

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: March 25, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 09-36
Application for Electronic Commerce designation from the Oregon Economic and Community Development Department

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

Adopt Resolution No. 6688

ACTION SUMMARY

This action will initiate a request to Portland City Council (City) authorizing the Portland Development Commission (PDC) to apply on behalf of the City to the Oregon Economic and Community Development Department (OECD) to have the existing Portland Enterprise Zone (E-Zone) designated for Electronic Commerce (E-Commerce). Full application is anticipated to go before the City April 1 or 15, 2009.

PUBLIC BENEFIT

The E-Zone is one of PDC's primary economic development tools for retaining and attracting new investment, as an alternative to Tax Increment Financing generated by Urban Renewal Areas. The E-Zone program offers authorized companies up to five years of property tax abatement on qualified investments in exchange for their commitment to job retention, job creation, family wage jobs, increased local procurement and, in some cases, childcare and transportation assistance. Since the creation of new policies that standardized E-Zone requirements in 2000, thirty-five (35) companies have invested an estimated \$437 million while receiving \$26 million in abatements; retaining or creating 4,300 jobs. Since 2002, one company has taken advantage of the E-Commerce designation. Presently one company, Portland Vital Signs, would like to apply to for E-Commerce status. Since the E-Commerce designation only lasts for three years and the former E-Commerce designation sunset in 2005, a new designation must be applied for separately under revised state statute.

The E-Commerce designation, added to the standard E-Zone program, will provide a state tax credit to qualifying companies who are engaged in E-Commerce.

The E-Commerce designation will expand the E-Zone's benefits to emerging and existing companies whose investment in E-Commerce related personal property would not otherwise be eligible for exemption in the E-Zone program.

The E-Commerce overlay offers to further PDC's goal of job creation by requiring applicable companies to apply to the regular Portland E-Zone program, which requires a 10% increase

in employment during the first year and career advancement opportunities through workforce training. It also requires authorized companies to enter into a First Source Hiring Agreement with the WorkSource Oregon Employment Department to provide 'first opportunity' to job seekers listed with WorkSource Oregon.

This action will support the following PDC goals:

- Sustainability and Social Equity
- Healthy Neighborhoods
- A Vibrant Central City
- Strong Economic Growth and Competitive Region
- Effective Stewardship over our Resources and Operations, and Employee Investment

PUBLIC PARTICIPATION AND FEEDBACK

The Technical Advisory Committee composed of Multnomah County, WorkSource Oregon, WorkSystems, Inc., and the Bureau of Housing and Community Development recommended the E-Commerce application for designation in December 2008. The formal application process requires one eligible company to apply for E-Commerce as part of the state application process; Portland Vital Signs has committed to this endeavor (see Attachments A & B). Furthermore, three additional companies have expressed interest in applying to the program since 2007. The Portland E-Zone Advisory Committee will continue to review the E-Commerce application prior to adoption from City Council and authorization from OECDD.

COMPLIANCE WITH ADOPTED PLANS AND POLICIES

In March 2007, City Council authorized PDC to apply to the OECDD for another ten-year E-Zone designation, through June 30, 2017. City Council also adopted the Portland Enterprise Zone Policy which, among other things, and subject to certain conditions, required participating companies to: provide child care support to employees with low household incomes; provide employees with the option to use public transit; develop a procurement plan to increase the purchase of goods and services from local companies; created a Workforce Training and Business Development fund and create new employment. The E-Commerce Designation must be applied for separately and with a particular company ready to apply. Furthermore, the company applying for authorization must submit a letter to the director of OECDD. Portland Vital Signs has agreed to this process and has prepared a letter of interest.

E-Commerce provides income/excise tax credit to authorized companies engaged in E-Commerce for 25% of their new e-commerce related property investment each year. The tax credit provided for any one year may not exceed the lesser of \$2 million or the tax liability of the qualifying company. Unused portions of the tax credit can be carried forward up to five additional years. Such claims will be handled through the Oregon Department of Revenue.

FINANCIAL IMPACT

For the past ten years the E-Commerce Zone has been funded by the E-Zone program's general funds allocation and the program application fees paid for by participating firms. These fees and general fund dollars will continue to be used to cover the programmatic costs of running the E-Zone Program, including staff time. No additional financial impact on PDC is expected with this new designation.

RISK ASSESSMENT

There is very little risk associated with PDC managing the E-Commerce overlay onto the E-Zone program on behalf of the City of Portland. Both E-Commerce and E-Zone programs are State-sanctioned programs that entitle eligible companies with qualifying investments to receive tax abatement and tax credits. Under state statute, the Multnomah County Tax Assessor's office is responsible for calculating abatement E-Zone and the Department of Revenue for the E-Commerce designations. PDC will use the E-Zone Policy, State Statute and Oregon Administrative Rules to ensure that participating companies meet the program requirements on an annual basis.

WORK LOAD IMPACT

There are presently two staff persons, Business and Industry Manager Gerald Baugh and Enterprise Zone Coordinator Sierra Gardiner, committed to operating the E-Zone program. E-Commerce program impacts on staff time are expected to be minimal.

ALTERNATIVE ACTIONS

The PDC Board of Commissioners and/or City Council could choose not to reauthorize the E-Commerce designation. In this case, PDC would not have this valuable business recruitment and expansion tool for economic development.

CONCURRENCE

City Council, as the E-Zone sponsor, supports the Portland E-Zone and the E-Commerce overlay designation. Staff anticipates that the request to apply for E-Commerce designation will be adopted on the consent agenda.

BACKGROUND

The Portland E-Zone program is a five-year tax-abatement program that leverages significant private sector investment to spur economic activity in the community. The program is a public/private partnership managed by PDC, where companies receive program benefits in exchange for meeting job creation and other requirements aimed at business creation within Portland. Eligible expanding businesses in Portland can qualify for up to a 100% property tax exemption of the new property taxes generated by their investment in facilities, equipment and machinery whether they lease or own. PDC administers this program with the help of WSI, Worksource Oregon, Multnomah County, and the Portland E-Zone Advisory Committee.

The E-Commerce designation is an overlay addition to the Portland E-Zone boundary and program. The E-Commerce designation is contingent upon the successful designation of an E-Zone program; the new Portland E-Zone was approved by OECDD on July 1, 2008. The E-Commerce designation would fall within the same boundary as the Portland E-Zone Program, which is generally located west of I-205, east of Forest Park, north of I-84, and south of the Columbia River in Portland, Oregon.

The OECDD certifies the establishment of E-Commerce designation for a 3-year period in addition to an active E-Zone. The current E-Zone designation will expire June 30, 2018.

ATTACHMENTS:

- A. OECDD Criteria for Electronic Commerce Designations
- B. Portland Vital Signs, Inc. Letter of Interest

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CRITERIA FOR ELECTRONIC COMMERCE DESIGNATIONS:

AS AVAILABLE – ANY EXISTING ENTERPRISE ZONE

INCLUDING FOR TERMINATING *E-COMMERCE* ENTERPRISE ZONES (>3 YEARS OLD)

1. Applicant exhibits readiness and capacity—in terms of marketing, business locations, telecommunications infrastructure and so forth—to productively utilize designation based on local submissions and agency determination (see attached addendum).
2. One or more committed business development projects—respective to either new or existing business operations—are standing by to use the electronic-commerce designation, for which at a minimum, an eligible business firm:
 - Has applied to local zone manager for authorization in the enterprise zone.
 - Appears through the local application to be eligible for enterprise zone property tax abatement, including but not limited to plans to ...
 - Invest in qualified property at a site for development/expansion inside the zone’s current boundary, and
 - Hire and maintaining at least enough new full-time, permanent employees in the zone to qualify in claiming exemption.
 - Addresses (confidential) letter on company letterhead from an executive officer to the department director, stating the number of new, full-time hires that the investment/expansion is expected to entail, and that ...
 - Designation of the zone for electronic commerce zone would weigh crucially in the decision to undertake investment,
 - It is understood that neither the letter nor designation guarantees qualification for or receipt of any tax benefit,
 - Project work at site is expected to begin on specified date * (by which time the designation could take effect) within 90 days, and
 - Initial investment to be incurred after authorization will include capital assets for use in electronic commerce operations, on which tax credit might be claimed, that will cost at least \$500,000.
3. Pursuant to department reservation of *e-commerce* designation for the enterprise zone:
 - Each sponsoring government adopts a resolution requesting designation, with copies submitted per ORS 285C.095(3).^a
 - Director issues order of *electronic commerce* designation under ORS 285C.095 following the commencement of actual project work.^b

a. “The [CITY/PORT/COUNTY] does hereby request that the _____ Enterprise Zone be designated for electronic commerce under ORS 285C.095.”

b. Department may revoke reservation if project work is delayed more than 45 days. *

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ADDENDUM FOR ELECTRONIC COMMERCE DESIGNATION (IF AVAILABLE)

1. Significance for electronic commerce of location and features of communities, business sites and so forth in the current or proposed zone, including future boundary changes noted in resolution(s)—

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

2. Strategic or marketing plans, resources and readiness of the enterprise zone, local development organizations or public investments, as they relate to electronic commerce—

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

3. Past success in using incentives for inducing business development in general—

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

4. Interest and support among local businesses, community organizations and the general public for having an electronic commerce enterprise zone—third-party letters may be sent directly to the department by the party

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

5. Other local assets that are supportive or complementary to electronic commerce business activity and investments—for example, training facilities, telecommunication infrastructure, environmental initiatives

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

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ADDENDUM FOR ELECTRONIC COMMERCE DESIGNATION (IF AVAILABLE)

6. Prospective electronic commerce investments that could depend on the tax incentives—third-party letters may be sent directly to the department by the party

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

7. One additional issue, factor or assertion of the applicant's choosing—

ADDITIONAL INFORMATION—IN LETTERED APPENDIX OR TAB:

Portland Vital Signs, Inc.

February 2, 2009

Tim McCabe, Director
Oregon Economic and Community Development Department
775 Summer Street NE, Suite 200
Salem, Oregon 97301-1280

Subject: Electronic-Commerce Designation of Multnomah County Enterprise Zone

Dear Mr. McCabe:

We are considering investments that would commence in the next 6 months at the site in the subject enterprise zone. We have applied for authorization respective to that site, and we intend to hire and maintain a sufficient number of new, fulltime employees within the zone to qualify for exemption from local property taxes under ORS 285C.175.

Project Specifics:

Construction / installation of qualified property is expected to start in April 2009.
Number of new employees to be hired pursuant to and for these investments is two.

This investment would entail an outlay in excess of \$500,000 for capital assets to be used in the zone for operations in transactions or related functions with clients, vendor/suppliers or the like over the internet or computer networking activities such as e-commerce inside the zone, such as order taking, fulfillment, proofing, and distribution.

Consequently, designation of this enterprise zone for electronic commerce might allow us to enjoy substantial state income tax savings through the tax credit under ORS 315.507, and as such, the department of reservation of an available e-commerce designation, pending the zone sponsor's application, would weigh crucially in our decision to undertake this project and investment.

We request that the department keep all communication confidential pending commencement of the investment proposed and described herein, though we understand the while the department feels that this letter is exempt under Oregon's public records law, confidentiality cannot necessarily be ensured. We understand that neither designation nor the submission of this letter guarantees qualification for the receipt of applicable tax benefits.

Nick Olson, President

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