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Prosperity or Portland?

Remove Portland's Business Income Tax to improve the city's economy

by Steve Buckstein

Summary

The City of Portland is widely perceived as being anti-business. Stubbornly high unemployment rates and higher business taxes than surrounding communities feed this perception. Phasing out the city's Business Income Tax (BIT) will do more than anything else to turn this perception around and improve the city's economic climate. This can be done over the next five years without damaging city finances through a combination of contracting out some non-public safety services and slowing growth in personnel costs.

About the Author

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The views expressed herein are the author's own.

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Introduction

After remaining relatively constant from 1996 to 2000, the unemployment rate in the Portland area almost doubled between 2000 and 2004.[1] As of August 2005, Portland had the third worst unemployment rate of all large metropolitan areas in the country at 6.2 percent.[2]

While many factors play into unemployment and the economic health of a city, this report will focus on the Business Income Tax (BIT). Portland stands out as the only city in its region to impose a virtually open-ended tax on business income earned within the city and Multnomah County. At the same time that a growing segment of the business community has become uncomfortable with this situation, city leaders believe that this tax is a critical part of Portland's operating revenue, and cannot be reduced.

In fact, in 2003 the city imposed a retroactive four-year variable surcharge onto its BIT rate to funnel money into local public schools. This was done even though the BIT is intended to fund city services such as police and fire; not school districts, which are funded and operated separately from other local government functions.

This report will explain why the BIT is flawed public policy, and suggest how it can be phased it out over the next five years. More than any other single policy change, this holds the promise of both improving Portland's business climate and improving economic opportunity for city residents who work for local businesses.

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Background

The City of Portland began requiring business licenses in 1854. While initially required for regulatory purposes, licenses are now required for revenue purposes. Multnomah County changed its business license fee to a business income tax in 1976. Since 1994 both taxes have been collected by the City of Portland Bureau of Licenses. Together, the City of Portland business license fee and the Multnomah County business income tax are known as the Business Income Tax, or BIT.[3]

Currently, the combined city and county BIT rate is 3.65 percent (2.2 percent city, 1.45 percent county). In 2003 the city imposed a retroactive four-year variable surcharge onto its rate, primarily to funnel money into local public schools. The tax rate is generally applied to net business income (after expenses) generated within the city and/or county. Portland imposes a minimum $100 fee, while the county has no minimum. Businesses grossing less than $25,000 may be exempt. There is an

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owner's compensation deduction of $57,500 per owner, partner, or controlling stockholder.

The city expects its BIT revenue to be $43.4 million this year, which represents 10 percent of the city's General Fund and 2 percent of its Total Net Budget.[4] The county expects its BIT revenue to be $26.9 million this year, which represents 6 percent of the county's General Fund, and 3 percent of the Total County Net Budget.[5]

Both the city and county use BIT fees for their General Funds. The City of Portland General Fund finances police, fire, some parks programs, and general government functions. Multnomah County's General Fund is used to finance libraries, the Sheriff's office, community corrections, jails, juvenile justice, bridges, and social and health services.

Analysis

Doing business in Portland is more expensive than doing business in nearby communities, in large part due to the Business Income Tax, which imposes a virtually open-ended tax on net income earned within the city. While some cities impose additional fees on some occupations, a comparison with 27 other cities in the region shows that most impose relatively fixed rate license fees for most businesses.[6]

For example,

- In Banks, the rate is $35 per year.
- In Beaverton, the rate is $50 plus a small fee based on the number of employees.
- In Lake Oswego, the fee ranges from $75 to $145 a year.
- In Vancouver, Washington, the fee is a flat $100
- In Tigard, fees top out at $220.
- In Forest Grove, the fee is $90, but that covers 10 years.

Moving farther north, the City of Seattle imposes a flat fee of $45 to $90 per year, depending on gross income.[7] To the south, the City of Salem imposes no general business income tax.

Nationally, business taxes vary widely with some cities taxing gross sales, others taxing net income, and still others imposing no general business income tax. But, according to an analysis by the Portland Development Commission:

> "The economic literature suggests that policy makers should be more concerned by the relative taxes paid *within* a region than differences across regions. In short, business behavior suggests that most companies base *inter-regional* location decisions on workforce quality and cost, the existence of reliable infrastructure, required nature resources, market access, and owner preferences. Taxes play a role, but a smaller one in the inter-regional decision. However, once a firm has selected a metropolitan area, taxes become more important because the other key factors are similar across the local area.[8]

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The BIT is a small part of Portland's budget

While the BIT is comprised of both City of Portland and Multnomah County levies, this analysis will concentrate on just the city portion, which represents 60 percent of the entire BIT. A similar analysis can, and should, be done on the county portion.

Table 1 below itemizes Portland's business license fee revenue, its General Fund and its Total Net Budget over the last seven fiscal years and the current year, which began June 30th.[9]

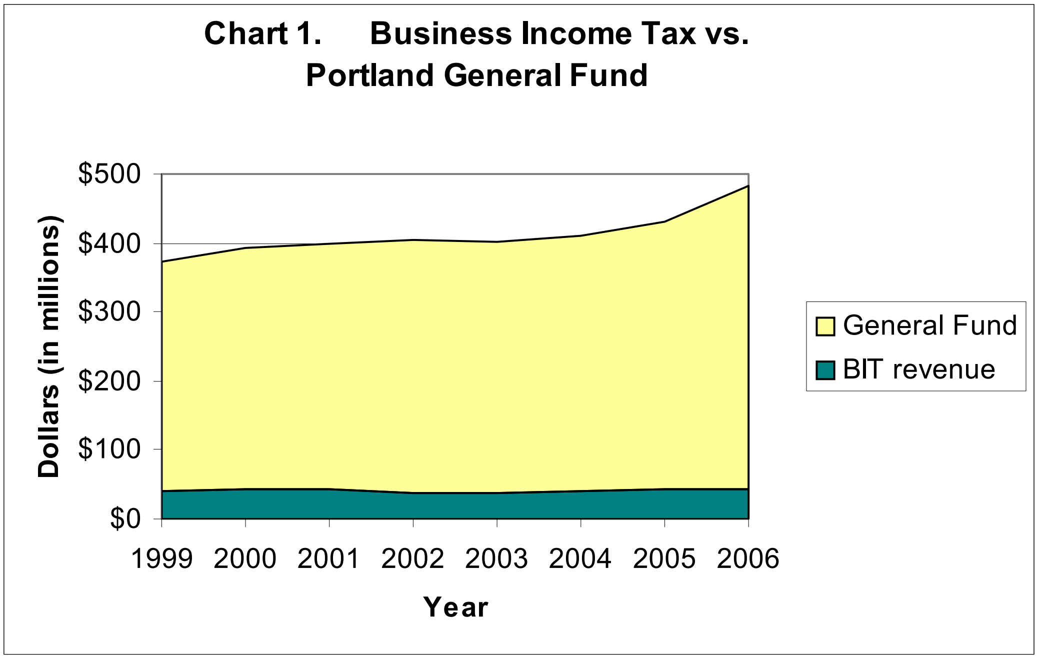
Table 1. Portland city budget

Year	Business license fees	BIT % of General Fund	General Fund	BIT % of Total Net Budget	Total Net Budget
2006	$43,389,878	9.9%	$439,037,343	2.2%	$1,984,873,688
2005	43,874,488	11.3	387,356,348	2.5	1,726,990,162
2004	39,427,806	10.6	370,278,201	2.3	1,740,295,384
2003	36,928,795	10.1	365,703,073	3.3	1,395,249,965
2002	37,786,556	10.3	365,499,047	2.6	1,445,907,471
2001	44,214,699	12.5	354,023,236	2.6	1,677,028,056
2000	43,730,917	12.5	349,377,196	3.4	1,291,333,247
1999	39,793,153	11.9	333,756,340	3.2	1,240,408,216

Sources: Actual and forecast business license fees from City of Portland Financial Planning Division, June 24, 2005, "Business License Tax Revenue Forecast(s), page 14; Adopted General Fund and Total Net Budget data from City of Portland Management and Finance, "Current and Past Budgets," 1998-99 through 2005-06.

Clearly, for whatever reasons, business license fees are lagging behind other city revenues.

Chart 1 below compares BIT revenue to Portland's General Fund from 1999 through 2006.



Source: Table 1 above

From 1999 to the present, the United States, Oregon and Portland saw their economies peak, enter a recession and then recover at different rates. In Portland over this period the General Fund rose by 32 percent, and the Total Net Budget rose by 60 percent. Yet business license fee income is still expected to be only 9 percent higher this year than it was seven years ago.

The city's most recent five year revenue forecast projects business license fees to reach $47,447,246 in 2010, which is only 19 percent above the level in 1999.[10] Over the same period, the discretionary portion of the General Fund is projected to be 26 percent *higher*.[11]

Clearly, for whatever reasons, business license fees are lagging behind other city revenues.

How others see Portland's business climate

In 2003, some business interests across the river in Clark County, Washington, began to contrast their business climate to Portland's by using the slogan, "Prosperity or Portland?"[12] It was a blunt way of saying that Portland was not friendly to business while Vancouver was. They based that claim on several factors, two of which were retroactive taxes imposed that year in Portland.

When the Portland city council imposed their BIT surcharge in March 2003, they made it retroactive 14 months, back to the beginning of 2002. They set that retroactive 2002 surcharge rate at 1 percent, which was a 45 percent increase over the 2.2 percent base rate.

This retroactive increase alone cost one particular business owner $34,000 because he had the misfortune of selling an office building in 2002, and the surcharge hit virtually the entire selling price.[13]

The second retroactive tax was the three-year Multnomah County personal income tax, which voters approved in May of 2003. That 1.25 percent tax went back to the beginning of 2003.

Because of the additional tax burden, it's more expensive to do business in Portland than in any surrounding city. The additional costs are virtually all artificial burdens imposed by local governments.

In 2004, Inc. magazine rated Portland the nation's eighth worst metro area in which to do business. It said that Portland has lost its sizzle as one of the "cities of the future."[14]

In 2005, Oregon was the fourteenth most small-business unfriendly state in the country according to the Small Business & Entrepreneurship Council.[15] It ranked states based on 23 government imposed or government related factors including tax rates, minimum wage laws, liability laws and other factors. With Portland business taxes higher than surrounding communities, it is not hard to see why Portland itself may be seen as more unfriendly to business than the rest of the state.

The hidden cost of taxing business

Any income tax punishes economic success. It raises the cost of working, saving, investing and risk-taking, thereby restraining economic growth. The damage to the economy may be greater when a city or county raises an income tax versus a state doing so, because it is generally easier for an individual or business to leave a county than it is to leave a state.

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In addition to punishing economic success, income taxes cause the migration of productive citizens from places with them to places without them.

To the extent that government charges anyone, or any business, fees that roughly equate to the cost of providing specific services, a case can be made that such fees are justified. But the BIT is not one of these cases. The BIT is simply a way for local governments to extract as much money as they can from the most financially productive members of the community.

Taxing business may be popular, but economists understand that business only collects taxes, it doesn't pay them.[16] Only people do. No business has a pot of money that doesn't ultimately belong to specific individuals.

A tax imposed on business may be collected by that business, but it's ultimately paid by:

- Customers, in the form of higher prices;
- Shareholders, in the form of lower dividends;
- Suppliers, in the form of fewer orders;
- Business owners, in the form of less take home pay; and/or
- Employees, in the form of lower salaries and benefits, or fewer job opportunities.

Even worse, taxing business often hurts the very people government officials may be trying to help. For example, low-income customers may be hurt when businesses have to raise prices to cover some new tax. Or, deserving employees don't get raises because the money went to cover an added tax.

In such cases, the customer and employee will likely blame the business owner, when they should place the blame on those politicians who imposed the hidden tax on them.

What damage, if any, is being done to Portland by the BIT?

In addition to punishing economic success, income taxes cause the migration of productive citizens from places with them to places without them. In our mobile age of instant communication, people and their money are moving to locations where they can earn the best return on their investments of time and money.

The *Wall Street Journal* editorialized earlier this year that, "Since 1990 the nine states without income taxes have enjoyed twice the job growth and 2.5 times the population growth of the highest income tax states. Capital, jobs and economic development in America are migrating from high-tax states to low."[17]

A number of well-known businesses have recently left Portland to relocate in Southwest Washington or surrounding Oregon counties that don't impose a BIT.[18] These include Ralph Shaw Venture Partners, Kuni Automotive Group, and Albina Fuel Company.[19]

A number of well-known businesses have recently left Portland to relocate in Southwest Washington or surrounding Oregon counties that don't impose a BIT.

Two failed attempts to change the BIT

In the same year that Portland retroactively put a surcharge on its BIT rate (2003), the city, county and some business interests made an attempt to reform the entire BIT structure by converting it from an income tax to a payroll tax. This effort came in conjunction with then Portland Mayor Katz's State of the City address which called for Portland to "become the most creative and innovative city in America."[20]

Mayor Katz said that the current BIT system was a conscious effort to encourage manufacturing firms to locate here. Now, she and others wanted to revise the BIT to reward more "creative and innovative" firms that generally have high revenue per employee such as financial, retail, wholesale and service firms. Hurt in that process would be manufacturers, transportation, communications and utilities because they generally have lower revenue per employee.

The proposed BIT reform failed after many of the firms that would be hurt by such a change spoke up.[21] Perhaps those business owners who were trying to reduce their own tax burden at the expense of others realized that they shouldn't buy into a change that would help some businesses, hurt others, while leaving government revenues the same.

Earlier this year, Portland city commissioner Sam Adams introduced an ordinance that would have gradually increased the BIT owner's compensation deduction from the current $57,500 up to $125,000.[22] Other commissioners killed the idea, apparently because they didn't think this was the best way to "spend" the $4.3 million the ordinance might cost the city. In effect, they saw that as their money, not money belonging to the business people who earned it.

How Portland business income is singled out

Business owners who earn the same income as Portland city commissioners can pay over $1,100 more in taxes than those commissioners because of the BIT. This occurs in part because of the rationale for how much income a business owner can deduct before calculating his BIT.

The rationale for the BIT owner's compensation deduction seems to be that income below $57,500 is considered compensation for the owner's labor, while income above that level is actually a profit, not compensation for work done in the business.

The city's unofficial motto could be, "Portland is a great place to do business as long as you don't make a profit."

The Portland city commissioners who set that owner's compensation level currently earn over $88,000 a year. They pay no business tax on any portion of their income. A sole proprietor with $88,000 net income from business done within the city will owe a BIT tax of $1,113 (3.65% x[$88,000 - $57,500 owner's compensation deduction]) to the city and county.

A sole proprietor with net income equal to Portland's highest paid employee last year ¯ $182,406.18 ¯ will owe a BIT tax of $4,559. Why a city commissioners' labor is worth over $88,000 and the Executive Director of the Portland Development Commissions' (PDC) labor is worth over $182,000, but a business owners' labor is only worth $57,500 is a question worth asking.

The fact that Portland does tax business profits while surrounding communities do not may be one reason that city commissioner Sam Adams is quoted as saying that the city's unofficial motto could be, "Portland is a great place to do business as long as you don't make a profit."[23]

Recommendations

In the examples above, the local business owner, city commissioner and top PDC official should be taxed the same on the same amount of income. If politicians think that anyone earning more than the $57,500 BIT owner's compensation deduction is paying too little in taxes, they can propose to tax them more. But politicians shouldn't tax business owners at a higher rate than others earning the same income.

Phase out the BIT over five years

The primary recommendation of this report is to phase out Portland's BIT tax over a five year period. Leaving it in place will continue to harm Portland's economy and cause business people and their money to silently leave.

Business license fees have been, and likely will be, more volatile than other city revenues. They have lagged other revenue from 1999 through this year, and are forecast to lag other revenue through 2010. From this perspective alone, business license fees are a prime target for elimination. Doing so will not only lead to less volatility in overall city budgets, but elimination will be a powerful signal to the local and outside business communities that Portland is open for business and welcomes business people to the city. Rather than viewing reduced business license fees as a cost, city leaders should see such reductions as a positive step toward improving the city economy.

As of June, the Mayor's Proposed 5-year Revenue Forecast shows revenue in the 2010 discretionary General Fund up by about $24 million from this year, but with a projected deficit of $10 million based on even higher projected spending.[24] Removing business license fees totally from that projection without any offsetting spending cuts might reduce revenue by some $47 million and increase the deficit to $57 million. However, this static model ignores possible budget savings discussed below and the positive effects of encouraging business activity in the city.

A combination of selected competitive contracting savings, and reductions in the growth rate of city personnel costs can more than offset the elimination of the BIT and put Portland on a path toward more financial stability.

Reduce expenditures through competitive contracting

Portland city government does many things. Table 2 shows the current fiscal year adopted city budget broken down by bureau.

Table 2. Portland City Budget Broken Down By Bureau

Service Area	**Budget**	**Percentage**
Legal/Admin/Support	$ 226,410,013	16.0%
Community Development	254,758,702	18.0
Parks, Recreation & Culture	87,161,468	6.2
Public Safety	331,633,080	23.4
Transportation & Parking	178,530,447	12.6
Public Utilities	338,404,751	23.9
Total City Bureau Expenses	**$1,416,898,451**	**$100.0%**

Source: City of Portland, Management and Finance, "Current and Past Budgets," 2005-06.

Some Portlanders may be surprised that public safety¯primarily police and fire protection¯ accounts for less than 49 percent of the General Fund and less than one-quarter of total city bureau expenditures. Even holding police and fire bureau budgets harmless, reducing other bureau budgets by about 4 percent would totally offset the BIT contribution to this year's Total Net Budget. Setting a goal of removing these business license fees over the next five years would require even smaller percentage reductions in projected bureau budgets because they are growing faster than the BIT likely will.

Police and fire protection account for less than 49 percent of the General Fund and less than one-quarter of total city bureau expenditures.

City governments contract services both to save taxpayer dollars and to improve service delivery...The Auditor concluded that "All City of Portland bureaus should subject public services to market competition."

Based on results in other cities of contracting out city functions, such small reductions should be obtainable given enough encouragement from the business community and enough political will at city hall.

Critics of this approach will point out that BIT revenue is dedicated to the General Fund, and that, at least in the short run, funds in the other parts of the city budget may not be available to fill in for the BIT. This is actually an argument for reevaluating city priorities and for finding savings in Police and Fire budgets that don't risk citizen safety. Recent revelations about millions of dollars in excess costs in the police and fire disability fund and in the city's failed attempt to take over Portland General Electric should spur Portlanders to take a hard look at moving the city back to its core mission of protecting its citizen's lives and property.

In 1995 the Portland City Auditor evaluated the city's competitive contracting practices and opportunities. The results are contained in a report titled "Competitive Contracting: Opportunities to Improve Service Delivery and Save Money."[25]

The City Auditor found that almost any type of service is contracted out to the private sector by at least some municipalities elsewhere. Everything from public works and business services, to fire protection and library services are being done somewhere by the private sector. City governments contract services both to save taxpayer dollars and to improve service delivery.

The Auditor's research found studies documenting what services are contracted out by up to 1,086 other American cities and counties, and at how much lower costs. One report by Touche Ross indicated that "Most reported savings of 10 percent to 30 percent. Ten percent of respondents reported saving 40 percent or more."[26] Another study from the U.S. Dept. of Housing and Urban Development found even higher cost savings for services such as street cleaning (43%), Traffic Signal Management (56%), Janitorial (73%) and Asphalt Overlay (96%).[27]

The Auditor concluded that "All City of Portland bureaus should subject public services to market competition" and he laid out a procedure to move toward contracting services. The report ended with a statement that the Audit Services Division would prepare a status report to be used by the city council as it prepared the city's 1997-99 budget. No such formal status report was issued, although an informal survey was taken of city bureau managers in mid-1999. Based on the written and verbal responses received by the Division, a senior staffer wrote, "It appears no action has been taken to address those recommendations."[28]

One of the best examples of the market competition Portland's Auditor recommended occurred when Indianapolis elected Stephen Goldsmith as its mayor in 1992. Goldsmith used what he called the "yellow pages test" to determine what activities should be put up for bid. If you could open the yellow pages and find three or more private firms performing an activity, then that government function was ripe for contracting out. Goldsmith took public union advice on how to "level the playing field" so they could compete, and union employees ended up winning about half of the contracts they bid on. Even with these results, Indianapolis downsized its non-public safety employment by 30 percent in just two years.[29]

Leaders have to cast a wider net looking for more efficient alternatives to current government services.

Over two-thirds of Portland's 5,500 city employees fill non-public safety roles.[30] If Portland were to mirror Indianapolis under Mayor Goldsmith, aggressive contracting could reduce non-public safety payroll by more than 1,000 employees, freeing up more than $60 million in current salaries and benefits to pay for private service delivery and replace part of the BIT.[31]

Some examples of contracting out cost savings in Indianapolis appear in Table 3.

Table 3. Cost Savings from Competition: Indianapolis

Activity	**% Cost Savings**
Chuck hole filling	25%
Microfilm	61%
Printing	27%
Wastewater Treatment	44%

Source: "Revitalizing Our Cities," Reason Foundation Policy Study 186, March 1995

Goldsmith's approach taught us that leaders have to cast a wider net when looking for more efficient alternatives to current government services. When he set his sights on the city's waste water treatment plant, for example, he commissioned a study to see how it compared to other such facilities.

The study found that Indianapolis was operating its treatment plant as, or more efficiently than any similar sized city in the country. Contracting out might yield at most a 5 percent cost savings. Rather than settle for that answer, Goldsmith put it out for bid anyway to see if they could find more savings.

The result was a winning bid by an international private consortium that ended up saving the city 44 percent of the annual cost of waste water treatment.[32]

City of Portland employees are compensated well above the average city resident, and above state and local government employees throughout Oregon.

In 1995 Mayor Goldsmith documented his approach and its results in his book about improving the performance of urban governments, "The Twenty-First Century City."[33]

There are many government entities around the country and around the world that are benefiting from contracting out. Portland should be one of them.

An example of realistic potential cost savings from contracting out parts of just three non-public safety Portland city service areas is shown in Table 4.

Table 4. Three Non-Public Safety Service Areas

Service Area	FY 2005-2006 Operating Budget	10% savings
Parks, Recreation & Culture (parks, golf, raceway, etc.)	$ 73,636,815	$ 7,363,681
Public Utilities (water, sewer, etc.)	148,806,502	14,880,650
Transportation & Parking	98,038,071	9,803,807
TOTAL	**$ 320,481,388**	**$32,048,138**

Saving an average of just 10 percent in the three service areas above through competitive contracting could replace nearly three-quarters of the current $44 million BIT revenue. The savings would be higher in 2010 based on the earlier mentioned fact that projected city budgets will grow faster than the projected BIT revenue through 2010.

Of course, contracting out public services doesn't guarantee good service and savings to taxpayers. Private firms make mistakes just as governments do. They sometimes fail to meet customer needs, and sometimes they break the law and cheat their customers. But unlike governments, most poorly run firms go out of business because customers flee to their more competent competitors. To flee a poorly run government, most of the time people must pick up their families and move to another city or state. Unfortunately, more Portlanders than necessary are doing just that because of the BIT.

Restrain public employee salary growth
City of Portland employees are compensated well above the average city resident, and above state and local government employees throughout Oregon.

In 2004, Portland's 5,563 full-time equivalent employees earned an average wage of approximately $61,000 with an additional $32,000 in benefits.[34] According to an *Oregonian* analysis, throughout Oregon state and local government employees earned an average wage of $35,719 in 2004, and all Portland-area workers earned an average wage of $39,922, not counting benefits.[35]

Portland's most recent five year budget forecast has bureau General Fund budgets rising by about $45 million from 2005 to 2010, or an 18 percent increase. This increase could be cut in half with roughly a one percent reduction in annual salary increases for city workers, saving over $22 million in 2010, or nearly half of the projected BIT revenue that year.[36]

Saving on health care costs

As the last decade ended, healthcare spending by Oregon's state and local governments was 57 percent higher than in demographically comparable states.[37]

The City of Portland currently pays $950.10 per month per employee for a family medical and vision plan through its CityCore & VSP Vision plan, and it pays $913.20 per month for a comparable Kaiser Medical & Vision plan.[38]

Thanks to a provision in last year's federal Medicare Modernization Act, there is a way for the city to save money on health care costs while giving city employees even more health care options. Health Savings Accounts (HSAs) are now available to all Americans not eligible for Medicare, including public employees.[39] HSAs allow individuals to purchase high deductible policies and combine them with IRA-type savings accounts that grow tax-free. Paying routine healthcare costs from these savings accounts reduces the overall cost of healthcare by reducing the time and money healthcare providers must spend processing insurance paperwork. Buying high-deductible insurance for catastrophic care can significantly reduce the cost of insurance to employers, even when the employer partially or fully funds the savings portion of the plans.

All federal workers and their families now have several HSA plans to choose from. In Oregon at least nine companies currently offer large group plan HSAs.[40] Apparently none are yet used by the City of Portland.

Buying high-deductible insurance for catastrophic care can significantly reduce the cost of insurance to employers, even when the employer partially or fully funds the savings portion of the plans.

Property taxes represent the single biggest source of revenue for the City of Portland's General Fund. But, it could be even larger, offsetting a significant portion of BIT taxes, if not for the city's urban renewal program.

If the city will offer and encourage employees to choose from one or more HSA plans, they can help reduce city health care costs over time as more and more employees opt to use them.

The city estimated last year that its share of CityCore family plan premiums will rise to $1,649 by 2009-10.[41] That equates to roughly an 11 percent per year increase from this year's $950 premium, or 74 percent over five years. If that increase can be reduced to 7 percent per year (40 percent over five years) through use of HSAs alone, or in combination with other cost savings approaches, that would save the city over $3,800 per year per employee eligible for the family plan in 2010. Estimating the breakdown of city employees eligible for the family plan versus one and two party plans, the cost savings to the city in 2010 for all health care costs might average $3,000 per employee. Under this scenario, total city health care savings in 2010 for the same number of employees as the city has this year (5,700, including PDC) would be over $17 million, or more than one-third of the projected BIT revenue that year.[42]

Return property tax revenue to city services

Property taxes represent the single biggest source of revenue for the City of Portland's General Fund.[43] But, it could be even larger, offsetting a significant portion of BIT taxes, if not for the city's urban renewal program. The city, through the Portland Development Commission, tries to target development using a complex method known as Tax Increment Financing. Basically, the PDC borrows funds for development in select areas and uses future property tax increases to repay the bonds. Until the bonds are paid off, all governments within Multnomah County have their proceeds from property taxes within those urban renewal zones "frozen", with the additional taxes, or "increment," going to pay off the bonds.

Economists question whether government economic development programs, like urban renewal under the Portland Development Commission, are effective compared to private sector efforts based on market forces.[44]

In January of 2005 the City Club of Portland issued a report on the Portland Development Commission.[45] In it, the Club made a number of statements relevant to the analysis here, including,

- While TIF (Tax Increment Financing) has been the primary funding source for PDC's urban renewal activities, it has not been an effective mechanism for funding economic development.

- TIF can no longer ¯ and should have never been ¯ viewed as "free money' for public projects.

- It is extremely difficult to know how much urban renewal actually costs each of the other taxing jurisdictions.

- It is hard to believe that the remaining $773 million increment that has built up over the last thirty years is entirely attributable to urban renewal.

- City Council must more carefully consider and evaluate the impact tax increment financing will have on the operating budgets of the city, Multnomah County, schools and other jurisdictions that rely on property tax revenue.

Existing urban renewal funding must be used to pay off existing urban renewal bonds, but there is growing concern about creating new urban renewal districts, and about continuing old ones when such decisions will keep funds from flowing back into the general funds of local governments.[46]

Currently, repaying urban renewal bonds in Portland equates to about $65 million a year not being available to fund basic services of Portland, Multnomah County, the Portland Public School District and other local governments. Roughly 30 percent of that amount, or $19 million would go into Portland's General Fund if not for urban renewal bond payments. Although three of the ten current urban renewal areas are scheduled to end by 2010, the bonds that funded them will take longer to pay off, therefore no urban renewal taxes can likely be added back to Portland's General Fund until future years. Taxpayers should, however, be skeptical of allowing any future urban renewal areas to use Tax Increment Financing without a full discussion of how it might withhold future revenues from Portland's General Fund.

Currently, repaying urban renewal bonds in Portland equates to about $65 million a year not being available to fund basic services of Portland, Multnomah County, the Portland Public School District and other local governments.

Another property tax item of concern in this analysis is the one that funds the Portland Fire and Police Disability and Retirement system. These taxes rose 61 percent in 10 years ending in 2004.[47] As of June 2004 the unfunded liability of the Fire and Police Disability and Retirement fund was $1.27 billion.[48]

A recent outside study found that Portland could save nearly $4 million a year by putting its public safety workers under Oregon's workers' compensation system, just like other city workers.[49]

Currently, a typical Portlander whose home is assessed for tax purposes at $150,000 pays about $330 in property taxes directly to the Portland Fire and Police Pension and Disability system. This is in addition to the roughly $640 the same homeowner pays into the City of Portland General Fund, and $260 in urban renewal taxes. While reducing costs in the

If only two-thirds of the potential savings documented in Table 5 can be realized by 2010, the city can totally eliminate its share of the BIT that year without any damage to city finances.

disability and pension system would not allow these funds to flow into Portland's General Fund, it could reduce the property tax burden of homeowners, which would improve the economic health of the city.

So, while these property tax items cannot be used to help replace the BIT by 2010, they should be part of a broader analysis of city finances. Holding them down will be an important part of improving Portland's business climate.

More than enough to eliminate the BIT

Table 5 summarizes possible annual savings by 2010 as discussed above.

Table 5. Possible Savings in 2010

Opportunities to reduce city costs	**Possible annual savings by 2010**
Contracting out parts of three city bureaus	$32 million
One percent annual reduction in wage increases	22 million
Slow down growth of health care expenses	17 million
TOTAL PROJECTED ANNUAL SAVINGS IN 2010	**$71 million**
Projected BIT city revenue in 2010	**$47 million**

If only two-thirds of the potential savings documented in Table 5 can be realized by 2010, the city can totally eliminate its share of the BIT that year without any damage to city finances.

Conclusion

Portland is perceived by too many people as being anti-business. Rather than argue about the validity of this claim, it will be more productive to remove the element of city policy that does more than anything else to foster this perception.

Phasing out Portland's share of the BIT can be done without harming city services. Given the economic logic that taxing business less will lead to more business activity and more employment, it is likely that BIT revenue can be offset in the future with even smaller budget reductions than called for in this report.

Even if ending the BIT "pays for itself" through more economic activity, Portland should aggressively pursue contracting out city services, slowing growth in personnel costs, phasing out tax increment financing and reducing disability and pension fund costs to both improve service delivery and reduce costs to taxpayers even more.

A combination of phasing out the BIT, improving service delivery and reducing taxpayer costs will translate into a renewed claim that Portland is truly business and taxpayer friendly — truly The City That Works.

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