Audit tackles Oregon's incentive programs for businesses

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EUGENE (AP) — Oregon should work to ensure better return on investment and transparency in the $340 million a year in tax breaks and cash incentives it provides to businesses, a new audit from the Secretary of State's office concludes.

The audit, released Monday, examines Business Oregon, the state's economic development agency, and the incentives it provides directly to private companies. Those sweeteners — including forgivable and low-interest loans, tax credits, and direct cash assistance — total $72.5 million a year.

But the review also examined property tax waivers granted by local governments through state-approved enterprise zones and the Strategic Investment Program. Those add up to $267.5 million a year in waived property taxes throughout Oregon. Technology firm Intel is the biggest recipient with $162.5 million a year in tax breaks from Washington and Multnomah counties.

Lane County currently has several enterprise zones, which provide property tax waivers to a wide range of companies. Hynix, which shut its West Eugene plant in 2008, was the county's largest recipient of property tax breaks: $65 million over ten years.

"It is critical that Business Oregon and other state agencies regularly evaluate and improve their business subsidy programs to make the best use of limited public resources," Secretary of State Jeanne Atkins said, in a prepared statement. "Taxpayers should expect nothing less."

Generally, the audit found that economic development officials, when they give a business an incentive, aren't adequately monitoring and reporting the number of jobs the company creates or retains, the wages of those jobs, and the state's overall return on investment.

For example, analyzing 231 direct Business Oregon incentives between 2011 and 2012, the audit found that most went to firms where wages were lower, on average, than those in the surrounding county as a whole.

The audit also found that only 30 percent of Business Oregon incentives between 2006 and 2015 went to firms in rural areas, even though urban areas "already have faster employment growth."

Regarding the enterprise zones created by local governments, the audit found that the standard zones appear to be working better than the long-term rural zones, which provide a longer tax break.

In 2015, each new job in a long-term rural enterprise zone cost $55,000 in waived property taxes, versus $4,200 per job in standard zones.

Data storage centers, which tech giants like Apple, Facebook, and Google have built in Oregon in recent years, have been particularly costly in terms of job creation, the audit found. Data centers' combination of high investment in equipment — meaning potentially high property taxes — and few workers needed to maintain them, meant that each job they created cost $87,000 to nearly $800,000 in lost property taxes in 2015.

The audit also concludes that, despite some recent improvements, there is still a lack of transparency in the different tax breaks and other incentives that the state and local governments provide.

For example, some subsidy programs don't publicly disclose what requirements — like a set number of created jobs or investment in a facility — businesses must comply with in order to receive their incentive. Others don't provide details on whether a recepient ultimately complied with those requirements or not.

"Both Business Oregon and the (Oregon) Department of Revenue tend to be conservative about releasing business information," the audit states, because releasing more information "could compromise projects ... and reduce demand for the incentive and loan programs."

But auditors wrote that interviews with officials in other states where more disclosure is required hadn't found that to be the case.

"Transparency promotes accountability for public dollars by spelling out the cost and performance of individual projects and giving policymakers and the public information about how funds are being used," auditors wrote.

The audit also highlighted some issues with what is known as the Strategic Reserve Fund, a pot of money distributed as "forgivable" loans at the governor's discretion. The fund allocates roughly $7.5 million a year.

All 11 projects proposed for funding received money in 2015, even though some firms offered "low projected returns" and others had received poor grades from finance staff who had examined their histories, the audit found.

While reviewing seven large forgivable loans between 2008 and 2015, auditors found that Business Oregon staff, when doing their cost-benefit analysis, neglected to include other Oregon tax breaks or incentives that the companies were also receiving.

"This approach understates the cost to Oregonians and may overstate the project's benefit," auditors wrote.

Business Oregon Director Chris Harder wrote that his agency "generally agrees with the audit recommendations" for remedying the issues identified.

However, Harder wrote that Business Oregon staff "disagree" the value of incentives should be "measured exclusively" by how many jobs they create and how high their wages are.

As to increased transparency, Harder wrote that he is committed "to exploring ways to balance the public's right to know" with businesses' right to privacy.

"Businesses are often reluctant to make their financial information and tax records public, fearing that it will create a competitive disadvantage for them," he wrote.

Atkins noted that Oregon's economic development spending "is low compared to some other states, and competition for state dollars is high."

"This increases the urgency of the need to be more strategic and transparent about the use of business incentives and loans," she said.