

City of Salem
Revenue Task Force
Revenue Option Recommendations

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EXECUTIVE SUMMARY

The City of Salem (the City) is facing a significant revenue shortfall. The City convened a Revenue Task Force of community members to explore new revenue sources and adjustments to fees to sustain City services. The Revenue Task Force developed a set of revenue options, presented in this packet. The City Council will use this input in their ongoing deliberations about the City's current and future budget.

The revenue options contained in this packet are grouped by timeline:

Timeline	Recommended Options
Near-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 1-2 years of initiation.	A. Business License Fees B. Franchise Fee Increase C. Urban Renewal – Increase Frozen Base
Medium-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 2-5 years of initiation.	D. Local Option Property Tax Levy E. Personal Income Tax
Long-Term Options: Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.	F. Payment in Lieu of Taxes (County, State, Federal) G. Intergovernmental Agreements & Entities H. Tax Reform/Restructuring

PROCESS OVERVIEW

Background

The City of Salem (the City) has relied on cost reductions, deferring on-going needs, reducing services, and foregoing long-term investments to maintain compliance with financial policies and fiscally responsible operations. Even with these actions and the one-time infusion of millions in federal American Rescue Plan Act dollars, the costs to provide ongoing services are greater than the revenues received to support those services, and costs are escalating at a faster rate. The City's five-year revenue forecast reflects a growing gap between revenues and expenses. To sustain the current levels of service, additional revenue is needed or significant reductions in services will be required.

Purpose of the Revenue Task Force

As described in its charter, the purpose of the Revenue Task Force was to explore new, additional revenue sources and adjustments to fees to sustain those services that do not have a dedicated revenue stream. The Revenue Task Force reviewed the City's financial situation and evaluated the appropriateness of all available revenue options to meet the City of Salem's current and long-range needs. In this packet, the Revenue Task Force is recommending new revenue options and/or changes to current revenue sources that should be further explored. The City Council will use this input in their ongoing deliberations about the City's current and future budget.

Timeline

The Revenue Task Force met seven times between January and June 2024. The Revenue Task Force's work was carried out in parallel with the work of the Budget Committee and City Council as they considered amendments to the 2024 adopted budget and formulated the proposed 2025 budget based on revised revenue projections.

Decision-Making Process

The City Council appointed 25 members, plus two alternates and one ex-officio member to the Revenue Task Force through the City's standard boards and commissions appointment process (see [Appendix E](#) for a full list of all members).

The Revenue Task Force members evaluated a wide variety of information including the size of the potential revenue shortfall (see [Appendix B: Revenue Context and Pathways](#)), revenue option details and financial models (see [Appendix C: Revenue Modeling](#)), community survey reports, focus group results, and direct input from community members (see [Appendix D: Community Engagement Summary](#)). To assist in the decision-making process, the Revenue Task Force developed a set of decision-making criteria (see [Appendix A: Revenue Task Force Decision-Making Criteria](#)).

The group strove for consensus on matters and issues considered. In the absence of consensus, a vote was taken, and majority decisions were advanced. The Revenue Task Force's recommendations were approved by the group at the final meeting, prior to submission to the City Council.

RECOMMENDED REVENUE OPTIONS

OVERARCHING CONSIDERATIONS

The challenge of identifying feasible and sustainable revenue options is great. However, the Revenue Task Force believes that the opportunity to fundamentally enhance the City's revenue potential is even greater. It is the hope of the Revenue Task Force that these recommendations will enhance the ability of the City to provide the services on which its community members have come to rely.

As City Council considers the recommended revenue options, the Revenue Task Force would like the emphasize the following considerations:

- **Equity:** The Revenue Task Force is highly aware of the impact that new taxes and fees may have on our community. Equity (generally defined by the idea that revenue generation should reflect the taxpayer's capacity to pay, which means higher earners should contribute more), and specifically avoiding tax regressivity, is a key consideration that should be considered for each revenue option.
- **Sequencing:** The Revenue Task Force recommends implementing near-term revenue options to cover the City's most immediate needs, while pursuing medium- and longer-term options that may provide more sustainable revenue over time. As part of this process, the Revenue Task Force recommends exploring options to sunset or reduce near- or medium-term revenue options if longer-term solutions can be put into place. The Revenue Task Force recognizes that the City may need to take a strategic approach to determine which funding option to pursue when.
- **Public Input:** The Revenue Task Force recognizes that additional public input on the recommended revenue options is essential and would be highly beneficial. In particular, it may be important to bring some or all options to a public vote.
 - Significant public education is needed to better communicate the impacts of the City's revenue shortfall. We recommend that the City communicate tangible examples of specific service impacts (ex: showing how a reduced number of library employees reduces the hours the library is open), rather than just describing the total number of FTEs per 1,000 residents.
- **Community Survey:** The Revenue Task Force would like to clarify how community support for various options was calculated based on the survey methodology (including the distinction between the Town Hall results and the community survey) and clarify whether the survey sample was fully representative of the Salem community.
- **Financial Management:** The Revenue Task Force would like to note that these recommendations should be just one component of a comprehensive consideration of the City's financial management model, where financial security is achieved through both sustainable and equitable revenue generation and efficient expense and process management. In addition, these considerations should happen in conjunction with City financial managers performing scope-shaping and scope-focusing analysis to reduce City spending in areas that are outside of the City's charter.
- **Minimize Impact:** The Revenue Task Force recommends that the Council work to minimize economic impacts on small and local businesses.
- **Sustainability:** The Revenue Task Force recommends that the Council consider sustainability and the ability of the revenue option to grow with inflation.

REVENUE OPTIONS SUMMARY

The Revenue Task Force recommends the following revenue options for Council consideration. The revenue options are grouped by timeline:

Timeline	Recommended Options
Near-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 1-2 years of initiation.	A. Business License Fees B. Franchise Fee Increase C. Urban Renewal – Increase Frozen Base
Medium-Term Options: Revenue options that are within City authority and that could potentially generate revenue for the City within 2-5 years of initiation.	D. Local Option Property Tax Levy E. Personal Income Tax
Long-Term Options: Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.	F. Payment in Lieu of Taxes (County, State, Federal) G. Intergovernmental Agreements & Entities H. Tax Reform/Restructuring

The Revenue Task Force generated criteria to guide their decision-making (see [Appendix A](#) for more details). In the table on the next page, we have rated each recommended revenue option against the decision-making criteria and the community survey results (see [Appendix C](#) for more details).

				TF Decision Criteria						Community Survey Feedback				
Funding Type	#	Revenue Type	Potential Revenue	Generates Ongoing, Sustainable Revenue for the General Fund	Could be Structured Equitably (regressive vs. progressive structures)	Is Legally Viable	Impact on Economy	Impact on Environment	Administrative Complexity	Community Approval of Funding Type	Proportional to income or wealth (preferred)	Tax or Fee for a specific item (preferred)	Tax or Fee Paid by Business (preferred)	Implement New Tax or Fee (preferred)
Near-Term Revenue Options														
Business tax	A	Business License Fees	\$8,000-\$4M	Yes	Yes	Yes	Yes	No	Low	50%	Yes	Yes	Yes	No
Utility fee	B	Franchise Fee Increase	\$685,000-\$6.8M	Yes	N/A	Yes	Yes, Likely Low	No	Low	27%	Yes	Yes	Yes	No
Property tax	C	Urban Renewal - Increase Frozen Base	\$1-\$3M	Yes	N/A	Yes	No	No	Low-to-Medium	37%	Yes	No	No	No
Medium-Term Revenue Options														
Property tax	D	Local Option Property Tax Levy	\$1M-\$55M	Yes	Yes	Yes	Yes, Likely Low	No	Low	37%	Partial	No	No	Yes
Income tax	E	Personal Income Tax	\$113,000-\$92M	Yes	Yes	Yes	Yes, Likely Low	No	High	36%	Yes	No	No	Yes
Long-Term Revenue Options														
Other	F	Payment in Lieu of Taxes (County, State, and Federal	Currently unknown	Yes	N/A	Viability requires a change in County, State, or Federal legislation	No	No	Low	N/A	N/A	N/A	N/A	N/A
Other	G	Intergovernmental Agreements & Entities	Cannot be calculated without additional specification	Maybe depending on specification	Maybe depending on specification	Viability requires agreement from external party	No	Likely no, depends on specification	High	N/A	N/A	N/A	N/A	N/A
Other	H	Tax Reform/ Restructuring	Cannot be calculated without additional specification	Yes	Yes	Viability requires significant changes in City policy	Unknown without additional specification	No	High	N/A	Yes	N/A	N/A	N/A

NEAR-TERM REVENUE OPTION DETAILS

A. Business License Fees

A. BUSINESS LICENSE FEES	
Description	<p>A business license is a government-issued permit that authorizes an individual or a company to conduct business in that government's jurisdiction. The fee calculation could take several different forms: a fixed amount per business or be tiered, based on business size (measured by gross receipts or number of employees). It is typically paid prior to engaging in business, paid on an annual basis, and does imply a regulatory relationship.</p> <p>Implementing a business license would help provide accurate data for the number of businesses within City limits. In addition to providing statistical data, business licenses aid in ensuring proper permits have been pulled, if applicable, which verifies minimum code requirements have been met, accessibility standards have been met, and Fire and life safety requirements have been met. It provides protection for the patrons by implementing a check and balances and provides legal protection for a business to ensure compliance with State and Local codes, ordinances, and regulations has been met. A business license and business tax would provide transparency between the City, patrons, and businesses and corporations. Additionally, it would create an opportunity for the businesses and corporations to invest in the local economy and further development of the community.</p>
Key Implementation Considerations	<ul style="list-style-type: none"> Strongly recommend structuring this fee progressively so as not to harm small and/or local businesses. Options may include higher fees for businesses with higher number of employees and/or different fees for businesses not headquartered in Salem. Recommend the City seeks input from the business community on how to craft any potential business licensing program. Recommend communicating the benefits of a business license fee (for example, how license fees can ensure that public safety requirements have been met by the business). The City could also provide services in exchange (for example, information for first responders to better support registered businesses). It may be possible to tie it to providing services exclusively for businesses, especially the businesses in the CBD. This funding source may not need to be taken to a public vote. This funding source can help facilitate other City functions and reduce administrative effort required to accomplish existing tasks.
Revenue Potential	Estimated \$8,000-\$4 million. Variable depending on the fees and fee levels that are chosen. See Revenue Modeling section for more details.
Timeline to Receive Funds.¹	1-2 years

¹ **Please note:** The estimated timelines in this document indicate the time between the date of implementing a revenue option and when the City would begin receiving funds. This timeline does not incorporate the time it may take to gain approval or establish agreements to implement a given revenue option.

A. BUSINESS LICENSE FEES	
Administrative Effort	Salem already has infrastructure in place for some types of businesses (like food trucks and marijuana dispensaries). There may be additional costs and complexity to expanding the types of fees, but few costs to increasing the amount of current fees.
Who Pays	<ul style="list-style-type: none"> Businesses <p>All types of business taxes or fees may be passed onto consumers.</p>
Equity Implications	Any increase in the cost of a good or service has a disproportionate effect on low-income households because they spend a higher share of income on goods and services.
Environmental Sustainability Implications	None
Local Economic Implications	<ul style="list-style-type: none"> Businesses could shift to nearby jurisdictions to avoid tax burden. This could negatively impact the perceived business climate in Salem.
Legal Authority	<p>Salem already requires a license and fee for certain types of businesses.</p> <p>Authority is clearly established. State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City's boundaries. Revenue would be unrestricted and available to the general fund.</p> <ul style="list-style-type: none"> Council may adopt fees by ordinance. Or fee could be placed on ballot by Council or petition.
Legal Restrictions	None currently known
Peer Usage	<p>Salem already requires a license and fee for certain types of businesses.</p> <p>Business license requirements vary widely across Oregon.</p> <p>The City of Portland business license rate is 2.6% of net income after allowable deductions. The annual minimum fee is \$100. Business licenses are required from the opening date of business. Multnomah County's business income tax rate is 2% of the net income after allowable deductions. The annual minimum fee is \$100 (started 2008). Business income taxes are due at the same time they file federal and state income tax returns. Both have exemptions, most notably businesses that gross less than \$50,000 annually for the Portland tax and \$100,000 annually for the Multnomah tax.</p> <p>Springfield requires a license for 28 business types with a fee schedule tailored to those business types. In 2014, Springfield's Finance Director estimated that 75-80% of the estimated \$105,000 - \$120,000 generated per year revenue was devoted to personnel expenses to administer the program. A large portion of the remaining revenue covered software, supervision, and indirect program costs, leaving approximately 5-10% of collection as net revenue.</p> <p>Medford requires an annual business license for all businesses. The application review fee is \$50, and the commercial business license fee is \$100. A subset of business types are exempt (such as non-profits). Some business categories have fees specific to that category (mobile food vendor, home-based business). The fee application process requires information for the Fire Department, including emergency contacts, type of fire protection system, and the presence of hazardous or combustible materials. The business license process consolidates a variety of regulatory issues into a single, streamlined process.</p>

A. BUSINESS LICENSE FEES

	Eugene currently requires the following businesses to apply and pay a fee for a license: payday lenders, public passenger vehicles, and recycling and solid waste haulers. Eugene requires permits and fees for on-street commercial activity in the Downtown Activity Zone.
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B. Franchise Fee Increase

B. FRANCHISE FEE INCREASE	
Description	Right-of-way franchise fees are assessed for the privilege of use of City-owned rights-of-way for distribution of utility services or products.
Key Implementation Considerations	<ul style="list-style-type: none"> Measures should be put in place that either limit or do not allow fee increases that exceed the annual federal cost of living adjustment. Residents would likely experience this fee increase as an increase of their utility bills (assuming the utility service providers pass along the increased franchise fee expenses to their customers).
Revenue Potential	Estimated \$6,685-\$6.6 million. See Revenue Modeling section for more details.
Timeline to Receive Funds	6 months to 1 year
Administrative Effort	Low
Who Pays	<ul style="list-style-type: none"> The operator of the utility Indirectly, all utility users
Equity Implications	Increased cost of basic utilities will have a disproportionate impact on lower-income customers.
Environmental Sustainability Implications	Minimal, if any.
Local Economic Implications	Could have some negative impacts on the City's perceived business climate and cost of living for residents.
Legal Authority	Clear, unambiguous
Legal Restrictions	<p>There is an Oregon Constitutional limitation under Article IX (OR Const, Art IX, § 3b) that caps the rate of any tax levied on oil products or natural gas, other than motor vehicle fuel, to no more than 6% of its market value.</p> <p>There is also a 7% cap on franchise fees for telecom carriers (ORS 221.515) and a 5% cap on cable operators (47 U.S.C § 541); 5% for electric and natural gas (ORS 221.450). There is no cap on franchise fees for water, wastewater, and solid waste.</p> <p>The Federal Communications Commission (FCC) approved a rule change that took effect in September 2019, reducing franchise fee payments from cable operators by allowing providers certain deductions from cable franchise fees. The rule change also preempted local governments from regulating or imposing fees related to non-cable services that rely on use of the public right-of-way such as internet service providers.</p>
Peer Usage	Very common. Salem already has 5% franchise fees for all utilities in place with a 7% fee for telecommunications and solid waste (refuse).

C. Urban Renewal – Increase Frozen Base

C. URBAN RENEWAL - INCREASE FROZEN BASE	
Description	<p>The City's Urban Renewal Agency could permanently increase the frozen base, which would result in less tax increment dollars for the Agency but more City General Fund dollars.</p> <p>Each Urban Renewal Area has a "frozen base", which is the assessed value in the Area at its creation. The tax revenue from the frozen base is distributed to all the overlapping taxing districts according to their rates. Property taxes based on the assessed value in excess of the frozen base are directed to the Area. An Urban Renewal Agency can choose to "raise" its Frozen Base if the tax increment is not needed to pay indebtedness, thereby increasing the revenue to the overlapping districts and diminishing the annual revenue directed to the Urban Renewal Area.</p>
Key Implementation Considerations	<ul style="list-style-type: none"> • If a URA's frozen base is increased, it cannot be reduced. • This option will appear as the City moving money from one budget item (Urban Renewal) to another (Operations Fund). • The Revenue Task Force did not look at activities within Urban Renewal that would be adversely impacted by increasing the frozen base, and it is possible that there is a project in that area that could raise objections from community members.
Revenue Potential	Estimated at \$1-\$3 M. However, a full model or economic development impacts have not been evaluated.
Timeline to Receive Funds	6 months to a year
Administrative Effort	This would be implemented through the budget process and submittal of the Form UR-50 to the Tax Assessor.
Who Pays	The Urban Renewal Agency receives less revenue each year. Property taxes for individual property owners do not change.
Equity Implications	Increasing the frozen base may limit the ability of the urban renewal district to have a meaningful impact on the redevelopment of land and improvements to the public realm within the district.
Environmental Sustainability Implications	N/A
Local Economic Implications	Less revenue to urban renewal agency and district
Legal Authority	ORS 457 enables Tax Increment Financing, the mechanism behind Urban Renewal.
Legal Restrictions	Both temporary and permanent frozen base increases are authorized under ORS 457.455.
Peer Usage	Eugene is planning to increase their Urban Renewal frozen base.

MEDIUM-TERM REVENUE OPTION DETAILS

D. Local Option Property Tax Levy

D. LOCAL OPTION PROPERTY TAX LEVY	
Description	A local option levy is a temporary property tax that is paid by all owners of taxable property within the city limits. The City could impose a local option levy for general fund services for a maximum of five years or for capital projects for up to 10 years.
Key Implementation Considerations	<ul style="list-style-type: none"> ● Strong recommendation to structure the levy to pay for specific services that are important to the community, such as: <ul style="list-style-type: none"> ○ Example A: Create a “Livability Levy” that would fund key quality of life services including library, parks, recreation, and Center 50+. ○ Example B: Create a “Public Safety Levy” that would fund police and fire services. ● Requires approval every five years, so the structure and what it covers would be reexamined. ● Concerns about the sustainability of property taxes to fund City services, given the current revenue situation. ● Due to compression, not every property will be affected by this local option levy. It is important to clarify this for homeowners/community members. ● Property taxes contribute to the high cost of housing in Salem and Oregon, and shifting away from property taxes could be part of the solution if tax reform is pursued.
Revenue Potential	<ul style="list-style-type: none"> ● Estimate of \$1M-\$55M. See Revenue Modeling section for more details. ● Variable, depends on tax level chosen <p>Local option levies are subject to the \$10 per \$1,000 of real market value tax rate cap for all general governments under Measure 5. Local option levies are the first to be reduced in the event of tax rate compression. This means that if the combined total levies for the overlapping general governments exceed the Measure 5 cap, any local option levies would be proportionally reduced until the tax rate limit is satisfied.</p>
Timeline to Receive Funds	1-2 years, need to reapprove every five years
Administrative Effort	Low. Property taxes are administered by counties
Who Pays	<ul style="list-style-type: none"> ● The tax is paid by all owners of taxable property within city limits. Property owners include business and residences. ● Businesses may pass the costs of the tax onto their customers.
Equity Implications	<p>The property tax is a proportional tax on the assessed value of real and personal property for businesses and residences.</p> <p>An additional property tax levy could marginally affect how affordable housing is in West Salem.</p>
Environmental Sustainability Implications	N/A
Local Economic Implications	Would slightly increase ongoing cost of property ownership in Salem. Property taxes are already compressed for approximately 3,500 properties in the Salem portion of

D. LOCAL OPTION PROPERTY TAX LEVY	
	Marion County. A local option levy would cause additional properties to be in compression, increasing the number of taxpayers not paying the full tax rate.
Legal Authority	Clear and unambiguous
Legal Restrictions	New or additional property taxes must be approved by a majority of the people voting in a May or November election.
Peer Usage	Very common throughout the state

E. Personal Income Tax

E. PERSONAL INCOME TAX	
Description	A tax on income of residents of Salem. This tax may also be assessed on those who file their income tax within the City of Salem.
Key Implementation Considerations	<ul style="list-style-type: none"> Strong recommendation to ensure that this tax would be levied in an equitable manner, including not adding any additional taxes for lower-income residents below some minimum threshold. Strong recommendation to combine the personal income tax with overarching tax reform as a long-term solution. Within this scenario, the personal income tax would be the first step that would be followed by tax reform where certain fees or taxes (like the Operations Fee) could be restructured or eliminated to create a more equitable tax structure. This messaging will be critical to gain public support for this option. See Tax Reform/Restructuring option for more details. Strong recommendation to ensure this tax will be levied in an equitable manner, including not adding any additional tax for low-income residents.
Revenue Potential	<ul style="list-style-type: none"> Estimate of \$113,000-\$92M. See Revenue Modeling and the Revenue Task Force's income tax scenario section for more details. Tax revenues would fluctuate with changes in personal income and would likely mirror economic conditions.
Timeline to Receive Funds	Two years or longer
Administrative Effort	<ul style="list-style-type: none"> High, annual tax returns would be required Salem could potentially contract collection out to the Oregon Department of Revenue or City of Portland Revenue Bureau, reducing administrative burden. Such a tax would likely face significant political opposition making implementation difficult, lengthy, and increasing costs.
Who Pays	Residents and anyone who files their income tax within the City of Salem. This would not apply to non-residents who work in Salem.
Equity Implications	Income taxes can be structured progressively since you pay more if you earn more. The impact on low-income households would depend on the structure of the tax and what exemptions are included.
Environmental Sustainability Implications	None
Local Economic Implications	Impact on the City's perceived business climate is uncertain. A higher local income tax rate could discourage in-migration and encourage workers to relocate, reducing economic activity and negatively impacting businesses in City limits.
Legal Authority	<p>State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City's boundaries.</p> <ul style="list-style-type: none"> Council may adopt tax by ordinance. Or tax could be placed on ballot by Council or petition.
Legal Restrictions	None currently known
Peer Usage	Portland, Multnomah County, Lane County Transit District

E. PERSONAL INCOME TAX

Eugene has had several income tax proposals fail the public vote

About a third of all states allow their counties, municipalities, and other local jurisdictions to impose an income tax. However, not all states have a local tax in every jurisdiction. Only five cities in Colorado impose the tax, for example, while Iowa has hundreds of school districts that levy income taxes.

LONG-TERM REVENUE OPTION DETAILS

F. Payment in Lieu of Taxes (From the County, State, or Federal Government)

F. PAYMENT IN LIEU OF TAXES (FROM THE COUNTY, STATE, OR FEDERAL GOVERNMENT)	
Description	<p>A payment in lieu of tax ("PILT") is a payment made by a tax-exempt entity, like a government or non-profit organization, to a municipality to compensate for some of the cost of providing municipal services to that entity. The City already receives an annual PILT from the Salem Housing Authority and West Valley Housing Authority.</p> <p>The most significant entity in Salem is the Oregon State Government. In addition, there may be opportunities to partner with the County and/or Federal government for PILT options.</p>
Key Implementation Considerations	<ul style="list-style-type: none"> Recommendation to focus exploring PILT options related specifically to the County, State, and/or Federal government (limited interest in exploring PILT options from other tax-exempt entities). The federal, state, and county governmental bodies (notably, the State of Oregon through its large office and institutional presence) consume City resources—in the form of street and infrastructure usage, police and fire response, and more—yet do not pay any property taxes. This places an inordinate burden on the City and should be remedied through a payment in lieu of taxes program. Strongly recommend exploring options from the state. Exploring PILT options with the State will be tied to the legislative session. Options should be strategically planned as soon as possible for the 2025 legislative session, otherwise the next full session is in 2027. Council could also consider expanding this option to explore PILT options from all entity types, not just County, State, and Federal entities. If the option is expanded to include other entities apart from County, State, or Federal government, consider if there is a way to structure this equitably for non-profit organizations. For example, there are some non-profits that are flourishing economically, and others that are struggling.
Revenue Potential	Unknown. For the state PILT, recent conversations on House Bill 4072 indicate a payment between \$5 to \$6 million annually, but that is not guaranteed.
Timeline to Receive Funds	Unknown (likely 5+ years). House Bill 4072, establishing such taxes, has been showing signs of progress.
Administrative Effort	Low. However, viability requires a change in county, state, or federal legislation. City has no control over the receipt or timing of funds.
Who Pays	The county, the State of Oregon, and/or the federal government.
Equity Implications	N/A
Environmental Sustainability Implications	N/A
Local Economic Implications	Impact on the local economy is uncertain. The County or State could potentially move offices out of the Salem area.

F. PAYMENT IN LIEU OF TAXES (FROM THE COUNTY, STATE, OR FEDERAL GOVERNMENT)	
Legal Authority	The Council has broad authority to negotiate a PILT agreement with the State. Would require legislative agreement.
Legal Restrictions	Needs agreement by the county, state, or federal legislature.
Peer Usage	According to a study by the Lincoln Institute of Land Policy in 2012, PILTs worth more than \$92 million per year have been received by at least 218 localities in at least 28 states over the prior 12 years. That report found that many of these agreements were in the Northeast region of the US, and most of the payments come from higher education institutions, followed by hospitals.

G. Intergovernmental Agreements & Entities

G. INTERGOVERNMENTAL AGREEMENTS & ENTITIES	
Description	<p>An Intergovernmental Agreement (IGA) is a formal arrangement between two or more governments to collaborate on mutual interests or resolve specific issues. To generate revenue, the City could explore establishing agreements with other government agencies to provide services on their behalf for a fee.</p> <p>An Intergovernmental Entity (IGE) is an organization created by multiple governments to collaborate on shared objectives. To generate revenue, the City could explore creating an intergovernmental entity to pool resources and provide services in a way that could reduce costs. An intergovernmental agreement (IGA) would be required to establish an IGE.</p> <p>IGAs/IGEs are service-specific. To explore the financial impacts to the City requires a selection of service(s).</p> <p>For example, Salem could enter into an IGA with another government to jointly provide services together (e.g., Library services). By having a larger organization provide the same level of service to larger areas, there are potentially some economies of scale that could lower costs (e.g., you would only need one Library Information System for join service provision, rather than two).</p>
Key Implementation Considerations	<ul style="list-style-type: none"> Recommend exploring the option of an IGE centered on tackling homelessness in Salem, Keizer, Marion, and Polk Counties. Recommend that the City explore and engage in inter-agency cooperation (for example, state, federal and county funding sources in conjunction with service delivery by capable not-for-profit organizations) to appropriately share the total resource burden for the administration of the general services termed as “homeless sheltering and support services.” These services have proven to be a source of substantial financial strain on the City (with no dedicated or sustainable funding source), and it is inequitable that the financial burden for these services be placed solely on the City. This option is a necessary part of Tax Reform/Restructuring, especially with regard to changes in the existing property tax revenue stream. City, County, and Salem-Keizer Schools are all affected by insufficient revenues to support desired programming.
Revenue Potential	Depends on the specifics of the agreement/entity. This option would be service-dependent and could fund service-specific costs. However, the formation of an IGA/IGE could ultimately free up some General Fund dollars.
Timeline to Receive Funds	Unknown (likely 5+ years)
Administrative Effort	Unknown. Depends on the specifics of the agreement/entity. Viability requires the other government(s) to enact a change in policy, which the City does not control.
Who Pays	Depends on the specifics of the agreement, typically a combination of user fees and subsidies from participating governments.
Equity Implications	Depends on the specifics of the agreement/entity.
Environmental	Depends on the specifics of the agreement/entity.
Local Economic Implications	Depends on the specifics of the agreement/entity.

G. INTERGOVERNMENTAL AGREEMENTS & ENTITIES	
Legal Authority	Yes
Legal Restrictions	Allowed under the provisions of ORS 190.010(5)
Peer Usage	IGAs are common among local governments in Oregon. Many local governments in Oregon have created IGEs for public safety, utilities, economic development, and other services.

H. Tax Reform/Restructuring

H. TAX REFORM/RESTRUCTURING	
Description	<p>The process of revising tax policies and regulations to improve tax system efficiency, effectiveness, equity, and/or revenue generation.</p> <p>As proposed by the Revenue Task Force, this option would focus on implementing an income-tax and revising or eliminating other current taxes or fees (like the Operating Fee) with the goal of creating a more progressive tax structure.</p>
Key Implementation Considerations	<ul style="list-style-type: none"> • Strong recommendation to perform additional work (the Task Force strongly recommends through Council subcommittee or a targeted task force, and Council work sessions are another option) to explore long-term tax restructuring and reform. The goal of this work would be to shift the City's tax structure to a more equitable model. As such, the City should explore which taxes or fees could be structured more equitably or eliminated altogether in favor of revenue sources that are more equitable. • Strong recommendation to combine the <u>personal income tax</u> with overarching tax reform. Within this scenario, the personal income tax would be the first step that would be followed by tax reform. As such, the higher the revenue generated by the personal income tax, the more options the City would have in terms of restructuring other sources of revenue. • The Operations Fee is an example of a fee that could be adjusted or eliminated to make the existing tax system more equitable. • Tax reform should focus on simplicity for payers, i.e. personal income tax should be paid by adding one line to the state income tax form, not a separate form, even if it takes longer to be implemented. • Conscious and deliberate involvement with the public to get buy-in will be necessary. • Intergovernmental Agreements are probably required to implement this option. • Tax reform is best accomplished as a statewide discussion, due to the state-determined structural property tax challenges for local government entities.
Revenue Potential	High.
Timeline to Receive Funds	Unknown (likely 5+ years)
Administrative Effort	Unknown. Potentially very high.
Who Pays	Unknown, depends on the specifics of the restructuring. May impact residents, Salem-based employees, and/or businesses.
Equity Implications	Tax restructuring could be established to increase the equity of Salem's tax structure.
Environmental Sustainability Implications	Unknown. Depends on the specifics of the restructuring.
Local Economic Implications	Unknown. Depends on the specifics of the restructuring.
Legal Authority	<p>State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City's boundaries.</p> <ul style="list-style-type: none"> • Council may adopt tax by ordinance.

H. TAX REFORM/RESTRUCTURING	
	<ul style="list-style-type: none"> Or tax could be placed on ballot by Council or petition. <p>Depending on the structure recommended, this option would likely require multiple ordinances, public votes, and administrative actions to implement.</p>
Legal Restrictions	None currently known.
Peer Usage	While some local income taxes are in place in Oregon, the proposed model is unique.

APPENDIX A: REVENUE TASK FORCE DECISION-MAKING CRITERIA

The Revenue Task Force generated the following criteria to help guide their decision-making.

- **Are legally viable.** Any revenue option where the City does not currently have legal authority would be discarded.
- **Are able to generate sustainable, ongoing revenue.** Revenue options with one-time or low estimated revenue potential will be considered less viable.
- **Are equitable.** We will take equity considerations into account, recognizing that revenue options that are regressive in structure will have higher impacts on lower-income earners and are therefore less desirable than revenue options with more progressive structures.
- **Do not have widespread negative impacts on the local economy.** We will take impacts to the local economy into account, recognizing that revenue options that are anticipated to negatively impact the local economy have significant drawbacks. However, negative impacts on the economy would not necessarily rule out a revenue option.
- **Can achieve short-, mid-, and long-term results.** We will review an impact timeline to help determine how soon the city can expect to see revenues generated from that option. Options will not be eliminated based on the impact timeline but could be combined with other options.
- **Require an administrative effort that is commensurate to the revenue potential.** Revenue options with high estimated administrative effort would be considered more difficult to implement. However, high administrative effort would not necessarily rule out a revenue option.
- **Do not have negative environmental impacts.** Revenue options with negative environmental impacts are out of alignment with the City's strategic goals and therefore would be considered less viable.

APPENDIX B: REVENUE CONTEXT AND PATHWAYS

WHAT IS THE CITY'S REVENUE SHORTFALL?

The Revenue Task Force was charged with identifying potential options to increase the City of Salem's revenue. To understand the size of the revenue shortfall that must be overcome, the Revenue Task Force examined five potential **Revenue Pathways**.

In short, the size of the revenue gap is dependent on the level of service provided to the residents of Salem. If Salem residents and policymakers desire a greater level of service, revenue needs will be larger. If Salem residents and policymakers accept a lower level of service, revenue needs will be smaller.

The level of service provided to the residents of Salem largely depends on the City's staffing levels. The services and costs of local government services predominantly involve *people*. If residents and policymakers desire a higher level of service, the City will need more staff. If residents and policymakers accept a lower level of service, the City will need fewer staff.

Background Context: Salem Revenues, Service Levels, and the Great Recession

Any discussion of revenues and staffing levels must be informed by the history of staffing at the City of Salem. Like many local governments and businesses, General Fund staffing at the City of Salem never recovered from the 2008 Financial Crisis and the Great Recession.

In 1997, the City of Salem had 614 Full Time Equivalent (FTE) employees whose salaries were paid for through the City's General Fund.^{2,3} This level of staffing was equal to 5.2 staff per thousand Salem residents. Staffing levels gradually increased in the late 1990's and 2000's at a rate of approximately 2% per year. Although this increase was usually lower than the rate of increase in the Salem population served, staffing levels generally remained at or above 5.0 employees per thousand Salem residents during these years.

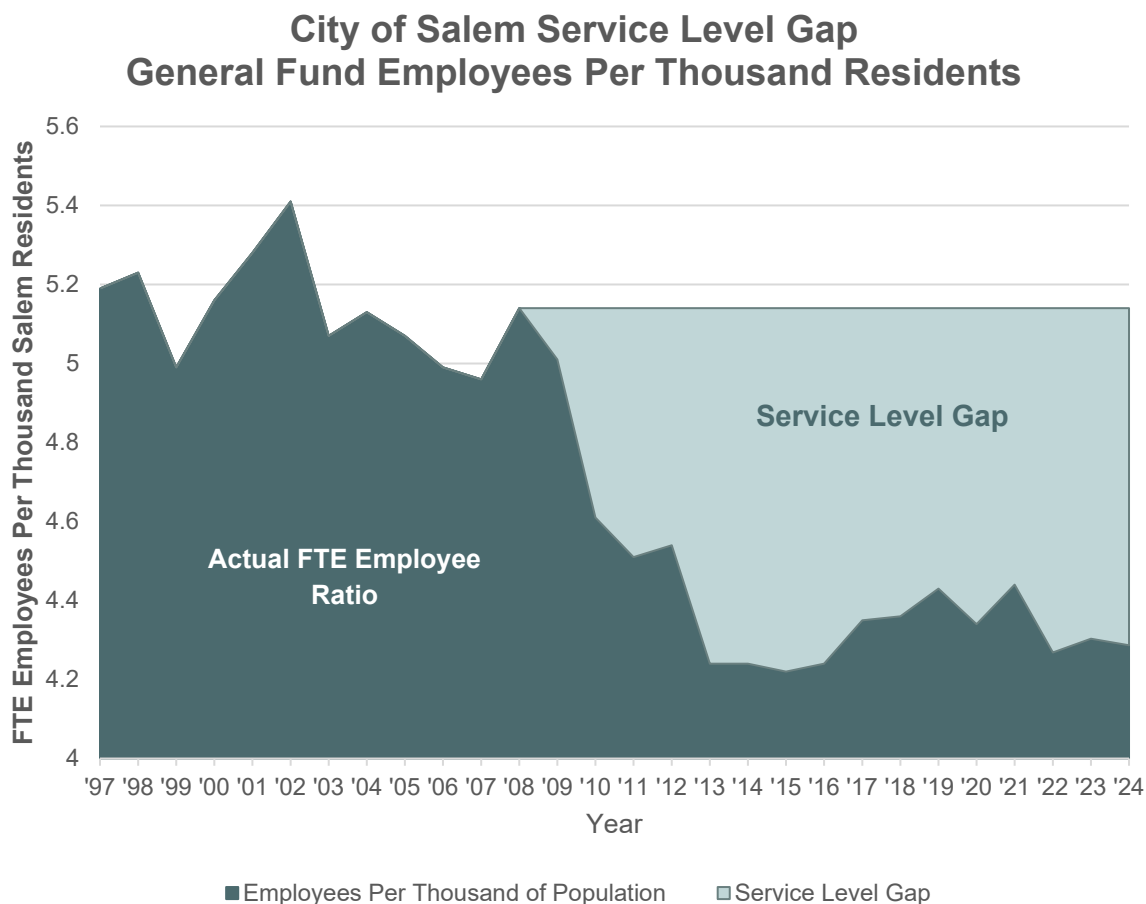
Due to the Great Recession, the City eliminated or reduced a significant number of services. These cutbacks included the elimination of municipal pools, the closure of two fire stations, and the elimination of the former Community Services Department. This resulted in the dismissal of a large number of employees, even as the City's population continued to grow. From 2008 to 2016, the City decreased its General Fund staffing levels by about 1.3% per year on average, even as the City population grew by about 1% each year. By 2016, when the federal unemployment rate returned to its pre-recession level, staffing had fallen to 4.24 FTE per thousand residents, a 10% decrease in the level of service provided since 2008.

² Full Time Equivalent (FTE) is a measure of staffing that incorporates the fact that not all staffing members work full time. Part time staff are assigned a numerical value proportionate to their work schedule. So, for example, a half-time staff would be 0.5 FTE. Two half-time staff would be equal to 1.0 FTE. One full time staff would also equal 1.0 FTE.

³ While the City has eight different types of funds, the large majority of City services are paid for through the General Fund—including police, fire, library, parking, Center 50+, planning, parks, recreation, code enforcement, economic development, and administration and support services (including the City Manager's Office, Finance, Information Technology, and Legal). The Revenue Task Force is focused on developing revenue options to support the City's General Fund only.

YEAR	GENERAL FUND FULL TIME EQUIVALENT EMPLOYEES	FTE PER 1,000 SALEM RESIDENTS
1997	614.4	5.19
2008	757.2	5.14
2016	675.1	4.24
2024	776.2	4.29

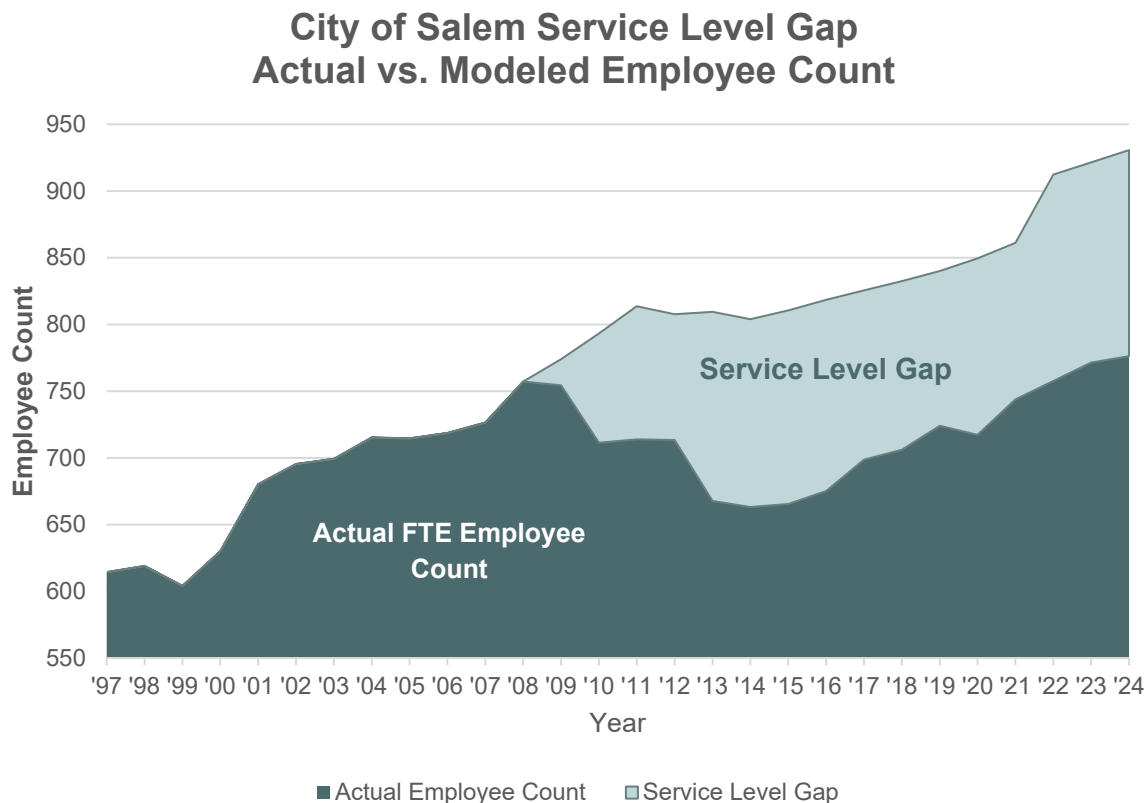
Although the number of General Fund FTE employees finally returned to 2008 levels in 2022, the City's population had grown 20% larger. This meant that about 30,000 additional residents were being served by the same number of FTE employees as 14 years prior. The staffing-per-resident ratio has never recovered from the Great Recession. Because the quality and quantity of public services are largely a function of the people employed by a government, the level of service at the City government is currently much lower than in 2008.



The decrease in General Fund staffing in proportion to population can be thought of as a *Service Level Gap*: the staffing that would be needed to maintain City service levels as they were in 2008, as measured by the ratio between Salem FTE employees and residents. The graph above details Salem's ratio of

General Fund employees to City residents over time. It also illustrates the gap between post-2008 staffing ratios and the City's pre-recession General Fund staffing levels. Staffing and service levels at the City remain well below the standards of the 1990's and 2000's.

The City has not returned to the level of service that was standard before the Great Recession. In the past decade, if the City had hired additional staff to return its staffing ratios and level of service to its pre-recession standards, staffing levels at the City would be *much* higher than they are today. If the City maintained its 2008 staffing ratios, there would be over 121 more FTE employees than there are today, a 15% increase over current staffing levels.



The graph above shows a model of how staffing levels at the City would have grown over time if the City maintained staffing and service levels at its pre-recession standard. The graph also shows the gap between this staffing standard and the City's actual General Fund FTE staffing levels. Once again, this gap can be conceptualized as a *Service Level Gap*—levels of service that the City has foregone in its efforts to provide government services with fewer staff.

The actual degree of relative understaffing at the City, when compared to 2008 levels, is likely even more severe than these figures and graphs suggest. Residents demand more from the City government than they did in the early 2000's. For example, Salem did not generally provide community policing, homeless services, or climate response in 2008. Salem staff are providing even more services with these relatively lower staffing levels.

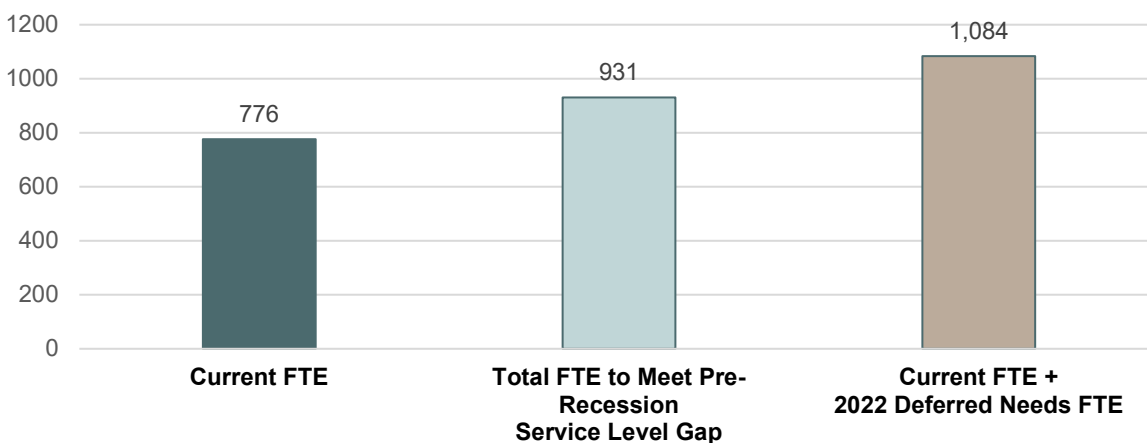
The City of Salem's Deferred Needs Analysis

Although the gap between pre-recession and current staffing levels is a useful framework for contextualizing current staffing levels, the City's 2022 deferred needs analysis provides other important context and knowledge. This analysis studied service level declines since 2008 in greater complexity and depth, examining service level declines beyond differences in population ratios.

The study examined many factors to estimate the deferred staffing needs of the City, including:

- **The demand for City services that has increased due to population growth.**
- **The demand for City services that has outpaced population growth.** For example, the growth in calls for Police and Fire has far outpaced the City's population increase. Purely examining employee-to-population ratios understates understaffing to meet this community need.
- **The many additional/new services provided by the City.**
- **Deferred maintenance** of infrastructure, equipment, and other physical assets.
- **Changing technology.** Today's services are much more online and integrated into technology than before the great recession, which requires additional staff to maintain.
- **The staffing levels necessary to implement municipal government best practices.** Although the quality of City services was higher in 2008, the pre-recession City government still had plenty of areas for improvement. Staffing above 2008 levels would be necessary to implement many governing best practices.

The 2022 study identified that 307.5 additional staff would be necessary to provide City services to the level necessary to successfully address the six factors outlined above. Because these factors have only increased in the previous two years, the number of additional staff that would be necessary to provide this level of service is likely even greater.



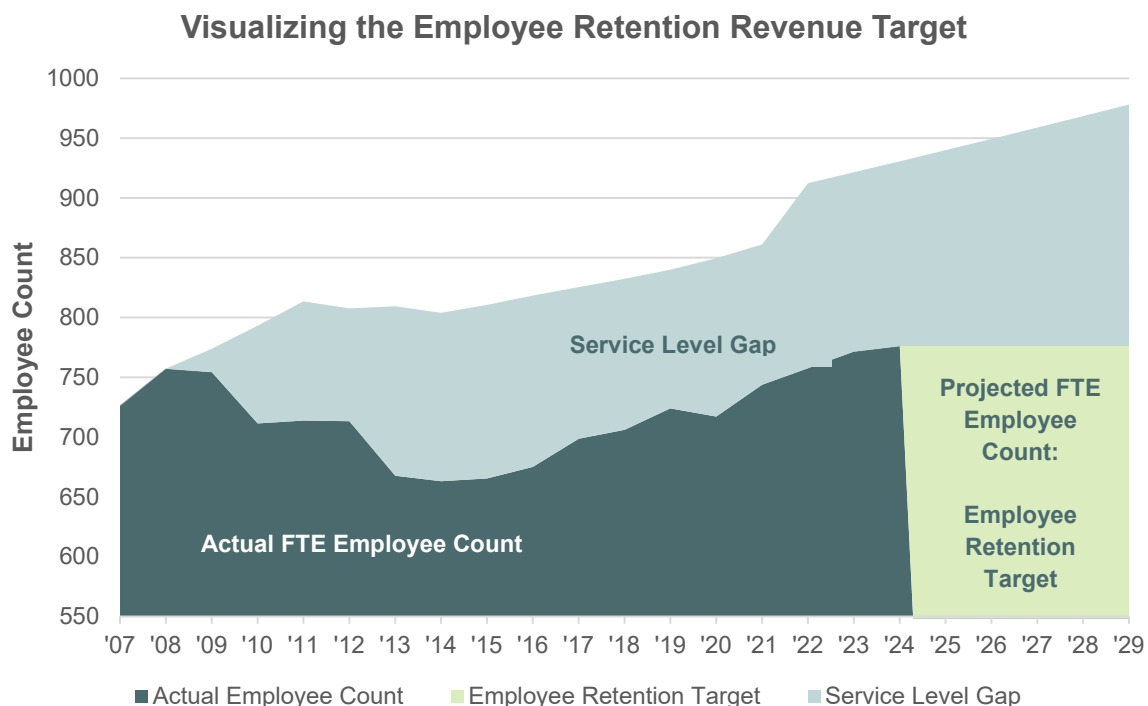
Any revenue targets under consideration should be contemplated in the context of the City's *Service Level Gap* and *Deferred Staffing Needs*. Maintaining or slightly increasing current General Fund staffing levels in Salem still results in levels of service below those provided to residents in 2007.

Three Potential Revenue Targets

There are three potential revenue targets that the City has considered in the recent past. A description of how these options interact and build upon one another is included in the tables in the next section. We will also be reviewing each of these in more depth during the Task Force meetings to solicit questions and additional input on these potential targets.

Employee Retention Target: Keep current staffing levels, while service levels decline over time

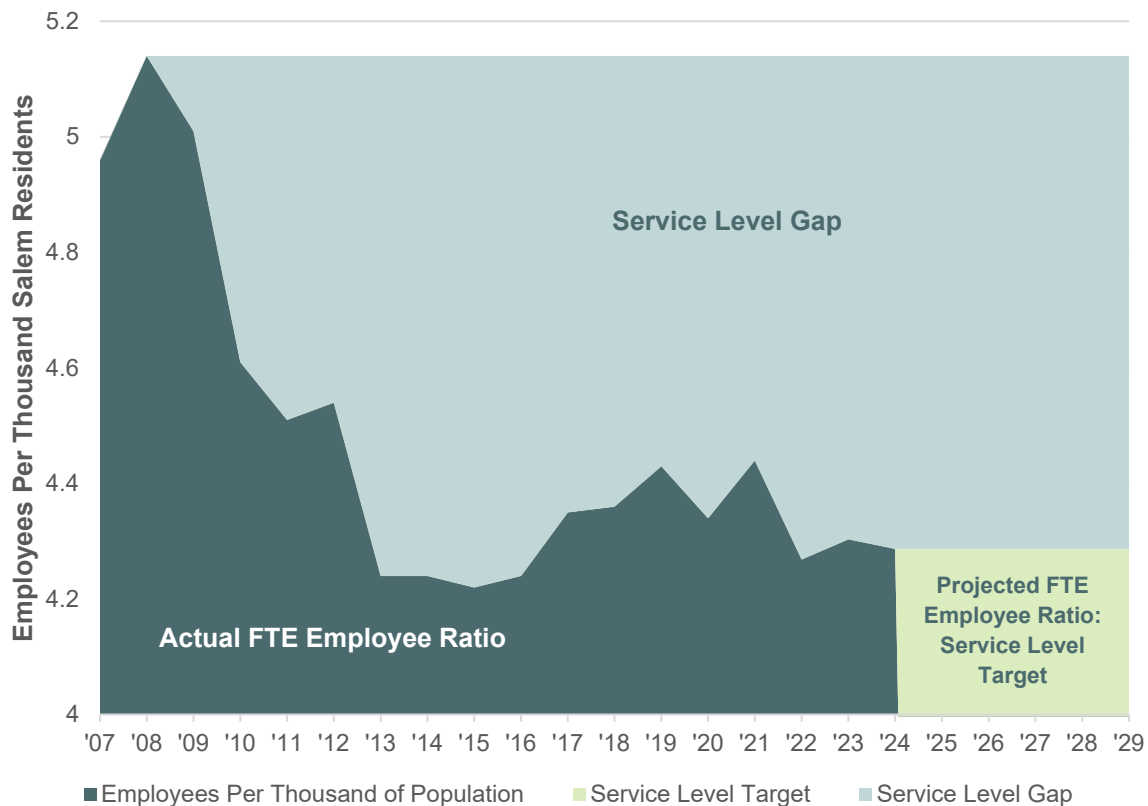
This revenue target keeps staffing levels as they are today if expenses increase at the pace that is estimated. As Salem's population increases, this means that the *level* of service provided to residents decreases over time as staff levels remain constant.



Service Level Target: Maintain current standard of service over time

This target should only be considered in conjunction with the above employee retention target. Because the City's population continues to grow, additional funding would be required to keep staffing levels, and therefore service levels, roughly proportional to population growth. This aims to maintain the *level* of service that Salem residents currently receive though this remains well below 2007 service levels. To maintain the current level of service, this target includes the staff necessary to operate the new facilities that are being built as part of the \$300 million Safety and Livability Bond, like the new fire station and branch library locations.

Visualizing the Service Level Revenue Target



Sheltering Target: Continue Shelter Services for Those Experiencing Homelessness

This target should only be considered in conjunction one or both of the above two targets. The City funded sheltering programs with one-time revenues from state and federal funds. To continue Salem's micro-shelter village communities and Salem Outreach Services Team, additional funding is needed.

Estimating These Three Revenue Targets

Revenue and expense forecasting is a complicated process. Similar to the process of estimating the budget of a household or business, local government forecasting uses the best available evidence to try and predict revenues (e.g., taxes, other income) and expenses (e.g., staffing, materials) to provide foresight on what it will cost to provide public services. This process inherently comes with uncertainty. For example, few, if any, local government forecasts made in 2019 were accurate, as the COVID pandemic and consequent fiscal and monetary policy changes radically changed government costs and revenues across the country.

Despite its limitations, financial forecasting is still a useful tool to guide City operations and staffing. The City has been able to forecast estimates of the three targets over the next five years.

REVENUE TARGET	FY 2025-2026	FY 2026-2027	FY 2027-2028	FY 2028-2029	FY 2029-2030
Employee Retention Target Keep Current Staff	\$9.7M	\$10.4M	\$14.3M	\$16.8M	\$16.7M
Service Level Target Maintain Service Levels with Population Growth	Additional \$6.1M	Additional \$10.8M	Additional \$13.1M	Additional \$17.1M	Additional \$23.1M
Sheltering Services Target Continue Shelter Services	Additional \$9.6M	Additional \$10.1M	Additional \$10.6M	Additional \$11.1M	Additional \$11.7M

Defining the Five pathways forward for the City

These three potential targets can be considered alone or in combination with one another. However, there are two rules for how these targets can interact.

- The Service Level Target can only be considered *on top of* the Employee Retention Target
- The Sheltering Target can only be considered *on top of* the Employee Retention Target or *on top of* both the Employee Retention Target and the Service Level Target.

Because of these rules, when considering the possible combinations of these three potential General Fund revenue targets, there are five main funding pathways forward for the City. The total amounts show how much these revenue targets are estimated to be during the 2029-2030 fiscal year. The total cost of each pathway would be less during each of the preceding four fiscal years.

Pathway & Total Cost During FY2029-2030	<u>Employee Retention Target:</u> Keep Current Staff	<u>Service Level Target:</u> Maintain Current Standard of Service	<u>Sheltering Target:</u> Continue Shelter Services
Pathway 1 No Revenues			
Pathway 2 \$16,700,000	Included \$16,700,000		
Pathway 3 \$28,400,000	Included \$16,700,000		Included \$11,700,000
Pathway 4 \$39,800,000	Included \$16,700,000	Included \$23,100,000	
Pathway 5 \$51,500,000	Included \$16,700,000	Included \$23,100,000	Included \$11,700,000

These five revenue pathways would have drastically different effects on City services and the experiences of Salem residents. Brief descriptions of the consequences of these funding pathways are outlined below. Again, total costs would be less during each of the prior fiscal years.

PATHWAY & TOTAL AMOUNT IN FY 2028-29	REVENUE TARGET(S)	ANTICIPATED CONSEQUENCES
Pathway 1 \$0	None	A sharp reduction in funding, staffing, and service levels occur in the near future. Further reductions take place over time as expenses continue to outpace revenues. Sheltering programs are no longer funded by the City.
Pathway 2 \$16,700,000	Employee Retention Target Only	Staffing levels remain the same as they are now, but service levels decrease. As Salem's population continues to grow, the standard of service that residents experience declines as there are fewer employees per capita.
Pathway 3 \$28,400,000	Employee Retention Target & Sheltering Services Target	Staffing levels remain the same as they are now, but service levels decrease. As Salem's population continues to grow, the standard of service that residents experience declines as there are fewer employees per capita. Homeless sheltering programs continue to be funded by the City.
Pathway 4 \$39,800,000	Employee Retention Target & Service Level Target	City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now.
Pathway 5 \$51,500,000	All Revenue Targets	City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now. Homeless sheltering programs continue to be funded by the City.

Can these Financial Projections Change Over Time?

Yes. In fact, regularly updating financial forecasts to incorporate new information is a cornerstone of effective financial management. It is likely that these figures will change over time as new or updated operational, financial, economic, and/or demographic information is ascertained.

The purpose of a financial forecast is to evaluate current and future fiscal conditions to guide policy and programmatic decisions. Forecasting is an integral part of the annual budget process. Every year, City of Salem staff regularly maintain and update financial forecasts.

Every financial forecast is, to some degree, inexact. This inherent potential for imprecision increases for each additional year into the future that a forecast predicts. There is too much uncertainty and too many potential variables to create a forecast that perfectly predicts the future. The City intends to update financial forecasts as additional information becomes known. As such, financial forecast data may change over time. This is a sign of effective management practices, not an indication of shortfalls in prior forecasting efforts.

APPENDIX C: REVENUE MODELING

To support the Task Force, Moss Adams and the City constructed the following models to estimate potential revenue generation for each option. While it was not possible to develop estimates for all options under consideration—primarily because additional details would need to be determined in order to provide accurate estimates—these estimates should provide a useful starting point for future analysis.

A. Business License Fee

Revenue Modeling

There are two primary ways that business license fees could be structured:

1. Flat amount(s) paid by businesses
2. Amounts proportional to businesses' incomes

Business license fees proportional to income are identical in potential revenue to a corporate income tax. To understand the potential revenues for proportional fees, see **Corporate Income Tax**.

To estimate businesses paying flat fees, we created a simple model, displayed below. Like other potential revenue options (e.g., Personal Income Tax). One potential issue is that flat fees are very customizable. So, if the Revenue Task Force pursues this option, the eventual fees at the end of the process could look different from the simple model below.

FEE ASSESSED TO EACH BUSINESS	PROJECTED REVENUE FROM FEES
\$50	\$8,000
\$100	\$216,000
\$150	\$424,000
\$200	\$632,000
\$250	\$840,000
\$300	\$1,048,000
\$350	\$1,256,000
\$400	\$1,464,000
\$500	\$1,880,000
\$600	\$2,296,000
\$700	\$2,712,000
\$800	\$3,128,000
\$900	\$3,544,000
\$1,000	\$3,960,000

Assumptions

- Approximately 5,200 businesses in Salem report wages.
- Fees are uniformly assessed to every business annually
- Assumes \$200,000 in collection and administrative costs
- 20% of projected revenues are unable to be collected

B. Franchise Fee Increase

Revenue Modeling

The City already collects Franchise Fees on Refuse and Water/Sewer. Because of this, the City already has an established budget amount for expected Franchise Fees for FY25. Using this data, we can project the potential revenues to be gained from increases to the franchise fee rates.

RATE INCREASE	REFUSE	WATER/SEWER	TOTAL
+0.50%	\$224,464	\$460,707	\$685,171
+1.00%	\$448,927	\$921,414	\$1,370,341

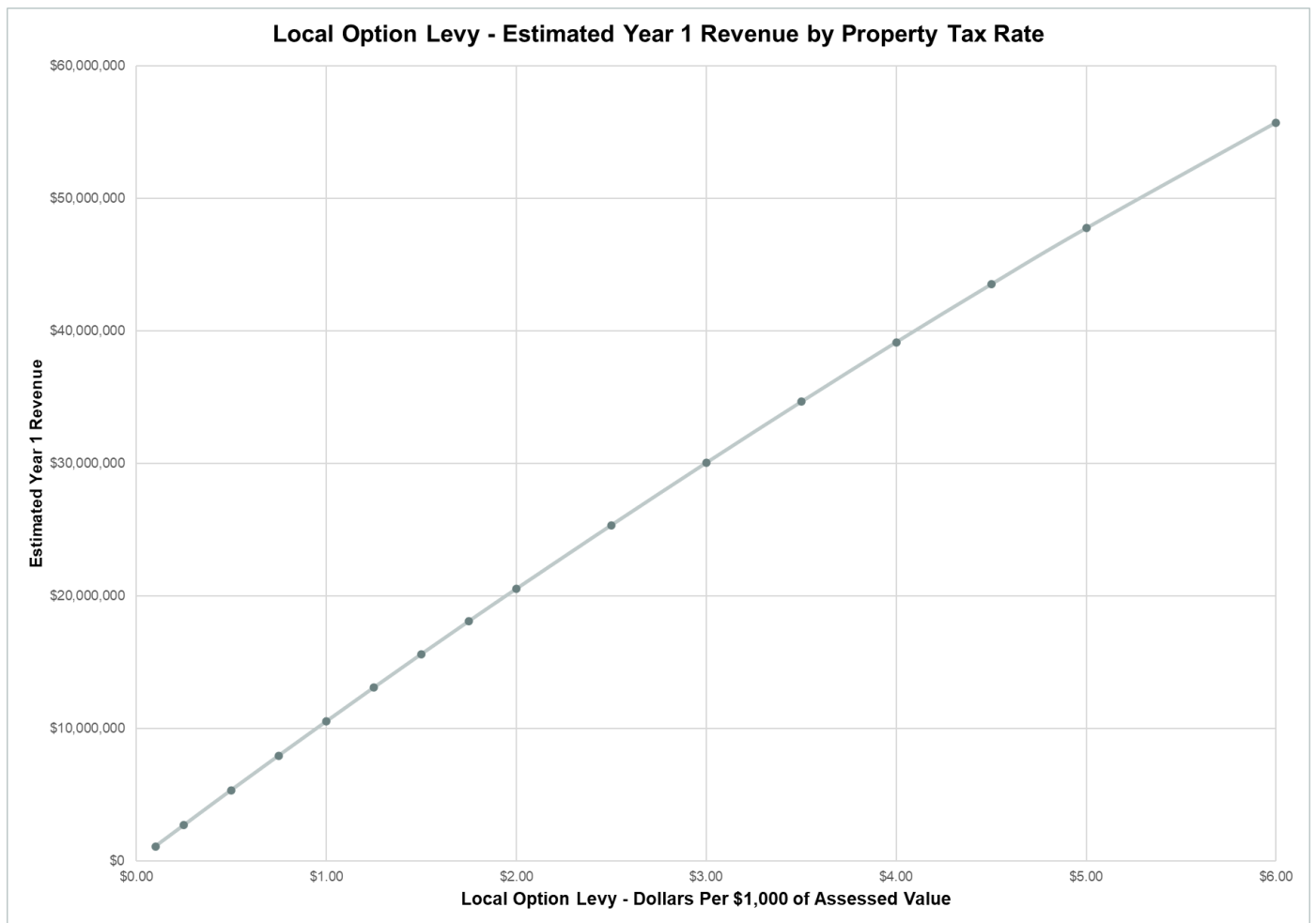
RATE INCREASE	REFUSE	WATER/SEWER	TOTAL
+1.50%	\$673,391	\$1,382,121	\$2,055,512
+2.00%	\$897,854	\$1,842,828	\$2,740,682
+2.50%	\$1,122,318	\$2,303,535	\$3,425,853
+3.00%	\$1,346,781	\$2,764,242	\$4,111,023
+3.50%	\$1,571,245	\$3,224,949	\$4,796,194
+4.00%	\$1,795,709	\$3,685,656	\$5,481,365
+4.50%	\$2,020,172	\$4,146,363	\$6,166,535
+5.00%	\$2,244,636	\$4,607,070	\$6,851,706

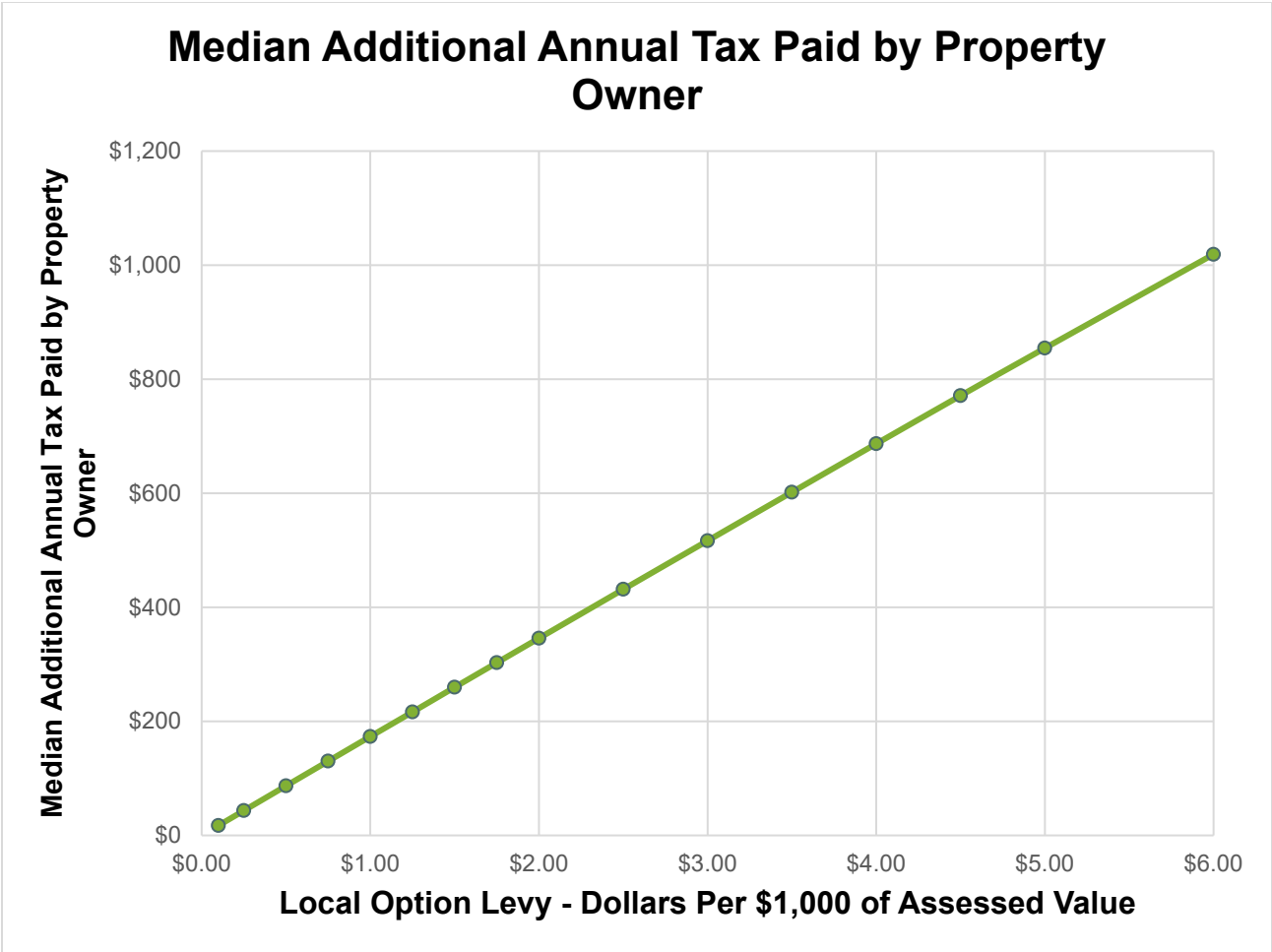
D. Local Option Property Tax Levy

Revenue Modeling

Rate Dollars Per \$1,000 of Assessed Value (%)	Percent Tax	Estimated Year 1 Total Revenue	Median Additional Annual Tax Paid by Property Owner
\$0.10	0.010%	\$1,076,798	\$17
\$0.25	0.025%	\$2,680,444	\$43
\$0.50	0.050%	\$5,327,944	\$87
\$0.75	0.075%	\$7,935,455	\$130
\$1.00	0.10%	\$10,512,867	\$173
\$1.25	0.13%	\$13,062,830	\$216
\$1.50	0.15%	\$15,585,855	\$260
\$1.75	0.18%	\$18,070,913	\$303
\$2.00	0.20%	\$20,513,754	\$346
\$2.50	0.25%	\$25,316,089	\$431
\$3.00	0.30%	\$30,028,197	\$517

Rate Dollars Per \$1,000 of Assessed Value (%)	Percent Tax	Estimated Year 1 Total Revenue	Median Additional Annual Tax Paid by Property Owner
\$3.50	0.35%	\$34,635,278	\$602
\$4.00	0.40%	\$39,134,159	\$687
\$4.50	0.45%	\$43,505,807	\$771
\$5.00	0.50%	\$47,738,547	\$854
\$6.00	0.60%	\$55,719,814	\$1,019





E. Personal Income Tax

Revenue Modeling

The U.S. Census Bureau’s American Community Survey creates estimates for household income thresholds for nearly all jurisdictions across the country every few years. Using this income distribution information, we have created a model of what an income tax may look like in Salem. The latest publicly available data (2022) reports the following income distribution for Salem households:

Income Group	Number of Households Estimate	Percent of Total Households
Total	68,667	100%
Less than \$10,000	4.9%	4.90%
\$10,000 to \$14,999	3.0%	3.00%
\$15,000 to \$24,999	7.6%	7.60%
\$25,000 to \$34,999	9.1%	9.10%

Income Group	Number of Households Estimate	Percent of Total Households
\$35,000 to \$49,999	11.1%	11.10%
\$50,000 to \$74,999	17.3%	17.30%
\$75,000 to \$99,999	13.4%	13.40%
\$100,000 to \$149,999	19.3%	19.30%
\$150,000 to \$199,999	7.8%	7.80%
\$200,000 or more	6.6%	6.60%
Median income (dollars)	\$70,220	N/A
Mean income (dollars)	\$90,806	N/A

The tricky thing when modeling income taxes is that **they are very customizable**. Think about filing your taxes this year, how many deductions you qualified for, and how your marginal tax rate changed on each additional dollar you earned.

The Multnomah County-Based Model

This first iteration of the Salem income tax model is based on the structure of Multnomah County's personal income tax, in that:

- It defines a threshold over which income is subject to the tax
- This rate is constant for all earnings over this threshold

To provide a more conservative estimate, this model also assumes that 20% of projected revenues are unable to be collected.

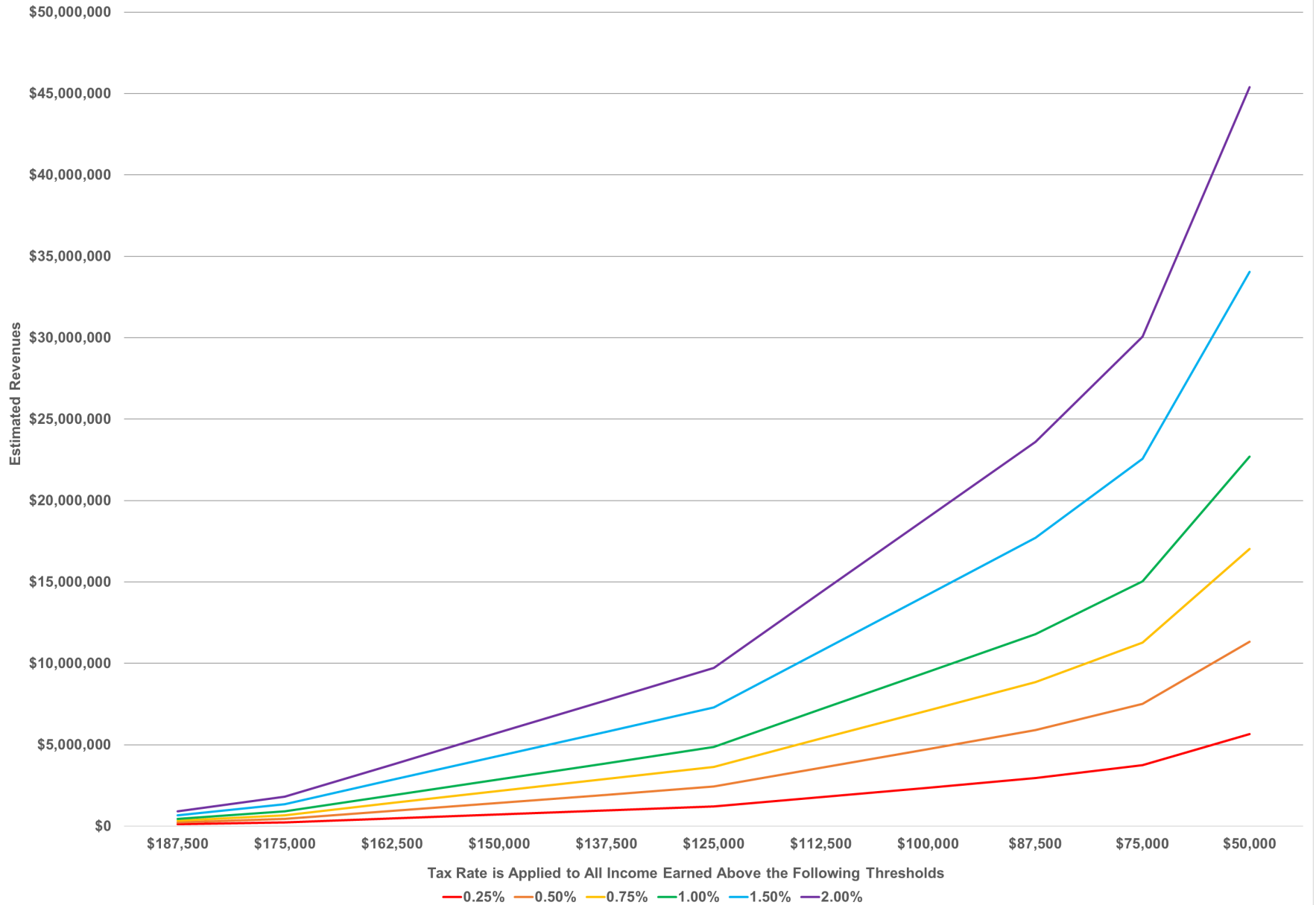
Tax Model Limitations

All revenue models are, by definition, simplified ways of understanding complex phenomena. By necessity, a model requires the use the best data that is available to us, even if it is limited. The best public data on income distributions in Salem comes from the American Community Survey. However, this does mean that the model has important limitations that should be considered:

- This model assumes that all households within most of the income brackets represented above earn at the midpoint of each of these brackets. Because it has no upper end, however, households earning \$200,000 or more are assumed to earn exactly \$200,000. We do not have more specific information on household income distribution in Salem.
- The "households" that the census bureau reports in this data may be different from the households that would be subject to the tax. This would depend on legal and implementation considerations. Households may also choose to move to avoid the tax.
- Importantly, current revenue projections do not include any offsetting costs to collect the tax. These costs are still unknown.

Taxes all Household Income Above:	Tax Rate:							
	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
\$0	\$11,412,455	\$22,824,911	\$34,237,366	\$45,649,822	\$57,062,277	\$68,474,732	\$79,887,188	\$91,299,643
\$25,000	\$8,213,947	\$16,427,893	\$24,641,840	\$32,855,786	\$41,069,733	\$49,283,679	\$57,497,626	\$65,711,572
\$50,000	\$5,673,611	\$11,347,222	\$17,020,833	\$22,694,444	\$28,368,054	\$34,041,665	\$39,715,276	\$45,388,887
\$75,000	\$3,759,518	\$7,519,037	\$11,278,555	\$15,038,073	\$18,797,591	\$22,557,110	\$26,316,628	\$30,076,146
\$87,500	\$2,950,964	\$5,901,929	\$8,852,893	\$11,803,857	\$14,754,822	\$17,705,786	\$20,656,750	\$23,607,715
\$100,000	\$2,372,445	\$4,744,890	\$7,117,335	\$9,489,779	\$11,862,224	\$14,234,669	\$16,607,114	\$18,979,559
\$112,500	\$1,793,925	\$3,587,851	\$5,381,776	\$7,175,702	\$8,969,627	\$10,763,552	\$12,557,478	\$14,351,403
\$125,000	\$1,215,406	\$2,430,812	\$3,646,218	\$4,861,624	\$6,077,030	\$7,292,435	\$8,507,841	\$9,723,247
\$137,500	\$968,205	\$1,936,409	\$2,904,614	\$3,872,819	\$4,841,024	\$5,809,228	\$6,777,433	\$7,745,638
\$150,000	\$721,004	\$1,442,007	\$2,163,011	\$2,884,014	\$3,605,018	\$4,326,021	\$5,047,025	\$5,768,028
\$162,500	\$473,802	\$947,605	\$1,421,407	\$1,895,209	\$2,369,012	\$2,842,814	\$3,316,616	\$3,790,418
\$175,000	\$226,601	\$453,202	\$679,803	\$906,404	\$1,133,006	\$1,359,607	\$1,586,208	\$1,812,809
\$187,500	\$113,301	\$226,601	\$339,902	\$453,202	\$566,503	\$679,803	\$793,104	\$906,404

Personal Income Tax Model
Based on Household Income, 20% of modeled tax uncollectible



Four Structural Scenarios for Salem Income Tax

In addition to the revenue modeling performed by Moss Adams and the City, members of the Revenue Task Force developed the following potential scenarios based on 2021 Oregon Income Tax Data.

#1: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	.5%	.75%	1.00%	2.00%

Estimated tax: \$25.9M

#2: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	1.00%	1.50%	2.00%	3.00%

Estimated tax: \$43.2M

#3: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.50%	1.00%	2.00%	3.00%	4.00%

Estimated tax: \$58.3M

#4: Tax exemption level: \$40K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-40K	\$40-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	1.50%	2.50%	3.50%	5.00%

Estimated tax: \$73.7M

APPENDIX D: COMMUNITY ENGAGEMENT SUMMARY

This Appendix provides a summary of the community engagement efforts undertaken by the City to inform Revenue Task Force's deliberations.

The community engagement process underscores the City's commitment to inclusive governance and transparent decision-making. By incorporating resident perspectives into the Revenue Task Force's deliberations, the city aims to ensure that proposed revenue options align with community priorities and effectively support the delivery of essential services. Ongoing collaboration with residents will remain a cornerstone of the city's efforts to address fiscal challenges and sustainably fund critical services.

In addition, the community is invited to submit input via a dedicated email (revenue@cityofsalem.net), or provide public comment during any of the Council, Task Force, or Budget Committee meetings.

A. COMMUNITY OUTREACH OVERVIEW

Focus Groups per Ward

Focus groups were conducted virtually for each ward of Salem to gather localized perspectives on financial priorities and service needs. All community members who expressed interest in participating in a focus group were invited to ensure representation from various neighborhoods. Discussions centered around residents' perceptions of current city services, areas needing improvement, and preferences regarding revenue generation for sustaining essential services.

Townhall Meetings

Three town hall meetings were organized—one virtual and two in person—to provide platforms for direct engagement and dialogue with community members. The meetings facilitated open discussions on revenue options, city service priorities, and community concerns related to budget sustainability.

Statistically Representative Community Survey

A city-wide survey was administered using statistically valid sampling methods to ensure representation across demographics. The survey solicited feedback on residents' priorities for city services, satisfaction levels with existing services, and preferences regarding potential revenue sources or fee adjustments to support these services.

B. COMMUNITY OUTREACH RESULTS

Focus Group Insights

The following focus group results were presented to the Revenue Task Force in March, and can also be viewed online in the [Revenue Task Force Meeting 3 Presentation](#).

Role of Focus Groups

A focus group is a research method used to gather qualitative data about a specific topic or issue to help inform future work.

Unlike a public meeting, it is not typically open to the general public because it is designed to gather nuanced and detailed feedback on specific topics.

Focus Group Recruitment

- Outreach to participate in a focus group took place between January 23rd and February 12th.
- 101 community members submitted their interest and were invited to attend their ward's focus group.
- Focus groups with each Ward were held between February 26th and March 7th.

Focus Group Objectives

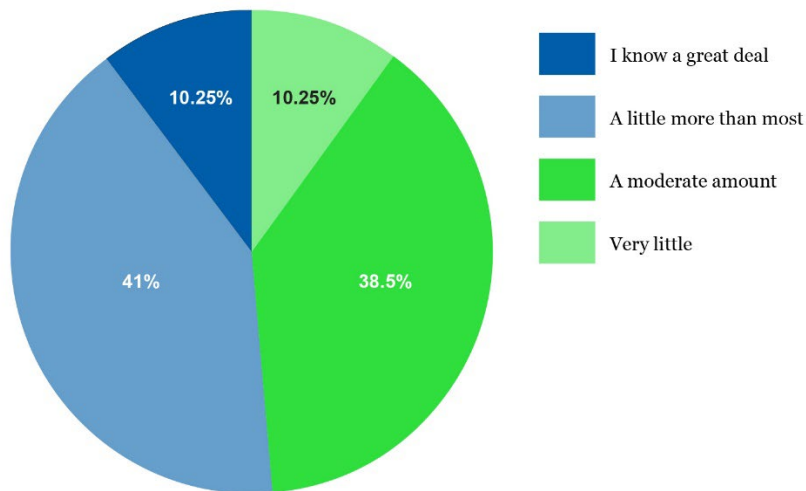
- Learn about people's current understanding of Salem's revenue standing
- Understand the community's priorities and values around services provided by the city
- Assess the community's priorities for various funding scenarios
- Capture people's reactions to various revenue-generating options

Takeaways: Transparency is the Unifying Theme

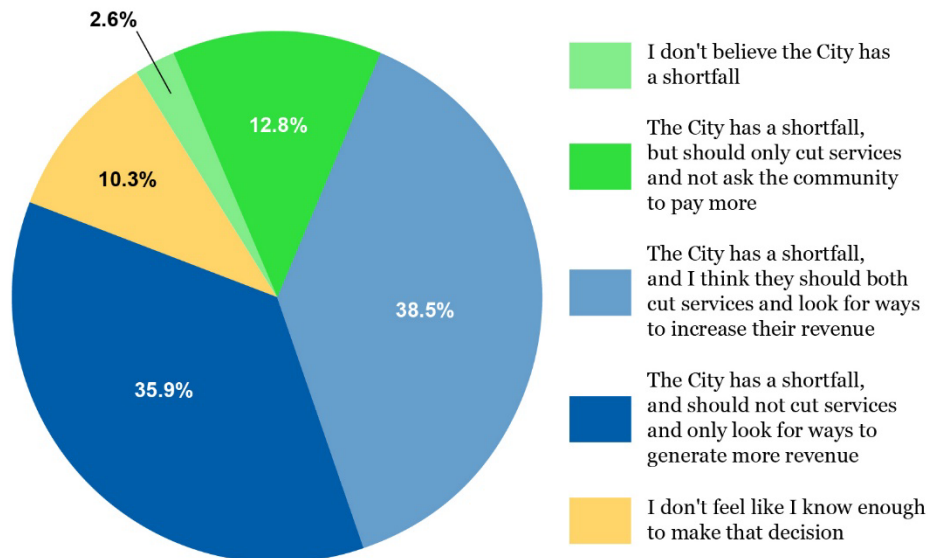
- **Strong desire for more transparent and accessible information on where Salem gets its revenue and how money is spent**
- The community is interested in clearer:
 - Demonstrations of trade-offs in the current budget conversation
 - Information about the source, or reason, for the current budget shortfall
 - Information regarding what the state, county, and city pay
 - Communications from the city regarding Salem's unique struggle with institutional property burden (heavy presence of non-property tax paying institutions)
 - The essential question: if you raise money, how will you spend it?
- Some respondents noted that they voted against the payroll tax not because they didn't believe revenue was needed, but because they did not like the approach
- Separating revenue from the budget reductions is challenging!
- Safety conversations were nuanced; police and fire are obvious core services to fund, but understanding what makes people feel safe was broad; vibrant parks, thriving businesses, and safe places to walk and ride bikes also contribute to safety perceptions
- Concerns that infrastructure is not keeping pace with growth
- Parks are valued and appreciated; people want them well maintained; some would like to see more diverse parks and recreation offerings, like pools and other indoor opportunities
- Library also valued. Recent reductions to operating hours was disappointing and limiting hours is making it more difficult for community members to access the Library
- Separating revenue from the budget reductions is challenging!
- Safety conversations were nuanced; police and fire are obvious core services to fund, but understanding what makes people feel safe was broad; vibrant parks, thriving businesses, and safe places to walk and ride bikes also contribute to safety perceptions
- Concerns that infrastructure is not keeping pace with growth

- Parks are valued and appreciated; people want them well maintained; some would like to see more diverse parks and recreation offerings, like pools and other indoor opportunities
- Library also valued. Recent reductions to operating hours was disappointing and limiting hours is making it more difficult for community members to access the Library

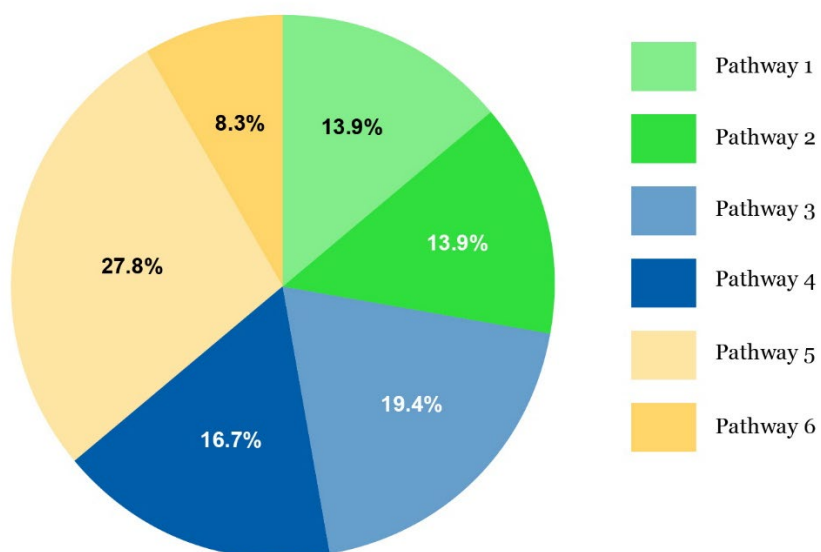
Polling Question 1: From the following, choose the option that most closely reflects your current level of understanding about the state of the City's revenue.



Polling Question 2: From the following, choose the option that you feel most aligns with your outlook on the state of the City's revenue.



Polling Question 3: The following are the six pathways that include all possible combinations of hitting revenue targets. Select the pathway that you would like the City to pursue.



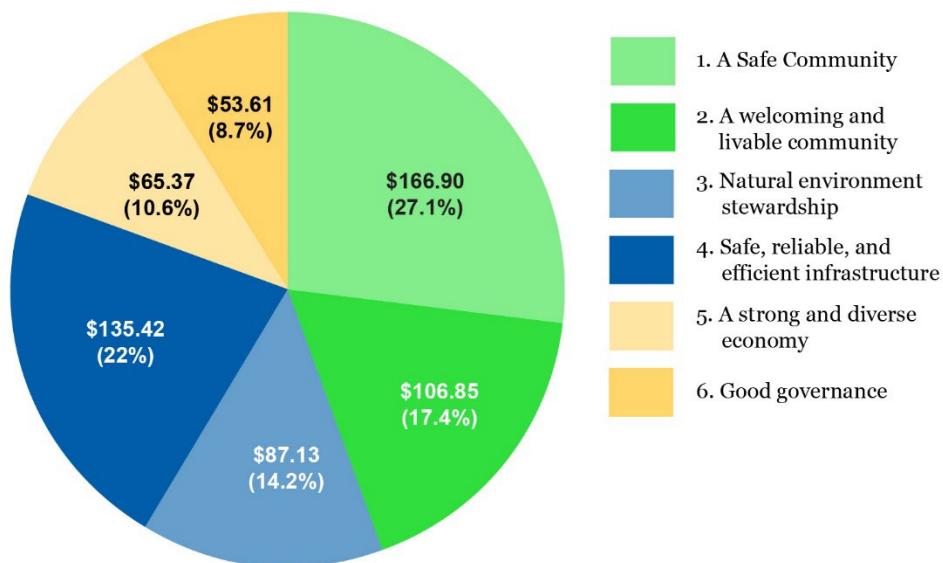
Pathway 6 is the option to explore what it might cost to enhance certain services.

Polling Question 4: The following set of criteria has been developed to help evaluate different revenue options. Please rank each of the criteria according to your opinion of its importance (3=highly important, 1=not at all important).

Criteria	Rank
1. Sustainability	2.4
2. Equity	2.0
3. Estimated revenue potential	1.8
4. Impact on local economy	1.7
5. Impact on environment	1.7

6. Legal viability	1.6
7. Impact timeline	1.5
8. Level of administrative effort	1.4
9. Use in peer cities	1.4

Polling Question 5: How would you invest \$600 across the City's six strategic goals?



Community Survey Results

DHM Research conducted a community survey in April 2024. The results below can also be found online at [City of Salem Funding Survey](#).

Research Purpose

- Assess the community's current understanding of Salem's revenue standing
- Understand residents' priorities around funding city services
- Provide an opportunity for Salem residents to share their preferences for various funding mechanisms and scenarios being considered by the Revenue Task Force

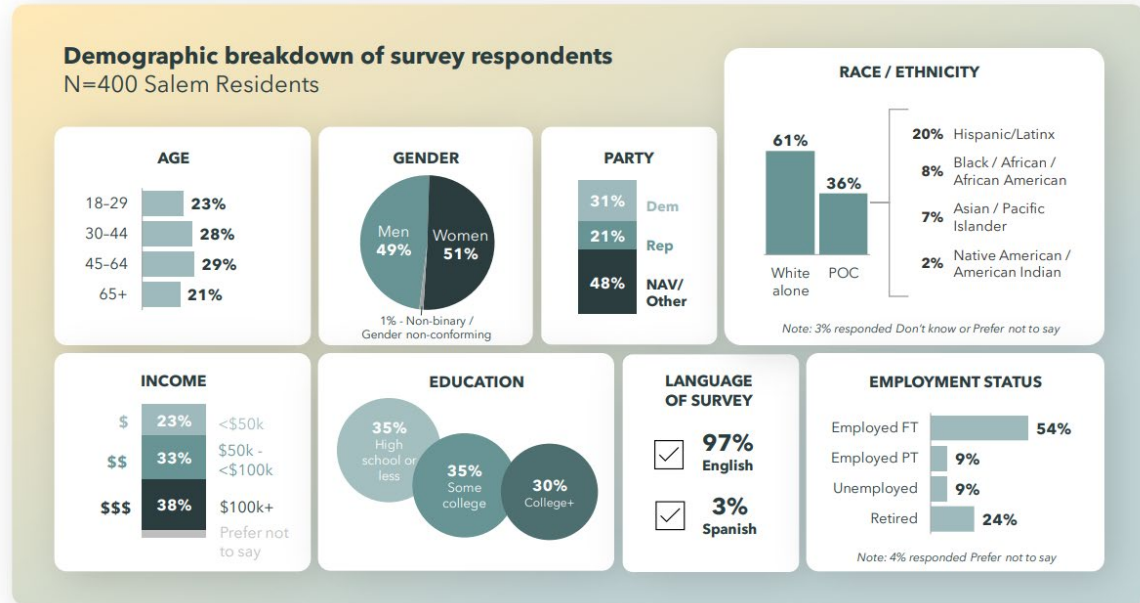
Methodology

- Hybrid phone and text-to-online survey of N=400 residents of the City of Salem
- Conducted April 1–7, 2024; 16 minutes to complete
- Quotas were set by age, gender, race, education, party, and area of city to match Salem's adult population.
- The survey was offered in English and Spanish
- Margin of error $\pm 4.9\%$
- Due to rounding, some totals may differ by ± 1 from the sum of separate responses.

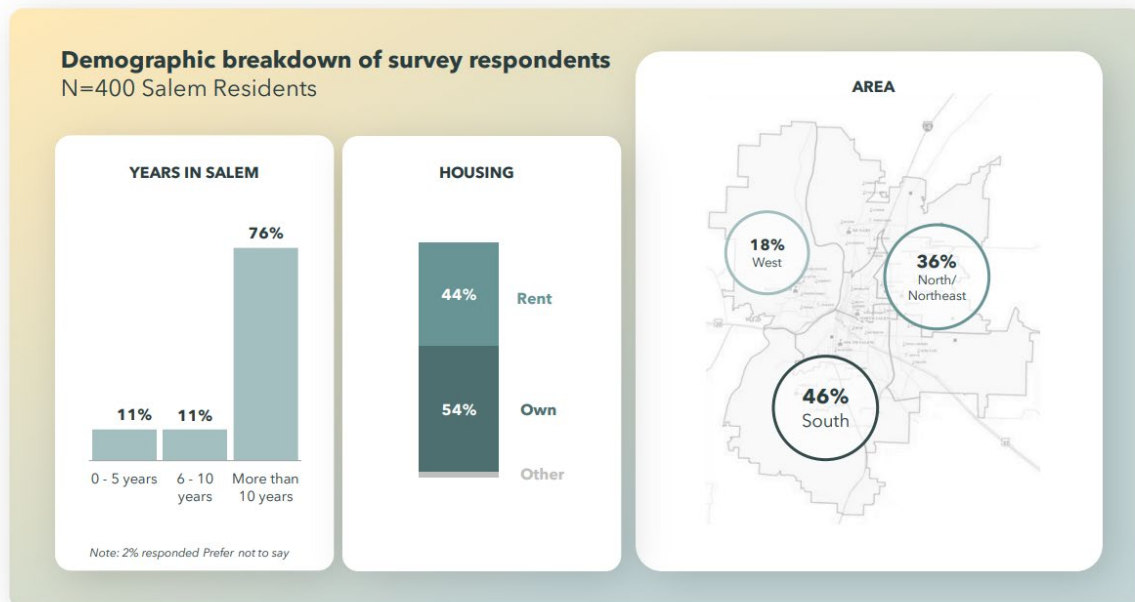
Key Takeaways

- **Community Mood:** Just over half of residents are satisfied with their quality of life in Salem. 2 in 3 rate their current financial situation as good, though under half rate the city's economic conditions as good.
- **Service values and priorities:** Satisfaction with the value of services from the General Fund for the cost of taxes and fees paid is rebounding from a 2020 drop, with just below half currently satisfied. Fire and police are the top items that people would pay more for, followed by parks and libraries, which mostly follows the order of satisfaction with services.
 - Those who are more satisfied with their personal finances and quality of life and perceive the city finances as good are more likely to say they would pay more across all services tested.
- **Funding criteria and values:** Salem residents rate a lack of impact on the local economy as the most important decision criterion. About 50-60% of residents rate the other criteria as important, but none as strong as the top item. They prefer to rely on taxes paid by businesses and those who use specific items and services over individuals or having everyone pay. Their strongest preference is for progressive over regressive taxes and fees.
- **Funding mechanisms:** Residents rate user fees and business taxes as the best ways for the city to raise revenue and the first priorities for the city to move forward with over other funding mechanisms. Support for payment in lieu of taxes funding is high, with just over half strongly supportive.

Demographics



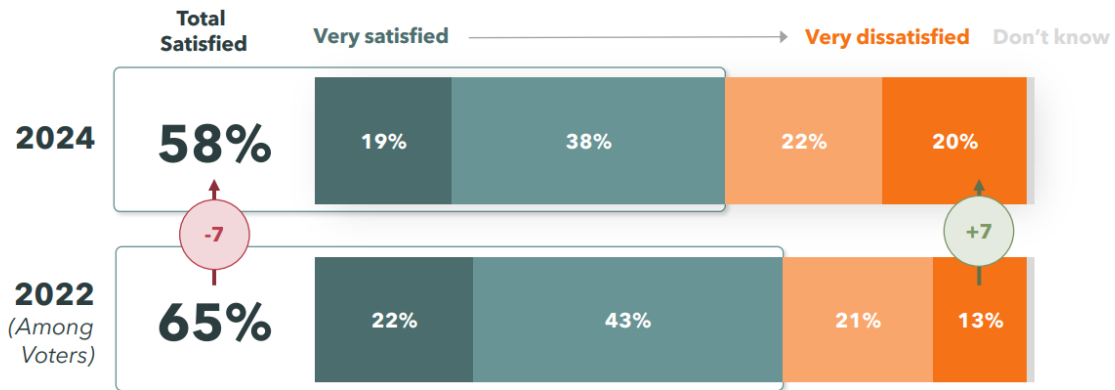
6 DHM Research | City of Salem Funding Survey | April 2024



7 DHM Research | City of Salem Funding Survey | April 2024

Community Mood

Residents are overall satisfied with their quality of life in Salem, though this has declined since 2022.

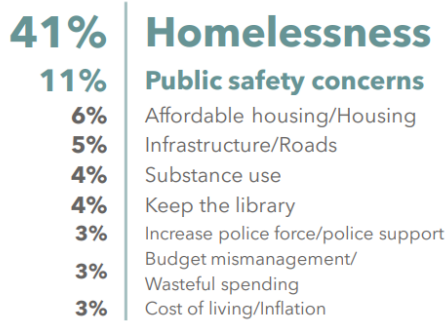


9 DHM Research | City of Salem Funding Survey | April 2024

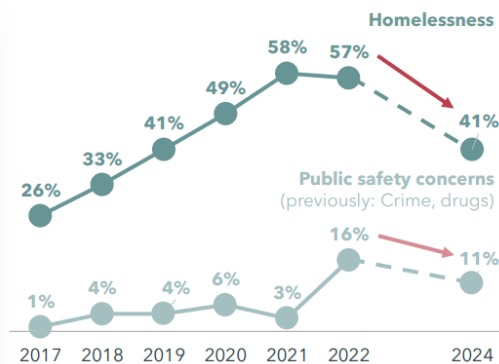
2022 data from City of Salem Survey conducted by DHM

Homelessness is the most important issue that residents would like the city to do something about. Top concerns are down from a peak in 2022.

“What is the biggest issue you'd like the city to do something about?”



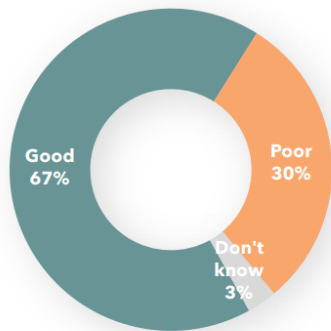
Top Responses Over Time



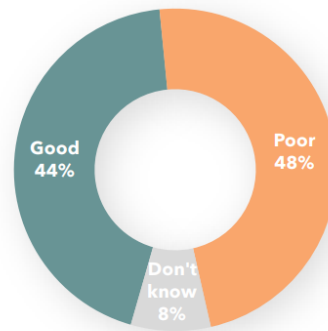
10 DHM Research | City of Salem Funding Survey | April 2024

Showing coded open-ended responses. 2017-2022 data from the annual City of Salem Community Satisfaction Survey conducted by DHM

About 2 in 3 residents rate their own financial situation as good, whereas only about 2 in 5 rate Salem's economic conditions as good.



How would you rate **your** current financial situation?

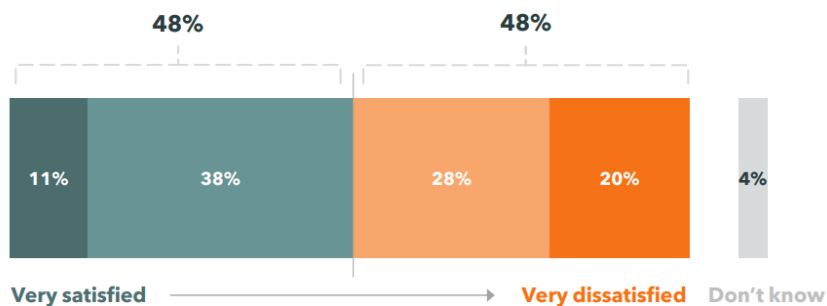


How would you rate the **City of Salem's** current economic conditions?

11 DHM Research | City of Salem Funding Survey | April 2024

Service Values and Priorities

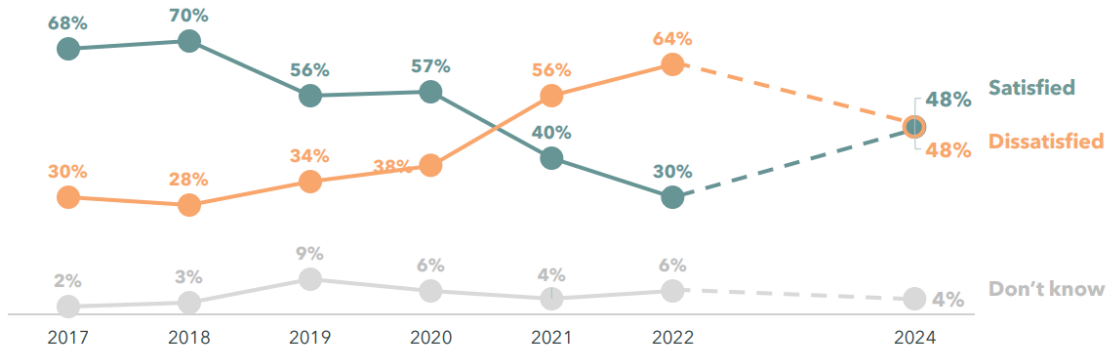
When it comes to the value of city services, resident satisfaction is equally split.



13 DHM Research | City of Salem Funding Survey | April 2024

Satisfaction with value of city services for cost is rebounding from the drop after 2020.

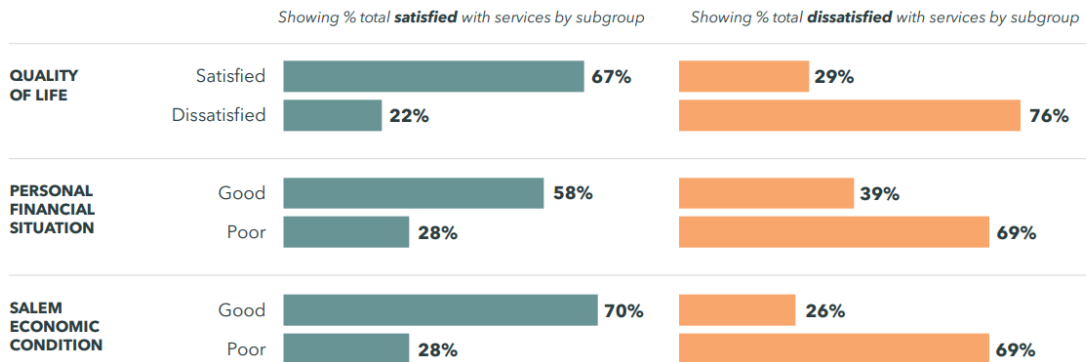
Satisfaction with Value of Services for Taxes/Fees Paid in Salem



15 DHM Research | City of Salem Funding Survey | April 2024

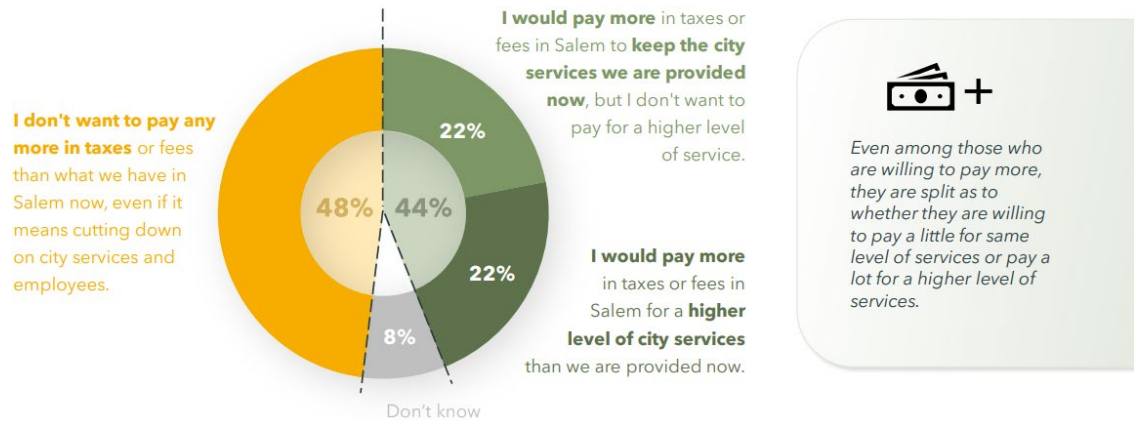
2017-2022 data from the annual City of Salem Community Satisfaction Survey conducted by DHM

Satisfaction with city service value is driven by perception of quality of life, personal financial situation, and city economic conditions.



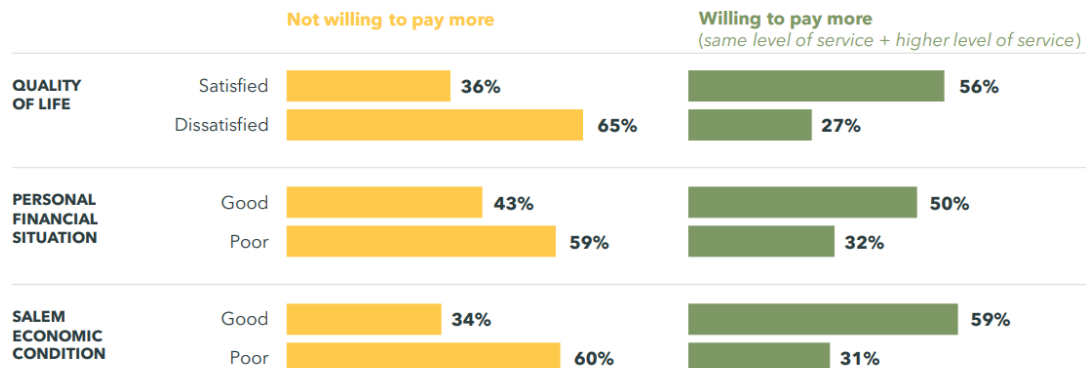
14 DHM Research | City of Salem Funding Survey | April 2024

Residents are nearly split as to whether they are willing to pay more in taxes to support services.



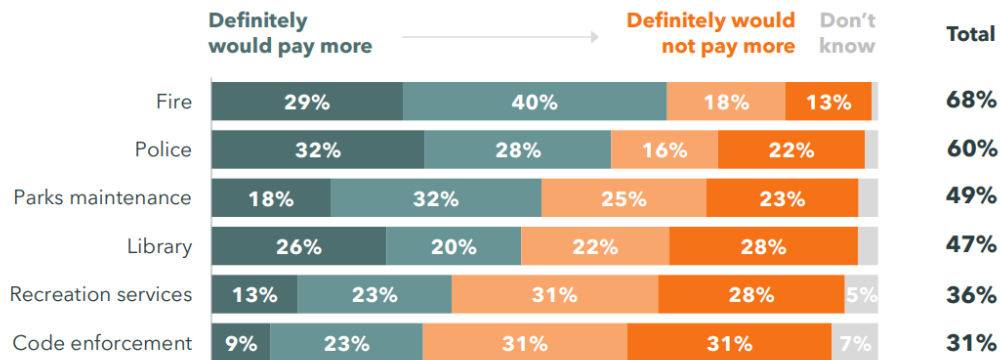
16 DHM Research | City of Salem Funding Survey | April 2024

Again, these sentiments are driven by quality of life, financial situation, and perception of city economic conditions; those who feel good in these areas are willing to pay more.



17 DHM Research | City of Salem Funding Survey | April 2024

When asked about specific services, residents are more willing to pay more for fire and police than other general fund services.



18 DHM Research | City of Salem Funding Survey | April 2024

Those who have a more positive outlook are more willing to pay for any service.

Response category	QUALITY OF LIFE		CITY ECONOMIC CONDITIONS		FINANCIAL SITUATION	
	Satisfied	Dissatisfied	Good	Poor	Good	Poor
Fire	78%	55%	78%	57%	72%	57%
Police	65%	52%	68%	51%	65%	45%
Parks maintenance	60%	35%	60%	40%	53%	37%
Library	61%	29%	60%	35%	53%	32%
Recreation services	46%	22%	47%	28%	41%	21%
Code enforcement	39%	22%	38%	25%	37%	20%

% = statistically significant difference

19 DHM Research | City of Salem Funding Survey | April 2024

However, even amongst those with negative outlooks, many are still willing to pay more for fire and police.

	QUALITY OF LIFE		CITY ECONOMIC CONDITIONS		FINANCIAL SITUATION	
Response category	Satisfied	Dissatisfied	Good	Poor	Good	Poor
Fire	78%	55%	78%	57%	72%	57%
Police	65%	52%	68%	51%	65%	45%
Parks maintenance	60%	35%	60%	40%	53%	37%
Library	61%	29%	60%	35%	53%	32%
Recreation services	46%	22%	47%	28%	41%	21%
Code enforcement	39%	22%	38%	25%	37%	20%

% = statistically significant difference

20 DHM Research | City of Salem Funding Survey | April 2024

Most are willing to pay more for fire and police across key demographic groups.

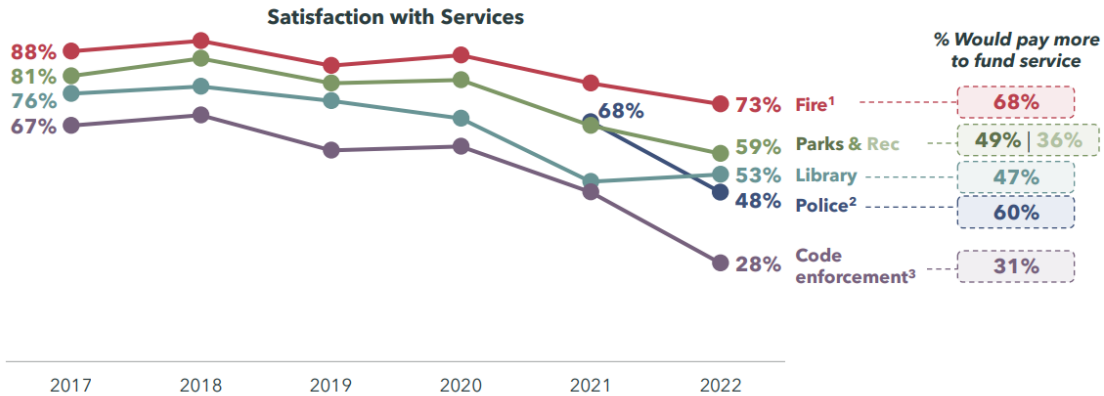
% Would pay more for service by demographic group

	Age				Gender		Race/ Ethnicity		Party			Income			Area			Home Ownership	
	18-29	30-44	45-64	65+	Men	Women	White	POC	Dem	Rep	NAV/ Other	<\$50K	\$50K-\$100K	\$100K+	West	North/ NE	South	Rent	Own
Fire Total: 68%	74%	65%	68%	68%	68%	69%	66%	74%	83%	62%	62%	72%	71%	66%	67%	65%	72%	70%	68%
Police Total: 60%	42%	63%	66%	67%	60%	60%	63%	56%	54%	65%	61%	59%	63%	58%	49%	57%	66%	56%	63%

% = statistically significant difference

21 DHM Research | City of Salem Funding Survey | April 2024

Though satisfaction with services has dropped since 2020, willingness to pay for specific services tends to align with strength of satisfaction, except for police.



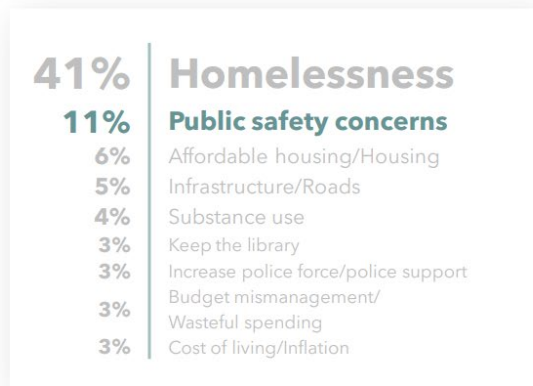
¹2017-2022 results for "Police, fire, ambulance, and 911 service"

²2022 result for "Law enforcement and public safety"

³2017-2020 results for "Enforcement of city codes for issues such as noise, yard upkeep, and other nuisances"

22 DHM Research | City of Salem Funding Survey | April 2024

Even though satisfaction has dropped in these areas, people recognize the importance of fire and police, citing public safety concerns as one of the top issues currently facing the community.



” As discussed in the focus groups:

I'm an older person. So obviously, I **prioritize things like police and fire**. I've got to have quick ambulance service... and if I need help, I need to have the police be able to respond.

-Ward 5&6

Yeah, I love the parks and the facilities that we have available in the City. What really is exceedingly frustrating, though, is that there are a large number of parks our family doesn't feel comfortable or safe using **because of the homeless presence and lack of policing there**.

-Ward 8

Those would be the last things that I would want to cut - **safety related and infrastructure related**. And I still want to have nice parks, and you know the rest of it. But if we get down to making choices, those would be my priorities.

-Ward 7

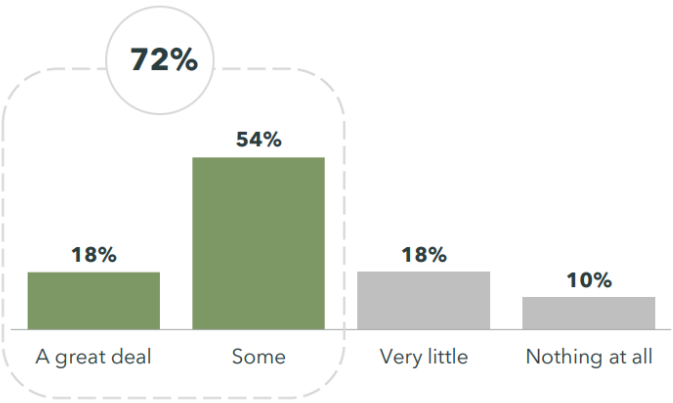
23 DHM Research | City of Salem Funding Survey | April 2024

Quotes from City of Salem Focus Groups conducted by Moss Adams, March 2024

Funding Criteria and Values

Nearly 3 in 4 residents feel they had at least some knowledge of the city’s financial situation prior to the survey.

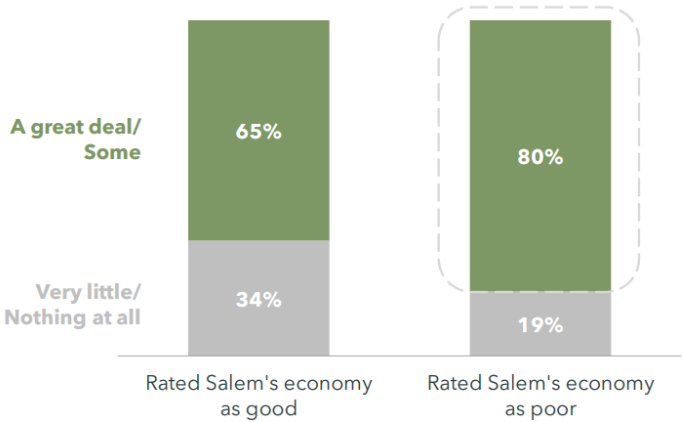
Before today, how much did you know about the city’s financial situation?



25 DHM Research | City of Salem Funding Survey | April 2024

Those who rated the city’s financial situation as poor report higher levels of knowledge about it.

Before today, how much did you know about the city’s financial situation?



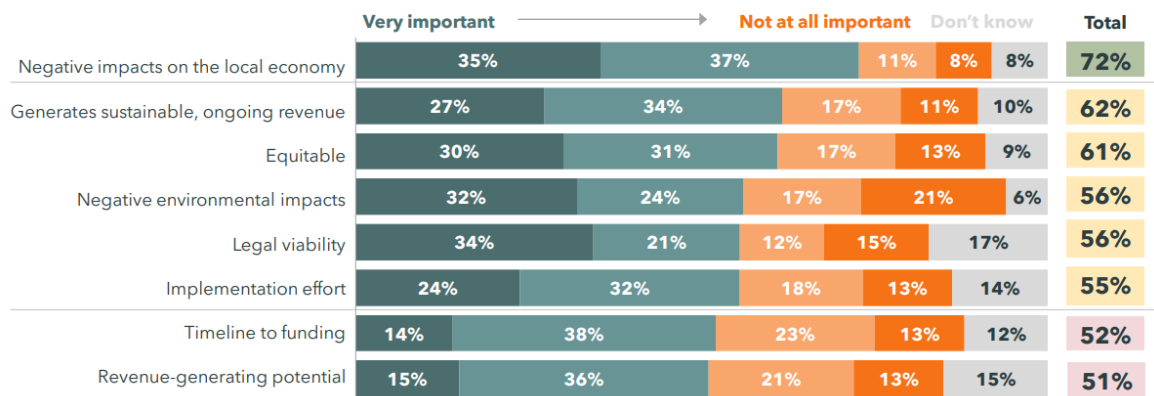
26 DHM Research | City of Salem Funding Survey | April 2024

Decision Criteria Tested

Legal viability. The city should have current legal authority to pursue the option.
Generates sustainable, ongoing revenue. Revenue options with one-time or low estimated revenue potential are lower priorities.
Equitable. Revenue options with higher impacts on lower-income earners are considered less desirable.
Negative environmental impacts. Revenue options with negative environmental impacts are less desirable.
Negative impacts on the local economy. Revenue options that may impact business in Salem are less desirable.
Implementation effort. Revenue options with high estimated administrative effort are less desirable.
Revenue-generating potential. Options that generate lower levels of revenue either one-time, or on an annual basis are considered less desirable.
Timeline to funding. Revenue options will be evaluated based on how soon funds could flow into the city. Options with longer timelines are less desirable.

27 DHM Research | City of Salem Funding Survey | April 2024

Negative impacts on the local economy are by far the most important decision criteria for residents. All other criteria are of average or below average importance.

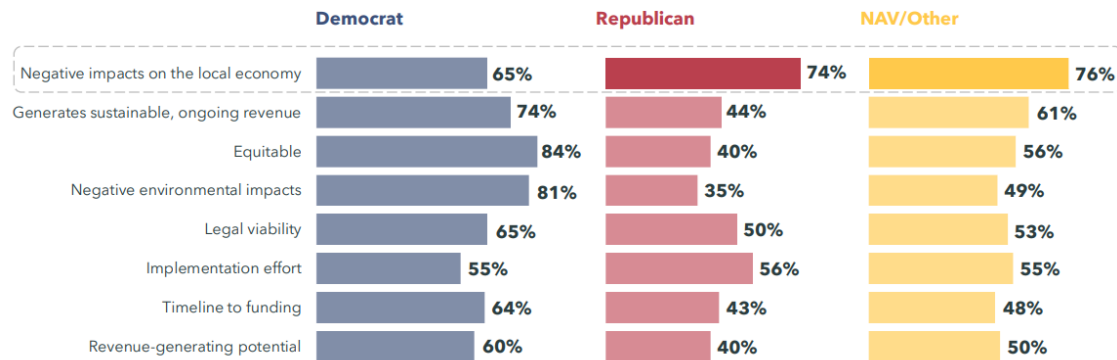


When compared to average importance:

- = Above average importance
- = Within average importance
- = Below average importance

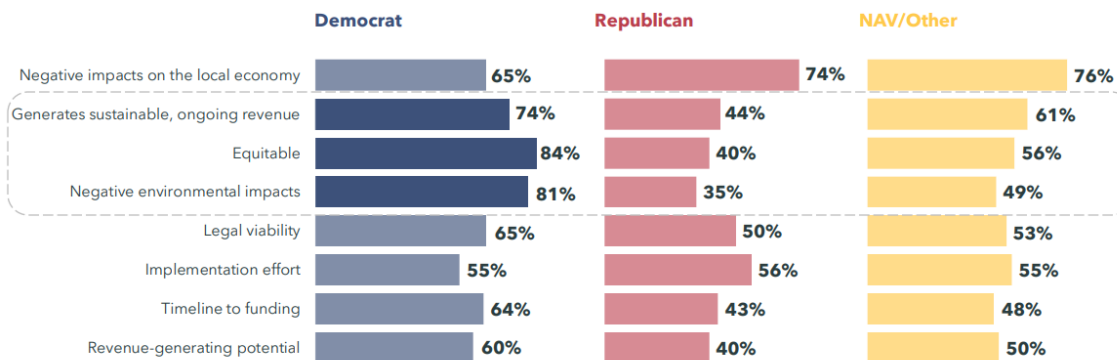
28 DHM Research | City of Salem Funding Survey | April 2024

Republicans and non-affiliated voters feel that negative impacts to the local economy is the most important criteria.



29 DHM Research | City of Salem Funding Survey | April 2024

Democrats feel that revenue sustainability, equity, and negative environmental impacts are most important.



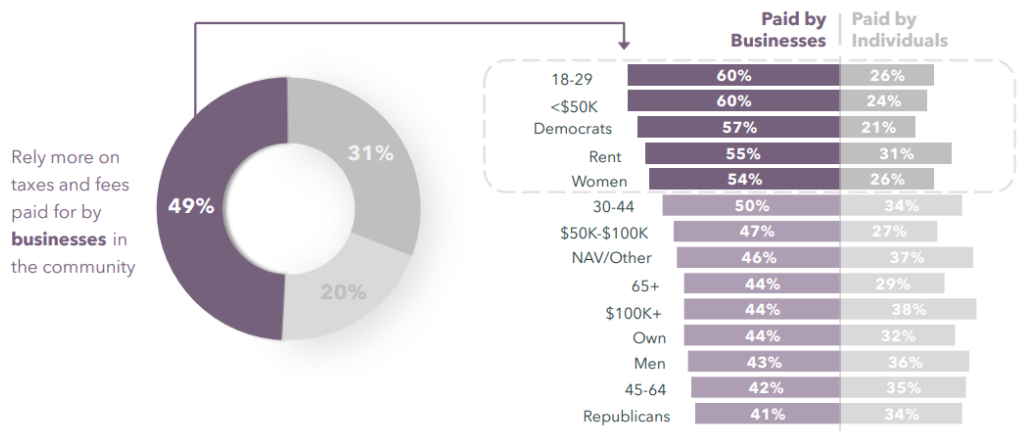
30 DHM Research | City of Salem Funding Survey | April 2024

When asked about general revenue options, a plurality prefer taxes and fees be paid for by either businesses or the people who buy and uses the services.



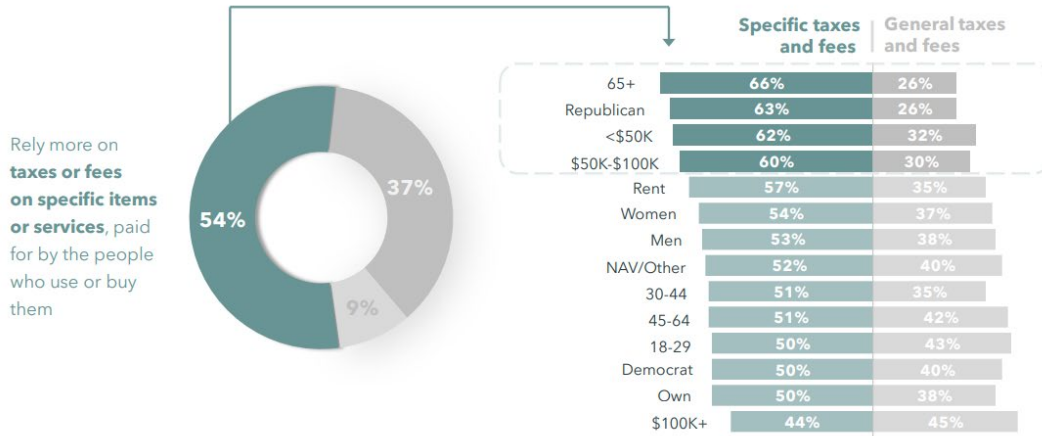
31 DHM Research | City of Salem Funding Survey | April 2024

All groups prefer taxes and fees be paid by businesses, particularly younger people, low-income people, Democrats, renters, and women.



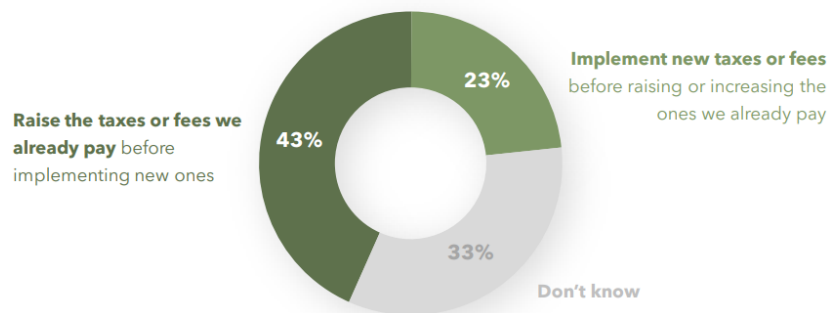
32 DHM Research | City of Salem Funding Survey | April 2024

Most groups report a preference for taxes and fees on specific items or services. This is strongest amongst those ages 65 or older, Republicans, and those with low to middle income.



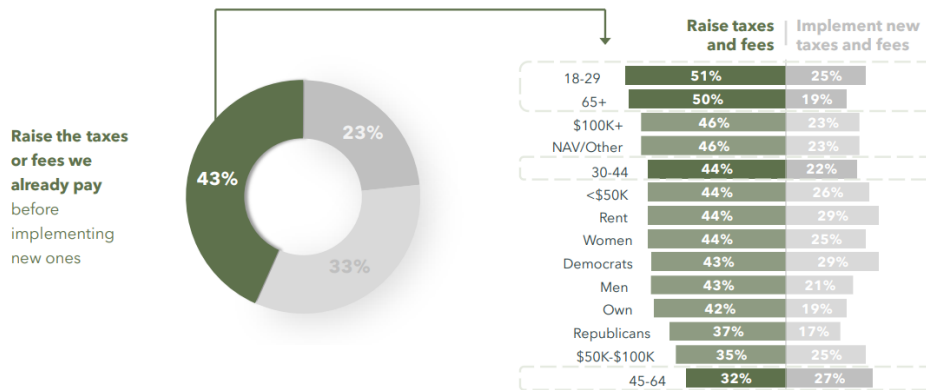
33 DHM Research | City of Salem Funding Survey | April 2024

A plurality prefer raising current taxes and fees over implementing new ones, though 1 in 3 remain unsure of their preference on this topic.



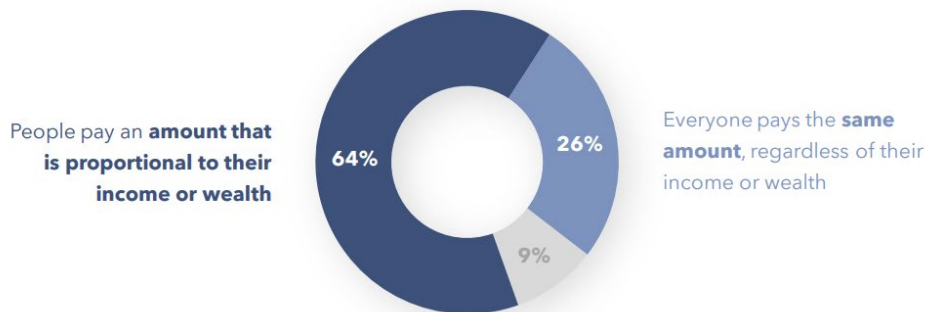
34 DHM Research | City of Salem Funding Survey | April 2024

Of the two choices, all groups show a slight preference for raising current taxes and fees, though strength of this opinion varies most by age.



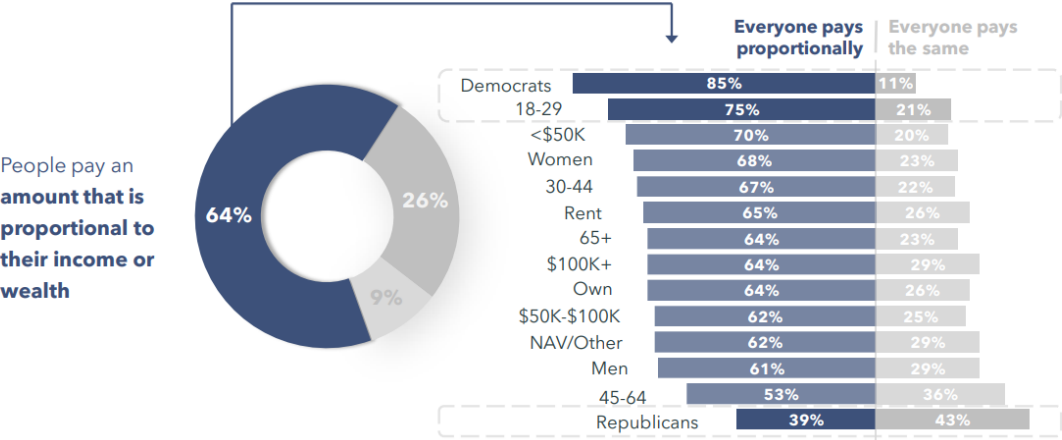
35 DHM Research | City of Salem Funding Survey | April 2024

Out of all values tested, Salem residents feel most strongly that people pay an amount that is proportional to their income or wealth.



36 DHM Research | City of Salem Funding Survey | April 2024

Nearly all key groups strongly favor proportional payments, particularly Democrats and ages 18-29. Republicans are the only group who are split.



37 DHM Research | City of Salem Funding Survey | April 2024

Some residents have even voted no on recent taxes because of perceived unfairness in proportionality.

As discussed in the focus groups:

I'm definitely not opposed to paying more tax and increasing the revenue in order to have a have a great City to live in. Not long ago, I was having a conversation with somebody else who's retired and is very engaged in the City. **She voted against the payroll tax like me,** not because we're opposed to revenue, [but because it would] make it **solely unfair** because we're retired. I wouldn't pay anything, and **I'm willing to pay more. I don't want to burden working people with with the whole cost of the increased revenue.** There needs to be a better solution to this.

-Ward 7

So, if they're going to go in that direction, they need to look at the equity part of it. The reason why **I objected to the business tax was that it was totally unfair for people who are two-income families.** They were going to pay a fee on top of a tax and pay that tax twice. So, it was like a \$2,000 hit on one family, and that's totally wrong. Yes, I'm on a fixed income, but if you wanted to raise my taxes, you know, a little bit - \$20, \$40, \$50 a month - it's not going to change my lifestyle any.

-Ward 5&6

38 DHM Research | City of Salem Funding Survey | April 2024

Quotes from City of Salem Focus Groups conducted by Moss Adams, March 2024

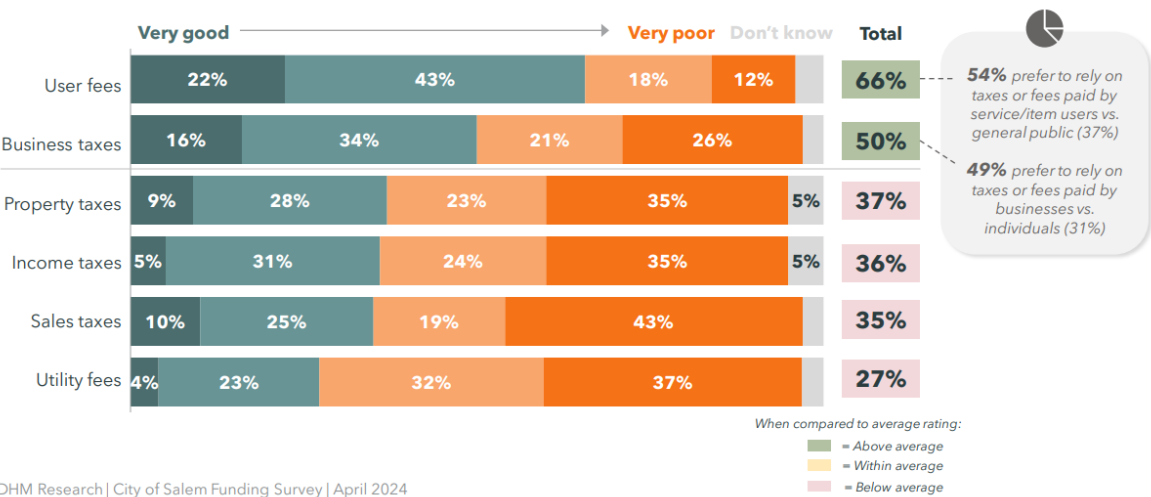
Funding Mechanisms

Funding Mechanisms Tested

Property taxes , such as increasing property taxes with a local option levy, taxes on new construction
Sales taxes , such as general sales tax, local gas tax, luxury items tax, taxes on food and beverages purchased at restaurants, increasing hospitality taxes, carbon tax
Business taxes , such as changing or increasing business license fees, taxes on local for-profit corporations, increase in parking taxes, taxes on a company's gross sales
Income taxes , such as employer-paid or jointly paid payroll tax, personal income tax
User fees , such as speeding or traffic violation fees, electric vehicle charging station installation fees, increasing or new fees for services used
Utility fees , such as an operations fee added to utility bills, increasing utility company fees to operate in the city

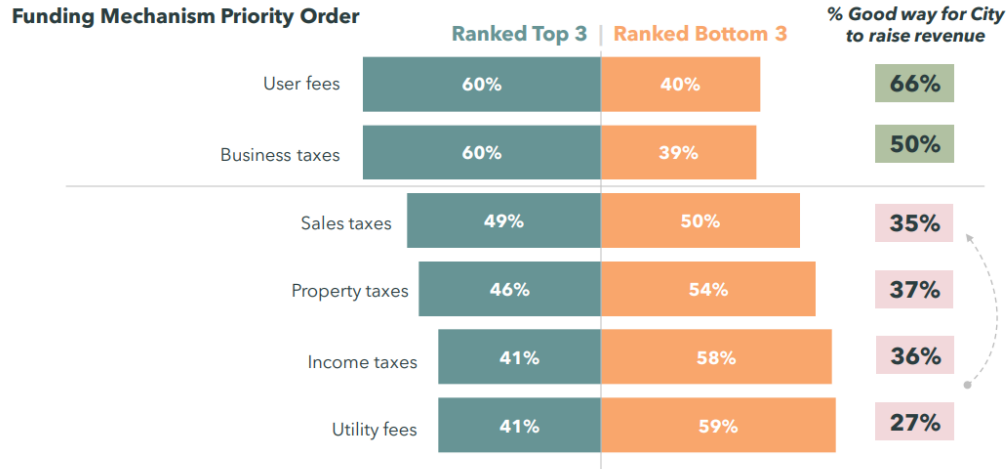
40 DHM Research | City of Salem Funding Survey | April 2024

Residents consider user fees and business taxes as the best ways for the City of Salem to raise revenue.



41 DHM Research | City of Salem Funding Survey | April 2024

User fees and business taxes are also residents' top priorities for implementation, with sales taxes rising in rank order above property and income taxes.



42 DHM Research | City of Salem Funding Survey | April 2024

The top funding mechanisms are fairly consistent across key demographics, though residents ages 18-44 are slightly more in favor of sales and property taxes.

Funding Mechanism Priority Order: % Ranked in top 3 by demographic group

	Age				Gender		Race/Ethnicity		Party			Income			Area			Home Ownership	
	18-29	30-44	45-64	65+	Men	Women	White	POC	Dem	Rep	NAV/Other	<\$50K	\$50K-\$100K	\$100K+	West	North/NE	South	Rent	Own
User fees Total: 60%	51%	62%	66%	60%	64%	56%	60%	60%	54%	75%	58%	52%	64%	63%	65%	60%	59%	60%	63%
Business taxes Total: 60%	63%	50%	66%	65%	56%	65%	58%	66%	61%	63%	60%	60%	57%	63%	57%	57%	65%	56%	65%
Sales taxes Total: 49%	53%	51%	45%	49%	48%	51%	48%	50%	53%	47%	48%	54%	55%	43%	57%	51%	46%	53%	46%
Property taxes Total: 46%	54%	46%	45%	39%	51%	42%	49%	42%	51%	38%	46%	52%	42%	45%	43%	44%	49%	52%	41%
Income taxes Total: 41%	38%	48%	36%	47%	43%	42%	42%	42%	41%	34%	46%	49%	38%	41%	25%	49%	43%	42%	41%
Utility fees Total: 41%	42%	43%	41%	39%	38%	45%	43%	39%	39%	44%	42%	33%	43%	46%	54%	39%	38%	36%	44%

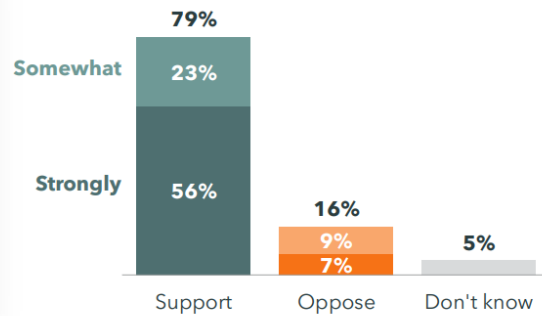
% = statistically significant difference

43 DHM Research | City of Salem Funding Survey | April 2024

About 8 in 10 Salem residents would support the City seeking PILOT funds, with over half displaying strong support.

PILOT Support Test

By state law, some entities, including Marion County, Oregon State, and U.S. federal property owners, do not pay property taxes on buildings in Salem that could fund city services. Would you support or oppose Salem City Council working to change this law, so that these government entities would pay to compensate for some of the cost of providing services to the City of Salem?



44 DHM Research | City of Salem Funding Survey | April 2024

Townhall Meeting Feedback

The following Townhall meeting results were presented to the Task Force in April, and can also be view online in the [Revenue Task Force Meeting 4 Presentation](#).

Three townhalls were offered in April.

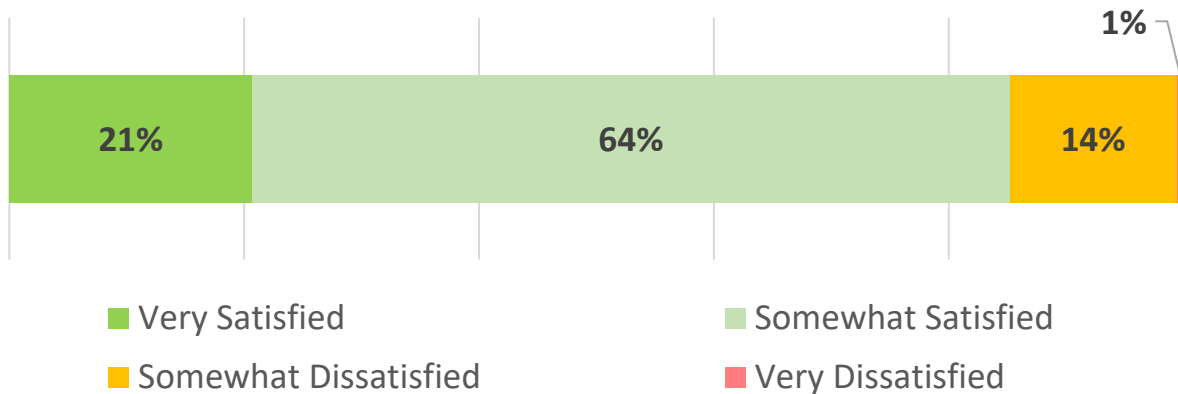
- April 10th & 23rd (in person)
- April 16th (virtual)

Overall, approximately 148 total individuals participated across all events.

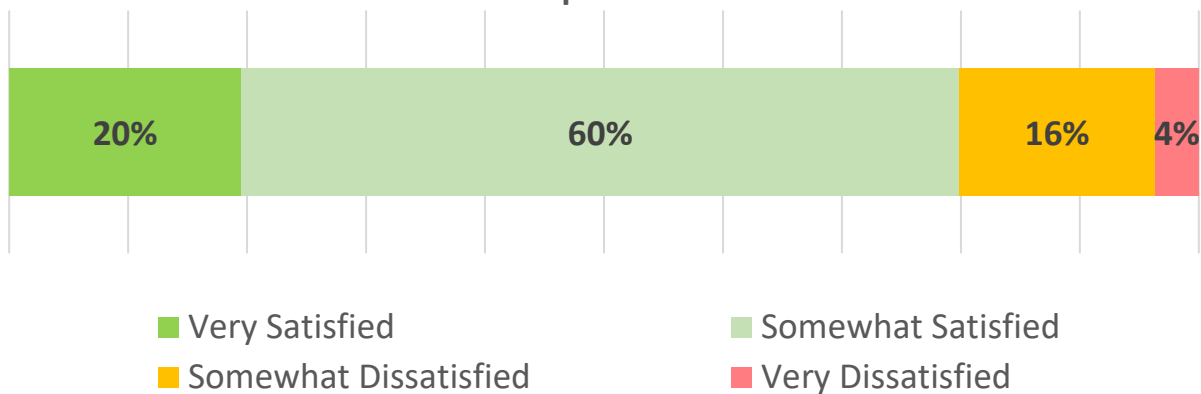
The purpose of hosting townhalls was to:

- **Share information** about the background, current state, and future work to address the revenue shortfall
- Ask for **community input** on potential revenue targets and options
- Provide space for community members to **ask questions and share feedback**.

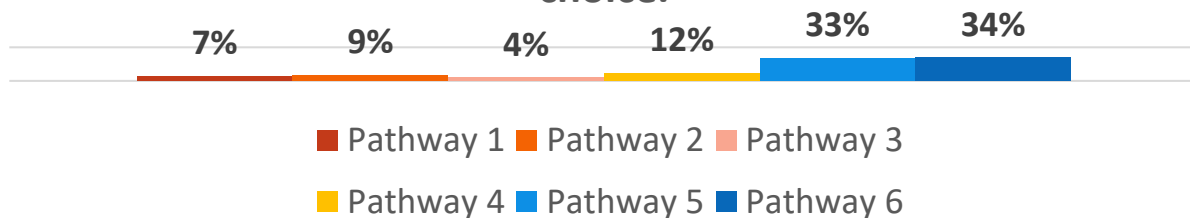
Overall, how satisfied are you with your quality of life in Salem?



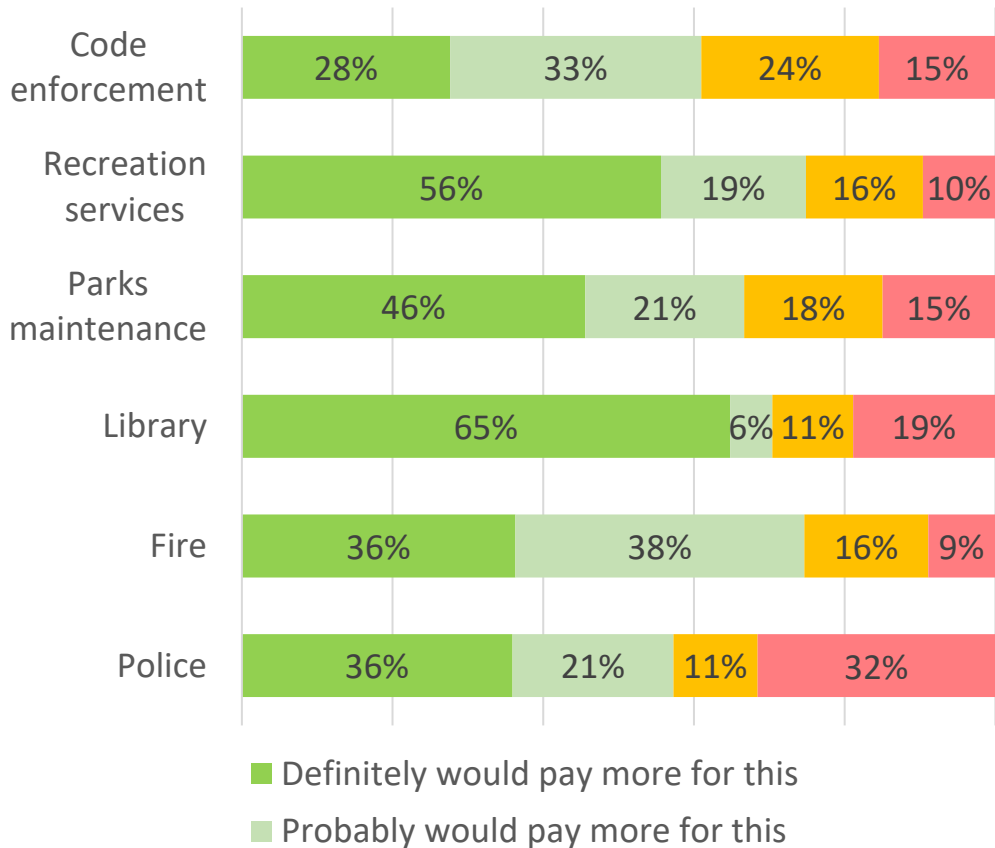
Overall, how satisfied are you with the value of City services provided through the General Fund for your taxes and fees paid?



Based on your understanding of the potential revenue targets, please vote for ONE of the pathways listed below that would be your preferred choice.

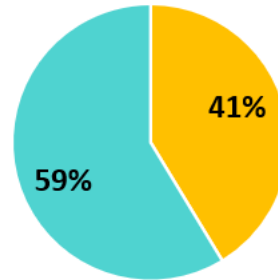
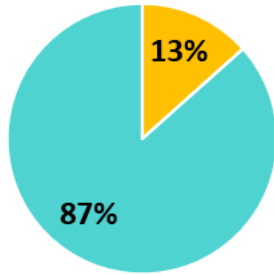


Thinking about each of the following services provided through the City's General Fund, would you be willing to pay more in taxes or fees if you knew it would fund these services?

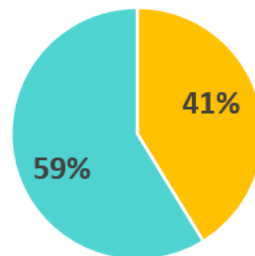
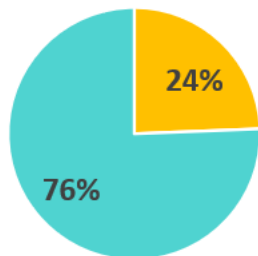


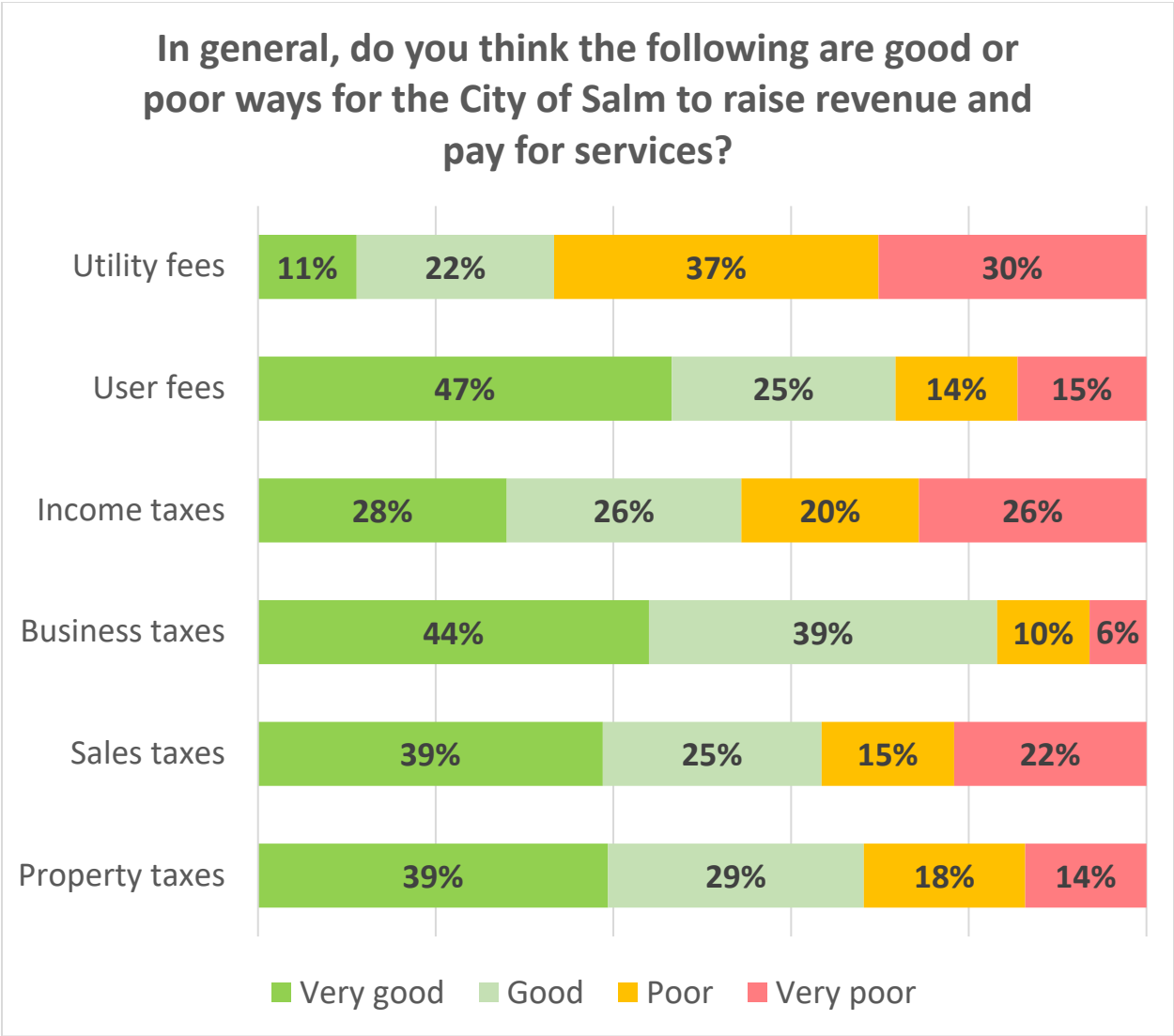
Which option would you prefer in the case of any new taxes or fees in the City of Salem today?

- Everyone pays the same amount, regardless of their income or wealth
- Rely more on general taxes or fees, paid for by everyone in the community
- People pay an amount that is proportional to their income or wealth
- Rely more on taxes or fees on specific items or services, paid for by the people who use or buy them



- Rely more on taxes and fees paid for by individuals in the community
- Raise the taxes or fees we already pay before implementing new ones
- Rely more on taxes and fees paid for by businesses in the community
- Implement new taxes or fees before raising or increasing the ones we already pay





The City also developed a Revenue Town Hall FAQ document. The document is included below and can be accessed online at <http://www.cityofsalem.net/2024revenue>.

City of Salem

Revenue Town Hall FAQ

Introduction to the Revenue Town Hall FAQ

Welcome to the Revenue Town Hall Frequently Asked Questions (FAQ) guide developed based on questions submitted during our recent town hall meetings. We appreciate the community's active participation and thoughtful inquiries about important topics concerning our city's services and financial future.

During the town hall meetings, we received a wide range of questions related to revenue options, budget priorities, and the sustainability of essential services funded by the City of Salem's General Fund. This FAQ is designed to address these questions comprehensively, providing clear and informative responses to help keep our community informed.

Whether you attended the town hall meetings or are simply interested in learning more about these critical issues, we hope this FAQ will serve as a valuable resource. Your engagement and curiosity play a vital role in shaping the decisions that impact our city's well-being and future. Thank you for your interest and dedication to the City of Salem.

Please explore the sections below to find answers to frequently asked questions about our city's finances, services, and ongoing efforts to ensure a sustainable and vibrant community for all residents.

The city previously released an FAQ to address questions raised by the 2024 Revenue Task Force. That document can be found here:

<https://saalemcityofor.prod.govaccess.org/home/showdocument?id=22350&t=638460055790990001>

1. How does Library Funding Compare to Other Cities?

According to data collected by the State Library of Oregon, Salem ranks lowest in the per capita funding for Library serving communities with populations greater than 50,000. For fiscal year 2022, Salem's per capita operating was \$25.80 compared to these example other cities:

- \$80.45 – Eugene
- \$69.80 – Hillsboro
- \$54.10 – Albany
- \$32.35 – Springfield

2. What about Payment in Lieu of Taxes from religious organizations?

Similar to State and other government properties, the property tax exemptions for religious organizations are governed at the State level based on property tax law and the City doesn't have a mechanism to require religious organizations to make a payment in lieu of taxes.

3. What has been done to reduce City government costs?

The City has made many decisions over the years to both reduce expenses and increase revenue to extend the timing of the structural imbalance in the General Fund. A high-level overview of these decisions was presented last meeting and can also be found on the [City's website](#)

4. Have you considered that fewer employees are needed as computers are further adopted and automation improves?

There are certain efficiencies that can be gained as a result of technology. However, savings in personnel through technology and automation will not ultimately be a long-term solution to the structural deficit faced by the city. Technology will also only carry city services provided through the General Fund so far. Libraries, Parks, Recreation, Fire, Police, and Code Enforcement which are some of the programs paid

for by the General Fund, all still primarily rely on individuals to engage, respond, and maintain services provided to the community.

Additionally, advancements in technology and automation still come at a cost to the city. There is a cost for the technology itself, as well as operational costs to manage software subscriptions, data, etc. There will also still be personnel costs to manage the governance of the city's technology infrastructure to ensure that what is in place is functioning consistently and achieving target outcomes.

As a result of technology gains over time, your average American worker in 2024 is much more productive than in 1997 or 2008 during prior recessions. The city could take productivity data from the Bureau of Labor Statistics and perform an adjustment to this employee figure to get an adjusted measure of employment levels that takes productivity into account.

There are two important reasons why this analysis cannot be performed.

1. The Bureau of Labor Statistics does not measure the productivity of government services.
2. The services performed by the City of Salem have changed over time.

Much like the difficulty in measuring productivity for government, there is no mathematical way that we can quantify this increase in services that Salem provides apart from the increase in inputs (\$) required to meet this demand for services. A quantifiable index of increased services provided by Salem would be necessary to adjust this staffing analysis for productivity if local government productivity were even capable of being determined.

5. What are other cities doing to address similar financial shortfalls?

Salem is not alone in its current efforts to find revenues. Cities across Oregon, and mid-sized cities in particular, are dealing with sharp budget deficits and exploring new revenue options as a result. These cities include but are not limited to Bend, Corvallis, Eugene, Gresham, Hillsboro, Medford, and Springfield.

City staff, Councilors, and residents from these cities are also currently engaged with solving similar revenue issues as the Revenue Task Force. The information below summarizes the current available status on the efforts of other cities.

Eugene

- \$13.9 million annual structural deficit, with \$5 million of additional priorities desired from council.
- The city has implemented significant budget strategies in recent years to help close the gap. Budget strategies include a combination of service reductions, efficiency reductions, service realignments, and miscellaneous revenue increases (e.g. service fees).
- \$24.8 million of budget gap strategies in the current 2023-2025 biennium
- A total of \$60 million of budget gap strategies going back to FY10, including the current biennium
- A minimum of \$8.3M of additional revenue or service reductions are needed in the current biennium.
- Eugene already has a Community Safety payroll tax.
- Eugene already has two local option levies in place. These local option levies must be renewed by vote in the coming years to continue current funding levels.
- Eugene is exploring making Parks services eligible for Stormwater funding, and a city operations Fire services fee (utility fee).
- Eugene Public Library reduction of \$4 million in latest biennium through the elimination of

9.2FTE that were vacant.

Gresham

- Gresham's deficit is projected to be \$8.6 million in 2025 and \$11.5 million in 2026 (without proposed operating levy).
- Gresham voters rejected a public safety local option levy at the May 2024 election.
- Gresham City Council passed a new local option levy at the May 2025 election.
- Gresham also has increased their existing Police, Fire and Parks fee on a temporary basis since January 2021. As of April 2024, the increase has been made permanent.
- Gresham is continuing to explore additional revenue and expenditure actions to provide financial sustainability for General Fund services.

Bend

- Bend's annual deficit is approximately \$7.9 million.
- Bend voters recently approved an increase in the Fire/EMS services local option levy, ensuring that Fire and EMS services are provided at a consistent level for the next few years.
- Bend is seeking to increase the amount collected by its operations fee.
- Bend is not using city funds to support the operations of homeless shelter facilities that it purchased in recent years.

Corvallis

- The current deficit for Corvallis is about \$9.6 million.
- This deficit is deceptively small, as the City is using and depleting its remaining \$1.7M ARPA funds.
- Corvallis recently increased its city operations fees.
- In November, Corvallis voters passed a local option levy dedicated to Parks and Library services.

Springfield

- Springfield's general fund shows a relatively small deficit now of \$1.2 million, though it is relying on the continued use of federal COVID funds to keep its deficit at this level.
- Over the next few years, this deficit will gradually increase to \$4.8 million.
- If trends continue, the city expects that it will be unable to adopt a budget in 2028.
- Springfield is currently exploring revenue options and expense reduction scenarios with consultants from the Center for Public Service at Portland State University.

Hillsboro

- Hillsboro's deficit is comparatively moderate in the next two years, between \$1.6 and \$3.2 million per their forecasted information provided in the BY 2023-25 Biennium budget. However, these smaller deficits rely on the use of federal and other one-time funds to ensure the City maintains a 15% ending fund balance by the end of this biennium.
- Hillsboro is in a unique situation in which its property tax (+\$9M) and local option tax (+\$4.5M) will increase in fiscal year 2025-26 when the 2005 Strategic Investment Program agreement with Intel Corporation moves out of abatement and back on the tax rolls of all overlapping taxing jurisdictions including Hillsboro. Much of this value will be machinery and equipment and will have a short useful life causing concerns that assessed value growth could be impacted negatively in future years as the equipment depreciates.
- Hillsboro has a local option levy of \$1.72 that pays for public safety and parks maintenance. The local option levy is in place until 2027-28. The City has had a local option levy since 1999. If this levy were not renewed, deficits will increase sharply.
- The City is also reliant on Washington County's library local option levy that goes through 2025-26 and provides funding to nine cities in the county as well as other funding from the County's General Fund that has historically been used for Library services across the County. Approximately half of the City's Library funding comes from these two sources.
- Hillsboro has no local income tax, sales taxes or government service fees carried on the utility bills other than a Transportation Utility Fee to pay for pavement management. The City does have a local Transient Lodging Tax and local Marijuana tax. Hillsboro does not have any General Obligation Bonds.

Medford

- Medford is anticipating a \$7 million General Fund deficit for the 2023-25 biennium.

- Convened our Revenue Committee and ultimately Council approved the following:
 - Increased the City's electric franchise fee from 7% to 9%.
 - Changed the structure of business licenses to be based on # of employees which doubled the business license revenue.
 - Increased the Public Safety Fee by \$1 each year for six years.
 - Used \$3.7 million of ARPA monies for operations.

6. Knowing that ARPA was one-time funding, how were funds spent?

The U.S. Department of Treasury was responsible for establishing the Coronavirus State and Local Fiscal Recovery Funds (CSLFRS), established by the American Rescue Plan Act (ARPA) of 2021, to provide emergency funding for eligible state, local, territorial, and Tribal governments. The allocation methodology was determined by the U.S. Department of Treasury and eligible state, territorial, metropolitan city, county and tribal governments were able to submit requests for funds starting in early May 2021. Funds were directly distributed by the U.S Department of Treasury to the individual agencies. Eligible use criteria was also developed by the U.S. Department of Treasury, which included the ability for recipients to use the funds as a source for awarding grants to other agencies, so long as the funds were still spent on the eligible uses of the program. In addition to the direct allocation the City received from the U.S. Department of Treasury, the City applied for and was awarded a grant from Marion County which was funded by the CSLFRS/ARPA program. This type of grant is often referred to as a pass-through grant or sub-award grant. Below is a summary of the funding received and what projects the funds supported:

Direct allocation to the City from the federal government	
Tranche 1 - Received May 2021	17,063,958
Tranche 1 - Received June 2022	17,063,958
Total	34,127,916
Indirect allocation to the City from Marion County*	
Grant awarded May 2022, funding received August 2022	3,000,000
<i>* Originally allocated to County from the federal government</i>	
Total ARPA funding received by the City	37,127,916

ARPA Funded Costs			
Project Type	Direct Allocation	Marion County Subaward	Total Funds
Sheltering Projects	4,714,517	-	4,714,517
Hotel Acquisition Loan	500,000	-	500,000
Navigation Center	2,700,958	3,000,000	5,700,958
Affordable Housing	2,163,000	-	2,163,000
Revenue Replacement	24,049,442	-	24,049,442
Total Funded Costs	34,127,916	3,000,000	37,127,916

Revenue Replacement is a category where funds that were directly impacted by COVID and lost revenue were able to be made closer to whole. The General Fund had XYZ of the \$24M listed above for revenue replacement.

7. What is the status of Payment in Lieu of Taxes from the State of Oregon? Why doesn't the state contribute property tax for the buildings they have?

The State of Oregon (and most other governments like the City) is exempt from paying property taxes on the buildings it owns—this includes both taxes it would pay to itself and taxes it would pay to local governments. In order to change this, or to provide Payment in Lieu of Taxes (PILT), the State Legislature would need to take action. A Payment in Lieu of Taxes is generally an annual payment that is paid from an exempt property holder to the municipality to pay for the services that would have been paid with property taxes.

Earlier this year, the State Legislature considered a bill (HB 4072) that would provide a \$5 million to \$6 million annual payment to the City of Salem under a three-year pilot program, recognizing the local government services provided by the City to the State. Unfortunately, this bill did not advance. As the State capital, Salem provides emergency and public safety services to state-owned properties concentrated in our community. These services are effectively subsidized by other taxpayers. State-owned properties represent approximately 8% of the area within the City limits and at least \$1.65 billion in real market value, or \$1.26 in assessed valuation (2022). **The approximate amount – if the State-owned properties were on the tax rolls – would be \$7.25 million annually.**

8. What is the definition of a "progressive tax?" What is the definition of a "regressive tax?"

The Internal Revenue Service defines different types of taxes as follows:

Progressive Tax	A tax that takes a larger percentage of income from high-income groups than from low-income groups.
Proportional Tax	A tax that takes the same percentage of income from all income groups
Regressive Tax	A tax that takes a larger percentage of income from low-income groups than from high-income groups

See also, [IRS, Comparing Regressive, Progressive, and Proportional Taxes](#)

9. How much of the City budget is Police? How much of the City budget is Fire? How much is Paid in overtime to Police and Fire?

For the FY 2024 Adopted Budget, General Fund Budgeted expenditures in the Police and Fire departments were:

Police

- Police: \$60,299,310
- Police Overtime: \$1,309,240

Fire

- Fire: \$48,697,150
- Fire Overtime: \$3,205,110

10. Is it possible to lobby the state to change Measure 5 and Measure 50 to improve local government funding?

Yes, this is possible. Property tax reform would help the City of Salem and other Oregon local governments to continue providing the services that their populations demand. The complicated answer is: it's going to take too long. This is a long-term solution that would not be able to be implemented in time to address Salem's financial issues. Other actors, including the League of Oregon Cities, have been actively [seeking reform for years](#). The League of Oregon Cities has [documented impacts and issues with Measure 5 and Measure 50](#) to the public and Legislature. To further this initiative, in February 2024, the League hired a contractor to create a municipal revenue reform plan with a focus on improvements and modifications to Oregon's property tax system.

11. What would the process and timeline be like to introduce a local option property tax levy?

To be placed on the ballot for the November 2024 election, the deadline would be in September 2024, and revenue could be collected starting Fiscal Year 2026 in the fall of 2025. (A May 2025 ballot measure would also generate funds beginning November 2025. However, due to timing of budget development and adoption requirements, a May 2025 election would result in a budget developed without the assumption of a successful election and would reflect additional budget reductions.

12. Where is revenue Generated from increases to the City Operations fee going?

In 2023 the City increased its Operations fee and adjusted it again in January 2024 in response to inflation. The increase to the City Operations Fee was always part one of a two-part process to close the deficit and maintain services (requiring an increase to staff). With the failure of part two, the Safe Salem Payroll Tax, the increase to the City Operations Fee helped to prevent the deficit gap from growing at an even faster pace. Most of the proposed new services were eliminated except for the security services at the downtown parking garages and some limited security at the Civic Center complex. If the City Operations Fee had not been increased, the City would have to consider additional deeper reductions in services.

13. How much do developers contribute to Salem revenue?

The primary revenue contribution related to infrastructure impacted by development in Salem comes from Site Development Fees and System Development Charges (SDCs). These fees are collected from developers at the time of building permit issuance based on the relative impacts of each project. System Development Charges can only be used to pay for construction of new public infrastructure that provides for growth in our community. Programs in the General Fund like the Police, Fire, Library, Parks, cannot be legally funded with these dollars.

Site Development Fees are calculated based on each 0.1 acre of developed area at a current rate of \$1,272 or \$12,720 per acre. System Development Charges are collected for impacts to the Transportation, Water, Sewer, Storm, and Parks systems. Below is a summary of how each fee is determined:

- Transportation impacts are based on new vehicle trips generated by the proposed development

- Water and Sewer impacts are based on the size of new water meter(s) necessary to serve the proposed development
- Storm impacts are based on new impervious surfaces proposed
- Parks impacts are based on the number of new dwelling units

System Development Charges vary based on the factors described above, but here's an example of an impact fee calculated for a 210-unit multi-family complex proposed in 2022 in Salem.

- Parks SDC - 210 Units at \$3,838 per unit = \$805,980.00
- Transportation SDC – 1373 New Trips at \$460 per trip = \$631,580.00
- Storm SDC - 300,531 sf of new impervious area at \$0.24 per new sf = \$72,127.44
- Water/Sewer SDC - 6 Inch water meter =\$354,288

If you would like more information about Site Development Fees and System Development Charges, I recommend reviewing the following web resource:

<https://www.cityofsalem.net/business/building-in-salem/fees-and-forms/salem-fee-schedule>

14. Would new revenue actually meet the issue or would we be back here again in 5 years?

The goal of the recommendation to come from the Task Force is to propose a long-term, if not permanent solution. The vision is to minimize, or even eliminate the need to have recurring revenue Task Forces in the future. If the recommended solution includes property tax type proposals (local option levies, special district), the structural issues will continue to create challenges with revenues growing as a slower pace than expenses.

15. I've heard about legislative actions that can generate a significant amount of revenue. What's being done about that?

The Task Force has proposed three funding mechanisms be considered for Salem's legislative agenda. These include:

- Local Marijuana Tax Increase
- Payments in lieu of taxes from county and federal buildings
- Payment in lieu of taxes from the state government buildings

These options would be nice to have, but are outside the City's control. Either there would need to be amendments to state law or there would need to be agreements from partners who have property (county, state, federal governments) to pay a payment in lieu of taxes. As a result, the Task Force voted to develop recommended legislative priorities forward to Council, at a future Task Force meeting.

16. What are the general characteristics of properties under compression? What is the proportion of the community that is already under compression?

Generally, the properties under compression are older properties. The City is working with Marion County to determine more specific characteristics of the compressed properties. There are approximately 3500 (7.6% of total Marion County/Salem accounts) accounts that are experiencing compression, this is a combination of real property and personal property accounts.

17. What's the proportion of business vs. residential properties in Salem? How does that compare to other cities in Oregon?

The average of 30 counties (6 not reported) include 51.5% of residential property value and 16.3% commercial/industrial property value. Marion and Polk Counties combined track these percentages very closely, with a total of 51.2% residential and 16.1% commercial/industrial.

Use of Community Input by the Revenue Task Force

The insights gathered from the community engagement activities have been instrumental in shaping the discussions and understanding of community needs and preferences by of the Revenue Task Force. The Revenue Task Force has leveraged this input to evaluate the appropriateness of various revenue sources available to Salem.

APPENDIX E: REVENUE TASK FORCE MEMBERSHIP

The following community members participated in the Revenue Task Force. The City of Salem would like to thank each member for their time, energy, and commitment to this process.

- Ariel Loveall
- Becky Beaman
- Beth Vargas Duncan
- Bill Riecke
- Bill Smaldone
- Cathy vanEnckevort
- David Rheinholdt
- Gretchen Schlie (alternate)
- Jean Palmateer
- Kaitlin Strathdee
- Kathy Knock
- Katie Ciacetta
- Keith Norris
- Ken Collins
- Lee McKenzie
- Levi Herrera-Lopez
- Matthew Hale
- Nathan Rafn (alternate)
- Raquel Moore-Green
- Ray Quisenberry
- Russ Beaton
- Scott Cantonwine
- Sean Nikas (chair)
- Stephen Jenkins
- TJ Sullivan (vice chair)
- Zak Ostertag (ex-officio)