

Ordinance No. 183330

Establish a Pilot Business Retention and Recruitment Credit for Qualifying Investment Management Firms (Ordinance; add Code Section 7.02.870)

The City of Portland ordains:

Section 1. The Council finds:

1. The City is interested in establishing a pilot business retention credit to support and further Portland's economic vitality and the 5-Year Economic Development Strategy. The City will evaluate expanding the business retention and recruitment credit pilot to other firms at high risk of leaving the city within one year based on its effectiveness in retaining targeted businesses.
2. The Economic Development Strategy has as a goal creating and retaining living wage jobs. Doing so creates a livable city and supports desired government services. Business retention and recruitment are critical to achieving these job goals.
3. The Economic Development Strategy highlights as key challenges facing our economy both 1) the minimal and insufficient tools beyond Tax Increment Financing available to retain and recruit companies and 2) a substantial lack of access to capital.
4. The credit will provide an incentive to remain in Portland instead of moving to surrounding cities, will help promote Portland as a business-friendly city and will keep or increase jobs in Portland. It is estimated that one third of the region's approximately 30 Investment Management Firms are currently outside the City of Portland.
5. The goal of the credit is that the firms recruited to the city will make up the loss in revenue and to prevent a greater loss to the City of Portland's general fund by retaining local firms who would otherwise move out of the City.
6. The City's Business License Tax is unique in the state of Oregon and a critical source of general fund revenue to fund essential city services. Since the tax is based on net income apportioned for business performed in the City, the amount paid varies among businesses based on profitability and the business's tax structure.
7. Over the past few years, the City's business license tax has been updated to create greater fairness for Portland businesses, especially small businesses by:
 - Increasing the gross receipts exemption from \$25,000 to \$50,000
 - Increasing the owner's compensation deduction limit to \$84,000 per owner
 - Changing from a paid-in-advance license fee to an after the fact tax, which resulted in approximately \$8 million in one-time credits to existing businesses and less initial financial burden to new businesses.
 - Changing the code to treat Venture Capital Funds in a manner aligned with the treatment of Mutual Funds
8. City Council is committed to the remaining reforms identified in Resolution No. 36473, specifically a tiered minimum tax structure and further increases to the owner's compensation deduction limit up to \$125,000 once the Portland economy improves.

9. Investment management firms offer well-paying jobs and demand few public services. They support local restaurants and hotels when clients and companies in which they invest come to the area. Owners of Portland investment management firms provide day to day guidance to achieve results for both their employees and clients worldwide. Their clients are looking for national and international investment market expertise which does not require a specific business location. Investment management firms are not tied to specific infrastructure needs such as courthouses or hospitals.
10. Investment Management Firms who receive this credit will sign a good faith agreement to participate in an annual outreach event related to investment education and opportunities.
11. The City of Portland believes a pilot business retention credit is appropriate to attract and retain small investment management firms whose business is managing non real estate investments for others and who perform most or all of their work in Portland.

NOW, THEREFORE, the Council directs:

- a. Portland City Code Section 7.02.870 is added as follows:

7.02.870 Business Retention Credit for Qualifying Investment Management Firms

- A. An Investment Management Firm is entitled to a credit against the total amount of its business license tax due. The business retention credit is determined by subtracting from the business license tax due the greater of
 1. \$6,000 times the number of owners, not including limited partners, subject to the Compensation Deductions allowed in Section 7.02.600 or
 2. 30 percent of the total business license tax otherwise due. If the resulting difference is a negative number, the amount of the credit will be zero. Any allowed credit not used in a particular year will not be refunded and will not be carried forward to a succeeding tax year, except as provided in subsection B.
- B. For purposes of this credit, the "first tax year" would be a tax year in which the Investment Management Firm is doing business in the City of Portland and either
 1. The Investment Management Firm was not doing business in the City of Portland in the prior tax year or
 2. The prior tax year began prior to January 1, 2009.
 - a. In the first tax year, the credit is limited to 50 percent of the amount calculated in subsection A. The remaining 50 percent shall be deferred and can only be claimed in the third of three consecutive tax years (in which the Investment Management Firm is doing business in the City of Portland) starting with the first tax year as defined above.
 - b. In the second consecutive tax year that the Investment Management Firm is doing business in the City of Portland, the credit is limited to 50 percent of the amount calculated in subsection A. The remaining 50 percent shall be deferred and can only be claimed in the fourth of four consecutive tax years (in which the Investment Management Firm is doing business in the City of Portland) starting with the first tax year as defined above.
 - c. In the third consecutive tax year that the Investment Management Firm is doing business in the City of Portland, the Investment Management Firm, in addition to the full credit calculated in subsection A, can claim the 50 percent deferred credit that was calculated in subsection a. above.

- d. In the fourth consecutive tax year that the Investment Management Firm is doing business in the City of Portland, the Investment Management Firm, in addition to the full credit calculated in subsection A, can claim the 50 percent deferred credit that was calculated in subsection b. above.
- C. "Investment Management Firm" means a taxpayer that satisfies each of the following requirements during the tax year that the credit is sought:
1. At least 90 percent of the firm's gross income for the tax year must consist of fees that are
 - a. Received from a Diversified Investing Fund or from persons unrelated to the firm, and
 - b. Determined as a percentage of the value of assets managed by the firm (including payments to the firm from third parties if the payments are credited against or offset such fees in whole or in part).
 2. At least 90 percent of the assets managed by the firm must consist of Qualifying Investment Securities.
 3. A majority of the voting interests in the firm must be owned by persons who received compensation from the firm that is subject to the Owner's Compensation Deduction in Section 7.02.600.
 4. The firm was physically located within the City of Portland boundaries at the end of the tax year.
- D. The terms "Diversified Investing Fund" and "Qualified Investment Securities" have the meanings as defined by Administrative Rule.
- E. This credit is available for tax years beginning on or after January 1, 2009.

Passed by the Council: NOV 12 2009

Commissioner: Mayor Sam Adams
Prepared by: Terri Williams
Date: October 8, 2009

LaVonne Griffin-Valade
Auditor of the City of Portland

By: 
Deputy

Agenda No.
ORDINANCE NO. 183330
Title

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INTRODUCED BY Commissioner/Auditor: Mayor Adams	CLERK USE: DATE FILED <u>OCT 23 2009</u>
COMMISSIONER APPROVAL Mayor—Finance and Administration <i>Adams</i>	LaVonne Griffin-Valade Auditor of the City of Portland
Position 1/Utilities - Fritz	By: <i>[Signature]</i> Deputy
Position 2/Works - Fish	
Position 3/Affairs - Saltzman	
Position 4/Safety - Leonard	
BUREAU APPROVAL Bureau: Revenue Bureau Head: Sue Klobertanz	ACTION TAKEN: OCT 28 2009 PASSED TO SECOND READING NOV 12 2009 9:30 A.M.
Prepared by: Terri Williams Date Prepared: 10/8/09	
Financial Impact Statement Completed <input checked="" type="checkbox"/> Amends Budget <input type="checkbox"/> Not Required <input type="checkbox"/>	
Portland Policy Document If "Yes" requires City Policy paragraph stated in document. Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	
Council Meeting Date 10/28/09	
<input checked="" type="checkbox"/> City Attorney Approval <i>[Signature]</i>	

AGENDA
TIME CERTAIN <input type="checkbox"/> Start time: _____ Total amount of time needed: _____ (for presentation, testimony and discussion)
CONSENT <input type="checkbox"/>
REGULAR <input checked="" type="checkbox"/> Total amount of time needed: <u>30 min.</u> (for presentation, testimony and discussion)

FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS:		
		YEAS	NAYS
1. Fritz	1. Fritz	<input checked="" type="checkbox"/>	
2. Fish	2. Fish	<input checked="" type="checkbox"/>	
3. Saltzman	3. Saltzman	<input checked="" type="checkbox"/>	
4. Leonard	4. Leonard	<input checked="" type="checkbox"/>	
Adams	Adams	<input checked="" type="checkbox"/>	