

Strategic Assessment of Incentives
Key Findings and Recommendations
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Key Findings

This Strategic Assessment of Incentives analyzes how a set of current business development incentives advances the five priorities in “Prosperity for All Oregonians – Business Oregon Strategic Plan, 2018-2022.” The assessment’s three components – alignment between business development incentives and economic development priorities, benchmarking of incentive programs in competitor states, and review of incentive program effectiveness and efficiency – help address the question of “What could be done differently” within these incentive programs to accomplish the strategic plan’s priorities and enhance Oregon’s competitiveness. The business development incentives that are the subject of the assessment are:

- Enterprise Zone Exemption(Standard Program, affecting property tax)
- Long-term Rural Enterprise Zone Facility.....(LTREZ, property tax)
- Strategic Investment Program(SIP, property tax)
- Oregon Investment Advantage.....(OIA, state income tax)
- Governor’s Strategic Reserve Fund(SRF, lottery funds)
- Business Expansion Program(BEP, part of SRF appropriation)

These business development incentive programs were created prior to 2018 and were not explicitly addressed in Business Oregon’s 2018-22 strategic plan, so that the question of where they fit naturally arises. Program guidelines, summaries, forms, and reporting on program activity suggest that, in more ways than might be anticipated, many of the business development incentives either do or have practical potential to support the five strategic plan priorities, as listed below in the order addressed here:

1. Grow small and middle-market companies
2. Cultivate rural economic stability
3. Advance economic opportunity for underrepresented people
4. Ensure an inclusive, transparent and fiscally healthy agency
5. Innovate Oregon’s economy

The assessment found that business development incentives “likely” or “possibly” or “partially” support the priorities to grow small and middle-market companies, advance economic opportunity for underrepresented people, and ensure transparency, but new data sources or further analysis are needed to determine the extent and nature of their impact. This assessment also found that the incentives are largely designed to cultivate rural economic stability, but, as configured, do not help innovate Oregon’s economy.

Grow small and middle-market companies

Priorities and Strategies: According to the strategic plan, Business Oregon prioritizes business development efforts that scale existing small- and medium-sized companies. Strategies include enhancing the competitiveness of manufacturing companies and attracting businesses and investment to grow target industries.

Findings: The standard enterprise zone (EZ) program likely supports the priority to grow Oregon’s small and medium-sized companies. During the 2019–21 biennium, 66% of businesses using the program were already operating in that particular zone and obligated to increase their employment; others would be startups or already Oregon-based but with

operations new to that zone. The majority of these firms are clearly manufacturers or classifiable as small- and medium-sized enterprises.

Other business incentive programs possibly assist firms in this category. For example, Oregon Investment Advantage's (OIA) low qualifying employment threshold of 5 jobs makes it accessible to smaller companies, which have certainly used it. The Long-term Rural Enterprise Zone Facility (LTREZ), primarily thought of as serving very large firms, has also supported the growth of Fort George Brewing in Astoria, an Oregon business that has scaled successfully. SRF project descriptions also indicate they have incentivized the expansion of homegrown Oregon companies. If the strategy is to scale Oregon businesses so they succeed and become larger, the business development incentives appear to offer a continuum of options to help companies at different stages along the way.

Cultivate rural economic stability

Priorities and Strategies: Business Oregon seeks to build local economic development capacity in distressed rural communities and focus agency resources to prioritize investments and create new economic outcomes through business development.

Findings: Most of the business development incentives are intended to facilitate investment in rural Oregon, with program features that favor rural areas. About 75% of enterprise zones are designated as rural; LTREZ and OIA are only available in rural locations that meet economic criteria; the Strategic Investment Program (SIP) is used primarily in rural areas where lower thresholds apply; adjustments have been made to make BEP more feasible for rural locations; and many SRF projects are located in rural areas (47% in 2016). While other states have struggled to extend their incentive use beyond their major cities, Oregon's incentives are weighted toward and seem to benefit rural areas in a much more substantial way than in the benchmark states included in this report.

Nevertheless, as in other states, new economic activity tends to concentrate in urban areas, and many rural areas remain concerned about their economic prospects. Business Oregon might seek ways to delve more deeply into the differentiating factors that affect successful incentive use among the various rural communities across the state.

Advance economic opportunity for underrepresented people

Priorities and Strategies: Business Oregon has committed to equitable outcomes for communities of color, immigrants, native and tribal populations, and other traditionally underrepresented people. The strategic plan prioritizes investments that counter systemic barriers to economic opportunity and addresses connecting people to jobs and fostering wealth creation for underrepresented populations.

Findings: All of the business development incentive programs have the potential to advance economic opportunity for underrepresented people, but it is not at all clear whether they are doing so. Participating businesses may be owned by underrepresented populations or their employees may include people of color, immigrant populations, and individuals from native or tribal communities. Currently, there is no program data to determine if this is the case. Nevertheless, in a few local enterprise zone programs and with SRF/BEP awards, businesses are subject to relevant public benefit conditions. Though comparable policy commitments exist elsewhere, only limited progress of this sort was found in benchmarked states.

Ensure an inclusive, transparent and fiscally healthy agency

Priorities and Strategies: Business Oregon strives to be transparent, accountable, and a good steward of public resources.

Findings: Business Oregon shares substantial information on its business development incentive program usage. While the assessment found that some additional information may be obtainable to provide a more complete picture of certain activity or outcomes, stakeholders appear largely confident in the transactional information that is available and appreciative of the level of transparency achieved. This is a significant accomplishment that should not be discounted, and that is reliant on sustained staff initiative mostly using spreadsheets and often diffuse local efforts to allow for competent analysis and presentation of data. Deficiencies could be remedied through more consistent, systematic inputting of data (including secure online data submission options), along with database software and greater use of interagency cooperation in processing and validating data.

The state's current tax incentives largely involve local governments and organizations. In addition to data collection, Business Oregon and the Department of Revenue also strive to promote accountability and good stewardship through program guidelines, training and technical assistance, as well as direct support on business projects, and in other ways that supplement local economic development capacity.

Innovate Oregon's economy

Priorities and Strategies: Business Oregon strives to elevate state investments in innovation to grow Oregon's economy. Strategies include expanding Oregon's R&D capacity and increasing access to capital for high-growth startups. The recently completed 2021 Oregon Innovation Plan addresses the need to expand sources of non-dilutive capital for commercialization and incentivize collaborations for ecosystems via capacity building.

Findings: As they exist, Oregon's business development incentives are not designed for and have not generally been used to advance Oregon's innovation goals. There may be administrative opportunities to adapt elements of the Governor's Strategic Reserve Fund (SRF) to target certain types of business projects that align with the 2021 Oregon Innovation Plan, including commercialization projects by companies in emerging industries or to foster collaborative ventures. SRF would not necessarily be an appropriate option for many innovation plan activities and should not be presented as such, but it may be suitable for some projects in which the objectives of SRF and the Innovation Plan overlap.

Recommendations

Just as Business Oregon is striving to understand how its legacy incentive programs for business development align with current strategic plan priorities, so are stakeholders, businesses and local partners. The research and findings from this report will be a critical input as the agency embarks on development of its next strategic plan. Although this assessment found that, in practice, incentives often do or may be able to meaningfully support the priorities, the interviews conducted for this project revealed that the state's incentives are perceived as a poor match with the priorities. As such, the recommendations emphasize finding better ways and systems to demonstrate how these incentives are used strategically to benefit Oregon businesses, residents and communities. These options would require leadership commitment,

dedicated staff time, and, in some cases, additional financial or technological resources to implement.

As for the current set of Oregon incentives, it was recognized in interviews and in comparison to other states that there are issues to address and gaps to be filled in order to improve both their strategic and competitive use. However, the timing was seen as less than optimal to seek significant or immediate program modifications, and no consensus emerged on compelling changes as part of this assessment. While not yet urgent, Business Oregon may wish to take the opportunity to lay the groundwork now to articulate options that will enable the business development incentives to evolve successfully with the changing times.

1. Prepare to adapt the incentives toolkit to a changing economic and competitive environment

Even as Oregon's business development incentives have largely stayed the same, other states have been revising their incentive program offerings over the past several years. Since many states target the same industries as Oregon, the state may increasingly find itself at a disadvantage. At the same time, both the economy and tax environment are different now than when most of Oregon's current business development incentives arose. Business Oregon's economic development priorities have also evolved. Therefore, Oregon may wish to commence serious conversation regarding how to adapt its incentive toolkit in the next few years to recognize the new setting in which its economic development activities are taking place.

An initial step should be examining the incentive components that contributed to other states' recent business expansion or recruitment successes in common target industries to determine if and how such components might be incorporated into Oregon's incentive offerings. In addition, the discretionary SRF program may be ripe for re-focusing, process rationalization, or explicit adaptations and criteria that target competitive opportunities and strategic priorities. Other proposals for consideration would necessitate legislative changes, including for example:

- Creating a workforce training incentive to assist existing and new businesses in meeting their talent needs throughout Oregon.
- Making the Business Expansion Program (BEP) more amenable to use in rural areas.
- Expanding use of the OIA or other income tax tools for strategic plan purposes.
- Aligning and streamlining certain definitions and business requirements within and among programs.

Additional detail and further options are provided in the Recommendations section of the full report.

2. Solidify and augment data gathering and systems

This recommendation comprises two elements: 1) learning more about how incentives may be serving prioritized groups, businesses or communities, and 2) moving beyond rudimentary methods for managing data more generally.

2a. Pursue special data collection practices to help describe the extent to which incentives are helping small and middle-market companies, rural communities, and underrepresented people

Additional research would help determine how well incentivized projects enhance economic opportunity for underrepresented people, help grow small and middle-market companies, and cultivate rural stability. Each option would pose challenges to collect, secure, review and report on information obtained.

Business Oregon can pursue several data collection options in the near and medium term to obtain insight into how well incentive programs are serving underrepresented populations in the state. The two more immediately doable options identified by this assessment are to:

- Use available Local Employment Dynamics (LED) statistics to analyze employment patterns for incentivized projects based on their industries, and
- Request aggregated figures on referrals and demographic characteristics for job placements from the Oregon Employment Department for incentivized firms that are required to enter into first-source hiring agreements.

Though relatively feasible, the above would yield only partial, indicative information. Other options with potential to generate valuable data—but demanding more time, resources and resolution of issues such as confidentiality—would include requesting additional information from incentive recipients, issuing questionnaires, and gleaning insights from public benefit conditions and local agreements with assistance from local partners. Any of these will depend on agency leadership support and coordination with its office of Diversity, Equity and Inclusion.

Additional detail and further options are provided in the Recommendations section, as well as ways Business Oregon may consider devoting resources to produce further metrics or information that highlight or describe how small and middle-market companies participate in incentive programs, the demographic characteristics of participating business owners, and incentivized economic activity in rural areas. Such options would require rethinking forms and procedures through which data are gathered, consultation with local and state partners involved in reporting tasks, and possibly even legislation.

2b. Further systematize incentive program data collection and management methods and dedicate resources for a sustainable monitoring and reporting solution

Business Oregon has the opportunity to embed and build on recent achievements with transparency by moving more toward information technology solutions for elements of its incentive data management processes. Other states have implemented more formal systems that, for example, facilitate recipients' furnishing information in a consistent, secure format, and that offer efficiencies and flexibility in monitoring compliance or disseminating results.

One option is an incentive program portal through which partners or businesses can report in a more direct and timely manner, like the type of interface found in several states. Other options should present themselves as part of Business Oregon's ongoing transition to a new EDMS (economic development management system). More standardized use of data-sharing arrangements with the Oregon Employment Department, as well as introducing arrangements with the Department of Revenue, would facilitate access to data already provided to or produced by the state for analytical and verification purposes.

3. Comprehensively improve the ability to communicate and tell the story of Oregon's incentives as a joint undertaking among the agency, partners, and incentive participants

This recommendation also comes in two parts to both deepen and broaden understanding about the incentives programs and make them more approachable. Both efforts will require careful planning, dedicated staff time and resources for work by an internal or external team.

3a. Supplement annual reports and transactional information with scheduled assessments of the longer-run outcomes associated with incentivized activities

When asked what information they would most like to have about incentive programs that is not currently available, stakeholders interviewed for this assessment frequently responded that they would like to see more long-term metrics or insights of how incentive programs have helped Oregon and affected its residents and communities over time. Business Oregon leadership also expressed interest in telling a more complete narrative about the role that incentives play in economic development work, along with historical perspective of how the state's incentives have affected state residents and communities including many rural areas and underrepresented people.

Business Oregon could commit to periodically preparing or commissioning evaluations that fill in the picture about the longer-term effects of incentivized activity and the relationship to strategic priorities. The Economic Impact Study of Oregon's Property Tax Incentives to be completed in late 2021 is an example, which might be updated or extended over time. The agency should consider investing in a multi-year plan for carefully designed data collection and investigations with a schedule and budget for research, involving an inclusive set of partners to prepare or oversee more holistic analyses that capture what the incentives have accomplished relative to program or other objectives. The goals of this effort include:

- Better stakeholder knowledge of how incentives are used in support of strategic or community priorities,
- Stronger awareness of the value of using incentive programs going forward, and
- New insights to refine incentive policies so that benefits are more widely enjoyed.

3b. Develop new ways to present and market incentive programs, so that businesses and local agency partners will use the incentives toolkit wisely and more effectively

Internal and external stakeholders need a stronger understanding of how the incentives can be used both generally and individually to advance state or local economic development. Common understanding of how, why and when each incentive is most appropriate will not only improve the ability of state and local practitioners to recognize and direct attention and effort to the more impactful opportunities, but it will also help solidify support for incentivizing projects that can generate meaningful benefits for communities and the state economy.

Moreover, new approaches to communication would allow businesses and partners to see where the available incentives can specifically serve business development projects and investment plans. While Business Oregon provides a variety of quality information with different levels of detail regarding incentive programs, there is still a lack of uniform messaging about incentives, and stakeholders still find it challenging to grasp the bigger picture of how

collectively they are used, for whom, why, or when, including cases where Oregon's incentives may have little or no relevancy.

Implementation of this recommendation:

- Will require leadership and additional expertise and other resources to sponsor collaborative work on new communication techniques and channels, as well as commitment to use and maintain them.
- Is suggested to be organized around three phases—Know Your Incentive Toolkit, Match Incentives with Opportunity, and Navigate the Process—recognizing that businesses and partners have different needs at different stages in the process.
- Should involve the incentives staff, communications group and regional development officers jointly in selection and implementation from among the full set of options, which may range from elevator-speech material and success stories to creating online navigation tools and expanding technical assistance efforts and capabilities.