

County commissioners gets refresher on SIP, EZ agreements

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in the project is over a billion dollars.

The community service fee (CSF) is the second statutory component of an SIP. The CSF is equal to an amount that is 25 percent of the exempt taxes but not to exceed \$2.5 million.

"Once the project is up and running, they grant an exemption, I make a calculation to see what the exempt taxes are," Gorman explained, adding that on a billion-dollar investment, the taxes would be roughly \$13 million, and 25 percent of that would be about \$3.2 million. "But we can't exceed the two and a half, so it's got a ceiling at two and a half million."

The CSF is distributed by the county according to a schedule that is voted on by the affected tax districts, minus the school districts.

"It's not all of the taxing districts in the county," Gorman added. "It's just the districts that serve the property where the SIP is being proposed."

Seventy-five percent of the affected tax districts must be present to vote, and the decision must be approved by the Oregon Business Development Commission. If for some reason the districts can't agree on a CSF distribution schedule, then the Oregon Business Development Commission will come up with one.

"I know that's never happened in Morrow County," said Gorman. "I don't know if that's happened elsewhere in the state or not."

The third component of the SIP is the exempt portion, or whatever new value is left after the taxable portion is established. This is the portion that Morrow

County has historically used to negotiate any additional payments. There are no statutes regarding the distribution of additional negotiated payments. Gorman said Morrow County has historically put those payments in the county's general fund or pushed them to public works for road improvements.

There is also a percentage of income tax that gets withheld and distributed back to the county, though that amount can't exceed \$16 million in any given year. That money gets distributed to the affected taxing districts in the same manner as the CSF.

If any of the statutory or contractual requirements are not met by the business firm during the exemption period, then the property will be disqualified from the exemption and be made taxable until those requirements are met, or the exemption period expires. For instance, if they don't make their community service fee payment, that disqualifies them from exemption for the next tax year.

An SIP exemption begins the first tax year after the end of the calendar year the facility becomes operational. Facilities are generally taxed normally during construction, but any large business construction project can apply for a construction tax exemption, except for utility properties like the Portland General Electric Carty gas co-generation plant. Solar, wind and fiber properties are also considered utilities, as are trains and barges.

Let's make it EZ

Enterprise zones are much more regulated, with about 10 times as many statutes and administrative

rules governing them as there are for SIP agreements. Enterprise zone exemptions come in two types—a standard EZ with a three- to five-year exemption and a long-term rural exemption of up to 15 years.

Cities, counties and ports can all create enterprise zones, alone or in conjunction. An EZ can encompass both incorporated and unincorporated areas, as long as the governing entities agree to it—that is, it can be partly within city limits and partly without, or partly within port territory. Counties may also have more than one enterprise zone, and Gorman said some counties do.

"Right now they're capped for the amount of acreage in the state of Oregon that can be in an enterprise zone, is that correct?" asked Sykes.

Gorman replied that he knew there was a cap of 15 square miles per zone but didn't know if there was a limit on the acreage within the county.

"I only deal with after the zone's created. That's where the assessor role comes in," he said.

When they want to create an enterprise zone, the county or city also has to consult with the affected taxing districts before moving forward.

As Gorman noted at the beginning of his presentation, enterprise zones exclude commercial property like retailers, with the exception of hotels, motels or destination resorts. In fact, CREZ II expanded its boundary in 2016 to include a Choice Hotel (Comfort Inn & Suites) on Front St. in Boardman.

The 15 square miles of the enterprise zone don't

have to be contiguous, but separate sections do have to be within a certain distance of each other; separate parts of a rural enterprise zone need to be within 15-25 miles of each other, depending on the population of the county.

Zone sponsors appoint local zone managers. In Morrow County, Greg Sweek is the CREZ manager. Sponsors also have other duties, such as approving or denying applications and marketing the enterprise zone. Current zone sponsors in the county include Morrow County, the Port of Morrow and the City of Boardman, depending on the area. CREZ I sponsors were the county and the City of Boardman. All three entities are sponsors of CREZ II. CREZ III sponsors were the county and the Port, though Boardman was involved through what are called "areas of influence."

"I think the Port of Morrow takes a big portion of these requirements because they're the ones that have the available land, the infrastructure to be able to supply utilities," said Gorman.

Also in the county's enterprise zone inventory at one time was the South Morrow County Industrial Park, the former site of the Kinzua Mill outside Heppner. It was created at the same time as CREZ I. That zone's duration expired without any applications, and the county chose not to renew it at the time.

"There's the ability to stretch boundaries almost anywhere we need to stretch them in Morrow County," put in Sweek, "The thought process was that, if something were to happen at the mill site, we could expand the zone boundary from up

in the Boardman area to down here and make things happen."

The county assessor is also heavily involved in enterprise zones—more so than with SIP agreements, Gorman said. The assessor has to assist sponsors in determining whether a property qualifies for an exemption and in reviewing applications from business firms, as well as compiling detailed annual reports for the Department of Revenue and the Oregon Business Development Department and, of course, assessing tax values.

To build or expand an enterprise zone, a company submits an application detailing the proposed business investment, property and investment amount and an estimate of new employees.

One interesting requirement is that the business has to provide a certain number of new jobs in the zone; a new business with a standard exemption must add at least one new employee, while an expanding business need to add at least 10 percent of its existing employee base. That is, if a company seeking to expand already has 500 employees within an enterprise zone, it needs to add at least 50 new jobs.

A business with a long-term rural exemption must have at least 35 new employees within first three years of the exemption. It also has to pay 30 percent more than the average county wage at the time. The company then has to stay at those levels or higher for the rest of the exemption.

Sweek noted that he thought the required number of employees could vary, though he added that

the requirements for the number of employees were very "convoluted," with a lot of variables involved.

As with SIP agreements, a business in a three-year standard enterprise zone is taxed during construction but may also apply for a construction tax exemption. The EZ exemption begins the tax year after the business is operational. In long-term rural enterprise zones, which have seven- to 15-year exemptions, new property is automatically exempt during construction. Payments in lieu of taxes may be negotiated between the business and the zone sponsors.

As with SIP agreements, enterprise zone businesses that don't make payments on time or otherwise fail to meet zone requirements will lose their exemptions for that year.

Gorman ended by summarizing that the biggest differences are that an SIP has a taxable amount and a community service fee and does not have to be within a particular zone, while an enterprise zone does have to be in a particular area but does not have a taxable amount or community service fee.

The county also has a third kind of property exemption, payment in lieu of taxes (PILOT), which Gorman did not cover in his presentation. A fourth kind of exemption program, also a zone, has never been used by Morrow County.

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