portland State University.<sup>6</sup>
  - The study does not appear to adjust or weight the average percentage changes presented in Tables 1 & 2, despite the fact that employment levels vary a thousand times among cities.
  - Table 1 omits several cities that had enterprise zones throughout the 1990's, including Sutherlin, The Dalles, Tillamook and several others.
  - Moreover, the exclusion of Albany, Astoria, Eugene, Hermiston and others is problematic, as enterprise zones existed in those places for most of that decade and had significant investments throughout the period in question.
  - Decennial data were not evaluated for other common economic statistics (*e.g.*, poverty).
  - It is problematic to compare the change of employment between 1990 and 2000 (aside from not using 'average annual growth rates'): Any impact by enterprise zones will be overwhelmed by cyclical, structural and other broad economic factors.
  - Also, city-level numbers are greatly influenced by corporate annexations over 10 years.
  - Finally, the study does not incorporate baseline or "control group" methodologies (as the authors note in other context). Rather – as the basis of comparison – the study includes all other places in Oregon, as listed in Table 2 of the study, including naturally high-growth communities.
- Even today, with 55 designations, there are conceivably more distressed areas statewide that do not have an enterprise zone than do. Even though one or more zones are found in nearly every county in Oregon – and in 97 of 241 cities – each zone is a discrete area typically containing only a couple thousand acres of land, most of which is incidentally included in the zone boundary and not usable for business development.

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5 Although county-level data would also have shortcomings, an issue in the study presents itself on page 30 in saying that only one county had an enterprise zone located inside it. In the 1990's, 10 counties either never had a zone or only very briefly had one at decade's end without significant activity. Two other counties had enterprise zones that never qualified a single project.

6 The department has created electronic copies of enterprise zone boundary maps from 1994. These were shared with the study's authors.

**Fourth Executive Summary Point:**

- *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;*

**Comments:**

- There does not appear to be direct evidence to support the opinion stated in the first sentence.
- Relating to the ratio of property taxes to new jobs, no questionable assumption is being made, even though this ratio has analytical shortcomings:
  1. Not all jobs or even tax revenues are of equal or equivalent value, and
  2. Discounting or adjustment is called for, to some extent, with respect to—
    - Taxes that would not have been collected under a reasonable baseline scenario, and
    - The new, direct, full-time employment that might have existed in any case.
- In any event, the study fails to accurately reflect the ratios applicable to standard exemptions of qualified property in Oregon enterprise zones on page 37. Correct numbers would be:

TAX YEAR	AVERAGE ANNUAL TAXES/JOB	WEIGHTED MEAN EXEMPTION PERIOD	TAXES PER JOB (\$)	
			MEAN	MEDIAN
2002–03	\$1,592	3.82	\$6,081	\$2,688
2003–04	\$4,206	4.15	\$17,455	\$3,194
2004–05	\$4,838	4.27	\$20,658	\$3,091
2005–06	\$3,268	4.42	\$14,445	\$2,395

- Unmentioned are the ratios’ variance and variability from one project to the next and thus, the extreme sensitivity of mean values to outliers or particularly massive investments, which are often reinvestments with locally approved waivers from direct job-creation requirements — as notably addressed in *2006 Oregon’s Enterprise Zone Program Research Report #3-06*, Legislative Revenue Office, Salem, Oregon (February 22, 2006)—and as demonstrated in the following table:

WEIGHTED MEAN PROPERTY TAXES AFFECTED PER JOB, TAX YEAR 2005–06	
All Investments (114)	\$14,445
Without the 5 smallest and 5 largest investments	\$4,180
Without the 10 smallest and 10 largest investments	\$2,678

- Because of differences in definitions, timing, *etc.*, relating enterprise zone employment data even generally with what employers report quarterly to the Oregon Employment Department is rather challenging and problematic. Given the nature of the data elsewhere in the study, the abstract results described on page 38 should be independently and thoroughly retested, even to confirm that the correct business firms are being queried from unemployment insurance records.<sup>7</sup>

<sup>7</sup> Otherwise, some businesses might need to be investigated for falsifying official state tax forms. Also, the ‘referenced’ (but “non-cited”) audit had nothing to do with enterprise zone programs, but rather with distinctly different situations and processes, in regards to which the department has addressed relevant issues.

**Fifth Executive Summary Point:**

- *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;*

**Comments:**

- This statement appears to lack direct evidence to support it. The study infers that local/nearby residents and the local economy are not benefiting, whereas there is every reason to believe that greater demand in local job markets will be cause for improvement.
- The study does delineate fairly obvious reasons for why a significant number of employees at benefiting business firms in an enterprise zone might reside some distance away from distressed areas associated with that zone. Nevertheless, employment opportunities can also improve substantially for persons living closer to the enterprise zone, because of greater hiring there.
- In our mobile society, newly created jobs are certainly not guaranteed to go only to persons living in nearby/targeted areas of economic distress; this is a traditional challenge for classic “inner-city enterprise zones.” And indeed, local hiring is a concern for local zone sponsors throughout the state, even as absolute distances mitigate the issue in the vast majority of enterprise zones.
- As noted in the study, the Oregon Attorney General in 1995 determined that explicit residency requirements for hiring or for other matters violated the U.S. Constitution. In short, the Attorney General found such criteria to be unfair to other U.S. citizens, especially a person residing in another state.
- As previously explained (see page 2 above) requirements of zone residency for mandatory new employment were not a major element of state-level enterprise zone policy, but rather of importance only in the North/Northeast Portland Enterprise Zone.
- Omitted from the study is the 1995 Legislature’s response to the Attorney General’s Opinion, which was to give urban enterprise zones the ability to impose additional conditions on business firms, even for the basic and generally automatic three-year exemption period.
- In this way, local government sponsors of urban enterprise zones can, if they choose, establish systems and standards that implicitly increase the likelihood of local hiring, including employment criteria based on the first-source hiring agreement, which is mandatory for every business firm.
- As a practical matter, enforcing residency criteria is very difficult. Tracking and verifying residency has been an administrative challenge elsewhere where it is required for companies to receive job tax credits—*i.e.*, income tax offsets for each new job created—notably in California’s enterprise zones.
- Even when there is agreement about the correct local area to be targeted, and about who is a qualified resident therein, jobs will not necessarily be reserved for truly disadvantaged households. In our diverse society, residency does not dictate an individual’s circumstances. But local requirements can be used to target persons in localized environs, for whom employment might be especially valuable.

**Sixth Executive Summary Point:**

- *With the passage and implementation of Ballot Measures 5 and 50, tax abatements directly affect revenue for local taxing entities;*

**Comments:**

- A basic premise of the study is that prior to Ballot Measure 50, exemptions on taxable property (of which a great many exist besides those in the enterprise zones) were essentially costless.
- Legislatures of the 1980's were making the same basic trade-off as applies today. Those legislators did not lightly provide for taxes to be shifted to other taxpayers.
- Also, since passage of Ballot Measure 50, the Legislature has allowed 20 additional enterprise zones.
- The effect of enterprise zone exemptions on special service district budgets is quite modest. Much of the exempt qualified property occurs in urban renewal districts, full-service cities, or unserved county tax code areas.
- Analysis has been undertaken to document how the **revenue impact** by type of taxing district (by county) is around 1 percent or less of not only these district's budgets statewide, but also the funding that some districts receive through state revenue sources.
- The **cost (or "fiscal" impact)** of public services related to enterprise zone projects will be quite different from the much more prevalent residential and commercial development. Certain heavy industrial facilities will pose special issues for emergency service providers, which can be dealt with locally in several ways, but sometimes, there is on-site fire suppression capability.
- The direct cost of serving the average enterprise zone facility may be insignificant relative to other developments with comparable acreage but much less taxable value. For example, a project involving the installation of very expensive machinery and equipment (M&E) into an existing building will likely create virtually no additional burden for most public service providers.
- In general, enterprise zone developments may be shown to create comparatively less demand for public services relative to the fees and taxes that are collected from them over time.
- The study does concede that under the current property tax system in Oregon, **new property added to the assessment rolls raises additional revenue for local taxing entities.**
- In addition to a significant amount of newly invested property that does not even qualify for exemption, most of the enterprise zone property are buildings and structures that tend to appreciate in value, and a majority of the machinery and equipment (M&E) will depreciate only gradually over 15 to 25 years, if not replaced in the meantime with new, nonexempt M&E items.
- And, of course, much if not most of this property would not have been available for assessment – but for the tax abatement – after conclusion of the standard three- to five-year exemption period in the enterprise zone.
- Moreover, the study fails to fully discuss that most formerly exempt property:
  - Will not be discounted under Ballot Measure 50 to the same degree as household property, and
  - More importantly, it will generate property tax revenue for a period that is several times longer than the period of exemption.

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**Seventh Executive Summary Point:**

- *There are existing local economic conditions related to land costs, transportation infrastructure, labor, financing, and regulatory practices that tax incentives cannot overcome; and*

**Comments:**

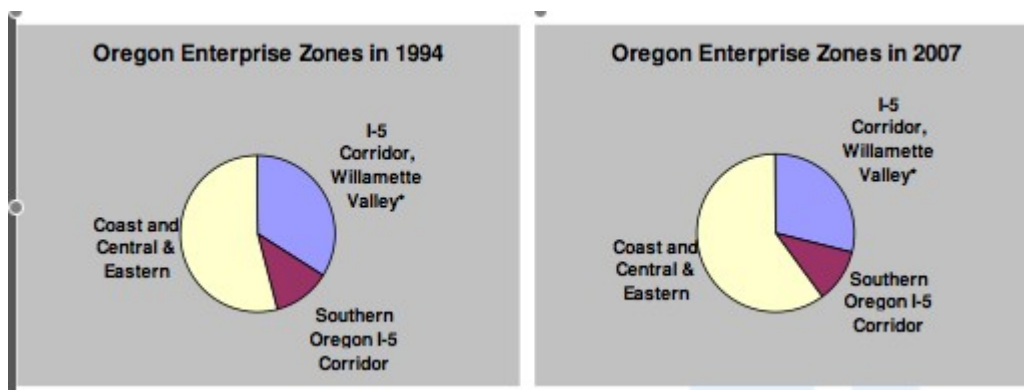
- As previously noted, some areas grow and attract businesses without tax incentives; elsewhere, enterprise zones and similar tools are less effective on their own.
- Tax incentives like those in an enterprise zone influence development in concert with other factors and efforts to stimulate additional, economically critical investment by the private sector.
- What compels a business firm to stay and grow, or to relocate somewhere, can be very complex; often it depends strictly on spreadsheet calculations; other times, it involves intuition, which is affected by demonstrations of local support.
- Factors vary dramatically across industries and facilities. For example, the cost of energy (electricity, natural gas) can be inconsequential for one project and nearly all-important for another (the latter case is rarer than it once was).
- Usually there are several key factors that can be grouped under either land or labor considerations. Taxes and tax incentives consistently rank high, as well, and are crucial for local/state marketing and for influencing decision points based on cash-flow analysis of capital investments.
- The department frequently computes and compares various investment cost factors for prospective investments, including alternative locations in others states.
- Especially in terms of land-related factors, even Oregon's most competitive locations will often encounter challenges relative to a company's alternatives, including business firms already operating in Oregon. Generally low taxes and even incentives can prove indispensable for offsetting these challenges, but they cannot, of course, make a bad project or site viable.
- Also, in the case of the enterprise zone property tax abatement and other programs, these incentives are focused only on what is known as "**traded-sector**" industries, in contrast to the vast amount of commercial/retail development that regularly occurs.
- Compared to such common elements of urbanization, traded-sector development entails higher-paying jobs, proportionally less burden on public services, and the infusion of income into a community through exportation of value-added goods and services.

**Eighth Executive Summary Point:**

- *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*

**Comments:**

- The following charts may offer a more accurate characterization—of geographic consistency over time—with respect to statewide distribution of enterprise zones, in contrast to the statement on page 40 of the study and the above claim about “proliferation”:



Statewide Dispersion of Enterprise Zones in Oregon, 1994 to 2007

- The above charts incorporate the notable increase in 2006, from two to five urban enterprise zones in the Portland metropolitan area. There is, of course, nothing wrong with urban or metropolitan areas having enterprise zones; Oregon’s statutes do not discriminate against them. Local government sponsors seem prepared to address the concerns and challenges unique to such zones, such as maximizing local hiring. (See pages 2 & 6 above) Once classical “suburbia” has in places evolved over the past 40 years into diversified cities with localized economic challenges.
- Oregon’s enterprise zones remain exceptionally rural in nature compared to the systems in most other states. Of the 55 enterprise zones currently in existence, 46 are located in rural areas. There is still tremendous disparity between where the zones are located and where most Oregonians live. This reflects geography, as well as economic criteria for zone designation that are measured against statewide conditions, which the Portland metropolitan area dominates.
- Yet the law has always been open to large, more urban communities focusing on particular areas of localized hardship, even if the overall metropolitan area or larger city is doing well compared to most of the state. For many years, this has been true for zones inside Eugene, Portland and Salem.
- Some states have tougher standards, such as California, while many states evidently allow “zones” to be created much more readily.
- The Legislature may wish to revisit the provisions that define mandatory economic hardship of an area proposed for enterprise zone designation—which have remained virtually unchanged for nearly 20 years—in order to make them effectively more restrictive and exclusionary.

\* I-5/valley includes the St. Helens/Columbia City Enterprise Zone, but not the Lower Columbia Maritime or Oakridge/Westfir enterprise zones, all of which existed at both points in time.