Hynix
A Case Study on Development Incentives
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Motivation

Since Hynix announced its plans to build a factory in Eugene, the public costs and benefits of their presence has been debated.

With no official study on Hynix’s fiscal impact, it is difficult for government organizations to judge the cost effectiveness of attracting Hynix to the West Eugene enterprise zone.

Furthermore, with few studies judging the impacts of development incentives, such as those offered by the West Eugene enterprise zone, we felt that this study could be used as a guide for those interesting in analyzing the fiscal implications of future efforts to attract new investment.
What is an Enterprise Zone?

- **Definition:** any area designated by a city, county, or state, to be exclusively cultivated for business development.

- **West Eugene’s enterprise zone:**
  - Three year real and/or property tax exemption (company can apply for a two year extension)
  - Requirements:
    - Company must reside in the boundary
    - Be non-retail
    - Increase employment by 10% each time it makes a new investment for which it wants a real and/or personal property tax exemption.

- The West Eugene Enterprise Zone is currently closed to new businesses.
Data Collection

- We contacted the following organizations to obtain data for this study:
  - Lane Council of Governments
  - The City of Eugene planning department, land use and building permit offices
  - EWEB (Eugene Water and Electric Board)
  - The Wetland Mitigation Bank
  - The County Tax Assessors Office
  - The Register-Guard
  - Hynix

- Most information was obtained through interviews, as records searches were too costly for this study.
Data Estimation

- Estimates were constructed when primary data was either confidential or incomplete.

- Estimated figures include:
  - Changes in property and income taxes
  - Percentage of income tax returning to Lane County
  - Amount of wages Hynix pays that create a financial benefit.

- When estimating we used standard methods found in previous studies.
Data Analysis

- When analyzing positive impacts of wages and the additional local spending they generate, we used a what is called a “multiplier” effect.

- A multiplier specifies how many times local spending is re-spent through a series of secondary transactions resulting from the initial income (Here: initial income is wages paid by Hynix to local workers).

- Our multiplier comes from a well-known economic development model called the IMPLAN (IMpact PLANning) model.
Costs and Negative Economic Impacts

Possible costs we examined:

- Taxes
- Roads
- Congestion
- Utilities
- Drought Potential
- Wetland Destruction
Taxes

- Three kinds of taxes apply to Hynix:
  - **Property tax on the land**: never qualified for an exemption.
  - **Property tax on buildings**: exempted for 3 years. If Hynix builds new structures on their property, they can reapply for a tax exemption on that new structure, assuming they have increased employment by 10% since their last application.
  - **Personal Property tax on “non-rolling” stock** (office supplies, computers, forklifts, etc): This includes items like production equipment. The exemption follows the same rules as the real property tax exemption. Hynix currently has an exemption of this kind.

- Hynix has, as of 2002, received 46 million dollars in tax exemptions.
Roads and Congestion

The City of Eugene made improvements to roads surrounding Hynix, costing an estimated total of 3 million dollars.

- Light Installation.
- Turn Lane Installation.
- Other general road enhancements.

Congestion: Roads around Hynix require no above average maintenance.

- Implies no bad congestion, although effects may be lagged.
- Would be difficult to isolate congestion effects from Hynix from other sources, such as housing expansion in the area.

Hynix paid a Systems Development Charge of $3.7 million to the city of Eugene.
Utilities

- **Electricity**
  - Electric substation ($8.6 million, paid by Hynix).
  - Independent energy contracts ensure Hynix won’t affect local consumer rates.

- **Water**
  - Expansion of water filtration plant was moved up by Hynix’s presence.
  - No current capacity issues: no water rate changes for community.
  - Probability of a three year drought is low.
Water Capacity

WILAMETTE BASIN #3 - HISTORICAL SWSI - 5 MONTH AVERAGES
Wetlands

- Process of compensating destroyed wetlands.
  - Must create twice the acreage destroyed.
  - $30,000/acre to restore.
  - Hynix filled 10.4 acres.
  - Restored or enhanced 25.59 acres.

- By fulfilling the law, effective cost for Hynix project is zero.
Total Negative Economic Impacts

- Tax Breaks: 46 million
- City Road Enhancement: 3 million
- Congestion: uncalculated
- Electricity and Water Consumption: zero
- Drought Potential: uncalculated
- Wetland Destruction: zero
- Total Costs: 49 million
Wages and Positive Economic Impacts

- Wages and benefits paid by Hynix.

- $51,998.89 is our estimate for average employee wages and benefits.
- Hynix averaged 644 employees, not including contractors.
- Annual Payroll: 644 employees * $51,998.89 = $33,487,285.16 per year.
- 1.52 is the multiplier for the semiconductor industry in Lane County.
- Five-Year Local Spending from Wages and Benefits: 1.52 * $167,436,425.80 = $254,503,367.20.

- Conclusion: Hynix has generated an estimated $254.5 million of spending in Lane County as of the beginning of 2002.
Benefits and Positive Economic Impacts

- Tax revenue from Hynix and its employees.

- Hynix paid $5.2 million in property taxes as of 2002, and $510,616 to the city, county, and schools.

- Additional tax revenue generated by employees.
  - Five-year estimate: Employees paid at least $1,400,587.50 in income taxes.
  - Increased earnings leads to higher property taxes
    - Five-year estimate: Employees paid between $1,933,988 and $4,080,391 in property taxes.
## Total Economic Impact (standard methodology)

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### Total Negative Impact
$49.0 million

### Total Positive Impact
$275.0 million - $277.7 million

**NET IMPACT:** $226.0 million - $228.7 million
Conservative Estimate of Positive Economic Impacts

- Standard methodology assumes Hynix jobs are all additional jobs for the community.

- Alternative conservative assumption: No new net jobs in community, though Hynix pays about 33% more. Only this additional 33% should be considered positive impact.

- New numbers with conservative assumption:
  - Higher wages and benefits with multiplier: $70.1 million.
  - Additional tax revenue from employees income and property taxes: $0.4 million.
  - Overall net impact: $39.5 million - Note: Net impact still positive!
Conclusion

- Range of net impact of Hynix on local community is clearly positive: $39.5 million to $228.7 million

- Important missing factors:
  - Property value changes.
  - Congestion effects.
  - Plant construction benefits.
  - Employment of contractors on site.

- Overall: Such large estimated net positive impacts suggests that Hynix has been beneficial to the local economy.
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