

The Oregonian

Pact saves Intel millions in taxes

A tentative deal offers \$579 million in new tax breaks in hopes of keeping the computer chip maker's jobs in Oregon

Friday, April 22, 2005

MIKE ROGOWAY
The Oregonian

Washington County and the city of Hillsboro gave the state's largest private employer what it wanted in a 15-year package of tax breaks unveiled Thursday.

Intel would save almost \$580 million in property taxes under terms of the tentative deal, as long as the computer chip maker continues to spend billions upgrading its Oregon factories.

The company employs about 15,500 at its seven Oregon campuses, more than at any other cluster of Intel facilities. The deal aims to keep the state in that leading position. It would extend until 2025 an agreement that exempts nearly all of Intel's high-tech equipment from property taxes that most businesses pay.

Intel asked for the extension in February and received broad support from civic officials and business leaders in Washington County, who welcome the prospect of continued corporate investment. The company's annual payroll in Washington County tops \$1.5 billion.

Social activists and education boosters are more wary, concerned Intel isn't paying for the burden it creates in the community and schools, but there have been fewer objections than when Intel signed its last deal six years ago. Washington County commissioners and the Hillsboro City Council plan to vote on the new agreement after a public hearing May 17.

Intel hasn't actually committed to any new Oregon investment, and, as with the existing package of tax breaks, the exemptions apply only to money the company spends in Washington County. Also, like the current agreement, the new deal would require Intel to pay millions in fees to the county and to Hillsboro but nothing to the area's schools.

The proposed 15-year pact would exempt as much as \$25 billion in new equipment from local property taxes and take effect whenever Intel exhausts \$12.5 billion in exemptions from its last agreement, approved in 1999. Intel estimates that will happen in roughly five years.

The company repeatedly has said that it would be too expensive to build its multibillion-dollar factories and research centers in Oregon if it were taxed on the full value of its equipment.

"What they have asked us to do, and what we have done, basically, is level the playing field," Hillsboro Mayor Tom Hughes said Thursday. He said the property tax breaks help keep Oregon competitive with other places vying for Intel investment.

The new deal was negotiated under terms of the state's Strategic Investment Program, which allows local governments to negotiate property tax exemptions for large manufacturers. The \$25 billion exemption would be twice the size of any previous SIP agreement.

Intel's new deal, like its 1999 arrangement, provides property tax exemptions for the company's equipment but requires the company to pay regular property taxes on its land and buildings. It also would require Intel to pay at least \$2.9 million in annual investment program fees, even if it stops investing in Oregon.

In total, Washington County and Hillsboro expect to receive far more than the minimum. The governments said they anticipate Intel will pay \$115.3 million in fees under the agreement, \$579 million less than if it continued to invest without a new SIP deal.

Two-thirds of the fees would go to Washington County's general fund. The rest would go to Hillsboro, which says it would spend the money on capital projects.

None is earmarked specifically for schools, which concerns Joe Rodriguez, who retired last year as superintendent of the Hillsboro School District. The size of Intel's Oregon work force has tripled in the past decade, and Rodriguez said Hillsboro has built two new high schools and three elementary schools over the same period.

State money alone didn't cover the effect of population growth from Intel's expansion and the influx of suppliers and service businesses that followed the company to Washington County, he said.

"To continue to provide tax breaks, we need to go in with our eyes open," Rodriguez said. "What's the real benefit for the state and the schools? I think we need to do more analysis and look into it."

Intel said it expects to hire about 1,500 additional workers during the 15 years covered by the new deal. Washington County Chairman Tom Brian said it was unnecessary to set aside school money in the agreement because future employment growth probably would be low.

"The issue of education funding in the state of Oregon is not something that can be solved by any SIP agreement or one company or individual," said Diana Daggett, Intel's Oregon public affairs manager.

But Chuck Sheketoff, director of the Oregon Center for Public Policy, said Intel's tax breaks take the state farther from a solution rather than closer to one. He said the program agreements, and other recent changes in the way the state taxes large manufacturers, will reduce Intel's Oregon tax bill even as the company grows.

"All they're doing is bringing in people who need schools, but they're not paying the corporate income taxes to pay for it."

Sheketoff has been one of few vocal critics of Intel's Washington County tax breaks since the company requested them in February.

Washington County Commissioner Andy Duyck expressed ambivalence about Intel's last SIP agreement in 1999, but voted for it anyway. He said he has heard little, if any, objection from constituents to this agreement.

Six years ago, residents were concerned about whether Intel was creating excessive population growth, he said. Now, Duyck said, he and others simply want to help Oregon's long-suffering economy.

"I think now we're starting to understand that the region is growing anyway, and we're starting to understand the need for those jobs," Duyck said.

Mike Rogoway: 503-294-7699, mikerogoway@news.oregonian.com

©2005 The Oregonian

© 2005 OregonLive.com All Rights Reserved.

The Oregonian

Answering questions about Intel's deal

Friday, April 22, 2005

The Oregonian

What is SIP?

Established by Oregon lawmakers in 1993 at Intel's urging, the Strategic Investment Program allows counties to negotiate property tax limits for big businesses. In urban areas, a company with a SIP deal pays regular property taxes on the first \$100 million of investment. Property above that figure can be exempt from taxes, though the company has to pay set fees in exchange for the break.

Why does Intel want a new deal?

A 1999 agreement with Washington County exempts up to \$12.5 billion in equipment from property taxes through 2014. Intel has already spent about \$8 billion of that and says it will probably use up its entire allotment by the end of 2010, so it wants an extension to make long-term plans.

How would the new agreement work?

As with the 1999 agreement, Intel would pay regular property taxes on its land and buildings. But it would only be taxed on the first \$100 million it spends on new equipment. After that, it can install as much as \$25 billion in equipment without paying property taxes on any of it. Instead, the company would pay approximately \$115 million in fees.

How much would Intel save?

Washington County estimates Intel will pay \$579 million less under the new SIP agreement than it would if it paid regular taxes and continued to invest in the state. Without the agreement, though, Intel says it won't continue investing in Oregon.

If the deal is signed, does that mean Intel will go on a building spree?

The company says any new investment in Oregon probably would replace outdated equipment and facilities, adding about 1,500 employees to its existing work force of 15,500.

Why do only big companies get the tax break?

SIP was designed to lure large employers to the state. High-tech companies argue that the tax breaks are needed because Oregon's property tax law unfairly taxes expensive equipment.

Would the company really go elsewhere if Washington County won't play ball?

Intel has spent \$11 billion in Oregon since 1974 building production facilities and developing its research center for new manufacturing practices. Intel won't leave Oregon anytime soon, but analysts and industry experts say the company would almost certainly begin a gradual shift to another state or country without the property tax exemptions.

How are schools affected by Intel's tax breaks?

The state reimburses Washington County schools for whatever local taxes are lost in the investment program deal. State income taxes paid by Intel employees partially offset the effect of the tax breaks on the state budget.

Now what?

Washington County commissioners and the Hillsboro City Council will take comment on the deal at 6 p.m. May 17 in the Hillsboro Civic Center, 150 E. Main St. They plan to vote on the deal afterward. The Oregon Economic and Community Development Department also must vote on it.

-- Mike Rogoway

©2005 The Oregonian

© 2005 OregonLive.com All Rights Reserved.