

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: Avago Technologies Enterprise Zone Investment

Meeting Date: May 11, 2016
Department: Planning & Development
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Agenda Item: A
Staff Contact: Denny Braud
Contact Telephone Number: 541-682-5536

ISSUE STATEMENT

Avago Technologies Wireless U.S.A. Manufacturing, Inc. (Avago) submitted an Oregon Enterprise Zone Authorization Application on April 22, 2016 (Attachment A), seeking a tax exemption on a proposed investment of \$400 million for the redevelopment of the former Hynix facility. The authorization application included a request for a two-year extension of the standard three-year exemption (total of five years). The council will be asked to consider the two-year extension request. This work session will provide background information and discussion in advance of future action on this item.

BACKGROUND

Avago, a leading manufacturer and global supplier of a broad range of analog and digital semiconductor products, purchased the former Hynix facility in November 2015. The company is proposing a reuse of the facility that would include a \$100 million building upgrade and \$300 million in production equipment. The property is located within the West Eugene Enterprise Zone and is eligible for the standard three-year tax exemption. Avago has requested the optional two-year extension that, if approved, would extend the enterprise zone property tax exemption benefit to a total of five years.

Enterprise Zone Program: The Oregon Enterprise Zone program is a State program established by the Legislature in 1985 for the primary purposes of job creation, encouraging new investment, diversification, and competitiveness. The existing West Eugene Enterprise Zone was designated in 2005 and is jointly sponsored by the City of Eugene and Lane County. The program offers a three-year property tax exemption for new buildings, renovation and expansion of buildings, and equipment investments made by qualified businesses located within a designated area defined by the zone sponsor. The exemption is designed to encourage new investment via a short-term exemption, with the long-term goal of job creation and increasing tax revenue for taxing districts following the exemption period. A qualified business is basically a (non-retail) manufacturing, processing, call-center, headquarters, distribution, or warehousing business that will increase its base employment by at least 10 percent. The West Eugene Enterprise Zone designation expires in 2016. Potential re-designation of the Zone will be discussed at an upcoming council work session(s).

Per state statutes, individual Enterprise Zone authorization applications are reviewed and approved jointly by the Zone Manager (Denny Braud, City of Eugene) and a representative from Lane County Assessment & Taxation. If investments meet all of the provisions included in the state statutes,

applications are required to be approved. Avago's two-year extension request is an optional consideration that would not, if denied, preclude the company from qualifying for the three-year tax exemption if they ultimately meet the basic programmatic, statutory requirements.

Two-Year Extension: The standard three-year property tax exemption may be extended for up to two years, subject to approval by the local sponsors (City and County) of the enterprise zone. To receive the extended exemption, a business firm must (1) provide all new employees an average annual compensation of at least 150 percent of the county's average annual wage, (2) abide by any additional conditions that the sponsor may reasonably request, and (3) enter into a written agreement with the zone sponsor confirming the conditions associated with the extended exemption. The provision for additional conditions associated with the two-year extension is guided by state administrative rules. If the additional conditions include an economic cost to the company, Oregon Administrative Rules (OAR 123-065-2540) state that any additional requirements "shall not substantially offset or reduce the relevant tax benefit for the eligible business firm, such that... these costs shall not exceed one-third of the tax savings..."

Avago has indicated that its expected average compensation (including benefits) as defined by the statutes, will exceed the 150 percent of County average annual wage requirement. Because Avago has not yet completed all of the due diligence on the Eugene facility, and because specific job classifications for the Eugene operation have not been finalized, specific wage information is not available at this time.

Financial Impact: Based on the proposed investment of \$400 million, the three-year total tax exemption has been estimated at \$14 million. The two-year extension is expected to provide an additional \$7 million tax exemption benefit (total exemption of \$21 million). Because the design of the facility has not been finalized, and because of the complexity associated with forecasting the tax assessment valuation of semiconductor equipment, the tax exemption estimates are preliminary. The City's share of the standard three-year exemption represents a total of approximately \$6 million, and approximately \$3 million for the requested two-year extension. The City's General Fund revenue forecast does not project any revenue associated with this investment.

Avago plans to hire engineers, technicians and factory operators, along with administrative and management positions. Initial employment is estimated to be 229 jobs. Additionally, contracted support services for the facility provide significant job creation outcomes. At a projected average compensation of at least 150 percent (\$59,073) of the average county wage (\$39,382), the company would establish an annual local payroll conservatively estimated at \$13.5 million. Over the tax exemption period, the direct payroll impact is estimated at \$40 million for three years, and \$67 million for five years. Benefits such as health insurance, 401K, and vacation are offered. The company plans to utilize a portion of the former Hynix facility initially, with the opportunity to expand into additional space in the future. Future expansion would include additional employment and significant additional investment.

Avago's investment is expected to have ripple effects throughout the local economy. The \$100 million upgrade will generate short-term jobs and associated income. Using an input-output model to estimate the number of jobs and income impacts associated with construction expenditures, the upgrade is expected to directly generate over 700 construction-related jobs with an average annual wage of approximately \$46,000. The construction activity will have additional impacts on the Lane County economy, supporting an additional 400 plus jobs. (Based on IMPLAN model input-output analysis to

estimate short-term jobs and wages). These figures do not include jobs and income associated with the \$300 million investment in new production equipment. Most of the equipment will be manufactured outside Lane County. There will be additional impact to the local economy, as the equipment is delivered and installed.

Because the enterprise zone tax exemption will only cover the new investments made by Avago within the zone, property that is currently on the tax roll will continue to pay property taxes (currently approx. \$590,000/yr.).

Timing: The two-year extension must be requested as part of the initial authorization application, which must be submitted prior to a new investment being made. The extension cannot be requested later, and the extension request must be acted on (approved/denied) prior to the Zone Manager's approval of the authorization application. If council approves the two-year extension, the request would then be considered by the Lane County Board of Commissioners. Avago has indicated that due diligence and design work would occur in 2016, building renovation would occur in 2017, equipment installation would occur in 2018, with production beginning in early 2019.

About Avago: Avago produces and sells a broad portfolio of analog and mixed signal chips, wireless radios, custom networking chips, and data center networking chips to a wide range of industries. With a portfolio of over 7,000 products, Avago's technologies are used in a large array of applications such as mobile phones, automotive electronics, and consumer electronics. The company is jointly headquartered in San Jose, California, and Singapore. The Eugene facility would be utilized to expand its wireless semiconductor manufacturing operations which focuses on components for the mobile phone industry. Avago has a similar wireless semiconductor manufacturing facility in Fort Collins, Colorado, which employs approximately 1,300.

Avago Technologies merged with Broadcom Corporation in January 2016, and the Avago Technologies operations took on the Broadcom Limited name. The company was founded in 1961 as a semiconductor products division of Hewlett-Packard. Avago Technologies went public on NASDAQ (AVGO) in 2009. The merger of Avago and Broadcom created the second largest communications chip maker and fourth largest wireless chipmaker in the world.

Hynix Facility History: Hynix (formerly Hyundai) announced plans to build a \$1.3 billion, 1.2 million square-foot semiconductor manufacturing facility in 1995, began production in 1998, and grew to approximately 800 employees. In 2001, Hynix experienced a six-month layoff of approximately 600 employees during a \$156 million equipment retooling. Hynix reached peak employment of approximately 1,000, with an additional 300 plus contract workers. The annual payroll reached approximately \$54 million. The Hynix facility received enterprise zone property tax exemptions, but was still the largest generator of property taxes in Eugene prior to ceasing operations in 2008. Close to \$2 billion was invested in the facility during its operating life. Annual property taxes paid peaked in FY05 at over \$6 million, and the property paid over \$4 million in property taxes in its final year of operation. The facility has been vacant for over seven years, and is currently paying approximately \$590,000 in annual property taxes. Avago Technologies purchased the facility at auction in November 2015 for \$20 million.

RELATED CITY POLICIES

Envision Eugene Pillars

- Provide ample economic opportunities for all community members.
- Provide for adaptable, flexible and collaborative implementation.

Regional Prosperity Economic Development Plan

- By 2020, create 20,000 net new jobs in the chosen economic opportunity areas; reduce the local unemployment rate to, or below, the state average; and increase the average wage to, or above, the state average.
- Continue to work with property and business owners to expand, upgrade and construct state-of-the-art facilities.
- Pursue opportunities to expand and recruit businesses, ideas, and entrepreneurs into the region that can enhance existing businesses and the community.

COUNCIL OPTIONS

Information only.

CITY MANAGER'S RECOMMENDATION

No recommendation provided at this time. Options and recommendation will be provided at a future meeting to be scheduled later in May.

SUGGESTED MOTION

Information only.

ATTACHMENTS

A. Avago Enterprise Zone Authorization Application

FOR MORE INFORMATION

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