Clean Energy Community Benefits Initiative Review
Tax Revenue Estimates

July 2018

Prepared for:

Grow Oregon

ECONorthwest
ECONOMICS • FINANCE • PLANNING

KOIN Center
222 SW Columbia Street
Suite 1600
Portland, OR 97201
503-222-6060

This page intentionally blank

Acknowledgments

For over 40 years ECONorthwest has helped its clients make sound decisions based on rigorous economic, planning, and financial analysis. For more information about ECONorthwest: www.econw.com.

Ralph Mastromonaco and Bob Whelan of ECONorthwest prepared this report to Grow Oregon. Other firms, agencies, and staff contributed to other research that this report relied on.

That assistance notwithstanding, ECONorthwest is responsible for the content of this report. The staff at ECONorthwest prepared this report based on their general knowledge of the local economy, taxation, business ownership, and on information derived from government agencies, private statistical services, the reports of others, interviews of individuals, or other sources believed to be reliable. ECONorthwest has not independently verified the accuracy of all such information and makes no representation regarding its accuracy or completeness. Any statements nonfactual in nature constitute the authors' current opinions, which may change as more information becomes available.

For more information about this report:

Ralph Mastromonaco, PhD
mastromonaco@econw.com
KOIN Center
222 SW Columbia Street
Suite 1600
Portland, OR 97201
503-222-6060

Table of Contents

List of Tables

Summary

ECONorthwest was retained to conduct a revenue estimate of the proposed City of Portland ballot Initiative entitled "The Portland Clean Energy Community Benefits Initiative." This Initiative is expected to make it to the November ballot. Broadly speaking, this Initiative imposes a 1% gross receipts tax on "retail" revenue for "large retailers" in the City of Portland. This report attempts to estimate the total tax liability of those firms.

We estimate that this Initiative would generate $43 million to $79 million in revenue for the City of Portland, depending on the interpretation of what is considered a "retail sale" and what is considered a "large retailer." The retail sector accounts for 71% of revenue using a narrow definition of retail sales but only 43% of revenue using an expansive definition of retail sales.

The large estimated range is primarily a function of ambiguous wording in the Initiative itself and uncertainty over how the Initiative would be implemented by the City of Portland if it were to be passed. To complete our analysis, we created "Narrow" and "Broad" scenarios. The former keeps the colloquial definition of "retail sale" as a guidepost and consequently is more restrictive with respect to identifying firms subject to the new tax, while the latter is guided by discussions with tax experts and follows the ambiguity of the language.

Tax Revenue Estimates		
Institution	**Lower Bound**	**Upper Bound**
City of Portland, Division of Revenue	$35 Million	$51 Million
ECONorthwest	$43 Million	$79 Million

Our Narrow Interpretation estimate of $43 Million is within the range provided in the City's own analysis. Completed in 2017, albeit under a prior version of the initiative, the Division of Revenue used an interpretation of the Initiative that was close to our Narrow Interpretation. If passed, the City Council and the Division of Revenue will have some sway on the final language encoded to law and the details of implementation. This process will resolve many of the uncertainties with which we are now faced.

This page intentionally blank

Introduction

Background

ECONorthwest was retained to estimate the potential tax revenue generated by the proposed City of Portland ballot Initiative entitled "The Portland Clean Energy Community Benefits Initiative." This Initiative is expected to make it to the November ballot. Broadly speaking, this Initiative imposes a 1% gross receipts tax on "retail" revenue for "large retailers" in the City of Portland. This report estimates the total tax liability of those firms.

Our review of the ballot Initiative, discussions with attorneys and tax professionals, and review of the City's analysis revealed confusion and uncertainty about the scope of the tax. This uncertainty stems from unusual definitions of "retail sales" and "large retailers" that are included in the text of the ballot Initiative.

In response to this uncertainty, we have prepared two separate estimates of the tax revenue that this Initiative would generate. First, we estimate tax revenue under a "narrow" definition of retail sales that conforms to a traditional understanding of retail. Second, we interpret the provided definition of "retail sale" expansively, but reasonably, to include revenue that would not traditionally be thought of as retail.

We estimate that this Initiative will generate $43 million to $79 million in revenue for the City of Portland, depending on the interpretation of what is and what is not considered a retail sale. The retail sector accounts for 71% of revenue using a narrow definition of retail sales but only 43% of revenue using an expansive definition of retail sales.

Organization of this Report

The remainder of this report is as follows. First, we detail the Portland Clean Energy Community Benefits Initiative and explore the sources of regulatory uncertainty. Next, we discuss our sources of data and steps we've taken to reach our estimate. Finally, we review the results of our efforts in both the narrow and expansive cases.

The Portland Clean Energy Community Benefits Initiative

Overview of the Ballot

The Portland Clean Energy Community Benefits Initiative (the Initiative) is a ballot Initiative that is likely headed for the November 2018 ballot in the City of Portland. The Initiative raises a 1% Business License Tax surcharge on gross revenues from "retail sales" for certain "Large Retailers" subject to the Business License Law (BLL) in the City.[1] Funds from the new surcharge must be primarily spent on clean energy projects, such as energy efficiency and green infrastructure, and "clean energy jobs training," such as workforce development and training for disadvantaged workers.

The City Auditor's office has released the following summary of the Initiative:

> *Measure amends code to require large retailers in Portland (those with total revenue of over 1 billion dollars annually and Portland revenue of over $500,000 annually) to pay 1% surcharge on gross revenue from retail sales within Portland into a new Portland Clean Energy Community Benefits Fund. Certain sales of groceries, medicine or drugs, and health care services are not included in gross revenue.*[2]

ECONorthwest's charge is to estimate the total revenues generated by the Initiative, not to analyze the impact of the spending associated with the new tax. Accordingly, we focus on the ballot text that defines what are "retail sales," what is a "large retailer," and how the tax is calculated.

Key Definitions

There are two key definitions in the full text of the Initiative: "retail sales" and "large retailer." The initiative organizes the surcharges around retailers but uses an unconventional definition of retail. The Initiative defines "retail sales" thusly:

---

[1] In general, the Business License Tax is paid on apportioned income and the proposed surcharge is paid on eligible gross revenues or sales.

[2] The summary can be found here: https://www.portlandoregon.gov/auditor/article/675541 .

The full Initiative can be accessed here: https://www.portlandoregon.gov/auditor/article/674246 .

> *"Retail sale" means sale to a consumer for use or consumption, and not for resale. Retail sale includes but is not limited to the sale of services, including but not limited to retail banking services.*[3]

Using that definition of retail sales, the initiative continues to define "large retailer" as a business that:

- Is subject to the Portland Business License Law,
- Had annual gross revenue from retail sales that exceed $1 Billion nationally,
- Had annual gross revenue from retail sales in the City of Portland of at least $500,000,
- And is not
    - a manufacturer or other business that is not engaged in retail sales in the City,
    - an entity operating a utility within the City,
    - organized as a cooperative,
    - or a credit union.[4]

Calculation of Tax

For those firms that are considered to be large retailers, the basis for the 1% surcharge is gross revenue from retail sales in the City of Portland. The Initiative provides for four deductions: qualified groceries (food products that are U.S.D.A. Supplemental Nutritional Assistance Program ("SNAP") eligible)[5], qualified medicine or drugs (medicine, drugs, or devices regulated by the US Food and Drug Administration), qualified health services, and the amount of the Portland Business License Tax paid to the city.

Portland Business License Law

Firms that are eligible for the proposed Business License Tax (BLT) surcharge must first be subject to taxation under the Business License Law (BLL). While the BLL is complex and not the subject of this report, there are some features of the law that are important for our analysis. First, the BLT is a tax on net income earned in the City. In order to apportion a firm's net income to the City, the Division of Revenue asks firms to report gross revenues earned globally and

---

[3] Portland Clean Energy Community Benefits Initiative, Section 3, ¶ 16.

[4] Portland Clean Energy Community Benefits Initiative, Section 3, ¶ 8.

[5] Common items purchased at grocery stores like cleaning products, personal care items, and pet supplies are not typically SNAP eligible and would be considered taxable.

gross revenues earned in the City. The ratio of City-earned revenues to global revenues determines the proportion of net income to be apportioned to the city.

Second, in calculating gross revenues and net income, franchisees are likely disconnected from their franchisors.[6] For example, virtually all McDonalds locations are independently owned and operated. The owner (or group of owners) that owns a McDonalds would report the gross revenues and net income of their business operations, not of the operations of the McDonalds Corporation. Conversely, Starbucks Coffee stores are all corporate owned locations and are wrapped up into the Starbucks corporation.[7]

Third, "insurance agencies, agents and other representatives" are exempt from the BLL. In our subsequent analysis, we make efforts to identify franchises and insurance companies in order to exclude them unless their local sales are over $1 Billion.

Two Interpretations

Our reading of the Initiative generates a level of uncertainty in how "retail sales" should be interpreted. On one hand, "retail sales" is a term that is generally understood by most individuals to mean sales of physical goods that are made at a cash register or website to a member of the general public. The U.S. Bureau of Economic Analysis (BEA) defines retailing as follows:[8]

> *The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.*
>
> *The retailing process is the final step in the distribution of merchandise; retailers are, therefore, organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.*[9]

---

[6] A determination of whether a particular franchisee would be tied to the franchisor would likely take place on a case-by-case basis and would depend on the nature of the franchise agreement and whether the franchisor has a taxable nexus, such as a warehouse or corporate office, in the City of Portland.

[7] As a result, many restaurants, gas stations, and hotels that are associated with major brands will not be subject to the Initiative. In their own analysis, the City of Portland states: "A number of businesses that might at first seem taxable under the Initiative will pay little or nothing. Examples include restaurants and fast food…" See: *Portland Clean Energy Justice Measure (Gross Receipts Tax)*, June 2017 pg 5.

[8] https://www.bea.gov/iTable/definitions.cfm?did=2466&reqId=70

[9] The category "nonstore retailer" dates back more than a century with the advent of catalog sales, vending machines, and phone sales. Since then, nonstore retailing evolved with television shopping networks and online shopping.

On the other hand, the Initiative includes services and "retail banking" as something that would be considered a retail sale, as well as excluding items like healthcare services, which are generally not considered retail sales. In order to proceed, we have focused on two separate definitions of "retail sales," a narrow interpretation and a broad interpretation. We discuss each below, then proceed to calculate revenue estimates separately under each assumption.

The Narrow Interpretation

Our Narrow Interpretation of the Initiative can be construed to mean "sales of goods and services by retailers to the general public, minus qualified groceries and medicine, plus bank revenues." We do not consider healthcare services to be commonly categorized as a retail sale, so consideration of those services would naturally be excluded. Sales of qualified groceries and medicine do take place in a retail context, and by the Initiative's explicit wording, those revenues should be excluded from taxation.

The Initiative explicitly includes "retail banking" as service provision whose revenues would be taxable. "Retail banking" is an industry term that refers to banking for individuals and households, in contrast to "commercial banking," which is providing credit and depository services to businesses. Our data does not provide a split between household and business banking revenues, so we include all banking revenues as eligible for taxation in our narrow definition.

Credit unions are explicitly excluded by the Initiative. Utilities are also excluded in the Initiative; however, "utility" is not defined. We interpret "utility" to refer to electric utilities, natural gas utilities, and landline telephone service, so we exclude them. We include internet and cable companies like CenturyLink and Comcast.

Our Narrow Interpretation of "retail sales" excludes many industries: manufacturing, wholesaling, professional services, media and advertising, warehousing and transfer services, and real estate services. Under the colloquial definition of "retail sales," we do not include any business-to-business revenues, real estate rental income, investment advisory fees, legal fees, freight transportation services, heavy equipment rentals, or direct sales of manufacturers to businesses. Generally, if a business is reasonably understood to provide goods and/or services to both households and businesses, we include that business as a provider of retail sales.[10]

---

[10] Examples of such firms would be car rental agencies, pest management companies, hotels, automobile dealers, and airlines.

The Broad Interpretation

Our Broad Interpretation of the Initiative is informed by the word choice of the Initiative and discussions with attorneys and tax professionals. First, the Initiative uses the phrase "sale to consumers for the use or consumption, and not for resale." Previous versions of the Initiative used the phrase "general public" instead of "consumers."[11] "Consumers" can be reasonably understood to be used as a way to differentiate someone from a "firm." It can also be used to refer to the entity that is the end user of a good or service, and in economics, it is not uncommon to view firms as consumers in various markets. Since the ballot authors explicitly replaced "general public" with the more ambiguous "consumers," it is not unreasonable to interpret their intent to be more expansive and include transactions that are business-to-business in nature where a business is the consumer. However, the proviso "and not for resale" is an unambiguous exemption of goods that are inputs into another firm's production process.

Moreover, the existence of exemptions and modifications to the definition of "retail sale" that would be unnecessary under the colloquial definition of "retail sale" signal an intent by the Initiative authors to use a definition of "retail sale" that is significantly different than the colloquial definition. Explicitly exempting manufacturing and healthcare services while including retail banking revenues imply that the standard definition of "retail sales" is not relevant to the Initiative.

Our Broad Interpretation leads to the inclusion of much more business activity. All activity in the narrow definition is included. We add business-to-business activity including real estate services, legal fees, investment advisory services, professional and technical services, various freight transportation goods and services, media and advertising revenues, telecommunication services, and office support services. We continue to exclude manufacturers and wholesalers.

City of Portland's Analysis

The City of Portland's Division of Revenue released an analysis of a prior version of this Initiative in June of 2017. The report was executed at the request of City Commissioner Eudaly.[12] The City, who had access to all of the Business License Tax forms which report local and global revenues, estimated that the Initiative would raise between $35 and $51 million dollars annually.

The uncertainty represented in that range stemmed in part from the City's lack of knowledge of the breakdown of retail sales across food, medicine, and other

---

[11] The July 2017 version of this ballot Initiative cannot be located; however, it is referenced and quoted in the City of Portland's analysis that was released in June 2017.

[12] See https://www.portlandmercury.com/blogtown/2017/06/30/19128661/a-new-corporate-tax-in-portland-could-raise-51-million-a-year-for-renewable-energy-jobs-training . The report issued by the City is also available at this link.

goods and what the final interpretation of the Initiative would look like. The City's Division of Revenue did seem to use an interpretation of "retail sales" that is similar to our Narrow Interpretation of the Initiative. One key difference is that it does not appear that the version of the Initiative the City analyzed specifically exempted healthcare services, but it is unlikely they would have included them to begin with.

Ultimately, if the Initiative were passed, the City Council and the Division of Revenue would have influence on the administrative rules and implementation that governs the new tax.

Data and Assumptions

Claritas

Our data comes from the business and consumer marketing information company Claritas. Claritas maintains a business directory for firms in Portland that contains information about the company's sales, address, industry, and employees. We purchased a business directory from Claritas that contained only firms that are estimated to have over $1 Billion in sales nationally and at least $500,000 in sales in the City of Portland. The dataset is at the establishment level, not the corporate level.

Industry Codes

Claritas reports the North American Industry Classification System (NAICS) code for each of the establishments. NAICS codes are widely used to identify and organize firms into industries and sectors. We use NAICS codes to identify firms in the Manufacturing and Wholesaling industries in order to exclude them from our calculations. We identify firms associated with banking as those in "Credit Intermediation" industries (NAICS 5221 and 5223). NAICS codes are also useful in identifying firms that provide healthcare products and services. Additionally, we use NAICS codes in local sales calculations.

Local Sales Calculations

Claritas provides estimated sales ranges. For example, Claritas might estimate that a retailer has between $50 Million and $100 Million in sales. Such large ranges are not helpful for estimating the tax revenue generated from this ballot Initiative. Accordingly, we estimate the actual sales for each establishment in one of two ways. First, we use the 2012 Economic Census provided by the U.S. Census Bureau.[13] The Economic Census provides average sales for establishments by firm size and industry. We assign this average to firms in our dataset based on the reported sales range and industry.

For establishments in our data whose corresponding average sales figure from the Economic Census is either missing, concealed for confidentiality reasons, or inconsistent with the range reported by Claritas, we follow a second procedure. The Economic Census also reports the average number employees at the industry level (but not firm size level). For the remaining firms, we estimate the average sales-per-employee in their industry and multiply that by the number employees reported by Claritas.

[13] All dollar amounts from the 2012 Economic Census are adjusted for inflation.

Groceries, Medicine, and Healthcare

The Initiative expressly exempts revenue derived from the sale of "basic groceries, medicines, and health care services." However, our data provides estimates of only a firm's gross sales. To account for the fact that some revenue generated from the sale of groceries, medicine, and healthcare related devices will be deductible from the tax basis, we utilized data from the U.S. Economic Census to estimate the portion of sales that comes from these items.

Table 1: Percent of Revenue from Deductible Sources

Retail Outlet Type	Percent of Revenue From Groceries	Percent of Revenue from Medicine
Grocery Store	70.7	5.3
Warehouse Club & Supercenter	36.4	0.2-2.5
General Merchandise Stores	34.8	0
Convenience Stores	29.0	0
Discount Department Stores	9.4	6.1
Health and Personal Care Stores	4.0	78.5

Source: U.S. Census Bureau, ECONorthwest

Specifically, the Economic Census provides estimates by industry of sales that come from groceries and food items, prescription and non-prescription medicines, and home healthcare equipment. We combined this data with other sources of information about specific companies to generate assumptions about the revenue attribution for several retail outlet types. Table 1 presents the results of this exercise. We apply these percentages to each establishment's reported gross sales to account for the deductibility of these revenues from the tax basis.

For example, approximately 71% of sales from supermarket grocery stores will be tax-exempt. The remaining 29% of sales at a grocery store, things like pet supplies, cleaning supplies, and prepared food, are not exempt.

Internet Sales

Our establishment dataset from Claritas does not contain information about internet sales made to Portland residents from establishments outside of the City of Portland. It is our understanding that qualifying retail sales made to Portland residents over the internet by large retailers with a Portland-nexus would be subject to taxation under this ballot Initiative. Unfortunately, the data needed to accurately calculate the magnitude of these sales are not available.

To include an estimate of taxable retail sales made over the internet, we need to make some assumptions. We start with the U.S. Census Bureau's estimate that e-commerce constituted 8.9% of total retail sales in 2017.[14] Second, we assume that the proportion of online sales that are from "large retailers" is the same as for brick-and-mortar sales. Third, we assume that the proportion of sales that are deductible as SNAP-eligible food or medicine is the same for e-commerce as for in-store sales.[15]

With these assumptions, we start with the sales of establishments that we consider taxable under the Narrow Interpretation in the retail sector, NAICS codes 44-45, that have a nexus to the City of Portland.[16] Next, we calculate the total sales, after deducting SNAP-eligible and medical sales, for all firms and treat this as 91.1% of all taxable sales in the City: $2.8 Billion. If this total were 91.1% of total sales, then the other 8.9% of sales which are e-commerce would be $275 Million. We add this total to both interpretations under the retail industry.[17]

Business License Taxes Paid

The initiative provides for a *deduction* from gross retail sales for net income taxes paid as business license taxes under the BLL. This provides a significant challenge for us since business license taxes paid are not publicly available. To aid in this respect, we turn to the analysis that the City of Portland completed.

The City had access to confidential tax returns and knew the business license taxes paid by each company. In their report, they estimate final tax revenues under two assumptions: 1) the authors of the Initiative intended to provide a *deduction* and not a *credit* and 2) the authors of the Initiative intended to provide a *credit* and not a *deduction*.[18] Using these two sets of revenue estimates and algebra, we calculate that the City understood firms in their "low" scenario to

---

[14] https://fred.stlouisfed.org/series/ECOMPCTSA

[15] This assumption would lead to an underestimate of tax revenues if SNAP-eligible food and medicine are disproportionally purchased in-store relative to online. If we assume that none of the e-commerce sales were deductible under the Initiative, we estimate taxable online sales would total $449 million.

[16] For example, the Broad Interpretation would include dealers of semi-trailer tractors or heavy construction equipment as retailers. These sales would not be relevant for the allocation of e-commerce sales.

[17] We focus only on the retail industry to be consistent with the U.S. Census Bureau's definition of retail.

[18] Table 1 and Table 2 of the City's revenue analysis contain estimates treating BLT as a deduction and a credit respectively.

have paid $7.07 Million in business license taxes and $10.2 million in the "high" scenario.

Since the authors of the Initiative kept a deduction for BLT paid in the text after the City raised the issue in their report, we operate under the assumption that the authors fully intended to provide a deduction, not a credit. Using the City's estimates of BLT paid as a deduction from gross revenues would lower our estimates of tax revenue by between $70,700 and $102,000. As our tax revenue estimates below will reveal, this deduction is not substantial relative to the total. Accordingly, we will ignore this deduction in our calculations but acknowledge that there will be a small impact from it.

Data Limitations and Errors

Unlike the City of Portland's Division of Revenue, we do not have access to administrative data. Claritas provided our best option for identifying firms and estimating revenue, but this source of data has its limitations. Claritas is estimating sales based on company reports, industry membership, and direct inquiry. Errors or inaccuracies in their data collection process can lead to a company being placed in the wrong industries. Furthermore, there can be firms that would be subject to this tax that are missing from our data and firms that are not subject to the tax included in our data. Individual firms' local sales are generally private information to which we have no access. Individual firms' Business License Taxes, which are deductible, are similarly private and are ignored in our revenue estimates.

We have combed the data manually, using our knowledge of the Portland economy and businesses in the City to correct many perceived errors. This includes adjusting sales estimates, renaming businesses, excluding firms that are unlikely to have $1 Billion in sales, and correcting industrial classifications.

Lastly, Claritas's directory is limited to firms that have a physical presence and address in the City. There are likely firms that are subject to the BLL that do not have an address in the City limits. We are not able to include these firms. Additionally, there is likely taxable revenue from internet sales that we are not capturing. Some online retailers are not present in our Claritas data but may have liability.[19]

[19] In the version of Initiative studied by the City, "internet sales" were specifically exempted from the tax. The current version of the initiative does not provide this explicit exemption.

Results

The Narrow Interpretation

Table 2: Sector Level Sales and Tax Revenue; Narrow Interpretation

2-Digit NAICS	Sector Name	Sales	Tax Revenue
44-45	Retail	$ 3,084,393,749	$ 30,843,937
48	Transportation	$ 38,814,183	$ 388,142
51	Information	$ 308,156,503	$ 3,081,565
52	Finance and Insurance	$ 489,652,943	$ 4,896,529
53	Real Estate and Rental and Leasing	$ 105,058,392	$ 1,050,584
54	Professional, Scientific, and Technical Services	$ 10,969,944	$ 109,699
56	Administrative and Support and Waste Management and Remediation Services	$ 20,466,552	$ 204,666
71	Arts, Entertainment, and Recreation	$ 12,431,382	$ 124,314
72	Accommodation and Food Services	$ 210,097,737	$ 2,100,977
81	Other Services (except Public Administration)	$ 34,918,084	$ 349,181
	Total	$ 4,314,959,469	$ 43,149,595

Source: Claritas, U.S. Census Bureau, ECONorthwest calculations

Under the Narrow Interpretation, we calculate that the total revenue generated by the tax would be $43.1 million. The retail sector bears the largest burden with $3.1 Billion in covered sales generating $31 million in tax revenue. The second largest sector in terms of tax burden is the Finance and Insurance sector, which is due mostly to the taxation of banking revenues. The Information sector has the third largest taxable revenues. This sector includes firms like Comcast, CenturyLink, AT&T, Verizon Wireless, and Regal Cinemas.

The Broad Interpretation

Table 3: Sector Level Sales and Tax Revenue; Broad Interpretation

2-Digit NAICS	Sector	Sales	Tax Revenue
23	Construction	$ 25,304,314	$ 253,043
44-45	Retail	$ 3,372,607,538	$ 33,726,075
48	Transportation	$ 375,218,509	$ 3,752,185
49	Warehousing	$ 1,623,343	$ 16,233
51	Information	$ 769,584,845	$ 7,695,848
52	Finance and Insurance	$ 1,841,661,929	$ 18,416,619
53	Real Estate and Rental and Leasing	$ 218,961,609	$ 2,189,616
54	Professional, Scientific, and Technical Services	$ 711,181,010	$ 7,111,810
56	Administrative and Support and Waste Management and Remediation Services	$ 275,259,533	$ 2,752,595
71	Arts, Entertainment, and Recreation	$ 12,431,382	$ 124,314
72	Accommodation and Food Services	$ 210,097,737	$ 2,100,977
81	Other Services (except Public Administration)	$ 89,638,656	$ 896,387
	Total	$ 7,903,570,403	$ 79,035,704

Source: Claritas, U.S. Census Bureau, ECONorthwest calculations.

Under the Broad Interpretation of the Initiative, estimated tax revenue is almost twice as large at $79 million. The Broad Interpretation of the definition of retail sales would not only hit more firms in the same industries, but also new industries. For example, the Professional, Scientific, and Technical Services sector would generate over $8 million in tax revenue under the expansive definition of retail sales. Tax revenue from the transportation sector would jump to $3.8 Million, and Financial sector revenues could be as high as $18 Million annually.

Conclusions

The Portland Clean Energy Community Benefits Initiative levies a 1% surcharge to the Business License Tax using gross "retail sales" as the basis. By annualizing sales estimates purchased from a third-party vendor, ECONorthwest has estimated that this Initiative, if passed, is likely to generate somewhere between $43 Million and $79 Million annually on firms doing business in Portland.

The large estimated range is primarily a function of ambiguous wording in the Initiative itself and uncertainty over how the Initiative would be implemented by the City of Portland if it were to be passed. To complete our analysis, we created a "narrow" and "broad" scenario. The Narrow Interpretation of the Initiative keeps the colloquial definition of "retail sale" as a guidepost and consequently is more restrictive with respect to identifying firms subject to the new tax. Conversely, the Broad Interpretation is guided by discussions with tax experts and follows the ambiguity of the language. The interpretation of the Initiative considers a more diverse set of firms to be subject to the gross revenue tax Initiative. Both estimates omit potentially taxable internet sales revenue, which renders them likely underestimates.

Our Narrow Interpretation estimate of $43 Million is within the range provided in the City's own analysis. Completed in 2017, albeit under a prior version of the initiative, the Division of Revenue used an interpretation of the Initiative that was close to our Narrow Interpretation. If passed, the City Council and the Division of Revenue will have some sway on the final language encoded to law and the details of implementation. This process will resolve many of the uncertainties with which we are now faced.