

IMPACT STATEMENT

Legislation title: Authorize a surtax to the City's Business License Tax for publicly traded companies subject to U.S. Securities and Exchange Commission disclosure and reporting requirements if a subject company reports that the ratio of compensation of its chief executive officer to median worker is equal to or greater than 100:1 under the Commission's Pay Ratio Disclosure Rule (Ordinance; amend Code Section 7.02.500).

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Purpose of proposed legislation and background information:

This ordinance establishes a surtax to the City's Business License Tax for publicly traded companies that are subject to U.S. Securities and Exchange Commission (SEC) disclosure and reporting requirements. In 2015, the SEC adopted a rule requiring public companies to disclose the ratio of compensation of the company's chief executive officer to the median compensation of all of its employees beginning in 2017. The City of Portland surtax proposed by this ordinance relies on data reported by companies to the SEC, and revenue from the proposal will accrue to the General Fund and help the Portland Housing Bureau meet the City's commitment to funding homelessness services

Income inequality in the United States has grown during the past four decades:

- In the 1970s, the top 1 percent of income earners had less than 10 percent of total income in America. By 2010, the disparity had grown even larger, to 20 percent of total income.
- Much of the gain of the top 1 percent has been concentrated among the very top of the income chart, the top 0.1 percent of income earners; between the 1970s and 2010, the share of income held by the top 0.1 percent went from 2 percent to between 7 and 8 percent.
- Like the income gap, data show a similarly large wealth gap. By conservative estimates, the top 0.1 percent had 11 percent of the wealth in the United States in 1992, and the percentage grew to 14 percent by 2013.

The SEC's new rule offers local and state governments, as well as Congress, the opportunity to develop policies to address the growing gap between the very rich and the middle class. The City of Portland surtax proposed by this ordinance is, on its own, unlikely to cause companies to reconsider their pay structures. If other governments adopt policies based on the SEC's publicly reported ratio, companies may consider changes. California and Rhode Island have already considered proposals based on the new SEC filing.

Under this proposal, a publicly traded company that is doing business in Portland will be subject to a surtax of 10 percent of its base Business License Tax liability if it reports that the ratio of

compensation for its chief executive officer and median worker is equal to or greater than 100:1 but lower than 250:1. The surtax rises to 25 percent of base Business License Tax liability if the company reports a ratio equal to or greater than 250:1. This means that if a company pays its median worker nationally \$50,000/year, it could pay its chief executive officer up to \$4.9 million/year before it would be subject to a 10 percent surtax of its existing business license tax liability. The chief executive officer could be paid up to \$12.4 million/year before paying the higher surtax of 25 percent.

Revenue from this surtax will accrue to the General Fund and provide additional resources that Council is using to increase funding for services provided by the Joint Office of Homeless Services.

The public hearing about this proposal is scheduled for October 5, 2016, at 2 p.m. The second reading and Council vote will occur during the regular Council meeting scheduled for December 7, 2016.

Financial and budgetary impacts:

The Revenue Division estimates that the surtax proposed by this ordinance would increase revenue by \$2.5 million to \$3.5 million annually, although the estimate of the amount of revenue the City of Portland will actually collect during the first year of implementation, Fiscal Year 2017-18, is lower because of the lag between tax policy and actual collections and the fact that publicly traded companies typically file extensions. Using the low end of the expected revenue range, estimated revenue collections are \$125,000 during FY 17-18, \$2,275,000 during FY 18-19 and \$2,500,000 each fiscal year thereafter. The Revenue Division estimates the cost to administer the surtax would be about \$50,000 annually.

This ordinance would increase revenue to the General Fund and allow Council to address the ongoing funding gap for the Joint Office for Homeless Services. In June 2016, the Portland City Council and the Board of County Commissioners for Multnomah County approved an Intergovernmental Agreement establishing the Joint Office of Homeless Services. The City has budgeted \$11.5 million in ongoing funding for the Joint Office. The Intergovernmental Agreement commits the City to an additional \$3.5 million beyond what is already budgeted for the Joint Office after Fiscal Year 2016-17. The City needs to allocate \$3.5 million in new funding to maintain its commitment to fund homeless services beginning in Fiscal Year 2017-18. This surtax proposal increases the current appropriation level target for the Portland Housing Bureau by \$2.5 million on July 1, 2018, paying for homeless services provided by the Joint Office of Homeless Services. This proposal reduces the funding gap for the Joint Office in the second through fifth years of the forecast.

Community impacts and community involvement:

Housing affordability and homelessness are serious concerns of Portlanders. In October 2015, City Council declared a housing emergency, reflecting the dramatic increase in housing prices as well as increasing concerns about homelessness in our community. In September 2016, Council extended the housing emergency declaration until October 2017.

The surtax proposed by this ordinance would be paid by publicly traded companies that are doing business in Portland and that have a chief executive officer to median worker pay ratio of at least 100:1. Publicly traded companies are those that issue securities, like stocks. Publicly traded companies, also called publicly-held companies, must file required documents with the SEC, including registration statements for newly-offered securities, annual and quarterly filings, proxy materials sent to shareholders before an annual meeting, and annual reports to shareholders. Beginning in 2017, the SEC is requiring all publicly traded companies in the United States to include the ratio of their chief executive officer compensation to their median worker in the company's required filings.

The Revenue Division estimates that there are about 550 publicly traded companies that are subject to and paying the City's Business License Tax. Collectively, their Portland tax liability was \$17.9 million annually based on recent tax filings.

Budgetary Impact Worksheet**Does this action change appropriations?**

- YES:** Please complete the information below.
 NO: Skip this section

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount

Amend #1

City Council Agenda #1202
October 26, 2016
Commissioner Novick Proposed Amendment

Remove Section b. of the ordinance as shown here:

NOW, THEREFORE, the Council directs:

- a. City Code Section 7.02.500, Tax Rates, is amended as set forth in Exhibit A.
- b. ~~The City Budget Office will increase the ongoing Current Appropriation Level target for the Portland Housing Bureau by \$2.5 million starting July 1, 2018, to support the Joint Office of Homeless Services efforts to help people move off the street, out of shelters, and back into permanent housing, as well as services that help people avoid homelessness.~~

188129

Amend #2

City Council Agenda #1202

October 26, 2016

Revenue Bureau proposed amendment

Add the underlined section as shown here:

NOW, THEREFORE, the Council directs:

- a. City Code Section 7.02.500, Tax Rates, is amended as set forth in Exhibit A.
- b. The City Budget Office will increase the ongoing Current Appropriation Level target for the Portland Housing Bureau by \$2.5 million starting July 1, 2018, to support the Joint Office of Homeless Services efforts to help people move off the street, out of shelters, and back into permanent housing, as well as services that help people avoid homelessness.
- c. The Bureau of Revenue and Financial Services and the City Budget Office will prepare necessary adjustments to the Revenue Division's budget in the Fiscal Year 2017-2018 budget process.