

**Final Report on the  
Business Income Tax  
And Distributions to Four East County Cities  
September 18, 2007**

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**I. Executive Summary**

Background

In 2006, the Multnomah County Board of Commissioners passed Resolution 06-102. That resolution gave notice to the four East County cities – Gresham, Troutdale, Fairview, and Wood Village – of the County’s intent to dissolve the Business Income Tax (BIT) revenue sharing agreement. Under the terms of that agreement the County was required to give the cities two years’ notice before terminating transfer payments. The revenue sharing agreement, therefore, expires at the end of the current fiscal year. In June 2007, the County Chair tasked the Budget Office with meeting with each of the four impacted cities in order to:

- document the history of the agreement and the tax,
- understand the current impact of the BIT on the General Fund of each city,
- determine the role of the BIT in providing City services, and
- clarify the level of County services provided in each city.

Summary of Issues

The following issues were consistent across all of the conversations that the Budget Office staff had with the four cities:

- The main impact of eliminating the transfer of BIT revenue is decreased capacity for public safety in East County.
- The conversation about the BIT should be part of a larger discussion about regional taxes, especially since the BIT is a revenue source that is paid by businesses throughout the state and region.
- The County BIT replaced existing business tax revenue from three of the four cities. Furthermore, property tax limitations enacted since 1990 have restricted local jurisdictions ability to grow their revenue base.
- Determining the level of County service in each city and/or recalculating a distribution formula would be difficult and would involve some highly subjective assumptions.

### Summary of Options

The memo from Chair Wheeler to the East County elected officials listed three possible outcomes related to Resolution 06-102:

- Do nothing - let the agreement terminate as described in the resolution.
- Repeal the repeal - let the existing agreement continue without changes.
- Negotiate a new agreement.

The following is a list of some of the potential changes that were suggested during the course of this analysis:

- Base future BIT distributions on where tax revenue was generated.
- Lower the distribution to cities by some amount or percentage.
- Negotiate intergovernmental agreements with the four cities that describe the services to be funded by BIT revenue.
- Continue the revenue sharing agreement with the three cities that previously had a business tax. Do not share BIT revenue with Gresham.
- Analyze and develop potential alternative source(s) that could generate as much revenue as the BIT and be replicated regionally, and eliminate the current tax.
- Have Multnomah County, or some other countywide jurisdiction, administer business taxes for the entire region.

## II. Summary of Task

In June of 2006, facing the sunset of the personal income tax (ITAX) and forecasts of large budget deficits, the Multnomah County Board of Commissioners passed Resolution 06-102. The effect of the resolution was to terminate the revenue sharing agreement that distributed Business Income Tax (BIT) revenues to four East County cities. As mandated in the agreement with Gresham, Troutdale, Fairview, and Wood Village, the County gave a two-year notice that transfer payments would be discontinued after June 30, 2008.

The dissolution of what has been a 30-year intergovernmental agreement will become effective for FY 2008-09 unless the parties take further action to modify or renegotiate the agreement. The portion of the BIT revenue previously shared with the four cities will be retained by Multnomah County for use as a general revenue source. In FY 2006-07 the County transferred approximately \$5.9 million to the East County cities.

In January 2007, a new County Chair, supported by a new composition of the Board of County Commissioners, decided to research issues involved with the BIT and discuss the matter with each of the East County cities before the agreement expired. In June 2007, the County Chair tasked the Budget Office with meeting with each of the four impacted cities in order to:

- document the history of the agreement and the tax,
- understand the current impact of the BIT on the General Fund of each city,
- determine the role of the BIT in providing City services, and
- clarify the level of County services provided in each city.

## III. Background

Although there have been many clarifying ordinances passed in the 30 years of its existence, the intergovernmental agreement between Multnomah County and the cities of Gresham, Troutdale, Fairview, and Wood Village has remained essentially the same since the parties entered into the agreement.

The BIT was imposed through passage of Ordinance 121 in April, 1976 and it replaced a County Business License Fee that had been in place for the two prior years. The BIT was originally set at .6% (six-tenths of one percent) of business net income generated within Multnomah County. A business with Multnomah County income of \$100,000, for example, would pay \$600 in tax. Payments are determined in the following manner:

- begin with net income from federal tax return,
- deduct an owner's compensation allowance (currently set at \$61,500) for each owner or shareholder who controls 5% or more of business assets,
- calculate apportionment of income generated within Multnomah County,
- deduct up to 75% of net operating loss (if any) as an offset to county income, and
- apply the tax rate to the amount calculated from the above steps.

Upon collection of the tax by Multnomah County, it was to be shared with the four East County cities. By terms of the original agreement, if the County collected less than \$2.5 million in total revenue, \$136,250 would be transferred to the cities. This represented a minimum of 5.45% distribution for East County cities (which would be a higher percentage of the BIT if less than \$2.5 million was collected). If the County collected more than \$2.5 million an additional 20% of any amount over \$2.5 million would be distributed to the cities. If the County collected \$10 million in BIT, for example, the four cities would share \$2,045,000 – which would represent more than 20% of the total BIT revenue.

The allocation of tax revenue to be shared between the four cities is determined by a two-part formula. Half of the tax is distributed based on an annual Portland State University population survey while half is distributed on the basis of the annual assessed value of each city.

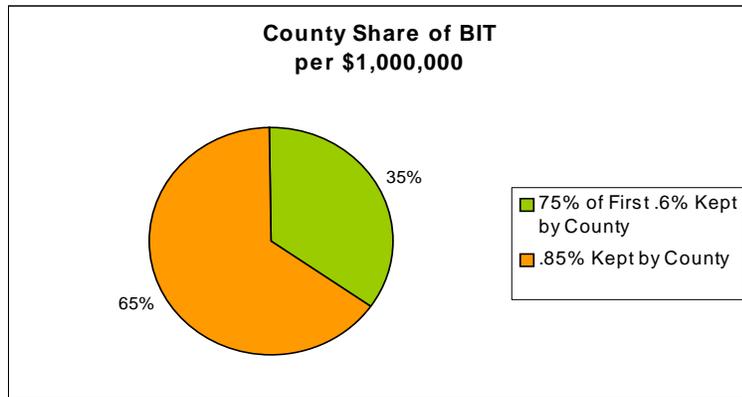
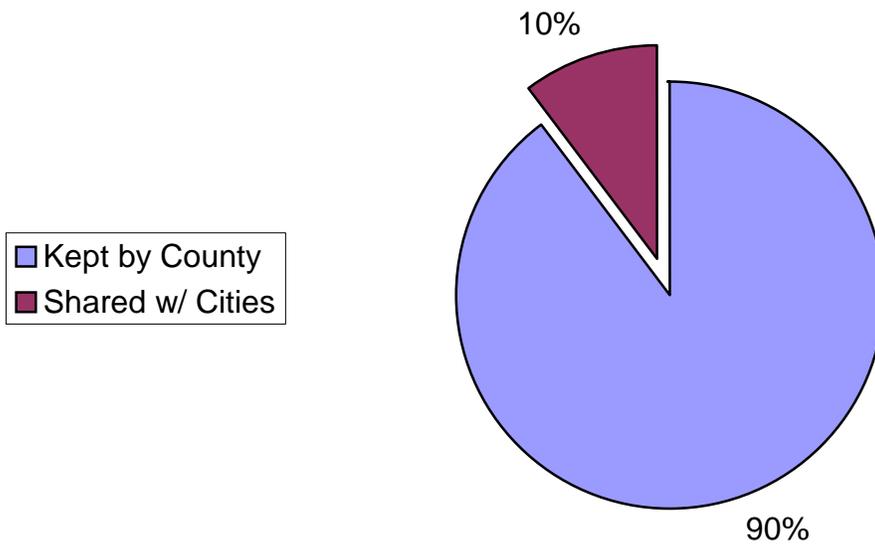
There has been only one major change to the agreement during its 30-year history. In 1986, at the height of a deep economic recession and faced with the loss of federal revenue sharing funds, the County raised the percentage of business income that was taxed from .6% to .95%. It was raised once again, in 1987 to 1.46% of business income. The BIT has remained at approximately that rate, with the exception of a temporary rate increase in 1998, for the past twenty years.

The County originally distributed the revenue from the .35% increase to the cities according to their respective allocation percentage. In 1988, however, the County decided that the amount of tax collected above the original .6% would not have to be shared with the cities, and the County requested that the funds already distributed be returned. The cities felt that the intent of the agreement was to share all BIT revenue with their jurisdictions. They collectively sued the County to retain the share of the revenue they believed they were entitled to. The court sided with the cities and no funds were returned to the County.

In 1988, however, a new revenue sharing agreement was negotiated. The new agreement clarified the County's original intent to share only revenue from the first .6% BIT increment. That agreement, which continues to this day, specifies that the four cities share one-quarter of the first .6% of BIT collections.

The chart on the following page offers a graphic representation of how the BIT revenue is shared with the East County cities. It also demonstrates how the revenue sharing agreement relates to the percentage of total revenue kept by the County.

**2007 BIT Revenue Sharing  
per \$1,000,000**

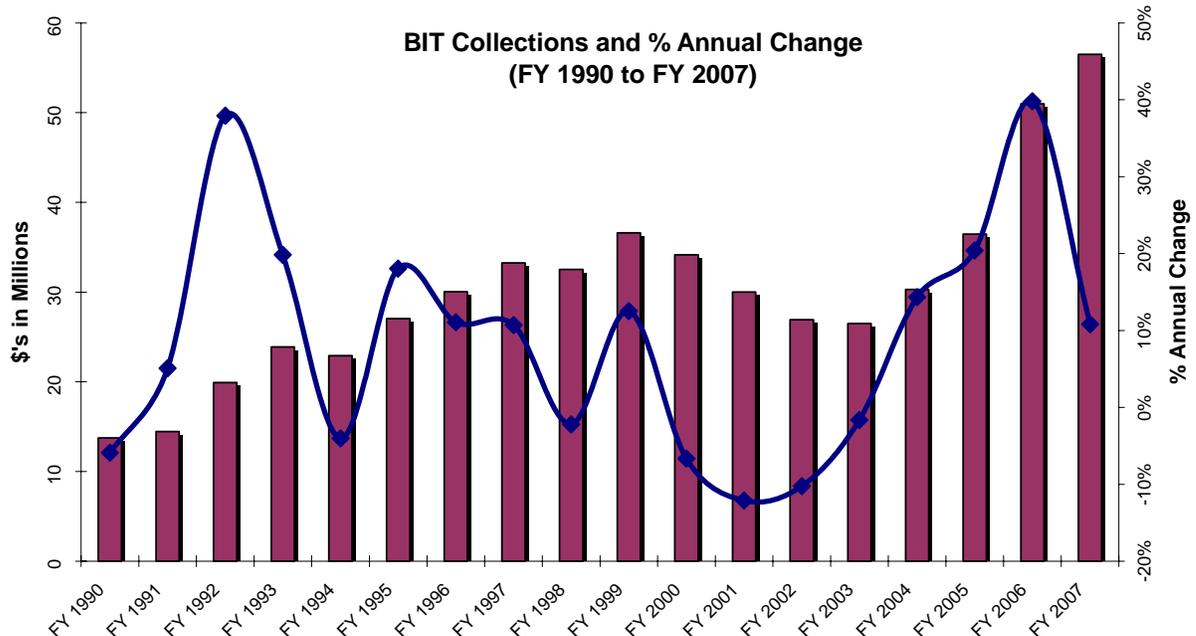


Two other changes to the BIT code occurred during the 1990's. In 1993, responsibility for the collection of the Multnomah County BIT and the City of Portland's Business License Fee (BLF) were consolidated within the City of Portland's License - now Revenue - Bureau. The rate was lowered from 1.46% to 1.45% (the rate it is set at today) in order to simplify filing requirements. In 1998, the rate was temporarily raised to 1.95% to support local school districts. Proceeds from the temporary rate increase were passed through in their entirety to all of the school districts within the county. Several other ordinances have made minor changes over the years. A list of all ordinances pertaining to the BIT is included in the Appendix.

#### IV. Historical distributions

Over the 30 years of its existence, the BIT has proven to be a volatile source of revenue. Because it is a tax on business, it typically follows the cycles in the regional economy. Since it is based on the percentage of income earned in Multnomah County, annual collections are also highly susceptible to the way in which individual companies treat their tax liability.

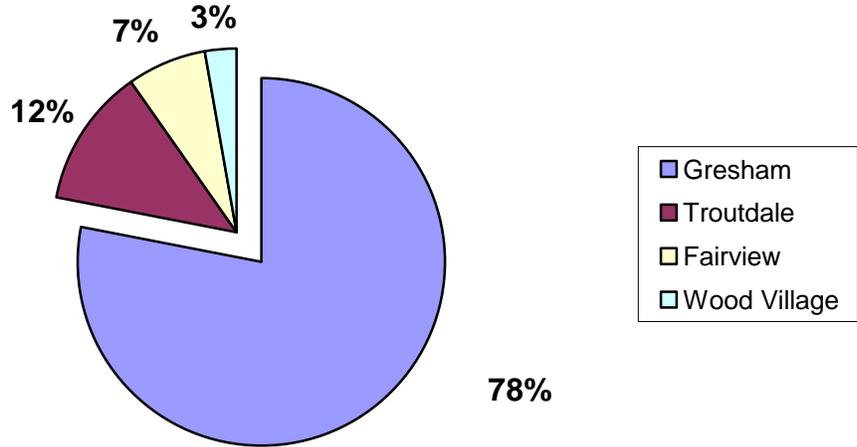
The chart below shows actual BIT collections since FY 1989-90. It serves to highlight the enigmatic nature of this revenue source. The bars highlight actual annual collections. Those have ranged from a **low of \$14.4 million** in FY 1989-90 to a high **of about \$57 million** received in the last fiscal year. The line reflects the annual percentage change in collections. The line, therefore, offers a more graphic representation of the relative changes in the regional economy over time.



Annual tax receipts have increased dramatically since FY 2002-03. Some year-over-year revenues have grown by as much as 40%. The FY 2006-07 revenues were actually about \$6 million higher than the previous year but it is interesting to note that the rate of change has dropped sharply. This is, perhaps, a signal that the regional economy is heading into a slower growth period. But, the “rollercoaster” effect of the BIT makes it difficult to predict on an annual basis. Since it is such a large portion of each jurisdiction’s General Fund forecasting, the BIT presents a challenge in the development of long range financial plans.

The amount of revenue transferred to the East County cities has followed the overall growth patterns. However, it is interesting to note that the percentage distributed to each city has remained relatively constant over the last six years. As shown in the graph below, Gresham has typically received more than 78% of the BIT revenue distributed to all four cities while Wood Village has accounted for about 3%.

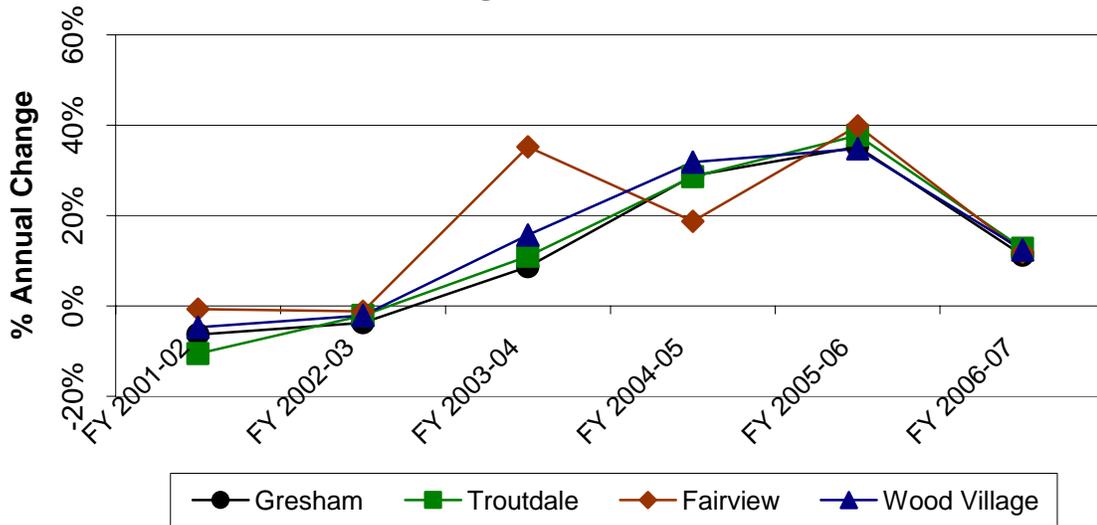
**BIT Distribution to Cities (\*)**  
**FY 2000-01 to FY 2006-07**



\* Distribution Ranged by < 2% Between FY 1999-00 and FY 2006-07

The following chart highlights the annual percentage change in BIT distributions over that same timeframe.

**BIT Distributions**  
**Change in Annual Collections**



## V. Summary of Meetings

Over the course of the summer, the Deputy Budget Director and a Budget Analyst met with each of the four East County cities that are signatories to the BIT revenue sharing agreement. The purpose of these meetings was to gain a mutual understanding of the financial and service delivery impact which the potential loss of BIT revenue would have for each of the cities.

A meeting with John Anderson, City Manager of Troutdale, was held on Wednesday **June 27<sup>th</sup>**. Troutdale raised the issue that, although the BIT is categorized as “revenue sharing” by Multnomah County, the cities of Troutdale, Fairview, and Wood Village had their own business tax before the County did. In that respect, in Mr. Anderson’s view, the BIT agreement more accurately reflects the collection of tax revenue that each city agreed to forego in order to streamline the tax system.

He described a presentation prepared by the City of Wood Village which shows that the three smaller cities would generate more revenue if they had continued to levy their own tax. Troutdale also believes that a business tax should support business retention and development. Thus, it may make more sense for cities that provide “hard” services (like police and fire) to levy a tax that would directly benefit their business community. However, Mr. Anderson also expressed the view that deconstructing the BIT and having the individual cities administer their own tax would be contrary to the goal of efficiency in government that has been espoused by Chair Wheeler.

Abandoning the agreement wholesale will also create some hardship for the cities in their ability to fund services. Property tax revenues are now capped and limited by Measure 5 and Measure 47/50, whereas those limits were not in place when the revenue sharing agreement was first implemented. Many of the concerns expressed by Troutdale were echoed in subsequent meetings with the other cities.

Staff next met with Sheila Ritz, City Administrator, and Wyatt Parno, former Finance Director, of the City of Wood Village. That meeting took place on Monday, **July 16<sup>th</sup>**. Because of Wood Village’s size, many city services are provided under contract with neighboring jurisdictions. For example, fire services are provided by the City of Gresham and police services are contracted through the Multnomah County Sheriff’s Office.

Prior to 1976, Wood Village imposed a 1.5% city business tax which was repealed when the County began collecting the BIT. Wood Village also felt that business taxes should support business needs which, they noted, most often meant that BIT revenues have been spent on public safety. They expressed the notion that crime has spread eastward but revenue to support public safety programs has not followed that trend.

Since the majority of BIT revenue transferred to Wood Village is spent on public safety, it is safe to assume that any reduction in that revenue would have an adverse impact on the City’s ability to support those services. Conversely, if there were additional revenue available, Wood Village would contract with the Sheriff’s Office to provide additional patrol services.

Wood Village outlined a distinction between the three smaller cities and Gresham. They believe that, as the largest city in East County, Gresham is different in the scope and level of services it provides from the other three cities. For example, all three cities contract with Gresham to provide Fire services. The perception is that Gresham can draw on a larger amount of resources and its residents expect the city to provide a higher level of services than the other three cities.

Wood Village has articulated a need for a different method of generating revenue for public services. In fact, the City Council briefly considered imposing a sales tax two years ago. Ms. Ritz expressed the view that a regional sales tax could provide a good alternative to existing tax structures and would spur the State of Oregon to consider such an approach. She mentioned an analysis which indicated that an “average” family with \$50,000 in annual income paid an amount of County ITAX that was **equivalent to a 9% goods and services tax**. The point Ms. Ritz wanted to make was that a very nominal regional sales tax could produce a large amount of revenue and would not burden local residents to the extent that the ITAX did.

The City of Gresham was consulted on Wednesday, **July 18th**. Attending that meeting were Deborah Bond, Deputy Director of Finance & Management Services, and Ron Papsdorf, Government Affairs Officer, for the City. Just as the other two cities had indicated, Gresham’s perspective is that the BIT is not a subsidy or a revenue sharing mechanism. It is seen, rather, as a more efficient way to tax businesses so they do not have to comply with different requirements within the region.

Approximately 94% of Gresham’s discretionary General Fund supports public safety services. The BIT revenue alone does not cover the entire cost of police and fire budgets which are supported primarily by the Property Tax. As noted earlier, Gresham receives the largest share of the BIT revenue shared by the cities. City staff mentioned that they would be faced with some difficult funding decisions if the BIT revenue were no longer available because the City has limited options for replacement revenue.

Gresham staff made the point that the intergovernmental agreement to share the BIT had been established long before the passage of constitutional property tax limitations. The limits on Property Tax growth place a burden on all local governments and Gresham has one of the lowest permanent rates of any city in the state. In addition, when permanent rates were set the Department of Revenue considered other revenues, such as the BIT, in establishing those rates. To reduce or eliminate the BIT would tend to compound the Property Tax limitations for Gresham.

Because most jurisdictions rely heavily on the Property Tax, and because of the growth restrictions imposed on it, Gresham felt that a cooperative effort was needed to address changes to the current system of taxation. As Ron Papsdorf succinctly put it, we should be looking at ways to increase the revenue base rather than trying to figure out different ways to share existing revenues.

A discussion ensued about whether Gresham could realize as much revenue from a city-specific tax as it receives from the BIT. Staff indicated that there was no analysis to indicate how much the City would need to levy to make up for the BIT, but they would be interested in reviewing any data that would help to address that question.

Gresham also offered a historical perspective. The four cities received one-quarter of total BIT revenue when the tax was established. Now, the cities only share 10% of the total BIT revenue even though there is evidence to suggest that East County has experienced faster economic growth than Portland.

A meeting with Joe Gall, City Manager for the City of Fairview, was held on **August 1<sup>st</sup>**. Similar to the other three cities, Fairview spends the majority of its General Fund on public safety services. As noted earlier, Fairview contracts with Gresham to provide fire services, and they are also considering asking voters to support a local option levy in order to increase the level of police services.

Fairview was one of the few cities in the region to see some positive impact from the implementation of Measure 47. New construction buoyed the City's assessed value and allowed property taxes to increase somewhat faster than surrounding jurisdictions. However, as the pace of growth has slowed, Fairview has begun to see some of the negative impacts associated with the Property Tax limitations.

It is a priority of the City Council to grow the community's business base, but Mr. Gall expressed a concern that the BIT may serve as a disincentive for new businesses to locate in the county. Because of the volatility of the tax revenue and the difficulty in estimating annual collections, it is likely that Fairview would be willing to support a revenue source that is more stable and does not directly impact the ability of the region to attract new businesses.

## VI. Summary of Issues

### Impact of Eliminating the BIT as a City Revenue Source

Most cities indicated that the BIT revenue directly supports public safety services. Some cities, such as Gresham, were clearly able to articulate which programs would be reduced if the BIT revenue were no longer available. Other cities, such as Wood Village, could not specifically identify which programs would be impacted. But, they did uniformly voice the concern that losing approximately 10% of their discretionary General Fund would have a significant impact on their respective budgets. None of the cities would state for certain what action(s) their City Councils might take if the BIT agreement was terminated. Some indicated that they may pursue alternative revenue sources but they have also not done any polling to determine if there is community support for tax increases.

### This is Part of a Bigger Discussion about Regional Taxation

Each of the cities expressed slightly different concerns and suggestions about the BIT as a revenue source. However all cities contributed important input that could serve as the basis for a regional discussion about taxation and the provision of government services. Some cities expressed a preference for eliminating the BIT in favor of an alternative revenue source that could draw from a broader base. Others were interested in recalculating how the existing BIT revenue is allocated. There was also some discussion of how the East County cities could align their efforts to look at alternatives which would provide a more direct benefit to local residents.

As a result, all of the comments and suggested changes about the BIT as a revenue source indicated that there is a need to have a regional discussion about tax policy. This was seen as something that could be of benefit to all local jurisdictions.

### Data on County Services Provided in East County

Developing a methodology for calculating the dollar value of County services received by residents of each city is difficult and would require a number of subjective assumptions. To determine the amount of public safety services provided within each city, for example, one might use any of the following types of calculations:

- The total budget for the Multnomah County Sheriff, District Attorney, and Department of Community Justice, divided by the entire population of the County and then multiplied by city population. This method makes the assumption that each resident of the county receives the same level of services.
- The number of arrests in each city, divided by the total number of arrests in the County, multiplied by the County's costs to prosecute and supervise individuals in custody. This method is subjective in that it assumes that all arrests require the same level of service provision.
- The ratio of a city's population, minus the ratio of its arrests, multiplied by the cost of crime to the city. This method makes the assumption that the proportion of arrests should equal the proportion of the population and that fewer arrests would indicate a reduced need for public safety services.

There are many other ways that costs could be allocated. Because of this, and because the level of services provided to each city is not directly related to BIT revenue, a cost analysis has not been undertaken at this time. It is recommended that if it is desirable to analyze where (or whether) service subsidies occur, a larger group be convened to determine an allocation methodology that would have consensus support.

Recalculating the BIT Distribution Formula

Tax data and information is collected and maintained by the City of Portland. Because of confidentiality requirements, data on individual taxpayers has not been disseminated. Most analysis of the BIT conducted to date has been limited to high level overviews by types of businesses.

As part of the exploration of this issue, the Budget Office requested specific taxpayer data from the City of Portland. The data from each business was geographically coded to the primary location of the business, thus providing an estimate of how much BIT revenue was generated within each city. This methodology provides the most objective general picture of where revenues were generated, but there is a significant discrepancy in the data which makes a complete picture difficult.

Due to the inconsistent availability of multiple addresses for each business, it is not possible to apportion BIT taxes for a single business to more than one location. Large retail and utility companies, for example, report their income from only one primary location although they operate throughout the state and region. Until more consistent data can be made available, it is not possible to break the tax collection data down further. The analysis that has been performed, therefore, potentially understates the amount of tax revenue generated in the East County cities. But at this time, it is not possible to determine how much the revenue associated with each city is understated. If it is important that this estimate captures the source of revenue more precisely, the County will need to work with the City of Portland to modify the reporting process.

The following table shows the estimate of revenue breakdown for 2005 – the most recent year for which there is complete tax data.

	<b>BIT Transfer by Jurisdiction</b>	<b>2005 Revenue by Primary Location</b>	<b>2005 Revenue by External Locations</b>
<b>Gresham</b>	\$ 4,086,345	\$ 1,497,036	\$ 2,589,309
<b>Troutdale</b>	635,345	223,557	411,788
<b>Fairview</b>	361,955	109,290	252,665
<b>Wood Village</b>	138,425	98,047	40,378
<b>Total - East County</b>	\$ 5,222,070	\$ 1,927,930	\$ 3,294,140
<b>County (Other Cities and Unincorporated)</b>		36,620,961	
<b>Total w/in County</b>		\$ 38,548,891	
<b>From Outside County</b>		8,823,929	
<b>TOTAL Revenue</b>		\$ 47,372,820	

This analysis attributes the 2005 BIT paid to the geographic location of the business' primary address as reported on the tax return. Rather than attempt an artificial apportionment, we have simply noted that \$3.3 million of tax revenue distributed to the cities is derived from businesses which report their income from some other place.

There are a number of methodologies that could be used to estimate the distribution of BIT revenue between jurisdictions. The following are just a few examples of how the revenue could be apportioned:

- Total employment within each city;
- Distribution of revenue from businesses with multiple sites equally based on location (i.e., if a business has five locations, each location would be credited with 20% of the tax revenue);
- Real Market Value associated with Commercial, Industrial/Utility, and Personal Property in each city;
- Distribute all non-city specific revenue to the four cities in the same proportion they are of the population of the County as a whole.

The current method used to distribute BIT revenues has been in place, with minor modifications, for 30 years. Any changes to the methodology could result in increased revenues for some jurisdictions and decreased revenues for others, and thus it could make it difficult to reach a new agreement.

#### Business License Fees

Analysis of the BIT is complicated by the existence of business license fees. In addition to the BIT, the City of Portland assesses a Business License Fee (BLF) that is very similar to the BIT. Businesses that operate within Portland pay a minimum BLF of \$100 annually. But, the BLF is set at 2.2% of net income, determined on the same basis as the BIT, so most businesses pay more than the minimum fee.

The four East County cities also have business license fees, but they are very minimal in comparison, and most operate as a fixed fee. Although there are different rates for specialty businesses such as lottery devices or amusement businesses, the annual business license fee for each city is as follows:

- Fairview \$50
- Gresham \$75 (plus \$3 for each employee more than 2)
- Troutdale \$65
- Wood Village \$50 (only if above \$25,000 in gross earnings)

Revenue from the various business license fees is relatively minimal – each city receives more in BIT revenue sharing than is generated by its respective license fee.

## VII. Next Steps and Recommendations

The memo from Chair Wheeler to the East County elected officials listed three possible outcomes related to Resolution 06-102:

- Do nothing - let the agreement terminate as described in the resolution.
- Repeal the repeal - let the existing agreement continue without changes.
- Negotiate a new agreement.

If Option 3 – negotiate a new agreement – is chosen, there are a number of changes that might be made to the agreement.

### Options Within Multnomah County's Control

Base the revenue distribution on where income was generated:

Rationale: The tax should benefit the jurisdiction from where it was raised  
PRO: Addresses equity issues raised by East County cities  
CON: Would require taxpayers to report income by jurisdiction, thereby creating a potential administrative burden on businesses

Reduce the amount distributed to the East County cities:

Rationale: Analysis of taxpayer data suggests that businesses headquartered elsewhere (Portland, other Oregon cities, or out of state) contribute disproportionately to the overall BIT revenue stream:  
PRO: More revenue for the County's General Fund  
CON: Less revenue for cities; cities may choose to establish separate business taxes

Negotiate intergovernmental agreements to identify which programs BIT revenue supports:

Rationale: County tax dollars should align with County priorities:  
PRO: Creates a sense of shared program responsibility between the County and cities  
CON: Cities lose discretion over use of BIT revenues, priorities are overlapping

Continue sharing the BIT with the three smaller cities, stop sharing with Gresham:

Rationale: As a full-service city, Gresham has more resources to draw upon and a greater ability to diversify its revenue base:  
PRO: Additional revenue for the County's General Fund, continue sharing with cities that gave up existing taxing authority in 1976  
CON: BIT makes up 10% of Gresham's General Fund, which is spent primarily on public safety

## Options Outside Multnomah County Control

Analyze and evaluate alternative revenue sources with the dual goals of implementing a regional tax solution and repealing the BIT altogether:

- Rationale: The BIT disadvantages the region's ability to recruit new businesses, businesses pass the expense to consumers and clients, and it is a very volatile revenue source
- PRO: A regional tax spread across many jurisdictions could generate much more revenue than the current BIT
- CON: Political and public support for taxes of any kind is difficult to muster in Oregon

Have Multnomah County, or another jurisdiction with countywide taxing authority, administer the entire BIT/BLF as a regional tax and determine a distribution formula:

- Rationale: The BIT/BLF impacts multiple cities and it is paid by businesses throughout the region; a jurisdiction with countywide taxing authority may be able to administer the tax more efficiently
- PRO: May reduce costs of collection and administration, businesses could still file a single tax form, and reporting data could be tailored to individual cities' needs
- CON: The City of Portland has tax collection and administrative processes in place already, capacity may not exist in other jurisdictions

For both of these options, a significant challenge is that cities would need to come to agreement regarding revenue distributions, among other things.

## Recommendations

Based on the research into the BIT issues it is recommended that the Board of County Commissioners adopt a resolution that repeals resolution 06-102 for two to three years, thus continuing the 30-year revenue sharing agreement with the East County cities. In addition, such a resolution should also address the following issues:

- Develop a way to more accurately determine where BIT revenue is generated
- Investigate whether the tax could be collected more efficiently by the County or some other jurisdiction with countywide taxing authority
- Schedule regular sessions between the Board of County Commissioners and the elected officials of the four East County cities to discuss taxation and revenue issues
- Explore alternative revenue sources that could be implemented regionally and could be a replacement for the BIT.

## **VIII. Appendix**

- A. Resolution # 06-102
- B. Letter from Chair Wheeler to East County Elected Officials (May 4, 2007)
- C. Summary of Revenue Distributed to East County Cities
- D. List of Resolutions and Ordinances Related to the Business Income Tax

BEFORE THE BOARD OF COUNTY COMMISSIONERS  
FOR MULTNOMAH COUNTY, OREGON

**RESOLUTION NO. 06-102**

Authorizing Termination of the Current Multnomah County Business Income Tax Intergovernmental Agreement Effective July 1, 2008 and Directing Notice to Cities

**The Multnomah County Board of Commissioners Finds:**

- a. In 1998, Multnomah County entered into a Business Income Tax Intergovernmental Agreement with the City of Gresham, City of Troutdale, City of Fairview and City of Wood Village (the Cities) that provides the County allocate a portion of its net business income tax cash receipts (the Cities' Collective Share) to the Cities.
- b. Under subsection 2.6.2 of the agreement, the County may terminate the agreement effective on July 1 of any year by giving not less than two years written notice to the Cities.
- c. The County's revenues have been adversely affected by numerous events during the past few years, causing cuts in programs and services. Future revenue sources are unknown.
- d. The County should have the option of retaining its revenue sources to help protect the County from having to make further cuts to programs and services.
- e. It is in the best interest of the County to negotiate new individual agreements with the Cities that preserves its ability to annually review their collective share.

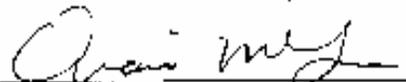
**The Multnomah County Board of Commissioners Resolves:**

1. The County approves termination of the current Multnomah County Business Income Tax Intergovernmental Agreement effective on July 1, 2008.
2. The County Attorney is directed to give written notice to each of the Cities before July 1, 2008.
3. While continuing to provide the Cities Collective share over the next two years, the County intends to negotiate new business income tax agreements that provide the County with the ability to review each Cities' share annually, effective July 1, 2008.

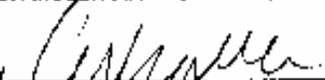
ADOPTED this 22nd day of June 2006.



BOARD OF COUNTY COMMISSIONERS  
FOR MULTNOMAH COUNTY, OREGON

  
Diane M. Linn, Chair

AGNES SOWLE, COUNTY ATTORNEY  
FOR MULTNOMAH COUNTY, OREGON

By   
Agnes Sowle, County Attorney

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## Ted Wheeler, Multnomah County Chair

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Portland, Oregon 97214  
Phone: (503) 988-3308  
Email: [mult.chair@co.multnomah.or.us](mailto:mult.chair@co.multnomah.or.us)

May 4, 2007

To: Board of County Commissioners

c. Elected Officials of East County Cities

From: Ted Wheeler

Re: BIT IGA with East County cities

At our Wednesday joint meeting with the Gresham City Council, we are scheduled to discuss the status of our Inter-governmental Agreement on the Business Income Tax with East County cities.

After speaking with each of you, there are basically three approaches that have been suggested by various Commissioners: 1) support the status quo (i.e. let the termination of the BIT pass-through to East County jurisdictions take effect per the prior notice given by the board); 2) cancel the notice of termination and continue the pass-through as specified in the IGA; or 3) negotiate a new agreement with the East County jurisdictions that falls somewhere in the middle.

I believe that the Board needs a more in depth discussion of the implications of the Board's termination notice of last June in order to establish what our next steps are with regard to this issue. Given the complexity of this issue and the workload associated with the current budget process, I suggest we take this up after the final budget is adopted in early June.

In the meanwhile, I have asked the budget office and county counsel to compile a report for us providing the following information.

- a) Clarify the history of the intergovernmental agreement and the business income tax involving the Cities.
- b) Clarify the current financial impact of the BIT and the portion of general revenue that the BIT offers to the County and the Cities. Explain other actual and potential revenue sources for the respective jurisdictions.
- c) Clarify current services provided by the Cities to their residents and the role of the BIT in providing those services.
- d) Clarify current services provided by the County to residents of the Cities.

Secondly, I would ask the budget office to evaluate the following three options, based on revenue impact, service impact, and institutional impact on the local governments involved:

- a) Support the status quo – BIT terminates in July, 2008
- b) Cancel notice of termination and continue current IGA
- c) New agreement

I will ask the Budget office to consult with all impacted cities and to solicit other information from concerned civic bodies as appropriate. (e.g. Chambers of Commerce).

When the report is complete and following the adoption of our budget, I will schedule a Board work session to hear from the budget office and from representatives of each of the cities and others who would like to provide input on this subject. It is my expectation that having that factual information and input from the cities will help us decide on our next steps.

As always, do not hesitate to contact me with any further questions.

## Summary of Revenue Distributed to East County Cities

Actual Receipts (FY 2000-01 to FY 2005-06); Estimated FY 2006-07

	<b>BIT Revenue</b>	<b>Total GF <sup>(1)</sup></b>	<b>% BIT of Total</b>
<b>Gresham</b>			
FY 2000-01	2,395,988	33,466,249	7.16%
FY 2001-02	2,243,882	34,989,909	6.41%
FY 2002-03	2,159,626	34,372,318	6.28%
FY 2003-04	2,346,436	35,180,259	6.67%
FY 2004-05	3,022,779	38,233,792	7.91%
FY 2005-06	4,086,345	39,836,916	10.26%
FY 2006-07 (Estimate)	4,544,539	38,263,438	11.88%
<b>Troutdale</b>			
FY 2000-01	369,035	6,067,406	6.08%
FY 2001-02	330,139	6,094,893	5.42%
FY 2002-03	323,192	6,028,731	5.36%
FY 2003-04	358,774	6,470,548	5.54%
FY 2004-05	461,314	7,643,643	6.04%
FY 2005-06	635,345	8,384,730	7.58%
FY 2006-07 (Estimate)	716,419	8,692,071	8.24%
<b>Fairview</b>			
FY 2000-01	164,428	3,997,463	4.11%
FY 2001-02	163,265	3,886,482	4.20%
FY 2002-03	161,263	3,994,638	4.04%
FY 2003-04	218,024	4,430,067	4.92%
FY 2004-05	258,841	4,529,242	5.71%
FY 2005-06	353,066	5,384,917	6.56%
FY 2006-07 (Estimate)	405,055	5,442,199	7.44%
<b>Wood Village</b>			
FY 2000-01	72,195	1,220,978	5.91%
FY 2001-02	68,802	1,241,577	5.54%
FY 2002-03	67,326	1,142,367	5.89%
FY 2003-04	77,918	1,146,103	6.80%
FY 2004-05	102,719	1,419,538	7.24%
FY 2005-06	138,425	1,819,094	7.61%
FY 2006-07 (Estimate)	155,539	1,648,845	9.43%
<b>Total Distributions</b>			
FY 2000-01	3,001,646	44,752,096	6.71%
FY 2001-02	2,806,088	46,212,861	6.07%
FY 2002-03	2,711,407	45,538,054	5.95%
FY 2003-04	3,001,152	47,226,977	6.35%
FY 2004-05	3,845,653	51,826,215	7.42%
FY 2005-06	5,213,180	55,425,657	9.41%
FY 2006-07 (Estimate)	5,821,552	54,046,553	10.77%

## List of Resolutions and Ordinances Related to the Business Income Tax

No.	Date	Title
84	12/05/1974	RELATING TO THE IMPOSITION OF BUSINESS LICENSES FOR REVENUE; PROVIDING FOR ADMINISTRATION AND COLLECTION; AND PROVIDING FOR ALL OTHER MATTERS RELATING THERETO
95	3/20/1975	AN ORDINANCE AMENDING ORDINANCE NO. 84, TO CHANGE THE DATE FOR FILING THE FIRST APPLICATION AND FEE.
96	03/25/1975	"AMENDING ORDINANCE NO. 84, TO CHANGE THE DATES FOR FILING FIRST APPLICATIONS AND FEES FOR BUSINESS LICENSE TAX, REPEALING ORDINANCE 95 AND DECLARING AN EMERGENCY"
103	06/19/1975	"RELATING TO THE IMPOSITION OF BUSINESS LICENSES FOR REVENUE; AMENDING ORDINANCE NO. 84, AS AMENDED BY ORDINANCE NO. 96; AND DECLARING AN EMERGENCY"
119	12/30/1975	"AMENDING ORDINANCE NO. 84, THE BUSINESS LICENSE ORDINANCE; CORRECTING ERRORS; CONFORMING TO THE PORTLAND BUSINESS LICENSE CODE; AND DECLARING AN EMERGENCY"
121	04/15/1976	IMPOSING A BUSINESS INCOME TAX FOR REVENUE; PROVIDING FOR ADMINISTRATION AND COLLECTION AND ALL RELATED MATTERS; IMPOSING PENALTIES; AND PRESCRIBING AN OPERATIVE DATE
123	04/15/1976	IMPOSING A BUSINESS LICENSE FEE ON MOTOR VEHICLE FUEL DEALERS; FIXING RATES; REQUIRING LICENSES; IMPOSING PENALTIES; AND PROVIDING FOR ADMINISTRATION, ENFORCEMENT AND COLLECTION OF THE FEE AND RELATED MATTERS
131	09/23/1976	"RELATING TO BUSINESS INCOME TAXATION, AND AMENDING ORDINANCE NO. 121"
158	01/26/1978	"RELATING TO BUSINESS INCOME TAXATION, AND AMENDING ORDINANCE NO. 121, AS AMENDED BY ORDINANCE NO. 131"
265	01/29/1981	"RELATING TO THE BUSINESS INCOME TAX, AND AMENDING MCC 5.70"
397	09/15/1983	REPEALING MULTNOMAH COUNTY CODE 5.70.020 RELATING TO TAX EXEMPT INCOME FOR MULTNOMAH COUNTY BUSINESS INCOME TAX PURPOSES
447	12/20/1984	"RELATING TO THE BUSINESS INCOME TAX, AND AMENDING MCC 5.70"
506	03/27/1986	"RELATING TO THE BUSINESS INCOME TAX, AND AMENDING MCC 5.70"
512	04/24/1986	RELATING TO THE BUSINESS INCOME TAX; AMENDING MCC 5.70.045
552	05/07/1987	RELATING TO THE BUSINESS INCOME TAX; AMENDING MCC 5.70.045
586	07/21/1988	RELATING TO THE BUSINESS INCOME TAX, AND AMENDING MCC 5.70
644	03/01/1990	"RELATING TO THE BUSINESS INCOME TAX, AND AMENDING MCC 5.70"
91-64	05/09/1991	SUPPORTING CONSOLIDATION OF THE COUNTY BUSINESS INCOME TAX AND THE CITY OF PORTLAND BUSINESS LICENSE FEE SYSTEM AND THE CREATION OF A JOINT IMPLEMENTATION COMMITTEE TO CARRY OUT CONSOLIDATION
702	10/24/1991	RELATING TO THE BUSINESS INCOME TAX: AMENDING MCC 5.70.045 AND 5.70.075 TO PROVIDE FOR QUARTERLY TAX PAYMENTS AND COLLECTION
93-105	04/08/1993	CONTINUING EFFORT OF DEVELOPING COMPATIBLE CODES AND CONSOLIDATED ADMINISTRATION FOR THE PORTLAND BUSINESS LICENSE PROGRAM AND THE MULTNOMAH COUNTY BUSINESS INCOME TAX
768	06/24/1993	AMENDING MULTNOMAH COUNTY CODE CHAPTER 5.70, BUSINESS INCOME TAX; CREATING MULTNOMAH COUNTY CODE CHAPTER 5.60, MULTNOMAH COUNTY BUSINESS INCOME TAX LAW; PROVIDING FOR ADMINISTRATION AND COLLECTION AND ALL RELATED MATTERS

**List of Resolutions and Ordinances Related to the Business Income Tax (cont)**

<b>No.</b>	<b>Date</b>	<b>Title</b>
93-233	06/24/1993	CONSOLIDATING ADMINISTRATION OF THE MULTNOMAH COUNTY BUSINESS INCOME TAX AND THE PORTLAND BUSINESS LICENSE FEE
779	12/09/1993	AMENDING MULTNOMAH COUNTY CODE CHAPTER 5.60, BUSINESS INCOME TAX LAW FOR MINOR CLARIFICATION CHANGES AND DECLARING AN EMERGENCY
97-203	12/02/1997	SUBMITTING TO THE VOTERS AN ORDINANCE IMPOSING A TEMPORARY EDUCATION SURCHARGE ON THE BUSINESS INCOME TAX TO BENEFIT PUBLIC SCHOOLS IN MULTNOMAH COUNTY
97-212	12/18/1997	ACCEPTING THE DISTRIBUTION FORMULA RECOMMENDED BY THE MULTNOMAH COUNTY SCHOOL SUPERINTENDENTS
897	01/08/1998	AMENDING MULTNOMAH COUNTY BUSINESS INCOME TAX MCC 5.60 TO INCORPORATE TECHNICAL AND HOUSEKEEPING CHANGES
901	02/19/1998	AMENDING MULTNOMAH COUNTY BUSINESS INCOME TAX MCC 5.60 TO INCORPORATE CHANGES IN THE OWNERS COMPENSATION DEDUCTION AND GROSS RECEIPTS EXEMPTION
902	03/30/1998	AMENDING MCC 5.60, IMPOSING TEMPORARY EDUCATION SURCHARGE ON BUSINESS INCOME TAX, RECEIPTS TO BENEFIT PUBLIC SCHOOLS
03-036	03/13/2003	ACCEPTING RECOMMENDATIONS OF THE COMMUNITY PARTNERSHIP STEERING COMMITTEE FOR REFORM OF THE MULTNOMAH COUNTY BUSINESS INCOME TAX, AND AUTHORIZING THE CHAIR TO WORK WITH THE CITY OF PORTLAND TO IMPLEMENT THE STEERING COMMITTEE'S RECOMMENDATIONS
1046	08/19/2004	ORDINANCE ESTABLISHING MULTNOMAH COUNTY CODE CHAPTER 12, BUSINESS INCOME TAX FROM MCC §§ 11.500 ET SEQ., UPDATING AND CLARIFYING DEFINITIONS, AND DECLARING AN EMERGENCY
1068	10/13/2005	ORDINANCE AMENDING MULTNOMAH COUNTY CODE CHAPTER 12.100, DOING BUSINESS DEFINITION, RETROACTIVE TO AUGUST 19, 2004
1072	03/30/2006	AMENDING MULTNOMAH COUNTY CODE §§ 12.200 AND 12.230 RELATING TO BUSINESS INCOME TAX COLLECTION
06-102	06/22/2006	AUTHORIZING TERMINATION OF THE CURRENT MULTNOMAH COUNTY BUSINESS INCOME TAX INTERGOVERNMENTAL AGREEMENT EFFECTIVE JULY 1, 2008 AND DIRECTING NOTICE TO CITIES
07-041	03/01/2007	ESTABLISHING A WORK GROUP TO STUDY REFORM OPTIONS FOR MULTNOMAH COUNTY'S BUSINESS INCOME TAX
07-054	04/12/2007	ACCEPTING THE RECOMMENDATIONS OF THE BUSINESS INCOME TAX (BIT) REFORM WORKGROUP TO EASE THE BURDEN ON SMALL BUSINESS, STABILIZE BIT REVENUES, IMPROVE OUR LOCAL BUSINESS CLIMATE, AND DIRECTING THE CHAIR TO IMPLEMENT BIT REFORMS