

## MINUTES

## MILWAUKIE CITY COUNCIL WORK SESSION

February 19, 2008

**Mayor Bernard** called the work session to order at 5:30 p.m. in the City Hall Conference Room.

Council Present: Mayor Bernard and Councilors Barnes, Chaimov, Loomis, and Stone

Staff Present: City Manager Mike Swanson, Economic & Resource Development Specialist Alex Campbell, and Library Director Joe Sandfort

**Enterprise Zone Re-Designation**

**Mr. Campbell** explained the history of the Enterprise Zone that expired at the end of the current fiscal year. Staff recommended moving forward with another re-designation of the zone, as it was an important marketing tool for the City. An example was Hoya Optical, a new company on International Way. It did not take advantage of the abatement, but it was one of the marketing elements that attracted them to look at the particular site that they ended up at. There were a number of companies that were initially attracted to properties in Milwaukie by the availability of the Enterprise Zone. Even if, like Hoya, they did not go into the program some still ended up moving their businesses in the City. The next steps for staff will be to consult with all of the overlapping taxing jurisdictions as required by statute.

**Mr. Swanson** said being in an Enterprise Zone is not the same as tax increment financing (TIF). All properties did not get the designation, and people had to apply and qualify. The Zone itself could be extended but not the time limit for the businesses whose time limits were either 3- or 5-years depending on the type of application.

**Mayor Bernard** asked if the Fire District got a portion of the property taxes?

**Mr. Campbell** said the plant and equipment is taxed at the same rate as building and land. The abatement only applied to new investment, whether it is a new building or new equipment fixed and attached to the building.

**Mayor Bernard** said the property taxes on equipment would be very small as compared to the structure.

**Mr. Campbell** said it could be substantial. In the PCC Structurals abatement, which was the biggest investment that had received abatement under our Enterprise Zone, the majority was in equipment. The company bought very substantial and expensive equipment. One of the significant elements of the program was depreciation. A building generally continues to appreciate while equipment depreciates. A piece of equipment could depreciate very quickly and very little of that assessed value might remain by the time it went on to the tax rolls. Staff did some research with the tax assessor's office looking at the type of equipment that PCC Structurals was investing in and they looked at how they value it. It was not up to the company's discretion how they depreciate. The tax assessor's office determined the valuation and looked at both the depreciation and the increase in value to figure increased replacement costs. In

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the past year steel was so expensive PCC's equipment actually grew in value because it was made from steel even though it was in use.

**Renate Mengelberg**, Clackamas County Business & Economic Development, added that for very large companies the Department of Revenue was the final authority and had many depreciation schedules based on the industry. If it were a large company they would be looking to them to provide guidance on that particular depreciation schedule. Things like computers and office equipment would not generally be abated under the program unless it was directly tied to the manufacturing process.

**Councilor Barnes** was pleased and what made it big for her was the fact that they have added 25% additional jobs in the City. That was significant as the City would eventually get the taxes. The program made sense because it encouraged economic growth. How this program compared with the region?

**Ms. Mengelberg** replied it definitely helped. There were only 2 enterprise zones in the County including the newly formed Molalla Enterprise Zone that started in July. It really helped attract new businesses and better paying jobs with benefits. Enterprise Zone is designed to attract traded sector jobs, which bring new money back into the economy

**Mr. Campbell** added that the 600 new employees were projected and would represent about 5% increase of the total employment in Milwaukie. A significant amount of PCC Structural's investment had not occurred yet.

**Councilor Chaimov** said one message he got from the staff report was that research on the success of these types of incentive programs was very difficult to carry out. He heard tonight that it had been successful. Even though research generally might be difficult, the program was worth it for the community.

**Mr. Campbell** said one question was the level of certainty. In academic research the standard of proof was set very high, and most academic economists would be very cautious about the question. They typically evaluated the program on a statewide basis. They tended to find that there was not a huge benefit in part because enterprise zones typically shift investment more than making the pie bigger. That went to the question of the benefit to Milwaukie. He thought one could safely say 'yes.' Some investment was being shifted to Milwaukie.

**Mayor Bernard** had personally visited a lot of the companies that moved to Milwaukie. In 2001, the industrial zone was half vacant, but now it was almost full, and a lot of companies had moved from Portland to Milwaukie.

**Councilor Stone** asked if Portland participated in Multnomah County Enterprise Zones?

**Ms. Mengelberg** said it had, but the enterprise zone program in Portland was a bit different than Clackamas County. The County's program had a fairly streamlined and business-friendly approach. The City of Portland only offered 5-year abatements and had a number of requirements that made it less attractive.

**Mr. Campbell** commented there was an overall tax benefit to move from Multnomah County to Clackamas County. That pointed to another thing that made it difficult to make it sure of the relative affects because there were so many different factors that went into a business location decision. He thought some economists got caught up in that and forgot that there were people making these decisions. There was a limited amount of information upon which they were making those decisions on. Something like an enterprise zone was an

important signal to a business that there was a friendly local government that was looking to attract investment and bring them into the community.

**Councilor Stone** said she read in the staff report that over the past 9 years the Enterprise Zone had abated a total of approximately \$53,000. She asked if that was that the total for 9 years?

**Mr. Campbell** said that was correct. Only a quarter of the total taxes that were abated were City of Milwaukie taxes. The biggest abatement was PCC Structural, which had not taken place yet. There were 3-4 companies that would be exempt for their first years this coming tax year. That figure was low for a couple of reasons. Over the next couple of years our average would be more in that range per year. The critical factor that he wished to emphasize was the base line? Would those taxes exist without the program? The program was designed to attract investments, so it was possible that those investments would not have taken place without the program.

**Councilor Stone** said in the case of PCC Structural that probably was not the case in terms of how big of a business they were and their ability to make investments of \$25 million.

**Mr. Campbell** would not say the program changed PCC Structural's ability to make that investment, but it certainly was one of the factors the company looked at when it was considering where to make that investment. They owned facilities on the east coast, the west coast, and France and had the ability to open a new facility somewhere else. He thought due to the defense contract nature of its work the company probably had to be in the US, but it did choose Milwaukie.

**Councilor Stone** asked if she understood correctly and if it was all of the property taxes that were abated or only taxes for the improvements?

**Mr. Campbell** replied it was all property taxes on the improvements. The land was never abated, and a building was never abated unless it was newly constructed for that Enterprise Zone application.

**Councilor Stone** was concerned about the fiscal impact section in the staff report when talking about what the PCC Structural abatement could mean. Was it because it was mostly equipment and you could not figure out what the depreciation would be?

**Mr. Campbell** said it was due to both the depreciation and the pace at which they would be placing that equipment into service. Their timeline had been shifted by changes in the economy and was not happening as quickly as originally anticipated.

**Councilor Stone** said if the abatement was in the neighborhood of \$100,000 of taxes that could be going into our City a year and the figure of \$53,000 of the previous 9 years was going to be more in reality then that amount was \$153,000 per year in tax revenue for the City.

**Mr. Campbell** said that was the high-end estimate. If another PCC Structural deal were to come up today, that was the decision they were facing. All of the investments that had been approved under the program would go forward. There was no legal authority to appeal. The question was if there was another investment of the same scale as PCC Structural would the City want to offer this kind of incentive? The issue came down to whether the company would make the investment absent this program. The City was not giving anything away. It was a net benefit to our tax revenues if they would have made that investment elsewhere absent this program. If they had made the investment in Tennessee,

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for example, there wouldn't have been any tax benefit to the City. After the 5-year abatement, the City would get the tax benefit.

**Councilor Barnes** commented the City could possibly get 400 new family wage jobs that it did not previously have.

**Councilor Stone** said and more traffic.

**Councilor Barnes** said in talking with companies one of the questions asked was, how do your employees get to work? On a regular basis they answered that they used public transit. Although money would not be coming into Milwaukie for a few years, it eventually would. \$500,000 was significant.

**Councilor Stone** said that was a problem. The City needed to have a program like this for the small private retail businesses so we could have something that people could invest in.

**Councilor Barnes** commented that retail did not bring in family wage jobs, and a condition of being in an enterprise zone was to pay those kinds of wages.

**Mr. Campbell** said it would have to be a different program because the Enterprise Zone was not targeted to retail. He discussed the Metro program that was helping small Main Street businesses.

**Councilor Stone** said the employees could potentially give back something to Milwaukie if there was retail for them to go eat, shop, and spend their money on.

**Mr. Campbell** just wanted confirmation from Council that staff was headed in the right direction. Staff would come back with a resolution to support the program on March 18.

**Mayor Bernard** asked if they were going to meet with the Fire District to come to some resolution.

**Ms. Mengelberg** said they had met with the Fire District once, and they would discuss it next Tuesday at their Board meeting. They were waiting to see what they had in mind and then they would take that back to the City and County. That decision was not something that would need to be made until after the Enterprise Zone was authorized in June. There is a Zone Management Agreement that could handle those details.

**Mayor Bernard** asked what the extension length was?

**Mr. Campbell** said it was 10 years.

**Mayor Bernard** asked if it could be dissolved if we were to trade it for an urban renewal district.

**Ms. Mengelberg** replied she did not know, but she imagined it would not be a problem. It would need to be requested.

**Mr. Campbell** said the City could do a boundary adjustment at any time.

**Councilor Chaimov** said it looked like the overarching issue was the extent to which the City could and should be abating tax payments to bring business to the community. It would be helpful to have a larger philosophical discussion about the extent that the City wanted to do that and look into available programs so there was a plan.

**Mr. Campbell** added that one of the reasons the Enterprise Zone was particularly useful was because it was a State program. All taxes could be

abated; whereas when the City acted on its own it could only adjust its tax rate. It was powerful this way.

#### Library District Measure Resolution

**Mr. Swanson** said the question was whether or not Council wished for him to pursue drafting a resolution for the March 4 agenda. It would consent to both the inclusion of all territory in the City within Clackamas County within the proposed boundaries of the proposed District and authorize the transfer of \$10,000 to the County for an information campaign. The measure was proposed for the November 2008 ballot. It would create a library district on a countywide basis, and the permanent rate would be \$.3974 per thousand. The money collected would first be returned to the City in an amount equal to what that permanent rate would raise with their valuation, and then money is further distributed to cities based on the numbers of unincorporated area residents that the cities would be serving.

**Mr. Swanson** thought they were at the point now where it was time to make a decision as to whether or not we do support the district. His mantra throughout this had been that the district was a good solution to library funding problems. The first levy occurred in 1977 and approximately every 3 years until 1997 the volunteers would go out to raise money and campaign for a new library levy. Due to Measures 49 and 50 those monies were folded into the County general fund. The County had continued to, even though it was not required to, support City libraries. With the loss of federal monies in the amount of \$12.5 million they have had to make some cuts in their budgets and one of those is that they were going to, effective with the following fiscal year, no longer appropriate money for payment to cities or for operation of the county libraries. He had heard the message loud and clear that it was the policy of the County, and they were going to stick with it. His recommendation was that the Council authorize placing the resolution on the next agenda. The resolution would request that the County include the City within the proposed district as a pre-condition, which had to be done in order to be a part of the district that would be on the ballot in November. He talked with Mr. Mantay regarding the \$10,000 and noted Councilor Barnes concerns. He fought the good fight, but in the interest of the libraries the City now should get behind the district and do everything it can to help make it a reality. Requesting inclusion within the district and coming up with the \$10,000 are essential elements in being a partner in making the district happen.

**Councilor Barnes** asked if the proposal had support from the Friends of the Ledding Library as well as the staff and volunteers in the library. Without them on board to help we may have problems.

**Mr. Swanson** had talked to some of them and thought they were aware of the reality. He spoke with M. Kay today, and she was supportive. She understood that people needed to be a part of making this happen. The District would be a great solution if it passed.

**Mr. Sandfort** explained to the Library Board he would follow the lead of the City Council and the City Manager. If City Council decided to support the district that is what staff would do, and the Board agreed to do the same. The Friends contributed \$2,000 as a group to the political action committee (PAC), Keep Our Libraries Open which was doing the advocacy part. There were also individuals of the Friends group that made personal contributions.

**Councilor Stone** had a problem with spending taxpayer dollars to convince taxpayers that they need to tax themselves.

**Mr. Swanson** explained it was an informational campaign and not advocacy.

**Councilor Barnes** said all they can do is give them the facts and asked how much money total was being spent on the informational campaign.

**Mr. Swanson** said the cost was \$170,000. The Friends could endorse and individual Council members may endorse the proposal. There would be information in the voter's pamphlet, but it would not be from the \$170,000.

### Retreat

Council consensus was for March 8 & 9 for retreat dates.

**Mr. Swanson** said he would be in a trial for the next couple of days. It is over a very unusual situation, a sewer back up. The insurance company provided coverage for all of the negligence claims, but they also alleged an inverse condemnation claim. The insurance does not cover inverse condemnation, but it did have to provide a defense. Employees would appear as witnesses, but there needed to be somebody there with authority if there was the possibility to settle or if there is a question outside of the insurance company's realm.

### Work Session Format Discussion

**Mr. Swanson** said Councilor Chaimov asked if there was a way to make better use of the work session time. He said often times they seemed like information exchanges without a lot of opportunity to ask questions. There were a number of different ways to do it. One option was to have work sessions on things that are 2-4 weeks out so that staff could start getting some ideas of what questions or concerns were. It seemed too late to talk about agenda items in a work session on the same day as they were up for action at the regular session. He asked for comments on what was and was not working?

**Councilor Chaimov** said in his view discussions during the regular meetings would benefit from more discussions during the work sessions. For example, they were getting a report today on the draft SDEIS from Mr. Asher. It might be beneficial to have Mr. Asher come to the work session to find out in advance what the Council may be thinking and give him some time to organize his thoughts and to focus more on the Council concerns. If it were two weeks out that would give even more time to hone the presentation to the issues that were of concern.

**Councilor Stone** said she liked the idea of not going from having the same issue in a work session on regular session agenda for the same night. In terms of decision-making, she felt Council did not seem to discuss enough. She did not think they had enough open dialogue and sharing of ideas and thought that work sessions should be structured more in a way to encourage that. She said for her there were quite a few times when she thought staff should take an item off of the consent agenda and review their staff report instead of having it be on a consent agenda for blanket passing. Sometimes we had questions about things and sometimes there were too many items on the consent agenda that could have easily been put on a work session agenda or as a staff presentation during the regular session to get clarification.

**Councilor Loomis** said that it would be a great idea to talk about those items on the consent agenda during a work session for public informational purposes. If we were going to televise meetings then we should let them know what is going

on. He did not want to have to pull something off of the consent agenda to find out more information.

**Mayor Bernard** said the Logus Road project was on the consent agenda for tonight, and Council has had numerous meetings over the years on that item.

**Councilor Stone** said she had questions about it, and Mr. Campbell answered them. She would get a lot more benefit out of work sessions if they were both informational and dialogue. Council got a lot of information, but she would like a chance for more discussion.

**Mayor Bernard** said there was so much going on right now work sessions tended to be packed sometimes.

**Councilor Barnes** thought part of the problem was we have such a short amount of time. She liked the idea of talking amongst themselves about the policy issue and to make decisions on where we see things long term. Maybe if Council had a better understanding then it could make better decisions. When she first got on Council they had a separate night for work sessions. As much as she did not want to give up any more nights there had to be a way to expand it and have good discussion instead of feeling rushed. When she has questions about staff reports or consent agenda items she called to make an appointment to meet with staff or emailed them. She had never had a problem with a consent agenda item except recently when a resident wanted an item pulled. That was the only time she had ever asked for something to be pulled from the consent agenda.

**Councilor Loomis** said when an item was on the consent agenda that item information did not get out to the public.

**Councilor Barnes** said the TV person had the ability to add a summary of the item on the TV screen as the viewer was watching. Instead of us explaining it there could be a one or two sentence summary about the item. It usually was not more than one or two items that needed a summary. Most of the consent agenda items are meeting minutes.

**Mayor Bernard** said we could set aside a couple of minutes in a work session before a regular session to explain what is on the consent agenda for that night, and if anyone had any questions at that time they could ask staff to answer them.

**Councilor Stone** said even tonight with the staff report about the Enterprise Zone when you read through all of the information it still isn't clear sometimes. We were used to looking at this stuff. Councilor Loomis brought up a good point to make sure the public knows what they were doing with their money.

**Mr. Swanson** said when he first started he did a second document for each of the council meetings that included a 2-3 sentence summary of what each of the agenda items were. It was a short form of what the agenda items were. He stopped doing that, but he could do that for the consent agenda items. It would still serve the purpose of the consent agenda to save time on routine matters. In terms of time there was the Marshall Rule of ending at 10 p.m. When they had meetings on two nights the work session meetings ran extremely long and then on the regular session nights they had some of the shortest meetings on record. The things dealt with now were meatier, but one of things Council could do is come back afterwards and pick up an item or two.

**Councilor Stone** said at some point long meetings became less productive. She was in favor of keeping the meetings efficient and streamlined.

**Mr. Swanson** said if an issue needed more discussion it was perfectly acceptable to bump the other item into the next meeting if anyone felt more time was needed for discussion.

**Councilor Chaimov** asked if it would be beneficial to discuss regular session items during the work session prior to the meeting?

**Mr. Swanson** said you are in a regularly noticed public meeting and it was a venue where Council could certainly do that. It was nice to follow the work session agenda, but they were not written in stone.

**Councilor Stone** liked the agenda forecaster and asked if there was a way to get more input as to what was coming up in the work sessions.

**Mr. Swanson** said the agenda forecaster was a perfect way to inform staff that you would need to talk about a certain item.

**Councilor Stone** asked how the agenda items were set.

**Mr. Swanson** replied that when staff had something that needed Council action they sent it to Ms. DuVal, and then she puts the packet together and sends it to him for approval. He then reviews it and decides what goes on the consent agenda and regular and occasionally they send staff memos back for clarification. The packet has to be out to Council by the Tuesday before the meeting.

**Councilor Stone** asked if Council had any input on the agenda?

**Mayor Bernard** said the Mayor has input.

**Mr. Swanson** said there were constant issues coming up that required Council input. He and the Mayor typically met on Monday mornings and he clued him in on any issues or big things. He would like to be able to go to lunch and meet with Councilors one on one. That was helpful, and he would try to do that again.

**Mayor Bernard** adjourned the work session at 6:45 p.m.

*Pat DuVal*

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Pat DuVal, City Recorder

# WORK SESSION

# AGENDA

## WORK SESSION MILWAUKIE CITY COUNCIL

FEBRUARY 19, 2008

### MILWAUKIE CITY HALL

Second Floor Conference Room  
10722 SE Main Street

A light dinner will be served.

### ***WORK SESSION – 5:30 p.m.***

#### Discussion Items:

	<u>Time</u>	<u>Topic</u>	<u>Presenter</u>	<u>Page #</u>
1.	5:30 p.m.	Enterprise Zone Re-Designation	Alex Campbell	1
2.	6:00 p.m.	Library District Measure Resolution -- Direction	Mike Swanson	
3.	6:45 p.m.	Adjournment		

### ***EXECUTIVE SESSION***

Executive Session: The Milwaukie City Council may go into Executive Session pursuant to ORS 192.660(2). All discussions are confidential and those present may disclose nothing from the Session. Representatives of the news media are allowed to attend Executive Sessions as provided by ORS 192.660(3) but must not disclose any information discussed. No Executive Session may be held for the purpose of taking any final action or making any final decision. Executive Sessions are closed to the public.

### **Public Notice**

- The Council may vote in work session on non-legislative issues.
- The time listed for each discussion item is approximate. The actual time at which each item is considered may change due to the length of time devoted to the one previous to it.
- For assistance/service per the Americans with Disabilities Act (ADA) please dial TDD (503) 786-7555.
- The Council requests that all pagers and cell phones be either set on silent mode or turned off during the meeting.



To: Mayor and City Council

Through: Mike Swanson, City Manager

From: Kenny Asher, Community Development and Public Works Director  
Alex Campbell, Resource & Economic Development Specialist

Subject: Enterprise Zone Re-Designation

Date: February 5 for February 19, 2008 Work Session

### **Action Requested**

No action requested.

Council input is sought on an upcoming staff recommendation to re-designate the Milwaukie/North Clackamas Enterprise Zone. Staff will return to Council at a regular session in late March or early April with a resolution in support of such an application, subject to additional guidance from Council.

### **Background**

#### *The Enterprise Zone Program*

The Oregon Enterprise Zone (EZ) program was established in 1986 to encourage private sector investment, primarily for industrial uses, in areas with lagging economic performance. Firms making qualifying investments in a designated zone can receive abatements on property taxes on those new investments for a period of three or five years. The total number of zones is capped by statute; there are currently 55 Enterprise Zones around the state.

To be eligible for the program, a firm must :

- Increase full-time, permanent employment by a minimum of 10% within the first year.<sup>1</sup>

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<sup>1</sup> The requirement to increase employment by 10% can be waived by the local zone sponsor if (a) the total investment exceeds \$25 million or (b) the firm can demonstrate a large productivity increase,

- Make new investments within an established zone.
- Sign a "first-source" hiring agreement, committing to advertise the new openings with, and consider applicants from, the Oregon Employment Department.
- Be engaged in a qualifying business activity, generally industrial or "traded sector" activities, i.e., not retail, health care, services or similar activities.

### *The Milwaukie/North Clackamas Enterprise Zone*

Clackamas County, the City of Milwaukie and the City of Portland have co-sponsored the Milwaukie/North Clackamas EZ since 1997. The zone is made up of 5 sub-areas: the Milwaukie North Industrial area; International Way; Johnson Creek Area (along Johnson Creek Boulevard from the PCC Structural's facility and east to 76<sup>th</sup> Dr.); the Clackamas area (west of I-205, just north of Highway 224); and the "McLoughlin Boulevard Area" (west of 99-E in the area of Roethe Road). The City of Portland is a co-sponsor because a key industrial site straddles the Milwaukie/Portland border. The zone covers all industrially-zoned land within the City of Milwaukie. (See Attachment 1 for a map of the existing zone.)

In addition to the basic requirements described above, Milwaukie/North Clackamas EZ firms must pay their new hires a minimum of \$11.25 per hour to qualify for the three-year abatement; in order to qualify for the 5-year program, the pay requirement is 150% of the average County wage (about \$27 per hour). (Benefits can be included in the calculations to meet these requirements.)

Over the life of the Milwaukie/North Clackamas EZ, the program has provided tax abatements to eleven companies, nine of which were within city limits. Several companies that have made new investments in the North Milwaukie Industrial Area have received abatements through the program, including Cornerstone, Hygrade, and Grand & Benedicts. The International Way Business center, which was constructed in 2006-2007 at the east end of International Way, used the EZ extensively in its marketing program. Two of the eventual purchasers/end-users of International Way Business Center buildings (Day Wireless and TPR Safety Products) qualified for EZ abatements.

The largest investment qualified under the Milwaukie/North Clackamas EZ was an expansion by PCC Structural's, which is currently underway. PCC expects to invest \$25 million, primarily on new equipment, over the next several years, expanding employment by approximately four hundred full-time positions. PCC has committed to pay the higher wage-level and received a five-year abatement. Summary data on the various investments that qualified for EZ abatements is provided in Attachment 2.

### *EZ Designation Process*

The Milwaukie/North Clackamas Enterprise Zone is due to expire June 30, 2008. The annual EZ designation process began January 7; applications for new designations and re-designations are due April 4, 2008. The application process requires public meetings with affected taxing districts and a resolution of support from the sponsoring jurisdictions (City of Milwaukie and Clackamas County). Because all property taxes are abated, all taxing jurisdictions forego revenue under the program. However, the school district is largely insulated from local property tax base changes by the state formula for allocating operational funding. Designation or re-designation is for a period of 10 years.

The Clackamas Board of County Commissioners directed County staff to make a special effort to communicate with Clackamas County Fire District 1 (CCFD1), to make sure that their concerns are understood and to explore possible steps to mitigate those concerns. County and City staff met with CCFD1 representatives. CCFD1 expressed frustration that the fire district is almost entirely dependent upon property tax revenues but does not have an equal voice in the establishment of the zone. CCFD1 staff recognized the need to stimulate additional industrial investment in the County but also noted that new investments can place additional demands on emergency services without any additional income to offset those new service needs.

Staff is in the early stages of developing an application for re-designation. That application will include demographic data on the area to justify re-designation. The County has expressed an interest in expanding the EZ significantly by including all industrially-zoned land in the Clackamas Industrial Area. (See Attachment 3.)

### *Staff Recommendation*

EZ incentives are structured to assist local jurisdictions in recruiting and retaining healthy, growing businesses. A secondary impact is that firms in the program may be able to re-invest more aggressively and grow faster because their property tax burden has been reduced. The program raises the possibility that some abatements will go to firms that would have made the same investments, in the same place, regardless of the existence of the zone. In those cases, the net effect of the program would be foregone revenue for the local jurisdictions over the course of the abatement.

Definitive research on whether these types of incentive programs succeed is very difficult, if not impossible, to carry out. Those studies that have attempted to measure local employment growth or similar results have often failed to isolate a clear, positive impact of "enterprise zone"-type incentives.<sup>2</sup> Critics of enterprise zone programs argue

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<sup>2</sup> A review of the research literature, focused on the policy implications is: "Enterprise Zones: A Review of the Economic Theory and Empirical Evidence," POLICY BRIEF (Minnesota House of Representatives, Research Department, St. Paul, January 2005), available at <http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>. A summary is provided as Attachment 4.

that they do not boost overall growth (but rather shift economic activity from one location to another), may favor capital accumulation over employment, are usually not large enough to overwhelm other factors that frequently drive firm location decisions, and often fail to increase employment in the targeted area due to commuting.

Despite the above criticisms, staff believes that the City should seek re-designation of the local EZ. The City of Milwaukie has a number of industrial locations that are functional but can benefit from a small marginal boost in competitiveness provided by the short-term tax incentive. In addition, the EZ is a central marketing tool in the City's economic development efforts. Enterprise Zones are publicized in county and state business recruitment efforts. This attracts potential businesses to consider Milwaukie/North Clackamas industrial sites that might not otherwise be aware of them.

Staff has conducted interviews with several of the companies that have recently used the Milwaukie/North Clackamas EZ program. Responses ranged from comments such as "it helped, but was not critical" to our location decision; to the abatement was "one of the reasons we stayed and expanded in the area" and provided important help in enabling additional growth.

In addition to being an important marketing tool, the presence of the Enterprise Zone is an important indicator to the business community that Milwaukie is willing to actively support private investment.

### **Concurrence**

The Clackamas Board of County Commissioners have voiced their support for re-designation. EZ approval clearly supports Objective 1 of Chapter 4 of the City's Comprehensive Plan: "The City will encourage an increase in the overall economic development activity within the City, will strive to retain existing businesses as well as actively attract new businesses, particularly those identified as having growth potential." Staff has initiated consultations with the Fire District.

### **Fiscal Impact**

Over the previous nine years, the EZ has abated a total of approximately \$53,000 of City of Milwaukie property taxes on new investments in the zone. As discussed above, it is difficult to estimate what portion of those investments would have been made without the EZ. The recently-approved PCC Structurals abatement could mean as much as \$100,000 in annual revenues foregone during the abatement period.

### **Work Load Impacts**

Staff work on the program is absorbed in the regular duties of the Resource and Economic Development Specialist.

### **Alternatives**

There are a very limited number of tools available to Oregon jurisdictions that are similar to the Enterprise Zone. The governing statutes limit the zone sponsors discretion on three-year abatements. Zone sponsors have much more flexibility to add additional requirements on firms applying for a five-year abatement. For instance, the higher wage level required for the five-year abatement is a zone sponsor option. In addition, the zone sponsors may be willing to require companies receiving the longer abatement to make some form of payment to compensate emergency service providers for additional service demands.

### **Attachments**

- Attachment 1. Map of Existing Zone, Program Summary, and Application Process
- Attachment 2. Summary Data on Prior Abatements
- Attachment 3. Map of Possible Re-Designated Zone
- Attachment 4. Policy Brief on Academic Research

# ATTACHMENT 1



## Milwaukie / North Clackamas County Enterprise Zone Tax Abatement Program Overview

This tax abatement program provides a financial incentive for industrial businesses to expand their facilities or build a new building, invest in machinery and hire new employees at higher wages.

The program is available to companies or sites located on industrially zoned land in North Clackamas County as shown on the map to the right.

Eligible firms include manufacturing, assembly, fabrication, processing, distribution, maintenance, warehousing, or other industrial firms that meet the criteria listed below.

### **Highlights of the three year tax abatement program:**

A company will not pay property taxes on its new investment if it can:

- ◆ Increase its permanent, full time employment by 10% and maintain it annually on average for three years.
- ◆ Pay the new employees at least 150% of the state minimum wage (\$11.25 per hour). Benefits can be used to reach this pay level.
- ◆ Sign a First Source Hiring Agreement committing the company to consider local applicants for these new positions.
- ◆ Pay a filing fee of 0.1% of the proposed investment.

### **Additional requirements for a five year tax abatement:**

A company must meet all of the requirements of the three year program and also:

- ◆ Pay 150 percent of the average county wage (at least \$27.15 per hour) for the new jobs created. The value of benefits can be used to achieve this pay level.

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- ◆ Maintain the higher wages and employment levels for at least five years.

(See reverse side for information  
on the application process)

## Milwaukie / North Clackamas County Enterprise Zone Application Process

- 1) Please contact Renate Mengelberg at (503) 353-4327 or at [renatem@co.clackamas.or.us](mailto:renatem@co.clackamas.or.us) to discuss the project to determine eligibility.
- 2) Once it is determined that a company meets the job creation, investment and location requirements, they are encouraged to fill out the *Oregon Enterprise Zone Authorization Application*. The form can be found at: <http://www.oregon.gov/DOR/PTD/docs/303-029.pdf>
- 3) The company should submit the application form and a check for the application fee (0.1% of the investment) made out to "Clackamas County".
- 4) The company will be invited to a meeting with representatives from the Tax Assessor Office, Oregon Employment Department, Clackamas County, and the City of Milwaukie (if applicable) to discuss the project and address any concerns.
- 5) If all agree that the applicant meets the criteria of the program, the Zone Manager and Assessor officially approve and sign the *Oregon Enterprise Zone Authorization Application*. The First Source Hiring Agreement can be signed then as well.
- 6) The company proceeds to expand its existing facility, construct a new facility or install eligible equipment.
- 7) In January the following year, all precertified companies that have completed construction by the end of December will receive a reminder notice and *Oregon Enterprise Zone Tax Exemption Application Form*. Or see: <http://www.oregon.gov/DOR/PTD/docs/310-075.pdf>
- 8) The precertified company files the *Oregon Enterprise Zone Tax Exemption Application Form* paperwork with the County Assessor by April 1 following each year of the tax abatement period.
- 9) The business receives the tax exemption from the County Assessor for the tax year beginning the following July 1<sup>st</sup>.

### For More Information Contact:

**Renate Mengelberg**  
Clackamas County Business & Economic Development Services  
9101 SE Sunnybrook Boulevard, Clackamas, OR 97015  
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Website address: <http://www.co.clackamas.or.us/business/assist/ezone.htm>

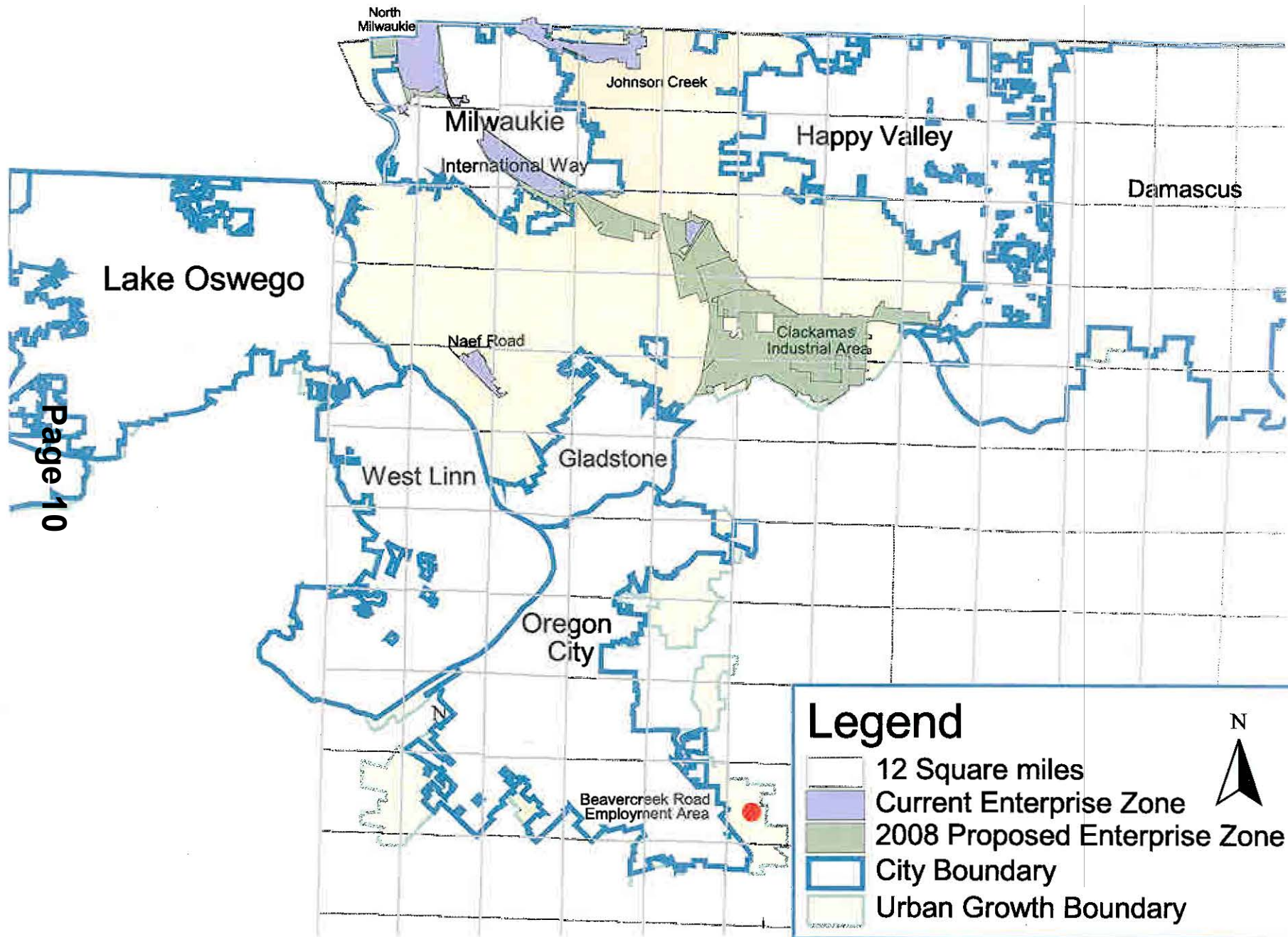
## ATTACHMENT 2

### Milwaukie / North Clackamas County Enterprise Zone Summary

Business	Zone	Address	Employees	New Employees	Estimated Value of Investment
Criterion Supply Inc.	Milwaukie	4500 SE Criterion Court	25	5	866,910
Anacomp, Inc.	Milwaukie	no longer in zone	0	23	854,860
Carlton Company	Milwaukie	3901 Naef Road	117	117	39,303
Day Management Corp.	Milwaukie	5444A SE International Way	10	1	\$1,200,000.00
AGC Inc.	Milwaukie	9109 SE 64th Ave	34	4	\$210,000.00
Cornerstone Fencing Inc.	Milwaukie	10100 SE Main Street	9	4	\$227,700.00
Hygrade Metal Moulding Mfg. Corp.	Milwaukie	1850 SE Milport Rd	0	30	\$472,114.00
PCC Structurals, Inc.	Milwaukie	5001 SE Johnson Creek Blvd	1940	400	\$25,000,000.00
Portland Mechanical Contractors, Inc.	Milwaukie	2000 SE Hanna Harvester Dr.	80	30	\$1,230,000.00
TPR, Inc.	Milwaukie	5821 SE International Way	8	12	\$1,827,000.00
Grand & Benedicts, Inc.	Milwaukie	9304 SE Main Street	0	8	\$269,000.00
<b>Totals</b>			<b>2,223</b>	<b>634</b>	<b>\$32,196,886.63</b>

# ATTACHMENT 3

## 2008 Proposed Milwaukie North Clackamas Enterprise Zone



## ATTACHMENT 4

*Over the last 25 years, both states and the federal government adopted enterprise zone programs to stimulate economic activity in economically distressed urban and rural locations. Since their inception, social scientists questioned their effectiveness. This policy brief reviews the empirical economics literature on enterprise zones and offers policy suggestions in light of this literature.*

NCRCRD

# Policy Briefs

July 2005

## Enterprise Zones: Using Research to Impact Policy

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*by Don Hirasuna and Joel Michael*

*The original idea for enterprise zones is credited to Peter Hall, an urban planning professor in Great Britain. In 1977, Hall proposed using enterprise zones as an “extremely last-ditch solution” to be tried “only on a very small scale.” These zones were to be free of nearly all taxes and government regulation<sup>1</sup>.*

Enterprise zones in the United States provide tax incentives, subsidies or relief from burdensome regulations. As a policy matter, enterprise zones are best used if benefits outweigh the costs.

Researchers consistently find it difficult to measure benefits and assess whether growth would have occurred despite the zone. Predicting their success and impact always includes uncertainty because studies of existing zones find both negligible and significant employment increases. The research does indicate that zones may be temporarily successful.

In the last 10 to 15 years, a number of studies produced mixed results about enterprise

zones. Leslie E. Papke found that in Indiana’s enterprise zone program, there was a reduction in unemployment claims;<sup>2</sup> likewise, Kala Seetharam Sridhar found a temporary decrease in unemployment rates in Ohio’s enterprise zone<sup>3</sup>.

Conversely, in a study conducted by John B. Engberg and Robert T. Greenbaum that examined California, Florida, New Jersey, New York, Pennsylvania and Virginia’s enterprise zones, they found no significant change in per capita employment rates<sup>4</sup>. In addition, Alan H. Peters and Peter S. Fisher found no significant increase in employment when examining enterprise zones across the country<sup>5</sup>.

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What causes these differences in results is uncertain but could include the statistical method, the data used for analysis, the particular program, or the economy within and surrounding the zone.

### **Insights from the Studies**

**Various factors may affect zone programs' chances for success.**

Although there is no consensus, the research uncovers insights into the conditions and program features that may increase employment in zones:

- Larger financial incentives may be necessary to spur growth.
- Areas with fewer barriers are more likely to be successful.
- Employment growth may shift rather than add employment within the region.
- Benefits may last for only a short time.
- Zone development may substitute for incentives created by high quality public services and amenities.
- Subsidy strings may not assure greater job growth.

**Tax incentives in general appear to have small positive effects, particularly in more economically healthy areas of the state.**

A consensus is forming from the research that tax incentives have small positive effects upon

*Zones involving local, holistic, participatory efforts that do not include attracting industry, can be successful, which is shown through a study of EZ/EC communities performed by the NCRCRD. Please visit <http://www.ncrcrd.iastate.edu/activities/ezec/ezec.htm> for more information.*

the state economy. The perennial problem in tax incentive studies, like enterprise zone studies, is recognizing whether growth would have occurred without the incentives.

Several researchers suggest that some areas are more likely to grow in response to tax incentives than others<sup>6</sup>: areas with already low employment rates and with historically high levels of investment in manufacturing facilities and equipment, and suburban areas instead of central cities.

These studies suggest that tax incentives may be most effective in already economically viable areas; although typically these areas do not qualify as enterprise zones. Significant ideas from the studies include the following:

- Reducing property taxes may increase employment.
- Reducing sales tax rates may increase employment growth rates.
- Personal property taxes may reduce employment growth.
- Job tax credits may increase employment.
- Research and development tax credits stimulate investment in research and development, leading to income and productivity growth.

### **Policy Implications**

Considering all the studies using regression analysis, the economic effect of enterprise zones remains unclear. Uncertainty in itself has policy implications. The literature can provide policy insights for existing enterprise zone programs. Economically viable areas seem to have more prospects for success, rather than traditional zone locations—areas with stagnant or declining economies.

The following are several policy insights or implications that we draw from the literature on enterprise zones.

- **Regularly evaluate the zone program's effects.** Careful evaluation of a new zone program is needed after 5 years to help decision makers assess its contribution to the state or to help design policies. This study should be objective, conducted by a nonpartisan organization that performs regression analysis involving control areas that are not zones.
- **Sunset the program.** Upon evaluation, the state may wish to close the enterprise zone(s). Studies show that enterprise zones may be most effective in the short term rather than over an extended number of years.
- **Find ways to limit the incentives only to firms that are induced to locate in the area because of the program.** Several researchers suggest that new zone businesses may locate in the zone, instead of a nearby location, to take advantage of the zone benefits. Limiting the zone to enterprises that were not already considering other sites in the region is one possible policy consideration.
- **Choose the right set of tax incentives and other benefits.** In choosing tax incentives or other benefits, it may be worth considering who directly benefits. If business owners directly benefit, recognizing whether benefits are passed onto employees or whether investments are made in equipment instead of labor is important.
- **Do not let the quality of local public services drop so much that it outweighs the benefits of the zone.** Studies suggest that local public services may make households better off and enhance economic growth. This may be relevant if the zones result in a loss in tax revenue by reducing the number



- of new businesses that locate just outside the zone, which may result in fewer dollars for publicly provided goods and services.
- **Areas with more barriers may need more benefits or incentives.** Some hard-to-develop areas may not be interested in a basic incentive package and may require more incentives or other benefits. Because of this potentially large and costly endeavor some may forgo the development of a region for more viable projects.
- **If the goal is to hire local residents, then additional policies may be needed.** Some research indicates, at least in urban areas, that enterprise zones do little to increase local employment. Increasing access to jobs may not be enough to fix the problem for unskilled residents who live in the area.
- **If the goal is regional development instead of development for a location, then consider other policies.** Enterprise zones may do little to increase regional employment; they may provide only local benefits.
- **Keep regulations and restrictions to a minimum.** Some suggest that enterprise zones may not develop business activity when too many regulations are in place. For example, if too many costly requirements must be

satisfied to qualify for a job tax credit, some firms may decide against the program.

- **Think the tax incentive and subsidy game through to the end.** A number of studies warn that state economic development incentives will be matched by incentives from other states. Before undergoing an enterprise zone venture, the state may benefit by developing a decision tree of “what-if” scenarios to help further refine their risk of failing to provide enough benefits to justify the costs.
- **Do not create too many enterprise zones.** Some suggest the trend of adding new zones may dilute the effect of the incentives in preexisting zones. As more zones are created in the state or in competing states, fewer comparable advantages remain in the original zones.

To read an extended version of this policy brief with additional references to the studies mentioned here, visit <http://www.house.leg.state.mn.us/hrd/pubs/entzones.pdf>

### For More Information

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