

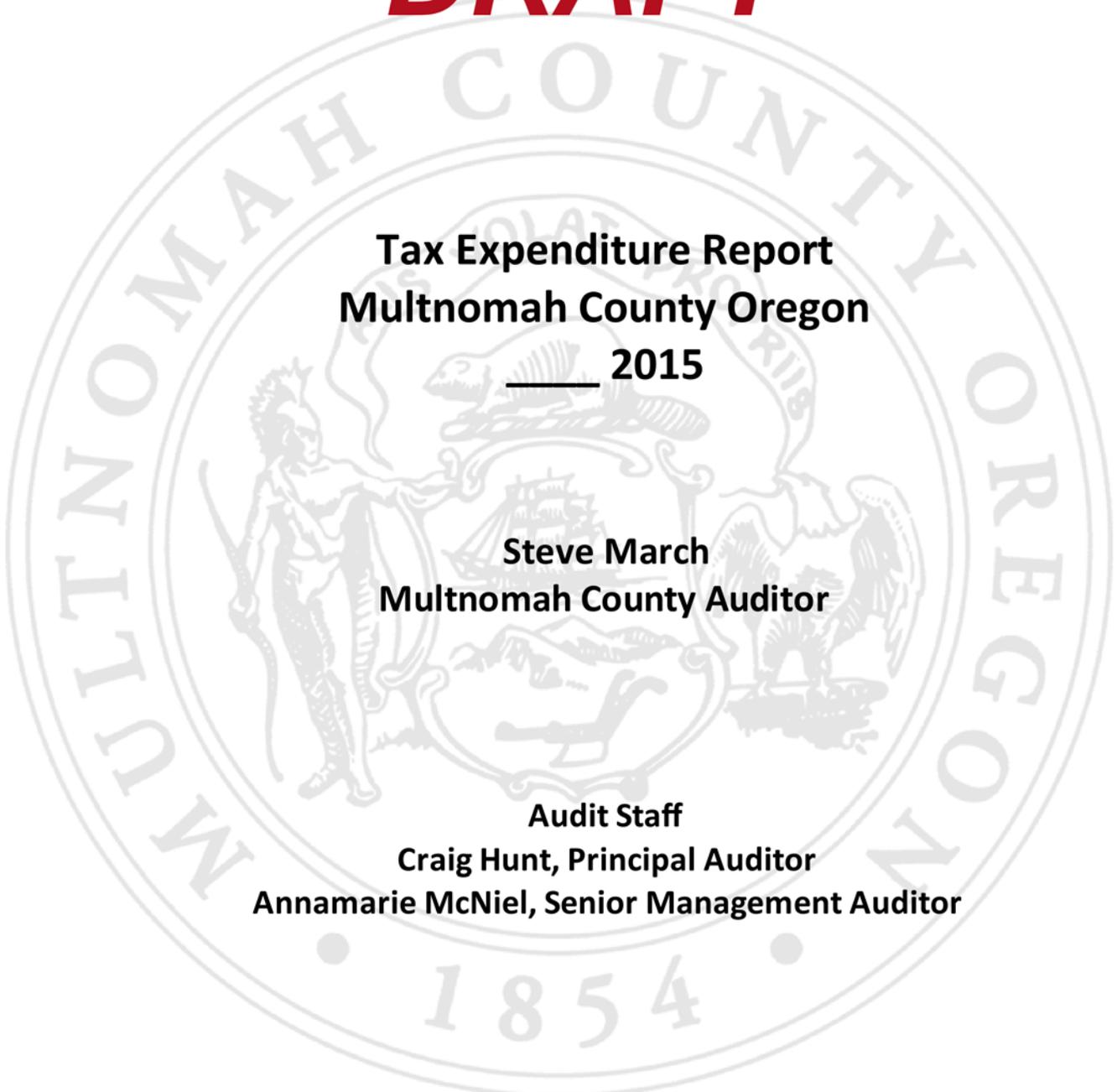


DRAFT

**Tax Expenditure Report
Multnomah County Oregon
— 2015**

**Steve March
Multnomah County Auditor**

**Audit Staff
Craig Hunt, Principal Auditor
Annamarie McNiell, Senior Management Auditor**



INTRODUCTION

Introduction	Objectives, Scope, and Methodology	Objectives, Scope, and Methodology (continued)
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Introduction

This report covers Multnomah County’s tax expenditures. This review was part of our 2015 audit schedule with the objectives of inventorying tax expenditures that affect Multnomah County and estimating their financial impact.

Tax expenditures decrease revenues by reducing the amount of taxes that are paid by individuals or businesses. This results in forgone revenues to the County and Library.

As defined in the State of Oregon's 2015-2017 Tax Expenditure Report, a tax expenditure “exempts, in whole or in part, certain persons, income, goods, services, or property from the impact of established taxes, including, but not limited to tax deductions, tax exclusions, tax subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits”.

In 2014 Multnomah County had several types of tax expenditures totaling approximately \$91 million. We reviewed tax expenditures arising from reductions in property, business income, motor vehicle rental, transient lodging, and motor vehicle fuel taxes. These tax expenditures are not as visible as spending programs and are not evaluated the same as direct expenditures which go through a budget process. This report begins to address transparency by inventorying the types of tax expenditures and the amount of forgone revenues for the County and Library.

The largest portion of tax expenditures flows through the County’s property tax system. The State largely mandates property tax exemptions and deferrals. Generally, the County ensures compliance with State statutes but has no control over whether the tax expenditure should exist.

Tax expenditures related to other taxes such as business income, motor vehicle rental, transient lodging and motor vehicle fuel taxes are from specific exemptions, deductions and refunds with varying authority of control by the County.

We want to thank staff from the Division of Assessment, Taxation, and Recording (DART) for their assistance and cooperation throughout the audit. We also appreciate the assistance provided by the City of Portland Revenue Division within the Office of Management and Finance as well as various other County staff.

INTRODUCTION

Introduction	Objectives, Scope, and Methodology	Objectives, Scope, and Methodology (continued)
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Objectives, Scope, and Methodology

The objectives of this report were to inventory tax expenditures that affect Multnomah County and estimate their financial impact. We have divided the report into two sections. The first section is dedicated to property tax expenditures, as this is the largest tax expenditure area and is described below. The second section covers all of the County's other tax expenditures and is described on the next tab.

Property tax expenditures include exemptions and deferrals. Our scope was limited to Multnomah County's imposed permanent tax rate, the Library District's imposed tax rate, and the local option levy for the Oregon Historical Society since these are the taxes recognized in Multnomah County's financial records. We obtained the 2014 tax year (July 1, 2014 to June 30, 2015) data from the Multnomah County Division of Assessment, Taxation, and Recording (DART). We estimated tax expenditure amounts for individual properties receiving a tax exemption or deferral using the following tax rates per \$1,000 of assessed value:

Multnomah County	\$4.3434
Library District	\$1.1800
Oregon Historical Society	\$0.0500

Taxes levied for Multnomah County bonds are excluded from our analysis. There is no loss to Multnomah County because bonds are levied as fixed dollar amounts. When property value is taken off the tax roll through an exemption or deferral, higher bond rates are shifted among taxpayers but the same amount of taxes for bonds are collected.

Property tax expenditures in our report are not exact amounts for several reasons. DART does not update assessments for exempt property (nor would it make sense to do so) until it loses its exemption status. Therefore, the assessed values on the tax roll used in our estimates are likely understated and will result in lower exemption estimates. We also excluded from our estimates the effects of the 1990 ballot Measure 5, which created limitations on property taxes, and amounts that would go to urban renewal instead of the County. Not including Measure 5 and urban renewal in our model will cause estimates to be higher. We chose to keep these components out of our model as this would have entailed a great deal of assumptions due to the intricacies, complexity, and uniqueness that Measure 5 and urban renewal has on each property. Finally, farm and forest deferrals only include an estimate of the current tax year's deferral and do not reflect any impact that may be created by penalty catch-up effects.

There were several properties and leases in the data where the exempt value equaled zero. We did not include these in our count of exemptions. We relied on the State's 2015-2017 Tax Expenditure Report for statutory references and summary descriptions of exemptions and deferrals. For additional information about the County's property tax structure and limitations, see the Tax Supervising & Conservation Commission at <http://tscmultco.com>.

INTRODUCTION

Introduction	Objectives, Scope, and Methodology	Objectives, Scope, and Methodology (continued)
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Objectives, Scope, and Methodology (continued)

Other Tax Expenditures include expenditures related to business income tax (BIT), motor vehicle rental tax (MVRT), transient lodging tax (TLT), and motor vehicle fuel tax (gas tax).

- Business income tax is a tax imposed upon each person doing business within the County equal to 1.45% of the net income from the business within the County. When an entity files for an exemption they are not required to provide what their taxable income would have been; therefore, we applied the \$100 minimum tax to each entity filing for an exemption in order to arrive at the estimated forgone revenue. The 2013 tax year data were used for entities who had filed exemptions, as these were the most recent and complete data available at the time of our analysis.

- Motor vehicle rental tax is a 17% tax imposed on every person renting a motor vehicle from a commercial establishment doing business in the County. We reviewed the quarterly submitted tax forms for each entity and summarized the receipts claimed for allowable deductions. We then applied the tax rates to these excluded receipts to calculate the amount of forgone revenue for fiscal year 2014.

- Transient lodging tax is an 11.5% tax imposed on each transient for the privilege of occupancy in any hotel in the County. We reviewed the quarterly submitted tax forms for each entity and summarized the receipts claimed for allowable deductions. We then applied the tax rates to these excluded receipts to calculate the amount of forgone revenue for fiscal year 2014.

- Motor vehicle fuel tax is a tax of \$0.03 per gallon on motor fuel purchased in the County. The tax is collected by the State of Oregon and remitted to the County. The State provided a report for the amount of gallons request for refund by claimant and we applied the \$0.03 per gallon to calculate the amount of forgone revenue for fiscal year 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Deborah Kafoury
Multnomah County Chair

501 SE Hawthorne Blvd., Suite 600
Portland, Oregon 97214
Phone: (503) 988-3308
Email: mult.chair@multco.us

October 16, 2015

Dear Auditor March,

Thank you for sharing the Special Report on Tax Expenditures with the Board of Commissioners and community. This report will help the public and policy-makers build a better understanding of the trade-offs between the social and economic benefits of tax exemptions and the financial cost to government services.

Additionally, the labeling of expenditures as within or outside of the county's control is incredibly helpful. As the public and the county weigh the value of these expenditures in the future, this information will help us focus on those exemptions that are within our power to change - or point us in the direction of the correct governing body to lobby for change, if necessary.

Thank you as always for your work in service of transparency and public access to information.

Sincerely,

A handwritten signature in blue ink, appearing to read "Deborah", is written over the word "Sincerely,".

Deborah Kafoury
Multnomah County Chair

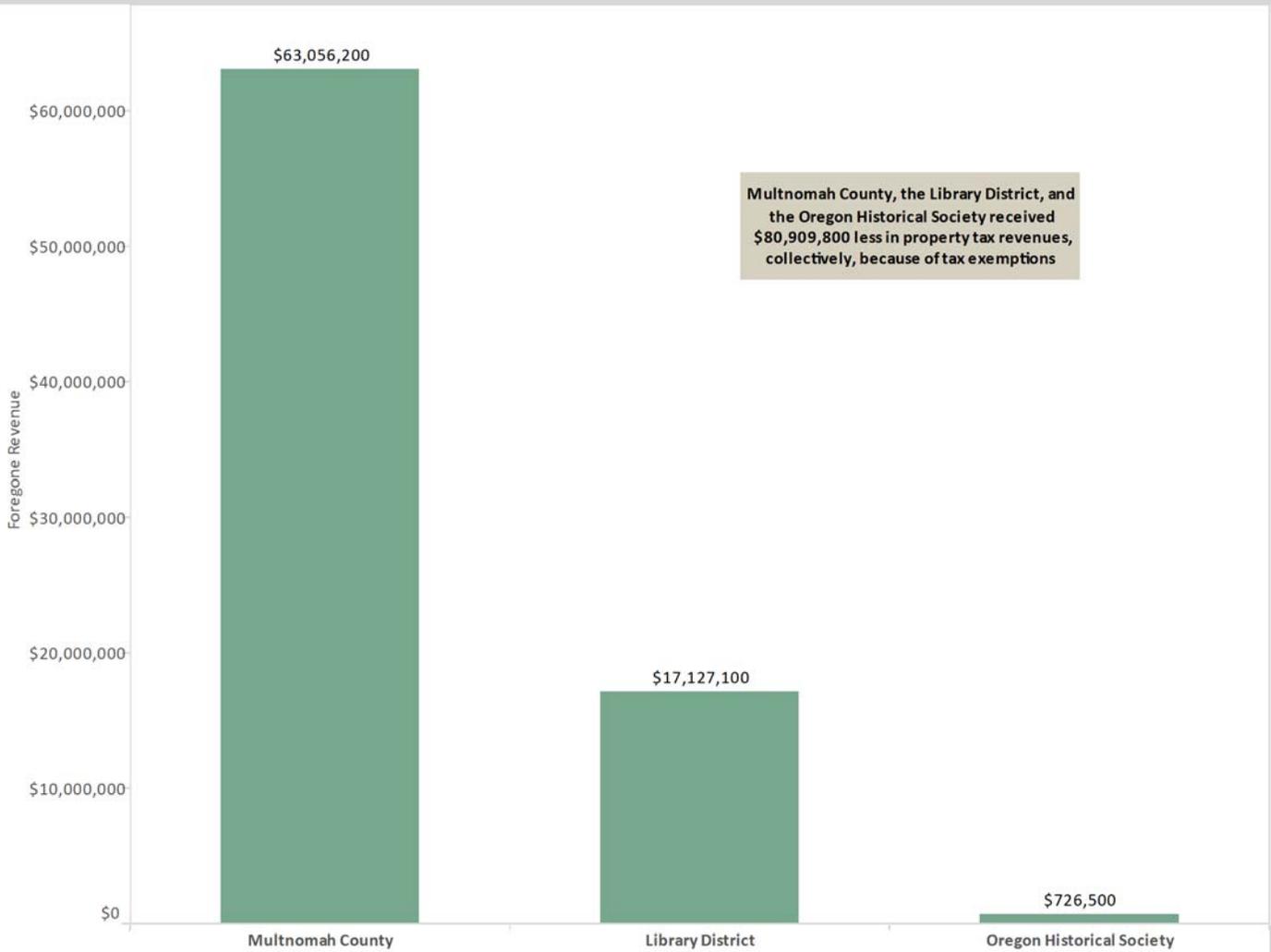
PROPERTY TAXES

Total Forgone Revenue for the County & Library	Exemption Type	Property Class	Organization Group or Benefit Type	Exemption Type by ZIP code
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Total Forgone Property Tax Revenues for the County and Library

Tax Year beginning July 1, 2014

Note: the Oregon Historical Society (OHS) local option levy is part of the County; however, it is shown below as its own category since all of these funds pass through to the OHS.



Source: County Auditor's Office analysis of the Division of Assessment, Recording, and Taxation's (DART) data

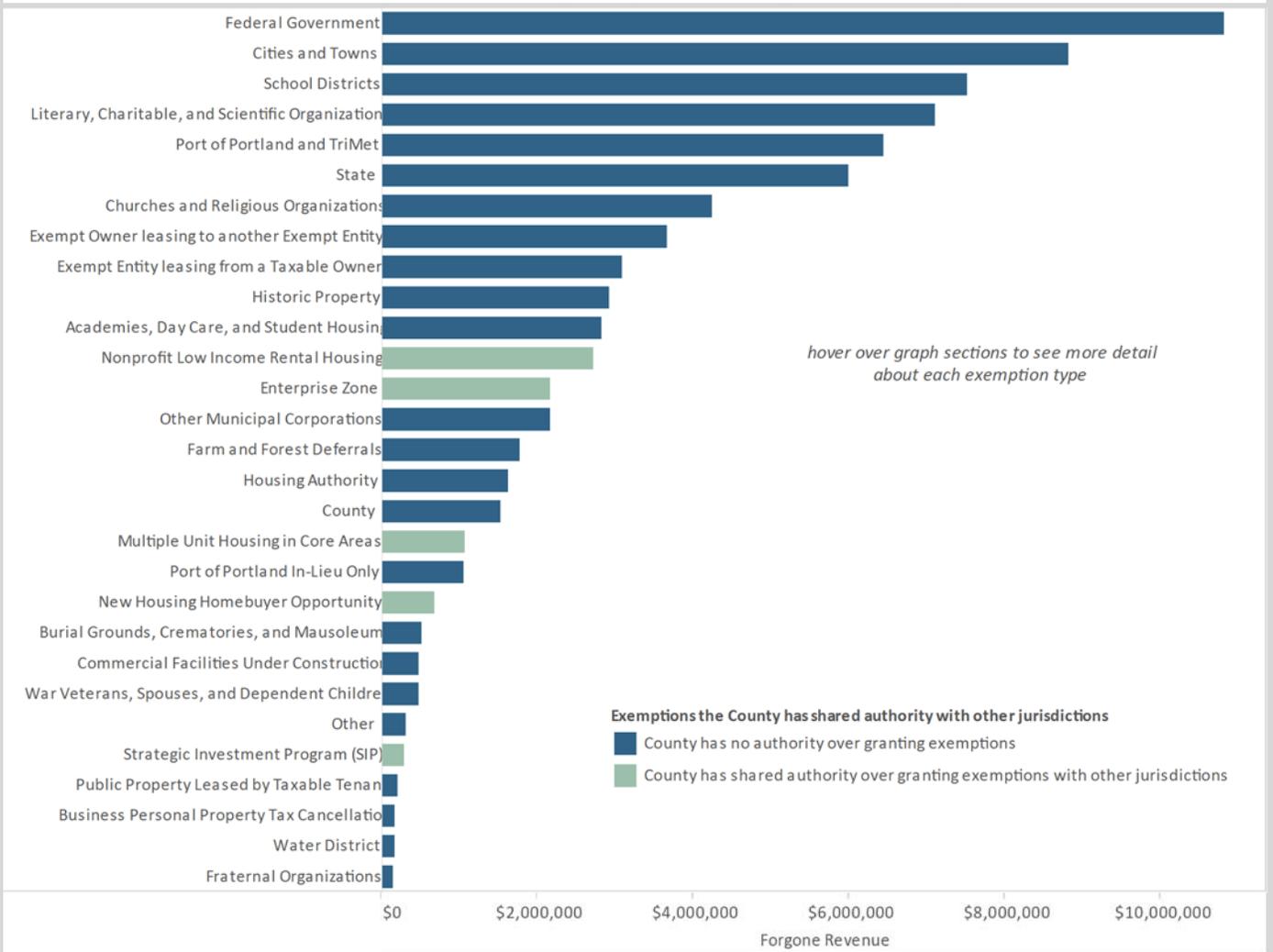
PROPERTY TAXES

Total Forgone Revenue for the County & Library	Exemption Type	Property Class	Organization Group or Benefit Type	Exemption Type by ZIP code
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Forgone Property Tax Revenues by Exemption Type

Tax Year beginning July 1, 2014

Note: these values include the County, Library District, and Oregon Historical Society taxes



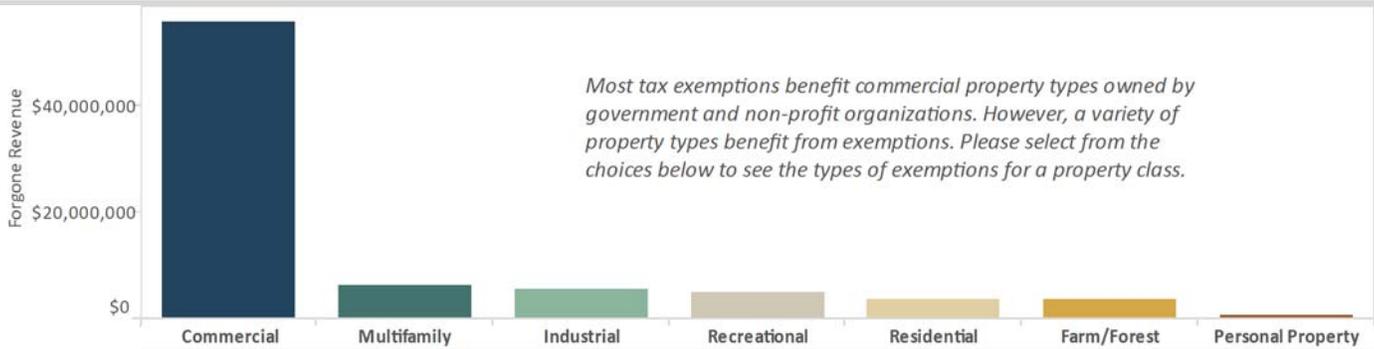
Source: County Auditor's Office analysis of the Division of Assessment, Recording, and Taxation's (DART) data & State of Oregon 2015-2017 Tax Expenditure Report

PROPERTY TAXES

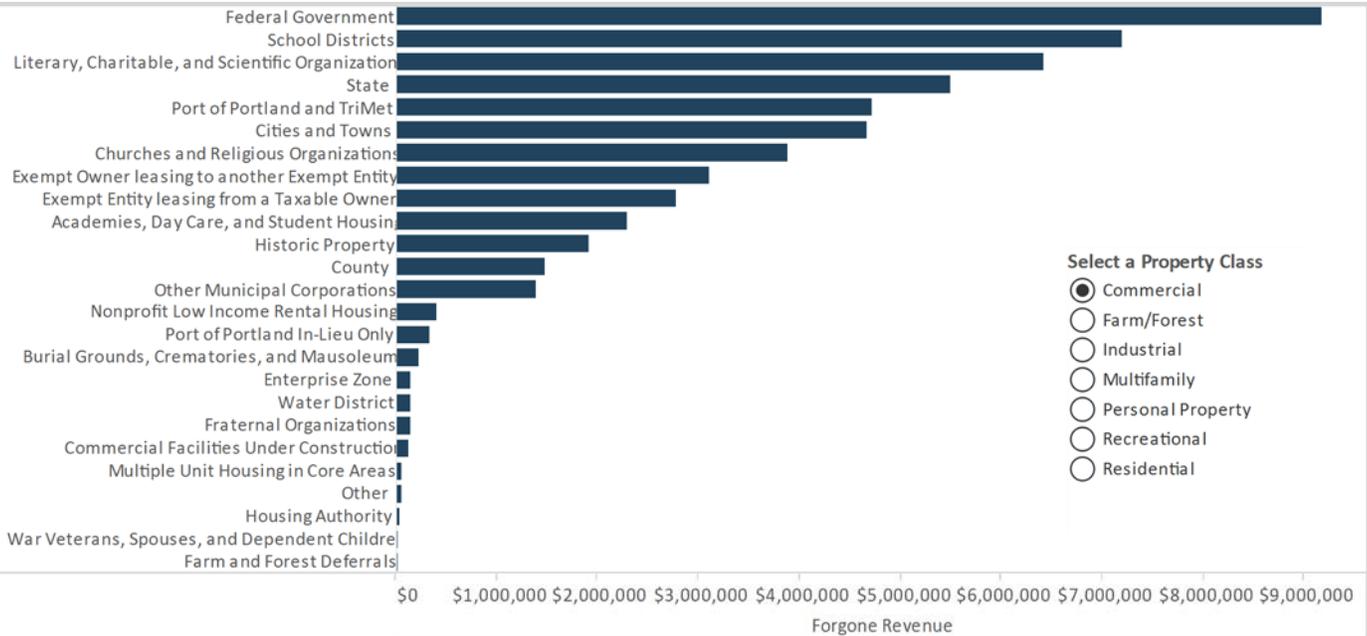
Total Forgone Revenue for the County & Library	Exemption Type	Property Class	Organization Group or Benefit Type	Exemption Type by ZIP code
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Forgone Property Tax Revenues by Property Class Type
Tax Year beginning July 1, 2014

Note: these values include the County, Library District, and Oregon Historical Society taxes



Forgone Property Tax Revenues - for Commercial Properties by Exemption Type
Tax Year beginning July 1, 2014



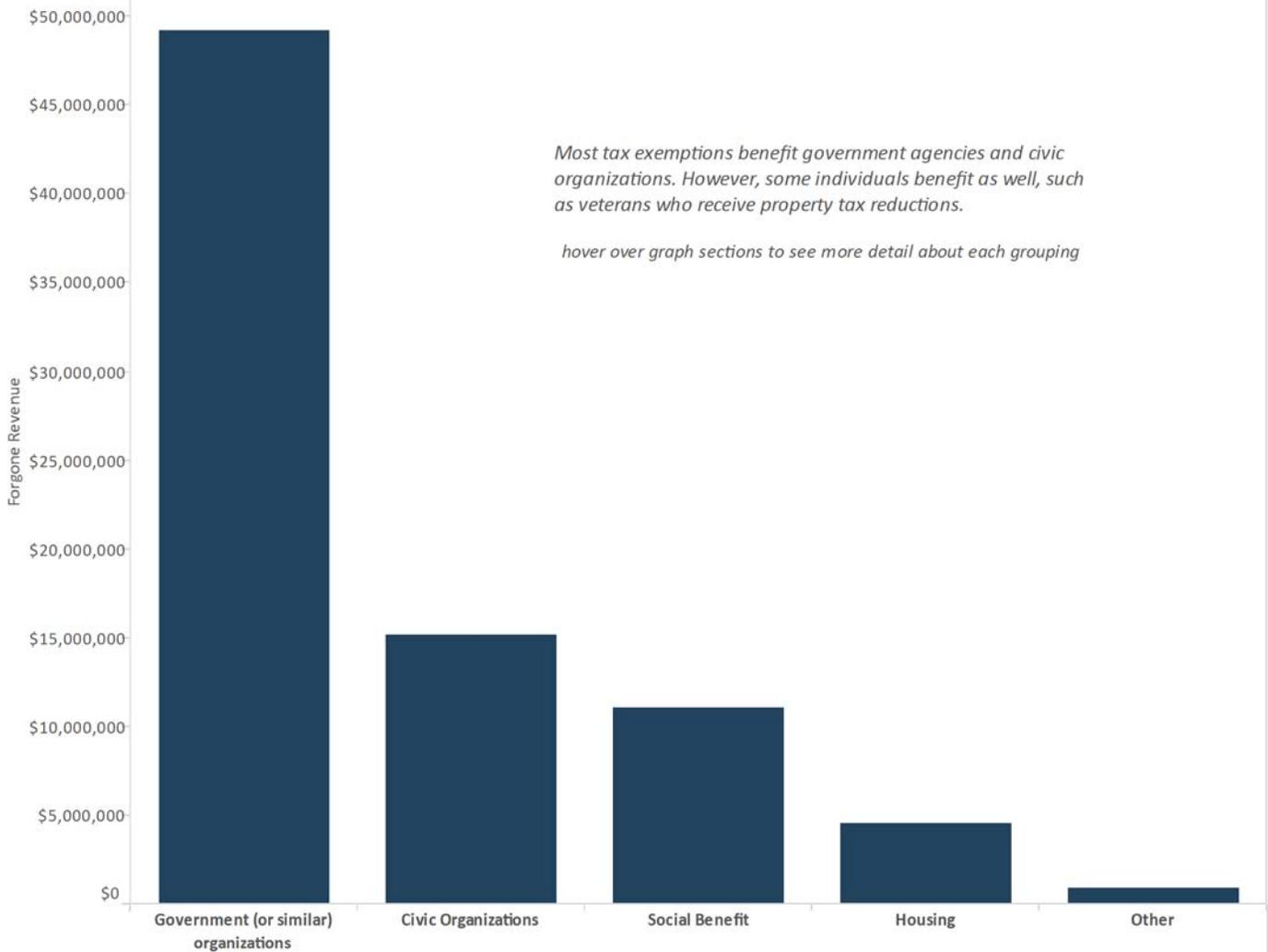
Source: County Auditor's Office analysis of the Division of Assessment, Recording, and Taxation's (DART) data

PROPERTY TAXES

Total Forgone Revenue for the County & Library	Exemption Type	Property Class	Organization Group or Benefit Type	Exemption Type by ZIP code
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Forgone Property Tax Revenues by Organization Group or Benefit Type
Tax Year beginning July 1, 2014

Note: these values include the County, Library District, and Oregon Historical Society taxes



Source: County Auditor's Office analysis of the Division of Assessment, Recording, and Taxation's (DART) data

PROPERTY TAXES

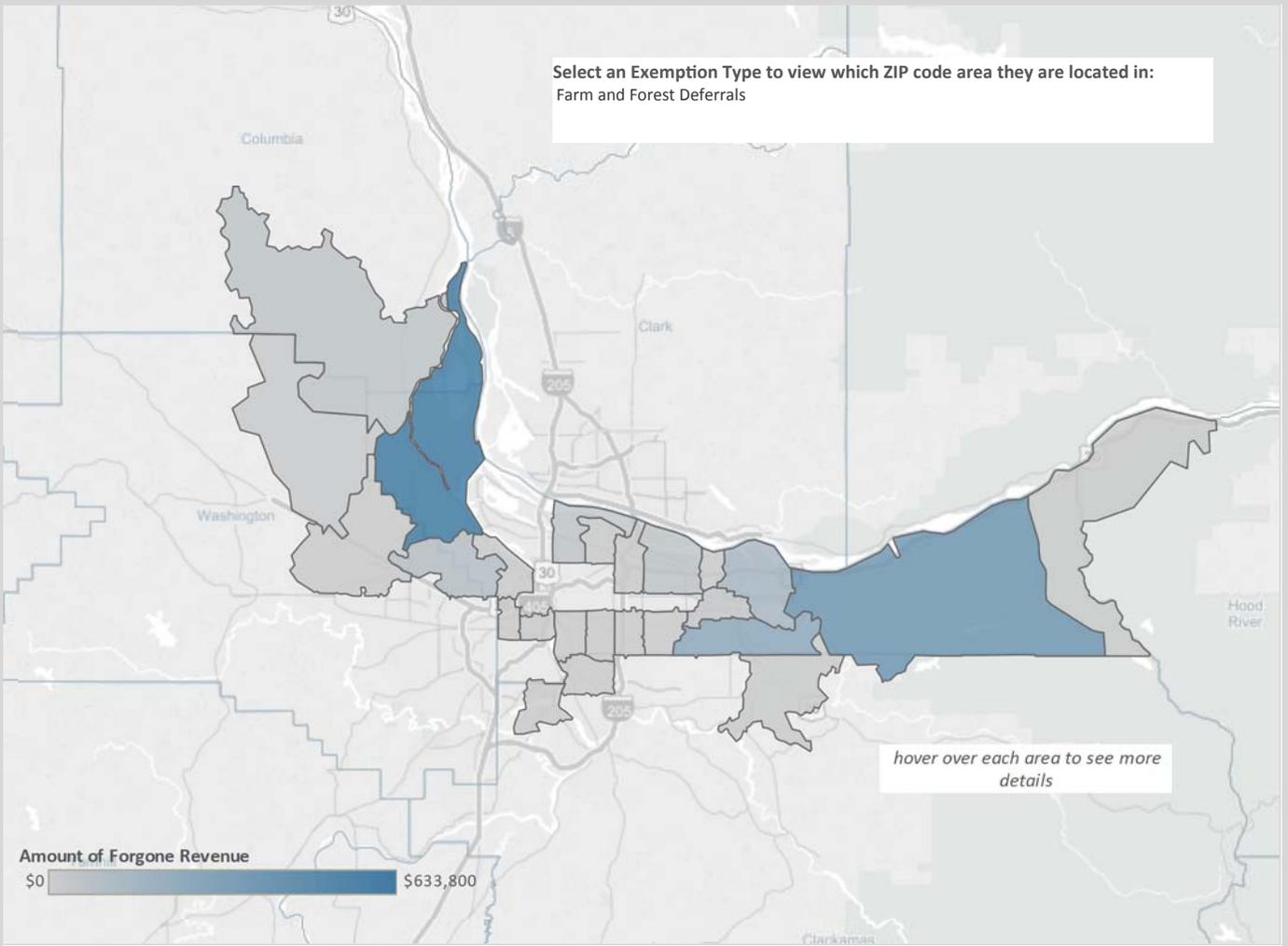
Total Forgone Revenue for the County & Library	Exemption Type	Property Class	Organization Group or Benefit Type	Exemption Type by ZIP code
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Forgone Property Tax Revenues Created by Farm and Forest Deferrals by ZIP Code

Tax Year beginning July 1, 2014

Note: these values include the County, Library District, and Oregon Historical Society taxes

The map shows the entire geographic area for ZIP codes which may extend beyond the County boundary; however, exemptions only relate to Multnomah County



Source: County Auditor's Office analysis of the Division of Assessment, Recording, and Taxation's (DART) data & State of Oregon 2015-2017 Tax Expenditure Report

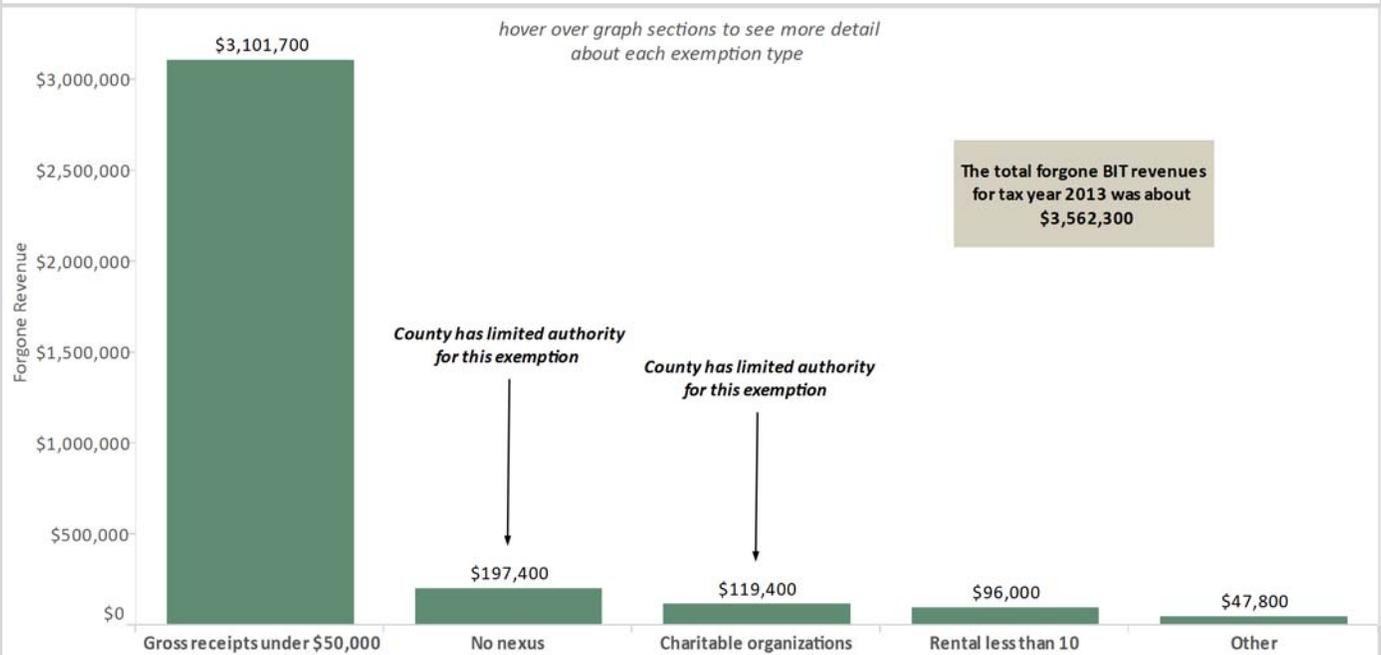
OTHER TAXES

Business Income Tax	Motor Vehicle Rental Tax	Transient Lodging Tax	Motor Vehicle Fuel Tax
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Business Income Tax (BIT)

There is a tax imposed upon each person doing business within the county equal to 1.45% of the net income from the business within the county. The tax goes directly to the County's General Fund. There are allowable exemptions from this tax. The graph below shows the amount of estimated forgone revenue by type of exemption for tax year 2013. When an entity files for an exemption they are not required to provide what their taxable income would have been; therefore, we applied the \$100 minimum tax to each entity filing for an exemption in order to arrive at the estimated forgone revenue. The total forgone BIT revenue for entities that filed for exemptions for tax year 2013 was about \$3.6 million. The total amount of revenues recognized by the County, net of the exemptions, for fiscal year 2014 was about \$61.8 million. A portion of the BIT revenues are passed onto the smaller cities in the County, instead of them imposing an additional tax, as outlined in an intergovernmental agreement with the cities. The amount of BIT revenues passed onto the cities of Fairview, Gresham, Troutdale and Wood Village, collectively, was about \$6.1 million for fiscal year 2014.

Forgone BIT Revenues by Type of Exemption Tax Year ended December 31, 2013



Sources: Multnomah County Auditor's Office,
City of Portland's Tax Division within their Office of Management and Finance,
Comprehensive Annual Financial Reports at <https://multco.us/finance/financial-reportsOregon> &
County Code Chapter 12 at <https://multco.us/county-attorney/multnomah-county-code>

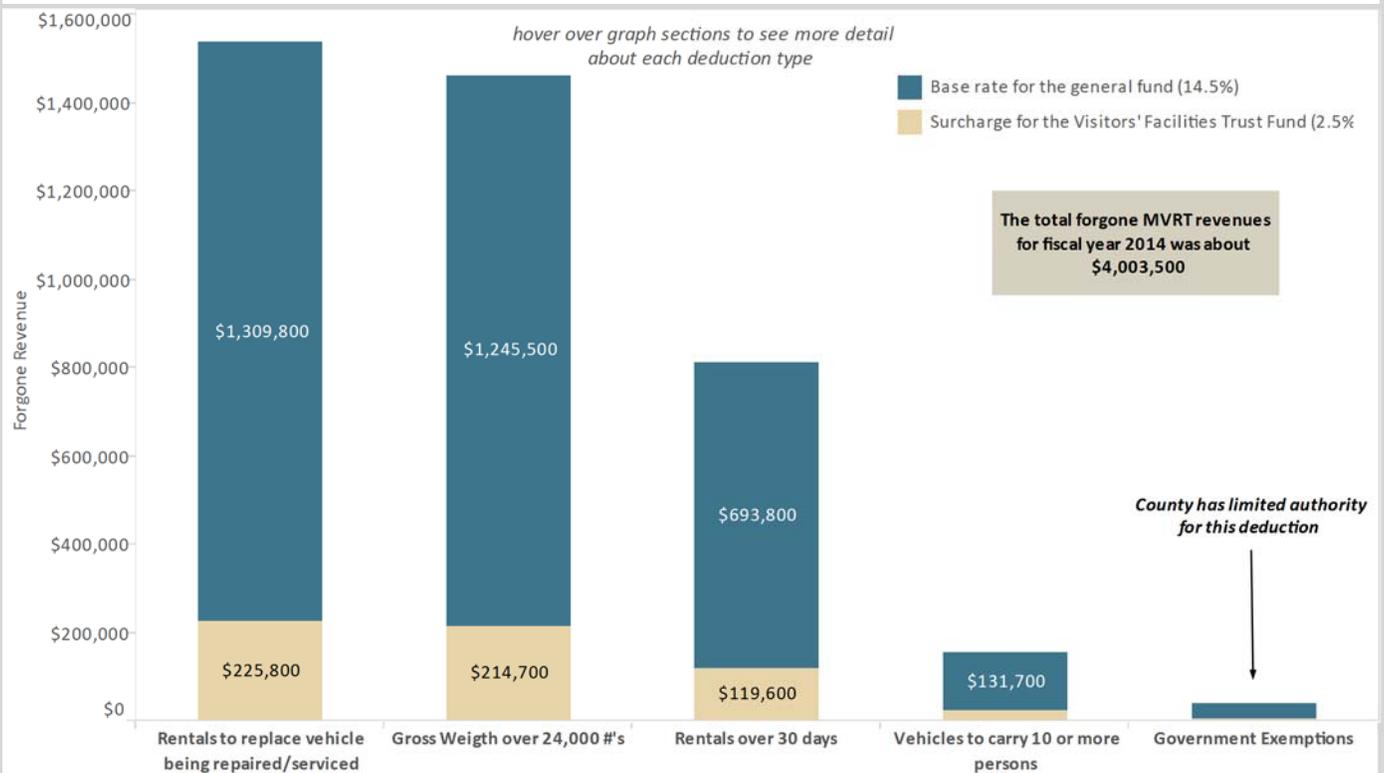
OTHER TAXES

Business Income Tax	Motor Vehicle Rental Tax	Transient Lodging Tax	Motor Vehicle Fuel Tax
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Motor Vehicle Rental Tax (MVRT)

There is a 17% tax imposed on every person renting a motor vehicle from a commercial establishment doing business in the County. 14.5% of the tax goes directly to the County's General Fund. The additional 2.5% surcharge is passed onto various entities for the purpose of supporting regional visitor facilities and visitor industry development in the Portland-Multnomah County area. There are allowable exemptions for this tax. The graph below shows the amount of forgone revenue for the claimed exemptions for fiscal year 2014. The total forgone MVRT revenue for fiscal year 2014 was about \$4 million. The total amount of revenues recognized by the County, net of the exemptions, for fiscal year 2014 was about \$23.4 million in the General Fund and about \$4 million in the Visitor Facilities Trust Fund which was passed onto other organizations.

Forgone MVRT Revenues by Type of Deduction
Fiscal Year ended June 30, 2014



Sources: Multnomah County Auditor's Office,
Comprehensive Annual Financial Reports at <https://multco.us/finance/financial-reportsOregon> &
County Code Chapter 11, Section .300 to .399 at <https://multco.us/county-attorney/multnomah-county-code>

OTHER TAXES

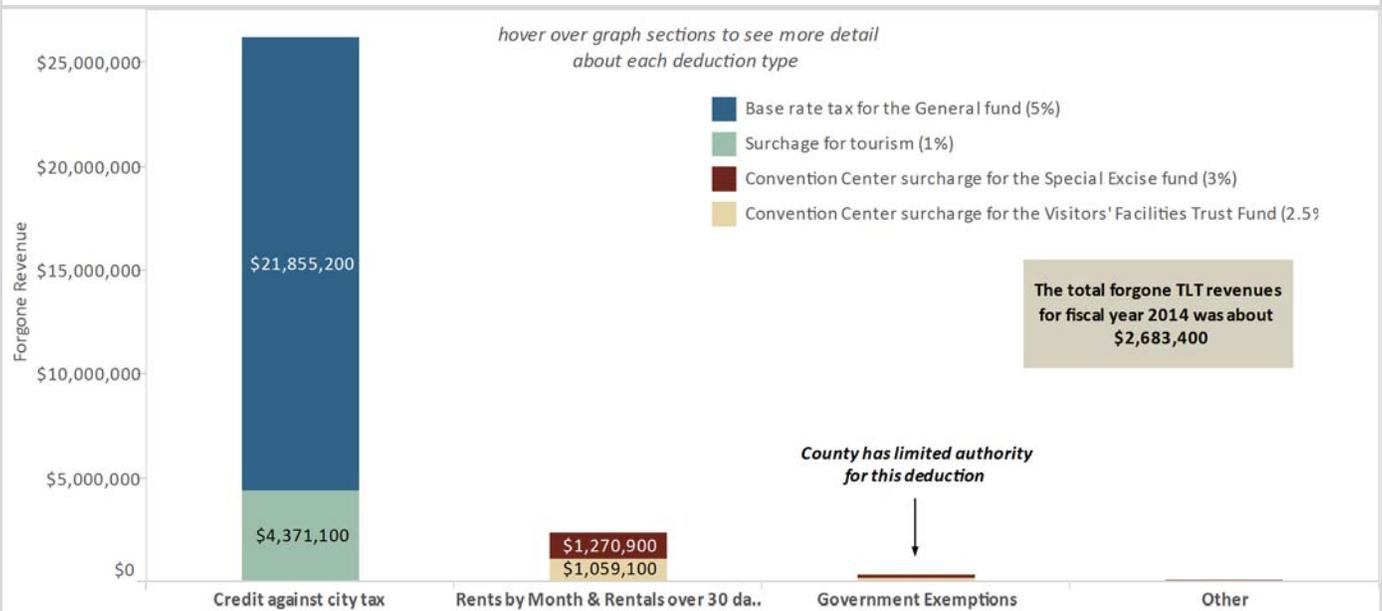
Business Income Tax	Motor Vehicle Rental Tax	Transient Lodging Tax	Motor Vehicle Fuel Tax
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Transient Lodging Tax (TLT)

There is an 11.5% tax imposed on each transient for the privilege of occupancy in any hotel in the County. 6% of this tax goes directly to the general fund (5% base rate plus 1% surcharge specific for tourism). Cities also impose this 6% (base rate plus surcharge). For hotels being assessed this 6% there is an allowed credit against the County's 6% tax. There are two additional surcharges that total 5.5% which are paid to the County. This 5.5% is passed onto various entities for the purpose of supporting regional visitor facilities and visitor industry development in the Portland-Multnomah County area. There are allowable exemptions for this tax. The graph below shows the amount of forgone revenue for the allowed credit against the city taxes and the claimed exemptions for fiscal year 2014. The total forgone transient lodging tax revenue for fiscal year 2014 was about \$28.9 million. The total amount of revenues recognized by the County, net of the credits and exemptions, for fiscal year 2014 was about \$24.27 million. The \$24.27 million was all passed onto other organizations, less a small (0.7%) trustee fee related only to the Visitors' Facilities Trust Fund surcharge revenues.

Transient defined: Any individual who exercises occupancy or is entitled to occupancy in a hotel for a period of 30 consecutive calendar days or less.

Forgone Transient Lodging Tax Revenues by Type of Deduction
Fiscal Year ended June 30, 2014



Sources: Multnomah County Auditor's Office,
City of Portland's Tax Division within their Office of Management and Finance,
Comprehensive Annual Financial Reports at <https://multco.us/finance/financial-reportsOregon> &
County Code Chapter 11, Section .400 to .499 at <https://multco.us/county-attorney/multnomah-county-code>

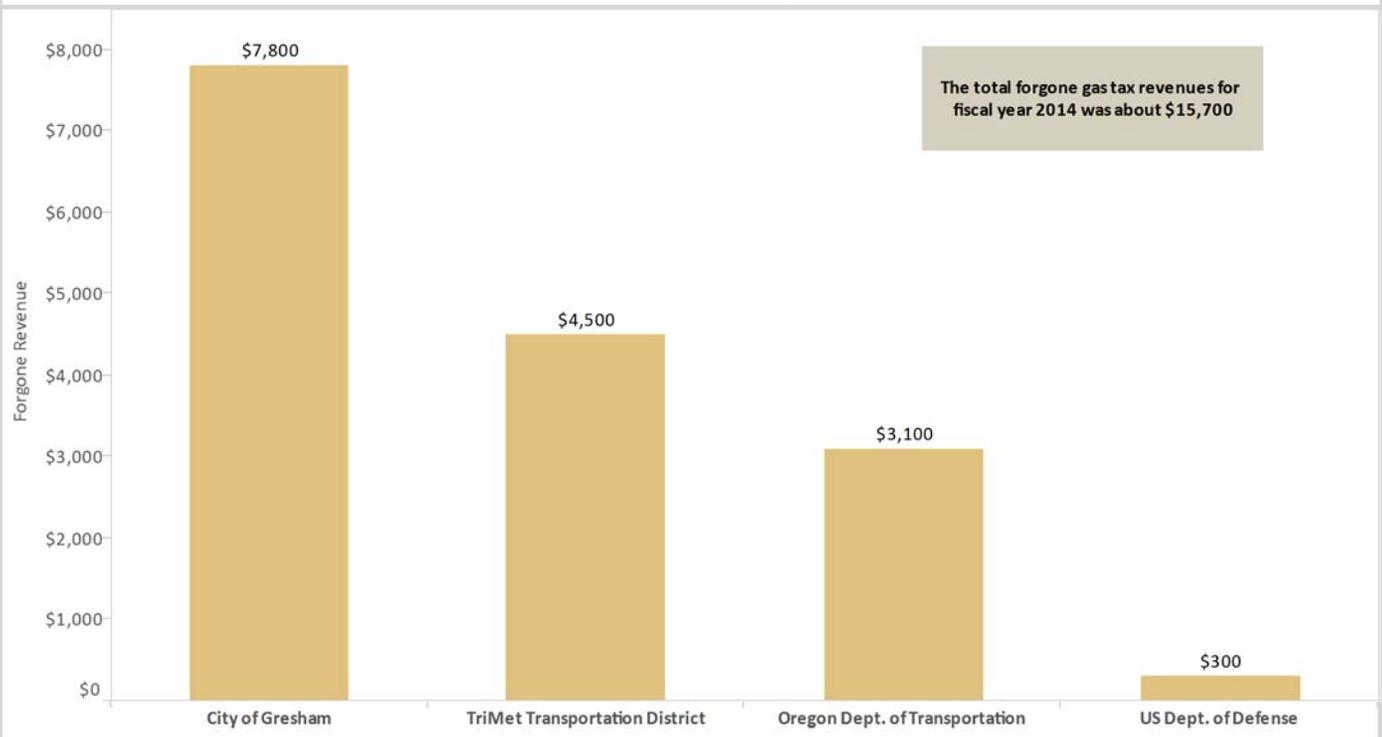
OTHER TAXES

Business Income Tax	Motor Vehicle Rental Tax	Transient Lodging Tax	Motor Vehicle Fuel Tax
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Motor Vehicle Fuel Tax (Gas Tax)

The County imposes a tax of \$0.03 per gallon on motor fuel purchased in the County. There are allowable exemptions in the form of claimed refunds. The graph below shows the amount of refunds claimed by claimant for fiscal year 2014. The total forgone gas tax revenue for fiscal year 2014 was about \$16 thousand. The total amount of revenues recognized, net of the refunds, for fiscal year 2014 was about \$6.75 million. The majority of these funds are used to support construction, repair, maintenance, and operation of County highways and roads through the County's Road Fund. A small portion (about \$57 thousand for fiscal year 2014) is related to marine fuels and is passed onto Metro for use on properties which had been transferred to Metro by the County (i.e. parks).

Forgone Gas Tax Revenues by Refund Claimant
Fiscal Year ended June 30, 2014



Sources: Oregon Department of Transportation,
Comprehensive Annual Financial Reports at <https://multco.us/finance/financial-reportsOregon> &
County Code Chapter 11, Section .200 to .233 at <https://multco.us/county-attorney/multnomah-county-code>