

**TO:** Mayor and City Council

**FROM:** Sustainable Services Revenue Task Force

**SUBJECT:**

Recommendation from the Sustainable Services Revenue Task Force.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Good Governance; Natural Environment Stewardship; Safe Community; Safe, Reliable, and Efficient Infrastructure; Strong and Diverse Economy; and Welcoming and Livable Community

**ISSUE:**

To provide the City Council with the recommendation of the Sustainable Services Revenue Task Force.

**RECOMMENDATION:**

City Council consider the recommendations from the Sustainable Services Revenue Task Force.

**SUMMARY:**

The Sustainable Services Revenue Task Force developed its recommendation during a series of four public meetings held between October 15, 2018 and November 28, 2018. After reviewing 13 revenue options, the task force recommended three sources for consideration by the City Council. The task force recommendation included advice to consider phasing or timing one or more of the following revenue options:

- Operating Fee for the General Fund (task force vote – 13 aye, 1 absent)
- Employee-Paid Payroll Tax for the General Fund (task force vote – 7 aye, 6 nay, 1 absent)
- Local Gas Tax for the Transportation Services Fund (task force vote – 12 aye, 1 nay, 1 absent)

**FACTS AND FINDINGS:**

The task force was charged with exploring new and additional sources of revenue to sustain current City services, as well as recent investments toward achieving community priorities identified in the strategic plan.

## General Fund

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At the onset of the series of task force meetings, staff identified an annual funding gap in the City's General Fund of \$6 to \$8 million. The two revenue options recommended for the General Fund – a City operating fee and an employee-paid payroll tax – have the potential to individually, or collectively, supplement current revenues to align with the projected cost of ongoing service delivery.

The recommendation of the task force to consider these two revenue sources does not prescribe rates, a detailed charging methodology, or an absolute amount of revenue to be achieved. The task force discussion focused on equitable application of the operating fee and capacity to afford either option for lower income residents. In addition, neither option for the General Fund is required to be referred to voters, but the task force recommends this step.

### **1. Operating Fee**

*Sustainable Services Revenue Task Force vote to recommend: 13 aye, 1 absent*

A City operating fee is a distinct revenue source to support services in the General Fund. Currently, 50 cities in Oregon have an operational fee included with customer utility bills.

In recommending a City operating fee, the task force explored multiple, possible allocation methodologies using the current utility billing classifications employed by the City to administer its streetlight fee. Creating a charging methodology independent of the subject property value retains the distinction of a fee as opposed to a property tax.

A few examples of allocation methodologies for a City operating fee appear in Attachment 1. The task force's focus on equitable distribution for single-family dwellings, multi-family dwellings, commercial, industrial, and public buildings, influenced the examples attached to this report. The examples provide varying rates for the classifications as well as a flat distribution across all classifications. The examples as presented are estimated to achieve approximately \$8 million annually.

With the basis for this fee being utility billing classifications and the current use of the billing system for collection of the streetlight fee, a structure exists for the City to administer, invoice, and collect an operating fee.

### **2. Employee-Paid Payroll Tax**

*Sustainable Services Revenue Task Force vote to recommend: 7 aye, 6 nay, 1 absent*

Payroll taxes are calculated as a percentage of wages, and either paid by the

employer and not passed through to the employee, or paid by the employee through a deduction. Three taxing jurisdictions in Oregon use a payroll tax to fund transit projects or general operations – the Lane Transit District (LTD), the Tri-County Metropolitan Transportation District of Oregon (TRIMET), and the State of Oregon. The two transit districts use the method of employer paid taxes, while the State of Oregon uses a direct payroll deduction from employee wages.

The task force recommendation of an employee-paid payroll tax endeavors to address equity across the community rather than assigning the tax to a particular sector. By assigning the tax to all sectors (private and public) and having it be employee-paid, it extends this obligation to individuals who commute to Salem for work.

Attachment 2 to this report demonstrates an estimation of Salem-specific wage information, which is difficult to isolate in currently available data; an employee-paid payroll tax rate to achieve approximately \$8 million in revenue; and its application to sample gross wages.

The vote to recommend this revenue option is indicative of questions and concerns raised by task force members regarding the impact to low-income individuals and the general implementation of the tax, including its application across different employment scenarios and the potential for the State of Oregon to serve as the collection entity on behalf of the City. As an example, the State of Oregon serves in this capacity for the LTD payroll tax program. The Department of Revenue's administration on behalf of the transit district cost approximately \$500,000 in FY 2017.

## **Transportation Services Fund**

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The third revenue option, a local gas tax, will supplement current revenues in the City's Transportation Services Fund and support operation and maintenance of the street system. This option would not offset the shortfall in the General Fund. A local gas tax is required to be referred to voters.

### **1. Local Gas Tax**

*Sustainable Services Revenue Task Force vote to recommend: 12 aye, 1 nay, 1 absent*

Local gas tax is an amount charged per gallon of motor vehicle fuel used or distributed in a city or county. Currently 27 cities, two counties, and the State of Oregon impose a gas tax. The Oregon Constitution mandates that revenue derived from the sale, import or distribution of motor vehicle fuel must be used to construct, improve, repair, maintain, or operate public highways, roads, and streets.

With the requirements enforced by the Oregon Constitution, a local gas tax cannot be used to support services in the General Fund. However, the tax proceeds would be available to the City's Transportation Services Fund. The recent financial forecast for the Transportation Services Fund demonstrates the use of working capital to maintain current service levels that include pavement maintenance activities funded at minimal levels. Additional revenue derived from a local gas tax could be used to conduct or enhance pavement, sidewalk, and bridge maintenance, or for traffic signal operations.

Attachment 3 to this report compares local gas tax rates of neighboring jurisdictions. At 6 cents per gallon, Salem would generate approximately \$4.8 million annually.

A local gas tax option is required to be referred to voters. The task force's recommendation assumes the tax would be administered and collected by the Oregon Department of Transportation on behalf of the City of Salem for a fee calculated as a percentage (0.3702%) of the collected tax. This approach would be consistent with 19 other taxing jurisdictions in Oregon and mitigates the need for the City to add positions to perform these functions.

## **BACKGROUND:**

The Council-appointed, Sustainable Services Revenue Task Force members included Mayor Bennett, Councilors Ausec and McCoid, City Budget Committee member Raquel Moore-Green, Britni Davidson-Cruickshank, Antonia Decker, Mike Erdmann, Jesse Gasper, Theresa Haskins, Dayna Jung, Monica Pacheco, Kasia Quillinan, Ray Quisenberry, and Dan Wellert – representing the City’s result areas of Good Governance; Natural Environment Stewardship; Safe Community; Safe, Reliable, and Efficient Infrastructure; Strong and Diverse Economy; and Welcoming and Livable Community.

Attachment 4, SSRTF (Sustainable Services Revenue Task Force) Background Information, which is not referenced in the Facts and Findings section of this report, is provided as additional information. It includes the initial “white papers” by staff of the three recommended revenue options and subsequent staff reports for further analysis and discussion.

The final attachment, FYj Ybi Y’æa d`Ya YbHjcb, is also provided for reference.

### **Attachments:**

1. City Operating Fee Allocation Methodologies
2. Employee-Paid Payroll Tax Rate and Example Impact
3. Local Gas Tax Comparison and Example Salem Rate
4. SSRTF Background Information
5. FYj Ybi Y’æa d`Ya YbHjcb

## Attachment 1

### City Operating Fee Allocation Methodologies Page 1

#### *Sustainable Services Revenue Task Force Subcommittee Recommendation*

The operating fee allocations displayed below combine elements from methodologies on the succeeding pages. This rate structure was recommended by the subcommittee of the task force as it finalized the recommendation report to the City Council.

**Work Group Table: Recommended Rate Structure**

<b>Customer Classification</b>	<b>Utility Accounts</b>	<b>% of Accounts</b>	<b>Monthly Fee</b>	<b>Annual Fee</b>	<b>Annual Revenue</b>	<b>% of Revenue</b>
Residential	39,732	60.0%	\$8.50	\$102.00	\$4,052,664	49.2%
Multi-Family (Per Unit)	23,951	36.2%	\$6.80	\$81.60	\$1,954,402	23.7%
Irrigation	23	0.0%	\$8.50	\$102.00	\$2,346	0.0%
Small Commercial	70	0.1%	\$8.50	\$102.00	\$7,140	0.1%
Commercial	2,360	3.6%	\$75.00	\$900.00	\$2,124,000	25.8%
Industrial	12	0.0%	\$75.00	\$900.00	\$10,800	0.1%
Institutional	8	0.0%	\$75.00	\$900.00	\$7,200	0.1%
Public Building	81	0.1%	\$75.00	\$900.00	\$72,900	0.9%

**Total** **66,237** **\$8,231,452**

**Note: 80% residential rate applied to multi-family based on unit count**

## Attachment 1

### City Operating Fee Allocation Methodologies

#### Page 2

The remaining displays are examples of methodologies discussed with the task force.

#### *Example Allocation Methodology 1*

Under this scenario, multi-family customers would pay a fee based on the number of units within a range: 2-4 units would pay \$11.40 per month in total, 5-25 units would pay \$42.25 per month in total, and customers with over 25 units would pay \$73.11 per month in total. Commercial and public building classifications would pay \$75.00 per month.

**Table 1: Allocation Method 1 (multi-family unit range)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.1%	\$11.40	\$136.80	\$5,435,338	66.4%
Multi-Family Units <5	1,259	2.9%	\$11.40	\$136.80	\$172,231	2.1%
Multi-Family Units 5-25	393	0.9%	\$42.25	\$507.05	\$199,272	2.4%
Multi-Family Units >25	177	0.4%	\$73.11	\$877.30	\$155,283	1.9%
Irrigation	23	0.1%	\$11.40	\$136.80	\$3,146	0.0%
Small Commercial	70	0.2%	\$11.40	\$136.80	\$9,576	0.1%
Commercial	2,360	5.3%	\$75.00	\$900.00	\$2,124,000	25.9%
Industrial	12	0.0%	\$75.00	\$900.00	\$10,800	0.1%
Institutional	8	0.0%	\$75.00	\$900.00	\$7,200	0.1%
Public Building	81	0.2%	\$75.00	\$900.00	\$72,900	0.9%
<b>Total</b>	<b>44,115</b>				<b>\$8,189,746</b>	

#### *Example Allocation Methodology 2*

Table 2 details a different methodology that shifts a portion of the allocation from residential to multi-family through a per unit charge, lowering the residential fee amount from \$11.40 to \$7.80 per month, and increasing multi-family customers accordingly. In this example, per unit multi-family monthly fees would be equal to the residential rate of \$7.80 per month. The rates for the four classifications of commercial through public building remain the same in this methodology, at \$75.00 per month.

## Attachment 1

### City Operating Fee Allocation Methodologies

#### Page 3

**Table 2: Allocation Method 2 (residential rate applied to multi-family based on unit count)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	60.0%	\$7.80	\$93.60	\$3,718,915	45.4%
Multi-Family (Per Unit)	23,951	36.2%	\$7.80	\$93.60	\$2,241,814	27.4%
Irrigation	23	0.0%	\$7.80	\$93.60	\$2,153	0.0%
Small Commercial	70	0.1%	\$7.80	\$93.60	\$6,552	0.1%
Commercial	2,360	3.6%	\$75.00	\$900.00	\$2,124,000	25.9%
Industrial	12	0.0%	\$75.00	\$900.00	\$10,800	0.1%
Institutional	8	0.0%	\$75.00	\$900.00	\$7,200	0.1%
Public Building	81	0.1%	\$75.00	\$900.00	\$72,900	0.9%
<b>Total</b>	<b>66,237</b>				<b>\$8,184,334</b>	

#### Example Allocation Methodology 3

Table 3 demonstrates a similar methodology, but lowers the multi-family fee to one half of the residential fee. This method shifts a portion of the allocation back to residential, resulting in a monthly fee of \$9.60, and provides a monthly per unit multi-family fee of \$4.80. As an example, this methodology would result in the City's 924 duplexes paying the same rate as the \$9.60 residential rate.

**Table 3: Allocation Method 3 (1/2 residential rate applied to multi-family based on unit count)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	60.0%	\$9.60	\$115.20	\$4,577,126	55.9%
Multi-Family (Per Unit)	23,951	36.2%	\$4.80	\$57.60	\$1,379,578	16.8%
Irrigation	23	0.0%	\$9.60	\$115.20	\$2,650	0.0%
Small Commercial	70	0.1%	\$9.60	\$115.20	\$8,064	0.1%
Commercial	2,360	3.6%	\$75.00	\$900.00	\$2,124,000	25.9%
Industrial	12	0.0%	\$75.00	\$900.00	\$10,800	0.1%
Institutional	8	0.0%	\$75.00	\$900.00	\$7,200	0.1%
Public Building	81	0.1%	\$75.00	\$900.00	\$72,900	0.9%
<b>Total</b>	<b>66,237</b>				<b>\$8,182,318</b>	



## Attachment 1

### City Operating Fee Allocation Methodologies

#### Page 4

#### Methodology Comparison

Table 4 compares the example allocation methodologies from Tables 1, 2, and 3, along with corresponding monthly fee ranges for multi-family units.

**Table 4: Comparison of Allocation Methodologies (\$8 Million Revenue Target)**

Monthly Allocation Expense Comparison	Allocation Method 1	Allocation Method 2 (Res. Rate per Unit)	Allocation Method 3 (1/2 Res. Rate per Unit)
Residential	\$11.40	\$7.80	\$9.60
Multi-Family Units <5	\$11.40	\$15.60 to \$31.20	\$9.60 to \$19.20
Multi-Family Units 5-25	\$42.25	\$39.00 to \$195.00	\$24.00 to \$120.00
Multi-Family Units >25	\$73.11	\$202.80 to \$1,747.20	\$124.80 to \$1,075.20
Irrigation	\$11.40	\$7.80	\$9.60
Small Commercial	\$11.40	\$7.80	\$9.60
Commercial	\$75.00	\$75.00	\$75.00
Industrial	\$75.00	\$75.00	\$75.00
Institutional	\$75.00	\$75.00	\$75.00
Public Building	\$75.00	\$75.00	\$75.00

Tables 5 – 7 simplify the rate structure with flat rates by account, by unit (multi-family), and by unit at 80 percent of the residential rate. The non-residential category includes the irrigation, small commercial, commercial, industrial, institutional and public building customer classifications. The lowered multi-family rate in Table 7 is determined using the average occupancy (people per household) for multi-family units as a percentage of the average residential occupancy, published by the U.S. Census Bureau. This utilizes a similar approach to the Parks System Development Charge (SDC) methodology.

**Table 5: Allocation Method 1 (Flat Rate by Account)**

Customer Classification	Total Units	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,838	90.1%	\$15.30	\$183.60	\$7,314,257	67.3%
Multi-Family (Per Account)	1,825	4.1%	\$15.30	\$183.60	\$335,070	28.4%
Non-Residential	2,550	5.8%	\$15.30	\$183.60	\$468,180	4.3%
<b>Total</b>	<b>44,213</b>				<b>\$8,117,507</b>	

Attachment 1

City Operating Fee Allocation Methodologies

Page 5

**Table 6: Allocation Method 2 (Flat Rate by Unit)**

<b>Customer Classification</b>	<b>Total Units</b>	<b>% of Accounts</b>	<b>Monthly Fee</b>	<b>Annual Fee</b>	<b>Annual Revenue</b>	<b>% of Revenue</b>
Residential	39,838	60.1%	\$10.20	\$122.40	\$4,876,171	67.3%
Multi-Family (Per Unit)	23,951	36.1%	\$10.20	\$122.40	\$2,931,602	28.4%
Non-Residential	2,550	3.8%	\$10.20	\$122.40	\$312,120	4.3%
<b>Total</b>	<b>66,339</b>				<b>\$8,119,894</b>	

**Table 7: Allocation Method 3 (Flat Rate by Unit, Multi-Family 80% Res Rate)**

<b>Customer Classification</b>	<b>Total Units</b>	<b>% of Accounts</b>	<b>Monthly Fee</b>	<b>Annual Fee</b>	<b>Annual Revenue</b>	<b>% of Revenue</b>
Residential	39,838	60.1%	\$11.00	\$132.00	\$5,258,616	67.3%
Multi-Family (Per Unit)	23,951	36.1%	\$8.80	\$105.60	\$2,529,226	28.4%
Non-Residential	2,550	3.8%	\$11.00	\$132.00	\$336,600	4.3%
<b>Total</b>	<b>66,339</b>				<b>\$8,124,442</b>	

## Attachment 2

### Employee-Paid Payroll Tax Rate and Example Impact Page 1

Salem specific wage data is difficult to isolate, as the Oregon Employment Department aggregates the data at the county level within the Salem Metropolitan Statistical Area (MSA), which includes Marion and Polk counties. Table 1 uses Salem city specific 2012 US Census data as a way to provide a Salem estimate.

**Table 1: Estimated wages for the Salem MSA**

Estimated Wage Income	2012 Data	2017 Data
Salem MSA <i>OR Empl. Dept (Marion and Polk Counties)</i>	\$5,540,131,375	\$7,547,078,422
Salem Estimate* <i>2012 US Census Data (NAICS)</i>	\$2,457,862,000	\$3,348,237,796
<i>Allocation Percentage</i>	<i>0.4436</i>	<i>0.4436</i>

*\* Salem 2017 wages are estimated by comparing the 2012 Salem MSA data to the 2012 Salem specific NAICS data, and allocating a similar percentage to the 2017 Salem MSA data.*

The previous table provides an annual estimate for Salem wages based on 2017.

More current Salem wage data is becoming available based on the Department of Revenue's collection of the Oregon Department of Transportation's 0.10% employee-paid payroll tax, which began July 1, 2018. In its first quarter of collection, the Department of Revenue data reflects Salem employers reported gross payroll of just under \$875 million. This amount is fairly consistent with the annualized estimate in Table 1.

As the Department of Revenue's collection of the Oregon Department of Transportation's payroll tax matures, further wage data for Salem will be available to staff, thus providing the opportunity for more refined estimates. It is important to note that potential administrative costs for managing a payroll tax program in-house or through agreement with the Department of Revenue will need to be considered as an offset to the gross revenue realized from a tax. Such continuing considerations may result in tax rates that differ from the examples provided in this attachment.

## Attachment 2

### Employee-Paid Payroll Tax Rate and Example Impact Page 2

#### *EMPLOYEE PAYROLL TAX RATE OF 0.2%*

Based on estimated Salem wages provided by the DOR, a tax rate of 0.2% (two tenths of one percent) would generate approximately \$6.99 million in revenue. Table 2 details the impact to wage earners based on sample income amounts.

**Table 2: Tax Impact on sample annual wage rates**

Sample Gross Wage Amount	Tax Percentage	Monthly Tax	Annual Tax
\$10,000	0.20%	\$1.67	\$20.00
\$25,000	0.20%	\$4.17	\$50.00
\$50,000	0.20%	\$8.33	\$100.00
\$75,000	0.20%	\$12.50	\$150.00
\$100,000	0.20%	\$16.67	\$200.00

#### *EMPLOYEE PAYROLL TAX RATE OF 0.25%*

Table 3 details the impact of a 0.25% (one quarter of one percent) tax based on estimated Salem wages provided by the DOR, which would generate approximately \$8.74 million in revenue.

**Table 3: Tax Impact on sample annual wage rates**

Sample Gross Wage Amount	Tax Percentage	Monthly Tax	Annual Tax
\$10,000	0.25%	\$2.08	\$25.00
\$25,000	0.25%	\$5.21	\$62.50
\$50,000	0.25%	\$10.42	\$125.00
\$75,000	0.25%	\$15.63	\$187.50
\$100,000	0.25%	\$20.83	\$250.00

## Attachment 3

### Local Gas Tax Comparison and Example Salem Rate

Page 1

#### *Local Gas Tax*

The data below demonstrates local gas tax rates of neighboring jurisdictions with an example of a Salem rate.

City	Gas Tax Rate per Gallon	Revenue Based on FY 2017	Miles of Streets
Eugene	\$0.05	\$3,081,192	538
Portland	\$0.10	\$9,787,463	2,002
Springfield	\$0.03	\$1,071,487	267
Tigard	\$0.03	\$844,866	150
<i>Salem</i>	<i>\$0.06</i>	<i>\$4,818,000•</i>	<i>640</i>

- Estimation of Salem revenue based on Oregon Department of Transportation fuel distribution records. Revenue estimate is discounted by 20 percent to account for gas stations outside of Salem city limits, but within the fuel distribution area.

## Revenue Option White Papers

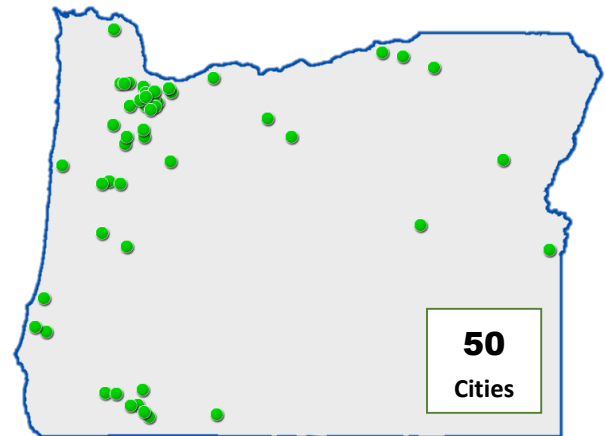
Sustainable Services Revenue Task Force Meeting

October 15, 2018

## Alternative Revenue Source: City Operating Fee

For an identified operational need, a monthly fee could be added as a separate line item on customer utility bills. The fee would create a distinct and dedicated revenue source to fund a specific program, which could be especially beneficial for programs and services paid from the general fund. It could be structured as a flat fee for all utility customers or distinguished based on differences in customer class (e.g., residential, commercial, industrial). This revenue source would not be subject to Measure 5 property tax limitations because it is not a tax on individual property values, but simply based on the presence of an improved structure and an active utility account. An operating fee can be adopted by City Council or referred to voters. Examples of these fees include parks, public safety, transportation, or affordable housing and homeless initiatives.

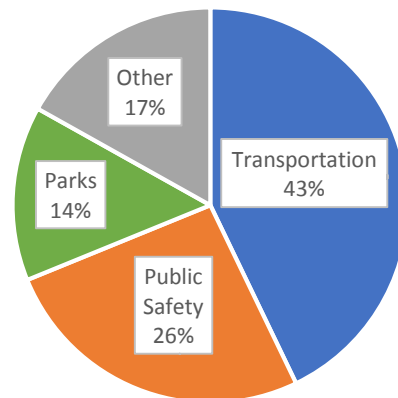
Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services, Critical Infrastructure, or Affordable Housing and Social Services
Approval Body	City Council
Calculation Method	Utility Customer Classifications



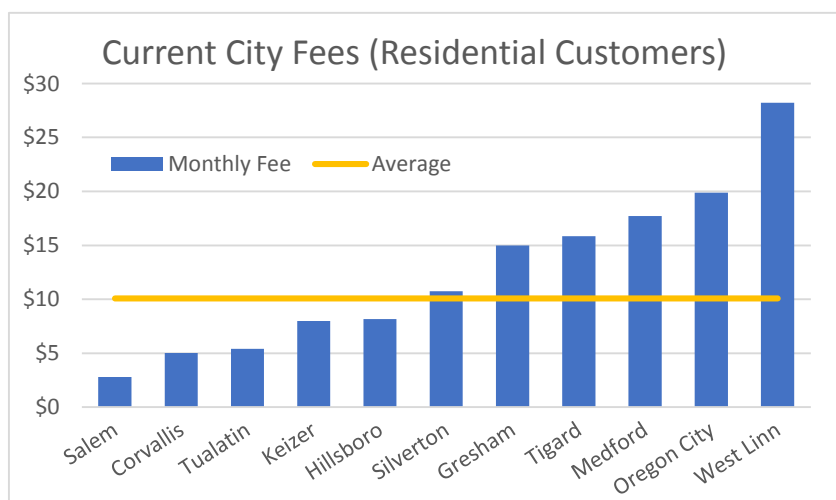
There are approximately 50 different cities in Oregon that have an operational fee on customer utility bills, as displayed on the map. Many of these cities (approximately 29) have two or more to fund different needs. Based on population size, 23 of the 30 largest cities in the state are utilizing this revenue source to provide core services.

The pie chart provides greater detail regarding the programs and services that communities are using fees to support and enhance. Transportation is the largest category and includes street maintenance, sidewalk repair and improvements, and streetlights. The "Other" category predominately incorporates fees identified for general city services, but it also includes services such as urban forestry and transit operations.

**Types of Operating Fees Currently in OR**



In comparing what other cities have implemented it is important to know what is being funded, and how much the fee costs per customer. This bar chart displays the currently adopted fees for residential customers (non-residential rates are typically higher). The yellow line is an average of all the comparable city fees that were identified, which is \$10.00 per month. Salem has the lowest fee of any city researched.



City Examples	Monthly Fee Residential	FY 2017 Revenue	Purpose of the Fee(s)
Corvallis	\$ 5.03	656,849	Transit Operations, Sidewalk Repair, Urban Forestry
Gresham	\$ 7.50	3,892,613	Police, Fire, Parks
Hillsboro	\$ 8.16	3,195,100	Transportation, Bicycle Paths
Medford	\$ 17.72	4,313,500	Parks, Public Safety, Street Maintenance
Salem	\$ 2.80	1,840,393	Streetlights
Tigard	\$ 15.86	3,597,494	Street Maintenance, Transportation, Parks
West Linn	\$ 28.23	3,215,000	Parks, Street Maintenance

The City of Salem implemented the streetlight fee through City Council approval in 2015 in order to pay for streetlight electricity costs and to convert to LED streetlights. This fee has a tiered rate structure that is differentiated based on stormwater customer class. The majority of customers (93.1%) pay the lowest rate of \$2.80 per month, including the 39,775 single family residential customers. While the heavier individual users of the utility system (commercial, industrial, large multi-family) pay proportionately higher rates, it is important to understand that these customer classifications do not generate a significant portion of the revenue. Simply because of magnitude, the fees charged to residential customers have the most substantial impact.

This same method could be used to implement an additional fee on the utility bill for another specified need. A benefit of this revenue type is the familiarity for customers since they have undergone this process previously with the streetlight fee. Another benefit is the ease of implementation, due to the fact there is an existing City program in place to invoice, collect, and process the new revenue stream.

The structure of this revenue source allows City Council and staff to develop rates based on the amount of revenue needed. The estimates below demonstrate a potential fee range that utility customers might pay in order to generate the specific amount of revenue. These estimates are based on an expectation of 2% payment delinquency. Due to the historic customer account growth of only 0.2% year over year, the ongoing revenue would be projected to remain consistent and level unless City Council were to approve increases or growth factors to the fees.

Fee Structure to Generate \$3M			
Total Utility Customers	Fee Range - Low	Fee Range - High	Annual Revenue
44,156	\$ 4.60	\$ 29.60	\$ 3,065,100
<b>Estimated Revenue</b> (less 2% delinquency)		<b>\$ 3,003,800</b>	

Fee Structure to Generate \$5M			
Total Utility Customers	Fee Range - Low	Fee Range - High	Annual Revenue
44,156	\$ 7.65	\$ 49.20	\$ 5,100,000
<b>Estimated Revenue</b> (less 2% delinquency)		<b>\$ 4,998,000</b>	



## Alternative Revenue Source: Local Gas Tax

In 1919, the State of Oregon implemented the nation's first tax on gasoline at a rate of \$0.01 per gallon. Today, Oregon's gas tax is \$0.34 per gallon, with the tax paid by fuel distributors or retailers depending on the type of fuel. The Oregon Constitution mandates revenue derived from taxes on motor vehicle use and fuel be applied to construction, improvement, repair, maintenance and operation of public highways, roads, and streets, including facilities for pedestrians and bicycles that are located within the right-of-way. Currently, 27 cities and 2 counties in Oregon have a local gas tax ranging from \$0.01 to \$0.10 per gallon. Most cities charge \$0.03 per gallon. In the majority of locations, the tax is paid by retail gas stations. Starting in 2009, legislation required local gas tax measures to be approved by voters.

<b>Fund / Service Area</b>	Transportation Services Fund / Safe, Reliable, and Efficient Infrastructure
<b>Strategic Initiative</b>	Critical Infrastructure
<b>Approval Body</b>	Voters
<b>Calculation Method</b>	Amount per gallon
<b>Rate</b>	\$0.03 - \$0.06 per gallon

A benefit to a local gas tax is capturing revenue from through traffic, visitors, and work commuters. According to the State of Oregon Employment Department, 63% of Salem workers commute from other areas.

The current financial forecast for the Transportation Services Fund is relatively stable but most essential activities such as pavement maintenance are funded at minimal levels. There are many unmet needs, and this significant additional

revenue stream could be used to conduct or enhance pavement, sidewalk, or bridge maintenance, or traffic signal operations. Salem could move toward a model combining general obligation bonds and pay-as-you-go funds to accomplish transportation infrastructure projects.

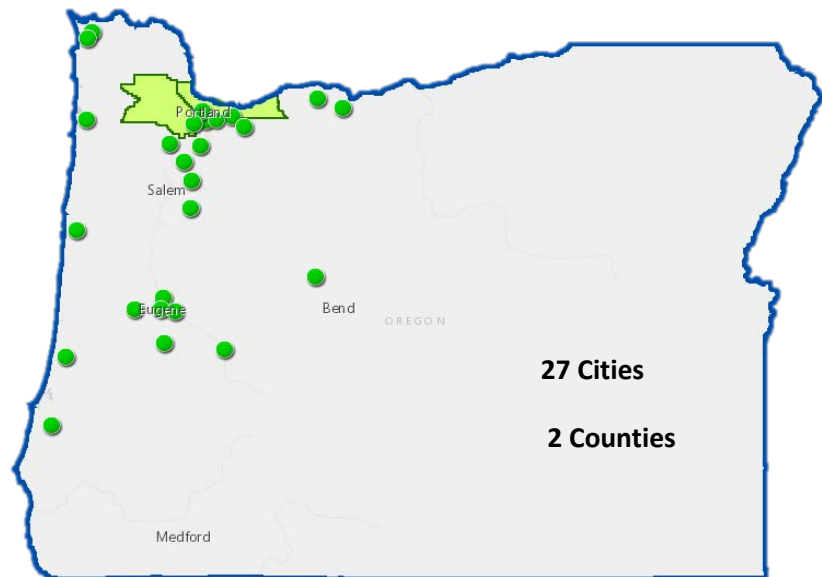
If a local gas tax was approved in Salem, implementation could occur without the addition of City administrative positions. Oregon Department of Transportation (ODOT) currently administers and collects local gas taxes on behalf of 19 municipalities for an affordable administration fee and minimal start-up costs. The fee remains low as long as cities mirror the state gas tax law as closely as possible when creating an ordinance.

In the past when this revenue idea has been explored, there was concern about unincorporated areas east of Salem abutting incorporated areas, with gas stations inside of Salem not having competitive prices due to a local gas tax. Of the 15 gas stations near the eastern border of the city, 8 are not within Salem city limits. In only one instance is a gas station in Salem within 0.2 miles of a gas station outside of the city. The remaining stations are further apart. In other areas where one city has a local gas tax and neighboring communities do not or have a lower gas tax rate, average gas prices are similar and competitive. In some cases, lower gas prices are still found in cities with a higher local gas tax.

Another consideration has been a regional gas tax to include Marion County and the City of Keizer, but this would require consensus among agencies and add complication to the implementation process.

### **Oregon City Examples:**

The state and many communities in Oregon already charge a gas tax. This is an option Oregonians are familiar with and could see tangible improvements to streets and sidewalks as a result of the tax.



City	Gas Tax	FY 2016 Revenue	FY 2017 Revenue	Additional Information
Eugene	\$.05 per gallon	\$3,050,845	\$3,081,192	Highest permanent gas tax rate in Oregon
Portland	\$.10 per gallon		\$9,787,463	Four year temporary rate through 2020
Springfield	\$.03 per gallon	\$1,089,825	\$1,071,487	
Tigard	\$.03 per gallon	\$712,408	\$844,866	

### **Revenue Forecast:**

Eugene, the closest comparable city to Salem, has 21 gas stations. Based on property tax records, Salem has more than double that of Eugene. Comparing fuel sales data in Eugene to distributor deliveries destined for Salem (sales data is not accessible), it appears more fuel is sold in Salem. This means that at a lower rate, Salem could potentially earn more revenue than Eugene from a local gas tax.

Another option adopted by cities to fund transportation improvement and maintenance projects is a transportation fee on their utility bill based on trip generation by property type. For more detail see the white paper for City operating fees.

Revenue Forecast				
	\$0.03	\$0.04	\$0.05	\$0.06
Estimated Annual Revenue	\$2,394,000	\$3,202,000	\$4,010,000	\$4,818,000

Forecast Assumptions: Discounting 2017 ODOT distribution data by 20% to account for gas stations in the Salem area, but outside city limits, assuming a flat administration fee from ODOT of .3702% and start-up fees of \$30,000.

### **Upcoming Transportation Work Session:**

City Council created the Congestion Relief Task Force to look at traffic levels downtown and in west Salem and recommend infrastructure improvements to enhance traffic flow. As part of their effort, a City Council work session will be held in November to discuss priority infrastructure projects and consider funding options for those projects.

## Alternative Revenue Source: Income Tax

There are taxing districts around the nation and even some in Oregon that assess an income tax on individual wages through a payroll tax. Benefits of this type of revenue source are the flexibility with implementation, collection, and assessment. Locally, Lane County Mass Transit District (LTD) and Tri-Met Transit (Tri-Met) have payroll taxes. LTD and Tri-Met collect their taxes as a percentage of gross payroll from employers who are paying wages earned within the district. Employers submit their taxes quarterly, while those who are self-employed submit annually, to the Oregon Department of Revenue, which disperses the revenue to the taxing district. Both jurisdictions use their income tax revenues to support operating and service funds.

### Current Rates of Local Taxing Jurisdictions

Jurisdiction	Current Rate (of Income)
Lane County Mass Transit District (LTD)	0.7300%
Tri-Met Transit	0.7537%

<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council or Voters
<b>Calculation Method</b>	Percent of Payroll Wages
<b>Suggested Rate</b>	.10%

In November 2015, Salem Area Mass Transit District (commonly known as Cherriots) placed a payroll tax on the ballot. In the proposal, businesses within the transit district would pay .21% of payroll or \$0.21 for every \$100. This tax needed to be paid by the employer and could not be passed through to employees with a payroll deduction. Ultimately, this measure failed with a rate of 42% of voters in favor and 58% of voters against the payroll tax. Vote counts for the 47 City of Salem precincts were 12,644 in favor and 15,665 opposed. This 44.6% approval rate suggests that Salem voters are potentially more inclined to support an income tax. It should be noted that only 35.8% of registered Salem voters participated in the election; an increase in voter participation could influence the level of support.

If this revenue source were to be supported, the State Department of Revenue already has a method of collection and disbursement for the two transit district income taxes. With the State's cooperation, the City could use a similar method. Additionally, it would be possible when drafting the required City code to include exemptions for residents of Salem, who are already contributing financially to the various services the City provides by way of property taxes. Revenue could be captured exclusively from commuters into the City for work, who benefit from City services but do not pay for those services. Employers would only pay on the wages of employees who are not residents of Salem.

It is important to distinguish the payroll tax described above and the one put forth by HB 2017 or the "Keep Oregon Moving" bill. The payroll taxes in place for both Tri-Met and LTD requires the employer to pay on the employee's behalf. However, the payroll tax put in place by HB 2017 is not paid by the employer and instead is passed on to the employee through traditional wage withholding. At a rate of .001% (or \$1 per \$1000), Cherriots anticipates \$7 million in revenue from their first disbursement from the State.

**TABLES:****Current Oregon Income Tax Examples:**

Taxing Jurisdiction	FY 2013 Revenue	FY 2014 Revenue	FY 2015 Revenue	FY 2016 Revenue	FY 2017 Revenue	FY 2018 Projected Revenue
<b>Tri-Met Transit</b>	\$258,513,157	\$274,573,832	\$291,294,171	\$323,999,360	\$336,130,653	\$358,848,440
<b>Lane CO. Mass Transit District</b>	\$28,409,666	\$28,936,731	\$33,275,526	\$36,698,219	\$35,222,680	\$38,101,275

**Example References:**

*All revenue projections are from the taxing jurisdictions' financial reports (CAFRs and budget documents). Revenues are a combination of employer paid payroll taxes, self-employment taxes and state-in-lieu.*

**Revenue Projections-Payroll Income Tax**

<b>City of Salem Revenue Projection-Payroll Income Tax- 2017 Data</b>						
	<b>Annual Wages Salem MSA 2017</b>	<b>.05%</b>	<b>.10%</b>	<b>.25%</b>	<b>.50%</b>	<b>1.00%</b>
<b>Estimated Annual Revenue (% of Payroll)*</b>	\$7,547,078,422	\$3,773,539	\$7,547,078	\$18,867,696	\$37,735,392	\$75,470,784

**Projection Assumptions/Limitations:**

*\* Payroll wages are from the State of Oregon Employment Department 2017 Industry Summary Report for the Salem MSA. Due to the data reflecting the Salem MSA rather than Salem proper, revenue projections can be expected to be lower.*

## Revenue Option Staff Reports

Sustainable Services Revenue Task Force Meeting

November 7, 2018

**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** CITY OPERATING FEE

**ISSUE:**

Shall the Revenue Task Force forward a recommendation to implement a city operating fee to the City Council for consideration?

**SUMMARY AND BACKGROUND:**

**FEE VERSUS PROPERTY TAX**

A monthly fee could be added as a separate line item on customer's utility bills for an identified operational need. The fee would create a distinct and dedicated revenue source to fund specific City programs, such as police and fire. It can be structured as a flat fee for all in-City utility customers, or distinguished based on differences in customer class (e.g., residential, commercial, industrial). This revenue source would not be subject to Measure 5 property tax limitations because it is not a tax on individual property values. It is simply based on the presence of an active utility account on an improved parcel. An operating fee can be adopted by City Council or referred to voters.

**ACCOUNT CLASSIFICATIONS**

The current utility billing system can administer a new fee in the same customer account classifications that the existing rates and fees utilize. The system could not be used to implement a billing process based on other metrics, including income level qualifications or property values. If these specifications were included, it would mean the development or purchase of a new system to invoice customers with a mechanism separate from the utility bill. The City would incur significant additional costs to implement and ongoing costs to administer the program.

In order to address affordability, the utility offers the wastewater rate assistance program, which provides for a credit on the wastewater bill. This program is currently available to qualifying senior citizens and disabled heads of household for discounts toward the wastewater portion of their bill. The income threshold is 30% or less than the Salem area median income, based on family size, as defined by the U.S. Department of Housing and Urban Development. The low-income assistance program administered through the Salvation Army and St. Vincent de Paul is also available to customers in need of immediate assistance with a bill, limited to \$150 per customer account per year. The City could take into consideration alterations to their current assistance programs in coordination with the implementation of a new fee.

## IMPACT OF RESIDENTIAL ACCOUNT CLASSIFICATIONS

The streetlight fee is currently collected from 44,115 accounts within Salem city limits. Of those accounts, 90% are residential. The table below demonstrates the revenue generated by residential accounts relative to other customer classifications. In this example, a \$0.05 increase or decrease for residential accounts would mean a gain or loss of almost \$24,000 per year. For each of the other customer classifications, the below chart demonstrates the rate required to generate the same dollar amount as a nickel generates for all residential customers.

<b>Customer Classifications</b>	<b>Accounts</b>	<b>Percentage of Accounts</b>	<b>Rate</b>	<b>Revenue</b>
<b>Residential</b>	<b>39,732</b>	<b>90.06%</b>	<b>\$ 0.05</b>	<b>\$ 23,839</b>
Multiple Dwellings <5	1,259	2.85%	\$ 1.58	\$ 23,839
Multiple Dwellings 5-25	393	0.89%	\$ 5.05	\$ 23,839
Multiple Dwellings >25	177	0.40%	\$ 11.22	\$ 23,839
Irrigation	23	0.05%	\$ 86.37	\$ 23,839
Commercial	2,360	5.35%	\$ 0.84	\$ 23,839
Small Commercial	70	0.16%	\$ 28.38	\$ 23,839
Industrial -- Other	12	0.03%	\$ 165.55	\$ 23,839
Institutional	8	0.02%	\$ 248.33	\$ 23,839
Public Building	81	0.18%	\$ 24.53	\$ 23,839

As another way of looking at it, if there were a nickel decrease in the residential fee, there would need to be a proportionate increase distributed to all the other customer classes equal to \$0.45 per customer per month to make up the \$24,000 lost by the residential decrease.

## OPERATING FEES IN OTHER JURISDICTIONS

There are approximately 50 cities across the state that have an operational fee on their customer's utility bill, including 23 of the 30 largest cities in Oregon. The following table provides examples of residential fee amounts, and specific fee purposes for communities in Oregon:

City	Population	Monthly Residential Fee	Purpose of the Fee
Ashland	20,700	\$ 9.64	Public Safety, Transportation
Aumsville	3,970	\$ 12.00	Public Safety
Gresham	109,820	\$ 7.50	Public Safety, Parks
Hillsboro	101,540	\$ 8.16	Transportation
Jacksonville	2,950	\$ 20.00	Public Safety
Keizer	38,345	\$ 8.00	Public Safety, Parks
Medford	79,590	\$ 17.72	Public Safety, Parks, Transportation
Newberg	23,480	\$ 10.03	Public Safety, Transportation
Oregon City	34,610	\$ 19.89	Public Safety, Transportation
Silverton	10,070	\$ 10.75	Parks, Transportation
Tigard	50,985	\$ 15.86	Parks, Transportation
West Linn	25,695	\$ 28.23	Parks, Transportation

## VOTER REFERRAL

The League of Oregon cities compiled elections data across all counties in Oregon from 1997-2017, and in that dataset there were no ballot measures referring a city operating fee to voters. In the current election, the City of Sheridan has asked voters to approve a city operating fee of \$13.42 per month for police services. Further research identified examples of some cities that have proposed local option levies to voters, been unsuccessful, and later implemented an operating fee in order to maintain those identified services with insufficient revenue.

The City of Gresham is an example of one of the cities that experienced this sequence of events. In November 2008 the City of Gresham proposed a \$0.97 per \$1,000/AV levy for public safety. After the levy failed to receive voter approval, the City Council chose to implement a temporary fee in 2012 of \$7.50 to avoid immediate reduction in police services. The fee was adopted with specifications to sunset on June 30, 2014 due to the second attempt at a local option levy occurring on the May 2014 ballot. However, when the 2014 local option levy failed as well, the City Council opted to renew the \$7.50 fee in order to provide necessary revenue for their police, fire and parks operations.



## RECOMMENDATION TO THE CITY COUNCIL:

### OPTION

The Sustainable Services Revenue Task Force forward a recommendation to City Council to explore implementation of a city operating fee.

### PURPOSE

The recommendation would be to dedicate the revenue to fund public safety programs (police and fire services). In the general fund, police and fire services currently account for 58% of the budgeted expenditures, totaling \$79M. In order to maintain the current service levels into the forecasted years, without the potential of reductions, additional revenue is needed. The fee could be collected at the beginning of a future fiscal year.

### RATES AND REVENUE

Rates that generate an additional \$6M in revenue, net the projected administrative costs and forecasted 2% payment delinquency, are recommended.

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.06%	\$9.20	\$110.40	\$4,386,413	71.6%
Multiple Dwellings <5	1,259	2.85%	\$9.20	\$110.40	\$138,994	2.3%
Multiple Dwellings 5-25	393	0.89%	\$34.10	\$409.17	\$160,805	2.6%
Multiple Dwellings >25	177	0.40%	\$59.00	\$708.00	\$125,316	2.0%
Irrigation	23	0.05%	\$9.20	\$110.40	\$2,539	<0.1%
Commercial	2,360	5.35%	\$44.25	\$531.00	\$1,253,160	20.5%
Small Commercial	70	0.16%	\$9.20	\$110.40	\$7,728	0.1%
Industrial	12	0.03%	\$44.25	\$531.00	\$6,372	0.1%
Institutional	8	0.02%	\$44.25	\$531.00	\$4,248	0.1%
Public Building	81	0.18%	\$44.25	\$531.00	\$43,011	0.7%
					<b>\$6,128,585</b>	
<b>Less 2% delinquency</b>					<b>(122,572)</b>	
<b>Estimated Annual Revenue</b>					<b>\$6,006,014</b>	

The recommended rate structure uses the same customer classifications as the streetlight fee, since that fee structure is currently in place and applies exclusively to inside city residents. These customer classifications determine accounts based on the presence of some type of improvement on the property, including irrigation-only accounts. The database allows customers to be divided into more discrete customer classes beyond residential and non-residential, using the area of impervious surface of a customer's site or the number of dwelling units. This calculation method would charge small commercial customers the single-family fee instead of the fee for large

commercial accounts because the size and amount of impervious surface equates to that of a residential home. This also allows use of tiers for multi-family residential accounts based on the number of dwelling units. Another benefit of using the same customer classification as the streetlight fee is that it charges customers by site and not by water meter account, meaning that customers with more than one water meter account on their property would only pay the fee once.

#### IMPLEMENTATION and ADMINISTRATION

The City's utility currently has a system to maintain the information regarding a proposed operating fee and bill customers for this fee. Modifications to the system may be needed to design, test and implement the fee on customer's monthly bills. An audit of existing accounts may also be performed as part of the implementation process. Additional staff resources, or reallocation of staff time, may be needed during implementation to respond to customer requests for information and assistance.

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SAMANTHA NALUAI  
MANAGEMENT ANALYST I

**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** MUNICIPAL PAYROLL TAX

**ISSUE:**

Shall the Sustainable Services Revenue Task Force forward to City Council a recommendation to consider a municipal payroll tax?

**SUMMARY AND BACKGROUND:**

The City of Salem is currently facing an increasing gap between revenues and expenditures in the General Fund. Projections indicate working capital may fall below City Council policy as early as the current fiscal year. Among the various revenue options available to address the gap is a municipal payroll tax.

Payroll taxes are calculated as a percentage of wages, and either paid by the employer and not passed on to the employee, or paid by the employee through a wage deduction. There are three taxing jurisdictions in Oregon using a payroll tax as a method to fund transit projects or general operations; the Lane Transit District (LTD), the Tri-County Metropolitan Transportation District of Oregon (TRIMET), and the State of Oregon. The two transit districts use the method of employer paid taxes, while the State of Oregon uses a direct payroll deduction from employee wages. The City of Salem considered a payroll tax in 1999 as part of a previous revenue task force.

Currently, LTD and TRIMET assess a rate of 0.73% and 0.7537% respectively, while the State of Oregon assesses a 0.10% rate for its transit tax. Mass transit districts like LTD and TRIMET, are limited by statute to not exceed a 1% rate. The City Council could consider a variety of rates to address the current revenue gap.

**RECOMMENDATION TO CITY COUNCIL:**

**OPTION**

Staff recommends the Sustainable Services Revenue Task Force submit a municipal payroll tax for City Council's consideration. To address equity across the community rather than specifically assigning the tax to a particular sector, staff further recommends the payroll tax be assigned to all sectors and paid by the employee as a percentage of wages in the same manner as the State transit tax.

## RATE AND MINIMUM REVENUE ESTIMATE

To address the estimated gap between General Fund revenues and expenditures, staff recommends a tax rate of one quarter of one percent (0.25%), which would calculate to approximately \$6.67 million in revenue. This rate equals a \$2.50 deduction for every \$1,000 of wages earned. The Employment Department of Oregon reports that the average annual wage for 2017 in the Salem MSA was \$43,760. At a 0.25% rate, this average annual wage would have realized a total wage deduction of approximately \$109.40 or \$4.55 per pay period, assuming bi-monthly pay periods.

## OTHER CONSIDERATIONS AND IMPLEMENTATION/ADMINISTRATION

### Other Considerations

The exact payroll amounts within Salem's city limits are unknown at this time. After comparing the industries in the 2017 Employment Department report and the 2012 U.S. Economic Census reports, staff has estimated that wages earned within Salem's city limits comprise roughly 49% of the wages earned in Marion and Polk counties across the same industries.

Applying this percentage to the 2017 wages earned as described in the Employment Department report, earnings within City of Salem in 2017 were over \$2.67 billion. At a tax rate of 0.25%, this level of earnings would have resulted in \$6.7 million in revenue across the same industries found in both reports. If the total industrial sector was used, revenue assumptions would be higher and perhaps a lower tax rate could be applied to and still achieve a minimum revenue need of \$6 million for the General Fund.

### Implementation and Administration

While the City has the authority to collect and administer the tax, staff would need to analyze the most cost effective and efficient method for establishing a comprehensive program.

There are various avenues that City Council could elect to administer this tax. One option would be collection by the Department of Revenue (DOR) on behalf of the City. The DOR has established programs for collecting a payroll tax already in place with reasonable administration costs. Since this would be a new program for the DOR to administer, the City would need to have detailed discussions with the State before choosing this option.

For context, the established LTD payroll tax program had costs for the DOR's administration in FY 2017 of approximately \$500,000. In that year, LTD realized total revenue slightly above \$35 million from its payroll tax. The administrative costs of the program equated approximately 1.4% of the total revenue. The DOR already administers the local marijuana sales tax on behalf of the City of Salem. In this instance, administrative overhead withheld from the City's tax revenue has equated to

approximately 1%.

Another option would be to have the administration of the tax handled internally by City staff. Additional resources, such as personnel, may be needed to effectively administer this program. If the City moves forward with a Business License Program, it would make a payroll tax option more efficient to run internally for both collection and enforcement purposes. The data provided from a Business License Program would allow City staff to know what businesses are in Salem and the number of employees so that the tax could be assessed properly

With whatever administrative option is eventually selected, costs would need to be factored in when setting an appropriate rate to net the expected revenue.

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KELLI BLECHSCHMIDT  
ADMINISTRATIVE ANALYST

**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** LOCAL GAS TAX REVENUE OPTION

**ISSUE:**

Should the Sustainable Services Revenue Task Force forward a recommendation to implement a local gas tax to City Council for consideration?

**SUMMARY AND BACKGROUND:**

Local gas tax is an amount charged per gallon of motor vehicle fuel used or distributed in a city or county. The Oregon Constitution mandates that revenue derived from the sale, import or distribution of motor vehicle fuel must be used to construct, improve, repair, maintain, or operate public highways, road, and streets.

The State of Oregon instituted the nation's first tax on gasoline in 1919 and it still exists today. In addition to the State tax, 27 cities and 2 counties have a local gas tax ranging from one cent to ten cents per gallon of motor vehicle fuel. The most common rate of three cents per gallon is charged by 17 cities and 1 county. Eugene's tax is five cents per gallon and was the highest in the state from 2005 through 2016 until Portland implemented a temporary local gas tax of ten cents per gallon which will sunset in December of 2020.

Since 2009, all local gas tax measures must be approved by voters. Depending on when City Council took action and which election cycle was targeted for a measure of this nature, it could take two years or more before the City would begin receiving revenue from this source. If voters approved a local gas tax in Salem, implementation could occur in a short timeframe and without the addition of City administrative positions if the Oregon Department of Transportation (ODOT) were to administer and collect the tax.

The current financial forecast for the Transportation Services Fund is relatively stable in the short term but most essential activities such as pavement maintenance are funded at minimal levels. There are many unmet needs, and this significant additional revenue stream could be used to conduct or enhance pavement, sidewalk, or bridge maintenance, or traffic signal operations. Salem could move toward a model combining general obligation bonds and pay-as-you-go funds to accomplish transportation infrastructure projects.

## **RECOMMENDATION TO CITY COUNCIL:**

### **OPTION**

Local gas tax would be paid by dealers on the first sale of the fuel.

### **PURPOSE**

Revenue generated from a local gas tax in Salem would be dedicated to maintain and improve our transportation system, as required by the Oregon Constitution. Increased revenue could be used for sidewalks, preventive pavement maintenance, intersection and signal improvements, safe crossings, bridge maintenance and pavement rehabilitation. It could also be a matching source for federal grants or systems development charges, or as a revenue stream for bonding larger projects.

### **RATE**

A tax rate of six cents per gallon on motor vehicle fuel is recommended to maintain and improve Salem's 640 miles of streets. This rate is one cent higher than the gas tax in Eugene, which uses the approximately \$3 million it generates each year to operate and maintain its 538 miles of streets.

### **REVENUE ESTIMATE**

It is estimated that Salem would collect between \$4.2 million and \$5.2 million each fiscal year at a rate of six cents per gallon.

### **ADMINISTRATIVE RESPONSIBILITIES**

The Oregon Department of Transportation currently administers and collects local gas tax on behalf of 19 municipalities. ODOT currently charges cities 0.3702% of the tax collected as an administrative fee and a set-up charge of less than \$40,000. The administration fees stay low as long as Salem's ordinance closely mirrored the State fuel tax law.

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KALI LEINENBACH  
MANAGEMENT ANALYST I

## Revenue Option Staff Reports

Sustainable Services Revenue Task Force Meeting

November 28, 2018



**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** CITY OPERATING FEE

**ISSUE:**

Shall the Sustainable Services Revenue Task Force forward a recommendation to the City Council for consideration of a City operating fee?

**SUMMARY AND BACKGROUND:**

At the November 7, 2018, meeting, the task force discussed the details of a potential City operating fee. While there are many different ways to allocate a fee, staff presented an allocation method based on the City's current streetlight fee. After discussion, the task force asked staff to return with additional scenarios, focusing on multi-family per unit rates, as well as state offices, which reside in the commercial and public building customer classes. The following examples represent three methods to generate approximately \$6 million dollars in net revenue.

*Example Allocation Methodology 1*

Table 1 details the methodology provided at the November 7, 2018, task force meeting. Under this scenario, multi-family customers would pay a fee based on the number of units within a range: 2-4 units would pay \$9.20 per month in total, 5-25 units would pay \$34.10 per month in total, and customers with over 25 units would pay \$59.00 per month in total. Commercial and public building classifications would pay \$44.25 per month.

**Table 1: Allocation Method 1 (multi-family unit range)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.1%	\$9.20	\$110.40	\$4,386,413	71.6%
Multi-Family Units <5	1,259	2.9%	\$9.20	\$110.40	\$138,994	2.3%
Multi-Family Units 5-25	393	0.9%	\$34.10	\$409.20	\$160,816	2.6%
Multi-Family Units >25	177	0.4%	\$59.00	\$708.00	\$125,316	2.0%
Irrigation	23	0.1%	\$9.20	\$110.40	\$2,539	0.0%
Small Commercial	70	0.2%	\$9.20	\$110.40	\$7,728	0.1%
Commercial	2,360	5.3%	\$44.25	\$531.00	\$1,253,160	20.4%
Industrial	12	0.0%	\$44.25	\$531.00	\$6,372	0.1%
Institutional	8	0.0%	\$44.25	\$531.00	\$4,248	0.1%
Public Building	81	0.2%	\$44.25	\$531.00	\$43,011	0.7%
<b>Total</b>	<b>44,115</b>				<b>\$6,128,596</b>	

*Example Allocation Methodology 2*

Table 2 details a different methodology that shifts a portion of the allocation from residential to multi-family through a per unit charge, lowering the residential fee amount from \$9.20 to \$6.15 per month, and increasing multi-family customers accordingly. In this example, per unit multi-family monthly fees would be equal to the residential rate of \$6.15 per month.

In addition to the multi-family per unit methodology change, the four classifications of commercial through public building were increased from \$44.25 to \$50.00 per month, which generates an additional \$169,809 annually from those classifications.

**Table 2: Allocation Method 2 (residential rate applied to multi-family based on unit count)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.1%	\$6.15	\$73.80	\$2,932,222	47.8%
Multi-Family (Per Unit)	23,951	4.1%	\$6.15	\$73.80	\$1,767,584	28.8%
Irrigation	23	0.1%	\$6.15	\$73.80	\$1,697	0.0%
Small Commercial	70	0.2%	\$6.15	\$73.80	\$5,166	0.1%
Commercial	2,360	5.3%	\$50.00	\$600.00	\$1,416,000	23.1%
Industrial	12	0.0%	\$50.00	\$600.00	\$7,200	0.1%
Institutional	8	0.0%	\$50.00	\$600.00	\$4,800	0.1%
Public Building	81	0.2%	\$50.00	\$600.00	\$48,600	0.8%
<b>Total</b>	<b>66,237</b>				<b>\$6,183,269</b>	

*Example Allocation Methodology 3*

Table 3 demonstrates a similar methodology, but lowers the multi-family fee to one half of the residential fee. This method shifts a portion of the allocation back to residential, resulting in a monthly fee of \$7.60, and provides a monthly per unit multi-family fee of \$3.80. As an example, this methodology would result in the City's 924 duplexes paying the same rate as the \$7.60 residential rate.

**Table 3: Allocation Method 3 (1/2 residential rate applied to multi-family based on unit count)**

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.1%	\$7.60	\$91.20	\$3,623,558	59.1%
Multi-Family (Per Unit)	23,951	4.1%	\$3.80	\$45.60	\$1,092,166	17.8%
Irrigation	23	0.1%	\$7.60	\$91.20	\$2,098	0.0%
Small Commercial	70	0.2%	\$7.60	\$91.20	\$6,384	0.1%
Commercial	2,360	5.3%	\$50.00	\$600.00	\$1,416,000	23.1%
Industrial	12	0.0%	\$50.00	\$600.00	\$7,200	0.1%
Institutional	8	0.0%	\$50.00	\$600.00	\$4,800	0.1%
Public Building	81	0.2%	\$50.00	\$600.00	\$48,600	0.8%
<b>Total</b>	<b>66,237</b>				<b>\$6,200,806</b>	

Table 4 compares the three example allocation methods, along with the corresponding monthly fee ranges.

**Table 4: Comparison of Allocation Methodologies (\$6 Million Revenue Target)**

Monthly Allocation Expense Comparison	Allocation Method 1	Allocation Method 2 (Res. Rate per Unit)	Allocation Method 3 (1/2 Res. Rate per Unit)
Residential	\$9.20	\$6.15	\$7.60
Multi-Family Units <5	\$9.20	\$12.30 to \$24.60	\$7.60 to \$15.20
Multi-Family Units 5-25	\$34.10	\$30.75 to \$153.75	\$19.00 to \$95.00
Multi-Family Units >25	\$59.00	\$159.90 to \$1,377.60	\$98.80 to \$851.20
Irrigation	\$9.20	\$6.15	\$7.60
Small Commercial	\$9.20	\$6.15	\$7.60
Commercial	\$44.25	\$50.00	\$50.00
Industrial	\$44.25	\$50.00	\$50.00
Institutional	\$44.25	\$50.00	\$50.00
Public Building	\$44.25	\$50.00	\$50.00

A detailed comparison of the impact of the three allocation methodologies on multi-family customers is presented in Attachment 1.

Due to the variability of forecasting, this report includes multiple examples of revenue options to generate a minimum of \$6 million dollars per year, while also demonstrating what would be needed to generate a higher amount. Table 5 compares the same three allocation methods, but with the rates needed to generate \$8 million in revenue.

**Table 5: Comparison of Allocation Methodologies (\$8 Million Revenue Target)**

Monthly Allocation Expense Comparison	Allocation Method 1	Allocation Method 2 (Res. Rate per Unit)	Allocation Method 3 (1/2 Res. Rate per Unit)
Residential	\$11.40	\$7.80	\$9.60
Multi-Family Units <5	\$11.40	\$15.60 to \$31.20	\$9.60 to \$19.20
Multi-Family Units 5-25	\$42.25	\$39.00 to \$195.00	\$24.00 to \$120.00
Multi-Family Units >25	\$73.11	\$202.80 to \$1,747.20	\$124.80 to \$1,075.20
Irrigation	\$11.40	\$7.80	\$9.60
Small Commercial	\$11.40	\$7.80	\$9.60
Commercial	\$75.00	\$75.00	\$75.00
Industrial	\$75.00	\$75.00	\$75.00
Institutional	\$75.00	\$75.00	\$75.00
Public Building	\$75.00	\$75.00	\$75.00

## OTHER CONSIDERATIONS

As discussed at the previous task force meeting, there are efficiencies that are gained by using the existing City utility bill to collect a fee. However, there are also limitations regarding the commercial, industrial, institutional, and public building classifications. The small commercial classification was created as part of the streetlight fee implementation to provide a lower streetlight fee to smaller commercial accounts, identified by stormwater impervious surface data (less than 3,000 sqft. of impervious surface).

The additional classifications, including public buildings, were allocated a set rate due to the complexity of the data. Since the City does not have additional relevant data, including employee count or type of business, it is difficult to differentiate the classes. While the use of meter size or impervious surface was also considered, neither method creates a sufficient nexus to support their use as part of the methodology.

Affordability and equity are other topics discussed by the task force. Under any of the approaches discussed above, considerations could be made to provide some method of fee relief for low income residents. Options could include credits or exemptions for providers of affordable housing, or an application process where income factors could be considered. Depending on the desired credit amounts and level of participation, the fee structure may need to be revised to generate a similar level of total net revenue.

## RECOMMENDATION:

Staff recommends the Sustainable Services Revenue Task Force forward a recommendation to the City Council to consider implementation of a City operating fee to generate a minimum of \$6 million dollars to help sustain current service levels in the General Fund.

Attachment 1: Sample Multi-Family Unit Allocations Based on Size of Complex

**City Operating Fee - Sample Multi-Family Unit Allocations Based on Size of Complex**

Multi-Family Data		Allocation Method 1 - \$6 Million (Unit Range Allocation)			Allocation Method 2 - \$6 Million (Residential Per Unit Allocation)			Allocation Method 3 - \$6 Million (1/2 Residential Per Unit Allocation)		
Number of Multi-Family Units	Number of Accounts	Rate	Per Month	Annual Fee	Rate	Per Month	Annual Fee	Rate	Per Month	Annual Fee
2	924	\$9.20	\$9.20	\$110.40	\$6.15	\$12.30	\$147.60	\$3.80	\$7.60	\$91.20
3	138	\$9.20	\$9.20	\$110.40	\$6.15	\$18.45	\$221.40	\$3.80	\$11.40	\$136.80
4	233	\$9.20	\$9.20	\$110.40	\$6.15	\$24.60	\$295.20	\$3.80	\$15.20	\$182.40
5	48	\$34.10	\$34.10	\$409.20	\$6.15	\$30.75	\$369.00	\$3.80	\$19.00	\$228.00
6	97	\$34.10	\$34.10	\$409.20	\$6.15	\$36.90	\$442.80	\$3.80	\$22.80	\$273.60
7	21	\$34.10	\$34.10	\$409.20	\$6.15	\$43.05	\$516.60	\$3.80	\$26.60	\$319.20
8	93	\$34.10	\$34.10	\$409.20	\$6.15	\$49.20	\$590.40	\$3.80	\$30.40	\$364.80
9	14	\$34.10	\$34.10	\$409.20	\$6.15	\$55.35	\$664.20	\$3.80	\$34.20	\$410.40
10	47	\$34.10	\$34.10	\$409.20	\$6.15	\$61.50	\$738.00	\$3.80	\$38.00	\$456.00
11	13	\$34.10	\$34.10	\$409.20	\$6.15	\$67.65	\$811.80	\$3.80	\$41.80	\$501.60
12	77	\$34.10	\$34.10	\$409.20	\$6.15	\$73.80	\$885.60	\$3.80	\$45.60	\$547.20
13	6	\$34.10	\$34.10	\$409.20	\$6.15	\$79.95	\$959.40	\$3.80	\$49.40	\$592.80
14	23	\$34.10	\$34.10	\$409.20	\$6.15	\$86.10	\$1,033.20	\$3.80	\$53.20	\$638.40
15	9	\$34.10	\$34.10	\$409.20	\$6.15	\$92.25	\$1,107.00	\$3.80	\$57.00	\$684.00
16	45	\$34.10	\$34.10	\$409.20	\$6.15	\$98.40	\$1,180.80	\$3.80	\$60.80	\$729.60
17	9	\$34.10	\$34.10	\$409.20	\$6.15	\$104.55	\$1,254.60	\$3.80	\$64.60	\$775.20
18	29	\$34.10	\$34.10	\$409.20	\$6.15	\$110.70	\$1,328.40	\$3.80	\$68.40	\$820.80
19	5	\$34.10	\$34.10	\$409.20	\$6.15	\$116.85	\$1,402.20	\$3.80	\$72.20	\$866.40
20	31	\$34.10	\$34.10	\$409.20	\$6.15	\$123.00	\$1,476.00	\$3.80	\$76.00	\$912.00
21	2	\$34.10	\$34.10	\$409.20	\$6.15	\$129.15	\$1,549.80	\$3.80	\$79.80	\$957.60
22	5	\$34.10	\$34.10	\$409.20	\$6.15	\$135.30	\$1,623.60	\$3.80	\$83.60	\$1,003.20
23	2	\$34.10	\$34.10	\$409.20	\$6.15	\$141.45	\$1,697.40	\$3.80	\$87.40	\$1,048.80
24	15	\$34.10	\$34.10	\$409.20	\$6.15	\$147.60	\$1,771.20	\$3.80	\$91.20	\$1,094.40
25	7	\$34.10	\$34.10	\$409.20	\$6.15	\$153.75	\$1,845.00	\$3.80	\$95.00	\$1,140.00
26	3	\$59.00	\$59.00	\$708.00	\$6.15	\$159.90	\$1,918.80	\$3.80	\$98.80	\$1,185.60
27	1	\$59.00	\$59.00	\$708.00	\$6.15	\$166.05	\$1,992.60	\$3.80	\$102.60	\$1,231.20
28	11	\$59.00	\$59.00	\$708.00	\$6.15	\$172.20	\$2,066.40	\$3.80	\$106.40	\$1,276.80
29	6	\$59.00	\$59.00	\$708.00	\$6.15	\$178.35	\$2,140.20	\$3.80	\$110.20	\$1,322.40
30	8	\$59.00	\$59.00	\$708.00	\$6.15	\$184.50	\$2,214.00	\$3.80	\$114.00	\$1,368.00
31	4	\$59.00	\$59.00	\$708.00	\$6.15	\$190.65	\$2,287.80	\$3.80	\$117.80	\$1,413.60
32	20	\$59.00	\$59.00	\$708.00	\$6.15	\$196.80	\$2,361.60	\$3.80	\$121.60	\$1,459.20
33	5	\$59.00	\$59.00	\$708.00	\$6.15	\$202.95	\$2,435.40	\$3.80	\$125.40	\$1,504.80
34	2	\$59.00	\$59.00	\$708.00	\$6.15	\$209.10	\$2,509.20	\$3.80	\$129.20	\$1,550.40
35	6	\$59.00	\$59.00	\$708.00	\$6.15	\$215.25	\$2,583.00	\$3.80	\$133.00	\$1,596.00
36	10	\$59.00	\$59.00	\$708.00	\$6.15	\$221.40	\$2,656.80	\$3.80	\$136.80	\$1,641.60
37	1	\$59.00	\$59.00	\$708.00	\$6.15	\$227.55	\$2,730.60	\$3.80	\$140.60	\$1,687.20
38	3	\$59.00	\$59.00	\$708.00	\$6.15	\$233.70	\$2,804.40	\$3.80	\$144.40	\$1,732.80
39	2	\$59.00	\$59.00	\$708.00	\$6.15	\$239.85	\$2,878.20	\$3.80	\$148.20	\$1,778.40
40	6	\$59.00	\$59.00	\$708.00	\$6.15	\$246.00	\$2,952.00	\$3.80	\$152.00	\$1,824.00
41	2	\$59.00	\$59.00	\$708.00	\$6.15	\$252.15	\$3,025.80	\$3.80	\$155.80	\$1,869.60
42	8	\$59.00	\$59.00	\$708.00	\$6.15	\$258.30	\$3,099.60	\$3.80	\$159.60	\$1,915.20
43	2	\$59.00	\$59.00	\$708.00	\$6.15	\$264.45	\$3,173.40	\$3.80	\$163.40	\$1,960.80
44	7	\$59.00	\$59.00	\$708.00	\$6.15	\$270.60	\$3,247.20	\$3.80	\$167.20	\$2,006.40
45	1	\$59.00	\$59.00	\$708.00	\$6.15	\$276.75	\$3,321.00	\$3.80	\$171.00	\$2,052.00
46	4	\$59.00	\$59.00	\$708.00	\$6.15	\$282.90	\$3,394.80	\$3.80	\$174.80	\$2,097.60
47	1	\$59.00	\$59.00	\$708.00	\$6.15	\$289.05	\$3,468.60	\$3.80	\$178.60	\$2,143.20
48	4	\$59.00	\$59.00	\$708.00	\$6.15	\$295.20	\$3,542.40	\$3.80	\$182.40	\$2,188.80
49	3	\$59.00	\$59.00	\$708.00	\$6.15	\$301.35	\$3,616.20	\$3.80	\$186.20	\$2,234.40
50	7	\$59.00	\$59.00	\$708.00	\$6.15	\$307.50	\$3,690.00	\$3.80	\$190.00	\$2,280.00
51	2	\$59.00	\$59.00	\$708.00	\$6.15	\$313.65	\$3,763.80	\$3.80	\$193.80	\$2,325.60
53	3	\$59.00	\$59.00	\$708.00	\$6.15	\$325.95	\$3,911.40	\$3.80	\$201.40	\$2,416.80
54	4	\$59.00	\$59.00	\$708.00	\$6.15	\$332.10	\$3,985.20	\$3.80	\$205.20	\$2,462.40
55	4	\$59.00	\$59.00	\$708.00	\$6.15	\$338.25	\$4,059.00	\$3.80	\$209.00	\$2,508.00
56	3	\$59.00	\$59.00	\$708.00	\$6.15	\$344.40	\$4,132.80	\$3.80	\$212.80	\$2,553.60
58	1	\$59.00	\$59.00	\$708.00	\$6.15	\$356.70	\$4,280.40	\$3.80	\$220.40	\$2,644.80
59	1	\$59.00	\$59.00	\$708.00	\$6.15	\$362.85	\$4,354.20	\$3.80	\$224.20	\$2,690.40
60	3	\$59.00	\$59.00	\$708.00	\$6.15	\$369.00	\$4,428.00	\$3.80	\$228.00	\$2,736.00
62	1	\$59.00	\$59.00	\$708.00	\$6.15	\$381.30	\$4,575.60	\$3.80	\$235.60	\$2,827.20
63	2	\$59.00	\$59.00	\$708.00	\$6.15	\$387.45	\$4,649.40	\$3.80	\$239.40	\$2,872.80
64	2	\$59.00	\$59.00	\$708.00	\$6.15	\$393.60	\$4,723.20	\$3.80	\$243.20	\$2,918.40
65	3	\$59.00	\$59.00	\$708.00	\$6.15	\$399.75	\$4,797.00	\$3.80	\$247.00	\$2,964.00

**City Operating Fee - Sample Multi-Family Unit Allocations Based on Size of Complex**

Multi-Family Data		Allocation Method 1 - \$6 Million (Unit Range Allocation)			Allocation Method 2 - \$6 Million (Residential Per Unit Allocation)			Allocation Method 3 - \$6 Million (1/2 Residential Per Unit Allocation)		
Number of Multi-Family Units	Number of Accounts	Rate	Per Month	Annual Fee	Rate	Per Month	Annual Fee	Rate	Per Month	Annual Fee
66	2	\$59.00	\$59.00	\$708.00	\$6.15	\$405.90	\$4,870.80	\$3.80	\$250.80	\$3,009.60
67	1	\$59.00	\$59.00	\$708.00	\$6.15	\$412.05	\$4,944.60	\$3.80	\$254.60	\$3,055.20
68	1	\$59.00	\$59.00	\$708.00	\$6.15	\$418.20	\$5,018.40	\$3.80	\$258.40	\$3,100.80
69	3	\$59.00	\$59.00	\$708.00	\$6.15	\$424.35	\$5,092.20	\$3.80	\$262.20	\$3,146.40
70	1	\$59.00	\$59.00	\$708.00	\$6.15	\$430.50	\$5,166.00	\$3.80	\$266.00	\$3,192.00
72	1	\$59.00	\$59.00	\$708.00	\$6.15	\$442.80	\$5,313.60	\$3.80	\$273.60	\$3,283.20
73	2	\$59.00	\$59.00	\$708.00	\$6.15	\$448.95	\$5,387.40	\$3.80	\$277.40	\$3,328.80
74	1	\$59.00	\$59.00	\$708.00	\$6.15	\$455.10	\$5,461.20	\$3.80	\$281.20	\$3,374.40
78	4	\$59.00	\$59.00	\$708.00	\$6.15	\$479.70	\$5,756.40	\$3.80	\$296.40	\$3,556.80
79	1	\$59.00	\$59.00	\$708.00	\$6.15	\$485.85	\$5,830.20	\$3.80	\$300.20	\$3,602.40
80	3	\$59.00	\$59.00	\$708.00	\$6.15	\$492.00	\$5,904.00	\$3.80	\$304.00	\$3,648.00
82	1	\$59.00	\$59.00	\$708.00	\$6.15	\$504.30	\$6,051.60	\$3.80	\$311.60	\$3,739.20
83	1	\$59.00	\$59.00	\$708.00	\$6.15	\$510.45	\$6,125.40	\$3.80	\$315.40	\$3,784.80
84	2	\$59.00	\$59.00	\$708.00	\$6.15	\$516.60	\$6,199.20	\$3.80	\$319.20	\$3,830.40
86	1	\$59.00	\$59.00	\$708.00	\$6.15	\$528.90	\$6,346.80	\$3.80	\$326.80	\$3,921.60
87	1	\$59.00	\$59.00	\$708.00	\$6.15	\$535.05	\$6,420.60	\$3.80	\$330.60	\$3,967.20
89	1	\$59.00	\$59.00	\$708.00	\$6.15	\$547.35	\$6,568.20	\$3.80	\$338.20	\$4,058.40
90	1	\$59.00	\$59.00	\$708.00	\$6.15	\$553.50	\$6,642.00	\$3.80	\$342.00	\$4,104.00
92	1	\$59.00	\$59.00	\$708.00	\$6.15	\$565.80	\$6,789.60	\$3.80	\$349.60	\$4,195.20
94	1	\$59.00	\$59.00	\$708.00	\$6.15	\$578.10	\$6,937.20	\$3.80	\$357.20	\$4,286.40
100	1	\$59.00	\$59.00	\$708.00	\$6.15	\$615.00	\$7,380.00	\$3.80	\$380.00	\$4,560.00
101	2	\$59.00	\$59.00	\$708.00	\$6.15	\$621.15	\$7,453.80	\$3.80	\$383.80	\$4,605.60
102	1	\$59.00	\$59.00	\$708.00	\$6.15	\$627.30	\$7,527.60	\$3.80	\$387.60	\$4,651.20
103	1	\$59.00	\$59.00	\$708.00	\$6.15	\$633.45	\$7,601.40	\$3.80	\$391.40	\$4,696.80
108	1	\$59.00	\$59.00	\$708.00	\$6.15	\$664.20	\$7,970.40	\$3.80	\$410.40	\$4,924.80
115	2	\$59.00	\$59.00	\$708.00	\$6.15	\$707.25	\$8,487.00	\$3.80	\$437.00	\$5,244.00
116	3	\$59.00	\$59.00	\$708.00	\$6.15	\$713.40	\$8,560.80	\$3.80	\$440.80	\$5,289.60
120	1	\$59.00	\$59.00	\$708.00	\$6.15	\$738.00	\$8,856.00	\$3.80	\$456.00	\$5,472.00
125	1	\$59.00	\$59.00	\$708.00	\$6.15	\$768.75	\$9,225.00	\$3.80	\$475.00	\$5,700.00
126	2	\$59.00	\$59.00	\$708.00	\$6.15	\$774.90	\$9,298.80	\$3.80	\$478.80	\$5,745.60
128	1	\$59.00	\$59.00	\$708.00	\$6.15	\$787.20	\$9,446.40	\$3.80	\$486.40	\$5,836.80
129	1	\$59.00	\$59.00	\$708.00	\$6.15	\$793.35	\$9,520.20	\$3.80	\$490.20	\$5,882.40
132	1	\$59.00	\$59.00	\$708.00	\$6.15	\$811.80	\$9,741.60	\$3.80	\$501.60	\$6,019.20
140	2	\$59.00	\$59.00	\$708.00	\$6.15	\$861.00	\$10,332.00	\$3.80	\$532.00	\$6,384.00
144	2	\$59.00	\$59.00	\$708.00	\$6.15	\$885.60	\$10,627.20	\$3.80	\$547.20	\$6,566.40
149	1	\$59.00	\$59.00	\$708.00	\$6.15	\$916.35	\$10,996.20	\$3.80	\$566.20	\$6,794.40
152	1	\$59.00	\$59.00	\$708.00	\$6.15	\$934.80	\$11,217.60	\$3.80	\$577.60	\$6,931.20
154	1	\$59.00	\$59.00	\$708.00	\$6.15	\$947.10	\$11,365.20	\$3.80	\$585.20	\$7,022.40
155	1	\$59.00	\$59.00	\$708.00	\$6.15	\$953.25	\$11,439.00	\$3.80	\$589.00	\$7,068.00
164	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,008.60	\$12,103.20	\$3.80	\$623.20	\$7,478.40
167	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,027.05	\$12,324.60	\$3.80	\$634.60	\$7,615.20
168	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,033.20	\$12,398.40	\$3.80	\$638.40	\$7,660.80
172	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,057.80	\$12,693.60	\$3.80	\$653.60	\$7,843.20
180	2	\$59.00	\$59.00	\$708.00	\$6.15	\$1,107.00	\$13,284.00	\$3.80	\$684.00	\$8,208.00
204	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,254.60	\$15,055.20	\$3.80	\$775.20	\$9,302.40
205	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,260.75	\$15,129.00	\$3.80	\$779.00	\$9,348.00
213	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,309.95	\$15,719.40	\$3.80	\$809.40	\$9,712.80
220	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,353.00	\$16,236.00	\$3.80	\$836.00	\$10,032.00
224	1	\$59.00	\$59.00	\$708.00	\$6.15	\$1,377.60	\$16,531.20	\$3.80	\$851.20	\$10,214.40

**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** CITY PAYROLL TAX

**ISSUE:**

Shall the Sustainable Services Revenue Task Force forward a recommendation to the City Council for consideration of a City payroll tax?

**SUMMARY AND BACKGROUND:**

At the November 7, 2018 meeting, the task force discussed the details of a potential City payroll tax. After discussion, the task force asked staff to return with additional information, including options that address equity and affordability.

A payroll tax can be implemented in two different ways. An *employer-paid* payroll tax is utilized by Tri-Met in the Portland Metropolitan area and the Lane County Transit District. This method is a tax that is assessed on the employer, based on employee wages, and paid to the taxing jurisdiction by the employer. An *employee-paid* payroll tax is paid by the employee through payroll wage withholding, and submitted to the taxing jurisdiction by the employer on the employee's behalf. Both methods result in a progressive tax methodology, which would be based on a percentage of an employee's individual gross wages.

As discussed at the November 7, 2018 task force meeting, Salem specific wage data is difficult to isolate, as the Oregon Employment Department aggregates the data at the county level within the Salem Metropolitan Statistical Area (MSA), which includes Marion and Polk counties. Table 1 uses 2012 US Census data as a way to provide a Salem estimate.

**Table 1: Estimated wages for the Salem MSA**

Estimated Wage Income	2012 Data	2017 Data
Salem MSA <i>OR Empl. Dept (Marion and Polk Counties)</i>	\$5,540,131,375	\$7,547,078,422
Salem Estimate* <i>2012 US Census Data (NAICS)</i>	\$2,457,862,000	\$3,348,237,796
<i>Allocation Percentage</i>	<i>0.4436</i>	<i>0.4436</i>

*\* Salem 2017 wages are estimated by comparing the 2012 Salem MSA data to the 2012 Salem specific NAICS data, and allocating a similar percentage to the 2017 Salem MSA data.*

While the previous table provides an estimate for Salem wages, it is important to note that more analysis will be needed if the task force recommends moving a payroll tax forward for City Council's consideration. Staff has had conversations with the Department of Revenue regarding wage data and potential administrative costs, but additional work will be needed. Those continuing conversations may result in tax rates that differ from the examples provided in this report.

**EMPLOYEE PAYROLL TAX RATE OF 0.2%**

Based on estimated Salem wages, a tax rate of 0.2% (two tenths of one percent) would generate approximately \$6.7 million in revenue. Table 2 details the impact to wage earners based on sample income amounts.

**Table 2: Tax Impact on sample annual wage rates**

Sample Gross Wage Amount	Tax Percentage	Monthly Tax	Annual Tax
\$10,000	0.20%	\$1.67	\$20.00
\$25,000	0.20%	\$4.17	\$50.00
\$50,000	0.20%	\$8.33	\$100.00
\$75,000	0.20%	\$12.50	\$150.00
\$100,000	0.20%	\$16.67	\$200.00

**EMPLOYEE PAYROLL TAX RATE OF 0.25%**

Table 3 details the impact of a 0.25% (one quarter of one percent) tax, which would generate approximately \$8.4 million in revenue.

**Table 3: Tax Impact on sample annual wage rates**

Sample Gross Wage Amount	Tax Percentage	Monthly Tax	Annual Tax
\$10,000	0.25%	\$2.08	\$25.00
\$25,000	0.25%	\$5.21	\$62.50
\$50,000	0.25%	\$10.42	\$125.00
\$75,000	0.25%	\$15.63	\$187.50
\$100,000	0.25%	\$20.83	\$250.00

**RECOMMENDATION:**

Staff recommends the Sustainable Services Revenue Task Force forward a recommendation to the City Council to consider implementation of a City payroll tax applied to employees of all employers within Salem, and in a method that generates a minimum of \$6 million dollars to sustain current service levels in the General Fund.



**TO:** SUSTAINABLE SERVICES REVENUE TASK FORCE  
**FROM:** STEVE POWERS, CITY MANAGER  
**SUBJECT:** LOCAL GAS TAX

**ISSUE:**

Shall the Sustainable Services Revenue Task Force forward a recommendation to the City Council for consideration of a local gas tax?

**SUMMARY AND BACKGROUND:**

At the November 7, 2018 meeting, the task force discussed a local gas tax, which would help to sustain transportation system operations and maintenance.

The current financial forecast for the City's Transportation Services Fund is relatively stable in the short term but most essential activities, such as pavement maintenance, are funded at minimal levels. There are many unmet needs, and this significant, additional revenue stream could be used to conduct or enhance pavement, sidewalk, or bridge maintenance, or traffic signal operations.

A gas tax is an amount charged per gallon of motor vehicle fuel used or distributed in a city or county. The Oregon Constitution mandates that revenue derived from the sale, import or distribution of motor vehicle fuel must be used to construct, improve, repair, maintain, or operate public highways, road, and streets.

In addition to the state tax, 27 cities and 2 counties have a local gas tax ranging from one cent to ten cents per gallon of motor vehicle fuel. Since 2009, all local gas tax measures must be approved by voters. If voters approved a local gas tax in Salem, implementation could occur in a short timeframe and without the addition of City administrative positions if the Oregon Department of Transportation were to administer and collect the tax.

## LOCAL GAS TAX

The data below, which was first reviewed by the task force at its October 30, 2018 meeting, demonstrates local gas tax rates of neighboring jurisdictions with an example of a Salem rate.

City	Gas Tax Rate per Gallon	Revenue Based on FY 2017	Miles of Streets
Eugene	\$0.05	\$3,081,192	538
Portland	\$0.10	\$9,787,463	2,002
Springfield	\$0.03	\$1,071,487	267
Tigard	\$0.03	\$844,866	150
<i>Salem</i>	<i>\$0.06</i>	<i>\$4,818,000•</i>	<i>640</i>

- Estimation of Salem revenue based on Oregon Department of Transportation fuel distribution records. Revenue estimate is discounted by 20 percent to account for gas stations outside of Salem city limits, but within the fuel distribution area.

## RECOMMENDATION:

Staff recommends the Sustainable Services Revenue Task Force forward a recommendation to the City Council to consider implementation of a local gas tax to generate revenue to help sustain transportation system operations and maintenance.

## Revenue Implementation

Of the recommended revenue options from the Sustainable Services Revenue Task Force, there are two possible approval paths for the General Fund revenue sources of a city operating fee and payroll tax and one approval path for the Transportation Fund revenue option of a local gas tax. As directed by state statute, a local gas tax must be referred to and approved by voters. The General Fund options may be referred to voters or enacted by City Council through an ordinance. The Sustainable Services Revenue Task Force recommended that both be referred to voters.

### Voter Referral

It is important to note with the voter referral option, additional time past the election date would be necessary for staff to implement any voter-approved action.

The table below demonstrates the timing required for referring revenue initiatives to voters. The 2020 election dates, as listed, are tentative as the Secretary of State has not released an official elections calendar for that year. The tentative dates are based Secretary of State published manuals. Total days until the filing deadline are as of April 15, 2019.

#### *Ballot Measure Timeline*

<b>September 2019</b> Special Election	Filing Deadline:	6/29/2019
	Council Meetings Prior to Deadline:	5
	Total Days:	75
	Requires Double Majority Vote	Yes
<b>November 2019</b> General Election	Filing Deadline:	8/17/2019
	Council Meetings Prior to Deadline:	8
	Total Days:	124
	Requires Double Majority Vote	No
<b>March 2020</b> Special Election	Filing Deadline: <i>(tentative)</i>	12/20/2019
	Council Meetings Prior to Deadline:	17
	Total Days:	249
	Requires Double Majority Vote	Yes
<b>May 2020</b> General Election	Filing Deadline: <i>(tentative)</i>	2/29/2020
	Council Meetings Prior to Deadline	21
	Total Days:	320
	Requires Double Majority Vote	No

## **City Council Enactment**

The two revenue options recommended by the task force for the General Fund may be enacted by City Council through an ordinance or through referral to and approval by voters. For both recommended options, there are different administrative considerations that require additional time for implementation beyond the adoption of an ordinance. Regardless of the approval path – ordinance or voter referral – the below-outlined steps would need to take place for any program deployment. It is important to note that a City Council-enacted option would be subject to the referral process for up to 30 days following the passage of the ordinance.

### *Payroll Tax*

City staff would work with the Department of Revenue (DOR) to develop the necessary tax collection and administrative structure based on the ordinance approved by City Council. Currently, the DOR collects payroll taxes on behalf of two transit districts in Oregon, but no municipal government. Due to this, time for program development and intergovernmental agreements beyond an ordinance adoption would need to be considered. If enacted by Council, the timing estimate would be 18 months at a minimum.

The City of Eugene is currently in conversations with the DOR to administer a municipal payroll tax. If the City of Eugene enters into an agreement with the DOR for payroll tax collection, thus creating a framework to replicate, it is possible implementation of a City of Salem payroll tax would be quicker than 18 months.

### *Operating Fee*

For an operating fee structured consistent with the City's utility billing system, implementation without voter referral could occur within six months. The utility billing system is able to base fees on five data points: customer classification, meter size, impervious area, dwelling units, and per account. If City Council directed implementation of a City operating fee structured in a way that did not utilize one of the five options, additional time would be needed to develop a collection system.