

Business Incentives and Economic Development Expenditures: An Overview of Oregon's Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Oregon's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Oregon.

In Fiscal year (FY) 2015, the most recent year in which spending data are available for all program types, the state spent \$207 million on economic development program expenditures and \$264 million on economic development tax expenditures.¹

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

Figure 1: Oregon State Business Incentives by Agency, 2015

State Agency	Number of Programs
Business Oregon	20
Oregon Department of Energy	5
Governor's Office of Film and Television	2
Oregon Department of Agriculture	1
Oregon Department of Revenue	1
Small Business Development Center Network	1
Oregon Department of Transportation	1

Source: C2ER State Business Incentives Database

Overview of Business Incentives

Oregon has a moderate number of incentive programs, with a total of 31 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

In Oregon, the responsibility for administering these incentive programs is spread across seven different state agencies. The primary agencies responsible for administering incentive programs are Business Oregon, the Department of Energy, the Governor's Office of Film and Television, the Department of Agriculture, the Department of Revenue, the Small Business Development Center Network, and the Department of Transportation. (See Figure 1.)

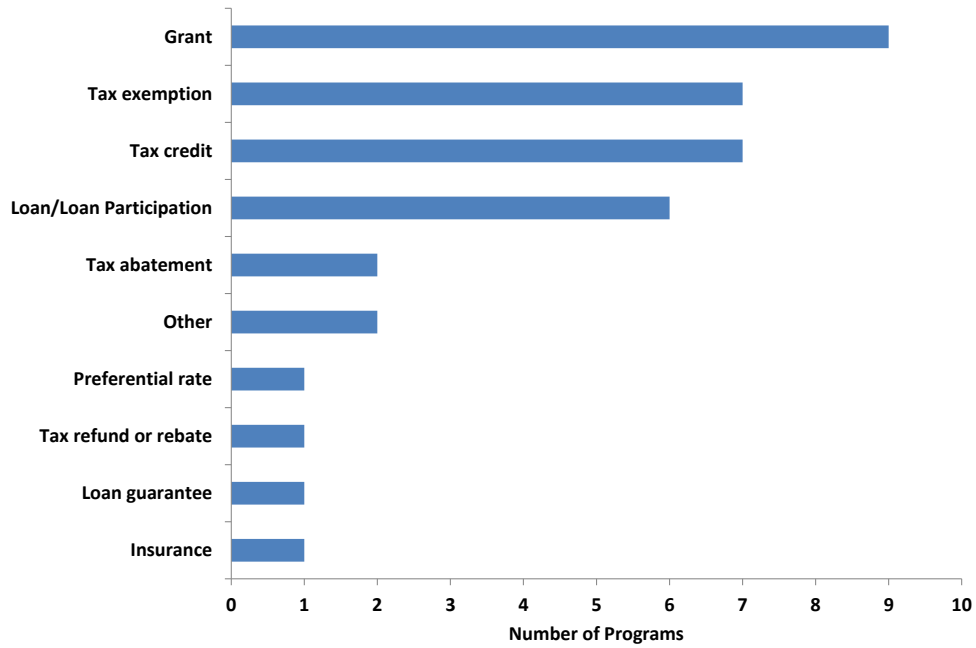
Oregon's emphasis remains on direct financing loan and grant programs. Direct business financing and community-directed financing account for approximately 50 percent of Oregon's active incentive programs. Approximately 47 percent of Oregon's state business incentives offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. (See Figure 2.)

The emphasis of the state's current portfolio of incentives is on capital access or formation and tax/regulatory burden reduction. Compared to other states, Oregon's program portfolio places a strong emphasis on product and process improvement as well as technology and product development. (See Figure 3.)

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Oregon. For a list of definitions used by C2ER, please see the [glossary](#) on the C2ER State Business Incentives Database. For a current list of incentive programs as defined by the state, please see the [Business Oregon](#) website.

Figure 2: Incentive Programs by Type**

Oregon Incentive Programs by Type (2015)

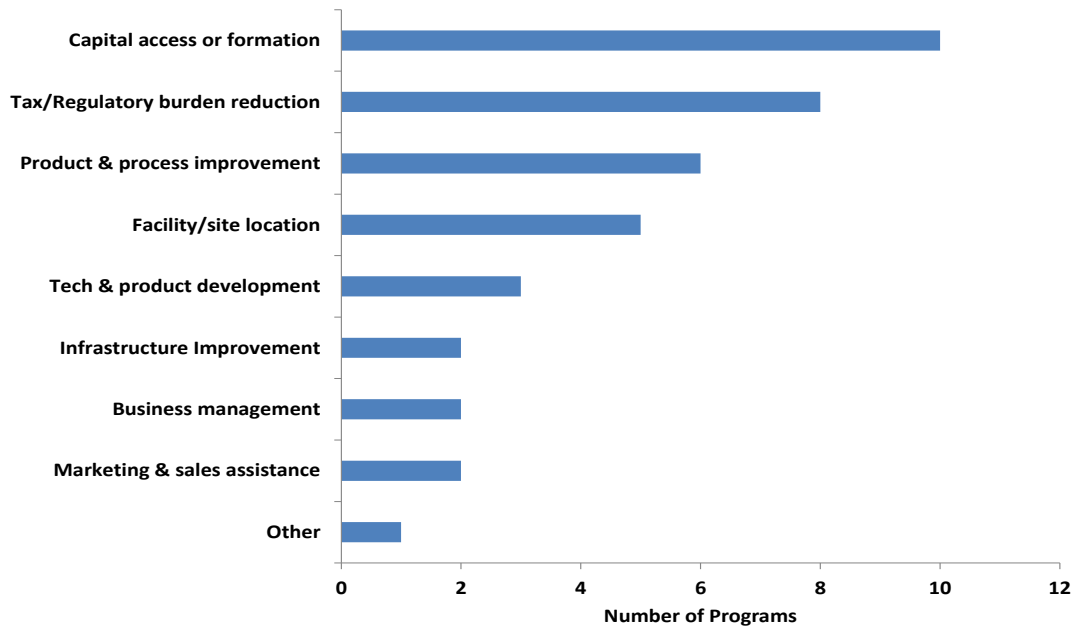


Source: C2ER State Business Incentives Database

** Note: Programs may appear more than once if they provide multiple incentive types.

Figure 3: Incentive Programs by Business Need**

Oregon Incentive Programs by Business Need (2015)



Source: C2ER State Business Incentives Database

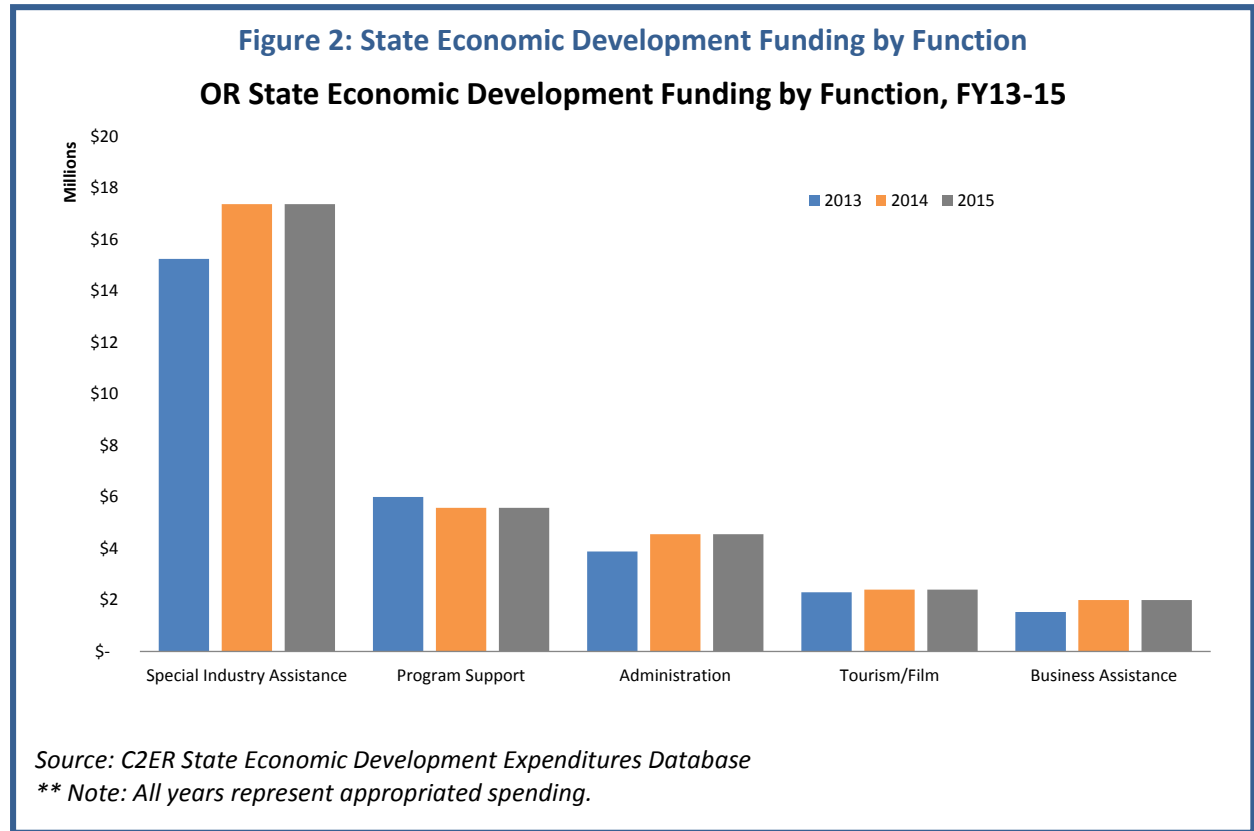
** Note: Programs may appear more than once if they are intended to fulfill multiple business needs.

Economic Development Program Expenditures

Examining Oregon’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to Oregon’s [FY 2013-2015 Legislative Fiscal Office Budget Analysis](#), which details appropriated FY 2014 spending, the state spent approximately \$199 million on economic development in FY 2014. This level of spending represents an average of \$1448 per business, which is slightly higher than the median average of \$1277 per business spent in other states for that fiscal year. Most of Oregon’s economic development expenditures went to the Business Development Department, Department of Agriculture, Employment

- ### State Economic Development Expenditures Function Areas
- Business Finance
 - Strategic Business Attraction Fund
 - Business Assistance
 - International Trade and Investment
 - Domestic Recruitment/Out-of-State
 - Workforce Preparation & Development
 - Technology Transfer
 - Entrepreneurial Development
 - Minority business development
 - Community Assistance
 - Tourism/Film
 - Special Industry Assistance
 - Program Support
 - Administration
 - Other Program Areas

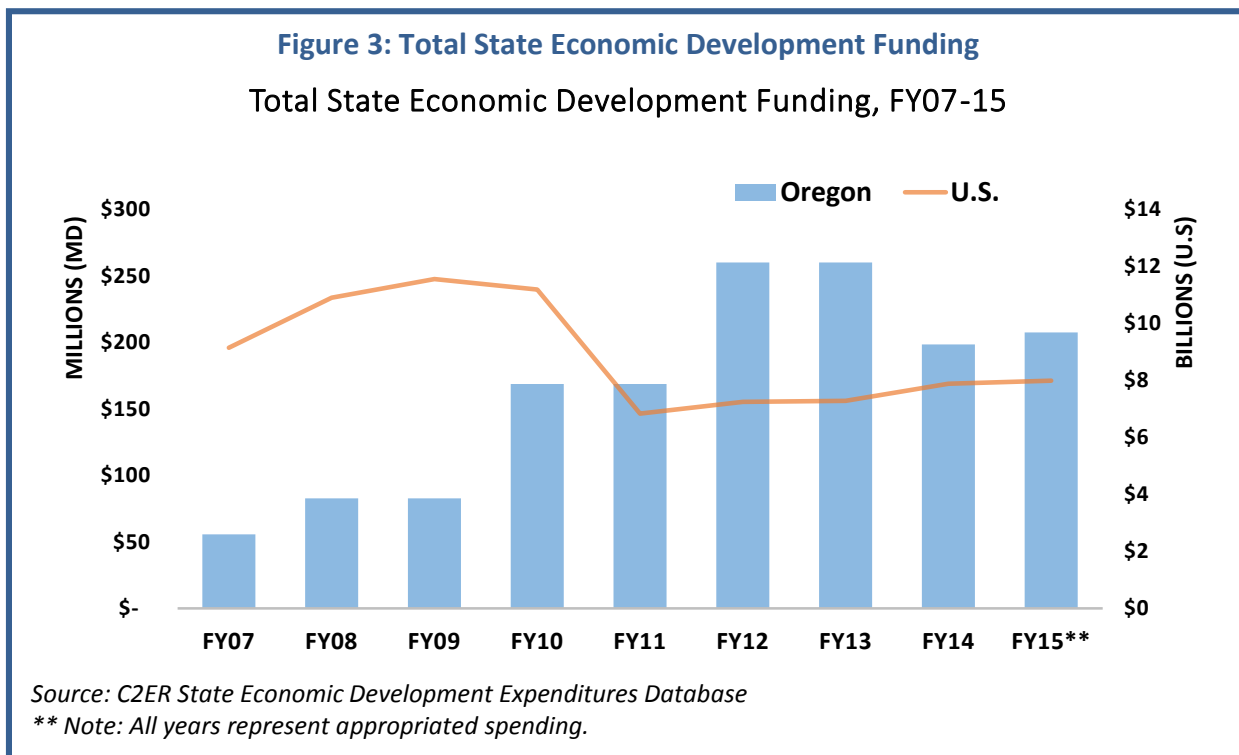


³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

Department, and Department of Administrative Services. The Business Development Department received nearly all of the funding, with 92 percent of overall state economic development funding.

In comparison to economic development expenditures nationally, between FY 2007 and FY 2016, Oregon spent a greater proportion of its budget (relative to other states) on programs related to community assistance, the strategic business attraction fund, and other program areas (through the Lottery Bond Debt Service), and a lower share on programs related to business assistance, business finance, domestic recruitment, entrepreneurial development, international trade and investment, special industry assistance, technology transfer, tourism and film, and workforce development.

Between FY 2007 and FY 2013, economic development spending steadily increased in Oregon, increasing from \$55 million in FY 2007 to \$260 million in FY 2013. Economic development program expenditures then decreased in FY 2014 and increased slightly by FY2015. Oregon appropriated \$207 million to spend on economic development in FY 2015, representing a 5% increase over FY 2014 levels. This is inconsistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made gradual spending increases. (See Figure 5.) It should be noted, however, that all listed figures are appropriated as actual figures were not available from Oregon budget documents.



Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁴ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [Oregon Tax Expenditures Report](#) for FY15-17, published by the Oregon Department of Administrative Service was used for the analysis in this section. Data was collected by reviewing and recording all line items in the report related to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. Tax expenditure totals for FY2015 are estimated, as the budget combines FY2014 and FY2015 for reporting purposes.

In FY2015, the state of Oregon’s economic development tax expenditures totaled approximately \$264 million, which was slightly greater than the \$207 million Oregon invested in economic development program expenditures for that fiscal year. Oregon administered its tax expenditures related to economic development primarily through the Economic and Community Development Department.

For FY2015, approximately 68 percent of Oregon’s economic development tax expenditures were for income taxes. The remainder fell under state property and beer and wine tax types. Oregon does not have a general sales tax. The primary economic development functional goals of these tax expenditures were to encourage community assistance, special industry assistance, technology transfer, and tourism and film.

Analysis of Available Outcome Data

Since 1995, Oregon has enacted three laws which have emphasized creating outcome data and evaluating business incentives and expenditures. The first, the Budget Accountability Act, requires agencies and programs to evaluate all General Fund, State Lottery Fund, and other expenditures in accordance with pre-determined performance measures. The law established the Oregon Tax Expenditures Report, to be released on a biennial basis and administered by the Department of Administrative Services and the Office of the Governor.

The report provides a list of all tax expenditures, the statutory authority for each tax expenditure, estimates of revenue loss for upcoming and preceding biennium for each tax expenditure, an evaluation of the fiscal impact of each tax expenditure, and information about the beneficiaries of tax expenditures. Responsibility for evaluating each incentive program falls to the various state agencies which contribute to the Tax Expenditures Report. Exemptions exist for programs which fall into certain categories, including: “Oregon’s connection to federal law, federal law prohibits state taxation, no one qualifies for the tax expenditure, there is no specific agency with program responsibility for the tax expenditure, the revenue impact estimate is less than \$100,000, the tax expenditure has sunset, or the tax expenditure exists for tax administration purposes only.”

⁴ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm

The second law, enacted in 2009, created statutory expirations (sunsets) on its tax credits. The most recent law, enacted in July 2013, refined Oregon’s existing evaluation process by standardizing the review process, creating new evaluation measures to be included in the Tax Expenditures Report, and scheduling evaluations to ensure they are completed before potential sunset dates.⁵ Per the most recent [Tax Expenditure Report](#), the mandatory sunsets allows policymakers to determine “whether the full or partial sunset of the tax expenditure should be allowed to take effect as scheduled.”

More broadly, Oregon utilizes a [transparency](#) website which offers information on state budget, agencies, performance, tax revenue, expenditures, contracts/procurement, and the state workforce. In addition to the Oregon Tax Expenditures Reports, the state also publishes an annual fiscal report each year. These detailed reports contain fiscal statements, balance sheets, and financial statistics.

Conclusion

Compared to other states, Oregon has an average number of incentive programs, administered by one major agency (Business Oregon). Despite this, Oregon spends significantly more per business establishment than the rest of the nation. The state’s incentive portfolio favors grants and tax programs for increasing business’ access to capital, facility location, product improvement, and tech development.

Over the past two decades, Oregon has made significant progress in developing a well-defined and comprehensive process for examining the overall outcomes of the state’s incentive portfolio and ensuring that its incentives effectively meet the state’s overall economic development goals.

⁵ *Tax Incentive Programs: Evaluate today, improve tomorrow* The PEW Charitable Trusts. Accessed June 1, 2015 at: <http://www.pewtrusts.org/~media/Assets/2015/01/StateTaxIncentivesBriefJanuary2015.pdf?la=en>

Appendix A: Full List of Oregon State Business Incentives (2015)

Program Name	Program Provider	Business Need	Type
Biomass Producer or Collector Tax Credits	Oregon Department of Energy	Capital access or formation	Tax credit
Brownfield Redevelopment Fund	Business Oregon	Facility/site location	Grant; Loan/Loan Participation
Business Development Fund	Business Oregon	Capital access or formation	Loan/Loan Participation
Business Expansion Program	Business Oregon	Capital access or formation	Grant
Business Retention Program	Business Oregon	Business management; Marketing & sales assistance; Product & process improvement; Tech & product development	Grant
Capital Access Program	Business Oregon	Capital access or formation	Loan/Loan Participation
Conservation Tax Credits	Oregon Department of Energy	Tax/Regulatory burden reduction	Tax credit
Construction in Progress Tax Exemption	Oregon Department of Revenue	Facility/site location	Tax exemption
Credit Enhancement Fund	Business Oregon	Capital access or formation	Insurance; Loan guarantee
Electronic Commerce Enterprise Zones	Oregon Department of Revenue	Facility/site location; Tech & product development	Tax abatement; Tax credit
Energy Trust of Oregon	Oregon Department of Energy	Product & process improvement	Grant
Entrepreneurial Development Loan Fund	Business Oregon	Capital access or formation	Loan/Loan Participation
Food Processors Exemption	Oregon Department of Agriculture	Tax/Regulatory burden reduction	Tax exemption
Governor's Strategic Reserve Fund	Business Oregon	Capital access or formation	Grant
Greenlight Oregon Labor Rebate	Oregon Governor's Office of Film and Television	Tax/Regulatory burden reduction	Tax refund or rebate
Grow Oregon	Business Oregon	Business management	Other

Immediate Opportunity Fund	Oregon Department of Transportation	Infrastructure Improvement	Grant
Industrial Development Revenue Bonds	Business Oregon	Capital access or formation	Other
Long-Term Rural Enterprise Zone Facilities	Business Oregon	Tax/Regulatory burden reduction	Tax exemption
New Market Tax Credits	Business Oregon	Tax/Regulatory burden reduction	Tax credit
Oregon Investment Advantage	Business Oregon	Facility/site location	Tax exemption
Oregon Production and Investment Fund	Oregon Governor's Office of Film and Television	Capital access or formation	Grant
Oregon Trade Promotion Program	Business Oregon	Marketing & sales assistance	Grant
Qualified Research Activities Credits	Oregon Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Reservation Enterprise Zone	Business Oregon	Tax/Regulatory burden reduction	Tax abatement; Tax credit
Rural Renewable Energy Development Zones	Business Oregon	Capital access or formation; Tech & product development	Tax exemption
Small-Scale Energy Loan Program	Oregon Department of Energy	Product & process improvement	Loan/Loan Participation; Preferential rate
Special Public Works Fund Program	Business Oregon	Other	Grant; Loan/Loan Participation
Standard Enterprise Zone Exemption	Business Oregon	Facility/site location; Product & process improvement	Tax exemption
Strategic Investment Program	Business Oregon	Product & process improvement	Tax exemption
Transportation Tax Credit	Oregon Department of Energy	Infrastructure Improvement; Product & process improvement; Tax/Regulatory burden reduction	Tax credit

Appendix B: OR Economic Development Program Expenditures (2014)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$ 4,550,864
Business Assistance	Other Business Assistance	\$ 441,000
Business Assistance	Small business dev. (e.g., SBDCs)	\$ 1,552,439
Business Finance	Grants to businesses	\$ 441,000
Community assistance	Community development	\$ 77,328
Community assistance	Infrastructure (e.g., road/sewer)	\$ 127,956,493
Other Program Areas	All Activities	\$ 28,451,098
Program Support	Economic research	\$ 4,208,162
Program Support	Other Program Support	\$ 1,363,156
Special Industry Assistance	Advanced manufacturing	\$ 2,989,000
Special Industry Assistance	Agriculture/agribusiness	\$ 8,741,850
Special Industry Assistance	Biotechnology/life sciences	\$ 980,000
Special Industry Assistance	Energy & energy-related	\$ 3,920,000
Special Industry Assistance	Other Special Industry Assistance	\$ 735,000
Strategic Business Attraction Fund	Other Strategic Business Attraction Fund	\$ 9,000,000
Technology Transfer	Modernization/mfg. extension	\$ 575,000
Tourism/Film	Film Promotion	\$ 565,272
Tourism/Film	Major events/festivals	\$ 1,834,690
Workforce Preparation & Dev.	Other Workforce Preparation & Dev.	\$ 336,900
TOTAL		\$ 198,719,251

Appendix C: OR Economic Development Tax Expenditures (2015)

Description	Total Funds
Regional Economic Development Incentives	Less than \$100,000
Accelerated Depreciation of Equipment	\$-31,800,000
Research and Development Costs	\$11,400,000
Section 179 Expensing Allowances	\$7,800,000
Amortization of Business Start-Up Costs	\$0
Deduction of Certain Film and Television Production Costs	\$0
Oregon Investment Advantage	\$2,400,000
Film Production Labor Rebate	\$300,000
Film Production Development Contributions	\$9,750,000
Qualified Low Income Community Investments	\$5,000,000
Qualified Research Activities	\$7,150,000
Qualified Research Activities (Alternate)	\$0
Long Term Rural Enterprise Zone Facilities (Income Tax)**	\$0
Reservation Enterprise Zone (Income Tax)	Less than \$100,000
Electronic Commerce Enterprise Zone (Income Tax)	\$250,000
Renewable Resource Equipment Manufacturing Facilities	\$19,500,000
Public University Venture Development Fund	\$350,000
Commercial Buildings Under Construction	\$2,200,000
Construction in Process in an Enterprise Zone***	\$0
Enterprise Zone Businesses	\$25,200,000
Long Term Rural Enterprise Zone (Property Tax)	\$16,550,000
Rural Renewable Energy Development Zone	\$1,400,000
Industry Apprenticeship/Training Trust	\$400,000
Strategic Investment Program	\$183,800,000
Small Wineries	\$2,000,000

* Included in Qualified Research Activities item

** Not Available in FY15

***Included in Commercial Buildings under Construction item