



Multnomah County Oregon

Board of Commissioners & Agenda

connecting citizens with information and services

BOARD OF COMMISSIONERS

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OCTOBER 28, 29 & 31, 2002

BOARD MEETINGS

FASTLOOK AGENDA ITEMS OF INTEREST

Pg 2	7:00 p.m. Monday Gresham Public Hearing
Pg 2	9:30 a.m. Tuesday Updates on FY 03, FY 04 Budgets, Stakeholder Workshops and BIT
Pg 3	9:00 a.m. Thursday Update on Wapato Jail
Pg 3	9:30 a.m. Thursday AMR Contract Extension
Pg 4	9:45 a.m. Thursday 2nd Readings West of Sandy River Ordinances
Pg 4	10:00 a.m. Thursday 1st Reading Ordinance Re-adopting Land Use Code Sections in Response to Remand Order
Pg 4	10:15 a.m. Thursday OSCP and Homeless Youth Oversight Committee Program Update

Thursday meetings of the Multnomah County Board of Commissioners are cable-cast live and taped and may be seen by Cable subscribers in Multnomah County at the following times:

Thursday, 9:30 AM, (LIVE) Channel 30
Friday, 11:00 PM, Channel 30
Saturday, 10:00 AM, Channel 30
Sunday, 11:00 AM, Channel 30

Produced through Multnomah Community Television

(503) 491-7636, ext. 333 for further info
or: <http://www.mctv.org>

Monday, October 28, 2002 - 7:00 - 9:00 PM
East Multnomah Building, Sharron Kelley Conference Rooms A & B
600 NE 8th Street, Gresham

PUBLIC HEARING

The Multnomah County Board of Commissioners is providing an additional opportunity for public input on the proposed Multnomah County Ordinances listed below. Please fill out a speaker form available at the hearing and present it to the Clerk. Testimony will be limited to three minutes per person.

PH-1 Proposed ORDINANCE Adopting the West of Sandy River Rural Area Transportation and Land Use Plan and Wildlife Habitat and Stream Corridor ESEE Report as Part of the Multnomah County Comprehensive Framework Plan, Zoning Code Chapter 36 as Part of the Multnomah County Code of Ordinances Volume II: Land Use, and Zoning Map Amendments in Continuation of the County Rural Area Planning Program and the Reorganization Efforts of Ordinance Nos. 910 and 953 to Revise, Amend, Restate, Codify and Repeal Certain Existing Code Provisions

PH-2 Proposed ORDINANCE Amending MCC Chapter 29 to Add Grading and Erosion Control and Flood Hazard Regulations Needed to Implement the Policies of the West of Sandy River Rural Area Transportation and Land Use Plan and to Comply with Metro Functional Plan Title 3 Requirements for Water Quality Protection

Tuesday, October 29, 2002 - 9:30 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFINGS

B-1 Fiscal Year 2003 Budget Update; Fiscal Year 2004 Budget, Process and Stakeholder Workshops. Presented by Tony Mounts. 1 HOUR REQUESTED.

B-2 Update on Community Partnership Agreement - County Business Income Tax. Presented by Kathy Turner, Dave Boyer and Invited Guests. 1 HOUR REQUESTED.

Thursday, October 31, 2002 - 9:00 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFING

B-3 Briefing on Wapato Jail Presented by Captain Jay Heidenrich.

Thursday, October 31, 2002 - 9:30 AM
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

REGULAR MEETING

CONSENT CALENDAR - 9:30 AM **NON-DEPARTMENTAL**

- C-1 Appointment of Robert Delf to the Multnomah County COMMUNITY HEALTH COUNCIL
- C-2 Reappointments of M'Lou Christ and Ken Ray to the Multnomah County CITIZEN INVOLVEMENT COMMITTEE

DEPARTMENT OF COUNTY HUMAN SERVICES

- C-3 Budget Modification CHS_05 Adjust Revenues and Expenditures for Addiction Services and Domestic Violence Programs to Bring the Budget in Line with Actual Expenditures and Revenue Agreements; Net Increase of .16 FTE Research Evaluation Analyst (Gambling Prevention Coordinator)

REGULAR AGENDA - 9:30 AM **PUBLIC COMMENT - 9:30 AM**

Opportunity for Public Comment on Non-Agenda Matters. Testimony is Limited to Three Minutes per Person.

DEPARTMENT OF HEALTH - 9:30 AM

- R-1 RESOLUTION Declaring Intent to Extend Agreement for Exclusive Emergency Ambulance Services, Contract No. 200726 with Buck Medical Services, dba American Medical Response, Northwest (AMR) and Authorizing Negotiations for Extension

OFFICE OF SCHOOL AND COMMUNITY PARTNERSHIPS - 9:40 AM

- R-2 NOTICE OF INTENT to Submit an Application to Portland Public Schools to be Listed as an Approved Provider of Supplemental Educational Services to Students Attending SUN High Schools

DEPARTMENT OF BUSINESS AND COMMUNITY SERVICES- 9:45 AM

- R-3 Second Reading and Possible Adoption of an ORDINANCE Adopting the West of Sandy River Rural Area Transportation and Land Use Plan and Wildlife Habitat and Stream Corridor ESEE Report as Part of the Multnomah County Comprehensive Framework Plan, Zoning Code Chapter 36 as Part of the Multnomah County Code of Ordinances Volume II: Land Use, and Zoning Map Amendments in Continuation of the County Rural Area Planning Program and the Reorganization Efforts of Ordinance Nos. 910 and 953 to Revise, Amend, Restate, Codify and Repeal Certain Existing Code Provisions
- R-4 Second Reading and Possible Adoption of an ORDINANCE Amending MCC Chapter 29 to Add Grading and Erosion Control and Flood Hazard Regulations Needed to Implement the Policies of the West of Sandy River Rural Area Transportation and Land Use Plan and to Comply with Metro Functional Plan Title 3 Requirements for Water Quality Protection
- R-5 First Reading and Possible Adoption of an ORDINANCE Repealing and Re-Adopting Numerous County Land Use Ordinances in Response to Land Use Board of Appeals Remand Order (LUBA No. 2001-171) and Declaring an Emergency
-

Thursday, October 31, 2002 - 10:15 AM
(OR IMMEDIATELY FOLLOWING REGULAR MEETING)
Multnomah Building, First Floor Commissioners Boardroom 100
501 SE Hawthorne Boulevard, Portland

BOARD BRIEFING

- B-4 Office of School and Community Partnerships and Homeless Youth Oversight Committee Program Update. Presented by Laura M. Bridges, Mary T. Li, Rosie Sizer, Dennis Morrow, Kathy Oliver and Malysa Olivas. 1 HOUR REQUESTED.

AGENDA PLACEMENT REQUEST

Board Clerk Use Only:
Meeting Date: October 29, 2002

Bud Mod #:

Agenda Item #: B-1

Estimated Start Time: 9:30 AM

Date Submitted: 10/23/02

Requested Date: 10/29/02

Time Requested: 60min

Department: DBCS

Division: BSI

Contact/s: Tony Mounts

Phone: 988-4185

Ext.: 84185 I/O Address: 503/4

Presenters: Tony Mounts

Agenda Title: FY03 Budget Update, FY04 Budget – Stakeholder Workshops

NOTE: If Ordinance, Resolution, Order or Proclamation, provide exact title. For all other submissions, provide clearly written title.)

Please answer all relevant questions; leave others blank. Please do not alter form.

1. What action are you requesting from the Board? What is the department/agency recommendation?

Information only. No action required.

2. Please provide sufficient background information for the Board and the public to understand this issue.

Revenues for FY03 have been re-estimated based on the results of FY02, Property Tax assessment information, and 1st quarter receipts from the Business Income Tax and other General Fund revenues. Current estimates point to a FY03 revenue shortfall of approximately \$18 million. A review of current financial conditions and the process to develop a strategy will be discussed.

The FY04 Budget process includes a series of stakeholder workshops in November. Participants will be asked to identify their preferred approach to solving the County's financial problem. The briefing will cover the dates and format for the workshops.

3. Explain the fiscal impact (current year and ongoing).

None.

NOTE: If a Budget Modification or a Contingency Request attach a Budget Modification Expense & Revenues Worksheet and/or a Budget Modification Personnel Worksheet.

If a budget modification, explain:

- ❖ **What revenue is being changed and why?**
- ❖ **What budgets are increased/decreased?**
- ❖ **What do the changes accomplish?**
- ❖ **Do any personnel actions result from this budget modification? Explain.**
- ❖ **Is the revenue one-time-only in nature?**
- ❖ **If a grant, what period does the grant cover?**
- ❖ **When the grant expires, what are funding plans?**

NOTE: Attach Bud Mod spreadsheet (FORM FROM BUDGET)

If a contingency request, explain:

- ❖ **Why was the expenditure not included in the annual budget process?**
- ❖ **What efforts have been made to identify funds from other sources within the Department/Agency to cover this expenditure?**
- ❖ **Why are no other department/agency fund sources available?**
- ❖ **Describe any new revenue this expenditure will produce, any cost savings that will result, and any anticipated payback to the contingency account.**
- ❖ **Has this request been made before? When? What was the outcome?**

If grant application/notice of intent, explain:

- ❖ **Who is the granting agency?**
- ❖ **Specify grant requirements and goals.**
- ❖ **Explain grant funding detail – is this a one time only or long term commitment?**
- ❖ **What are the estimated filing timelines?**
- ❖ **If a grant, what period does the grant cover?**
- ❖ **When the grant expires, what are funding plans?**
- ❖ **How will the county indirect and departmental overhead costs be covered?**

4. Explain any legal and/or policy issues involved.

Reduction proposals for both FY03 and FY04 will impact a range of Board policy objectives. This briefing will review the range of choices the Board will face in the coming months.

5. Explain any citizen and/or other government participation that has or will take place.

Stakeholder workshops will be held during the weeks of November 11th and 18th.

Required Sign Off (NOTE: electronic check indicates approval)

Department/Agency Director ☒ M. Cecilia Johnson

Agenda Review Team ☐ By: (type name of approver) Date:

BOGSTAD Deborah L

From: LINN Diane M
Sent: Wednesday, October 16, 2002 4:52 PM
To: #MULTNOMAH COUNTY ALL EMPLOYEES
Subject: Budget Update

The Board and I have recently received a new forecast from the Budget Office for the current and upcoming fiscal year. Unfortunately, the economic slowdown continues to affect our major General Fund revenues – increasing our budget gap for the 2004 fiscal year to as much as \$30 million and impacting our current year's budget.

I know in my last e-mail to you about the budget, I indicated that we would not be going through a mid-year rebalance. While we will not be going through the “formal” rebalance process, we are compelled to close a gap of about \$18 million for the current fiscal year.

What does this mean? It means that we will have to identify cost savings *now* before the end of the calendar year in order to balance our bottom line. If we are able to identify on-going cost savings this year, it *will* help mitigate next year's projected deficit.

Again, our budget shortfalls are due to a continuing decline in Business Income Tax revenues, underperformance of other revenues and fees and a substantial slow down of property tax growth.

We will not be able to close the gap with one-time savings alone, so we will have to look at potential service reductions - especially those that can be implemented by February 1, 2003. The 5, 10 and 15 percent reduction exercise conducted by departments last month will provide us with a template for discussion. The Board expects to identify a balancing strategy for the current fiscal year by mid December.

As you know, the Board also plans to solicit comment and engage the public in a budget balancing exercise in November to determine community priorities and provide a budget website for the public and employees to access information and provide feedback.

I know closing an \$18 million gap now and a possible \$30 million gap in 2004 seems insurmountable but like the private sector, any on-going cost savings and service reductions we make now will help ease future fiscal challenges. It is not uncommon for an organization our size to face a series of cost controls and measures in a time of economic instability. We can and will get through this in a way that maintains the integrity of this organization, our core services and upholds Multnomah County as a great place to work and serve the community.

Diane M. Linn
Chair

10/17/2002



MULTNOMAH COUNTY OREGON

DEPARTMENT OF BUSINESS
AND COMMUNITY SERVICES

BUDGET & SERVICE IMPROVEMENT

MULTNOMAH BUILDING
501 SE HAWTHORNE BLVD, 4th FLOOR
PO BOX 14700
PORTLAND OR 97293-0700

PHONE (503) 988-5000
FAX (503) 988-3048
TDD (503) 988-5170

Memorandum

To: Cabinet Members
From: Tony Mounts, Director of Budget & Service Improvement
Subject: FY03 Budget Status
Date: October 18, 2002

Current Status

The Budget Office has updated revenue estimates for the FY03 Budget. Unfortunately, the economic slowdown continues to affect our major General Fund revenues. Overall, we project that revenue will be about 6.5% below the level needed to fully fund the adopted budget. This translates into about \$18,000,000 less than needed. The table below identifies the major changes with brief explanations following.

FY03 Adopted Budget October 2002 Revenue Estimate			
	FY02-03 Adopted	FY02-03 Estimate	Difference
General Fund Revenue			
1 Beginning Fund Balance	\$15,480,000	\$11,200,000	(\$4,280,000)
2 Property Tax	182,473,000	176,201,000	(6,272,000)
3 Business Income Tax	29,635,000	25,190,000	(4,445,000)
4 Motor Vehicle Rental Tax	12,547,000	11,523,000	(1,024,000)
5 SB1145 Reimbursement	10,281,000	10,281,000	0
6 A&T	8,774,000	8,549,000	(225,000)
7 Service Reimbursements	13,155,000	13,155,000	0
8 State Shared Revenue	6,627,000	6,627,000	0
9 Fed Detention Reimbursement	5,288,000	5,288,000	0
10 Interest	4,500,000	3,850,000	(650,000)
11 Health Inspections & EMS	2,875,000	2,675,000	(200,000)
Subtotal - Major Sources	291,635,000	274,539,000	(17,096,000)
12 All Other Revenue	12,779,000	11,950,000	(829,000)
Total Revenue	\$304,414,000	\$286,489,000	(\$17,925,000)

1. **Beginning Fund Balance** – Down approximately \$4.3 million. At yearend FY01-02 revenue was about \$5.3 million lower than estimated during the rebalance process. BIT, Motor Vehicle Rental fees and Interest earnings were all lower than estimated. While some departments spent less than their targets, it was not enough to offset lost revenue.
2. **Property Taxes** – Down \$6.3 million. The FY03 Budget assumed property value growth of approximately 4%. The tax rolls have been set and actual growth is about 1.5%. This is the lowest value growth since the recession in the early 80's.

3. **Business Income Tax (BIT)** – Estimated to be down \$4.4 million. The budget assumed a modest decline (-2%). However, FY02 BIT was -11.7% below FY01 and the first quarter receipts in this fiscal year are 10% below first quarter last year. The consensus among local economists is that the region has yet to experience the bottom of this business cycle. The FY03 estimate assumes BIT will be 15% below the Adopted Budget.
4. **Motor Vehicle Rental Tax** – Down \$1 million. Airport activity has slowed due to the recession.
5. **Others** – minor adjustments include an anticipated drop in State support for Assessment & Taxation; lower interest earnings, and other revenues where a preliminary review of last year's actuals suggest the amount in the Budget may be optimistic.

General Fund revenues will be reviewed again in mid-January, after the 2nd Quarter. At that point we'll have a better understanding of how the BIT is trending.

The only major change in expenditure assumptions is the reduction to the Library transfer, as this amount is directly tied to available property taxes. At this point, no assumption has been made regarding State funding cuts.

FY04 General Fund Forecast

These revisions impact the forecasted deficit for FY04 in two ways. First, the base from which growth is projected is lower because we anticipate less revenue this year. Second, our assumptions about the rate of growth have changed to incorporate the ongoing economic stagnation. This combination of factors increases our projected deficit from \$20 million to about \$30 million.

Managing the FY03 Shortfall

In order to maintain our current General Fund Reserves, we must reduce expenditures by at least \$18 million. If shared equally among General Fund programs, this would require that departments spend no more than 92% of their FY03 appropriation. Attachment #1 identifies the savings targets for General Fund operations.

This approach reflects the same methodology used for the FY04 reduction process. It incorporates the fact that certain expenditures can't be reduced (debt service, intergovernmental agreements, Library transfer) and that other programs (Finance, Human Resources, Budget & Service Improvement, Auditor, Public Affairs, Chair's Office, and Board) support the entire operations, not just the General Fund. As such, their targets reflect the ratio of the General Fund to all operations and ensure sufficient resources to support the remaining services.

Next Steps

It is unlikely that FY03 spending targets can be met through one-time savings alone. In light of the FY04 forecast, service reductions must be considered, especially those that can be implemented starting January 1, 2003. The Chair's Office has agreed on the following steps to craft a strategy to rebalance the FY03 Budget which will also assist in balancing the FY04 budget.

1. October 21 – Cabinet meeting outlining the problem and approach. The Chief of Staff will discuss the range and type of reductions to be included in an FY03 strategy.

2. By October 31 – Meetings by service area with the Chief of Staff, Chief Operating Officer and Budget Director. Department heads and their lead budget person should come to the meeting prepared to identify the how much of their spending target can be met through one-time savings like vacancies and contracts. For the remainder, a draft set of coordinated reductions for service areas will be developed. The starting point for discussion will be the reduction ideas developed for the stakeholder workshops and discussed at the Cabinet retreat.
3. By November 7 – Based on the meetings, departments will prepare reduction packages and submit them to Budget Office. The target for service reductions is January 1.
4. November 11 – FPAC will review the packages to identify cross department issues and potential administrative reductions.
5. By November 15 – Chair's Office review
6. November 18 – Cabinet review and recommendation
7. December 3 – Board worksession on key issues
8. December 10 – Presentation of data from Stakeholder workshops
9. December 15 – Strategy for FY03 Budget, Chair direction on FY04

I want to acknowledge the hard work of your staff in preparing for the Cabinet retreat and upcoming workshops. I've appreciated all the assistance. While much work remains, the information prepared in the past few weeks provides a solid foundation for work which must be accomplished quickly.

cc: Chair Diane Linn
County Commissioners
Kathy Turner, Chief of Staff
John Ball, Chief Operating Officer
Board Staff
Budget Office

ATTACHMENT # 1

Estimate Budget Reduction by Department

Assume FY 02-03 Revenue @ \$18 Million Less Than Budgeted

	Adopted Budget	less "Commitments"	Budget less "Commitments"	Apply Reduction Factor	Target Spending	% Reduction from Adopted Budget	% Reduction from Budget less "Commitments"
NonD	\$ 13,341,000	\$ 10,926,000	\$ 2,415,000	\$ 185,000	\$ 13,156,000	1.39%	7.65%
Business & Community	37,097,000	13,196,000	23,901,000	1,829,000	35,268,000	4.93%	7.65%
Subtotal - General Government	\$ 50,438,000	\$ 24,122,000	\$ 26,316,000	\$ 2,014,000	\$ 48,424,000		
OSCP	\$ 16,746,000	\$ 386,000	\$ 16,360,000	\$ 1,252,000	\$ 15,494,000	7.48%	7.65%
Human Services	20,863,000	4,047,000	16,816,000	1,287,000	19,576,000	6.17%	7.65%
Health	41,446,000	2,070,000	39,376,000	3,013,000	38,433,000	7.27%	7.65%
Subtotal - Health & Human Services	\$ 79,055,000	\$ 6,503,000	\$ 72,552,000	\$ 5,552,000	\$ 73,503,000		
District Attorney	\$ 14,785,000	\$ 1,008,000	\$ 13,777,000	\$ 1,054,000	\$ 13,731,000	7.13%	7.65%
Community Justice	41,649,000	4,098,000	37,551,000	2,873,000	38,776,000	6.90%	7.65%
Sheriff	88,337,000	3,304,000	85,033,000	6,507,000	81,830,000	7.37%	7.65%
Subtotal - Public Safety	\$ 144,771,000	\$ 8,410,000	\$ 136,361,000	\$ 10,434,000	\$ 134,337,000		
Total - Entire General Fund	\$ 274,264,000	\$ 39,035,000	\$ 235,229,000	\$ 18,000,000	\$ 256,264,000	6.56%	7.65%

Note:

Adopted Budget totals do not include Library, General Fund Reserve and Contingency.

General Fund Forecast Summary

10/11 Revision Based on Year End Review and Actual Property Value Growth

GF Revenue	Adopted FY 02-03	Forecast FY 02-03	Difference FY 02-03	9/6 Forecast FY 03-04	10/11 Forecast FY 03-04	Difference FY 03-04
BWC	\$ 15,480,000	\$ 11,200,000	\$ (4,280,000)	\$ -	\$ -	\$ -
Property Taxes	182,473,000	176,201,000	(6,272,000)	187,794,000	183,293,000	(4,501,000)
BIT	29,635,000	25,190,000	(4,445,000)	29,000,000	25,075,000	(3,925,000)
Motor Vehicle Rental Tax	12,547,000	11,523,000	(1,024,000)	12,214,000	12,098,000	(116,000)
SB1145 Reimbursement	10,281,000	10,281,000		10,250,000	10,250,000	
Assessment & Taxation	8,774,000	8,549,000	(225,000)	8,528,000	8,953,000	425,000
Service Reimbursments	13,155,000	13,155,000		7,744,000	7,355,000	(389,000)
State Shared Revenue	6,627,000	6,627,000		6,857,000	7,095,000	238,000
Fed Detention Reimbursement	5,288,000	5,288,000		5,288,000	5,288,000	
Interest	4,500,000	3,850,000	(650,000)	3,675,000	3,675,000	
Health Inspections and EMS	2,875,000	2,675,000	(200,000)	2,981,000	2,889,000	(92,000)
Subtotal - Major Sources	291,635,000	274,539,000	(17,096,000)	274,331,000	265,971,000	(8,360,000)
All Other GF	12,779,000	11,950,000	(829,000)	11,518,000	11,200,000	(318,000)
Total - General Fund	\$ 304,414,000	\$ 286,489,000	\$ (17,925,000)	\$ 285,849,000	\$ 277,171,000	\$ (8,678,000)

GF Expenditures	Adopted FY 02-03	Forecast FY 02-03	Difference FY 02-03	9/6 Forecast FY 03-04	10/11 Forecast FY 03-04	Difference FY 03-04
Nondepartmental	13,341,000	13,341,000		14,613,000	14,613,000	
District Attorney	14,785,000	14,785,000		15,776,000	15,776,000	
School/Community	16,747,000	16,747,000		17,007,000	17,007,000	
Human Services	20,863,000	20,863,000		18,581,000	18,581,000	
Health	41,446,000	41,446,000		43,667,000	43,667,000	
Community Justice	41,649,000	41,649,000		43,764,000	43,764,000	
Sheriff's Office	88,337,000	88,337,000		94,134,000	94,134,000	
Business & Community	37,096,000	37,096,000		37,659,000	37,659,000	
Library	18,182,000	17,625,000	(557,000)	18,780,000	18,330,000	(450,000)
Overall County	11,968,000	11,968,000		2,100,000	2,100,000	
Total - General Fund	\$ 304,414,000	\$ 303,857,000	\$ (557,000)	\$ 306,081,000	\$ 305,631,000	\$ (450,000)

Ongoing Excess/(Deficit)	\$ -	\$ (17,368,000)			\$ (28,460,000)
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BOGSTAD Deborah L

From: SMITH Andy J
Sent: Tuesday, October 22, 2002 3:43 PM
To: #MULTNOMAH COUNTY ALL EMPLOYEES
Subject: Community Budget Workshops: November 13, 14, 19, 20



budpost.gif (67 KB)

Balancing Multnomah County's Checkbook
YOUR COUNTY, YOUR SERVICES
FY 2003-2004 Budget Workshops

Co-Hosted by:

- Chair Diane Linn's Office
- Caring Community Initiative
Latino Network
APANO
- Multnomah County Office of
Citizen Involvement

Wednesday, November 13, 2002, 6 - 9 pm
First United Methodist Church
1838 SW Jefferson (SW 18th and Jefferson, Goose Hollow Max Stop)
Remarks from Commissioner Rojo de Steffey

**Thursday, November 14, 2002, 6 - 9 pm
Multnomah County East Building
600 NE 8th St., Gresham (Near Max-Line, Downtown Gresham)
Remarks from Commissioner Roberts

**Tuesday, November 19, 2002, 6 - 9 pm
Kaiser Town Hall
3704 N Interstate Ave. (Cross street is N. Overlook)
Remarks from Commissioner Cruz

Wednesday, November 20, 2002, 6 - 9 pm
Brentwood Darlington Community Center
7211 SE 62nd Ave. (Just south of Brentwood Park)
Remarks from Commissioner Naito

**Spanish Language Services Provided
Additional Language Services Available Upon Request

Interactive Public Budget Planning Workshops (Healthy Snacks and
Childcare Provided at each Workshop)

Please join us to learn more about county services and participate in
small group interactive budget balancing exercises. The county
continues to face serious budget challenges as revenue dollars decline.

Give input on how to allocate limited tax dollars for a variety of
county services such as: jails, mental health, domestic violence,
seniors, healthcare, animal services, downtown bridges, courts,
alcohol-drug treatment, and school based services.

These workshops will include a 15-minute information session on county services and the budget as well as a discussion of alternative budgets.

For more information, we welcome your comments and suggestions, please contact:

Andy Smith, Office of Chair Diane M. Linn,
email: andy.j.smith@co.multnomah.or.us or phone 503-988-5772

BOGSTAD Deborah L

From: LINN Diane M
Sent: Monday, October 28, 2002 8:59 AM
To: #MULTNOMAH COUNTY ALL
Subject: Budget Message from Chair Linn

I plan to provide you with a weekly update on the budget process. To remain true to our systems-wide approach, we will address our budget challenge by looking across programs and departments to determine impacts - including unintended consequences - to the County's *overall*, integrated systems of care.

We're beginning the thoughtful, comprehensive planning process this week. On Friday we brought together the public safety service groups to look at reduction ideas impacts and begin to build a sustainable, comprehensive package that maintains our long-term fiscal health and critical services. The health and human and general service groups will meet next week.

The services groups and the Budget Office will be working with the information generated from the 5, 10 and 15% reduction exercise and bringing new and creative on-going cost saving ideas as well as one time savings to the table. On November 4, the draft proposals for service areas will be brought to the Cabinet for further discussion.

The draft proposals are a starting point. We will continue to refine, make adjustments and incorporate community and additional internal suggestions throughout the month of November.

The community workshops in November will provide us with primarily thematic direction and priorities. You can view detailed information about the workshops on the budget site at: <http://www.co.multnomah.or.us/cc/budget/>. Over the course of the next few weeks we will be offering additional budget information and an interactive on-line budget exercise on the web. I encourage all employees to participate in the exercise. The information and feedback generated from the web and community meetings will be folded in to the work we are doing internally and a briefing to the Board on the feedback received is scheduled for December 10.

Again, the more on-going cost savings we're able to implement now, the less the budget gap will be for next year. Since we don't anticipate a significant upswing in the economy for some time, the decisions we make now and in Fiscal Year 04 will help us bridge the gap and mitigate future fiscal challenges. Any one-time savings identified this year will be implemented immediately and we'll be looking to phase in on-going reductions over January and February of 2003.

If you have any questions about this process please contact my office at 503-988-3308 and we will be glad to answer any questions you may have. As always,

10/28/2002

I appreciate the hard work of County employees and our community partners during this challenging time

Chair Diane M. Linn

10/28/2002

ECONorthwest

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Wednesday, October 23, 2002

Mr. Tony Mounts
Director of Budget & Service Improvement
Multnomah County Department of Business and Community Services
501 SE Hawthorne Blvd, 4th Floor
Portland, OR 97293-0700

Dear Tony:

Thank you for bringing Mark Campbell and Karyne Dargan by our offices last Friday to discuss the revenue forecasting process for Multnomah County. This meeting aided significantly our understanding and review of your forecasting process, as requested per your prior engagement letter.

It is my opinion that your forecasting methods and the qualitative direction of your recent forecasts represent good, agency forecasting practice. The last two years, in particular, have been difficult environments for those of us engaged in economic and tax revenue forecasting because difficult-to-anticipate factors have dominated traditional economic relationships. Not the least among these factors are the events of September 2001, the state and local effects of the stock market declines in spring of 2000, and idiosyncratic local business dislocations.

It is also my opinion that the Portland region will have a particularly difficult time for the next two years recovering from the perturbations represented by these events. Because of the nature of the two, primary revenue instruments upon which the County of Multnomah depends, I believe that it is prudent to anticipate a slow return to historic revenue growth trends.

In the remainder of this letter, I offer some modest suggestions for improving the existing revenue forecasting process and some elaboration of my opinion about near-term revenue growth prospects.

Revenue Forecasting Process Improvements

Mark Campbell was kind enough to provide me with a CD containing the key, recent forecasting data and documents. These documents and the discussion in our offices lead me to conclude that the existing process analyzes and properly respects the key factors that affect the property tax (PT), business income tax (BIT) and State revenue subventions (SRS) that constitute the main elements of the County's revenues. The following are some procedures that might further improve the County revenue forecasting process:

1. General Model Formalization. Forecasting at the scale of a single county is plagued by the handicaps of short data histories and the relative importance of idiosyncratic events (e.g., plant closures). Consequently, I would not recommend unalloyed reliance on statistical forecasting models because of their implicit data demands and high noise levels in small geographic settings. However, somewhat greater development and use of such models may aid in benchmarking and quantifying core revenue trends and relationships; the effects of idiosyncratic events can then be better seen and scaled against these benchmarks. In addition, properly formulated, formal models may help better integrate the effect of constraints on forecasts, such as the impact on PT revenue growth of urban renewal districting policies, Measures 5 and 50, etc.
2. Additional Information Sources. There are some information inputs to the forecasting process that might usefully be investigated in addition to those already used in the forecasting process. In the realm of PT revenue forecast, for example, the future demand for various property classes (industrial, commercial, apartments, etc.) in Portland is routinely examined by a number of investment managers and analysts.¹ Prudent use of these external analyses might benefit the PT revenue forecasts. Similarly, relative trends in net in-migration and residential real estate activity indices (days-on-market, housing starts, etc.) might provide some leading indication of trends in the value of the residential property base.

In the BIT arena, useful insights on future business income prospect might be garnered by integrating certain, forward-looking stock market indicators by industry sector with information on the industry composition of the County's business base. Similarly, although it apparently has not proved useful in the past, further statistical exploration of the relationship between County business income trends and State data on corporate quarterly tax reporting may be useful.

In the area of SRS and social services revenue analysis, it may be prudent to investigate further the forecasts by ODAS staff and others of prison populations, criminality trends, and broader social services trends. I am not personally particularly expert in these areas, but Mr. John Tapogna in our office indicated to me that there are on-going state and federal analyses of such trends that may be of use in formalizing this element of the County revenue forecasting process.

¹ Some that immediately come to mind are Pension Consulting Alliance, REIS, Rosen Consulting, and Grubb & Ellis.

3. Peer Review. I concur with J. Mark Campbell's suggestion that a periodic, peer review of the forecast by area economists² would be helpful to the County revenue forecasting process. Mr. Campbell also could ask to attend the Oregon Governor's Council of Economic Advisors pre-meetings, which generally occur quarterly in Portland. These peer review opportunities may help identify overlooked factors or trends, and give comfort to policy makers relying on the County revenue forecast.

Comments on the General Outlook for County Revenues

Although I cannot speak *quantitatively* to the current revenue forecast's reliability, I concur completely with your staff's qualitative view that the prospects for rapid recovery of the County's revenue prospects are relatively bleak. I reach this conclusion based on the following information:

1. Our firm operates a forecasting model for the 4- and 6-county metro area, linked to national and adjacent-state (California and Washington) forecasts. This model is suggesting at this time a slow recovery of the Portland economy to pre-recession levels.
2. The region is suffering from the coincidence of numerous cyclical factors that conspire to keep our regional outlook weaker than would otherwise be expected. These include:
 - a. Greater-than-average reliance on trade in general, and Asian trade in particular, both of which promise to be weak because of continued overseas economic weakness, especially in Japan. This effect has been exaggerated recently, further, due to the western port work slowdowns and lockouts.
 - b. Greater-than-average reliance on high-technology sectors, which traditionally recover after general business investment sentiment recovers.
 - c. High vacancy rates in key real estate sectors, such as Class A and B office and hotels, which will delay additional real estate investment activity.
 - d. Recent losses or bankruptcies of important, regional employers.
3. These cyclical factors are overlaid upon a number of adverse, secular trends affecting the regional economy:

² Some key area economists outside of our own firm include Ham Nguyen (PGE), Dr. Bill Conerly (Conerly Consulting), Dr. John Mitchell (US Bank), Dennis Yee (Metro), and Ralph Shaw (Shaw Investment Partners).

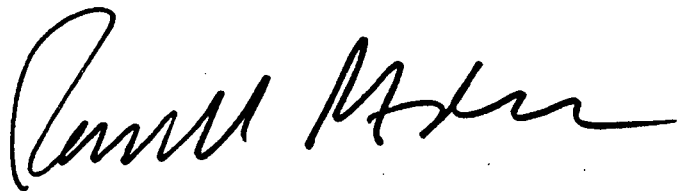
October 23, 2002

— Page 4 —

- a. The relative, and increasing, ease with which BIT tax burdens can be avoided tax-management of net corporate income. This prospect has become greater over time as Portland has lost larger businesses whose flexibility is somewhat less in this regard.
- b. Fiscal drag at the state level arising out of numerous factors including (a) the cycle-exaggerating effect of the primary state revenue device (a progressive-rate income tax), (b) the associated failure to adequately build reserves when this device produced exaggerated revenues during the 1990s, (c) a large, unfunded liability of the OPERS that will impose long-term future fiscal drag and/or require public service reductions, and (d) ballot and policy initiatives that raise the possibility of temporary marginal income tax increases, payroll tax increases, minimum wage increases or imposition of a sales tax—all of which would be growth-retarding.
- c. The likely continuation of a national trend of cost-cutting corporate consolidation and its disproportionate effect on small, regional economies like Portland's.
- d. The perception that Portland's growth management policies have resulted in inadequate supply of land for industrial and residential development. This reduces prospects for stimulating in-migration of households or firms and strong PT stimulus.
- e. National policies regarding natural resources such as fisheries, forests, and endangered species are affecting our state disproportionately.

I hope that these comments are responsive to your request for our assistance in reviewing County revenue forecasting methods.

Very truly yours,

A handwritten signature in black ink, appearing to read "Randall J. Pozdena". The signature is fluid and cursive, with a large initial "R" and a long, sweeping underline.

Randall J. Pozdena, PhD
Managing Director



Multnomah County Board of Commissioners

Budget Update

October 29, 2002

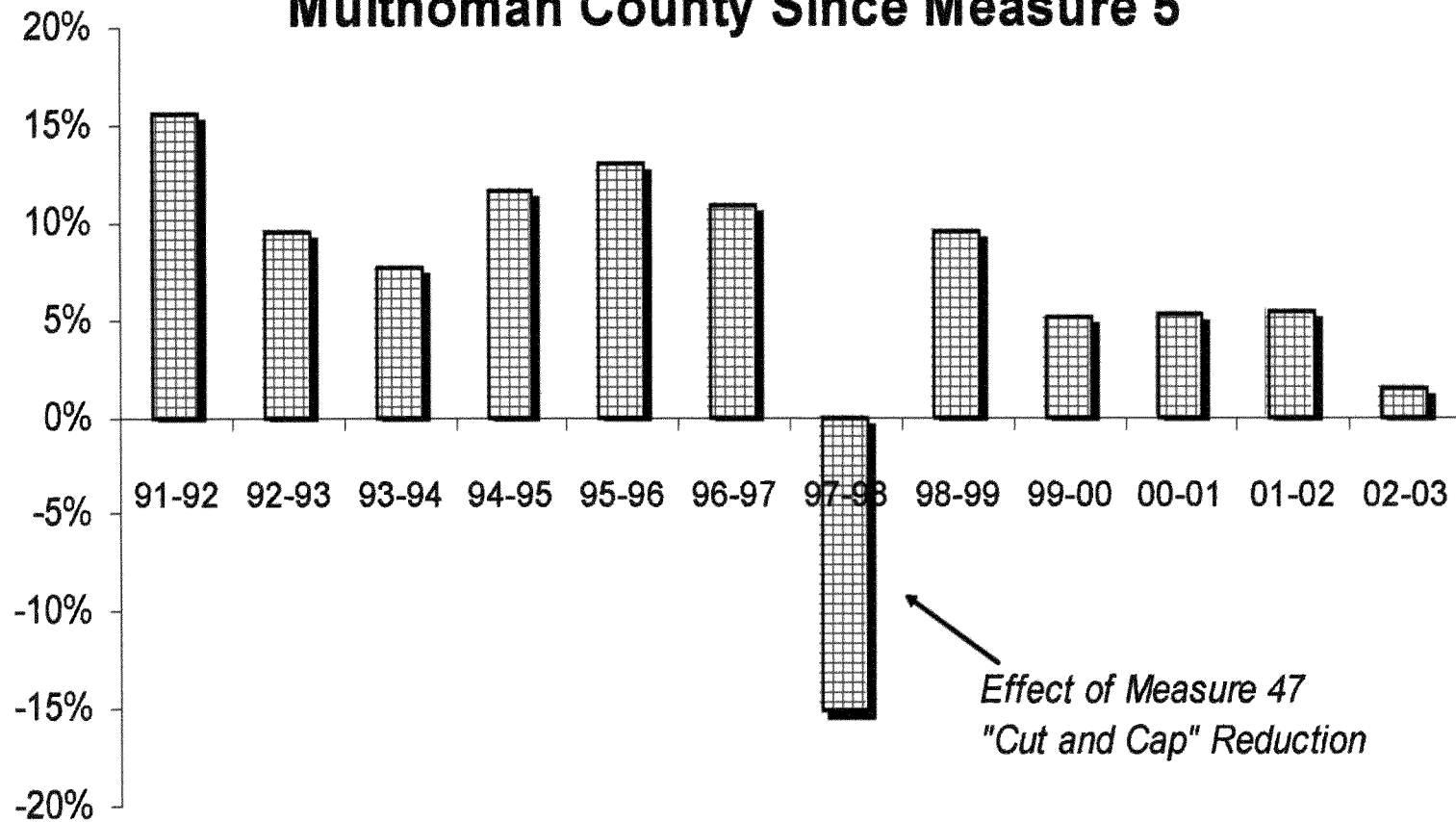
Topics

- ☐ Financial Status
- ☐ Budget Process
 - ☐ Overall
 - ☐ Workshops
- ☐ FY03 Rebalance

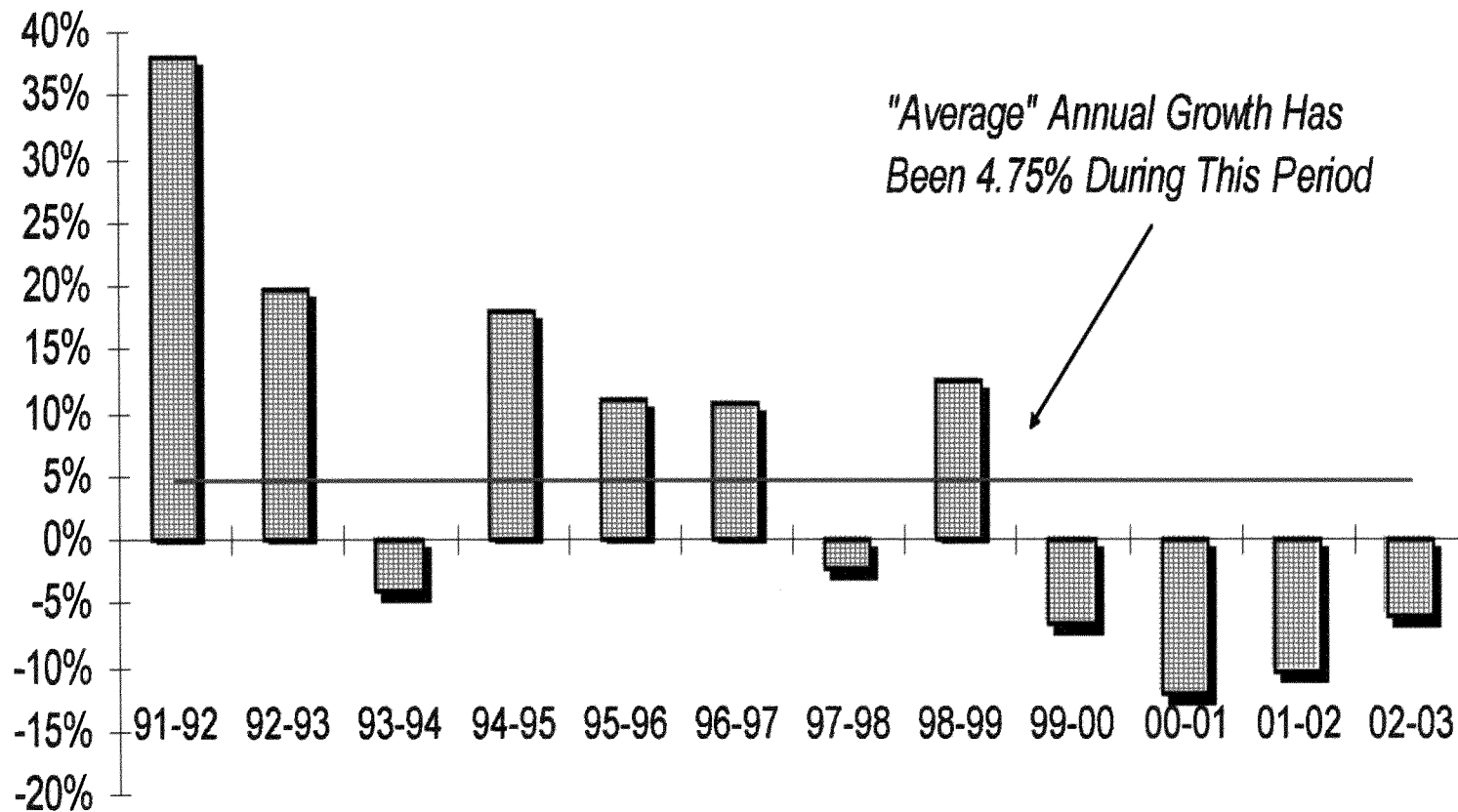
Financial Status

- FY03 Beginning Fund Balance (\$4.3m)
 - BIT, Motor Vehicle Rental, Interest
- Property Tax (\$6.3m)
 - Value growth + 1.5% vs 4% in budget
- BIT (\$4.4m)
 - 11% drop in FY02
 - 1st Q FY03 10% below 1st Q FY02
- Motor Vehicle & Others (\$3.0m)
- Bottom Line =
 - FY03: \$18 million gap
 - FY04: \$30 million gap

% Change in Taxable Value Multnomah County Since Measure 5



% Change in Annual BIT Collections



Outlook

- Slow Recovery
 - Overseas Trade – weakness in Asia
 - Reliance on high-tech – lagging investment
 - High vacancy rates
 - Losses & bankruptcies of regional employers
- Other Factors
 - BIT tax avoidance
 - State fiscal issues
 - Corporate consolidations
 - Land Supply
 - Federal natural resource policies

FY04 Budget Process

- ☐ Setting Direction
 - ☐ September – December
- ☐ Budget Development
 - ☐ Department Submittal – Dec – early Feb
 - ☐ Chair Proposal – Feb – April
- ☐ Review & Adoption
 - ☐ May - June

Setting Direction

- ☐ Focus on Community Workshops
 - ☐ Budget Exercise
 - ☐ Reduction Choices
 - ☐ Educate and inform about broad impacts
- ☐ Steps
 - ☐ Prepare 5-30% reduction choices
 - ☐ Cabinet retreat
 - ☐ Hold Workshops
 - ☐ Web Exercise
 - ☐ Present Report

Key Dates

☐ FY04 Budget

- ☐ Workshops
11/13,14,19,20
- ☐ Key Issues interviews
11/5-16
- ☐ Key Issues Discussion
12/3
- ☐ Workshop Data Report
12/10

☐ FY03 Rebalance

- ☐ Reduction proposals
10/25-11/1
- ☐ Review 11/4-30
- ☐ Public Hearing 12/12
- ☐ Action on BudMod
12/19

Workshops

- ☐ 11/13 – First United Methodist Church
- ☐ 11/14 – Multnomah Co. East
 - ☐ Spanish Language Svs
- ☐ 11/19 – Kaiser Town Hall
- ☐ 11/20 – Brentwood Darlington Comm Ctr
- ☐ Childcare & snacks provided



Post-Workshop Report

Examples

Hypothetical data only

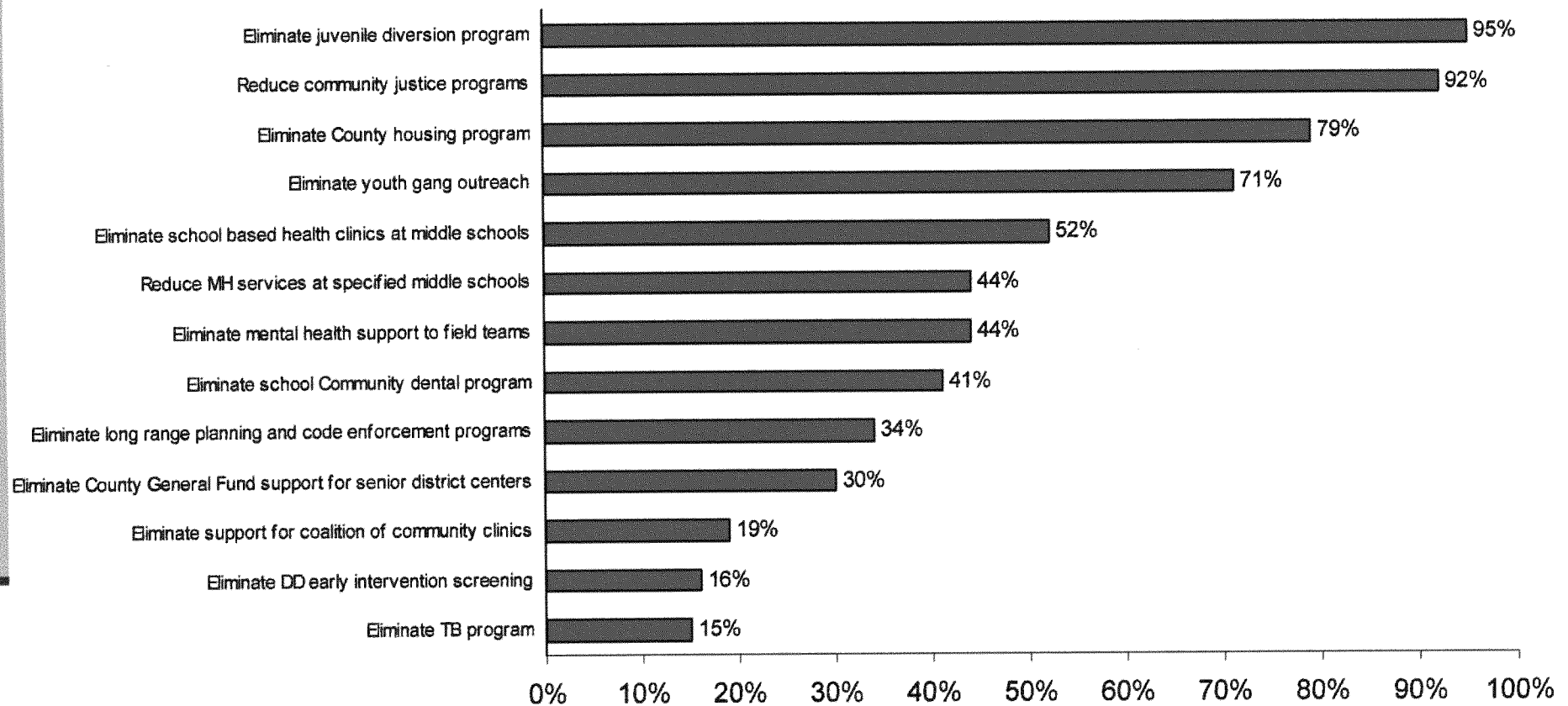
Percent of Stakeholder Workshop Groups and Website Respondents Selecting Each Proposed Reduction

(Sorted by Stakeholder Workshop respondents)

Proposed reduction	General Fund Savings	Percent of groups or respondents choosing this proposal	
		Stakeholder Workshops	Website Respondents
Eliminate juvenile diversion program	\$604,000	95%	89%
Reduce community justice programs	\$280,000	92%	91%
Eliminate County housing program	\$100,000	79%	89%
Eliminate youth gang outreach	\$355,000	71%	71%
Eliminate school based health clinics at middle schools	\$768,000	52%	62%
Reduce MH services at selected middle schools	\$415,000	44%	52%
Eliminate mental health support to field teams	\$245,000	44%	36%
Eliminate school Community dental program	\$726,000	41%	44%
Eliminate long range planning and code enforcement programs	\$190,000	34%	26%
Eliminate County General Fund support for senior district centers	\$597,000	30%	25%
Eliminate support for coalition of community clinics	\$158,000	19%	24%
Eliminate DD early intervention screening	\$147,000	16%	2%
Eliminate TB program	\$933,000	15%	8%

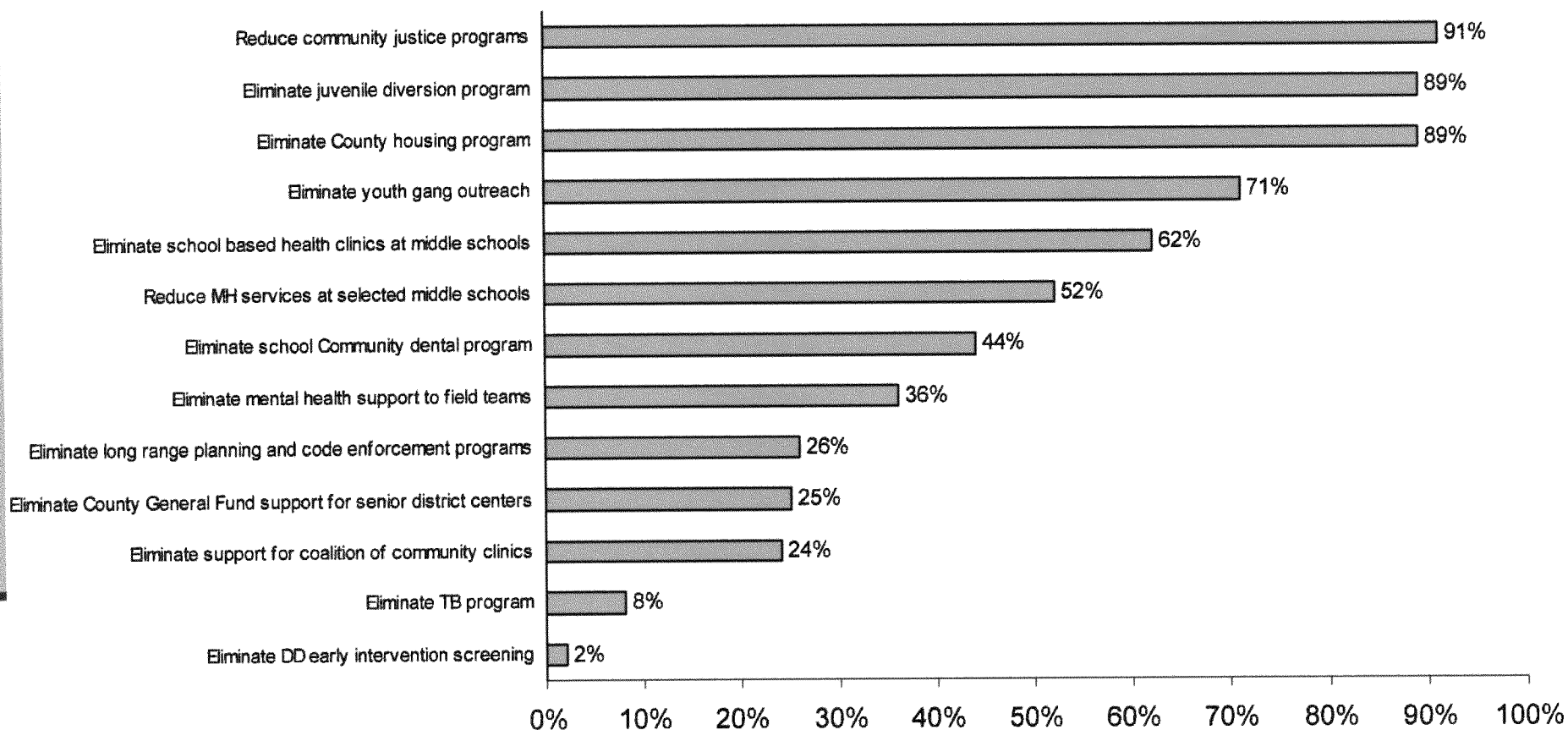
Hypothetical data only

Percent of Stakeholder Workshop Groups Selecting Each Proposed Reduction



Hypothetical data only

Percent of Website Respondents Selecting Each Proposed Reduction

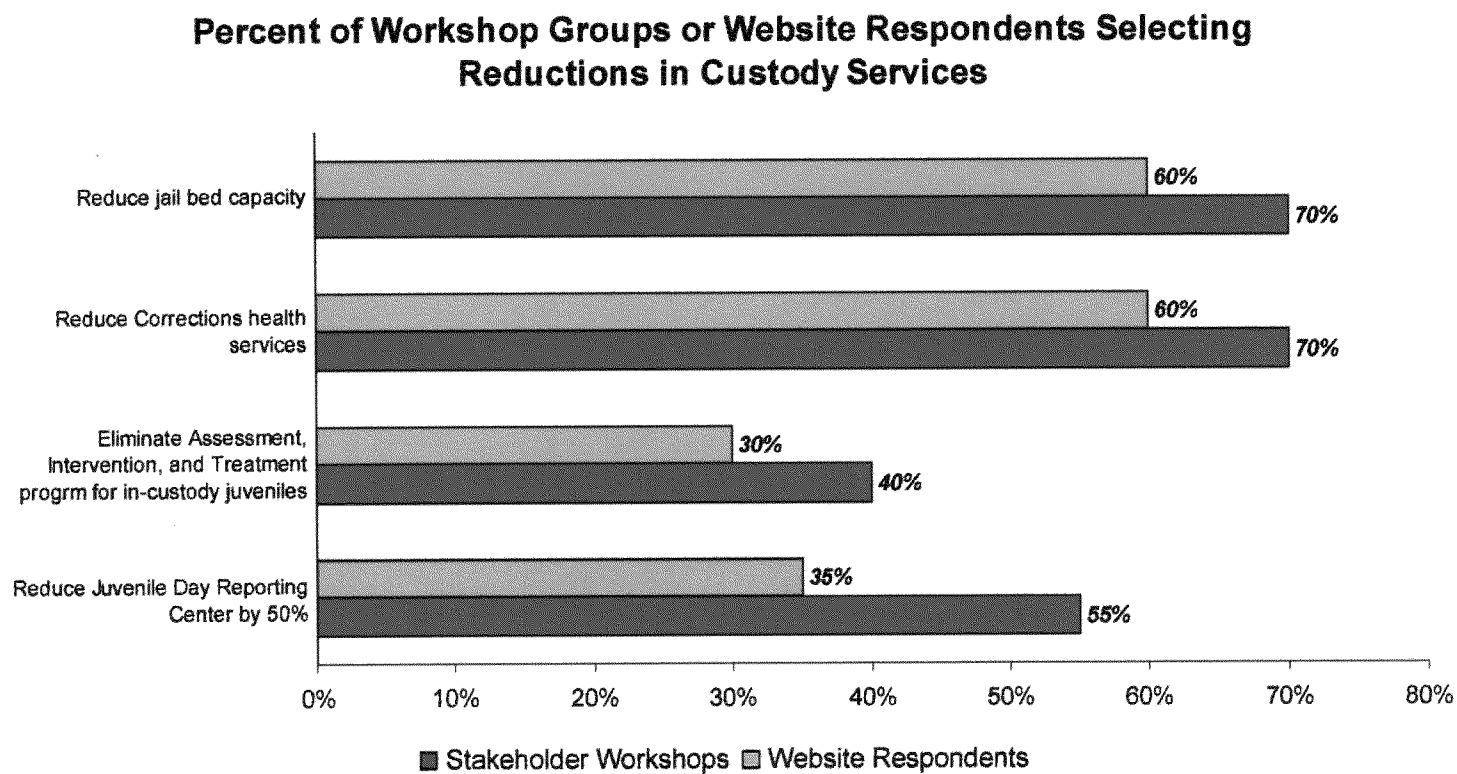


Hypothetical data only

Respondents Adopting Specific Program Reductions: Custody Services

Proposed reduction	General Fund Savings	Percent of respondents or groups choosing this proposal	
		Stakeholder Workshops	Website respondents
Reduce Juvenile Day Reporting Center by 50%	\$200,000	55%	35%
Eliminate Assessment, Intervention and Treatment program for in-custody juveniles	\$140,000	40%	30%
Reduce Corrections health services	\$1,000,000	70%	60%
Reduce jail bed capacity	\$4,250,000 per 100 beds	70%	60%

Hypothetical data only



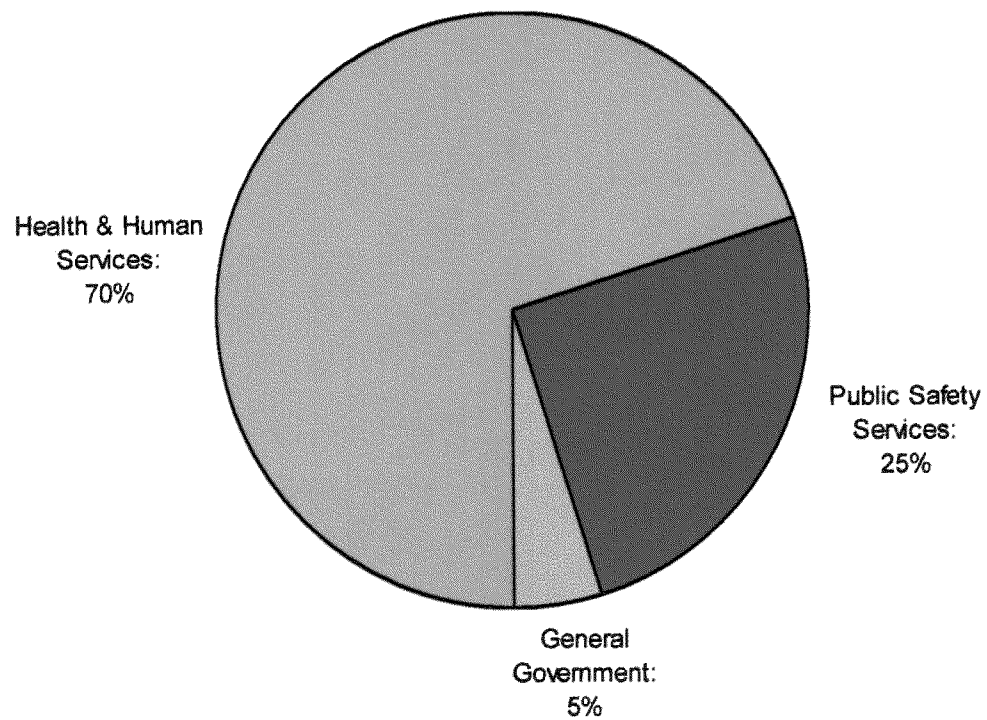
Hypothetical data only

Average Recommended Budget Reductions from Stakeholder Workshops and Website Respondents, by Service Area

	Stakeholder Workshops (n = 400)		Website Respondents (n = 2,500)	
	Dollars (000's)	Percent	Dollars (000's)	Percent
Health & Human Services	\$14,000	70%	\$15,025	75%
Senior Services	x,xxx	x%	x,xxx	x%
Housing & Homeless Services	x,xxx	x%	x,xxx	x%
Developmental Disabilities	x,xxx	x%	x,xxx	x%
Mental Health Services	x,xxx	x%	x,xxx	x%
Community Health/Clinical Svcs	x,xxx	x%	x,xxx	x%
At Risk Teens	x,xxx	x%	x,xxx	x%
Public Safety	\$5,075	25%	\$4,075	20%
Prosecution	500	3%	500	3%
Family & Community Justice	175	1%	100	1%
Sentencing Alternatives	200	1%	200	1%
Custody Services	4,000	20%	3,000	15%
Offender Treatment	200	1%	275	1%
Domestic Violence	0	0%	0	0%
General Government	\$925	5%	\$900	5%
Animal Control	x,xxx	x%	x,xxx	x%
Elections	x,xxx	x%	x,xxx	x%
Housing	x,xxx	x%	x,xxx	x%
Land Use Planning	x,xxx	x%	x,xxx	x%
Total	\$20,000	100%	\$20,000	100%

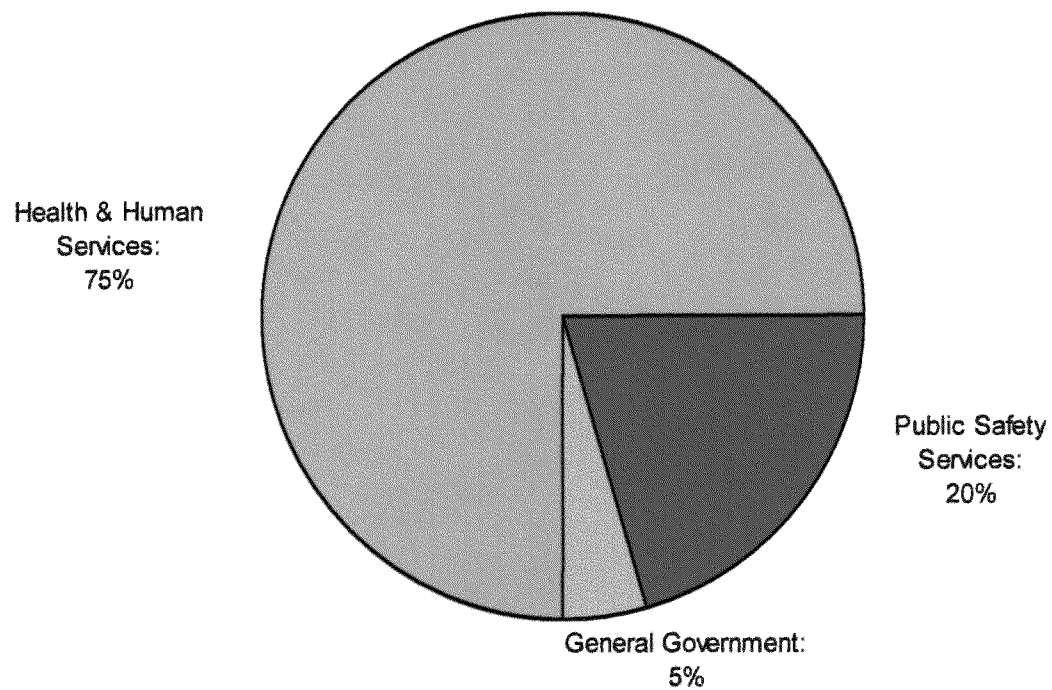
Hypothetical data only

**Percent of Average Recommended Budget Reductions by
Service Area: Stakeholder Workshops**



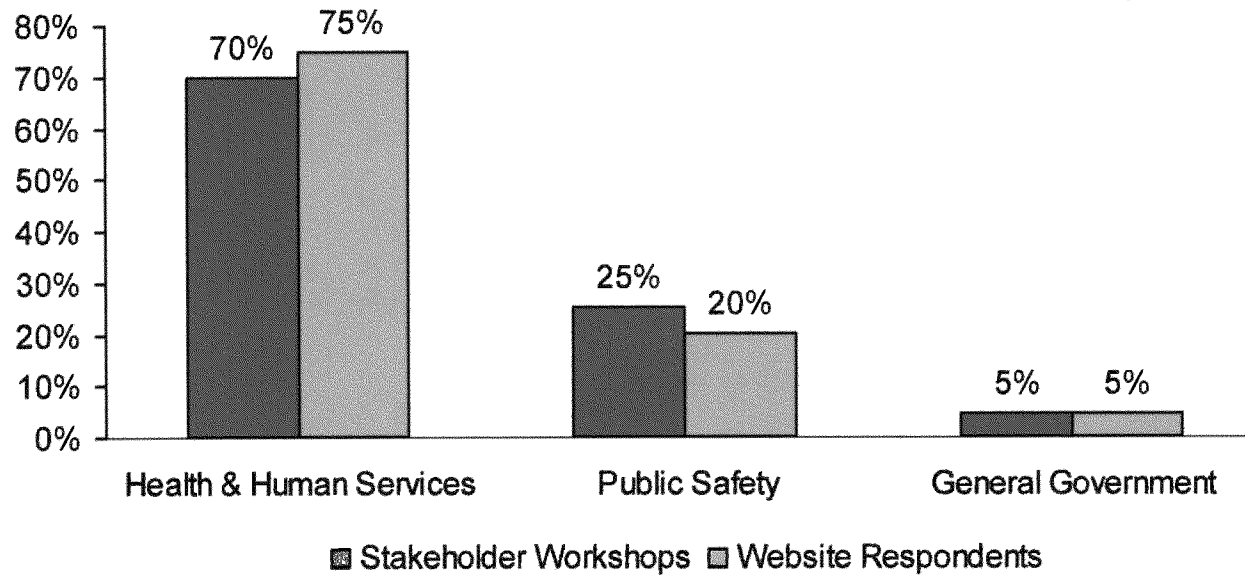
Hypothetical data only

**Percent of Average Recommended Budget Reductions by
Service Area: Website Respondents**



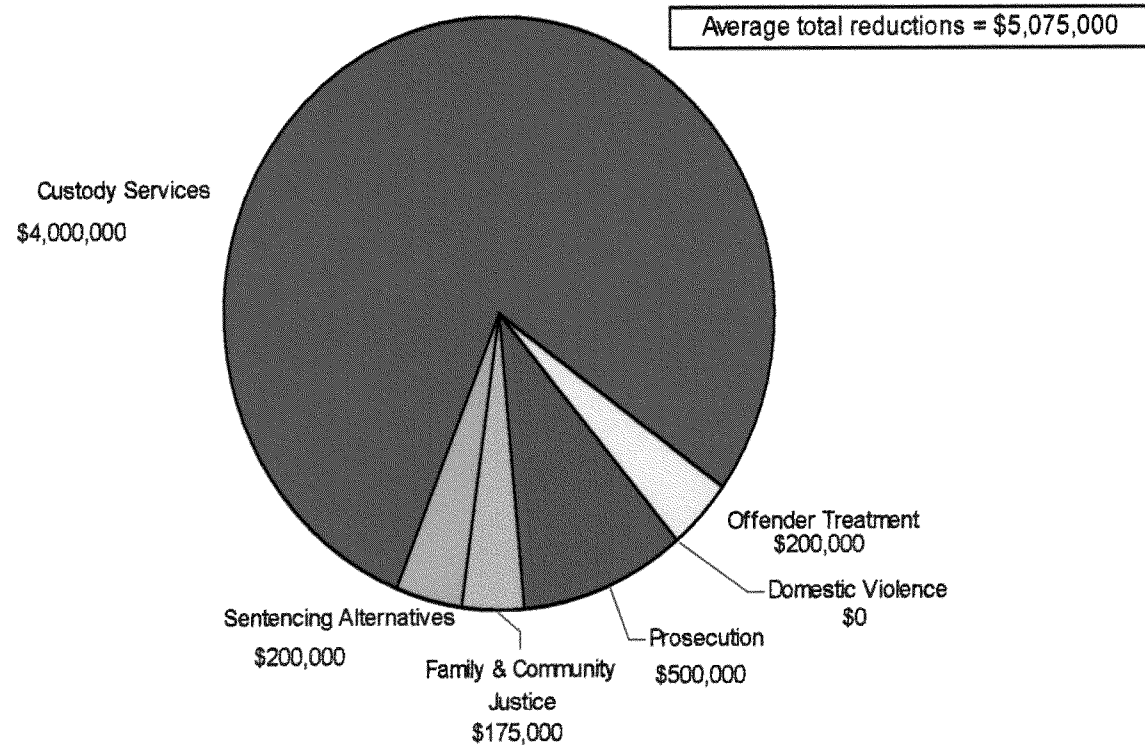
Hypothetical data only

**Percent of Average Recommended Budget Reductions by
Service Area: Stakeholder Workshops Compared to
Website Respondents**



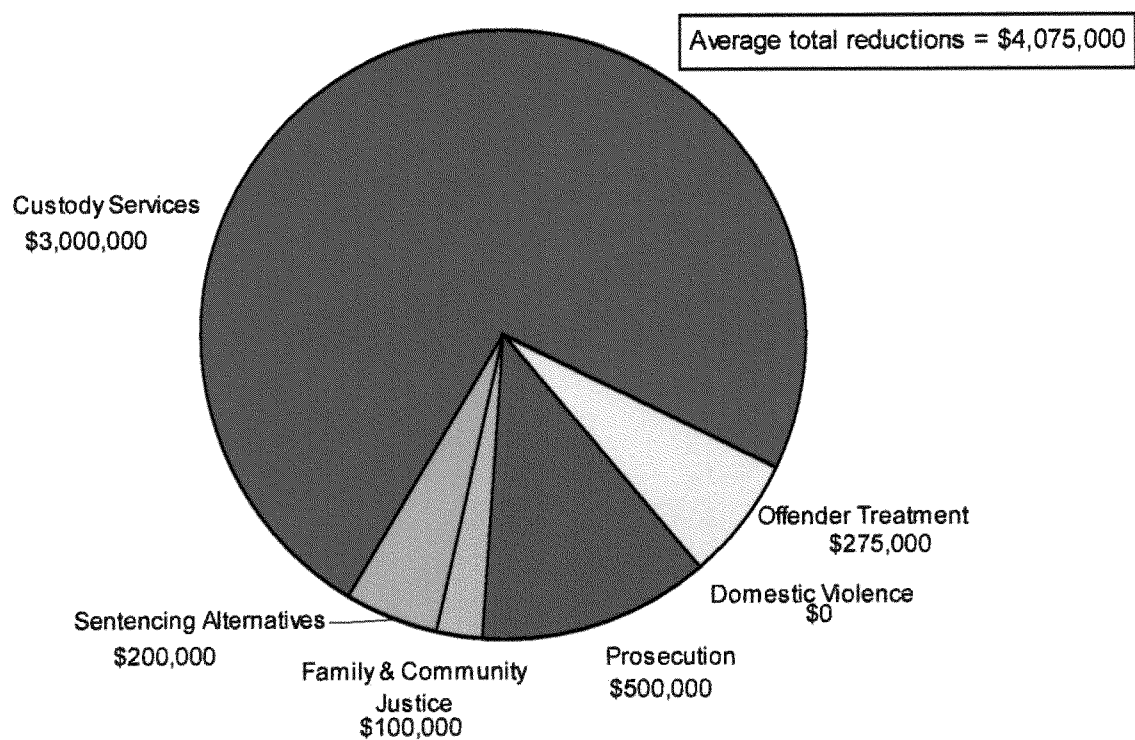
Hypothetical data only

**Distribution of Average Public Safety Reductions by Service:
Stakeholder Workshops**



Hypothetical data only

Distribution of Average Public Safety Reductions by Service: Website Respondents



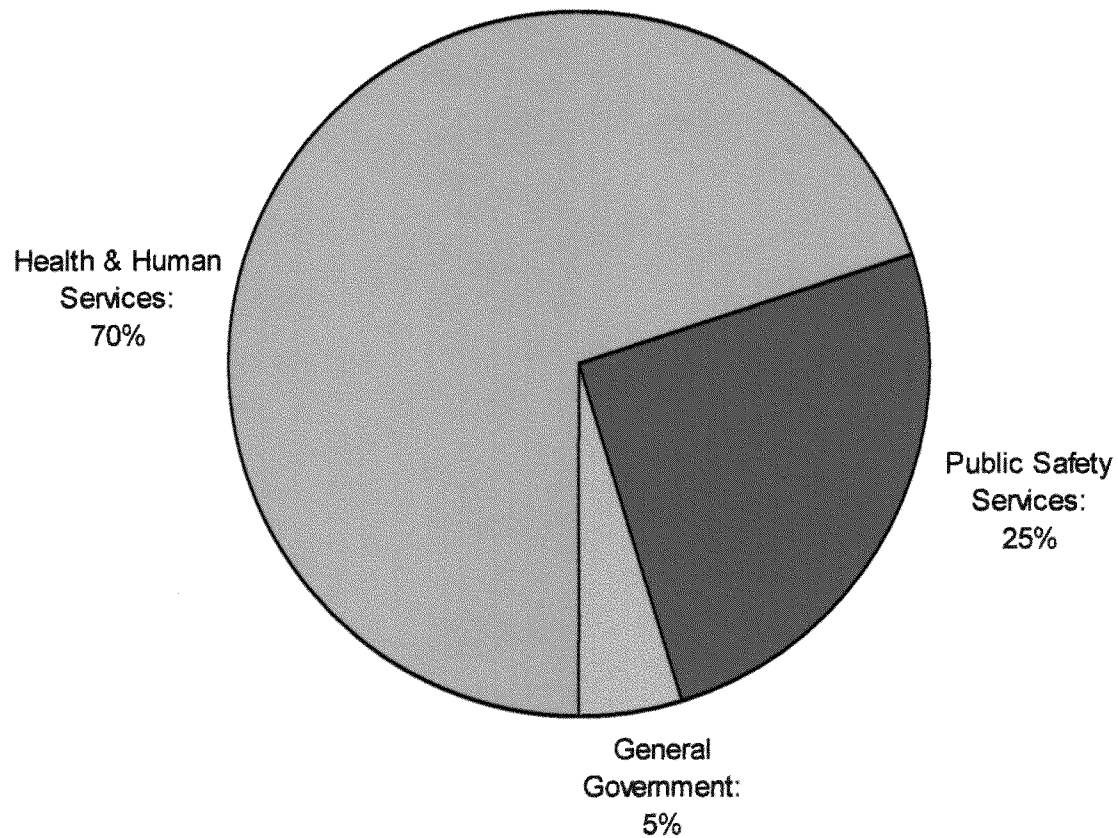
Data Worksheet Example Using Hypothetical Respondent Data

**Recommended Service Reductions from Stakeholder Workshops and Website
Respondents, by Service Area**

	Stakeholder Workshops (n = 400)		Website Respondents (n = 2,500)	
	Dollars (000's)	Percent	Dollars (000's)	Percent
Health & Human Services	\$14,000	70%	\$15,025	75%
Senior Services	x,xxx	x%	x,xxx	x%
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Mental Health Services	x,xxx	x%	x,xxx	x%
Community Health/Clinical Svcs	x,xxx	x%	x,xxx	x%
At Risk Teens	x,xxx	x%	x,xxx	x%
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Domestic Violence	0	0%	0	0%
General Government	\$925	5%	\$900	5%
Animal Control	x,xxx	x%	x,xxx	x%
Elections	x,xxx	x%	x,xxx	x%
Housing	x,xxx	x%	x,xxx	x%
Land Use Planning	x,xxx	x%	x,xxx	x%
Total	\$20,000	100%	\$20,000	100%

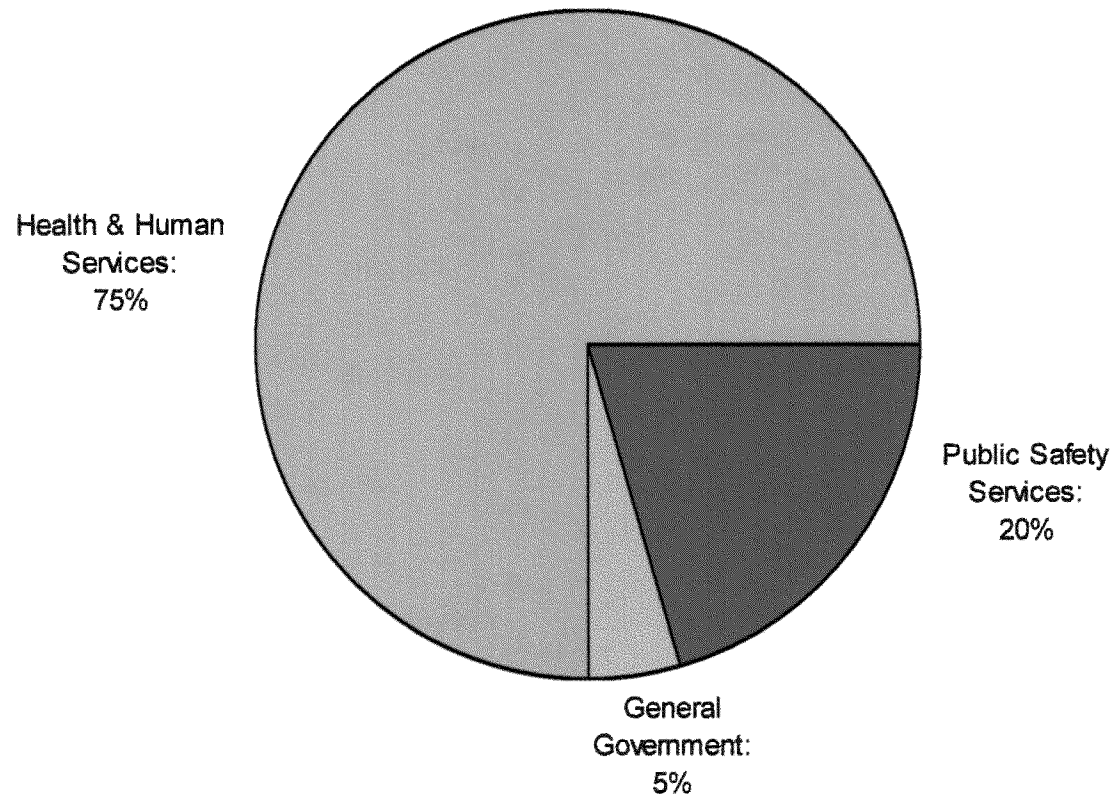
Hypothetical data only

**Percent of Total Recommended Budget Reductions Represented by
Each Service Area: Stakeholder Workshops**



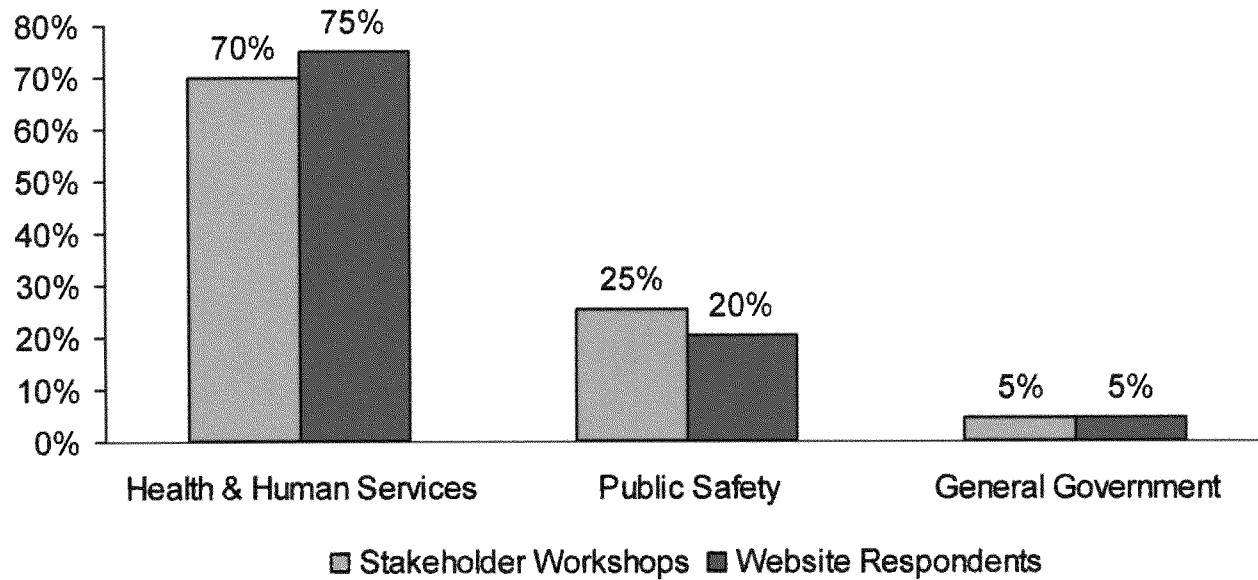
Hypothetical data only

**Percent of Total Recommended Budget Reductions Represented by
Each Service Area: Website Respondents**



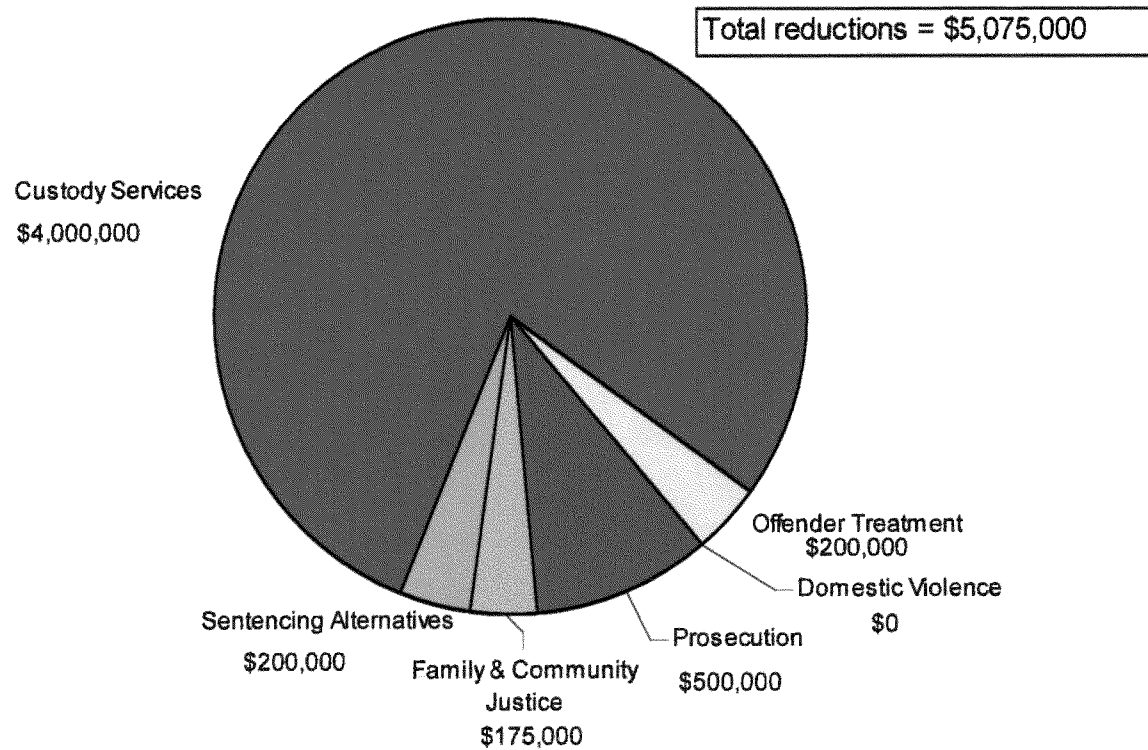
Hypothetical data only

**Percent of Total Recommended Budget Reductions
Represented by Each Service Area: Stakeholder
Workshops Compared to Website Respondents**



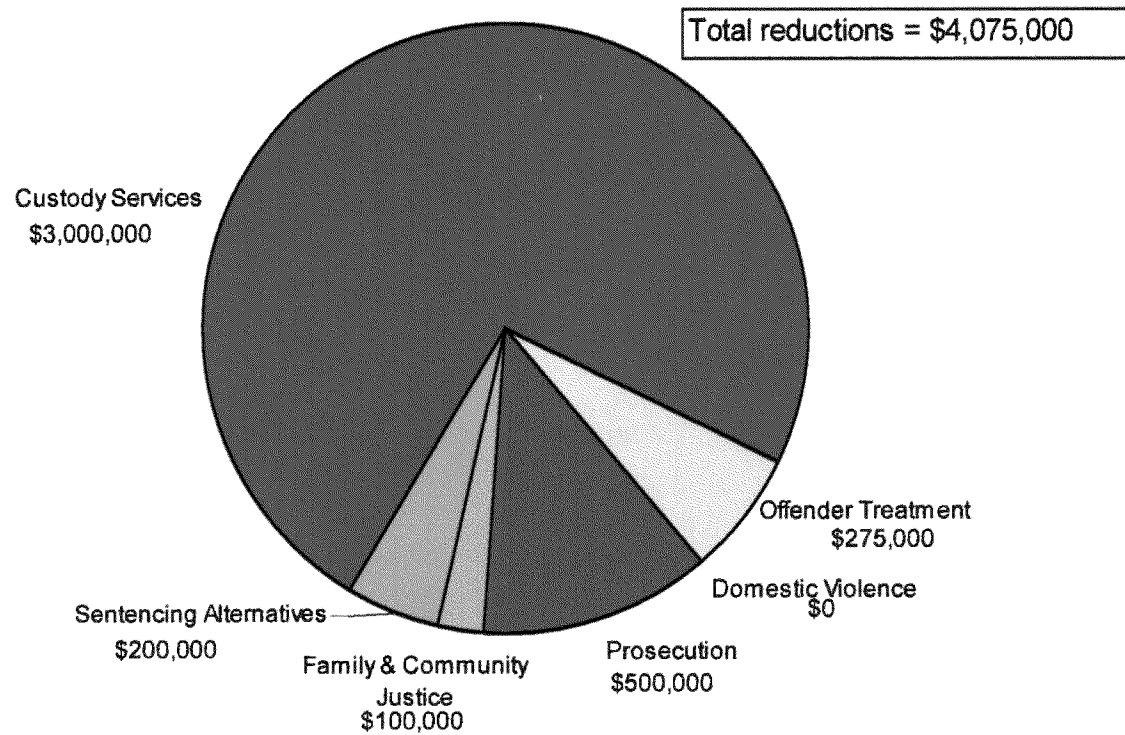
Hypothetical data only

**Distribution of Recommended Public Safety Reductions by
Service: Stakeholder Workshops**



Hypothetical data only

**Distribution of Recommended Public Safety Reductions by Service:
Website Respondents**



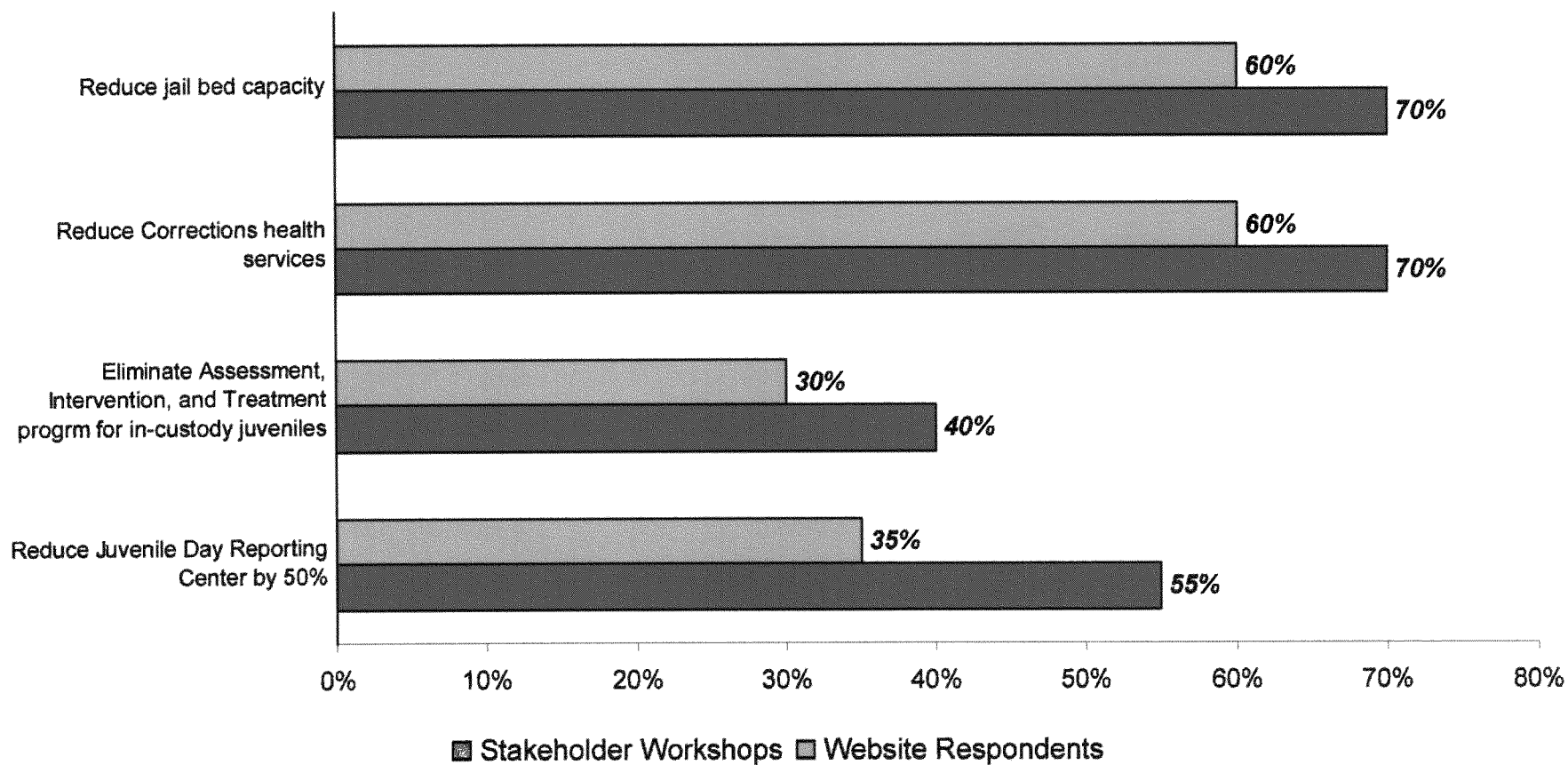
Example: hypothetical data only

Respondents Adopting Specific Program Reductions: Custody Services

Proposed reduction	\$ amount	Percent of respondents choosing this proposal	
		Stakeholder Workshops	Website respondents
Reduce Juvenile Day Reporting Center by 50%	\$200,000	55%	35%
Eliminate Assessment, Intervention and Treatment program for in-custody juveniles	\$140,000	40%	30%
Reduce Corrections health services	\$1,000,000	70%	60%
Reduce jail bed capacity	\$4,250,000 per 100 beds	70%	60%

Hypothetical data only

Percent of Respondents Selecting Reductions in Custody Services



AGENDA PLACEMENT REQUEST

Board Clerk Use Only:
Meeting Date: October 29, 2002

Bud Mod #:

Agenda Item #: B-2

Estimated Start Time: 10:30 AM

Date Submitted: 10/23/02

Requested Date: 10/29/02

Amount of Time Requested: 1 Hour

Department: Non-Departmental

Division: Chair's Office

Contact/s: Kathy Turner

Phone: 503 988-3308

Ext.: 83308 I/O Address: 503/600

Presenters: Kathy Turner, Dave Boyer, Invited Guests

Agenda Title: Update on Community Partnership Agreement – County Business Income Tax

NOTE: If Ordinance, Resolution, Order or Proclamation, provide exact title. For all other submissions, provide clearly written title.)

Please answer all relevant questions; leave others blank. Please do not alter form.

1. What action are you requesting from the Board? What is the department/agency recommendation?

No formal action is requested. This briefing is to provide an update on process and current direction of the Community Partnership Agreement.

2. Please provide sufficient background information for the Board and the public to understand this issue.

Multnomah County and the City of Portland levy income taxes on business operating within each jurisdiction. Multnomah County levies the business income tax, the City of Portland the Business License Fee. Together the jurisdictions entered an agreement with the Portland Chamber of Commerce, the Association for Portland Progress (now Portland Business Alliance) and the Portland Development Commission to analyze these taxes as revenue sources for government and for possible effects the taxes may have on economic investment and business growth (County resolution 01-129 adopted 10/4/2001). The briefing is intended to report on the activities, and progress of the last year, and provide information on possible next steps.

3. Explain the fiscal impact (current year and ongoing).

County BIT currently totals \$29.1 million or 11.26% of the County budget.

NOTE: If a Budget Modification or a Contingency Request attach a Budget Modification Expense & Revenues Worksheet and/or a Budget Modification Personnel Worksheet.

If a budget modification, explain:

- ❖ **What revenue is being changed and why?**
- ❖ **What budgets are increased/decreased?**
- ❖ **What do the changes accomplish?**
- ❖ **Do any personnel actions result from this budget modification? Explain.**
- ❖ **Is the revenue one-time-only in nature?**
- ❖ **If a grant, what period does the grant cover?**
- ❖ **When the grant expires, what are funding plans?**

NOTE: Attach Bud Mod spreadsheet (FORM FROM BUDGET)

If a contingency request, explain:

- ❖ **Why was the expenditure not included in the annual budget process?**
- ❖ **What efforts have been made to identify funds from other sources within the Department/Agency to cover this expenditure?**
- ❖ **Why are no other department/agency fund sources available?**
- ❖ **Describe any new revenue this expenditure will produce, any cost savings that will result, and any anticipated payback to the contingency account.**
- ❖ **Has this request been made before? When? What was the outcome?**

If grant application/notice of intent, explain:

- ❖ **Who is the granting agency?**
- ❖ **Specify grant requirements and goals.**
- ❖ **Explain grant funding detail – is this a one time only or long term commitment?**
- ❖ **What are the estimated filing timelines?**
- ❖ **If a grant, what period does the grant cover?**
- ❖ **When the grant expires, what are funding plans?**
- ❖ **How will the county indirect and departmental overhead costs be covered?**

4. Explain any legal and/or policy issues involved.

Policy issues include: Predictability of revenue source, impacts on the local economy, county budget, and long term options for possible adjustment or replacement.

5. Explain any citizen and/or other government participation that has or will take place.

Weekly meetings have occurred among the participants in the agreement. This group includes both private citizens and governments (including the City of Gresham).

Required Sign Off (NOTE: electronic check indicates approval)

Department/Agency Director ☒ Diane M. Linn, Chair (type name of approver)

Community Partnership Agreement

Business Tax Reform Update

Report to the Board of County Commissioners

October 29, 2002

DRAFT

Community Partnership Agreement on the BIT and BLF

Lead Partners

Multnomah County

City of Portland

Portland Business
Alliance

Portland Development
Commission

Other Voting Members

Lead Partners

City of Gresham

Gresham Chamber

Portland Neighborhood
Business Association

DRAFT

Analyze BIT and BLF as
1) revenue streams
2) economic impacts/disincentives.

*Based on analysis, determine how best to
obtain better revenue stability and reduce
any negative economic impacts.*

Who Pays the BIT?

Based on Taxes Paid

Tax	City of Portland			Multnomah County		
	Number of Firms	Total Taxes Paid	Average Tax per Firm	Number of Firms	Total Taxes Paid	Average Tax per Firm
less than \$200	19,775	2,037,481	103	24,019	1,187,773	49
\$200-\$1,000	6,593	2,924,855	444	5,984	2,712,878	453
\$1,000-\$5,000	3,178	7,110,695	2,237	2,879	6,206,756	2,156
More than \$5,000	1,233	28,535,450	23,143	933	19,845,299	21,270
TOTAL	30,779	40,608,481	1,319	33,815	29,952,706	886

Source: Calculations by ECONorthwest from City of Portland Bureau of Licenses data.

Analysis performed by ECONorthwest and PDC

DRAFT

Who Pays the BIT?

Based on Major Industry Type

	SIC	City/County Tax	Total Employment	Average Payroll (000s)	Total Payroll Tax/Employee	Tax/Payroll (000s)
Finance, Insurance and Real Estate	60-69	14,486,495	32,406	1,526,086	447.03	\$9.49
Retail Trade	52-59	8,489,554	74,087	1,546,139	114.59	\$5.49
Wholesale Trade	50-51	6,770,848	32,191	1,412,675	210.33	\$4.79
Services	70-89	22,468,535	139,945	4,688,110	160.55	\$4.79
Construction	15-17	3,435,012	21,855	1,013,089	157.17	\$3.39
Transportation, Communication, and Utilities	40-49	4,628,224	33,668	1,670,881	137.47	\$2.77
Manufacturing	20-39	4,792,107	51,732	2,263,011	92.63	\$2.12

Source: Year 2000 tax calculated by ECONorthwest from City of Portland Bureau of Licenses. Year 2000 Employment from Oregon Employment Department.

DRAFT

Who Pays the BIT?

Based on Selected Industry Sectors

	Combined Tax Paid	Total Payroll (000s)	Employees	Tax/Employee	Tax/Payroll (000s)
Creative Services	2,537,693	335,175	8,104	313.14	7.57
Retailing	3,178,138	499,244	29,978	106.02	6.37
Distribution	9,150,514	1,828,730	52,921	172.91	5.00
Professional	9,413,466	1,937,533	54,471	172.82	4.86
Tourism	650,735	135,934	8,038	80.96	4.79
Metals	1,181,037	359,757	9,663	122.22	3.28
High Tech	932,162	342,951	7,928	117.58	2.72
Transportation Equipment	176,014	179,173	4,496	39.15	0.98

Source: 1998 tax calculated by ECONorthwest from City of Portland Bureau of Licenses. Year 1997 employment and payroll from US Census Bureau, County Business Patterns

DRAFT

Who Pays the BIT

Apportioned by Industry Sectors

Tax	ALL	PROFESSIO HIGH TECH	SERVIC	CREATI SERVIC	METALS	TOURISM	DISTRIBUTION RETAIL	LOGIST
less than \$200	100%	44%	100%	100%	30%	100%	100%	58%
\$200-\$1,000	100%	100%	100%	100%	69%	100%	100%	50%
\$1,000-\$5,000	100%	60%	95%	100%	60%	100%	94%	26%
More than \$5,000	75%	19%	85%	95%	33%	17%	50%	11%

Source: Calculated by ECONorthwest using City of Portland Bureau of Licenses data.

DRAFT

Who Pays the BIT

Taxes Paid By Number of Owners

Number Owners/ Partners	City of Portland Tax	Multnomah County Tax	Combined City and County Tax	Share of Combined Tax
0*	4,258,241	3,023,213	7,281,454	10%
1	19,229,534	14,065,270	33,294,804	47%
2	7,244,804	5,541,968	12,786,772	18%
3	2,566,194	2,053,756	4,619,950	7%
4	1,446,175	1,112,810	2,558,985	4%
5	1,037,580	763,453	1,801,033	3%
6-10	2,058,808	1,499,173	3,557,981	5%
10-11	720,624	517,005	1,237,629	2%
16-20	240,485	178,055	418,540	1%
20+	1,806,036	1,198,003	3,004,039	4%

Source: Calculated by ECONorthwest with City of Portland Bureau of License data

* Corporate owners with no more than 5% ownership

DRAFT

Impacts on Job Growth

- Interregional impacts are modest
“Taxes do not appear to have a substantial effect on economic activity among states.”
- Intraregional impacts are more important
“With other cost and market variables very similar among different locations within a region, fiscal differences within a region play a more significant role in location choice.”

ECONorthwest/PDC

Wasylenko, 1997

So what does this mean for Multnomah County?

Impacts on Job Growth

The BIT does not impact a business decision to locate within the metro region from out of state but...

For a business that is already here or just starting up, the BIT does impact decisions to move elsewhere within the region to such locations as Hillsboro or Kruse Way in Lake Oswego.

Financial Impacts on County and City General Funds

County 2001 BIT = \$29.1 million or 11.26%

City 2001 BLF = \$51.9 million or 17.44%

Other existing Multnomah County taxes:
Property Tax, Motor Vehicle Rental Tax,
Transient Lodging Tax, Gas Tax

Initial Options and Increments

- Community Partnership Issue Papers
- Portland Business Alliance Resolution

Next Steps

- Tools available for achieving revenue and economic results
- Analysis required of those tools
- Timeline for conclusion and action

The background of the slide features a dark, textured pattern of interlocking gears. The gears are of various sizes and are arranged in a way that creates a sense of depth and mechanical complexity. The overall color scheme is dark, with the text providing a high-contrast, light-colored foreground.

Community Partnership Agreement/Business Income Tax Reform Update

Briefing to the Board of County
Commissioners
October 29, 2002

Community Partnership Agreement on the BIT and BLF

Lead Partners

Multnomah County
City of Portland
Portland Business
Alliance
Portland
Development
Commission

Voting Members

Lead Partners
City of Gresham
Gresham Chamber
Portland
Neighborhood
Business
Associations



Community Partnership Steering Committee Charge:

Analyze BIT/ BLF as

- 1) revenue streams & for
- 2) economic impacts/disincentives.

*Based on analysis, determine how best to
obtain better revenue stability and reduce
any negative economic impacts.*

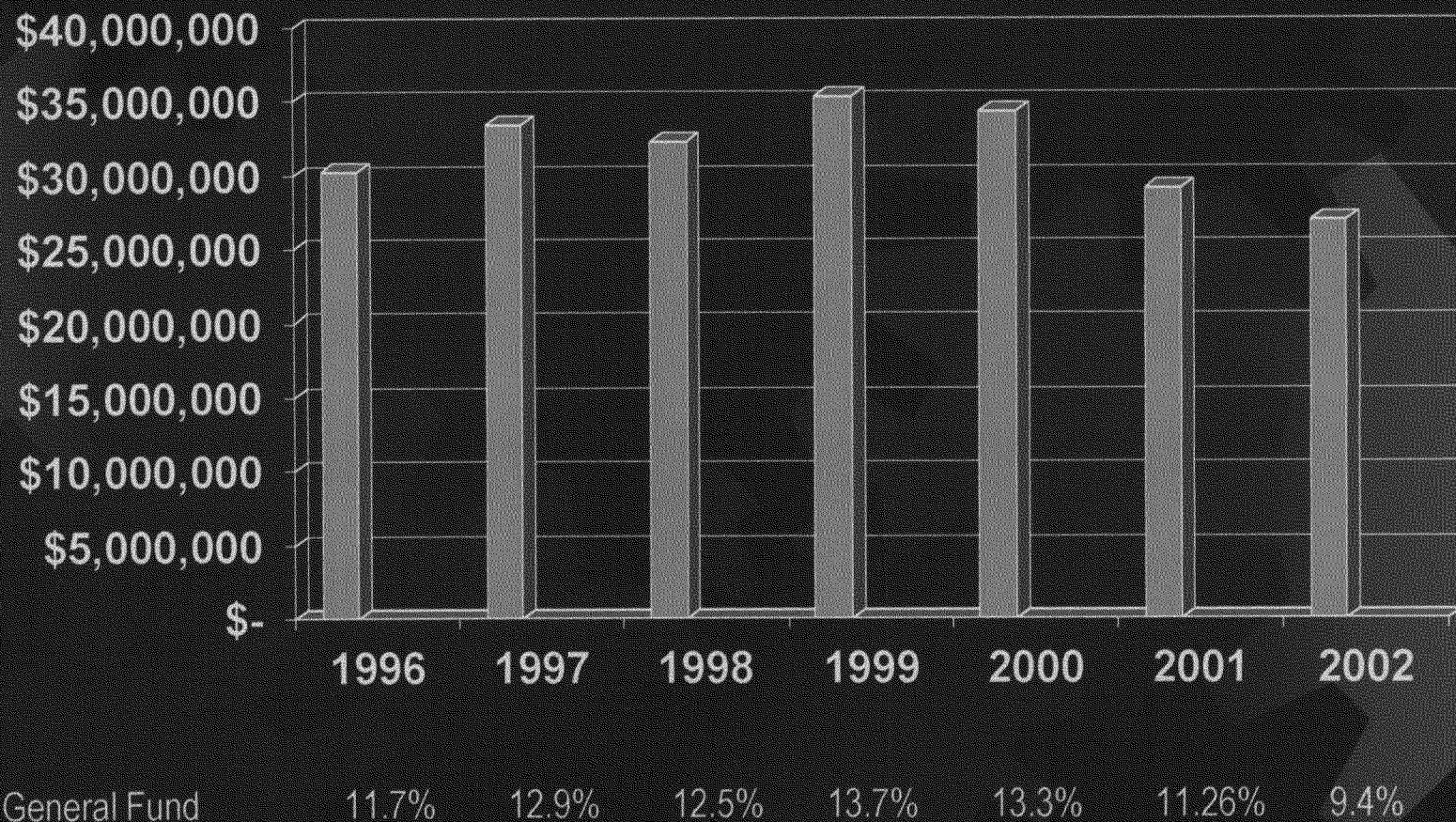
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Property Tax, Motor Vehicle Rental Tax,
Transient Lodging Tax, Gas Tax

Multnomah County BIT Revenues



BIT History

- Created in 1974 to raise revenues for health safety and welfare of the County
- Tax imposed on each entity doing business in the County based on net income
- Tax was initially developed to be fair and based on ability to pay
- Equity among various business types have become an issue
- Example – Manufacturing firm located in the County that has a large payroll base, ships goods outside the County and has a large net income may pay little or no BIT while a service company that provides services to County customers with the same net income will pay the BIT

Who Pays the BIT?

City of Portland

Tax	Number of Firms	Taxes Paid
Under \$200	19,775	\$2,037,481
\$200 - \$1,000	6,593	2,924,855
\$1,000 - \$5,000	3,178	7,110,695
Over \$5,000	1,233	28,535,450
Total	30,779	40,608,481

County

Number of Firms	Taxes Paid
24,019	\$1,187,773
5,984	2,712,878
2,879	6,206,756
933	19,845,299
33,815	\$29,952,706

Analysis performed by ECONorthwest and PDC

Who Pays the BIT?

Based on Major Industry Type

	Tax Paid County & City	Employment	Total payroll (000)	Tax/Employee
Finance, Ins & Real Estate	\$14,486,495	32,406	\$1,526,086	\$447
Retail Trade	8,489,554	74,087	1,546,139	115
Wholesale Trade	6,770,848	32,191	1,412,675	210
Services	22,486,535	139,945	4,688,110	161
Construction	3,435,012	21,855	1,013,089	157
Transportation	4,628,224	33,668	1,670,881	137
Manufacturing	4,792,107	51,732	2,263,011	93

Who Pays the BIT?

Based on Selected Industry Sectors

	Combined Taxes Paid	Total Payroll (000)	Employees	Tax/Employee
Creative Services	\$2,537,693	335,175	8,104	\$313
Retail	3,178,138	499,244	29,978	106
Distribution	9,150,514	1,828,730	52,921	173
Professional Service	9,413,466	1,937,533	54,471	173
Tourism	650,735	135,934	8,038	81
Metals	1,181,037	359,757	9,663	122
High Tech	932,162	342,951	7,928	118
Transportation	176,014	179,173	4,496	39

Who Pays the BIT

Taxes Paid By Number of Owners

Number of Owners/Partners	Combined Tax Paid	Share of Tax
Corporate no more than 5%	\$ 3,023,213	10%
1	33,294,804	47%
2	12,786,772	18%
3	4,619,950	7%
4	2,558,985	4%
5	1,801,033	3%
6-10	3,557,981	5%
10-11	1,237,629	2%
16-20	418,540	1%
Over 20	1,198,033	4%

Impacts on Job Growth

- Interregional impacts are modest

“Taxes do not appear to have a substantial effect on economic activity among states.”

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Wasylenko, 1997

ECONorthwest/PDC

So what does this mean for Multnomah County?

Impacts on Job Growth

The BIT does not impact a business decision to locate within the metro region from out of state but...

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BIT Problem Statement

- Businesses located in the City of Portland and Multnomah County providing services to those communities usually have a larger tax liability than businesses located in neighboring communities.
- Issues initially identified re: BIT included:
 - Owners Compensation Deduction
 - Tax complexity
 - Equity between companies
 - Burden on closely held companies and professional services
 - Contribution to business flight

BIT Guiding Principles

- ✱ Certainty in the rate, timing and amount of payment
- ✱ Convenience
- ✱ Economical administratively
- ✱ Equitable
- ✱ Where possible, it should incent economic growth and job creation
- ✱ Reliable source of revenues

Issues & Options Researched to Date

• Changes to the existing BIT –
Possible Revenue *Reductions*

- Owner's Compensation
- Rate Reduction

Changes to the existing BIT – Possible Revenue *Increases*

- Penalties
- Minimum County License Fee
- Out of County Apportionment
- Reduce Residential Rental Exemption
- Include realtors & insurance agents
- Job creation tax credit
- Reduce ownership test from 5% to 1%

City of Portland Changes Only

- Change tax to after the fact tax
- Eliminate exemption for utility franchise fee

Possible New Tax Revenues

- Possible *Replacement* Revenues

- Commercial Real Estate Transfer Tax

- Payroll Tax/Minimum Fee for Non-Profits

Considerations

- Have collected general data on replacement taxes – data needs to be refined/more research needed
- Replacement tax needs to be reasonable - BIT can not be replaced by any one tax source
- Tax shifts need to be considered
- Complexity of tax and ease of administration needs to be considered
- Need to consider how economic changes impact taxes

Initiating a New Phase

- ★ Committee's discussion of short term vs. long term packages
- ★ Portland Business Alliance Resolution

Next Steps

- Tools available for achieving revenue and economic results
- Adding potentially impacted industry representatives to the steering committee
- Analysis required of those tools
- Timeline for conclusion and action

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Community Partnership Agreement/Business Income Tax Reform Update

Briefing to the Board of County
Commissioners
October 29, 2002

Community Partnership Steering Committee Members

Office of the Mayor	Sam Adams, Co-Chair
Office of the Multnomah County Chair	Kathy Turner, Co-Chair
Office of Commissioner in Charge (BOL)	Kevin Jeans-Gail
Multnomah County Board Commissioner	Maria Rojo de Steffey
City's Chief Administrative Officer	Tim Grewe
County's Chief Financial Officer	Dave Boyer
Association for Portland Progress	Greg Goodman
Portland Metro Chamber of Commerce	Don McClave
Portland Development Commission	Don Mazziotti
East County Chamber of Commerce	Ken Frost
Office of Mayor/City of Gresham	Rob Fussel
Chair of the MCTSCC	Richard Anderson
Portland Neighborhood Business Assn.	Ken Turner

Technical Team Members

Bureau of Licenses	Jim Wadsworth/Terri Williams
Bureau of Financial Planning	Mark Murray
County's Finance Division	Dave Boyer
City Attorney's Office	Linda Meng
County Counsel's Office	Thomas Sponsler
Gresham's City Managers Office	Terry McCall
Portland Development Commission	Michael Ogan
APP Outside Consultant	Steve Siegel
APP CPA	Jim Gaffney
Chamber CPA	Jim Jeddeloh
East County Chamber CPA	
County Economist	Mark Campbell
City Economist	Drew Barden

COMMUNITY PARTNERSHIP AGREEMENT

To Assess the Economic Competitiveness of the City of Portland and Multnomah County and to Review the Business License Fee and Business Income Tax

The purpose of this Community Partnership Agreement is to outline the City, County and community partnership that has come together to complete a review of the Business License Fee and Business Income Tax and assess the economic competitiveness of the City of Portland and Multnomah County.

Partners

City of Portland

Multnomah County

Portland Development Commission

Association for Portland Progress

Portland Metropolitan Chamber of Commerce

Recitals

- A. Mayor Vera Katz has called for a comprehensive update to Prosperous Portland, the City's 1994 economic development strategy.
- B. County Chair Diane Linn is committed to supporting a comprehensive assessment of the actions necessary to support our community's economic health in a manner that generates the revenues necessary to provide services to our community's citizens and businesses.
- C. The update to Prosperous Portland must be based on a thorough assessment of our economic competitiveness in the regional, national and international economies, including an analysis to compare factors that influence the decision of firms to expand, locate or stay in a given location.
- D. Any thorough assessment of our economic competitiveness must include a comprehensive review of the City of Portland's Business License Fee (BLF) and Multnomah County's Business Income Tax (BIT).
- E. Significant changes to the economy in the last decade, including the growth of technology, new environmental rules and regulations, the rapid decline in abundant inexpensive power and clean water, and changing job growth patterns, make a far reaching assessment of the local economy and the city/county's competitiveness a necessity.

Agreement

1. Purpose

1.1 This Community Partnership Agreement memorializes the good will that the partners bring to completing this project in a collaborative and consultative manner. This is not a legally binding agreement.

1.2 The purpose of the project described in this Community Partnership Agreement is to:

Complete a Competitive Position Analysis that assesses local economic assets and liabilities and identifies economic opportunities and constraints and recommend private- and public-sector changes to increase the economic competitiveness of the City and County. The study will include a comparative analysis among similar cities and states of those factors which affect expansion, location and retention decisions on the part of businesses. It will also compare the degree to which the City and County and competing jurisdictions "fit" with the needs of targeted and existing firms and industries.

1.3 A companion effort that will serve to inform the Competitive Position Analysis is to:

Complete an in-depth evaluation of the BLF and BIT, and to consider changes that may be needed in order to achieve a predictable tax system that is equitable in allocation, efficient in collection, and that furthers the mission of the City and the County without reducing the revenues available to these local governments.

2. Scope of Analyses

2.1 This analysis should identify those industries or industry clusters for which Portland and Multnomah County are (or could be) competitively positioned, and those industries or industry clusters for which Portland and Multnomah County are not (and cannot be) a competitive location. The scope for completing Competitive Position Analysis described in Section 1.2 of this agreement will include analytical elements such as:

Existing building stock, by type, occupancy, vacancy and turnover rates; vacant available land supply by type and parcel size; facility development costs including land, construction and infrastructure costs, permits, fees and regulatory requirements; facility operating costs including rent, parking, operating taxes and fees, and utilities; transportation functionality, costs and infrastructure capabilities, capacities and reliability, including parking, gas, electricity, telecom, water, and sewer needs; labor availability and costs by occupation and skills types; capacity and performance of existing training and education systems to meet the labor and skill needs and expectations of firms, and perceptions of public schools; housing costs and availability, local transit functionality, quality of life elements; impact of local, state and federal regulations; impact of local, state and federal taxes.

2.2 The review of the BLF and BIT described in Section 1.2 of this agreement will include the following analytical elements:

Research the legislative history and legislative intent governing the BLF and BIT; determine if and how the relative obligations of the BLF and BIT taxes on the various businesses and industries have changed over the last decade; through a quantitative analysis of all BLF and BIT payers over the last decade, determine how the tax collections have fluctuated, how the composition by number and type of payers has changed and how the amounts paid by all industry categories have been distributed over that same period of time; compare the quantitative trends by industry categories with real job creation in each industry category during the last decade; determine the impact of changes in federal and state tax laws; and review of the multi-year revenue that the BLF and BIT have provided to the City and the County.

3 Key Deliverables and Timelines

- 3.1. BLF/BIT Initial Research: The Technical Project Team will complete its initial research for evaluating the BLF and BIT as called for in Sections 2.2. of this agreement by December 19, 2001.
- 3.2. Competitive Analysis Report: PDC will complete the Economic Competitive Analysis called for in Section 1.1 by April 17, 2002.
- 3.3. Preliminary Principles: The Steering Committee will recommend to the Portland City Council and the Multnomah County Board of Commissioners preliminary principles for the BLF and BIT by May 14, 2002.
- 3.4. The City Council and County Board will consider preliminary principles by June 28, 2002.
- 3.5. Strategy Update: The City Council will consider an update to the City's economic development strategies on the basis of the recommendations from the Economic Competitive Analysis and the audit of the BLF and BIT within 60 days of the completion of the City and County consideration of preliminary principles under Section 3.4.
- 3.6. BLF/BIT Audit: The partners in this Agreement will determine based upon a recommendation from the Steering Committee whether it is appropriate to initiate an outsider audit of the existing BLF and BIT provisions. If an audit is initiated it will review the BLF and BIT against the preliminary principles adopted by the City Council and County Board provided in Section 3.2 and the data collected. The audit carried out in conjunction with the Economic Competitive Analysis may be conducted by the outside auditor employed for the Economic Competitive Analysis. If an outside audit is to be conducted, it will be initiated within 90 days of the City and County's consideration update to the City's economic development strategy under Section 3.5.
- 3.7. Consideration of Changes to BLT/BIT:

- 3.7.1. The City Council will consider the recommendations of the outside auditor regarding any changes to the BLF as part of considering the 2002 update to the City's economic development strategy.
- 3.7.2. The County Board will consider the recommendations of the outside auditor regarding any changes to the BIT by a date that is not later than 120 days after the completion of the audit.

4. Oversight

4.1. The Portland City Council and the Multnomah County Board of Commissioners are the final decision-makers for their respective governments regarding any issues related to this Agreement.

4.2. Overall coordination for implementing this Agreement will be completed by a thirteen-member Project Steering Committee.

4.2.1. The Project Steering Committee will be co-chaired by representatives from the Office of the Mayor and County Chair and will consist of a representative from each of the following: Office of the Mayor, City of Portland; Office of the Multnomah County Chair; Office of the Commissioner-in-Charge of the Bureau of Licenses; Multnomah County Board of Commissioners; City's Chief Administrative Officer; County's Chief Financial Officer; Association for Portland Progress; Portland Metropolitan Chamber of Commerce; Portland Development Commission Board; East County Chamber of Commerce; Office of Mayor/City of Gresham; the Chair of the Multnomah County Tax Supervising and Conservation Commission; and, Portland Neighborhood Business Association.

4.3. A thirteen-person Technical Project Team will coordinate staff work related to Section 2 of this Agreement for review and feedback to the Project Steering Committee.

4.3.1. The Technical Project Team will be co-chaired by a representative of the City Bureau of Licenses, a representative of Multnomah County's Finance Division and a representative of the Portland Development Commission and will consist of a representative of each of the following: City Bureau of Licenses; City Bureau of Financial Planning; City Attorney's Office; County Counsel's Office; County Finance Division; Gresham's City Manager's Office; Portland Development Commission; an outside consultant designated by the Association for Portland Progress; a private-sector independent Certified Public Accountant with public tax policy experience designated by Association for Portland Progress; a private-sector independent Certified Public Accountant with public tax policy experience designated by the Portland Metropolitan Chamber of Commerce; a private-sector independent Certified Public Accountant with public tax policy experience

designated by the East County Chamber of Commerce City economist; and, County economist.

5. Roles and Responsibilities

5.1. In addition to supporting the work of the Steering Committee and the Technical Project Team, this agreement also establishes roles and responsibilities unique to some partners:

5.1.1 City of Portland

5.1.1.1. On behalf of the City and County, the Bureau of Licenses will provide lead staff work to complete Section 2.2.

5.1.1.2. In the event that the partners determine to initiate an outside audit under Section 3.5, all of the partners will work collaboratively in concurring upon the selection of the independent outside consultant. However, the City, along with the County, shall retain final responsibilities for contracting for the services of the consultant under Section 3.5.

5.1.2. Multnomah County

5.1.2.1. The County Chair's Office will act as liaison with and will represent the East County Cities.

5.1.2.2. In the event that the partners determine to initiate an outside audit under Section 3.5, all of the partners will work collaboratively in concurring upon the selection of the independent outside consultant. However, the County, along with the City, shall retain final responsibilities for contracting for the services of the consultant under Section 3.5.

5.1.3. Portland Development Commission

5.1.3.1. PDC will provide the lead staff work to complete the Competitive Position Analysis as described in Section 1.2 of this agreement.

5.1.4 Association for Portland Progress

5.1.4.1. APP will provide to the project team, at its cost, the services of a qualified economic consultant and an independent Certified Public Accountant with public tax policy experience.

5.1.4.2. APP will act as liaison with its members and will communicate to them the purpose and status of the project.

5.1.4.3. Upon the City and County completing their contracting responsibilities under sections 5.1.1.2 and 5.1.2.2 in a manner consistent with the recommendation of all the partners made pursuant to the collaboration in sections 5.1.1.2 and 5.1.2.2, APP, along with the Chamber,

will pay for the outside independent consultant to perform the audit of the BLF and BIT as described in section 3.5 above..

5.1.5. Portland Metropolitan Chamber of Commerce

5.1.5.1. The Chamber will act as liaison with its members and will communicate to them the purpose and status of the project.

5.1.5.2. Upon the City and County completing their contracting responsibilities under sections 5.1.1.2 and 5.1.2.2 in a manner consistent with the recommendation of all the partners made pursuant to the collaboration in sections 5.1.1.2 and 5.1.2.2, the Chamber, along with APP, will pay for the outside independent consultant to perform the audit of the BLF and BIT as described in section 3.5 above.

5.1.5.3. The Chamber will provide to the project team an independent Certified Public Accountant with public tax policy experience.

6. Agreement

We the undersigned pledge our goodwill to fulfill the purpose of this Community Partnership Agreement to review the BLF/BIT and assess Portland's economic competitiveness.

Vera Katz
Mayor
City of Portland

Kim Kimbrough
President
Association for Portland Progress

Jim Francesconi
Commissioner
City of Portland

Don McClave
President
Portland Metropolitan Chamber of Commerce

Diane Linn
Chair of the Board of Commissioners
Multnomah County

Don Mazziotti
Executive Director
Portland Development Commission

Maria Rojo de Steffey
Board of County Commissioners
Multnomah County

**Community Partnership Agreement
City of Portland and Multnomah County
Business License Fee and Business Income Tax Collections
As a Percent of General Fund Revenues**

City of Portland			Multnomah County		
Revenues (1)	2000/2001	Percent of total	Revenues (1)	2000/2001	Percent of total
Property Taxes	\$ 138,101,046	46.32%	Property Taxes	\$ 164,657,000	63.78%
Business Licenses Fee	51,983,615	17.44%	Business Income Taxes (2)	29,060,000	11.26%
Franchise Fees	38,585,586	12.94%	Motor Vehicle Rental Tax	11,545,000	4.47%
All other	73,209,453	24.56%	All other	58,674,000	22.73%
	<u>\$ 301,879,700</u>			<u>\$ 263,936,000</u>	
FY2000-01 Unaudited					
Revenues (1)	1999/2000	Percent of total	Revenues (1)	1999/2000	Percent of total
Property Taxes	\$ 132,134,786	44.32%	Property Taxes	\$ 157,277,000	60.92%
Business Licenses Fee	50,794,774	17.04%	Business Income Taxes (2) (3)	34,339,000	13.30%
Franchise Fees	35,086,709	11.77%	Motor Vehicle Rental Tax	12,445,000	4.82%
All other	80,123,539	26.87%	All other	54,094,000	20.95%
	<u>\$ 298,139,808</u>			<u>\$ 258,155,000</u>	
Revenues (1)	1998/1999	Percent of total	Revenues (1)	1998/1999	Percent of total
Property Taxes	\$ 125,924,212	42.24%	Property Taxes	\$ 150,106,000	58.15%
Business Licenses Fee	51,967,380	17.43%	Business Income Taxes (2) (4)	35,331,000	13.69%
Franchise Fees	32,968,083	11.06%	Motor Vehicle Rental Tax	10,782,000	4.18%
All other	77,007,361	25.83%	All other	54,189,000	20.99%
	<u>\$ 287,867,036</u>			<u>\$ 250,408,000</u>	
Revenues (1)	1997/1998	Percent of total	Revenues (1)	1997/1998	Percent of total
Property Taxes (5)	\$ 120,499,664	40.42%	Property Taxes (5)	\$ 140,717,000	54.51%
Business Licenses Fee	50,595,485	16.97%	Business Income Taxes (2)	32,279,000	12.50%
Franchise Fees	30,857,703	10.35%	Motor Vehicle Rental Tax	10,205,000	3.95%
All other	70,863,940	23.77%	All other	48,013,000	18.60%
	<u>\$ 272,816,792</u>			<u>\$ 231,214,000</u>	
Revenues (1)	1996/1997	Percent of total	Revenues (1)	1996/1997	Percent of total
Property Taxes	\$ 130,848,345	43.89%	Property Taxes	\$ 147,097,000	56.98%
Business Licenses Fee	45,634,066	15.31%	Business Income Taxes (2)	33,377,000	12.93%
Franchise Fees	29,668,223	9.95%	Motor Vehicle Rental Tax	9,589,000	3.71%
All other	66,436,386	22.28%	All other	41,481,000	16.07%
	<u>\$ 272,587,020</u>			<u>\$ 231,544,000</u>	
Revenues (1)	1995/1996	Percent of total	Revenues (1)	1995/1996	Percent of total
Property Taxes	\$ 122,976,966	41.25%	Property Taxes	\$ 128,596,000	49.81%
Business Licenses Fee	42,840,388	14.37%	Business Income Taxes (2)	30,267,000	11.72%
Franchise Fees	28,802,583	9.66%	Motor Vehicle Rental Tax	8,694,000	3.37%
All other	62,263,660	20.88%	All other	36,939,000	14.31%
	<u>\$ 256,883,597</u>			<u>\$ 204,496,000</u>	

(1) Does not include cash transfers or beginning working capital

(2) Business Income tax is shared with East County Cities

(3) Does not include temporary surcharge of about \$6 million.

(4) Does not include temporary surcharge of \$4.6 million.

(5) BM# 50 went into effect.

**COMMUNITY PARTNERSHIP
BIT /BLF ISSUES**

- Issue #1:** Change Penalty Structure (7 votes) - Page 2
- Issue #2:** Increase owners' compensation deduction (6 votes) – page 3
- Issue #3:** County minimum tax similar to city (\$100) (9 votes) – page 6
- Issue #4:** Eliminate all or nothing apportionment option (6 votes) – page 7
- Issue #5:** Reduce residential rental exemption from 9 to 4 units (11 votes) - page 8
- Issue #6:** Reduce tax rates (7 votes) – page 9
- Issue #7:** Change the business license fee to an after the fact tax to allow the taxation of capital gain income (5 votes) – page 10
- Issue #8:** Eliminate the exemption for incomes subject to the franchise fee (utilities) (6) – page 11
- Issue #9:** Eliminate state exemption for certain business activities that are antiquated (8) – page 13
- Issue #10:** Create a real estate transfer tax on sales and financing of property (9 votes) – page 16
- Issue #11:** Establish a minimum fee/tax on non-profits (7 votes) – page 19
- Issue #12:** Place a cap on the taxes (This is being developed) – page 22

COMMUNITY PARTNERSHIP ISSUE PAPER
October 3, 2002

Issue #1: Change Penalty Structure (7 votes)

Legal issues: Requires City and County Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County: City revenue increases by about \$100,000 and the County revenue increases by about \$75,000. Estimate is based on actual returns filed late during tax year 2000 using the assumption that some of the revenues would be collected faster. Revenue is offset by approximately \$20,000 in administrative costs for programming, mailing and staff follow up on changed penalty system.

Estimated businesses and type of businesses paying greater tax: Impacts businesses that do not pay taxes by the due date.

Estimated businesses and type of business paying less tax:

Other Comments/Potential Unintended Consequences/Policy Issues: Penalty structure changed from assessing a 5% penalty in the 1st month and assessing a 25% penalty in the 5th month to a graduating structure of 5% in 1st month, 10% 2nd month, 15% 3rd month and 20% 4th month and 25% in 5th month.

This is a one-time-only increase and can not be counted on as an annual revenue source.

Need to have outreach to tax preparers.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #2: Increase owners' compensation deduction (6 votes)

Legal issues: Requires City and County Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2002 the Ordinances would need to be approved by October 15, 2002.

Fiscal Impact to City and County: Revenue estimates are based on tax year 200 data.

City revenues would decrease by approximately. See attached work sheet.

County revenues would decrease by approximately. See attached work sheet.

Estimated businesses and type of businesses paying greater tax: None

Estimated businesses and type of business paying less tax: Small businesses, Sole proprietors and partnerships will be able to deduct more owners compensation which will lower their tax burden.

Other Comments/Potential Unintended Consequences/Policy Issues:

Phase-in increase of Owners Compensation Deduction Allowance City of Portland

Three possible phase-in options regarding the Owner's Compensation are detailed below:

Phase in over 3 years

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 75,000	1	\$1,690,000	\$1,690,000
\$100,000	2	\$1,400,000	\$3,090,000
\$125,000	3	\$1,021,000	\$4,111,000

Phase in over 5 years

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 65,000	1	\$ 915,000	\$ 915,000
\$ 75,000	2	\$ 775,000	\$1,690,000
\$100,000	3	\$1,400,000	\$3,090,000
\$115,000	4	\$ 615,000	\$3,705,000
\$125,000	5	\$ 406,000	\$4,111,000

Phase in \$10,000 Increase each year

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 65,000	1	\$915,000	\$ 915,000
\$ 75,000	2	\$775,000	\$1,690,000
\$ 85,000	3	\$570,000	\$2,260,000
\$ 95,000	4	\$550,000	\$2,810,000
\$105,000	5	\$485,000	\$3,295,000
\$115,000	6	\$410,000	\$3,705,000
\$125,000	7	\$406,000	\$4,111,000

Phase-in increase of Owners Compensation Deduction Allowance – Multnomah County

Three possible phase-in options regarding the Owner's Compensation are detailed below:

Phase in over 3 years

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 75,000	1	\$1,435,000	\$1,435,000
\$100,000	2	\$1,190,000	\$2,625,000
\$125,000	3	\$ 875,000	\$3,500,000

Phase in over 5 years

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 65,000	1	\$ 785,000	\$ 785,000
\$ 75,000	2	\$ 650,000	\$1,435,000
\$100,000	3	\$1,190,000	\$2,625,000
\$115,000	4	\$ 525,000	\$3,150,000
\$125,000	5	\$ 350,000	\$3,500,000

Phase in \$10,000 Increase each year

<u>Owner's Comp Deduction Allow</u>	<u>Year</u>	<u>Revenue Loss</u>	<u>Cumulative Annual Revenue Loss</u>
\$ 65,000	1	\$785,000	\$ 785,000
\$ 75,000	2	\$650,000	\$1,435,000
\$ 85,000	3	\$470,000	\$1,905,000
\$ 95,000	4	\$455,000	\$2,360,000
\$105,000	5	\$420,000	\$2,780,000
\$115,000	6	\$370,000	\$3,150,000
\$125,000	7	\$350,000	\$3,500,000

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #3: County minimum tax similar to city (\$100) (9 votes)

Legal issues: Requires City and County Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2002 the Ordinances would need to be approved by October 15, 2002.

Fiscal Impact to City and County: City revenues would not be impacted. County revenues would increase by approximately:

Minimum Fee/Tax	Number of Accounts	Amount
\$ 25.00	11,281	\$ 235,750
\$ 50.00	14,445	\$ 560,700
\$ 75.00	17,087	\$ 957,270
\$100.00	19,192	\$1,413,000

Estimates were based on tax year 2000 data.

Estimated businesses and type of businesses paying greater tax: Impacts approximately 11,000 to 19,000 businesses that are currently paying less than the minimum fee/tax.

Estimated businesses and type of business paying less tax: None

Other Comments/Potential Unintended Consequences/Policy Issues: Many small businesses will be paying a tax that they are currently not paying.

Change to the City minimum fee was not calculated. Alternative methods could be used to raise the City minimum fee to \$150 or \$200. These alternatives have not been calculated.

Increase fee by inflation factor.

Hits businesses that can least afford it.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #4: Eliminate all or nothing apportionment option (6 votes)

Legal issues: This can be changed by Administrative Rule which requires a public hearing.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County:

City revenues would increase by approximately \$200,000.

County revenues would increase by approximately \$200,000

Estimates base on Bureau of License best thinking.

Estimated businesses and type of businesses paying greater tax: Impacts companies that are not located within the City or County but do business in the City and County.

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues:

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #5: Reduce residential rental exemption from 9 to 4 units (11 votes)

Legal issues: Requires City and County Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County: City revenues would increase by approximately \$200,000. County revenues would increase by approximately \$200,000.

Amounts based on Bureau of License staff best estimates

Estimated businesses and type of businesses paying greater tax: Impacts approximately 1,152 residential rental units, between 5 and 8, that are currently exempt from paying this tax.

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues: Owners will likely pass on tax increase to renters.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #6: Reduce tax rates (7 votes)

Legal issues: Requires City and County Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2002 the Ordinances would need to be approved by October 15, 2002.

Fiscal Impact to City and County: Each .1% reduces the County revenue by \$2.2 million and the City revenue by \$1.95 million

Estimated businesses and type of businesses paying greater tax: None

Estimated businesses and type of business paying less tax: All taxpayers paying the tax.

Other Comments/Potential Unintended Consequences/Policy Issues:

Could establish a graduating tax rate system.

City

Rate	Total Revenue	Revenue Reduction
2.10%	\$ 40,947,506.02	\$ 1,949,881.24
2.00%	\$ 38,997,624.78	\$ 3,899,762.48
1.90%	\$ 37,047,743.54	\$ 5,849,643.72
1.80%	\$ 35,097,862.30	\$ 7,799,524.96
1.70%	\$ 33,147,981.06	\$ 9,749,406.20
1.60%	\$ 31,198,099.83	\$ 11,699,287.43
1.50%	\$ 29,248,218.59	\$ 13,649,168.67
1.40%	\$ 27,298,337.35	\$ 15,599,049.91
1.30%	\$ 25,348,456.11	\$ 17,548,931.15
1.20%	\$ 23,398,574.87	\$ 19,498,812.39
1.10%	\$ 21,448,693.63	\$ 21,448,693.63
1.00%	\$ 19,498,812.39	\$ 23,398,574.87
County		
1.35%	\$ 29,812,597.19	\$ 2,208,340.53
1.25%	\$ 27,604,256.66	\$ 4,416,681.06
1.15%	\$ 25,395,916.12	\$ 6,625,021.60
1.05%	\$ 23,187,575.59	\$ 8,833,362.13
1.00%	\$ 22,083,405.32	\$ 9,937,532.40
0.95%	\$ 20,979,235.06	\$ 11,041,702.66
0.85%	\$ 18,770,894.53	\$ 13,250,043.19
0.75%	\$ 16,562,553.99	\$ 15,458,383.73
0.65%	\$ 14,354,213.46	\$ 17,666,724.26
0.60%	\$ 13,250,043.19	\$ 18,770,894.53

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #7: Change the business license fee to an after the fact tax to allow the taxation of capital gain income (5 votes)

Legal issues: Requires City Code change by Ordinance.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County:

City revenues: If during the tax year 2000 the Portland business license was a tax after the fact (like MCBIT) and not paid in advance, the increased revenue would have been \$165,000. This is likely lower than it would have been in prior years due to the economic downturn.

County revenues: No impact

Estimated businesses and type of businesses paying greater tax: Impacts approximately businesses that are currently not paying this tax.

Estimated businesses and type of businesses paying greater tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues:

Simplifies tax reporting for businesses.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #8: Eliminate the exemption for incomes subject to the franchise fee (utilities) (6)

Legal issues: Would need to determine if this is legal. Requires City Code change by Ordinance. May require unknown change in State law.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County: City revenues would increase by approximately \$365,000. County revenues would not be impacted

Financial impact based on tax year 2000 data.

Estimated businesses and type of businesses paying greater tax: Impacts approximately 6 to 9 (estimate) businesses that are currently not paying this tax.

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues:

This could be considered as double taxation

Current legal issues regarding Qwest and the telecom industry

Utilities have strong lobbies and may influence legislature on how intangibles are valued and taxed.

Issue: Can the BIT/BLF be imposed on utilities?

ORS 221.450 authorizes a City to charge a public utility with a privilege tax for using city streets and rights-of-way. The tax is up to 5% of the gross revenues of the utility derived within the City. The City charges utilities a business license fee equal to 5% of gross revenues. (See PMC § 7.14.040.)

The issue then becomes whether the City (or the County) can both impose a 5% of gross revenues license fee and at the same time impose the BLF and the BIT on the utilities' net income.

Analysis

There is a 1986 City Attorney opinion that concludes that imposing the BLF/BIT on a utility's net income would be illegal "double taxation." That opinion defines double taxation as follows:

"Double taxation occurs when two taxes of the same character are imposed on the same property, for the same purpose, by the same taxing authority within the same jurisdiction during the same taxing period."

The opinion concludes that taxing gross revenues and the resultant net income is taxing the "same property."

That conclusion is open to debate. One could take the position that gross revenue is different "property" than net income. If a utility generates \$100 of revenue, pays a \$5 tax, then deducts that tax and deducts the operating expenses to get net income, it is arguable that the net, which is computed after the tax is deducted, is different "property." However, this is an issue that would require more research and analysis which should occur after a policy discussion of whether this additional tax should be imposed on utilities.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #9: Eliminate state exemption for certain business activities (8)

Legal issues: Requires ORS to be changed. ORS involved are 731.840, 731.841, 731.854 701.035 (6) (a) and 696.365. Also would requires City and County Code change by Ordinance.

Earliest Implementation: The ORS would need to be changed during the 2003 legislative session.

Fiscal Impact to City and County: City/County revenues unknown at this time

Estimated businesses and type of businesses paying greater tax: Impacts about 400 real estate agents and 1,240 insurance agents.

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues:

Issue: Can the BIT/BLF be imposed on real estate brokers?

ORS 696.365 provides that:

“(1) A city or county shall not impose or collect a business license tax from a person licensed as a real estate broker who engages in professional real estate activity as an agent of a principal real estate broker.

“(2) As used in this section ‘business license tax’ has the meaning given that term in ORS 701.015.”

ORS 701.015(6)(a) defines a “business license tax” as “any fee paid by a person to a city or county for any form of a license that is required by the city or county in order to conduct business in that city or county.”

Analysis:

ORS 696.365, adopted in 1987, clearly precludes the imposition of a business license tax on real estate brokers who work for a principal real estate broker. A principal real estate broker is the broker that supervises other real estate brokers (these persons used to be called sales agents). (See ORS 696.010(12)(and (15)). The real estate brokers are generally independent contractors, not employees. Thus, the income of these independent contractors is exempt from

taxation. If these individuals were employees, and not employee/owners, their income would be wages and would also be exempt because there would be deductions in computing the principal real estate broker's net income.

The only potential taxation opportunity here is in the definition of a business license tax. That turns on whether the city or county is requiring a "license" to conduct business. Clearly the city is requiring a license. However, it should be determined whether the County actually requires a license or just taxes income without a license requirement.

Absent the above opportunity, if the City and County wanted to tax the net income of real estate brokers, ORS 696.365 would have to be repealed.

Issue: Can the BIT/BLF be imposed on insurance companies and insurance agents?

Analysis:

ORS 731.840(4) appears to prevent local government from taxing insurance companies and their agents. That statute provides:

"(4) The State of Oregon hereby preempts the field of regulating or imposing excise, privilege, franchise, income, license, permit, registration, and similar taxes, licenses and fees upon insurers and their agents and other representatives as such...."

It is important to note that this preempts both regulating and taxing. It is not unusual for the state to preempt regulation at the local level of a business or profession already regulated at the state level (e.g., real estate brokers, attorneys, doctors). However, this statute goes beyond that and preempts local taxation.

However, the subsections under ORS 731.840(4) appears to confuse the matter. Subsection (b) prevents the City from requiring a "license" to conduct insurance business, which would appear to prevent a license fee. On the other hand, Subsection (a) would appear to allow an income tax:

"(b) No county, city, district or other political subdivision or agency in this state shall so regulate, or shall levy upon insurers, or upon their agents and representatives as such, any such tax, license, or fee; except that whenever a county, city, district or other political subdivision levies or imposes generally on a nondiscriminatory basis throughout the jurisdiction of the taxing authority a payroll, excise or income tax, as otherwise provided by law, such tax may be levied or imposed upon domestic insurers...."

This would appear to allow a business income tax but, coupled with Subsection (b), may not allow a business license fee. It is unclear whether that tax may be levied only on insurers or on both insurers and their agents. The beginning of

Subsection (b) refers to insurers and their agents, but the language authorizing the tax refers only to levying the tax on "domestic insurers" and does not mention agents. This could be either intentional or unintentional poor drafting. There are no reported cases that interpret this section. There is one case, *City of Beaverton v. Harris*, 3 Or App. 542 (1970), which interprets a different statute, where the statute (ORS 696.110(2)) prohibited a local "license or fee" because of State regulatory preemption, yet the Court upheld a local "non-regulatory" tax on income.

The bottom line is that the City and County may be able to tax insurers and agents, but further research may be necessary.

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #10: Create a real estate transfer tax on sales and financing of property (9 votes)

Legal issues: Requires ORS 306.815 to be changed. Would also require City and County Code change by Ordinance. Need legal opinion on the ability to tax refinancings and commercial leases

Earliest Implementation: The ORS would need to be changed during the 2003 or 2005 legislative session. Probably would not be able to

Fiscal Impact to City and County: A 1% tax on sales of property would have generated \$40 million in revenues in FY 2000 and \$41 million in FY 2001. (Checking to see where we can get data on refinancings)

Estimated businesses and type of businesses paying greater tax: Impacts are as follows for FY 2000 and 2001:

Year	Sales Type	Number	Dollar Amount
FY 2000	Commercial/Industry	801	\$1,065,438,630
FY 2000	Residential/Condo	16,934	\$2,784,338,647
FY 2000	Multifamily	225	\$ 149,105,853
	Total	17,960	\$3,998,883,130
FY 2001	Commercial/Industry	661	\$ 522,250,485
FY 2001	Residential/Condo	18,534	\$3,398,540,730
FY 2001	Multifamily	262	\$ 186,156,903
	Total	19,457	\$4,106,948,118

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues: In the past the Bankers, Homebuilders, Real Estate agents and low income housing advocates have opposed this tax and we would need the business community to help gain their support.

Shifts a portion of taxes from business to residential owners.

Is it good policy to tax refinancings?

In the past the City and County have discussed using this vehicle for affordable housing.

Tax collections track business cycles, especially interest rate changes.

Could possibly make this a Mortgage Recording Fee

Administration of the collection needs to be considered.

Issue: May the City and/or the County impose a real estate transfer tax?

ORS 306.815, adopted in 1989 and revised in 1997, provides:

"Tax on transfer of real property prohibited; exceptions. (1) A city, county, district or other political subdivision or municipal corporation of this state shall not impose, by ordinance or other law, a tax or fee upon the transfer of a fee estate in real property, or measured by the consideration paid or received upon transfer of a fee estate in real property.

(2) A tax or fee upon the transfer of a fee estate in real property does not include any fee or charge that becomes due or payable at the time of transfer of a fee estate in real property, unless that fee or charge is imposed upon the right, privilege or act of transferring title to real property.

(3) Subsection (1) of this section does not apply to any fee established under ORS 203.148.

(4) Subsection (1) of this section does not apply to any tax if the ordinance or other law imposing the tax is in effect and operative on March 31, 1997.

(5) Subsection (1) of this section does not apply to any tax or fee that is imposed upon the transfer of a fee estate in real property if the fee that is imposed under ORS 205.323, for the recording or filing of the instrument conveying the real property being transferred is less than \$11."

The exclusions referenced in Subsections 3 and 5 are not relevant.

Analysis

Subsection 1 appears to prevent that City or County from imposing a "tax or fee" upon the "transfer of a fee estate in real property." However, it also prohibits such a fee or tax "measured by the consideration paid or received upon transfer of a fee estate in real property." It is unclear whether the intent of the statute is to define two distinct things: (1) a fee or tax upon a transfer, and (2) a fee or tax based upon the consideration paid; or whether the latter simply amplifies or illustrates the former.

Subsection (2) excludes from the definition of a prohibited tax on the transfer of real estate a fee or tax which, if not paid, does not prevent the "right, privilege or act of transferring title to real property." Thus, a local government could impose a transfer tax or fee so long as a consequence of non-payment would not be the refusal of the county recorder to record the transfer documentation or make void the transfer. Such a fee or tax would raise the obvious issue of enforcement; however, the City or the County could impose a lien on the transferred property as an enforcement mechanism.

The possibility of a tax or fee as described in Subsection 2 then brings us back to the question first raised above: does the statute prohibit two separate things: any "tax or fee upon the transfer" and a tax or fee "measured by the consideration

paid." If those two concepts are the same, then a tax or fee consistent with that described in Subsection (2) could be passed by the City and the County. If those two concepts are different, then no tax based on the value of the transfer could be adopted, even if it met the enforcement standard in subsection (2).

A separate issue is a tax or fee on mortgages or trust deeds. Many jurisdictions impose a tax on recording a mortgage or deed of trust. ORS 306.815 only prohibits a tax on the transfer of a "fee estate in real property." A mortgage or deed of trust is not the transfer of a "fee estate." Thus, the statute does not prohibit a fee or tax on the recording of a mortgage or deed of trust.

It is also worth noting that ORS 203.055 would require county voters to approve a new tax. That statute provides:

"Any ordinance adopted by a county governing body under ORS 203.035 (general authority of County Board) and imposing, or providing an exemption from, taxation shall receive the approval of the electors of the county before taking effect."

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #11: Establish a minimum fee/tax on non-profits (7 votes)

Legal issues: Requires City and County Code change by Ordinance. If payroll tax the City charter does not authorize this type of tax. County has received an opinion from County attorney in 1990 that this is a tax that Multnomah County can authorize. Would recommend that this opinion be requested again.

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County: Varies depending on tax and tax rate. Each 1% tax on payroll would generate about \$12.4 million in revenues. (Based on the following information)

Estimated businesses and type of businesses paying greater tax: Impacts approximately non profits that are currently not paying this tax.

The following Table details the Types of non-profits and there payroll (Covered payroll in 2000).

Non-Profit Sector	# of Locations	Avg Monthly Employment	Covered Payroll 2000
Manufacturing, construction, media & transportation	21	625	\$23,073,651
Wholesale & retail trade	11	145	2,778,688
Legal services	7	218	7,722,479
Health care	79	17,918	658,881,611
Educational service	111	5,814	143,992,644
Social services	539	10,088	214,381,419
Performing arts	13	262	6,046
Sports and recreation	15	746	14,824,466
Miscellaneous services	123	2,658	68,597,079
Membership organizations	626	5,343	103,173,575
Total paid employment	1,545	43,817	\$1,243,471,843

Source: ECONorthwest

Comments from ECONorthwest on 3 of locations:

- Some businesses report their accountant's address as their establishment's because that is where the paychecks are written. That means sometimes the counties are misreported.
- Some with more than one establishment will just report the place where the payroll department is. This is more the exception than the rule, however.
- Some nonprofits misclassify their SIC. In 1996 a huge report for nonprofits in Oregon where ECONorthwest physically sorted every one of them and classified them properly. Based on the state data a number of religious groups that really do 90%+ charitable work (soup kitchens, for example) list themselves as membership organizations.

- Most religious groups run on volunteers and don't show up. There are quite a few churches, however, but they have few workers.

Estimated businesses and type of business paying less tax: N/A

Other Comments/Potential Unintended Consequences/Policy Issues:

County is in discussions with hospitals regarding charity care to be received from hospitals.

City is in conversations with OHSU

While the formula for levying a BIT/BLF on hospitals (and other non-profits) has not been determined, Don McClave mentioned to the Steering Committee that the amounts collected by Tri-Met may provide a guide to their tax generation potential.

Pursuant to ORS 267.300(g), Tri-Met may finance its operation by levying a tax on "employer" payrolls. Under ORS 267.380(b): Employer does not include an organization exempt from taxation under section 501(c) (3) of the Internal Revenue Code, as amended and in effect on December 31, 1996, except that an "employer" does include hospitals.

As a result Tri-Met charges about 0.6% tax on payrolls of hospitals within its district which makes up most of the Oregon portion of the Portland Metropolitan region.

There has been some discussion as to how to avoid taxing smaller, cash strapped, social service-type non-profits. Below are some possible formulations:

- Exempt all 501 (c) (3) corporations except hospitals (as per Tri-Met. In this case all other non-profits i.e. 501 (c) (6) would be taxed.
- Exempt all non-profit corporations organized under (501 (c)) subsection that have net revenues less than a certain amount.
- Tax all non-profit organized under any 501 (c)) subsection and provide a deduction on \$xxxx amount of wages to exempt small organizations.
- Establish specific list of types of non-profits to tax or exempt (i.e. hospitals, museums, business organizations, schools....., or exempt non-profits providing social services (but not hospitals), affordable housing, veteran organizations...). This may be the most difficult approach because many non-profits have overlapping roles (i.e. hospitals can claim exemptions as a religious or social service organization if the definition are not air-tight.
- Only tax non-profits that charge a fee for service. This too appears to have definitional and administrative difficulties. For example, some affordable housing organizations the City would wish to exempt charge below-market rents. If one tries to limit "fee for service" to mean "market-rate fee for service" that could pull-in hospitals that provide discounted or free services to the needy.
- Combination of the above.
- Charge a head tax fee and not payroll.

501 c Organizations

Tax Code Section	Description of Organizations	Example
501 c 1	Corporations Organized under Act of Congress; Federal Instrumentalities	Federal Credit or Union or Amtrak
501 c 2	Title Holding Corporation for an Exempt Corporation	
501 c 3	Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, Foster National or International Sports Competition, or Prevention of Cruelty to Children or Animals Organizations. All 501 c 3 organizations are further categorized as one of five types: Private Foundations, Publicly-supported charities, Exempt purpose activity-supported charities, supporting organizations for publicly-supported or exempt purpose activity-supported charities, Public safety charities	Churches, Olympic Committee, Humane Society, Hospitals, MDA Most charitable organizations fall in this section
501 c 4	Civic Leagues, Social Welfare Organizations, Local Associations of Employees	City Club of Portland
501 c 5	Labor, Agricultural and Horticultural Organizations	AFL-CIO or AFSCME
501 c 6	Business Leagues, Chambers of Commerce, Real Estate Boards	Portland Business Alliance
501 c 7	Social and Recreation Clubs	Alumni Associations
501 c 8	Fraternal Beneficiary Societies and Associations	BPOE (Elks) with self-Insurance program for members
501 c 9	Voluntary Employees' Beneficiary Associations	
501 c 10	Domestic Fraternal Societies and Associations	BPOE (Elks) without self-Insurance program for members
501 c 11	Teachers' Retirement Fund Assns	
501 c 12	Benevolent Life Insurance Assn, Mutual Ditch or Irrigation Companies, Mutual Cooperative Telephone Co	
501 c 13	Cemetery Companies	
501 c 14	State Chartered Credit Unions, Mutual Reserve Funds	
501 c 15	Mutual Insurance Co or Assn	
501 c 16	Cooperative Organizations to Finance Crop Operations	
501 c 17	Supplemental Unemployment Benefit Trusts	
501 c 18	Employee Funded Pension Trust (created before 6/25/59)	
501 c 19	Post or Organization of Past or Present Members of the Armed Forces	
501 c 20	Group Legal Services Plan Organizations	
501 c 21	Black Lung Benefit Trusts	
501 c 22	Withdrawal Liability Payment Fund	
501 c 23	Veterans Organization (created before 1880)	
501 c 25	Title Holding Corporations or Trusts	
501 c 26	State-sponsored Organization Providing Health Coverage for High-Risk Individuals	
501 c 27	State-sponsored Workers' Compensation Reinsurance Org	

COMMUNITY PARTNERSHIP ISSUE PAPER

Issue #12: Place a CAP on taxes

Legal issues: This can be changed by Code change

Earliest Implementation: To be effective for tax year 2003 the Ordinances would need to be approved by December 31, 2002.

Fiscal Impact to City and County:

Estimates are being generated The following table reflects a Cap on various dollar levels.

<u>CAP MAX</u>	<u># Accts</u>	<u>City \$ Loss</u>	<u># Accts</u>	<u>County \$ Loss</u>
\$ 500,000	3	\$ 706,063	1	\$ 254,028
\$ 450,000	4	\$ 811,847	1	\$ 304,028
\$ 400,000	5	\$ 1,017,091	2	\$ 396,956
\$ 350,000	7	\$ 1,277,280	3	\$ 523,716
\$ 300,000	8	\$ 1,641,290	4	\$ 681,141
\$ 250,000	10	\$ 2,080,972	6	\$ 944,114
\$ 200,000	15	\$ 2,673,778	9	\$ 1,329,359
\$ 150,000	27	\$ 3,691,312	16	\$ 1,922,471
\$ 100,000	47	\$ 5,472,656	30	\$ 3,024,448

Estimated businesses and type of businesses paying greater tax

Estimated businesses and type of business paying less tax:

Other Comments/Potential Unintended Consequences/Policy Issues: Various ways to structure the CAP.

PBA

RESOLUTION
For
BUSINESS INCOME TAX AND BUSINESS LICENSE FEE REFORM

WHEREAS, the local business license fees collected by the City of Portland and the business income taxes collected by Multnomah County act as disincentives to businesses remaining, investing, or locating in the city and county; and

WHEREAS, the local business income taxes and business license fees also create inequities among competing businesses and unfair tax burdens upon certain industries and sectors; and

WHEREAS, the revenues generated by the local business income taxes represent significant portions of the general funds of both local governments used to support police, jails, libraries, fire, and health services; and

WHEREAS the Portland Business Alliance (then doing business as the Portland Metropolitan Chamber of Commerce and the Association for Portland Progress), the Portland Development Commission, the City of Portland, and Multnomah County initiated by written agreement a Community Partnership in November 2001 to jointly assess and review the impacts of the business income taxes and business license fees upon the business climate and to consider potential reforms if necessary; and

WHEREAS, a Community Partnership Steering Committee, representing all of the organizations that were party to the Community Partnership in addition to representatives of other private sector or non-profit organizations, was appointed to guide the process of review and to develop recommendations during the last twelve month period; and

WHEREAS, the Community Partnership Steering Committee is completing a review of potential immediate adjustments to the current business income taxes and business license fees, as well as options for the permanent replacement or restructuring of the primary business taxes/fees levied by Multnomah County and the City of Portland; and

WHEREAS, the interim recommendations being considered, debated, and discussed by the Community Partnership Steering Committee do not remove the disincentives and competitive disadvantages created by the levy of such taxes and fees, nor provide a predictable and stable source of funds for the City of Portland and Multnomah County.

NOW, THEREFORE BE IT RESOLVED:

That a substantial replacement of the local business income taxes and business license fees is necessary in order to significantly reduce the competitive disadvantage such taxes and fees create; and such replacement taxes and/or fees must be fairly and equitably levied or assessed and generate stable revenues for the City of Portland and Multnomah County.

BE IT FURTHER RESOLVED THAT:

The City Council and Board of County Commissioners are called upon to reject all of the proposed interim fixes to the Business License Fee and the Business Income Tax, while committing to the development, collaboratively with the Portland Business Alliance, of a permanent replacement proposed by January 15, 2003.

ATTESTED TO THIS DAY BY:

Secretary

Date

Portland Business License Revenues: Volatile & Hard To Predict Or Cyclical And Predictable?

A task force (the Community Partnership Steering Committee) is currently reviewing County and City business income taxes. Elements of the task force argue that the County and City ought to change the current tax, in part, because this tax revenue is too volatile and unpredictable.

Is This Tax Volatile And Unpredictable?

The simple answer to this question is: NO. Figure 1 shows business license revenues (for the City) from 1975 to the present. This graph does not show a volatile revenue stream. It is a "cyclical" revenue stream. Revenues predictably follow the business cycle

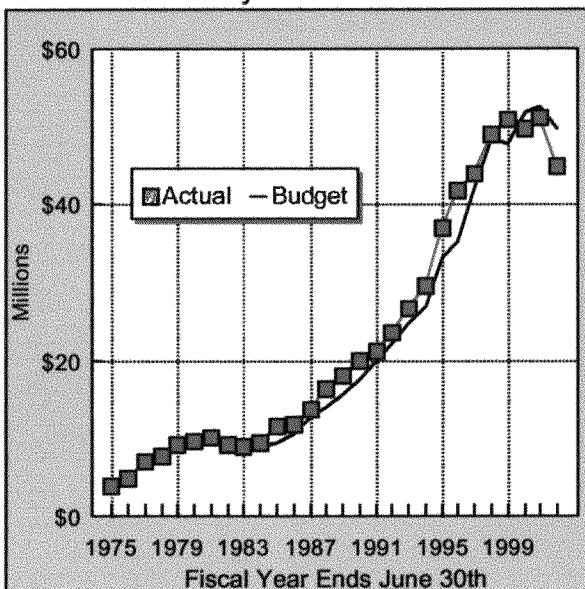


Figure 1-Business License Revenues

with a revenue downturn during the 1980s recession, slower growth in the early 1990s, and a downturn in revenues associated with the current recession.

The graph further shows budgeted revenues relative to actual. The budget line "hugs" the actual line. The City has had no trouble budgeting business license revenues using regularly available information put into the City's "IT" system by the License Bureau. With exception of last year and the current year, revenues have never come in under budget, always somewhat over budget. The City uses a traditional methodology to forecast revenues that relates revenues to regional economic indicators such as the regional unemployment rate, regional and national economic forecast variables.

In addition, the City has consistently produced General Fund revenue forecasts where actual revenues have been within a 2 percentage point variance of budget as shown in Table 1.

Fiscal Year	Budget	Actual	%-Dif.
FY1998-99	\$244,160,447	\$245,988,076	0.7%
FY1999-00	\$255,022,365	\$256,301,261	0.5%
FY2000-01	\$266,239,751	\$268,491,640	0.8%
FY2001-02	\$268,187,751	\$272,130,002	1.5%

It also needs to be pointed out the City's General Fund is backed by a "counter-

Table 1-Discretionary Revenues vs. Budget

cyclical" reserve that can be tapped during a recession precisely because of the recognition that business license revenues do predictably follow the business cycle.

The Importance of Revenue Mix

The General Fund has a unique revenue mix, unlike most other Cities in Oregon or the west coast for that matter. The City's revenue mix includes the business income tax that is "elastic" in that it tends to predictably grow faster than inflation, in tandem with income growth during cyclical upswings and typically declines during recessions. This characteristic was critically important to Council in dealing with the budget fallout from two Oregon property tax limitation measures that resulted in substantial initial reductions in General Fund property tax revenues, but occurred the during the cyclical upswing of the 1990s.

For example, during the first year of Measure 47/50 property tax revenues initially decreased (see Table 2) \$10.5 million (8.3%). Rapid business license revenue growth offset

Fiscal Year	Property Taxes	Bus. License	All Revenues
FY1996-97	\$126,412,831	\$44,015,699	\$238,593,870
FY1997-98(*)	\$115,963,993	\$49,121,347	\$237,252,088
Difference-\$	(\$10,448,838)	\$5,105,647	(\$1,341,781)
Difference-%	-8.27%	11.60%	-0.56%

over half of the initial decline in property taxes. Solid, above trend franchise fee and transient lodging tax revenue growth further offset the property tax revenue decline, **Table 2-Discretionary Revenues Measure 47/50**

thus reducing the initial fiscal impact of Measure 47/50. The General Fund's revenue mix, including two "elastic" revenues (licenses and transient lodgings), was instrumental in helping to protect Council's ability to deliver basic urban services (Police, Fire, and Parks) in the face of substantial initial declines in property tax revenues.

Summary

Business license revenues are not volatile and unpredictable. They predictably follow the business cycle. Portland General Fund discretionary revenues forecasts have been accurate to within a reasonable percentage variance.

Business license taxes provide the City's General Fund with a unique revenue mix that was crucial in helping Council deal with the fallout from successive property tax limitations.

The Equity Issue

The Community Partnership argues that business income taxes levied by both the City and County are unfair. While it is clear that the business community does not like this tax, this argument ignores a basic and well accepted principle of taxation as well as the broader context of the direction of local government tax burden over the past ten years through two property tax limitation measures.

The General Fund provides basic urban services, Police, Fire, and Parks, to City residents. These services are by their very nature public goods that are not easily financed by charging a fee that relates the benefit received to the amount paid. Here, the taxation principle often applied by society is the "ability to pay" principle that calls for equal amounts of taxes to be paid by taxpayers with equal abilities and for different amounts of taxes when such capacities differ. The City's business income tax, acknowledges this well worn principle, if somewhat imperfectly.

Finally, one of the outcomes of two property tax limitation Measures 5 and 47/50 has been a shift of the local tax burden from commercial, industrial, and utility values towards residential properties, particularly as regards property taxes. Table 3 estimates property tax

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Financial Planning

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ITEM	True Cash	Measure 5 Real Market Value		Measure 50 Assessed Value	
	FY1990-91	FY1991-92	FY1996-97	FY1997-98	FY2000-01
Property Values					
Residential.....	\$9,418,095	\$11,680,878	\$23,211,122	\$18,320,920	\$22,954,311
All Other Values.....	\$10,757,440	\$11,645,185	\$15,147,052	\$16,178,169	\$18,179,190
Multnomah Co.	\$20,175,534	\$23,326,063	\$38,358,174	\$34,499,089	\$41,133,501
Tax Rate					
Multnomah Co....	\$4.9655	\$4.4907	\$6.3300	\$4.8875	\$5.3050
Port of Portland..	\$0.3193	\$0.1776	\$0.0800	\$0.0700	\$0.0737
Property Taxes					
Residential.....	\$49,772,746	\$54,529,843	\$148,783,292	\$90,825,961	\$123,464,353
All Other Values.....	\$56,850,917	\$54,363,215	\$97,092,603	\$80,203,273	\$97,780,409
Relative Shares					
Residential.....	46.7%	50.1%	60.5%	53.1%	55.8%
All Other Values.....	53.3%	49.9%	39.5%	46.9%	44.2%

Table 3-Estimated Property Tax Shares, Multnomah County , Port of Portland

shares for residential and all other values over the past 10 years. Taxes by type of property have been estimated using Multnomah County's tax rate and the Port's tax rate because these two tax rates apply to all properties within Multnomah County. Data by type of property is regularly published only by county. It is not possible to do this type of analysis on City values. The estimated residential share of property taxes increased from about 47 per-

cent prior to Measure 5 to about 61 percent during the last year of Measure 5. Measure 50 partially reversed this trend. However, the residential share of property taxes (calculated in Table 3) continues to drift up over time. Residential values appear to consistently grow faster than non-residential values. Overall, Table 3 shows that the non-residential share of property taxes levied has declined by almost 10 percentage points over the ten-year period shown in the Table 3.

Summary

Business license revenues are not volatile and unpredictable. They predictably follow the business cycle. Portland General Fund discretionary revenues forecasts have been accurate to within a reasonable percentage variance.

Business license taxes provide the City's General Fund with a unique revenue mix that was crucial in helping Council deal with the fallout from successive property tax limitations.

Two property tax limitation measures shifted the tax burden toward residential values over the last ten years. Increases in business license taxes have offset this trend. In addition, this tax is based on the ability-to-pay principle and is not inherently unfair.