

AGENDA ITEM FOR ADMINISTRATIVE MEETING () Discussion only
(X) Action

FROM (DEPT/ DIVISION): County Counsel

SUBJECT: GHEZ School Support Fee

<p>Background:</p> <p>In 2023, the legislature added a requirement that in longer term enterprise zone abatements, the business receiving the benefit pay a school support fee to affected school districts in the zone. For the Greater Hermiston Enterprise Zone, this would include both the Hermiston School District and the Stanfield School Districts. The amount of the fee must be at least 15% and no more than 30%, and would be multiplied by the property taxes that would, but for the exemption, be due from the business. Both school districts and the other zone sponsor, the City of Hermiston, have approved a rate of 15%. The matter is before the Board to approve the rate. This would be applicable to future enterprise zone applications.</p>	<p>Requested Action:</p> <p>Adopt Order No. BCC2024-060</p>
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ATTACHMENTS : City Staff Report; District/City Resolutions; Proposed Order

*****For Internal Use Only*****

Checkoffs:

- () Dept. Heard (copy)
- () Human Resources (copy)
- (X) Legal (copy)
- () (Other - List:)

To be notified of Meeting:
Rachael Reynolds
Needed at Meeting:

Scheduled for meeting on: October 2, 2024

Action taken:

Follow-up:



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

HERMISTON SCHOOL DISTRICT

Resolution No. 2024-25-01

WHEREAS, the City of Hermiston and Umatilla County sponsor the enterprise zone known as the Greater Hermiston Enterprise Zone ("Zone");

WHEREAS, the Hermiston School District ("School District") is an "affected school district" as defined in ORS 332.002(2);

WHEREAS, HB 2009 (2023) was passed in 2023 and became part of ORS 285C.067;

WHEREAS, HB 2009 (2023) requires the governing body of each school district along with the governing body of the zone sponsor to set a rate for the school support fee imposed pursuant to Sections 48(2) and 51(2) of HB 2009 (2023);

WHEREAS, this rate must be at least 15 percent and not more than 30 percent;

WHEREAS, the School District has coordinated with the governing bodies of the zone sponsors for the Zone through the local Enterprise Zone Manager, Mark Morgan to set the rate;

WHEREAS, by November 1 in any applicable year, the governing bodies of the zone sponsors will provide the School District will all information necessary for the School District to collect the fee directly from the business firm;

WHEREAS, by December 1 in any applicable year, the School District shall send to the business firm a notice of the required fee, with a due date not later than December 31 of the same year;

WHEREAS, the School District shall be responsible for making refunds to business firms of overpayments;

WHEREAS, if a fee payment is delinquent for more than 60 days following the date of delinquency or any later date allowed for curing the delinquency, the School District shall give written notice of the delinquency to the business firm and the assessor of the county;

BE IT THEREFORE RESOLVED that the Hermiston School District and the governing bodies of the zone sponsors for the Greater Hermiston Enterprise Zone establish the rate of the school support fee of fifteen (15) percent.

DATED THIS 9th day of September 2024.

Approved on behalf of the Hermiston School District



Tricia Mooney, Ed.D., Superintendent

9/9/24

Date

ATTEST:

Date

(Greater Hermiston Enterprise Zone Sponsor Signatures to Follow)

STANFIELD SCHOOL DISTRICT



1120 North Main Street • Stanfield, OR 97875
www.stanfield.k12.or.us

STANFIELD SCHOOL DISTRICT

Resolution No. 2024-01

WHEREAS, the City of Hermiston and Umatilla County sponsor the enterprise zone known as the Greater Hermiston Enterprise Zone (“Zone”);

WHEREAS, the Stanfield School District (“School District”) is an “affected school district” as defined in ORS 332.002(2);

WHEREAS, HB 2009 (2023) was passed in 2023 and became part of ORS 285C.067;

WHEREAS, HB 2009 (2023) requires the governing body of each school district along with the governing body of the zone sponsor to set a rate for the school support fee imposed pursuant to Sections 48(2) and 51(2) of HB 2009 (2023);

WHEREAS, this rate must be at least 15 percent and not more than 30 percent;

WHEREAS, the School District has coordinated with the governing bodies of the zone sponsors for the Zone through the local Enterprise Zone Manager, Mark Morgan to set the rate;

WHEREAS, by November 1 in any applicable year, the governing bodies of the zone sponsors will provide the School District will all information necessary for the School District to collect the fee directly from the business firm;

WHEREAS, by December 1 in any applicable year, the School District shall send to the business firm a notice of the required fee, with a due date not later than December 31 of the same year;

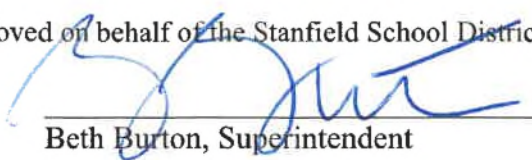
WHEREAS, the School District shall be responsible for making refunds to business firms of overpayments;

WHEREAS, if a fee payment is delinquent for more than 60 days following the date of delinquency or any later date allowed for curing the delinquency, the School District shall give written notice of the delinquency to the business firm and the assessor of the county;

BE IT THEREFORE RESOLVED that the Stanfield School District and the governing bodies of the zone sponsors for the Greater Hermiston Enterprise Zone establish the rate of the school support fee of fifteen (15) percent.

DATED THIS ____ day of September 2024.

Approved on behalf of the Stanfield School District



Beth Burton, Superintendent



Date

ATTEST:

Scott Morris
Board Chair, Scott Morris

9-21-24
Date

(Greater Hermiston Enterprise Zone Sponsor Signatures to Follow)

Approved on behalf of the City of Hermiston

CITY OF HERMISTON

Dr. David Drotzmann, Mayor

Date

ATTEST:

Lilly Alarcon-Strong, CMC, CITY RECORDER

Approved on behalf of Umatilla County

UMATILLA COUNTY BOARD OF COMMISSIONERS

John M. Shafer, Chair

Date

Celinda A. Timmons, Commissioner

Date

Daniel N. Dorran, Commissioner

Date

ATTEST:
Office of County Records

Records Officer

RESOLUTION NO. 2338**A RESOLUTION APPROVING THE ENTERPRISE ZONE SCHOOL SUPPORT FEE
AGREED TO BY HERMISTON AND STANFIELD SCHOOL DISTRICTS**

WHEREAS, the City of Hermiston and Umatilla County sponsor the enterprise zone known as the Greater Hermiston Enterprise Zone (“Zone”);

WHEREAS, the Hermiston School District and Stanfield School District (“School Districts”) are each an “affected school district” as defined in ORS 332.002(2);

WHEREAS, HB 2009 (2023) was passed in 2023 and became part of ORS 285C.067;

WHEREAS, HB 2009 (2023) requires the governing body of each school district along with the governing body of the zone sponsor to set a rate for the school support fee imposed pursuant to Sections 48(2) and 51(2) of HB 2009 (2023);

WHEREAS, this rate must be at least 15 percent and not more than 30 percent;

WHEREAS, the School Districts coordinated with the governing bodies of the zone sponsors for the Zone through the local Enterprise Zone Manager, Mark Morgan to set the rate;

WHEREAS, the School Districts have agreed to establish the rate of the school support fee at fifteen (15) percent through Hermiston School District Resolution No. 2024-25-1 and Stanfield School District Resolution No. 2024-1; now therefore:

THE CITY OF HERMISTON RESOLVES AS FOLLOWS:

1. That the City of Hermiston, as a governing body of a zone sponsor for the Greater Hermiston Enterprise Zone, agrees that the established rate of the school support fee be set at fifteen (15) percent.
2. That the City Manager may sign the Hermiston School District Resolution No. 2024-25-1 and Stanfield School District No. 2024-1 as approved.
3. This resolution is effective on passage.

PASSED by the Common Council this 23rd day of September 2024.

SIGNED by the Mayor this 23rd day of September 2024.

Dr. David Drotzmann, MAYOR

ATTEST:

Lilly Alarcon-Strong, CMC, CITY RECORDER

THE BOARD OF COMMISSIONERS OF UMATILLA COUNTY

STATE OF OREGON

In the Matter of Approval of)
School Support Fee for the) Order No. BCC2024-060
Greater Hermiston Enterprise)
Zone)

WHEREAS, the City of Hermiston and Umatilla County sponsor the enterprise zone known as the Greater Hermiston Enterprise Zone ("Zone");

WHEREAS, HB 2009 (2023) was passed in 2023 and became part of ORS Chapter 285C.

WHEREAS, ORS 285C.067 requires the governing body of each school district along with the governing body of the zone sponsor to set a rate for the school support fee imposed pursuant to ORS 285C.162(2) and ORS 285C.405 (2) to be paid in lieu of the property taxes that would otherwise be imposed on the business granted tax exemption through an enterprise zone;

WHEREAS, the school support rate must be at least 15 percent and not more than 30 percent;

WHEREAS, the Hermiston School District and Stanfield School District ("School Districts") are each an "affected school district" in the Zone, as defined in ORS 285C.162(1);

WHEREAS, the School Districts coordinated with Zone sponsors through the local Enterprise Zone Manager to set a rate;

WHEREAS, the School Districts have agreed to establish the rate of the school support fee at fifteen (15) percent through Hermiston School District Resolution No. 2024-25-1 and Stanfield School District Resolution No. 2024-1;

NOW THEREFORE the Board of Commissioners orders:

1. That Umatilla County, as a zone sponsor for the Greater Hermiston Enterprise Zone, agrees that the established rate of the school support fee applicable to the Zone be set at fifteen percent.

2. That the Board approves the resolutions adopted by the School Districts.

DATED this 2nd day of October, 2024.

UMATILLA COUNTY BOARD OF COMMISSIONERS

John M. Shafer, Chair

Celinda A. Timmons, Commissioner

Daniel N. Dorran, Commissioner

ATTEST:
OFFICE OF COUNTY RECORDS

Records Officer