

September 3, 2019

Bend City Council
710 NW Wall Street
Bend, OR 97702

RE: BEDAB Input on Commercial Construction Excise Tax

Dear Council Members:

Thank you for the opportunity to provide input on the proposed Commercial Construction Excise Tax. The Bend Economic Development Advisory Board explored this proposal, including receiving input from developers and local businesses. While BEDAB is supportive of plans to address the workforce housing shortage in Bend, we encourage council to proceed cautiously on this proposal.

We encourage caution because the full impact of other significant changes to the business environment Bend companies experience are not known at this time. Specifically, the following adverse changes to business conditions are not yet reflected in the current cost structure at this time:

- The gross receipts tax imposed by the State of Oregon.
- The increase in franchise fees approved by the City of Bend.
- The payroll tax imposed by House Bill 2005 for paid family leave.

In addition, although the Bend Park and Recreation District agreed to defer action on a proposal to tax commercial construction, the proposal remains as a funding option BPRD is likely to consider in the future.

BEDAB remains concerned about the environment necessary for businesses to succeed in Bend. Commercial construction is already constrained by lack of shovel ready land and a higher cost than alternative locations in competing jurisdictions. A construction excise tax and an additional assessment for parks may push facilities and the jobs they support out of Bend. Although other jurisdictions may be studying a commercial construction excise tax, they have yet to implement one.

If the council does implement a commercial construction excise tax, BEDAB makes the following recommendations to Council:

- Council should assign a governance committee to manage the funds. This committee should include stakeholders from the community, including the business community.
- Council should define commercial construction in a way that excludes small-scale, residential investment properties of less than 5 units. 1-4 unit residential properties are a key source of workforce housing. Raising the cost of those properties is contrary to the goal of the proposed tax.
- Council should consider credits or offsets to the fee for businesses that achieve certain employment goals with construction projects. For example, a business that is building a new

facility could earn a credit towards the tax by agreeing to create a certain number of jobs or a target average wage level.

- Council should consider a sliding scale fee structure for larger projects or a maximum excise tax for a project. This would limit the competitive disadvantage Bend may face for larger projects.
- Council should limit the use of funds generated from a construction excise tax to off-site improvements that would allow otherwise marginal housing projects to become viable. These projects could be identified through a periodic RFP process.
- Council should consider implementing the fee in a phased manner over time, including thresholds that recognize the implementation schedule of jurisdictions that compete for employment related development.

Creating more workforce housing in Bend is a goal Council shares with the business community. Bend's businesses also need to be competitive, successful, and growing. BEDAB is concerned that the combination of changes to the tax and cost structure may present businesses with few options to remain or grow in Bend. We urge Council to proceed cautiously with the commercial construction excise tax proposal.