600 NE Grand Ave.
Portland, OR 97232-2736
oregonmetro.gov

Date:	September 30, 2022
To:	Brian Kennedy, Metro CFO; Eric Arellano, Multnomah County CFO; Ethel Gallares, Washington County CFO; Elizabeth Comfort, Clackamas County CFO
Cc:	Patricia Rojas, Metro Housing Director; Rachael Lembo, Metro Finance Manager; Shannon Singleton, Joint Office of Homeless Services Director; Indira Hadziosmanovic, Washington County Housing Services; Yaling Dressel, Washington County Housing Services; Jason Kirkpatrick, Housing Authority of Clackamas County; Ed Johnson, Housing Authority of Clackamas County
From:	Josh Harwood, Metro Fiscal & Tax Policy Director
Subject:	FY 2021-22 Supportive Housing Services Taxes Fiscal Year-End (FYE)

This report is intended to summarize the first fiscal year of tax collections for Metro's Supportive Housing Services (SHS) program originally passed by voters in May 2020. The data presented herein include all payments for which there are identifiable characteristics of what is being displayed in the table or graph.[1]

For FY 2021-22, Metro raised $239.5 million. This was split between business and personal income taxes that totaled $92.7 million and $146.7 million, respectively. The nearly $240 million was

Data Challenges and Future Research

Please note that for income taxes, tax (calendar) years do not line up with fiscal years and people often file and pay taxes months, or sometimes years, after the event that precipitated the owing of taxes. Thus, there are not clean comparisons as to the timing of the collections and the economic activity for which the tax was incurred, especially this early in the program's history. For the purposes of tables/figures on the following pages, the numbers represent collections made prior to July 1, 2022, regardless of the tax year for which it applies. In the future, we should expect to have more complete tax year data as taxpayers file their full tax forms and any amended returns work through the system. As more details and additional years of data are added, it is expected that this report will expand and evolve to include more detailed tables and trends over time, as well as comparisons to other local, state, and national taxes.

Another aspect of income taxes is that the characteristics of taxpayers are often fairly easy to generalize, but specific situations can yield different, or even the opposite, results in certain cases. As a result, summaries shown here should not be interpreted as definitive or final, as yet-to-be-received information may alter the interpretation of the data. As to the characteristics of taxpayers or any secondary impacts of implementing these taxes, those analyses will become clearer as the data becomes more comprehensive.

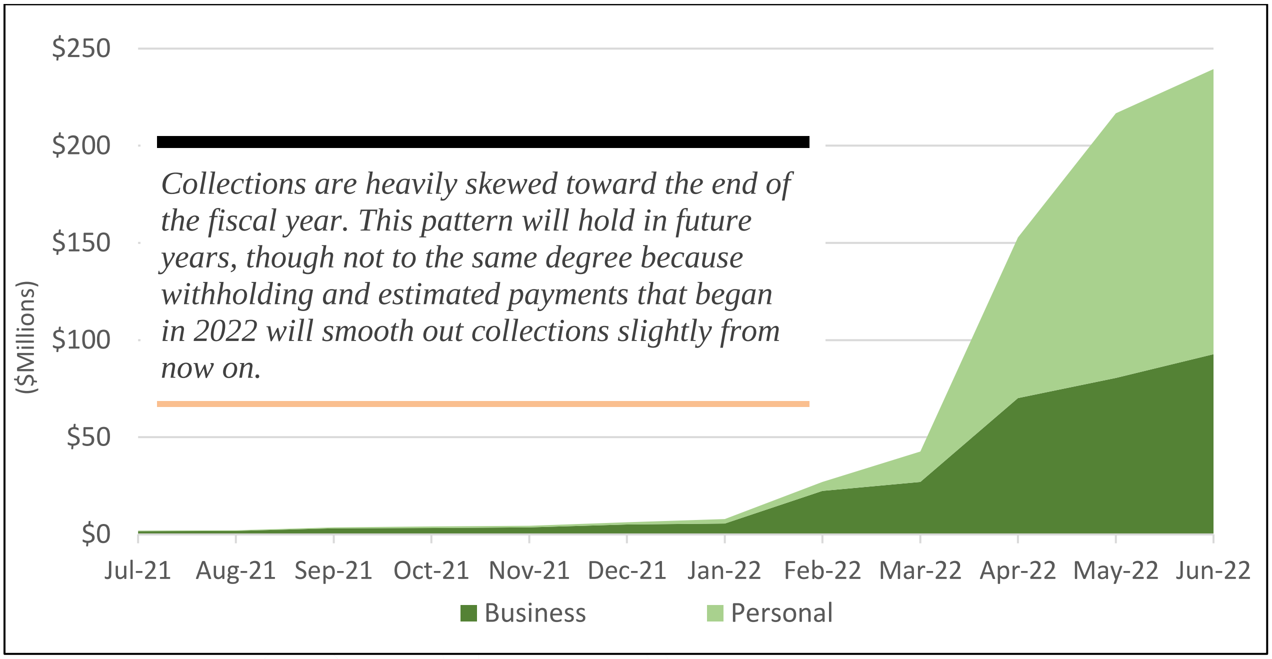
[1] Many taxpayers simply paid an estimate of what they owed in April with an extension coupon that contains very little data related to the payment. Additional taxpayer data will be available when those filers officially file their tax forms in the fall. Where appropriate, additional context is provided when the data presented represents only a portion of the money collected.

significantly higher than the conservative $180 million budgeted by Metro for the FY 2021-22 fiscal year. The following pages summarize details available through June 30, 2022.

Background & FY 2021-22 Results

Metro referred and voters passed a business income tax and personal income tax for qualifying taxpayers in 2020. Due to the complexity and timing of income tax collections, the first year of taxes was 2021, with the bulk of collections beginning in 2022. Figure 1 shows the collections by month for each of the two tax streams.

FIGURE 1 – FY 2021-22 CUMULATIVE COLLECTIONS BY MONTH



First-year collection of these taxes had several unique components that will either be eliminated or muted in future years. While the pattern will largely stay the same in the future, we should expect it to flatten (i.e., relatively more money coming in earlier in the fiscal year) because tax withholdings and estimated payments for those likely to owe were not required until 2022 and will serve to collect some taxes owed earlier in the process. This will also result in more refunds where withholding was required but, for other reasons, the taxpayer does not owe the tax.

Tax Base Volatility. There are three – or four if one wants to include payroll taxes – primary methods of taxation for governments in America: property, income, and sales taxes. Among these, incomes taxes is the most volatile and the taxpayers that pay Metro's Supportive Housing Services taxes represent amongst the most volatile class of income tax payers (see

Tax Volatility

Measured by largest changes from year-to-year. These fluctuations are very likely to exceed 25% in either direction at some point during the next decade. (> = increased instability)

Income Taxes > Sales Taxes > Property Taxes

Within Income Taxes:

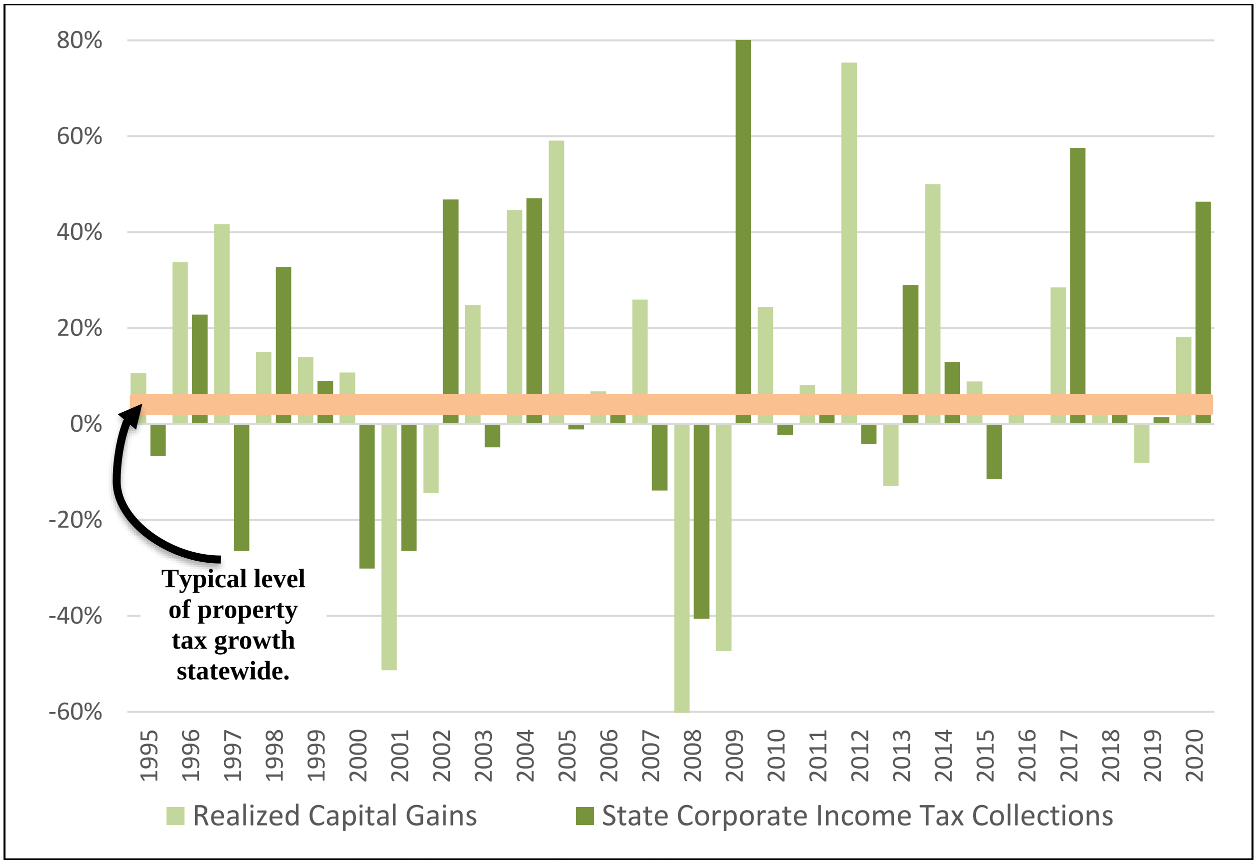
Corporate/Business > Personal

Within Personal Income Taxes:

Higher Income > Lower Income

sidebar). This, along with the complexity of collections, distinguishes income taxes from other tax systems. Figure 2 on the next page illustrates the relative variability between a pair of primary sources of SHS income taxes as compared to property taxes, through the use of historical state income tax data.

FIGURE 2 – FY 2021-22 OREGON INCOME TAX VOLATILITY VS. PROPERTY TAXES



Data Source: State of Oregon Department of Revenue, Oregon Office of Economic Analysis

The instability of collections has been exacerbated over the last 50 years with growing income inequality. The interaction between higher overall incomes but only for a select few; and, taxes that apply only to those with higher incomes; is that those with exceptional incomes have an even greater incentive (i.e., owe more in taxes) to avoid paying taxes (legally, of course). Ongoing and future analyses will necessarily contemplate what a declining tax base might look like on collections. While there is little evidence that residents will pick up and move in large numbers to another locale simply to avoid paying taxes, it is likely that more people – that for whatever reason are moving to the area – will choose to live in parts of the region outside of the Metro district or Multnomah County[2] that have lower or no state and local income taxes. Furthermore, for those with occupations that may be completed at home, some will consider making different choices in their daily lives that will more easily minimize their particular overall tax exposure. This final impact is not specific to the Portland region and, thus, is discussed in more detail in the subsequent "Issues/Risks" section.

Another component of income taxes is that, while more volatile, they also tend to grow faster than most other tax systems over time. The combination of rapid long-term revenue growth interspersed with the possibility of significant short-term contractions can pose management

[2] If one considers the new Preschool for All tax in Multnomah County in the same category as the SHS taxes. It was also passed by voter in 2020 and taxes a similar group of taxpayers as the SHS taxes, but at higher marginal rates.

challenges around the scaling and flexibility of program funding. In this way, the revenue implications on the programs play an outsized role in their development and maintenance, often requiring more significant reserves that many government programs in order to avoid disruptive service reductions.

Issues/Risks

Obviously, the overall economic well-being of the region and nation are the most critical to healthy revenue growth. The following section is a discussion of risks primarily to revenue from these specific taxes, not necessarily the economy as a whole.

Geopolitical/Inflation. While the relatively recent increase in inflation hits households' and businesses' bottom lines, it also tends to result in higher tax collections. Of course, that positive collection news is typically offset by rising costs for the programs that receive the funds. While inflation is a risk, some of the real causes of current inflation are examples of broader risks to economies and, ultimately, tax collections. Today, increasing economic dependency can mean that small disruptions are more economically damaging on a larger national and global level.

Demographics/Migration. For many years, researchers have noted that the Country's underlying demographics – the largest generations are currently Baby Boomers and Millenials – will limit growth in income taxes. As older workers retire and transition to spending prior-earned income (i.e., retirement), some sources of which are non-taxable and as organizations replace those workers with younger workers at lower salaries and smaller sources of non-wage income (i.e., capital gains, rental income, etc.), income tax growth will be slower than was experienced earlier this century.

Tax Laws/Work from Home. Local income taxes are often either required or choose to tie to state and/or federal income tax systems. This is done to more efficiently and simply administer the tax collections. As a result, when state and/or federal tax laws change, Metro's taxes may be impacted. It should be noted that this likely occurs for most existing state and local income tax laws. Depending on the taxpayer situation, the local income tax owed by a high-income taxpayer or large business is a small fraction of the taxes each would owe to the federal and state governments. As a result, to the extent to which policy changes at the state and federal level impact taxpayer behavior, local income taxes collections will also be impacted. As a result, administrative regulation often requires irregular, but noteworthy "housekeeping," as local governments need to react to a changing tax environment.

There has been a lot of worthy discussion around the increase in the number of employees working from home during and following the pandemic, and what various impacts this has on communities, urban centers, and migration. Taxes are not immune to those impacts as they are largely associated with where a person lives and/or works. Many states and local governments are realizing the potential impacts of work from home on their revenue streams[3] and discussions have already begun on determining if there is a need for changes to tax codes that reflect this new work from home reality for those that have that capability.[4] The economy is in flux currently with many conflicting indicators. As a "new normal" establishes at worksites around the world, it will become

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[3] This is particularly pronounced in sales taxes where the location of a purchase is generally the determining factor and many sales taxes include a sizable local tax component. For urban centers that collect sales taxes, this has been a prominent issue for years in highly populated areas with different tax rates evne within, say, a metro area.

[4] According to the Oregon Office of Economic Analysis, the number of workers working from home as of September 2021 was less than 20% and had fallen from its peak of approximately 36% in May 2020. This figure has likely fallen further since then. https://oregoneconomicanalysis.com/2021/12/16/just-how-much-is-working-from-home-on-the-rise/

easier to draw robust conclusions as to the totality and timing of these impacts, as well as any subsequent law changes proposed to mitigate those impacts.

Next Steps

Though taxes were due April 18th, many taxpayers (particularly those with the highest incomes) chose to extend the filing of their actual return with the necessary income information to verify the tax payment until October. This means that there is still limited information on the specific underlying drivers of collections this far. What we can say with some certainty is that income tax-dependent governments (including the State of Oregon), is that 2021 was an unusually high year for incomes, and thus, income tax collections. Currently, Metro has budgeted collections of $225 million for FY 2022-23, and, based on currently available information, there does not seem any immediate reason to change that estimate. That said, we will continue to monitor the data and recommend changes as necessary. The initial budget forecast for FY 2023-24, as well as a full five-year forecast will be presented to the Financial Review Team, comprised of the Chief Finance Officers from Metro and each the three counties, in late November.

Appendix A

The following charts are presented for informational purposes only and are demonstrative of the kind of research Metro expects monitor and expand on in the future. Business tax data is currently more comprehensive, thus its primary usage below. However, similar research using personal income tax data will also be presented as additional data becomes available and clearer distinctions can be made on multiple full tax year collections. Restrictions on the confidentiality of income tax data require clearly defined protocols that are in the process of being established as to the level of specificity that can legally and/or ethically be shared publicly. Metro has chosen to be conservative in its interpretation of what may be shared publicly until protocols are established also, in part, because there are not enough data to produce robust results yet for personal income taxes. What information from the income tax forms is captured for research purposes (e.g., not necessary for processing tax payments, but helpful in understanding the tax dynamics and for forecasting purposes) are a part of ongoing discussions. For any more questions or if you would like to discuss ongoing research, please contact Josh.Harwood@oregonmetro.gov.

Figure A.1 – Business Income Tax Collections by Industry

Data Description

- *Self-reported industry codes*
- *Encompasses approximately 40% of all collections*
- *Relatively complete business tax data for accounts with payments*

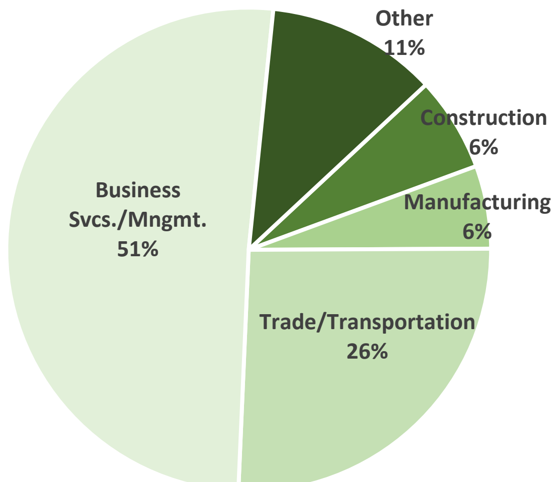

Figure A.2 – Business Income Tax Collections by State/Country

Data Description

- *State data gleaned from business tax filings*
- *Some data combined to protect confidentiality*
- *Does not include withholding accounts which get reconciled with personal tax payments/refunds*

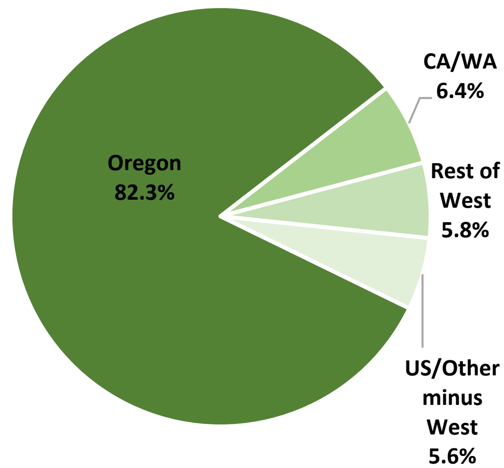

Figure A.3 – Business Income Tax Collections by Entity Type

Data Description

- *C-corporations fall under federal and state Corporate income tax codes*
- *Non-C-corporation entities typically have no taxable business income for their state and federal tax return because that income is taxed on the individual return. However, the City of Portland, Multnomah County, and Metro all tax these entities separately from personal taxes owed.*