



IMPLEMENTATION OF NEW E-ZONE SCHOOL SUPPORT FEE

Background: In 2023, the Oregon Legislature passed HB 2009, a broad tax incentives package. The bill created a limited research & development tax credit for semiconductor companies, modified the Strategic Investment Program, and extended and modified the 3- to 5-year Standard Enterprise Zone (SEZ) and 7- to 15-year Long Term Rural Enterprise Zone (LTREZ) programs.

Key Enterprise Zone Components: HB 2009 extended the E-Zone programs through June 30, 2032. The new law now requires publication of the terms of agreements with businesses and notification to other affected local governments; eliminates eligibility for retail fulfillment centers delivering products within the region of the zone, and implements a new “school support fee” for some property tax abatement recipients.

School Support Fee: During the 4th and 5th year of abatement in the SEZ program and in the 6th year and later for the LTREZ program, companies must pay a school support fee to the local school district. Zone sponsors (cities, counties, ports, or tribes) will need to set the rate of the fee with any affected district. The fee applies the same to all abatements within the E-Zone and the particular district. The fee rate must be between 15% and 30% of the property taxes that would have otherwise been paid without the abatement in a given year. Each fee applies for all subsequent exemption agreements, in that **zone sponsors may not sign new agreements for an extended abatement or LTREZ facility after September 23rd until a fee has been established with the affected district.** Standard three-year exemptions do not require an agreement between the sponsor and company and are not affected. School districts will be responsible for annually billing the company for payments when due, and failure to remit payment can result in interest or penalties for the company.

Implementation Timing and Relevant Dates: No fees will be collected until the 4th and 5th years of tax exemption under SEZ agreements or the 6th year and beyond for LTREZ agreements, meaning no company will be invoiced until 2027 at the earliest. However, the fee will need to be established and included in any E-Zone agreement entered into after September 23rd, 2023. After that date, without an established fee rate to include in the agreement, companies will only be eligible for standard 3-year exemption periods. Zone sponsors must also set a fee rate with all applicable school districts before creating a new zone or re-designating an existing zone. For existing zones, the fee must be otherwise established between September 24th, 2023, and December 31st, 2027—**if not, the area inside the E-Zone within that school district boundary will be limited to offering 3-year tax abatements, until the zone is re-designated.**

Zone Sponsor Requirements: Zone sponsors will be responsible for including the applicable fee rate in agreements with businesses, along with possible provisions for delinquent payment, in



addition to providing information to the school district to calculate the fee for each applicable year. This must be done by November 1.

Effect on Local School Districts: School districts will be required to invoice the companies directly for any required fees. It's possible the fees will not increase local district budgets, as fees must be included as local revenue in school funding formula calculations and in most cases will be offset by reduced State School Fund distributions. Districts will still be responsible for collecting the fee, refunding overpayments and notifying local assessors of delinquent payment.

Company/Recipient Requirements: Extended SEZ and LTREZ recipients will be responsible for remitting the applicable fee to the affected school districts.

FAQ's

What if the district is not interested in charging the fee because they value the economic development benefits? Does this put the zone in a position where it can't offer extended abatements?

- HB 2009 is not permissive. All extended SEZ and LTREZ abatements will require paying the school support fee. Certainly, one impact of HB 2009 may be the reduced use of extensions to recruit and investment from existing businesses and new companies within E-Zones.

*How does the fee **benefit schools**?*

- While the increased fees to local districts will likely be offset by the reduced State School Fund distributions, statewide funding for schools may marginally increase: depending on whether zone sponsors elect to negotiate the fee and offer an extended abatement. The Legislature determines allocations of the State School Fund during its biennial budget process.

Do we know how the state will use the revenue from the fee?

- Proceeds will be directed to the statewide school equalization system.

Will districts look to streamline the billing process or use a third-party vendor?

- *We are still working with schools and school district organizations to understand implementation.*

How will the fee be calculated and what is the timeline for billing?

- The amount of the school support fee of each affected school district shall equal the respective rate agreed to by the Zone sponsor and affected school district (a rate between 15-30%),



multiplied by the property taxes that would, but for the exemption, be due on the qualified property for each property tax year to which the agreement relates. Districts are to give notice to the business by December 1 of each year, and to have collected the fee no later than December 31.

Are penalties allowed if the company fails to pay, and will it impact on E-zone qualification?

- Yes. The Zone sponsor and business may agree on interest rates and penalties for late payments, as well as means and schedule to cure delinquency. If payments are 60 days past any delinquency date (which would be December 31 if nothing else is provided for in the agreement with the business), the district shall notify the county assessor. Once the assessor is notified the company will be disqualified from any future year of abatement and the amount of any unpaid fee amount added to the business's tax liability.

What are the implications on lessors of property subject to the fee and how can responsibility be allocated amongst parties?

- Ultimately, the company receiving the abatement is responsible for paying the school support fee. Nothing in the statute dictates how parties may allocate the fee between lessors and lessees. Owners of leased enterprise zone property should not ultimately owe the property taxes, so that payment of the fee naturally falls to the business leasing the property and enjoying the property tax savings from using the enterprise zone

Are existing E-Zone abatement recipients affected by the fee or required to pay?

- Not unless the business enters into a new agreement on a new project.

Should we contact our local districts soon?

- Yes. It is possible many districts are unaware of the changes or the implications of this new law. OEDA, AOC and LOC are working to coordinate with Business Oregon and statewide school district organizations to try and standardize and streamline the process for agreeing up on rates.