



CITY OF
PORTLAND, OREGON

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April 8, 1996

TO: Mayor Vera Katz
Commissioner Earl Blumenauer
Commissioner Charlie Hales
Commissioner Gretchen Kafoury
Commissioner Mike Lindberg
Jan Burreson, Director, Portland Development Commission

FROM: Barbara Clark, City Auditor *BC*

SUBJECT: Audit of Enterprise Zone Program

In accordance with our FY 1995-96 Audit Schedule, we have conducted an audit of the City's Enterprise Zone Program administered by the Portland Development Commission. We conducted this audit in accordance with government auditing standards and limited our review to those areas specified in the scope and methodology section of this memorandum. PDC's response to this audit is attached. We ask that the Portland Development Commission provide a written status report in six months indicating what actions have been taken on our report recommendations. The status report should be addressed to me and to the Mayor.

Enterprise Zone Program

The Oregon Enterprise Zone Act passed in 1985 (ORS Chapter 807) to create business investments and new jobs in economically lagging areas of the State. Property tax exemptions may be granted to eligible businesses to "stimulate employment, business, and industrial growth." (ORS 285.573) To offer these development incentives, local sponsors may apply to the State for a 10-year Enterprise Zone (E-Zone) authorization. The law allows abatement of property taxes for three to five years for those businesses which comply with certain investment and hiring standards established by the Act and by the local sponsors. The City of Portland, through the Portland Development Commission received its first 10-year E-Zone authorization in 1986 and will apply for its second 10-year authorization in April, 1996.

The objective of the Enterprise Zone program in Portland is to help unemployed and underemployed residents in Inner North and Northeast. To achieve this objective the program seeks to:

- Increase the health and growth of businesses in the Inner North/Northeast target area
- Achieve the highest rate of public return from the investment of exempted taxes
- Link Inner North/Northeast residents with quality jobs that will lead to economic self sufficiency

A company seeking a tax abatement must sign a pre-certification contract agreeing to make investments or improvements and hire or retain a certain number of employees over an agreed-upon time period. New companies must retain at least 15 percent of their peak employment during the exemption period, or at least 50 percent of peak employment for more than one year. Existing companies must expand their employment by 10 percent and may not reduce average annual employment in any one year of the exemption below 110 percent of the annual average.

Portland Development Commission

The Portland Development Commission (PDC) is responsible for administering the Portland Enterprise Zone. PDC responsibilities include reviewing and approving E-Zone applications, managing JobNet (the job clearinghouse for company hires), and monitoring company performance. PDC uses the tax abatement feature of the E-Zone program to encourage economic development in North and Northeast Portland.

PDC's Workforce and Target Industries and Economic Development Departments provide staffing for the E-Zone program. The two departments have 22 FTEs and a combined budget of \$5.6 million. However, only a small portion of department staff time and budget is expended on E-Zone program activities. Including staff, overhead and materials, PDC estimated that the Enterprise Zone program costs about \$55,000 annually to administer. Economic development work is funded by PDC general revenues, while funding for the JobNet program is provided principally by a federal Community Development Block Grant.

Local Requirements

Initially the City of Portland had little discretion in establishing requirements for companies receiving tax abatements in the Enterprise Zone. In general, companies were required by the state law to use JobNet referrals, hire a certain percentage of residents from the E-Zone area, and ensure investments in plant equipment and buildings were made.

The State Law was revised by the Legislature in 1987, 1989, 1991, 1993 and 1995. These changes expanded the local control over implementation of the Enterprise Zones and provided flexibility in defining conditions of the exemption. As currently written, the City has substantial flexibility in writing local guidelines, provided the guidelines are presented as a strategy designed to comply with the requirements of the Enterprise Zone statute (ORS 285.577(4)).

PDC is proposing new guidelines for City Council approval. The major features of the new guidelines are:

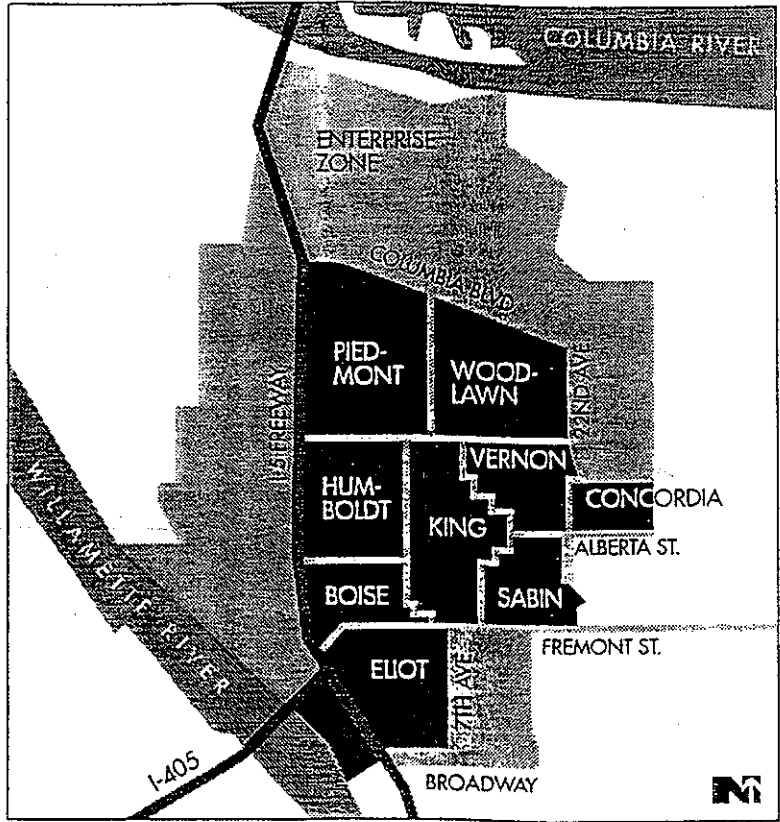
- 1) Companies must hire exclusively from PDC's JobNet program
- 2) Companies must achieve a maximum \$10,000 Net Tax Effect (NTE) per JobNet hire.
- 3) 85 percent of permanent full-time hires must be paid wages exceeding 150 percent of the Oregon minimum wage after one year of employment.
- 4) Permanent full-time employees must be provided benefits which exceed the national average for their business size category, with large projects providing adequate child care and transit benefits.
- 5) JobNet hired positions must have access to adequate training and advancement opportunities.
- 6) More than 50 percent of JobNet hires must be retained for more than two years.
- 7) Company must utilize North/Northeast small business clearinghouse for supplies and contractors, the City's construction workforce training and hiring program, and PDC's emerging small business contracting process.

Portland's E-Zone Program

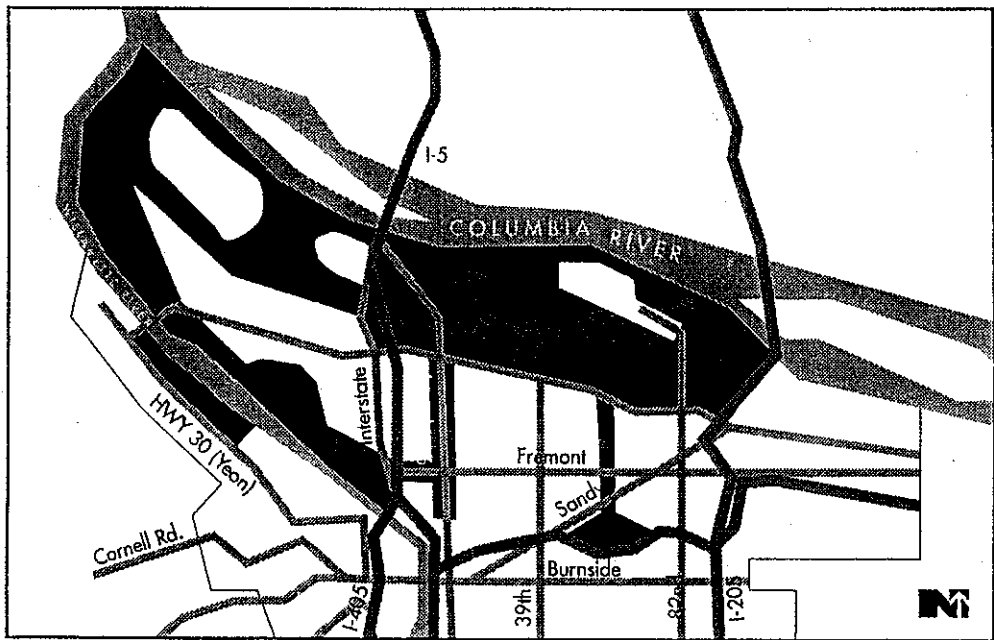
The original boundary of the Zone was restricted to the North/Northeast area of Portland, where high unemployment problems were identified. However, state law allows expansion of the E-Zone boundaries if approved by the City Council. The proposed boundaries of the zone in the 1996 application have expanded to include commercial and industrial lands west and east of the Willamette River to Interstate 205 and north of Interstate 84 to the Columbia River.

INNER NE TARGET AREA

and original Enterprise Zone boundary (1986)



ESTIMATED ENTERPRISE ZONE BOUNDARIES - 1996 APPLICATION



As shown in Table 1, the City has pre-certified 15 companies under the Enterprise Zone program. Eight companies have received or are in the process of receiving the tax abatement. Seven companies are in the construction or planning phase and have not yet received tax abatement. PDC reports 804 actual hires to date and an estimated total of 2,255 when the program is complete for the 15 companies. Total estimated tax abatement may reach \$27 million.

Table 1
Companies Receiving Enterprise Zone Pre-certification

Name of Company	Pre-certification Date	Type of Business *	Total Planned Investment	Planned Hiring
Nabisco	12/26/89	Existing	\$25,000,000	retention
Blue Bell	2/15/90	Existing	667,600	20
Marco Machine Works	12/02/90	Existing	not stated	11
Carco	10/08/91	New	\$4,500,000	20
Tyco Distribution	4/30/92	New	\$7,603,000	40-45
Cintas	12/01/93	Existing	\$4,234,000	78
Romar Transportation	1/01/93	Existing	\$3,200,000	7
Silver Eagle	3/08/94	Existing	2,682,881	40-85
Oregon Steel	9/01/94	Existing	\$150,000,000	retention
Wacker Siltronic	10/20/94	Existing	\$240,000,000	300
Pasco	6/15/94	New	\$20,000,000	68
Kanto	11/16/94	Existing	\$17,000,000	25
General Parts	7/25/95	Existing	\$3,800,000	15-20
Graziano Produce	3/29/95	Existing	\$5,000,000	20-25
United Battery	6/30/95	Existing	\$275,000	3
TOTAL			\$483,962,481	647-707

SOURCE: Company pre-certification agreements

* a company is considered an existing company if it is currently operating in the Portland metropolitan area.

Audit Objectives, Scope and Methodology

The objectives of this audit were to (1) assess achievement of hiring and economic development goals, (2) verify the accuracy of PDC and company reports, (3) check compliance with laws and regulations, and (4) develop suggestions for improvement.

In conducting the audit, we reviewed the Oregon Revised Statutes, the City's Enterprise Zone Investment Guidelines, records and documents from the Portland Development Commission, studies from other cities, and a preliminary cost analysis model prepared by the City of Portland's Office of Finance and Administration. We interviewed managers from Portland Development Commission, and staff from the JobNet program. In addition, we spoke with the Multnomah County Assessor's Office, representatives of two community-based organizations that are actively involved in job employment programs and general economic development of the Enterprise Zone targeted area.

To determine if companies are in compliance with the terms of their contracts, we selected eight companies that have received or are currently receiving abatements. We reviewed the records maintained by JobNet and PDC to determine compliance with terms of their hiring agreements. We also made on-site visits to four of the companies to verify information.

Due to time limitations of this audit, we did not conduct a cost benefit analysis of the program. In addition, we did not evaluate the effectiveness of the JobNet program. We encourage review of these areas.

Audit Results

Summary

We found that the eight companies currently receiving tax abatements under the Enterprise Zone program have met investment and hiring goals. To date, companies have invested over \$83 million in new construction and improvements and hired 804 new employees. 416 people, or 51.7 percent of the total hires, reside in the enterprise zone area. Additionally, although performance is mixed, we believe most companies have interviewed and selected JobNet referrals when possible.

We also found that PDC needs to improve record keeping and monitoring systems to ensure the program achieves its goals. Without improvements in these areas, the PDC will lack assurance that new requirements such as job retention, first source recruitment, and wage levels are met. PDC indicates that improvements in these systems will be made.

Finally, City Council needs additional information on the cost-benefit of the E-Zone program. Our literature search failed to produce authoritative studies that provide clear conclusions about the effectiveness of tax abatement programs as a tool for economic development. We believe that additional analysis of Portland's program should be done in several years as additional experience is gained.

Accomplishment of goals

Based on our analysis of PDC documents and on-site visits at four companies, we believe that the eight companies currently receiving tax abatements under Portland's Enterprise Zone are meeting investment and hiring goals. As shown in the Table below, all companies receiving abatements have met planned goals and complied with major requirements of state law and local agreements. These eight companies have invested over \$83 million in improvements to property, plant and equipment over the past seven years and received total tax abatements of over \$4.7 million on these new improvements. The companies report hiring a total of 804 new employees during this same period, 416 people, or 51.7 percent, were residents of the E-Zone area. One company, Blue Bell, received over \$70,000 in abatements and hired 175 people before going out of business in 1995.

Several companies, however, have had difficulty meeting some features of the program. For example, although companies are required to use PDC's JobNet program to find job candidates, several companies reported to us that they had difficulty finding qualified applicants in referrals from JobNet. Another firm we spoke to, told us that JobNet could not refer highly skilled workers needed for some production tasks. PDC indicates that they have been working closely with these firms to ensure referrals meet job demands of the companies.

Table 2
Accomplishment of Enterprise Zone Goals

Name of Company	Planned Investment	Actual Investment	Planned Hires	Actual Hires	% E-Zone Residents	Taxes Abated
Nabisco	\$2,500,000	\$59,970,680	*	235	48.5	\$3,627,529
Blue Bell	667,600	1,065,400	20	175	73.0	70,813
Marco Machine Works	not stated	267,120	11	5	40.0	8,597
Carco	4,500,000	3,427,690	20	42	40.0	182,601
Tyco Distribution	7,603,000	10,864,470	40	129	89.0	603,221
Cintas	4,234,000	4,547,370	78	101	29.7	152,278
Romar Transportation	3,200,000	1,216,200	7	28	25.0	40,828
Silver Eagle	2,682,881	2,430,420	40	89	32.5	82,168
TOTAL						\$4,768,035

SOURCE: PDC records

* agreed to retain at least 290 employees

Improvement Opportunities

Our review of PDC and company records, and our interviews with Enterprise Zone staff indicate that improvements are needed in two areas: record keeping and program documentation, and monitoring and review. Improvements are particularly needed to ensure the City achieves the benefits of new guidelines currently being considered for approval by the City Council.

Record keeping and documentation: To ensure that companies meet investment and hiring commitments, companies must provide frequent and adequate information to PDC. Our review of PDC records, however, was hampered by incomplete documentation of company progress and compliance. Although PDC staff were able to provide more complete documentation after several meetings, more systematic documentation of company compliance would give management and the City Council greater assurance that program goals are met. Moreover, because the new proposed guidelines for the E-Zone program are more detailed and stringent than existing guidelines, additional effort will be needed to maintain sufficient records to measure company compliance and assess program costs and benefits.

Monitoring and review: PDC lacks an adequate process for monitoring the performance and compliance of companies receiving tax abatement under provisions of the E-Zone program. Although PDC receives quarterly progress reports from companies, it does not visit companies to confirm hiring reports, to verify status of employees, or to audit retention rates. Moreover, existing agreements between PDC and certified companies do not contain clauses that permit the City access to employee records in order to verify hiring rates, compensation, and retention. We also found that PDC and the County Assessor are relying on each other to confirm hiring levels so that abatement can be granted but neither agency performs on-site inspection of company records to determine accuracy of hiring reports. Without periodic review and confirmation of company reports, the Council will not have sufficient assurance that the program is reducing the number of unemployed and underemployed Northeast residents.

Other observations

The success of the E-Zone program in placing underemployed and unemployed Portland residents in jobs depends greatly on the effectiveness of the JobNet program and the degree to which companies comply with their first source hiring agreements. Because PDC can no longer require that a certain percentage of hires reside in the E-Zone area, JobNet must play a more critical role in providing qualified applicants that meet company needs and that also meet the goals of helping residents of the inner Northeast. However, our visits to four companies revealed that employees have been hired outside of the JobNet system. While PDC and the companies should have flexibility to solve hiring problems on a case by case basis, PDC should strive to ensure that JobNet meets company hiring needs to the greatest extent possible. PDC is now working with several companies to develop training and apprenticeship opportunities so companies will have a ready pool of qualified applicants when construction is complete and hiring begins.

We also heard from community representatives that they would like more input at the beginning stages of a company's application for tax abatement so they can have input on selection of companies which can benefit the community. PDC wants early input from the community, but in the first stages of negotiation with companies believes that confidentiality is important.

Additional Analysis Needed

We were unable to prepare a cost-benefit analysis of the Enterprise Zone program given the short time-frame to prepare this audit. Such an analysis would have been based on partial results, and no agreed-upon methodology was available. Our literature search of existing studies of tax expenditure programs in other states and localities failed to provide conclusive evidence on the effectiveness of these programs. However, we believe the City Council and public could benefit from more analysis on the cost impact of the program. We will work with PDC to develop an evaluation approach that is informative, but not cost prohibitive.

We will also set meetings with the other three companies that we did not visit, in order to test compliance with E-Zone agreements.

Recommendations

In order to improve the operations of the Enterprise Zone program and provide adequate assurance that program goals are achieved in the future, we recommend that the Portland Development Commission:

1. Develop improved record-keeping and support documentation on the activities and achievements of companies receiving tax abatements. In addition to the pre-certification agreement, First Source Agreement with JobNet and quarterly hiring summaries, each company file should also include a copy of the regulations governing the tax abatement criteria, correspondence to the company and county assessor regarding compliance status and data supporting the status.
2. Initiate a company monitoring system that includes periodic site visits to companies receiving tax abatements. The site visits should check company compliance with City E-Zone guidelines, state law, and other abatement agreements. PDC staff should review employee records to check status of hiring, wage, and retention requirements.

To ensure that PDC has unrestricted access to company records for the purpose of checking compliance with E-Zone guidelines, PDC should insert an access clause in the City's tax abatement agreement with affected companies.

3. With the assistance of the Audit Services Division and the Office of Finance and Administration, explore the feasibility of developing methods to assess the cost benefit of the E-Zone program. In addition to assessing the Net Tax Effect of E-Zone hires, the PDC should explore other reasonable methods to provide more assurance that the benefits of the program outweigh its costs.

PDC
PORTLAND
DEVELOPMENT
COMMISSION

March 29, 1996

Ms. Barbara Clark, CPA
City Auditor
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Carl B. Talton
Chairman

Gale Castillo
Commissioner

John D. Eskildsen
Commissioner

Vern B. Ryles
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E. Kay Stepp
Commissioner

Dear Ms. Clark:

We are pleased the audit of the City's N/NE Portland Enterprise Zone program was completed in time for City Council to include the results in their decisions regarding the future of the Zone. Thank you for your timely work on a tight timeline.

The Enterprise Zone Investment Strategy adopted by Council resolution March 27 included adoption of recommendations from the audit. Specifically, the strategy calls for:

1. Annual reports on strategy implementation and a biennial cost-effectiveness assessment using methodology adopted by PDC and OFA with input from the Audit Services Division.
2. Appropriate record-keeping and support documentation on the activities and achievements of Zone projects will be maintained by the Zone Manager. Monitoring will include periodic company site visits. Zone contracts will ensure reasonable access to company information required for monitoring and strategy cost-effectiveness assessments.

We disagree with the statement under "Improvement Opportunities" that "PDC lacks a formal process" for monitoring. We have a formal process for monitoring the aspects of the Zone program for which we are responsible. Additional monitoring systems will be required for projects utilizing the City's newly adopted Enterprise Zone Strategy, and we will take the necessary steps to implement effective monitoring.

We appreciate the cooperation of your staff during the audit. We particularly appreciate Dick Tracy's efforts to expedite changes to the first draft. We look forward to working with your office to develop cost-effectiveness evaluation measures.

Vera Katz
Mayor

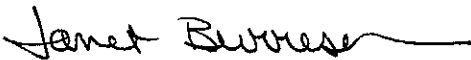
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Sincerely,



Janet S. Burreson
Executive Director

JSB:db

cc: Dick Tracy
Amoy Williamson



