

Commentary on Enterprise Zone Study of Special Districts Association of Oregon (SDAO)
Oregon Economic & Community Development Department, April 2008

Having reviewed a report from the Special District Association of Oregon (SDAO),* as it relates to Oregon’s system of enterprise zones, the Economic and Community Development Department notes that the report raises important issues.

Nevertheless, the quality of basic research and analysis is deeply disappointing. The report’s findings lack perspective or balance, and everything that it purports as new analysis is flawed or invalid. The Department has developed a 9-page piece with further discussion—as more succinctly addressed below—about each of the eight points comprising the report’s executive summary.

Further program analysis and evaluation would clearly be of value and interest to better characterize the function and effect of the tax abatement on *new* property that certain types of job-creating business investments may use in an Oregon enterprise zone. The SDAO report declares as much, but offers absolutely no specifics. The following may be worthwhile objectives for future, quality investigations:

- Historic change in various economic statistics (unemployment rates, income levels, poverty incidence, *etc.*) using specifically defined local geographic units and suitable control groups.
- Comparisons of economic, fiscal and revenue benefits and 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 other effects on public finances, as well as direct, indirect and induced employment and economic activity.
- Accounting for not only crude property tax revenue impacts, but also for how much industrial-type developments in an enterprise zone really burden taxing districts in terms of actual service demands—*i.e.*, true ‘fiscal’ impacts.

EXECUTIVE SUMMARY POINT	COMMENTARY
<p><i>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;</i></p>	<p>Even as the Legislature has deliberately chosen (since Ballot Measure 50) to make 59% more enterprise zone designations available for the local communities that want them, the property tax incentive for <i>traded-sector</i> investments remains materially unchanged over the past 19 years, aside from technical and operational improvements. The report exaggerates the effect of the few additional, eligible types of business firms, and it does not even note how the 1993 law allowing the standard exemption period to be up to five years (instead of the usual three years) also requires exceptionally high average annual compensation for new employees.</p> <p>The emphasis on local hiring is clearly misleading: Any effective “coupling” applied only to a single, Portland designation, and in its place, pursuant to a 1995 State Attorney General opinion nullifying residency requirements, all urban zones received discretion to impose other conditions on firms.</p>
<p><i>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;</i></p>	<p>As specified in the statutes, employment and other data are rigorously collected from benefiting businesses through official tax forms and annually reported up to the Department of Revenue—see http://www.oregon4biz.com/enterthezones/activity07.pdf.</p> <p>By themselves, such data do not answer all questions. Additional research combined with advanced analyses could provide further information and relative conclusiveness—see above bullet points—but at some expense.</p>
<p><i>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;</i></p>	<p>Not only are citywide figures geographically unsuitable for evaluating most Oregon zones, but the report’s “comparison” is also deceptive, in that it:</p> <ul style="list-style-type: none"> • Simply omits certain zones applicable to the time frame at issue. • Ignores any number of other social-economic statistics. • Relies only on total employment, which various factors strongly affect. • Fails to adjust for city size or even for annexations ... or to utilize any control-group methodology. (One might expect cities uninterested in an enterprise zone to grow faster than areas more needful of such a tool)

* 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). [Evidently, not peer reviewed]

EXECUTIVE SUMMARY POINT	COMMENTARY
<p><i>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;</i></p>	<p>The report affords no basis for the initial statement or for the relevancy of cited data from the Employment Department, to which businesses report worker numbers quite differently from how they count full-time employees in an enterprise zone. Appearing in this context is a reference to a 2001 audit, which it turns out, had nothing to do with enterprise zone programs.</p> <p>More disturbingly, the report grossly and inexplicably inflates figures for property tax savings per job by as much as 20 times! ... The correct numbers are in the range of \$10–20,000, and in fact, fall to substantially less than \$5,000 per job with exclusion of a few exceptionally massive investments, some of which receive special, local government waiver from the statutorily required (10%) increase of firm employment in the zone.</p>
<p><i>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;</i></p>	<p>Again, the report grossly overstates the role of hiring zone residents for the overall program. Most zones do not actually contain residential areas.</p> <p>For local zone sponsors, better job opportunities for citizens in the zone's vicinity is very important, and there should be little doubt that nearby (especially lower-income) residents will enjoy the greater part of the benefits that arise from new hiring by firms expanding in the zone. The report offers no data or analysis to suggest otherwise, aside from stating the obvious that "some" new employees might commute a fair distance.</p>
<p><i>With the passage and implementation of Ballot Measures 5 and 50, tax abatements directly affect revenue for local taxing entities;</i></p>	<p>Ballot measures have not fundamentally altered the calculus of benefits and costs that the State Legislature must consider. Crude revenue impacts are tiny compared to overall budgets for taxing districts—not to mention, "fiscal" effects on public services directly impinged on by <i>traded-sector</i> development.</p> <p>Because of Measure 50, enterprise zones can generate more taxes within 5 to 15 years than what goes uncollected for a few years on new property.</p>
<p><i>There are existing local economic conditions related to land costs, transportation infrastructure, labor, financing, and regulatory practices that tax incentives cannot overcome; and</i></p>	<p>Naturally, incentives do not take the infeasible and make it viable, ... nor should they. Still, businesses encounter risks and have choices, and time & again, targeted incentives have proven critical if not indispensable for stimulating business expansions and local growth, as well as local and state competitiveness in an increasingly competitive world.</p>
<p><i>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.</i></p>	<p>The relative share of enterprise zones in Oregon's more populated regions has not changed over the past 20 years, nor have the criteria for demonstrating economic hardship in a proposed zone's local area.</p> <p>Since its 1985 inception, the program has provided for local governments to seek urban designations based on targeted economic conditions within larger, otherwise economically healthy regions. Oregon's enterprise zone system remains decidedly "rural" compared to most states.</p>