



CITY OF

PORTLAND, OREGON

OFFICE OF PUBLIC UTILITIES

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MEMORANDUM

DATE: November 2, 2006

TO: Mayor Tom Potter
Commissioner Randy Leonard
Commissioner Dan Saltzman
Commissioner Erik Sten
Auditor Gary Blackmer

FROM: Commissioner Sam Adams

RE: Entrepreneurial Investment Strategy

The foundation of a strong, sustainable Portland economy is the family-wage job.

Portland businesses are not fleeing the City, but job creation and wage rates in Portland lag behind those in the region as a whole.

Portland can help boost job creation among smaller, locally-owned businesses by reducing their city business fee burden, known as the Business License Fee (BLF).

Over 94% of all firms in Multnomah County employ 50 people or less. Of that group of businesses, over 13,000—more than 50%—employ less than five employees. If only a third of Portland's smaller businesses with annual gross receipts less than \$200,000 added a single job, 2570 more Portlanders could be put to work.

Portland's economic success depends on creating dynamic new businesses, growing our small and local businesses into regional, national and global competitors, and supporting the traded-sector firms already here. But Portland's smaller, locally-owned businesses need help now.

I propose changes to the City's BLF that focuses \$5.2 million in fee reductions on Portland's local, new and small businesses. These firms can use the savings to expand their operations and invest in their workforce including new employees.

This is a draft proposal. Before I finalize it, between now and November 20, 2006, I am seeking your comments, questions and suggestions. My goal is for the Portland City Council to consider a Resolution along the lines of this proposal on Wednesday, November 29, 2006.

Context

Currently, with some exemptions and exceptions, the City government imposes a BLF of 2.2% on the net profits from the sale of goods or services within Portland.

The City of Portland receives about \$53 million annually from BLF revenues. These revenues have increased 24% in the past three years, demonstrating the city bureaucracy's ability to afford this tax cut.

The City of Portland through the Portland Development Commission has a variety programs to assist Portland businesses using tax increment funds. But these programs miss thousands of businesses located in the 143 square miles outside the Urban Renewal Districts—85% of the city. This proposal affords them previously inaccessible business assistance benefits.

Tax fairness

As part of our analysis for this proposal, we reviewed the BLF based on a tax fairness principle of "ability to pay"—those that earn more should pay more tax—and use of City services—those that use more City services should pay more tax.

Our analysis showed that based on a 2004 business survey, professional service firms paid the highest BLF charge of \$449 per employee and transportation and warehousing businesses paid the least at \$75 per employee.

We uncovered the fact that in TY 2004, the last year for which tax data is available, 2,658 firms with gross receipts over \$1 million paid only \$100 in BLF charges, including 920 firms that have gross receipts of more than \$20 million.

My proposal seeks to address these inequities by instituting a progressive tiered minimum BLF based on the number of Portland employees, the annual gross receipts in Portland, or a combination of both. The maximum any one business would pay under the tiered minimum is \$1,000.

"The proposal better connects City services received and taxes paid and by doing so strengthen taxpayer equity. The changes should also make Portland more attractive to small, closely held, profitable businesses," John Tapogna, Managing Director, ECONorthwest. ECONorthwest is a Portland-based economic consulting firm.

Proposal Summary

The attached PowerPoint presentation provides a detailed description and analysis of my BLF Reform Proposal but here is a brief summary:

1. Raise the Owners' Compensation Deduction from \$60,000 to \$125,000.
2. Increase the Gross Receipts Exemption from \$25,000 to \$50,000.
3. Institute a progressive minimum tax increase based on one of the following:
 - a. Number of Portland employees
 - b. Gross Receipts in Portland **OR**
 - c. A combination of the two options

Under this proposal, an estimated 9,246 BLF-paying businesses will receive a reduction in their current BLF charges, 54% of those have annual gross receipts of \$200,000 or less and 52% are sole proprietors.

"Business services, finance, insurance, real estate" firms would receive 22% of the estimated \$5.2 million business tax relief, "professional services" firms would receive 15% of the total tax relief.

As a companion proposal, I would like to create an Economic Development Investment Fund of \$2 million targeted to support activities centered on business expansion, retention and recruitment.

"Sam has looked at all of the concerns of the business community and has responded with this proposal," stated Ken Turner, General Manager of Eastport Plaza and former President of the Alliance of Portland Neighborhood Business Associations. "This proposal reflects the different interests of the business community while providing an incentive for job creation, retention and expansion."

"Commissioner Adams proposal will not only make the city's business license fee more competitive with surrounding jurisdictions, but will also instill fairness to help retain the non-polluting, creative and professional service firms which have been carrying a disproportionate burden under the current BLF," said Dave Lister, Data Integrated Concepts Incorporated.

I propose a 5 year implementation plan. To offset the lost revenue to City government as a result of approving this proposal, I propose using \$4 million of the unforecasted \$7 million of ongoing General Fund revenue. n. Further analysis of the tiered minimum increases will determine the best options for implementation as well as the potential revenues generated from the increase.