



Where Life is Sweet

Mayor and Members of the City Council
STAFF REPORT
For the Meeting of September 23, 2024

Title/Subject

Resolution 2338- Greater Hermiston Enterprise Zone School Support Fee

Summary and Background

This action will ratify an agreement between the City of Hermiston, Umatilla County, and the Hermiston School District regarding a required “School Support Fee (SSF)” related to future Long Term Rural Enterprise Zone (LTREZ) agreements.

The Greater Hermiston Enterprise Zone (GHEZ) is a program authorized through the State of Oregon which allows for local property tax abatement incentives for private developments which create jobs within the zone. The GHEZ is co-sponsored by the City of Hermiston and Umatilla County, with City staff acting as the zone manager.

The statewide Ezone program has grown increasingly complex over time, with various types of special program elements, such as the basic 3-Year exemption, 5-Year “Extended” exemption, and LTREZ exemption, to name a few. Each program element has its own set of eligibility requirements and criteria. This item applies only to the LTREZ portion of the program.

If a private project meets LTREZ minimum criteria, the program allows zones to grant up to 15 years of full property tax exemption, as well as to make various requirements (typically financial) of the LTREZ recipient. For example, in the GHEZ, the 2017 LTREZ agreement with Lamb Weston for their \$290 million plant expansion exempts the assets from that new investment (not the existing facility) from property tax for 15 years in exchange for making payments to the GHEZ of \$1 million per year. This means that Lamb Weston will pay approximately 40% of what they would have otherwise paid in property taxes over the life of the exemption period.

The impacts of LTREZ exemptions on local school districts has been unique in the fact that, generally speaking, School Districts are compensated equally across the state for operations on a per-student basis. Therefore, districts with larger local property tax revenue require less state subsidy. Conversely, districts which see an LTREZ investment within them, have generally been considered to be held harmless from the loss of potential local property tax revenue by virtue of the statewide school fund making up for operational subsidy needs. This is a very complex topic, but generally speaking that is the case.

With the proliferation of LTREZ agreements across the state, the statewide teacher's union pushed legislation (HB2009) in the 2023 legislative session to close what they saw as a loophole in statewide education funding. Among other things, this requires local zones to work with impacted local school districts to establish a "School Support Fee (SSF)." This requires that for LTREZ investments, for any years past the first 5 years of an exemption, the benefitting business must pay a SSF equal to between 15% and 30% of the total local property tax which would have been paid on the assessed value. That amount is to be collected by the local school district, and then becomes a factor in the amount of state subsidy needed by that district from the statewide school fund. Therefore, it is assumed that the local school district would experience a near net-zero beneficial impact in operational funding, as the benefit would be spread equally across all 580,000+ K12 students statewide, rather than accruing only to the local district.

Greater Hermiston Enterprise Zone Logistics

The GHEZ is somewhat unique in that it has the Hermiston School District (HSD) within its boundaries, but also the Stanfield School District (SSD) covers everything in the southeastern portion of the City Limits south of Penney Avenue. The SSF requires that zones & districts must establish the rate of the SSF upfront by mutual agreement.

City Staff and the County Assessor have worked with HSD & SSD to determine the SSF rate. The Stanfield School Board, in March; recognizing that a higher rate simply sent more money to Salem, approved the minimum 15% rate. The Hermiston School District has also since approved the 15% rate.

It is now contingent upon the City Council and the County Commissioners to concur to establish the rate moving forward. Establishing a rate now, when there are no LTREZ negotiations taking place, will provide a fixed point which can then provide more clarity for staff in the event that another LTREZ-eligible investment comes along.

Finally, it is probably important to point out that this change only applies to new LTREZ agreements, and has no effect on existing LTREZ agreements. Additionally, projecting forward, if a hypothetical investment began negotiating in early 2025, it can be assumed that based on the size and complexity of construction, that it would take at least two years before a certificate of occupancy is issued and then another year before it's first property tax exemption year takes place, putting us in 2028. Then the SSF wouldn't kick-in until year-six of the exemption. Therefore, I think the fastest realistic timeline for any additional funding going to the statewide school fund from this change would be 2034, or 10 years from now.

Tie-In to Council Goals

Economic Development: expand, strengthen, and diversify the local economy.

Fiscal Information

This action has no fiscal impact to the City of Hermiston.

For scale, I'll provide a basic analysis of how this would have impacted a previous LTREZ agreement had the SSF been in place.

For the 2017 Lamb Weston LTREZ, the company pays \$1M per year to the zone and zero in property tax per year. This means that the company will pay an amount equal to 39.2% of what they would have otherwise paid in property tax. Assuming a general rule of thumb for

industrial property tax valuation, assets are valued at 80% of the initial investment in year one, and then depreciate at a rate of roughly 5% per year. Therefore, by year 6 of this exemption, if a 15% SSF were in place, then the amount to be sent to the Statewide School Fund for years 6-15 would have been \$400,000 in year 6, \$390,000 in year 7, and so on. All told, the state school fund would have received \$3.3 million over those 10 years.

The above scenario would have resulted in a financial impact locally somewhere in between three likely outcomes. Either the company would have just accepted the additional cost, which would have meant that their 15 year cost would have risen to 48% of what their tax would have otherwise been, or the company would have demanded that this increased cost be taken from the amount being paid to the zone. Since Lamb Weston has implemented identical investments at their facilities in Patterson, WA, Richland, WA, and American Falls, Idaho between 2019 and 2024, it is very likely that significant increases in cost would have knocked the reinvestment in the Hermiston facility down the list; which would have resulted in no revenue increase at all. Therefore the universe of possibilities for impact lie somewhere between:

Option 1: Company eats increase, and pays additional \$3.3M

Option 2: Company refuses to pay more, and GHEZ eats \$3.3M loss in future revenue.

Option 3: GHEZ refuses to eat loss, company calls bluff and invests elsewhere.

Therefore, it is likely that the \$15 million in LTREZ funds coming in to the local GHEZ would have been reduced by as much as \$3.3 million.

Moving forward, if a new LTREZ investment comes along, the impact of this legislation simply means that resulting deals are likely to be less lucrative for the local community.

Alternatives and Recommendation

Alternatives

1. Ratify the 15% threshold.
2. Do Nothing (default to 30% threshold)

Recommended Action/Motion

Motion to approve Resolution 2338.

Submitted By:

Mark Morgan