

# PDC

## PORTLAND DEVELOPMENT COMMISSION

**DATE:** June 25, 2008

**TO:** Board of Commissioners

**FROM:** Bruce A. Warner, Executive Director

**SUBJECT:** Report Number 08-82  
Next steps in implementation of the Portland Enterprise Zone Program as required by the recently approved Enterprise Zone Policy

### EXECUTIVE SUMMARY

#### BOARD ACTION REQUESTED

Adopt Resolution No. 6603, 6604, 6605, 6606

#### ACTION SUMMARY

The proposed board actions will implement required steps needed to effectively implement the Portland Enterprise Zone Policy ("E-Zone Policy") that was approved by the Portland Development Commission ("PDC") on February 27, 2008, (Resolution 6562) and adopted by the City Council on March 5, 2008 Resolution 36583).

The five following actions are proposed.

1. Approve an agreement with WorkSystems, Inc ("WSI") for procedural and operational guidelines relative to the E-Zone Work Force Training Funds ("WTF") to ensure that the WTF components of the E-Zone Policy are followed and that reporting and monitoring occurs.
2. Approve an agreement with WorkSource Oregon Employment Department Portland for procedural and operational guidelines relative to the E-Zone First Source Hiring Agreement ("FSA") ensuring that the FSAs are managed consistent with the E-Zone Policy and State law.
3. Approve an agreement with Multnomah County for procedural and operational guidelines relative to the approval and monitoring of Companies participating in the E-Zone program in order to ensure that proper monitoring and reporting occurs.
4. Approve the Enterprise Zone Written Agreement (form of) as required per state statute to describe the E-Zone requirements and the participating company's obligations consistent with the Oregon Enterprise Zone Act and the City of Portland's E-Zone Policy. Authorize the Executive Director to hereafter enter into a Written Agreement with eligible companies, without separate Board action.

## **PUBLIC BENEFIT**

The Enterprise Zone (“E-Zone”) is an Economic Development tool for retaining and attracting new investment while creating family wage jobs in the City of Portland. The E-Zone program furthers the PDC Strategic Plan to encourage private investment in the City by offering five year 100% tax abatement on all new investment at qualifying facilities. This program plays a significant role in encouraging businesses to expand and locate in Portland’s industrially zoned areas.

The E-Zone program also furthers PDC’s goal of job creation by requiring companies that receive abatement to invest 15 percent of their total abatement towards a fund that will be earmarked to train residents of Portland at or below 80 percent median family income (MFI) for jobs being created by companies participating in the E-Zone program. Furthermore, the participating E-Zone companies will be required to give first source hiring preferences to these individuals, thus creating career opportunities for Portland area residents who are unemployed and/or under-employed.

Since the creation of new policies that standardized requirements in 2000, thirty five (35) companies have invested an estimated \$437 million in improvements and equipment for an estimated \$26 million in abatements; while retaining or creating 4,300 jobs.

In addition to the private investment and job creation described above, public benefits resulting from participation in the E-Zone program include:

- the renovation of existing facilities in the E-Zone
- the utilization of minority, woman-owned and emerging small businesses (M/W/ESB) during construction
- increased business opportunities for companies within the E-Zone through the program’s local procurement requirement.

### **This action will support the following PDC goals:**

- Develop healthy neighborhoods
- Provide access to quality housing
- Help businesses to create and sustain quality jobs
- Support a vibrant Central City (urban core)
- Contribute to a strong regional economy

## **PUBLIC PARTICIPATION AND FEEDBACK**

Prior to the approval of the E-Zone Policy, PDC staff assembled an ad-hoc committee comprised of community stakeholders, businesses and community representatives met to assist PDC staff in formulating the local requirements. Staff held numerous meetings with stakeholders that had previously played a role in the creation of former E-Zone Program in order to gain insight and additional ideas on how to improve the E-Zone program.

To ensure a continued process of public feedback, The adopted E-Zone policy calls for the formation of a seven member E-Zone Advisory Committee to provide program programmatic recommendations within the E-Zone Policy framework to the E-Zone Manager.

## **COMPLIANCE WITH ADOPTED PLANS AND POLICIES**

The proposed Board actions are consistent with the following City plans and policies:

The PDC on February 27, 2008, through Resolution 6562 authorized the Executive Director to formally request City Council approval of the Enterprise Zone Policy and authorized the PDC to submit an application on behalf of the City of Portland to the Oregon Economic and Community Development Department (“OECDD”) for designation of a ten year Enterprise Zone in Portland.

The City Council on March 5, 2008, through Resolution 36583 authorized the Portland PDC to prepare and submit an E-Zone application on behalf of the City of Portland as the E-Zone Sponsor to the OECDD for designation of a ten year E-Zone program in Portland; and designated the PDC as the E-Zone Manager to manage the E-Zone program as part of its economic development responsibilities.

The PDC has been notified by the OECDD that the Portland E-Zone will be authorized by July 1, 2008.

## **FINANCIAL IMPACT**

For the past ten years the E-Zone program has been funded through City general fund allocation and program application fees paid by firms participating in the E-Zone program. These fees and general fund dollars will continue to be used to cover the programmatic costs of running the E-Zone Program (including staff time).

WSI, through the approval of the agreement may use up to fifteen percent of the WTF funds to cover administrative costs associated with implementing the WTF, which among other activities includes running the RFP process associated with the customized training as called for in the E-Zone Policy. WSI will provide PDC with an annual accounting of its administrative costs related to the WTF and additional information related to the use of these funds as reasonably requested by PDC

Through the approval of the agreement with Multnomah County, PDC will pass through 40 percent of a participating company’s application fee to assist in offsetting staff time associated with E-Zone related work. Multnomah County forgoes 25 percent of the property taxes on the incremental investment that a company makes for five years while providing essential ongoing services relative to the E-Zone program including; 1) working with the PDC to process applications in order to determine values for qualified property and applying the exemptions to the tax roll. 2) Providing an annual report to PDC which assists in the annual compliance process. This report will include a list of all E-Zone companies who have filed for a CIP (Construction-in-Progress) or E-Zone exemption, including the year of initial claim, year completed, total years exempt, number of employees prior to authorization & after claim approved, real market value of exempted property, assessed value of exempted property, and a list of any companies that Multnomah County has found to be in non-compliance. 3) Provide direct customer service for the many tax related questions that arise from this complicated statute.

Based on an estimated Seven E-Zone applicants, totaling \$42 Million in new investment for the 08-09 fiscal year, PDC would collect a total of \$42,000 in application fees (maximum allowed under state law). Out of this amount the County would receive \$16,800 and PDC would retain \$25,200.

## **RISK ASSESSMENT**

There is very little risk associated with PDC managing the Enterprise Zone program on behalf of the City of Portland. The Enterprise Zone program is a State-sanctioned program that entitles eligible companies with qualifying investments to receive tax abatement on that investment. Under state statute, the Multnomah County Tax Assessors office is responsible for calculating abatements. The PDC will use the E-Zone Policy, State Statute, Administrative Rules, and the attached agreements with its public partners to ensure that participating companies meet the E-Zone program requirements on an annual basis.

Authorization of the proposed agreements will further reduce PDC's risk by clarifying roles and responsibilities and creating reporting methods with PDC's public partners. Additionally the adoption of the Written Agreement will establish a legal mechanism to ensure companies comply with the E-Zone requirements and to provide PDC with remedies, as spelled out in the E-Zone Policy, should a company fail to comply with such requirements.

### **WORK LOAD IMPACT**

PDC's Economic Development Department has been running E-Zone program for the past ten years and will continue to run this program if authorization is received by the City of Portland. Under the old program existing staff who also had other responsibilities managed the E-Zone Program however, due to increased E-Zone activity, one new position has been requested in the 08-09 budget. This position will focus on running the day-to-day activities of the E-Zone program. The proposed actions will also reduce over all work loads by stating the roles and responsibilities of the participating public agencies involved in the E-Zone program and giving these agencies a greater sense of accountability in the process. Furthermore, the Written Agreement will aid participating companies in meeting the conditions set forth by the program by clearly stating the companies' responsibilities under the E-Zone program.

### **ALTERNATIVE ACTIONS**

In order to meet the obligations set out in the E-Zone Policy these actions are need to ensure proper and efficient implementation of the E-Zone Program. Without the Written Agreement PDC would be in violation of State Law and could lose its E-Zone designation. The Board could reject the Intergovernmental Agreement with the County without impacting the over all functions of the E-Zone program. Although the adopted E-Zone policy calls for WSI and WorkSource Portland Employment Department to participate in the E-Zone program through specified roles the need for written agreements with these entities are only intended to clarify roles and responsibilities. Additionally, the written agreement with WSI is intended to enable PDC to easily disperse the WTF to WSI.

### **CONCURRENCE**

As required by state statute, the Port of Portland consented to Portland's application to The OECD seeking a ten year E-Zone designation (February 13, 2008). Additionally PDC has notified all taxing entities that have one or more tax codes within the proposed E-Zone boundary of the City's desire to seek a ten year E-Zone designation. This letter also offered a meeting with taxing entity individually to answer questions or address any concerns. Taxing entities were invited to a special informational meeting on Feb 22, 2008 to discuss the application, address issues about the E- Zone. PDC has not received any written comments on the E-Zone.

## BACKGROUND

The E-Zone Program is a five-year tax-abatement program, that leverages significant private sector investment to spur economic activity in the community. The E-Zone Program is a State-sanctioned program managed by the Portland Development Commission, where companies receive tax exemptions in exchange for meeting job creation and other requirements aimed at business creation within Portland. Eligible expanding businesses in Portland can qualify for up to a 100 percent property tax exemption of the new property taxes generated by their investment in facilities, equipment and machinery whether they lease or own.

The E-Zone Program does not use Tax Increment Financing (TIF) funds, but instead provides a property tax abatement on all new qualified investments. This is a complete abatement on all local and county property taxes. The City sponsors the E-Zone which is generally located west of I-205, east of Forest Park, north of I-84 and south of the Columbia River in Portland, Oregon.

The Portland Enterprise Zone program is governed by Oregon State Statutes (ORS 285C.050 to 285C.250). The Legislative Findings set forth at ORS 285C.055 sum up the purpose for enterprise zone legislation, first enacted by the Oregon Legislature in 1985, as follows; "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 throughout all regions of the state, but especially in those communities at the center of or outside of major metropolitan areas for which geography may act as an economic hindrance. . . . there are areas in the state that need particular attention of government to help attract private business investment into those areas and to help resident businesses to reinvest and grow and that many local governments wish to have tax incentives and other assistance available to stimulate sound business investments that support and improve the quality of life."

The OECDD certifies the establishment of Enterprise Zones for a 10 year period. The current zone designation expired June 30, 2007. Oregon Enterprise Zones must meet state economic and distress hardship criteria in order to receive designation. Hardship criteria is established and tracked by the OECDD.

CC: Ms. Erin Flynn, Economic Development Director  
Mr. Seth Hudson, PDC Senior Economic Development Manager  
Ms. Julie Cody, CFO