

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

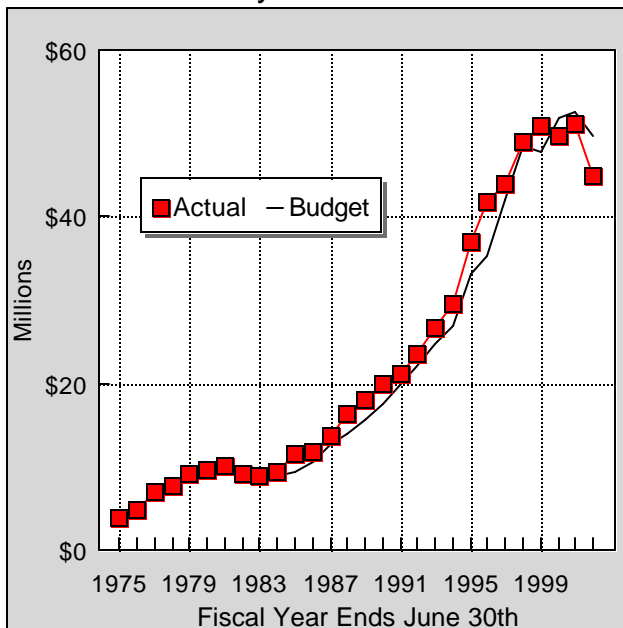


Figure 1-Business License Revenues

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 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 FY1990-91	Measure 5 Real Market Value		Measure 50 Assessed Value	
		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.

Work Table
General Fund Revenue Data

Fiscal Yr.	BL Revenues	Budget	Property Taxes	Discretionary
1975	\$3,852,774		\$25,345,830	
1976	\$4,808,821		\$27,137,600	
1977	\$6,870,402		\$29,165,477	
1978	\$7,617,442		\$31,166,067	
1979	\$9,095,270		\$32,897,761	
1980	\$9,576,179		\$34,657,777	
1981	\$10,034,614		\$39,210,860	
1982	\$8,938,545		\$42,168,712	
1983	\$8,869,780	\$8,650,946	\$42,842,626	
1984	\$9,347,540	\$8,750,000	\$46,707,635	
1985	\$11,445,411	\$9,249,100	\$51,005,050	
1986	\$11,640,760	\$10,500,000	\$54,416,463	
1987	\$13,580,414	\$12,650,000	\$61,859,549	
1988	\$16,197,616	\$13,900,000	\$68,136,615	
1989	\$18,042,828	\$15,534,965	\$72,501,526	
1990	\$19,804,689	\$17,571,450	\$77,767,175	
1991	\$21,192,796	\$19,873,949	\$83,952,430	
1992	\$23,525,721	\$22,020,983	\$74,305,680	
1993	\$26,711,738	\$24,724,694	\$85,939,492	
1994	\$29,480,163	\$26,991,577	\$94,511,409	\$178,838,221
1995	\$36,966,353	\$33,021,072	\$109,934,455	\$208,105,914
1996	\$41,815,790	\$35,344,349	\$119,146,378	\$226,507,978
1997	\$44,015,699	\$42,036,208	\$126,412,831	\$238,593,870
1998	\$49,121,347	\$48,570,952	\$115,963,993	\$237,252,088
1999	\$50,950,429	\$47,840,073	\$122,225,131	\$245,988,076
2000	\$49,773,650	\$51,809,103	\$128,062,550	\$256,301,261
2001	\$51,139,208	\$52,527,604	\$134,391,946	\$268,491,640
2002	\$44,984,509	\$49,684,160	\$140,993,135	\$272,130,002
2003				
2004				
2005				
	Property Tax	BL Revenues	Total	% Change
1991	\$83,952,430	\$21,192,796	\$105,145,226	-7.0%
1992	\$74,305,680	\$23,525,721	\$97,831,401	

	Property Tax	BL Revenues	Total	% Change
1997	\$126,412,831	\$44,015,699	\$170,428,530	\$238,593,870
1998	\$115,963,993	\$49,121,347	\$165,085,340	\$237,252,088
% change	-8.27%		-3.14%	-0.56%
difference	(\$10,448,838)	\$5,105,647		

Work Table

Police Fire & Parks, FY2002-03 Budgeted CSL

Bureau	CSL	Adj.Comp.SA	P-F-Parks %
Police Bureau	\$110,329,739	\$114,010,933	
Fire Bureau	\$61,680,908	\$63,738,915	
Parks Bureau	\$29,549,005	\$30,534,919	\$208,284,766
All Other Bureaus-Programs	\$39,819,646	\$41,148,244	
Subtotal-Programs	\$241,379,298	\$249,433,010	83.50%
Set-Asides etc. net.....	\$30,936,464	\$30,936,464	
Comp. Set Aside.....	\$8,053,712		
Subtotal-Set Asides.....	\$38,990,176	\$30,936,464	
One-Time	\$1,197,176	\$1,197,176	
Discretionary Total	\$281,566,650	\$281,566,650	73.97%

Work Table
Estimated City of Portland
Tax Rates & Typical Tax Bill Comparisons

Fiscal Year	TC/RMV			M5C
	Mult.Co.	Other	Total	Mult.Co.
1991	\$15,873,503	\$59,068	\$15,932,571	
1992	\$18,330,344	\$79,583	\$18,409,927	
1993	\$20,091,976	\$88,154	\$20,180,129	
1994	\$21,599,964	\$90,912	\$21,690,876	
1995	\$24,940,673	\$98,129	\$25,038,802	
1996	\$28,201,782	\$109,452	\$28,311,234	
1997	\$31,311,065	\$127,896	\$31,438,961	
1998				\$26,413,251
1999				\$28,615,024
2000				\$30,062,010
2001				\$31,743,285
2002				\$33,178,672
Fiscal Year	HO RMV	HO AV	HO Tax Bill	Res.Class RMV
1991	\$114.400		\$1,006.53	\$9,418,095
1992	\$152.500		\$1,120.55	\$11,680,878
1993	\$164.700		\$1,094.84	\$13,115,128
1994	\$172.900		\$1,143.25	\$14,727,420
1995	\$187.250		\$1,157.86	\$17,177,183
1996	\$201.600		\$1,237.90	\$19,792,331
1997	\$217.700		\$1,386.31	\$22,365,334
1998		\$181.440	\$1,232.65	

1999		\$186.880	\$1,350.55	
2000		\$192.480	\$1,365.37	
2001		\$198.250	\$1,441.80	
2002		\$204.190	\$1,449.82	

(*) FY1997-98 AV = 0.90*FY1995-96 RMV per Measure 50

Work Table

Multnomah County RMV/AV And Property Taxes

	Fiscal Year Ending Jur		
	Pre M5	1st Yr. M5	Last Yr.. M5
Property Type	1991	1992	1997
Residential.....	\$9,418,095	\$11,680,878	\$23,211,122
Commercial & Industrial....	\$5,205,930	\$5,769,180	
Commercial & Multi Housing..			\$10,819,432
Industrial.....			\$233,380
Personal Property.....	\$1,123,004	\$1,141,682	\$1,592,039
Multifamily Residential.....	\$1,436,764	\$1,877,225	
Farm & Forest.....	\$348,470	\$412,634	\$296,382
Tract.....			\$326,808
Recreation & Misc.....			\$197,980
Manufactured Structures....			\$108,028
Centrally Assessed.....			
Indusrtial > \$1 Million.....	\$1,089,875	\$994,978	\$1,573,002
Utilities.....	\$1,553,396	\$1,449,485	
Taxable Value(*)	\$20,175,534	\$23,326,063	\$38,358,173
Checksum Total	\$20,175,534	\$23,326,063	\$38,358,174

Source: 1991, 1992, and 1997 Multnomah County A&T, 1998 and 2001 DC

Note: 1991, 1992, and 2001 net of urban renewal excess value

Revised Table

	Fiscal Year Ending Jur		
	Pre M5	1st Yr. M5	Last Yr.. M5
Property Type	1991	1992	1997
Residential.....	\$9,418,095	\$11,680,878	\$23,211,122
All Other Property Types	\$10,757,440	\$11,645,185	\$15,147,052
Total All Values	\$20,175,534	\$23,326,063	\$38,358,174
Tax Rates County Wide.....			
Multnomah County.....	\$4.9655	\$4.4907	\$6.3300
Port of Portland.....	\$0.3193	\$0.1776	\$0.0800
Total Tax Rate.....	\$5.2848	\$4.6683	\$6.4100
Residential.....	\$49,772,746	\$54,529,843	\$148,783,292
All Other Property Types	\$56,850,917	\$54,363,215	\$97,092,603

Total Taxes: PORT & Cour	\$106,623,663	\$108,893,058	\$245,875,895
Residential Share.....	46.68%	50.08%	60.51%
All Other Share.....	53.32%	49.92%	39.49%
Total Share.....	100.00%	100.00%	100.00%
Checksum Total Taxes	\$0	\$0	\$0

AV	Tax Rate				
Other	General Fund	FPD&R,Other	GO Debt	Urban Renewal	City Tax Rate
	\$5.6194	\$2.9802	\$0.2306		\$8.7983
	\$4.1630	\$2.0786	\$0.1942	\$0.9121	\$7.3479
	\$4.5421	\$1.9292	\$0.1762		\$6.6475
	\$4.5711	\$1.8774	\$0.1637		\$6.6122
	\$4.2836	\$1.7594	\$0.1405		\$6.1835
	\$4.2177	\$1.5280	\$0.3014	\$0.0933	\$6.1404
	\$4.0062	\$1.4747	\$0.3055	\$0.5816	\$6.3680
\$111,212	\$4.5819	\$2.0029	\$0.1951	\$0.0138	\$6.7937
\$128,750	\$4.5770	\$2.0481	\$0.2020	\$0.3997	\$7.2268
\$133,939	\$4.5770	\$1.9613	\$0.2547	\$0.3006	\$7.0936
\$142,710	\$4.5770	\$2.0595	\$0.2592	\$0.3769	\$7.2726
\$152,421	\$4.5770	\$1.8892	\$0.2499	\$0.3842	\$7.1003
Y-T-Y Growth	Com.Class RMV	Y-T-Y Growth	Property RMV	Property AV	Com. Tax Bill
7.7%	\$5,205,930	-5.4%	\$114,400		\$1,006.53
24.0%	\$5,769,180	10.8%	\$126,777		\$931.55
12.3%	\$6,228,154	8.0%	\$136,863		\$909.80
12.3%	\$5,806,912	-6.8%	\$127,607		\$843.76
16.6%	\$6,156,281	6.0%	\$135,284		\$836.53
15.2%	\$6,571,482	6.7%	\$144,408		\$886.72
13.0%	\$7,531,723	14.6%	\$165,509		\$1,053.96
				\$129,967	\$882.96

				\$133,866	\$967.43
				\$137,882	\$978.08
				\$142,019	\$1,032.85
				\$146,279	\$1,038.63

ne 30th	
1st Yr. M50	Last Data Pt.
1998	2001
\$18,320,920	\$22,954,311
\$9,090,641	\$9,815,601
\$1,783,637	\$2,551,600
\$1,842,840	\$2,301,578
\$254,093	\$264,824
\$240,927	\$285,623
\$873,328	\$6,245
\$102,044	\$131,675
\$1,990,659	\$2,822,045
\$34,499,089	\$41,133,502
\$34,499,089	\$41,133,501

OR, Oregon Property Statistics.

ne 30th	
1st Yr. M50	Last Data Pt.
1998	2001
\$18,320,920	\$22,954,311
\$16,178,169	\$18,179,190
\$34,499,089	\$41,133,501
\$4.8875	\$5.3050
\$0.0700	\$0.0737
\$4.9575	\$5.3787
\$90,825,961	\$123,464,353
\$80,203,273	\$97,780,409

\$171,029,234	\$221,244,762
53.11%	55.80%
46.89%	44.20%
100.00%	100.00%
\$0	\$0

Checksum
\$8.8302
\$7.3479
\$6.6475
\$6.6122
\$6.1835
\$6.1404
\$6.3680



