



Downtown Business District Expansion and Fee Formula A Summary of Findings and Options

January 2012

City of Portland Revenue Bureau
Office of Management and Finance

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District Background

The Downtown Business District encompasses a 213 block area of downtown Portland, Oregon. The District, also known as the “Clean & Safe District”, includes the heart of Portland’s downtown commercial, cultural and residential core. A non-profit organization, Clean & Safe, Inc., provides enhanced cleaning and security services in this area to ensure the District is a comfortable place to shop, visit and live.

Clean & Safe partners with local organizations like Central City Concern, Portland Patrol, Inc. and the Portland Business Alliance to deliver a range of services including cleaning, security and community justice services; the Downtown Retail and Marketing Program, which focuses on retail advocacy, marketing and communication; and the Sidewalk Ambassador Program, which offers information and assistance to downtown visitors. Clean & Safe also provides a Holiday Lighting Program in the core retail area.¹

To pay for Clean & Safe programs, downtown property managers within the District pay a “property management license fee” under Portland City Code Chapter 6.06. Fees totaled about \$4.4 million during the year ended June 30, 2011. The highest fee billed was \$178,600, the lowest was \$15 and the average was \$8,008. Assessments vary widely based on a range of factors, principally building square footage and assessed value.²

The Downtown Business District has existed in various forms since 1988. Prior to 2009, only commercial property managers within the District were assessed a fee. In 2009, City ordinance 182925 removed the exclusion for residential condominium property managers, resulting in a new assessment for these properties.

District Sunset Review and Renewal

Under Portland City Code 6.06.220, the City Council must review and approve the renewal of the Downtown Business District every ten years. Pursuant to this requirement, the Council passed resolution 36857 on April 20, 2011, thereby renewing the District and directing Clean & Safe and the Revenue Bureau to accomplish these objectives:

[1] “Clean & Safe, Inc., with assistance from the Revenue Bureau and the Office of Management and Finance, should evaluate the benefits and costs of expansion of the District. If the analysis supports expansion, the Revenue Bureau should include the expanded area in any PCC



6.06 code changes brought forward by ordinance to the City Council, and;

[2] [that] the Revenue Bureau, with assistance from Clean & Safe, Inc., should review the need for a cap of District fees for Cultural Institutions and a change to the fee formula for Condos. Any change to the fee formula for the Condos should be revenue neutral to District fee revenues paid by this group.”

In addition, several Council members requested that Revenue Bureau management integrate expanded public involvement into the discussion regarding the expansion and fee formula questions.³ In response, the Revenue Bureau initiated a broad public process comprised of the following channels:

1. An open-ended **written comment** general solicitation was mailed and e-mailed to 9,848 District stakeholders resulting in a response from 77 people.⁴
2. A **focus group** general solicitation was sent to the same 9,848 stakeholders. 62 people attended three focus groups.
3. An **online poll** targeted solicitation was extended to the 2,692 existing District condominium owners and stakeholders in the proposed expansion area.⁵ 436 valid polls were received.⁶

A large majority of the 575 responses detailed in items 1-3 above were provided by condominium owners.⁷ The results of these efforts are summarized in the sections that follow.

Summary of Written and Focus Group Feedback

Written and focus group themes were very similar in content so they are presented here in aggregate. To help the reader gauge the relative frequency of a given theme or sentiment, we will use quantifiers such as “most,” “many,” “some,” and “a few.” Themes are grouped under the headings “Expansion Themes” and “Fee Formula Themes”.

Expansion Themes

1. Most people said they are not in favor of District expansion.
2. Most people said that security services are not offered late enough at night or on weekends.

“We don’t need security during the day and we have our own security staff at night. We hire staff to clean the street around our building during the day.”
– focus group participant

³ The Gallatin Group provided a public involvement report for District renewal on April 20, 2011 but its designed focus was on renewal, not expansion or fee changes.

⁴ A few “written” comments were actually summarized telephone conversations.

⁵ Expansion block stakeholders were defined as renters, condominium and business owners, apartment complex and business managers, and non-profit organizations within the 12 block area.

⁶ A small number of poll takers took the wrong poll or polled more than once. Invalid and duplicate polls were redacted from the results discussed here and elsewhere in this report.

⁷ By design, bureau solicitations did not bar people from participating in multiple feedback channels; 575 is therefore not an absolute count of *individual participants*, but of *viewpoints conveyed*.

3. Many people said they already pay for police and cleaning services through their property taxes and home owner's association (HOA) fees used for privately contracted services. They should not have to pay a "third time" through a District assessment.

4. Many people said the very name of the City Code – "Downtown Business District" – points to the true intent and beneficiaries of District services. Many said the Code language no longer reflects the true makeup of the District.



Figure 2: Detail of the 12 blocks being considered for expansion. Boundaries are SE Salmon St. to the north, SE 9th Ave. to the east, SE Market St. to the south and SE 11th Ave. to the west.

5. Some said the proposed expansion area does not have the same needs as other downtown areas; it is a residential area with few businesses.

6. Some said the costs and benefits of the District should be spread and should thus include the 12 block expansion area.

7. Some supported expansion. A few stated that the District should be expanded all the way to I-405 and/or include portions of the Portland State University campus to the south.

Fee Formula Themes

1. Most condominium owners said the fee formula applied to condos is unfair and too complex. Most feel it should be based on an easy to understand metric like square footage or the number of units at a given condominium.
2. Many condominium owners feel they should not be assessed any fee. Many feel they already have their own contracted cleaning and security services and perceive little or no benefit to added services as currently delivered.
3. Most condominium owners feel that if they must be assessed a fee, it should be less than the fees charged to commercial businesses. Condominium owners cannot write off or pass the fee to customers, nor do condominiums create foot traffic like businesses do.
4. Many people said that Clean & Safe is a valuable service and generally does a good job with cleaning and security services. Some of these same people questioned the hours during which security services are provided or whether they need cleaning service.

- 5. A few people said that any assessment will be unpopular no matter how it is calculated, and that any formula will have a flaw.

Summary of Online Poll Results

The Revenue Bureau invited all condominium owners in the current District to take an online poll regarding the fee formula used to calculate condominium assessments. In addition, all condominium owners and residents, property managers, apartment renters, cultural institutions and non-profit organizations in the proposed expansion blocks (see *Figure 2* above) were invited to take a poll about the fee formula *and* the expansion.

On the Question of Expansion

Figures 3-7 below demonstrate that four out of every five condominium owners in the proposed expansion area are opposed to joining the District; that property owners, businesses and renters also strongly oppose joining the District; and that a slim majority of residents in the Eliot Tower oppose joining the District.⁸

Figure 3: Condo owners in expansion blocks: do you want to join the District under the current fee formula?

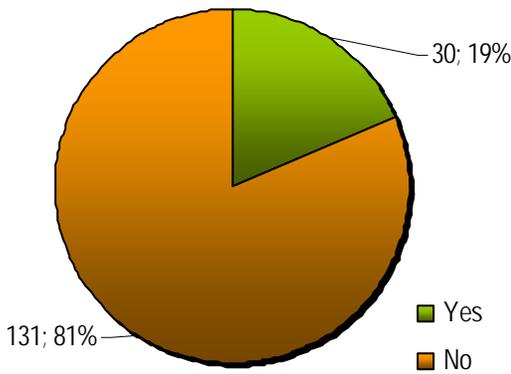


Figure 4: Condo owners in expansion blocks: do you want to join the District with a formula based only on a rate per square foot?

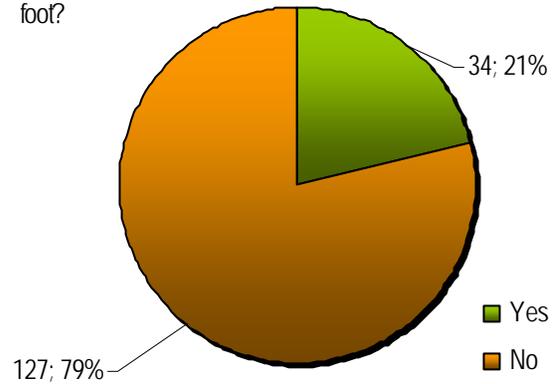


Figure 5: Renters, property owners and businesses in expansion blocks: do you want to join the District?

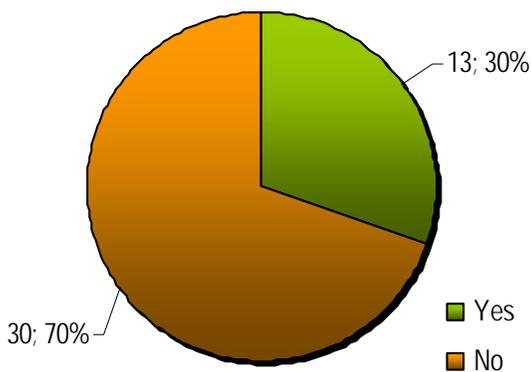
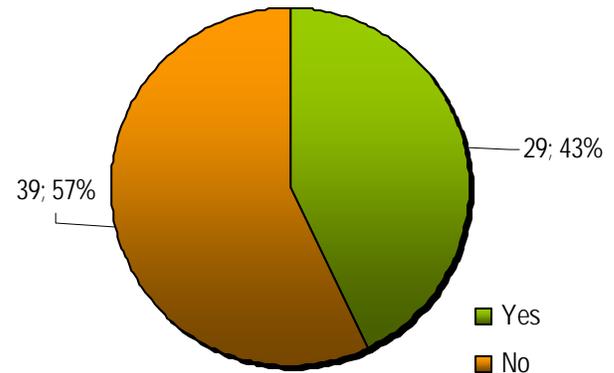
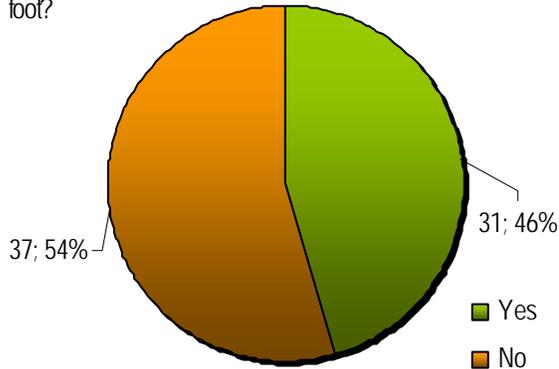


Figure 6: Condo owners in the Eliot Tower: do you want to join the District under the current fee formula?



⁸ Eliot owner results are separately displayed because the Eliot Towers HOA voted to endorse joining the District but many Eliot owners turned out in focus groups to object to joining.

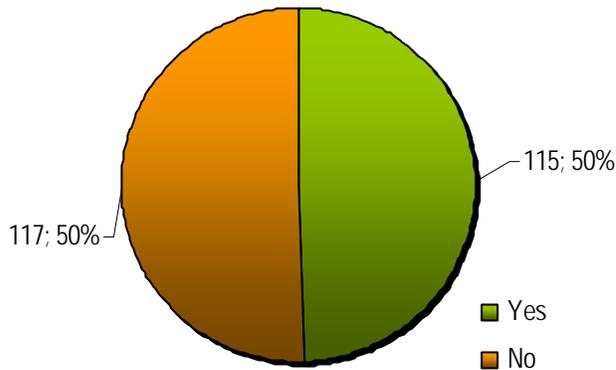
Figure 7: Condo owners in the Eliot Tower: do you want to join the District under a formula based only on a rate per square foot?



On the Question of the Fee Formula

Figure 8 below illustrates that half of those polled supported moving to a simplified fee formula based only on a factor for square footage. While a large fraction of comments received from stakeholders at the focus groups and in writing supported moving to a formula based only on square footage (or unit), when polled, condominium owners voted for the method most likely to result in a reduction to their charges, not necessarily a more simplified formula.⁹

Figure 8: Condo owners in existing District: should the condo fee formula be based only on a rate per square foot?



Options for Consideration

Based upon the feedback summarized above and extensive financial analysis, the Revenue Bureau has identified decision options with pros and cons. The Revenue Bureau will not recommend Code changes until after stakeholders and the Clean & Safe Board of Directors have provided feedback and a vote of the Board, respectively. In the tables that follow, pros and cons are included for each option under consideration.

⁹ An analysis by Revenue Bureau staff showed that owners voted overwhelmingly based on the financial impact to their HOA; a fee-simplifying change resulting in a lower assessment was supported, while a fee-simplifying change resulting in a higher assessment was not.

Table 1: *Expansion Options Pros and Cons*¹⁰

Option	Pros	Cons
Do not expand	<ol style="list-style-type: none"> 1. A large majority of residents and property managers in the proposed expansion area do not support expansion. 2. Expansion costs exceed projected revenues by \$74,000. See <i>Table 2</i>. 3. Not expanding validates feedback from the majority of stakeholders in the expansion area. 	<ol style="list-style-type: none"> 1. Livability issues in the expansion area will not be addressed. 2. Some owners just across the District boundary have concerns about equity that will not be addressed.
Expand by 12 blocks	<ol style="list-style-type: none"> 1. Adds additional cleaning and security services to this area which may help address the concerns of homelessness, drug transactions and other livability issues in the area. 2. Expands a program that many feel is very successful. 	<ol style="list-style-type: none"> 1. Majority of residents and property managers in the proposed expansion area do not support expansion. 2. Addition of fee feels to some like double or triple taxation with no value added. 3. Service costs will continue to exceed revenue projections if a change to the condominium fee formula is made.

Table 2: *Revenue and Expenses for Proposed 12 Block Expansion Area*

	Projected Revenue	Cost Allocation	Difference (deficit)
Proposed 12 block expansion	\$ 153,140	\$ 227,316	\$ (74,176)

Note: Clean and Safe's cost above for service delivery was calculated by dividing total budget by number of blocks serviced, multiplied by 12. Projected revenue includes an assumed cap of \$5,000 on the assessment for the Portland Art Museum (the cultural institution cap).

Table 3: *Fee Formula Options Pros and Cons* (continued on next page)

Option	Pros	Cons
No change to formula	<ol style="list-style-type: none"> 1. Retains current District revenue level. 2. Retains fees at levels most owners have been paying since 2009. 3. Keeps fee calculation formula similar to the rest of the District. 	<ol style="list-style-type: none"> 1. Does not change perceptions by condominium property managers and owners about the fairness or complexity of the assessment. 2. Does not provide relief to those who feel they pay too much.
Change formula to be based on square foot only	<ol style="list-style-type: none"> 1. Simplifies calculation. 2. Method often proposed in focus group and written feedback. 	<ol style="list-style-type: none"> 1. Regressive. Removes a factor that introduced an "ability to pay" concept. 2. Support for a per square foot only approach seems to be predicated upon how much owners must pay, not necessarily how it is calculated (see Figure 8). 3. Requires an increase in rates charged against other metrics to meet Council direction to achieve revenue neutrality.

¹⁰ The Revenue Bureau studied options for partial expansion and determined that no *District-contiguous* subgroup of the 12 block expansion area has a balanced budget (all combinations would be deficit budgets).

Option	Pros	Cons
Delete one factor (elevator calculation)	<ol style="list-style-type: none"> 1. Removes factor that made the least sense to focus group participants. 2. Reduces amount paid by condominium property owners. 	<ol style="list-style-type: none"> 1. Reduces Clean & Safe's budget. 2. Reduction to each condominium property varies in amount and relative proportion to the fee. 3. Does not meet City Council direction regarding holding fee revenue neutral. 4. Requires an increase in rates charged against other metrics to meet Council direction to achieve revenue neutrality.
Delete two factors (square foot and 15% inflation calculations)	<ol style="list-style-type: none"> 1. Simplifies calculation. 2. Evens out reduction variances between condominium properties. 	<ol style="list-style-type: none"> 1. Reduces Clean & Safe's budget. 2. Requires an increase in rates charged against other metrics to meet Council direction to achieve revenue neutrality.

Summary of Other Suggested Code Changes

City Council directed the Revenue Bureau to make necessary housekeeping and administrative changes to the Code. Based on our review, the Revenue Bureau recommends changes be made to Portland City Code 6.06 to correct or clarify the following:

1. Change the name of the Downtown Business District to the Clean and Safe District throughout the code and identify the district as an “enhanced services district” instead of a business district.
2. Change out of date bureau names for the Revenue Bureau and the Water Bureau throughout the code.
3. Remove references regarding issuing a physical license, since that has never been done, and change references regarding applications to registrations.
4. Update the definition and calculation of the CPI factor and provide for a way to set the CPI adjustment for a year at 0% change while ensuring that District contractors with low wages are not adversely impacted.
5. Housekeeping change to language, including changing “shall” to “must” or “will” and correcting word tense errors.
6. Removing references to forms that do not exist.
7. Clarify the responsible party for an installment billing in the event of a property manager change during the license year.
8. Provide for credits on account in addition to refunds of overpayments.
9. Clarify penalty and interest calculations and identify how payments are applied against outstanding balances due.

10. Clarify due dates for the Lloyd Business District.

Next Steps

1. The Bureau will disseminate the report to all interested parties and stakeholders on record. An open comment feedback period will close on Friday, February 10, 2012. All parties interested in commenting should e-mail the Revenue Bureau Director:

Thomas W. Lannom
Thomas.Lannom@Portlandoregon.gov

Comments can also be mailed or delivered to:

Thomas W. Lannom
Revenue Bureau Director
111 SW Columbia St., Suite 600
Portland, OR 97201

2. The Clean & Safe, Inc., Board of Directors will consider this report at its next full Board meeting on Tuesday, January 24, 2012. The Mayor has requested the Board take a vote regarding the questions of expansion and the fee formula as captured in the options tables above.

3. The Revenue Bureau will review the Clean & Safe Board vote and feedback received from stakeholders prior to finalizing recommendations. The Revenue Bureau will post final recommendations and proposed Code changes on its website and inform stakeholders of same.

4. City Council will hold a public hearing on the ordinance prepared by the Revenue Bureau. The tentative date for the first reading is Wednesday, February 29, 2012. The Revenue Bureau will request a "time certain" presentation and communicate the hearing time to all known stakeholders and interested parties.

Appendix: Current Fee Factors Explained

A brief explanation of the factors used to determine fees under the current City Code language follows.

Factors for engaging in *Business Property Management Activities*:

Value of improvements: This factor creates the bulk of the charge. Using this factor allows recognition of an ability to pay, at least at the time of building construction or when the district funding formula was moved under the City's taxing/licensing authority.

Square foot of improvements and land: This factor brings in the concept of space/presence in the district. Using this factor ensure that properties in the District that don't have significant improvements on them, such as surface parking lots, contribute to the clean and safe efforts of the district.

Elevator Capacity: This factor brings in the concept of foot traffic in the area, both from customers and employees. The number of elevators and pound capacity estimates how many people use the property each day.

Ranking Premium or Discount: This factor was included to recognize that the largest 50 payers in the district have more ability to pay than other and should support the district a little more as a result, so a premium was added to their calculation. The next 100 payers, on the other had, were allowed a discount on their fee. Any property manager ranked after 150 had no premium or discount change to their calculation.

Holiday Lighting: This factor was added to fund the holiday lighting program that began in the early 2000's. It is based on square footage of improvements and land, again to ensure that all business properties, including surface parking lots, contribute to the lighting program.

Inflation factors (currently 2): These factors were added to recognize that the value of improvements has increased since they were initially established in the 1990s. The first factor was added to recognize the increased market value (value of improvements) that had happened in the past and the 2nd factor was added to account for future increases. Additionally, these factors allow the district to be able to maintain the level of services when costs increase with inflation. Without these factors, the level of services would decrease slowly over time.

Factors for engaging in *Residential Property Management Activities*:

These factors are the same as above, EXCEPT that there is NO ranking premium or discount and NO holiday lighting charge. Condominium property managers are currently included under this category for fee calculation purposes.

Factors for engaging in Affordable Residential Rental Property Management Activities:

The only factor is a specific rate times the number of units. The rate varies, less if the property manager is a non-profit or government entity and slightly higher if the entity is a for-profit enterprise.