

Supplemental Information

The following information consists of:

- Recommendation from the Sustainable Services Revenue Task Force
- Task Force charter
- Task Force roster
- Summary of revenue options and rankings
- Timeline for implementation options

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

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

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



*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

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
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

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%
Total	44,115				\$8,189,746	

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.

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%
Total	66,237				\$8,184,334	

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%
Total	66,237				\$8,182,318	

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%
Total	44,213				\$8,117,507	

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

Customer Classification	Total Units	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
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%
Total	66,339				\$8,119,894	

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

Customer Classification	Total Units	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
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%
Total	66,339				\$8,124,442	



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.

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

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

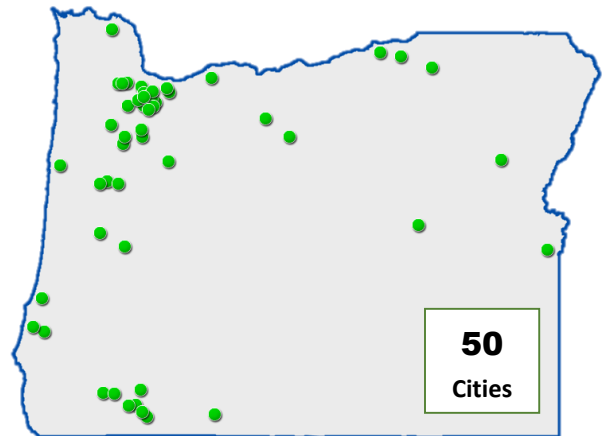
October 15, 2018



Alternative Revenue Source: City Operating Fee

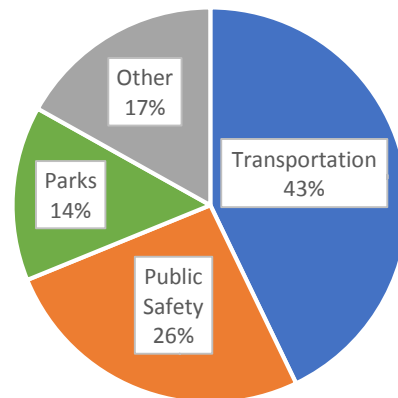
For an identified operational need, a monthly fee could be added as a separate line item on customer utility bills. The fee would create a distinct and dedicated revenue source to fund a specific program, which could be especially beneficial for programs and services paid from the general fund. It could 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



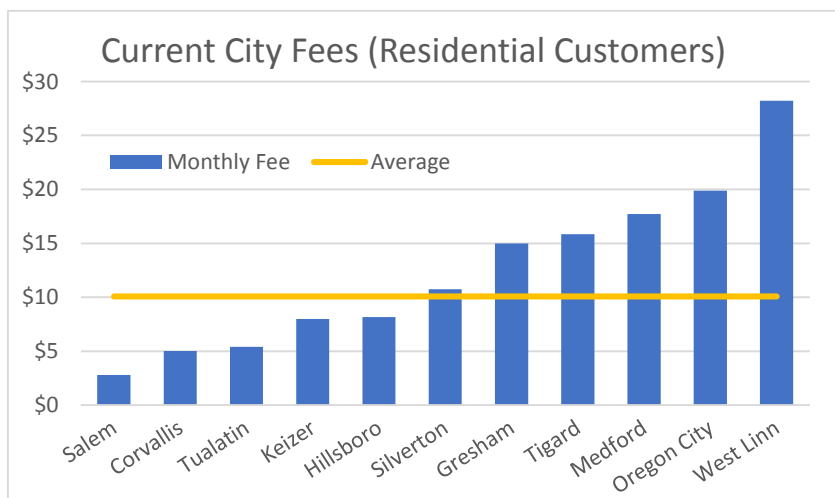
There are approximately 50 different cities in Oregon that have an operational fee on customer utility bills, as displayed on the map. Many of these cities (approximately 29) have two or more to fund different needs. Based on population size, 23 of the 30 largest cities in the state are utilizing this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

Types of Operating Fees Currently in OR



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.

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
Estimated Revenue (less 2% delinquency)		\$ 3,003,800	

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
Estimated Revenue (less 2% delinquency)		\$ 4,998,000	

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.

Fund / Service Area	Transportation Services Fund / Safe, Reliable, and Efficient Infrastructure
Strategic Initiative	Critical Infrastructure
Approval Body	Voters
Calculation Method	Amount per gallon
Rate	\$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.

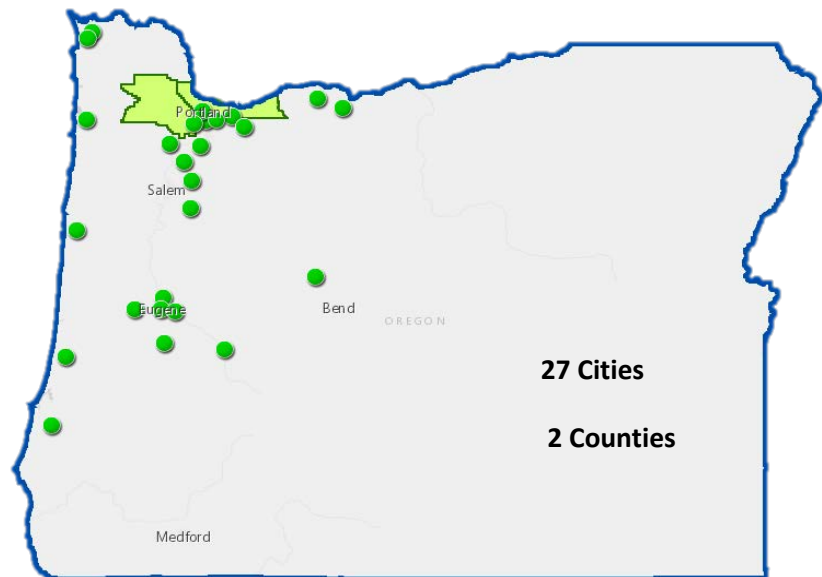
If a local gas tax was approved in Salem, implementation could occur without the addition of City administrative positions. Oregon Department of Transportation (ODOT) currently administers and collects local gas taxes on behalf of 19 municipalities for an affordable administration fee and minimal start-up 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%

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council or Voters
Calculation Method	Percent of Payroll Wages
Suggested Rate	.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
Tri-Met Transit	\$258,513,157	\$274,573,832	\$291,294,171	\$323,999,360	\$336,130,653	\$358,848,440
Lane CO. Mass Transit District	\$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

City of Salem Revenue Projection-Payroll Income Tax- 2017 Data						
	Annual Wages Salem MSA 2017	.05%	.10%	.25%	.50%	1.00%
Estimated Annual Revenue (% of Payroll)*	\$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.

Customer Classifications	Accounts	Percentage of Accounts	Rate	Revenue
Residential	39,732	90.06%	\$ 0.05	\$ 23,839
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%
					\$6,128,585	
Less 2% delinquency					(122,572)	
Estimated Annual Revenue					\$6,006,014	

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.

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.

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.

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%
Total	44,115				\$6,128,596	

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%
Total	66,237				\$6,183,269	

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%
Total	66,237				\$6,200,806	

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

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

Sustainable Services Revenue Task Force Charter

TASK FORCE PURPOSE

For several years the City has sustained many of the services residents rely on through cost reductions, deferring on-going needs and foregoing long-term investments. Even with these actions and improvements in the economy, the costs to provide services are greater than the revenues received to support those services, and costs are escalating at a faster rate. To sustain the current levels of service and recent investments toward achieving the community priorities identified in the Strategic Plan, additional revenue is needed.

The purpose of the revenue task force is to carry out the motion approved unanimously by the City Council upon adoption of the FY 2018-19 Budget and achieve one of the actions under the Strategic Plan goal of sustainable services. As directed in the motion and in accordance with the Strategic Plan, the task force will explore new, additional revenue sources and revenue adjustment to fees to sustain those services that do not have a dedicated revenue stream.

OUTCOME

The task force will gain understanding of the City's current and forecasted financial situation and be presented with possible options to help sustain current City services supported by the General Fund, such as police, fire, parks and libraries. After reviewing revenue alternatives the task force will recommend to the City Council new, additional revenue sources or changes to current fees that should be further explored. The City Council may choose to direct staff on the implementation of task force recommendations in order to balance future budgets and sustain services.

MEMBERSHIP

The task force will be made up of 14 members appointed by the City Council. Appointed members will assist with identifying revenues to sustain services that accomplish good governance; natural environment stewardship; a safe community; safe, reliable and efficient infrastructure; a strong and diverse economy; and a welcoming and livable community. The following recommendations are made to align with these community priorities:

Good Governance: The enterprise is managed to be fiscally sustainable, provide quality services, proactively engage residents, be forward thinking, and build capacity and partnerships to prepare for the future.

- Mayor Bennett
- Councilor Ausec and McCoid from the Sustainable Services work group
- Past Budget Committee Chair Raquel Moore-Green

Natural Environment Stewardship: Protect natural resources including healthy streams and the Willamette River, and reduce the impact from the built environment and City operations on the environment.

- One representative from Salem 350

- One representative from Straub Environmental Center

Safe Community: Providing an emergency response while proactively reducing the risk of crime, fire, natural disasters, and health emergencies to residents, businesses, and property owners.

- One representative from Salem Fire Foundation
- One representative from Salem Police Foundation

Safe, Reliable and Efficient Infrastructure: An integrated municipal asset system of streets, bridges and sidewalks, civic buildings, technology and utility systems.

- One representative from Marion & Polk Counties Homebuilders' Association
- One representative from utility provider

Strong and Diverse Economy: A diverse economic base, robust job growth, business retention and recruitment, and a thriving downtown.

- One representative of the Salem Economic Development Corporation
- One representative from the Latino Business Alliance

Welcoming and Livable Community: Neighborhoods are safe and clean, with a mix of quality housing with access to parks, recreation, historic and cultural resources, and the arts.

- One member of Salem Parks and Recreation Advisory Board
- One member from the Oregon Marshallese Community Organization

TASK FORCE MEMBER ROLES AND RESPONSIBILITIES

The task force will designate a chair and a vice chair. The chair, and vice chair in the chair's absence, will preside over task force meetings and work with staff and the facilitator to develop meeting agendas.

Members are expected to attend designated task force meetings and notify the chair when they are unavailable to attend a meeting. Members will come prepared to participate in discussions by studying materials provided in advance of the meetings.

MEETINGS

The task force will hold public meetings and follow all requirements under Oregon's public meeting laws. All meeting materials will be made available on the City's website in addition to relevant reports, studies or other reference material provided to the task force. Information about meeting dates, times and locations and meeting agendas will be published to the City's website at least twenty-four hours in advance of designated meeting times.

Procedure and Parliamentary Authority

The task force shall strive for consensus on matters and issues considered. In the absence of consensus a vote may be taken. When a formal task force action is necessary, such action will be governed by Roberts Rules of Order.

Facilitation

The City may contract with a facilitator to support the task force. In addition to assisting the task force with its work, the facilitator would assist staff and the chair in formulating agendas and ensuring the task force accomplishes the intended outcome prior to FY 2019-20 budget deliberations.

Record

Action minutes of the task force meeting shall serve as the official record of meetings and shall be made available upon request.

Meeting Schedule and Purpose

1. September 24 – Appointment of committee members; distribution of background materials and revenue options survey
2. October 15 – Meeting 1
 - Significant factors influencing service sustainability – presentation by staff
 - Revenue white paper Q & A
 - Receive direction from the committee regarding options that may be acceptable and viable for consideration to determine where research should be focused (survey)
3. October 30 – Meeting 2
 - Present options directed by committee, discuss and refine
4. November 7 – Meeting 3
 - Continuation of committee discussion and preparation for final direction
5. November 28 – Meeting 4
 - Final direction from the committee in advance of December 10 meeting
6. December 10 – City Council Meeting
 - Present committee recommendation to the City Council
 - Recommendation may be discussed in conjunction with early 2019 strategic planning and Council policy agenda setting.

ADMINISTRATIVE SUPPORT

Staff support, including research, agenda packet preparation, meeting scheduling and record keeping will be provided by the Budget, Finance and Purchasing Division of the City Manager's Office.

PRODUCT/OUTCOME

The task force will identify potential revenue sources for Council consideration to move the City toward a more diverse revenue stream that can sustain City services supported by General Fund revenues. The task force's recommendation will be approved by the task force at its final meeting. A report of the recommendations will be drafted by staff and reviewed by the chair prior to submission to the City Council. The timing of the Committee's work is intended to flow into the setting of the Council's 2019 Policy Agenda and the formation of the FY 2019-20 Budget.

TERM

The task force expires on December 31, 2018.

Sustainable Services Revenue Task Force Members

Name	Organization	Result Area
Mayor Bennett	City of Salem City Council	Good Governance
Councilor Ausec	City of Salem City Council	Good Governance
Councilor McCoid	City of Salem City Council	Good Governance
Raquel Moore-Green	Former Chair, City of Salem Budget Committee	Good Governance
Britni Davidson-Cruickshank	Salem Electric	Safe, Reliable and Efficient Infrastructure
Antonia Decker	Straub Environmental Center	Natural Environment Stewardship
Mike Erdmann	Home Builders Association of Marion & Polk Counties	Safe, Reliable and Efficient Infrastructure
Jesse Gasper	Oregon Marshallese Community	Welcoming and Livable Community
Theresa Haskins	Salem Economic Development Corporation Executive Board	Strong and Diverse Economy
Dayna Jung	Latino Business Alliance Board Member	Strong and Diverse Economy
Monica Pacheco	Salem Fire Foundation	Safe Community
Kasia Quillinan	Salem Parks and Recreation Board Chair	Welcoming and Livable Community
Ray Quisenberry	Salem 350	Natural Environment Stewardship
Dan Wellert	Salem Police Foundation	Safe Community



City of Salem Alternate Revenue Options

At its first meeting, the Sustainable Services Revenue Task Force was provided this matrix along with white papers on each of the below-noted revenue options. Task force members were asked to rank the five options of greatest interest. The results are summarized below with total scores and corresponding ranking for each revenue option. Scores were weighted to allow for consistent calculation across revenue options and member votes. For example, a rank of 1 by a member would score the revenue option 5 points, a rank of 2 would score 4 points, and so on. Members were also offered the opportunity to write-in additional ideas, which generated a cigarette tax and soda tax.

Revenue options with an asterisk (*) next to the ranking indicate a tie with another revenue option. The rows highlighted in green demonstrate where the three final recommended revenue sources placed in relation to other options.

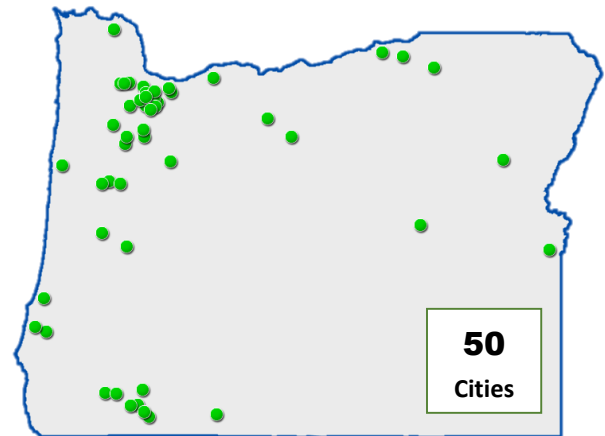
Rank	Score	Option	Summary Description	Strategic Initiative	Authorization	Implementation	Revenue Potential
1	28	City Operating Fee	Additional fee on City utility statement in a similar fashion as existing Streetlight Fee. Fee could be tied to specific programs (Public Safety, Parks, Library) or for general purposes.	Sustainable Services	Council Adoption; Potential Voter Referral	Less Difficult - Utilize existing City utility bill; Monthly fee structure.	High - Greater than \$1M depending on fee size and structure.
2	26	Payment in Lieu of Taxes	Fee assessed to State Agencies for services that are generally funded by property tax revenue. Examples include a Fire/Medical fee based on square footage or personnel.	Sustainable Services	State Legislature	Very Difficult - Would require legislative changes.	High - Greater than \$1M depending on fee size and structure.
3	18	Income Tax (Payroll Tax)	Local tax based on a percentage of employee wages, paid by employers on behalf of employees or paid by employees through a wage deduction. Could be remitted annually or quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would require clear communication to community about what tax revenue use.	High - Greater than \$1M depending on tax size and structure.
4	15	Construction Excise Tax	Excise tax on building permit valuation to fund affordable housing initiatives.	Affordable Housing	Council Adoption; Potential Voter Referral	Less Difficult - Invoiced under current permit system.	High - Greater than \$1M depending on fee size/inclusion.
5	14	Local Gas Tax	Local tax on gasoline sales. Transportation focus.	Critical Infrastructure	Council Adoption; Requires Voter Referral	Difficult - Potentially utilizing existing system of collection by the State of Oregon.	High - Greater than \$1M depending on tax size and structure.
6*	13	Local Option Levy	Voter approved local option levies are the only mechanism to raise operating revenue beyond the permanent rate; can be tied to a specific program. Subject to Measure 5 compression and are the first levies to be compressed. The levy would need to be larger (less efficient) since compression is present in Salem.	Sustainable Services	Council Adoption; Requires Voter Approval; Maximum 5 years	Difficult - Requires voter approval every 5 years. Subject to compression.	High - Greater than \$1M depending on levy size and structure.
6*	13	Retirement Community/Skilled Nursing Facility Bed Fee	Fee to offset usage costs (Fire/Medical) for this type of provider. Could be billed monthly/quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Less Difficult - Could be invoiced like Downtown Parking Tax.	Low - Between \$50K and \$900K based on size/inclusion.
7	11	911 Tax Increase	Increase to Emergency Communication Tax (9-1-1 tax), which supports operation and improvement of emergency reporting systems. Current rate is \$0.75 per phone line, per device capable of reaching 9-1-1, or per retail transaction of prepaid wireless services.	Sustainable Services	State Legislature	Difficult - Would require state legislative action and broad, state-wide support. Possible referral to voters.	Varies - \$600K-\$3.5M additional revenue depending on intent to cover cost of service (33%-100%).
8	9	Business License Fee	Annual Business License Fee for all businesses operating in City limits. Structure could include small/large businesses, multi-family housing, or other variations.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Application processing and collection (similar to short-term rentals).	Medium - Between \$500K and \$1M depending on fee size/inclusion.

Rank	Score	Option	Summary Description	Strategic Initiative	Authorization	Implementation	Revenue Potential
9	6	Property Tax Reform	Oregon's property tax system operates under two constitutional amendments, Measure 5 and Measure 50, designed to limit property taxes and make them predictable for taxpayers each year. The current system has no periodic recalibration of values and would require legislative reform to address the inequity across the system.	Sustainable Services	State Legislature	Difficult - Would require state legislative action to modify, or implement new functions, within existing system.	Varies - Could generate significant additional revenue depending on the changes implemented.
10*	4	New Taxing District/Dividing a Taxing District/Merging a Taxing District	Formation of a new taxing district, annex into a current district to provide a specified service, or merge with another taxing district.	Sustainable Services	Council Adoption; Overlapping Taxing district approval; Voter Approval.	Very Difficult - Would require a lengthy approval process.	High (Savings) - Could result in savings and operational stability.
10*	4	Admission/Amusement Tax	Tax on admission into events. Could be structured as a flat rate, a rate of the ticket value or a percent of gross receipts. Would be remitted via return-monthly or quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would need a larger number of employees to manage program which may offset revenue.	Varies - Between \$400K and \$2M depending on tax size and structure.
11	1	Prepared Food/Beverage Tax	Local tax on the prepared food sales in City limits. Would not include hospital or university dining halls. Captures revenue from non-residents.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would need an operational process established, plus potential registration of food businesses.	High - Greater than \$1M depending on tax size and structure.

Alternative Revenue Source: City Operating Fee

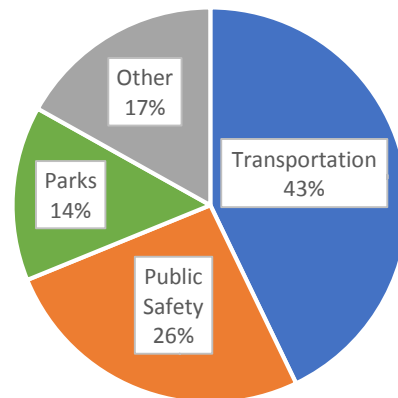
For an identified operational need, a monthly fee could be added as a separate line item on customer utility bills. The fee would create a distinct and dedicated revenue source to fund a specific program, which could be especially beneficial for programs and services paid from the general fund. It could 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



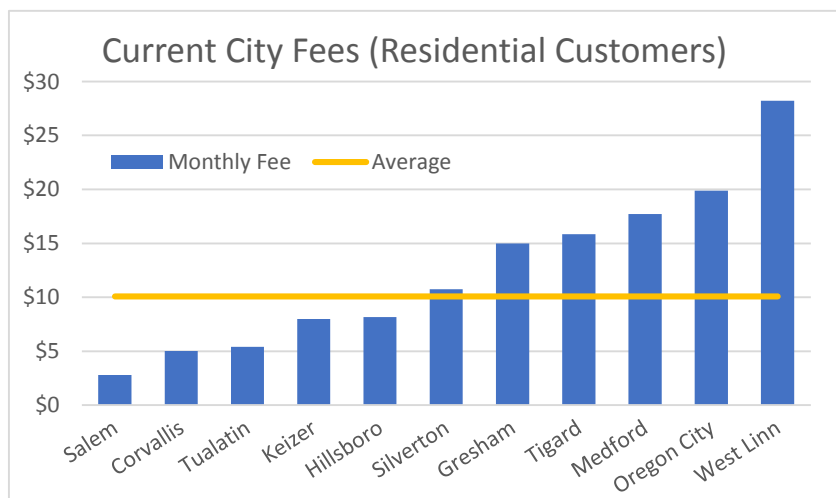
There are approximately 50 different cities in Oregon that have an operational fee on customer utility bills, as displayed on the map. Many of these cities (approximately 29) have two or more to fund different needs. Based on population size, 23 of the 30 largest cities in the state are utilizing this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

Types of Operating Fees Currently in OR



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.

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
Estimated Revenue (less 2% delinquency)		\$ 3,003,800	

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
Estimated Revenue (less 2% delinquency)		\$ 4,998,000	

Alternative Revenue Source: Payments in Lieu of Taxes (PILOT)

Property taxes in Oregon are used as the primary funding source for municipal general services. Property taxes are levied against the assessed value of properties. Some properties are exempt from property taxes and receive the same municipal services as the non-exempt properties. A few examples of exempt properties are 501(c)(3) organizations, various levels of government, and schools. In Salem, the largest non-City exempt property presence is the State of Oregon. As the state capital of Oregon, there is a concentration of state-owned properties requiring services that are effectively subsidized by other tax payers.

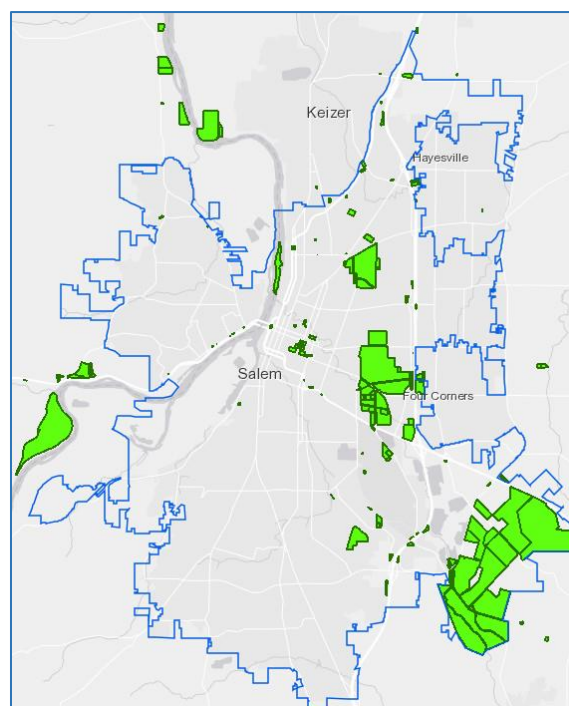
Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	State Legislature
Calculation Method	\$5.8315 per \$1,000 Assessed Value (AV)

A payment in lieu of taxes would be a direct payment made by the State of Oregon to the City of Salem to reimburse Salem for the tax revenue that would be received if the state-owned properties were not tax exempt. This revenue would be used to offset the portion of General Fund services that are provided to state-owned properties, such as police and fire protection.

Currently, the City of Olympia receives payments from the State of Washington for fire protection services. The total allowed amount for FY 2019 paid to this capital city was \$1,031,913.

The properties in green on the map to the right are state-owned as identified by tax lot. The green represents approximately 8% of area within the Salem city limits.

Revenue Forecast	Estimated Annual Revenue
FY 2019	\$ 5,689,687
FY 2020	\$ 5,860,378
FY 2021	\$ 6,036,189
FY 2022	\$ 6,217,275
FY 2023	\$ 6,403,793



Forecast Assumptions: The revenue forecast is based on a payment of based on the City of Salem tax levy of \$5.8315 per thousand of the value of the state-owned properties. The value is based on the real market value (RMV) of approximately \$1.4 billion (as reported by the Marion and Polk county assessors) adjusted with a change property ratio of 70% to simulate the assessed value (AV). Assumes an increase in AV of 3% annually.



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%

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council or Voters
Calculation Method	Percent of Payroll Wages
Suggested Rate	.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
Tri-Met Transit	\$258,513,157	\$274,573,832	\$291,294,171	\$323,999,360	\$336,130,653	\$358,848,440
Lane CO. Mass Transit District	\$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

City of Salem Revenue Projection-Payroll Income Tax- 2017 Data						
	Annual Wages Salem MSA 2017	.05%	.10%	.25%	.50%	1.00%
Estimated Annual Revenue (% of Payroll)*	\$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.*

Alternative Revenue Source: Construction Excise Tax

The State of Oregon expanded local control of affordable housing policy through the passage of SB 1533 B. The law, in addition to allowing for voluntary implementation of inclusionary zoning (requires or encourages new residential developments to make a certain percentage of the housing units affordable to low income residents), authorizes local governments to impose a Construction Excise Tax (CET) on improvements to real property to fund affordable housing initiatives.

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council
Calculation Method	Percentage of Permit Valuation
Rate	0% - 1%

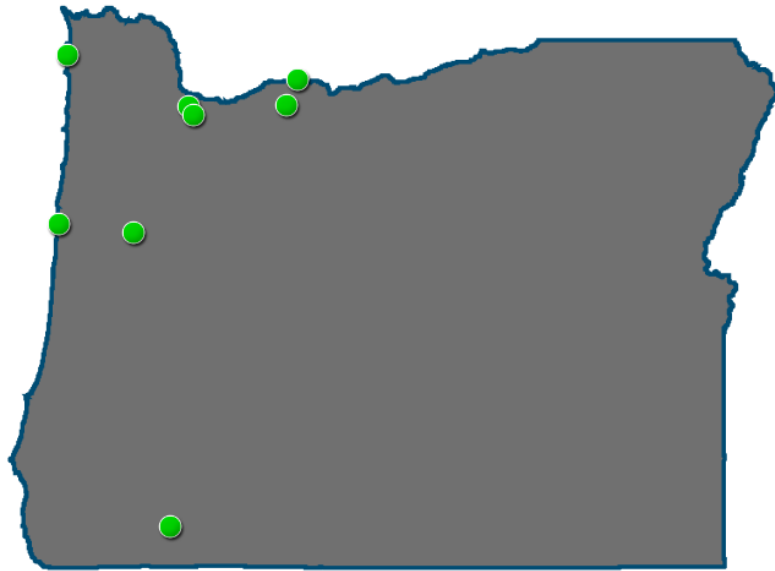
The legislation allows a tax rate up to 1% for residential properties and no limit on commercial properties. The tax would be based on a percentage of the permit valuation (estimated value of the construction project). The tax applies to new structures or additional square footage added to existing structures, including remodels that add living space. There are several mandated exemptions from the CET as well as a list of developer incentives that are allowed.

The revenue from the CET has restrictions on use based on whether the properties are residential or commercial with 4% of the revenue accessible by the City to fund the administration of the program. The balance of the funds from a tax of 1% for residential and commercial properties could be used as displayed in the table below.

Allowed Use	Annual Revenue Estimate
<i>Administration</i>	\$ 77,250
<i>Developer Incentives</i>	\$ 405,650
<i>Affordable Housing</i>	\$ 805,360
<i>State HCSD</i>	\$ 121,690
<i>Unrestricted</i>	\$ 521,410
Total	\$ 1,931,360

Property Type	Allowable Use of Revenue
Residential	<ul style="list-style-type: none"> • 50% dedicated to fund developer incentives • 35% for city affordable housing programs and incentives • 15% distributed to the State Housing and Community Services Dept. (HCSD) for down payment assistance
Commercial and Industrial	<ul style="list-style-type: none"> • 50% for city affordable housing programs and incentives • 50% unrestricted

Revenue Assumptions: The valuation data used to calculate the revenue estimate does include property that may be exempt from the CET. Also, the residential and commercial alteration valuation has been excluded since it is not clear if the alterations would qualify for the CET. The valuation is based on a five-year average from FY 2015 to FY 2018.



Several jurisdictions in Oregon have implemented a CET and several more are considering a CET. Tillamook County adopted a CET in May of 2017, and voters repealed the tax in November of 2017.

The rates vary slightly by jurisdiction and some opted to exempt additional property types from the CET.

City	Date Adopted	Residential Rate	Commercial Rate	Annual Revenue Estimate
Portland	June 29, 2016	1.00%	1.00%	\$8.1M
Hood River County	June 19, 2017	1.00%	1.00%	
Hood River City	July 24, 2017	1.00%	1.00%	\$165,000
Corvallis	November 7, 2016	1.00%	1.50%	\$660,000
Cannon Beach	June 6, 2017	1.00%	1.00%	\$96,000
Newport	August 7, 2017	1.00%	1.00%	\$100,000 - \$150,000
Milwaukie	November 21, 2017	1.00%	1.00%	
Medford	February 15, 2018	0.33%	0.33%	\$500,000
<i>*Data as reported by the Oregon Housing Alliance</i>				

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.

Fund / Service Area	Transportation Services Fund / Safe, Reliable, and Efficient Infrastructure
Strategic Initiative	Critical Infrastructure
Approval Body	Voters
Calculation Method	Amount per gallon
Rate	\$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.

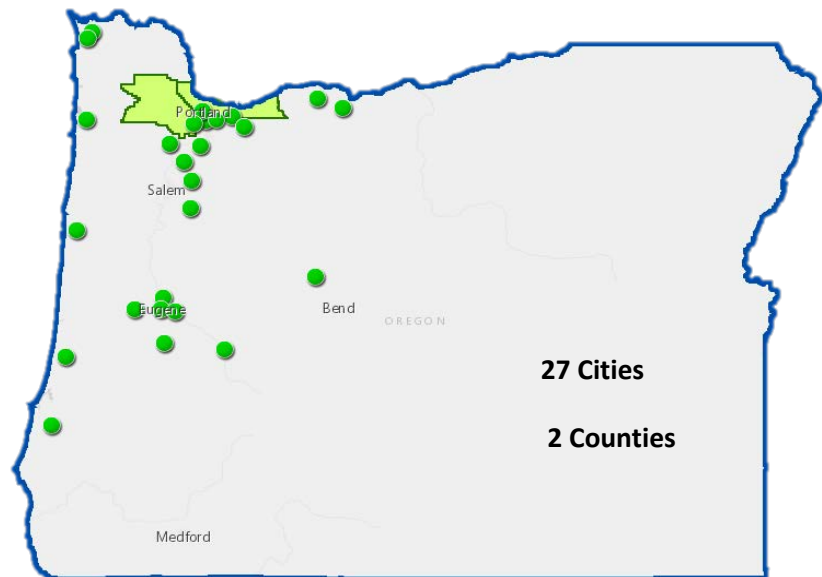
If a local gas tax was approved in Salem, implementation could occur without the addition of City administrative positions. Oregon Department of Transportation (ODOT) currently administers and collects local gas taxes on behalf of 19 municipalities for an affordable administration fee and minimal start-up 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: Local Option Levy

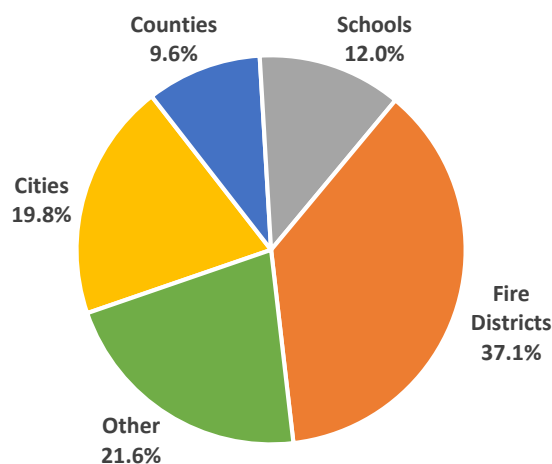
Property taxes in Oregon are divided into three main categories: permanent tax rates (limits established by each individual taxing district in 1997 on funds for general operating budgets), general obligation (GO) bond levies approved by voters to pay for specific capital construction projects, and local option levies that can be used for operating expenses or debt service payments. Measure 5 tax limitations apply to permanent and local option taxes, meaning that tax revenue is reduced (compressed) when the total governmental tax on a property's assessed value (AV) exceeds the \$10 per \$1,000 of real market value (RMV) test. When tax levies need to be reduced because of this test, local option taxes are the first levies to be compressed.

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	Voters
Calculation Method	Assessed value (AV) of property
Rate	\$0.52 per \$1,000 AV

A local option levy requires voter approval, and can be levied for a maximum of five years for operational expenses, or ten years for capital expenses. If Salem voters approved a local option tax, the revenue could be used only for the identified needs. Once the levy expires, voters would then need to be asked to approve a new levy to continue collecting local option taxes for an additional five years. This revenue source is the only way to generate additional tax dollars that can be used for operating expenses. However, the Measure 5 tax limitations add a level of risk in how much the issuer may actually collect. Depending on market conditions or levies that are approved for other taxing jurisdictions, the revenue generation anticipated from the local option levy could be compressed.

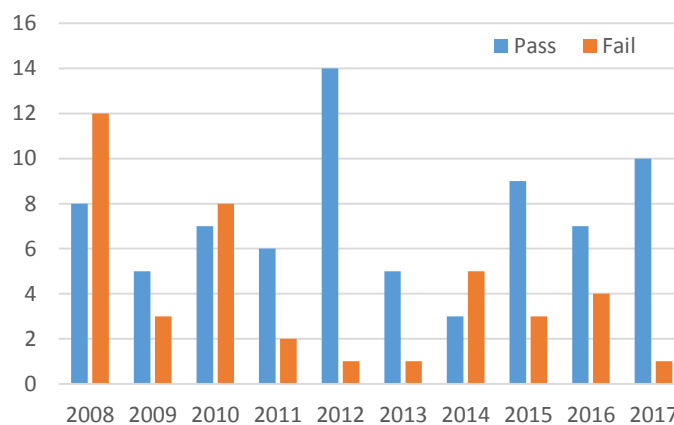
Currently, the Oregon Department of Revenue tax data indicates there are approximately 32 cities, 16 counties, and 20 school districts that collect taxes from a local option levy, ranging from \$0.18 to \$9.02 per \$1,000 of AV. Over the past ten years, 55 different cities have put forward ballot measures requesting voter approval for local option levies. The above chart shows the passage and failure of those ballot measure by year. During the financial crisis and in the years following (2008-2011), voters denied over 50% of the levies. In the past three years, the approval rating has increased substantially to over 76%.

Local Option Levies by Taxing District



"Other" includes the following district types: health, historic, library, parks, roads, water supply, vector control and transportation

City Local Option Levy Ballot Measures

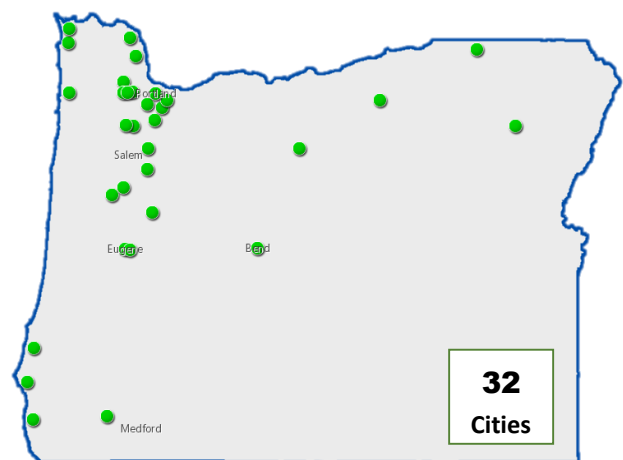


Examples of other cities in Oregon:

City	Permanent Tax Rate Levied	Bond Rate Levied	Local Option Tax Rate Levied	Total Tax Rate Levied by District	Purpose of Local Option Tax Levy
Sweet Home	1.4157	-	9.0200	10.4357	Public Safety, Library
Banks	1.9700	-	2.3500	4.3200	Public Safety, Library
Grants Pass	4.1335	0.3866	1.7900	6.3101	Public Safety
Hillsboro	3.6665	-	1.7200	5.3865	Public Safety, Parks, Library
Bandon	0.4580	0.6406	0.8455	1.9441	Street Capital Projects
Corvallis	5.1067	0.2507	0.8181	6.1755	Library, Aquatics, Code Enforcement, Public Safety
Canby	3.4886	-	0.4900	3.9786	Aquatics
Silverton	3.6678	0.1068	0.3659	4.1405	Aquatics
Bend	2.8035	0.1895	0.2000	3.1930	Public Safety
Eugene	7.0058	0.9759	0.1880	8.1697	Library

The table below demonstrates that potential revenue the City of Salem may receive if a local option levy were approved by voters at the rate of \$0.52 per 1,000 of AV. The revenue could be used to fund general fund programs such as police, fire, parks, or library services. The revenue forecast is based on a levy imposed on all taxable properties within the City of Salem (Marion and Polk counties). Property tax collections are based on an assumed 95% collection rate, due to historic trends of discounts and delinquencies. The forecast also assumes real market value (RMV) growth of 5% and assessed value growth of 3% year over year. These assumptions are subject to market change but establish the gap between RMV and AV, which provides the potential capacity for a local option levy.

Cities with Local Option Levies



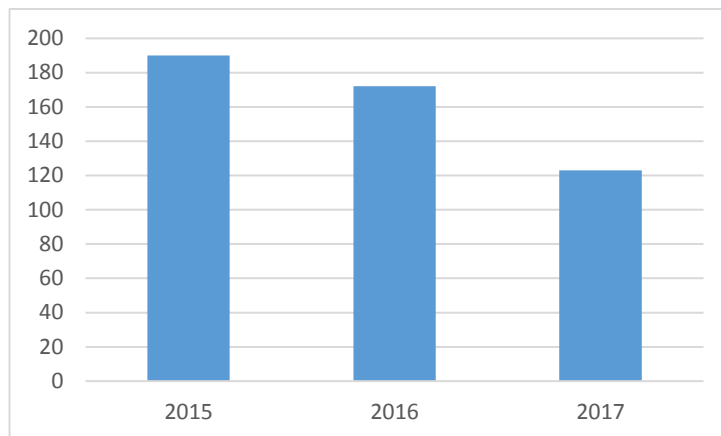
Revenue Forecast				
	FY 20	FY 21	FY 22	FY 23
Estimated Annual Revenue	\$ 5,592,000	\$ 6,140,000	\$ 6,696,000	\$ 7,055,000

Alternative Revenue Source: Lift Assist / Bed Fee

The Salem Fire Department receives an annual average of 160 calls for non-emergency lift assists. This occurs when the sole purpose of a call is to lift someone who has fallen to the ground and needs to be lifted to a chair or bed. Often these calls are from commercial assisted living facilities that do not have the equipment or staff to lift individuals. Two options for cost recovery are detailed below.

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council
Calculation Method	Per Response / Per Bed
Rate	\$300 per response / \$41.50 per bed per month

Lift Assist Call History



**Data provided by the Salem Fire Department*

Option One

Option one is a fee charged for each lift assist that would be assessed to the commercial assisted living / retirement facility. The main purpose of this fee would be to incentivize these facilities to invest in the equipment and staff to appropriately respond internally to lifting needs.

Revenue Forecast					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Estimated Annual Revenue	\$ 48,000	\$ 48,000	\$ 48,000	\$ 48,000	\$ 48,000

Forecast Assumptions: Based on a \$300 per response fee with an average of 160 calls per year.

Option Two

Option two is assessment of a flat monthly fee based on the quantity of beds in the assisted living / retirement facility to recover the costs of the Salem Fire Department's ongoing staffing needs to respond to these non-emergency lift assist calls.

Revenue Forecast					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Estimated Annual Revenue	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000

Forecast Assumptions: Assumes a \$41.50 per bed monthly fee with an estimated 2,000 beds in Salem. The estimated bed count is based on county facility registrations.



Alternative Revenue Source: 9-1-1 Tax Increase

The Emergency Communications Tax (9-1-1 tax) supports the planning, installation, maintenance, operation, and improvement of the 9-1-1 emergency reporting system and is collected by the State of Oregon. The current monthly tax rate – set by the state 23 years ago – is 75 cents per phone line or per device capable of reaching 9-1-

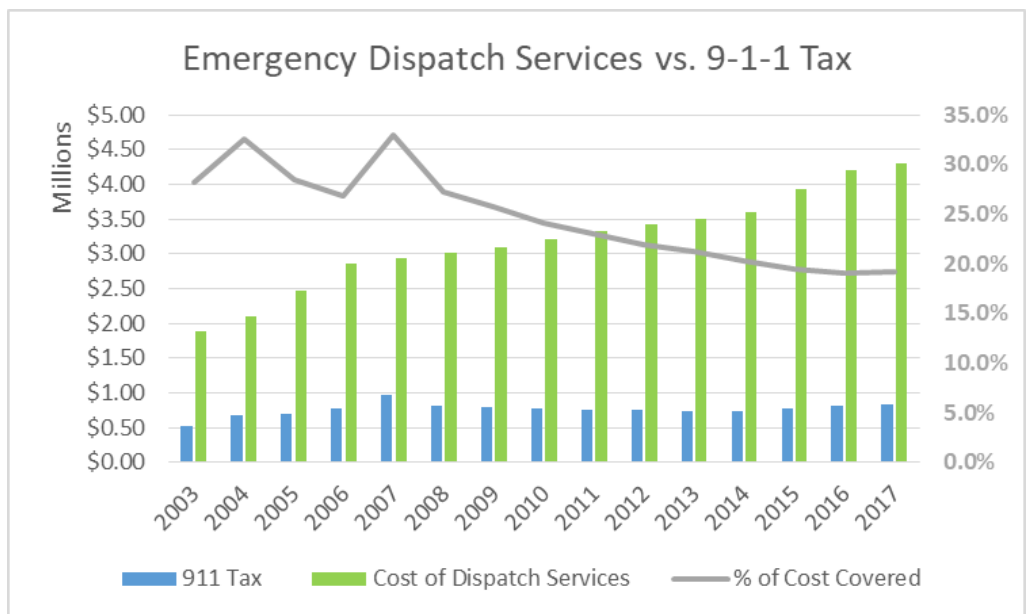
Fund / Service Area	General Fund / Safe Community
Strategic Initiative	Sustainable Services
Approval Body	State Legislature
Calculation Method	\$ per phone line or device capable of reaching 9-1-1
Rate	\$1.30 – \$1.50 per month

1. This tax is applied to landlines, postpaid wireless, and *Voice over Internet Protocol* (VoIP). For prepaid wireless, the tax is applied to each retail transaction for prepaid purchases.¹

As directed by Oregon Revised Statutes (ORS) Chapter 403.240, the Oregon Department of Revenue retains a portion of receipts for the cost of collection and administration of the 9-1-1 tax. Of the remaining funds, 35% is placed in an account to fund the statewide 9-1-1 infrastructure, with the balance – approximately 60% –

distributed to the governing authorities of the 9-1-1 centers in the state. This distribution is based on the population of the area served by each 9-1-1 center. The 9-1-1 tax provides approximately 24% of the total cost of operating all of the 9-1-1 centers in the state. The balance of funding comes from local jurisdictions, primarily in the form of property taxes. Aside from the distribution of 9-1-1 tax, there is no other state funding for 9-1-1 centers.²

In calendar year 2017, Salem received just over \$825,000 in 9-1-1 tax revenue which provided 19.2% of the City's cost of almost \$4.3 million for emergency communication services, including police and fire call-taking and dispatch. From calendar year 2003 to 2010, 9-1-1 taxes covered an average of 28% of these services.



A look at other states shows that 9-1-1 taxes vary greatly. 9-1-1 taxes for landlines are as high as \$6.40 per month in parts of West Virginia, while other states – or parts of those states – charge no 9-1-1 tax at all.³ The average maximum 9-1-1 tax for all states is \$1.30 per month per line with a median tax rate of \$1.00.

¹ ORS Chapter 403.200, 2017 Edition.

² <https://www.oregon.gov/OEM/911/Pages/911-Tax-Distribution.aspx>

³ <https://www.nena.org/page/911RateByState> Maximum monthly 9-1-1 tax for *wireless* phones: Chicago at \$3.90 per month

If the 9-1-1 tax had been adjusted annually using a standard inflation factor, the current tax rate would be \$1.27.⁴ With this rate, 9-1-1 tax receipts in calendar year 2017 would have provided an additional \$575,000, covering a total of 32.6% of Salem's emergency communication services. Any increase to the 9-1-1 tax directly reduces the City's dependency on general fund resources to pay for emergency communication services.

The table below shows the estimated *additional* 9-1-1 tax revenue the City of Salem would receive, and the percentage of Salem's cost for emergency communication services that would be covered, at varying 9-1-1 tax rates.

Estimated Additional Revenue					
	\$1.30	\$1.50	\$1.75	\$2.00	\$3.91
Estimated Additional Annual Revenue	\$605,000	\$825,000	\$1,100,000	\$1,375,000	\$3,475,000
Total % of 9-1-1 Services Covered	33%	38%	45%	77%	100%

Changes to the emergency communications tax require legislative action at the state level. The current 9-1-1 tax will sunset January 1, 2022.⁵ In order for the current 9-1-1 tax to remain in place, state legislative action will be required during one of the next two Oregon legislative sessions.

A related issue concerns the State of Oregon's practice of diverting portions of 9-1-1 tax revenues as well as earned interest to the state's general fund in support of activities unrelated to 9-1-1 services. This practice disqualifies the state from receiving federal funds for emergency communications and reduces the portion allocated to 9-1-1 centers. Without state legislation restricting this practice, increases to the 9-1-1 tax may not have the expected results for local jurisdictions.

⁴ Portland-Salem, OR-WA, All Urban CPI, Not Seasonally Adjusted (Portland-Salem series no longer available effective Jan-2018)

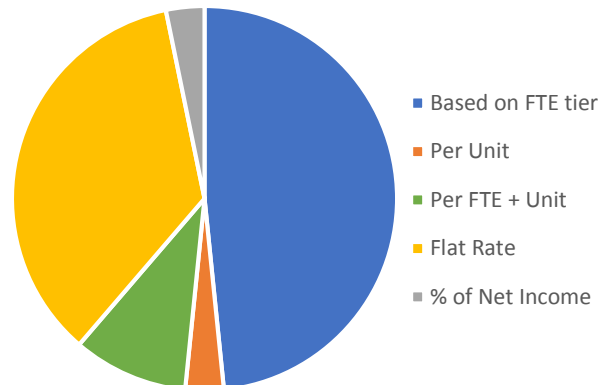
⁵ ORS Chapter 403.202, 2017 Edition; HB 3317 (2013) extended the sunset date on the statewide 9-1-1 emergency communications tax to January 1, 2022

Alternative Revenue Source: Business License Fee

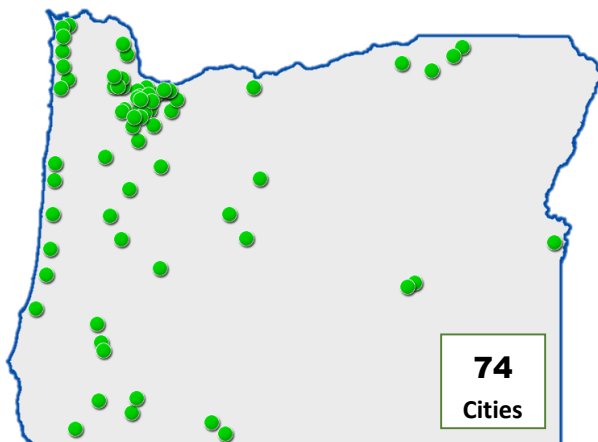
A Business License Program would require anyone doing business within the city limits to register and obtain a license. This registration would include an annual fee that could be calculated in a number of ways, some of which include: number of full-time employees (FTEs), a percentage of net income, on a per unit basis, or a flat annual rate. Business license fees can also apply to organizations that conduct business in Salem on a temporary or seasonal basis, as well businesses run from home. Minimums, maximums, and exemptions can be built into a business license fee structure.

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council
Calculation Method	Flat fee based on FTE tier
Rate	\$50 - \$200

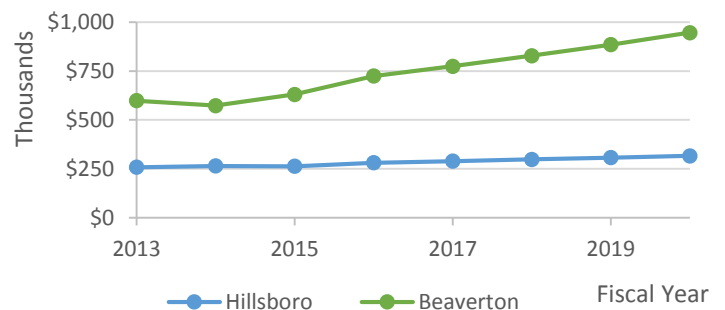
Fee Structures of 30 Largest Cities in Oregon



Business license fees could be determined using a tiered structure based on FTEs. In this scenario, the smallest businesses (up to 3 FTEs) would pay \$50 annually, while larger businesses (over 10 FTEs) would remit \$200 annually. This structure is commonly used among cities, straightforward to calculate, and is progressively structured so that larger businesses would pay a higher fee.



City Revenue Examples: Hillsboro and Beaverton



In Oregon, there are approximately 74 cities that require businesses to obtain city-issued licenses to conduct business within city limits. This includes 37 of the 50 largest cities in Oregon. The programs are utilized to promote the health and expansion of business and industry, track basic information regarding the businesses within the community that are benefiting from city services, and provide additional revenue for the general fund.

The City of Salem could potentially benefit from the creation and maintenance of a registered business database to assist with functions such as code compliance, short term rental licensing, fire inspections, and utility billing. A challenge facing this revenue source is that it may require the creation of a new program, development of a licensing system, additional staff members or reallocation of existing staff time; all of which would incur ongoing administrative costs. A business license fee would also be a potential increase in annual expenses for existing businesses operating in Salem. Outreach to the business community is recommended prior to implementation.

City	Calculation Method	Annual Fee Scenarios (\$)			FY 2016 Revenue (\$)	FY 2017 Revenue (\$)
		Base Rate	Per FTE Rate	Per Unit Rate		
Beaverton **	Base rate plus per FTE (5+ FTE)	75.00	8.50	1.25	638,571	673,195
Gresham	Base rate plus per FTE (3+ FTE)	75.00	3.00	-	6,874,811	6,423,412
Hillsboro	Base rate plus per FTE (3 - 147 FTE)	105.00	5.00	5.00	281,346	285,000
Bend	Flat rate	50.00	-	-	296,635	302,135
Medford ⁺	Flat rate	100.00	-	-	513,500	513,500
Springfield ^{+,^}	Rental businesses per unit (4+ units)	75.00	-	19.95	-	-
Portland	Percentage of net income (\$100 min)	100.00	-	-	108,063,578	117,864,765

** Cities that have a separate fee for multi-unit rental businesses that pay on a per unit basis*

+ Cities that have separate fees for seasonal, temporary, or home business licenses

^ City of Springfield implemented their business license fee program in 2017. Anticipated revenue for FY 2018 is forecasted to be \$130,000.

The table above highlights the business license fee structures for a select few of Salem's comparable cities as well as the revenue they received in the previous two fiscal years from the fees. While some cities have required business licenses for many years, such as Portland, with a program since 1854, other cities such as Springfield and North Bend have recently made the decision to require licenses to conduct business within city limits. Many cities, including Salem, have special licenses for certain types of businesses and vocations. The City of Salem could adopt a general business license fee while still retaining the licensing requirements that currently exist.

The forecast below demonstrates the potential revenue the City of Salem might receive if a business license program were implemented with an annual fee. The revenue numbers below are calculated based on the tiered fee structure described on the previous page which uses the number of FTEs a business employs. This is one example of how a fee structure may be adopted. The tier structure has businesses with 0-3 FTEs remitting \$50 annually, 3-9 FTEs paying \$110 annually, and 10+ FTEs paying \$200 each year. The estimate of total businesses and FTEs per business are sourced from the 2012 Census Survey of Business Owners (SBO). Revenues of comparable cities that have business license fees (Gresham, Hillsboro, Beaverton, Bend, Medford, and Tigard) grew on average 2% year over year. This is the growth factor used to estimate Salem's annual revenue.

Revenue Forecast					
	FY 20	FY 21	FY 22	FY 23	FY 24
Estimated Annual Revenue	\$ 514,800	\$ 525,100	\$ 535,600	\$ 546,400	\$ 557,400

Alternative Revenue Source: Property Tax Reform

Property taxes are a main source of revenue for public entities within 46 of the 50 states. In an effort to control the amount of taxes property owners pay, and make the tax changes more predictable each year, limits and exemptions are created. There are three main types of limitations that can be imposed to restrict the taxes issued: assessment limits, rate limits, and levy limits. Oregon's property tax system has two of the three limits, implemented through Measure 5 and Measure 50.

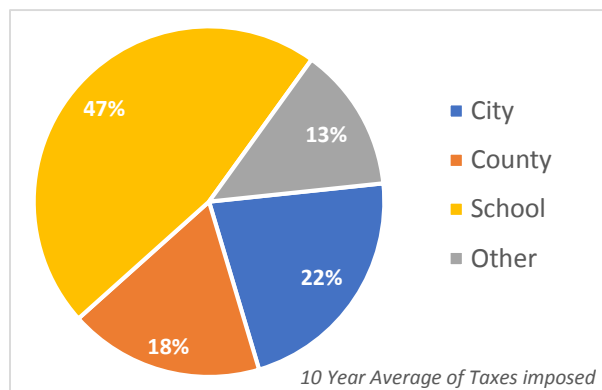
Measure 5 (1990) limits the taxes that can be imposed on individual properties to a combined \$5 per thousand of real market value (RMV) for schools, and \$10 per thousand for all other government districts. This limit does not include/apply to levies approved by voters for specific bonded capital projects.

Impact: If a property's taxes are above these limits, the taxes are reduced (compressed) proportionately among all the taxing districts until the taxes imposed equal the Measure 5 cap. Each year, public services lose millions of dollars in tax funding due to compression.

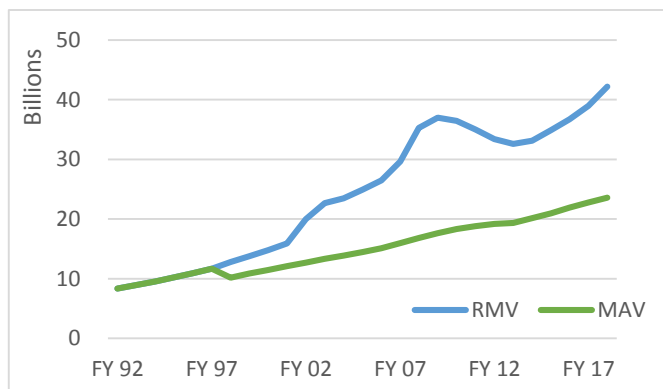
Measure 50 (1997) was created to reduce property taxes in Oregon and control future growth. It established a permanent rate for each taxing jurisdiction that limits the rate they can levy, created a Maximum Assessed Value (MAV) that no longer equals Real Market Value (RMV), and capped annual MAV growth to 3%.

Impact: This limit creates a disparity between an owner's property value and the value upon which their taxes are calculated. Homes with similar real market values could pay significantly different amounts in taxes due to the assessed value cap set in 1997.

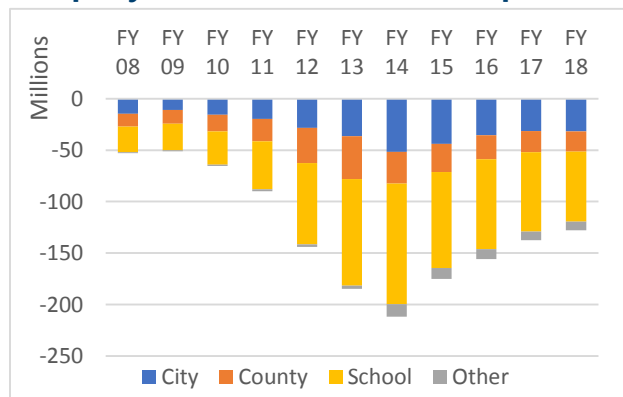
Property Taxes: Where the Money Goes



Impact of Measure 50 Split

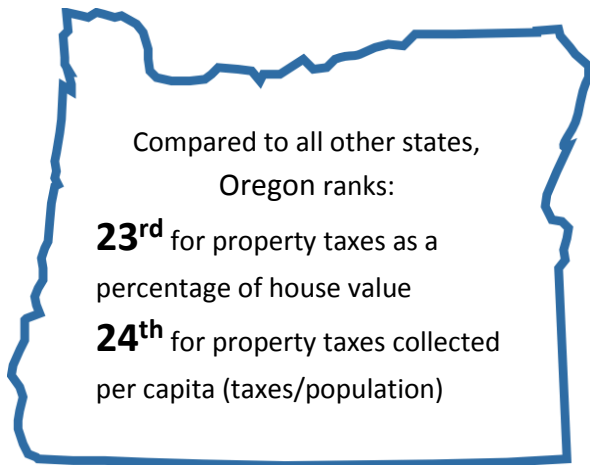


Property Tax Revenue Lost to Compression



The pie chart on the left shows the breakout of total property tax dollars in Oregon by district type. The chart above demonstrates the split that occurred as a result of Measure 50. Before 1997 property taxes were calculated using the real market value (RMV) of all properties. After 1997 the RMV (blue line) continues to grow and fluctuate based on the market value a property can reasonably be sold for at that time, but the MAV (green line) is restricted to 3% growth. The "gap" or space between the lines represents taxes that could be seen as a "loss" of revenue due to the Measure 50 limit.

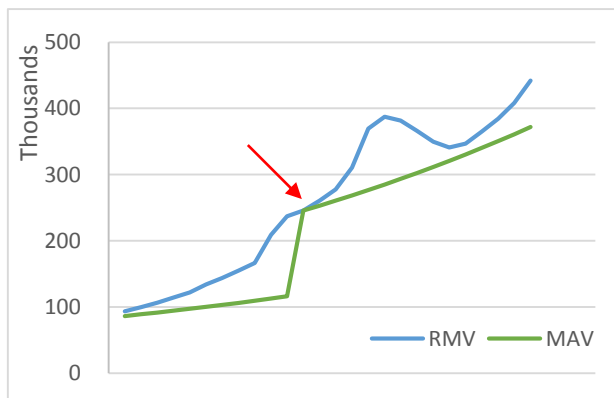
The chart above shows the amount of revenue lost to compression in Oregon over the past 10 years, broken out by type of district. The "Other" category listed in both charts includes more than 14 different types of special districts providing services such as fire, water, parks, library, or transit.



As one of five states in America without a sales tax, Oregon relies more heavily on property taxes to fund public services. Yet, as shown in these statistics, Oregon is in the middle of the pack in terms of the property tax burden on property owners.

While public entities have the ability to seek voter approval for temporary local option levies (to pay for employees, materials, and operational costs) or bond issuances (to pay for capital projects), the mechanisms to generate property tax revenue are limited within the current tax legislation. Statewide property tax reform, which requires changes to the Oregon Constitution, is needed to implement systems that many other states currently utilize.

Example Property: Reset at Sale



Reset at sale is the most popular mechanism to implement, meaning that when a property changes ownership, the RMV and MAV would be “reset” to the sale price. This helps to true-up the value of the home periodically and avoid the compounding gap between what the property is worth on the market and the value a homeowner is paying taxes on. Of the 17 states that have an assessed value limit (restricting how taxable value changes year over year), 15 have this feature built into the property tax system.

Coupled with this change, reform is also needed to address the compression caused by the combination of an assessment (M50) and levy (M5) limit. Compression not only reduces public service budgets, but it also has inequitable impacts across homeowners. Two properties with the same assessed value, but different real market values, could be compressed differently because of the Measure 5 limits.

The following table demonstrates the “unrealized” revenue for the City of Salem as a result of the current property tax legislation in Oregon. The first line shows how much revenue the City of Salem did not receive over the past five years due to compression. The second line projects the potential revenue that the City could have received when properties sold/changed ownership. This conservative estimate is based on the actual sales that occurred over those five years and tax increases that could have occurred by resetting MAV and RMV to the sale price.

Historical Potential Unrealized Revenue					
	FY 14	FY 15	FY 16	FY 17	FY 18
Losses to Compression	\$ 1,093,300	\$ 691,800	\$ 406,500	\$ 352,200	\$ 337,200
Properties Sold (without reset)	\$ 92,900	\$ 142,700	\$ 244,200	\$ 603,500	\$ 1,189,900
Total	\$ 1,186,200	\$ 834,500	\$ 650,700	\$ 955,700	\$ 1,527,100

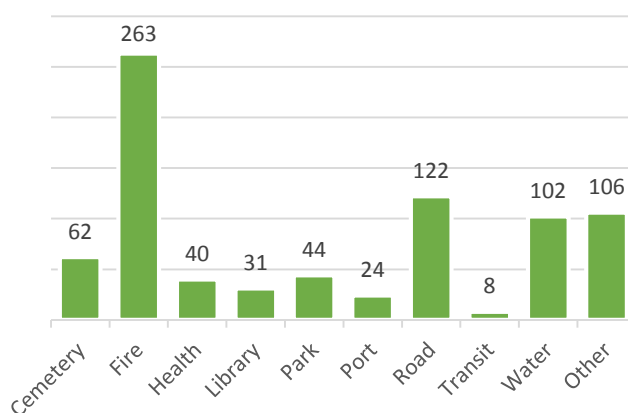
Alternative Revenue Source: Special Taxing District

Communities across Oregon have certain services provided by a separate taxing district, often with a larger geographic boundary than the municipal border (city limits). Article XI Section 11 of the Oregon Constitution allows taxing districts to divide, with the specification that the limit on the levy rate of property tax to be imposed by each district after division cannot exceed the district's permanent rate prior to division.

Salem residents currently receive services from four special taxing districts: Marion County Soil & Water District, Chemeketa Regional Library, Salem Area Mass Transit, and OHSU & 4H District. The OHSU & 4H District was most recently approved by voters in May, 2015. The City of Salem is a full service municipality that currently provides services including police, fire, water and sewer, library, parks and recreation, and municipal court.

Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	Voters
Calculation Method	Assessed value (AV) of property
Levy Rate	\$0.50 per 1,000 of AV

Special Taxing Districts in Oregon by Type

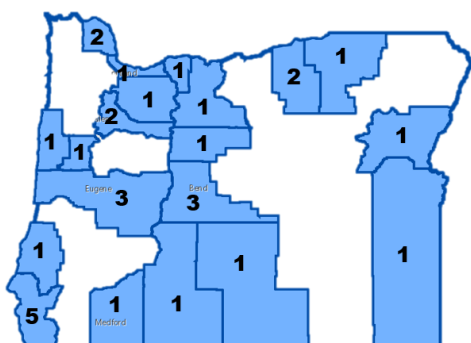


"Other" includes vector control, service extension, sanitary, animal control, law enforcement, lighting, chemical control and radio.

In the State of Oregon, there are over 800 taxing districts that are delivering specialized services to the resident's within their district boundaries. The chart below shows the special taxing districts that serve residents within some of the cities that Salem typically uses for comparison. Service delivery is an important consideration in the budget process each year as cities strive to deliver the highest level of service possible, knowing that ongoing expenditure increases are outpacing revenue growth. All of these cities provide varying levels of service and depend on taxing districts to provide the other essential services required by residents. In this display, it is important to note that if a city is not responsible for a program, the expenses incurred to deliver that program or service are not included in the city's budget. In some cases, it can be more cost effective to have a specialized district provide a service to multiple cities and counties, rather than each individual city needing to maintain that program.

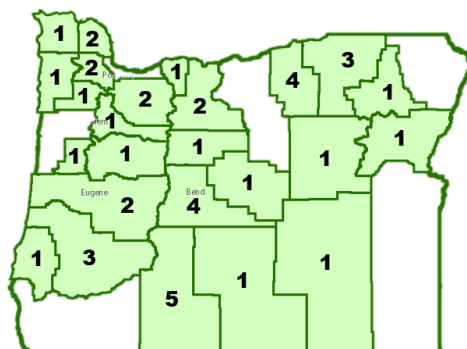
	Salem	Beaverton	Bend	Eugene	Gresham	Hillsboro	Medford
Fire		✓					
Parks & Rec		✓	✓				
Soil & Water	✓	✓			✓	✓	✓
Water		✓		✓	✓	✓	
Library	✓		✓		✓		✓
Transportation	✓	✓			✓	✓	✓
Port		✓			✓	✓	
Other	✓		✓✓	✓			✓✓
Description:	-Extension District		-Police -Extension District	-Extension District			-Vector Control -Extension District

The maps below show all of the counties in Oregon containing the special taxing districts indicated. The numbers specify how many of those districts exist within each county.



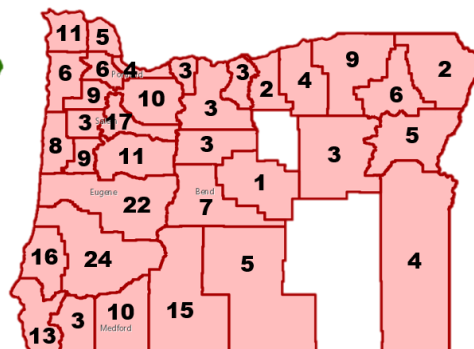
Library Districts

Jackson County Library District was approved by voters in 2014 to provide a dedicated funding source of \$0.60 per thousand of AV for library operations and services. This levy generates \$9.8M from all the district's taxpayers. The district operates 15 library branches, including one previously operated by the City of Medford.



Parks Districts

Many of Salem's regional comparisons depend on parks and recreation districts, including North Clackamas, Bend Metro and Tualatin Hills. These districts levy anywhere from \$0.54 - \$1.46 per thousand of AV, or between \$7M - \$17.5M. The average permanent levy for parks districts in Oregon is \$0.58 per thousand of AV.



Fire Districts

Tualatin Valley Fire and Rescue (TVF&R) was formed in 1989, and since its origin many cities have opted to annex into the district. West Linn voters approved annexation in 2004, and Newberg voters made the same decision in November, 2017. TVF&R has a permanent levy rate of \$1.5252 per thousand of AV, a local option levy of \$0.45 per thousand of AV, and a \$0.13 bond levy, generating \$106.7M across the district.

Revenue Forecast For District				
	FY 20	FY 21	FY 22	FY 23
Estimated Annual Revenue	\$ 3,515,100	\$ 3,523,400	\$ 3,531,700	\$ 3,540,000

In this example, if a current City of Salem service became its own taxing district, requiring a \$0.50 levy rate, the City's levy rate would be reduced from its permanent rate of \$5.83 to \$5.33. If a district was divided and combined to form a larger geographic boundary involving other jurisdictions, the direct impact to the City's permanent rate may be lower. The City could also enter into an agreement with an existing taxing district that provides a similar service, therefore discontinuing the service and relying exclusively on that separate district. While the creation of a special taxing district would not generate additional revenue for the City, it would decrease expenditures because a program (and its prospective costs) would move to a separate district and funding source.

The revenue estimates are based on the Measure 50 limit that MAV can grow at a rate of 3% each year. The revenue forecast shows a scenario where the revenue generated from the \$0.50 levy per thousand of assessed value (AV) could be dedicated to that new district. While this would be a decrease in revenue for the City of Salem, the costs associated with that program would also be removed from the City budget.

Alternative Revenue Source: Admission Tax

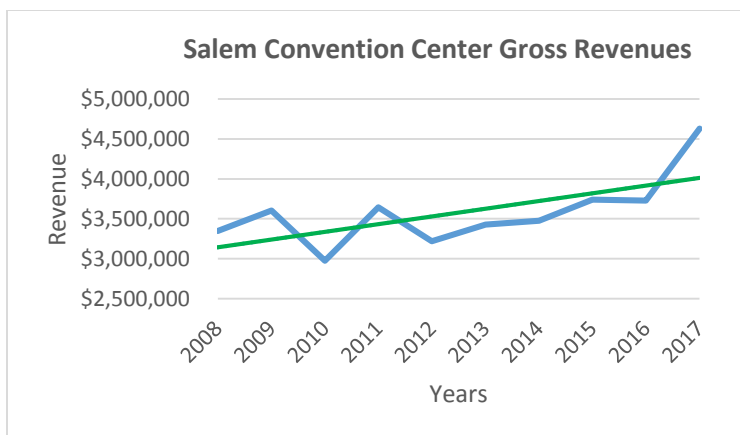
A tax or fee charged on admission into events is a potential revenue source. This tax or fee could be structured in multiple ways, either as a percent of gross receipts, a flat rate for the quantity of tickets sold, or as a fee on every ticket sold depending on the cost of the ticket (e.g., 5% of the ticket cost). These taxes could be remitted monthly or quarterly and exemptions could be applied, such as admission to nonprofit or school events.

The City of Salem previously considered an amusement tax in 2002. At that time, City Council approved a Meals and Amusement Tax with a 5% rate for meals and 1% for admission into certain events. Revenue projections presented to City Council at the time showed \$1,061,000 from the meal tax and \$500,000 from the amusement tax. These taxes were to take effect in January of 2004 but were repealed in the fall of 2003 after a task force assigned to review the tax returned to City Council with a split recommendation. The funding from this tax would have supported the City's participation in the "Making After School Count" program in partnership with the school district and other local jurisdictions including a "Cops and Kids" program.

The State of Oregon currently has a 6% tax on total gross receipts of ticket sales for admission to "an unarmed combat sport or entertainment wrestling event" (ORS 463.320) such as mixed martial arts or boxing. Administered by the Oregon State Athletic Commission, revenues from this tax first go to cover administrative costs with the balance going to the Oregon State Police. In the 2015-2017 biennium, revenues from this tax accounted for over \$284,000 from a total of 44 events. The 2017-2019 biennium budget has projected over \$267,000 in revenue with 25 events having already occurred.

Fund / Service Area	General Fund
Strategic Initiative	Vision for Growth and Development
Approval Body	City Council or Referred to Voters
Calculation Method	% of Gross Sales
Rate	1%-5%

The City of Portland owns three buildings which are operated by METRO through an Intergovernmental Agreement. These three buildings, Keller Auditorium, Schnitzer Concert Hall and Antoinette Hatfield Hall operate under the name Portland 5 Centers for the Performing Arts (Portland's 5). The Portland's 5 charges a flat rate user fee on top of the price of tickets to performances in those facilities. User fees are determined by performance type and go to operating and personnel costs.



The graph on the left shows the gross revenues over time at the Salem Convention Center (SCC), which is owned by the City of Salem Urban Renewal Agency. The SCC has shown an upward trend in the last decade as demonstrated by the green trend line. Gross revenues from fiscal year 2016-17 topped \$4.5 million for the first time since the SCC's establishment in 2004. Based on this trend data, it can be assumed Salem will continue to be a destination to host conferences and events. As Oregon's capital city, Salem is uniquely positioned to capture revenue from an admission tax on events such as the Oregon State Fair and various conferences.

Travel Salem, in their most recently released annual report for FY 2016-17 stated that Marion and Polk counties collectively saw more that \$135 million in arts and entertainment sales directly from visitors in 2016. A report compiled by Dean Runyan Associates for the Oregon Tourism Commission in 2018 sets this number at over \$139 million for 2017. Using data from the most recent US Economic Census in 2012, there were \$38 million in arts, entertainment, and recreation sales within the City of Salem proper in that calendar year. The US Economic Census compiles self-reported business data every five years and is an indicator of private sector economic health. Data for 2017 will be released early in 2019.

The table below demonstrates potential revenue for the City of Salem if there had been an admission/amusement tax in place during 2012. Revenue is calculated as a percentage of sales on arts, entertainment, and recreation revenue reported by Salem businesses during that year. The second table shows the amount of revenue other West Coast jurisdictions have collected through admission taxes.

2012 Projections-City of Salem Revenue*

City	Total Revenues	1% of Sales	2% of Sales	3% of Sales	4% of Sales	5% of Sales
Salem	\$38,025,000	\$380,250	\$760,500	\$1,140,750	\$1,521,000	\$1,901,250

Projection Limitations:

* Revenue amount is based on the total revenue of businesses in Salem proper as reported in the 2012 US Economic Census conducted by the US Department of Commerce; 2017 data to be released in 2019.

West Coast Jurisdiction Revenues*

Jurisdiction	Rate	2013-2015 Biennium			2015-2017 Biennium	
State of Oregon- Oregon State Patrol	6%	\$207,000			\$285,000	
Jurisdiction	Rate	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Olympia, WA	\$0.01/\$0.20 of admission price**	\$185,000	\$180,000	\$194,000	\$202,000	\$227,000
Seattle, WA	5%	\$7,938,000	\$8,116,000	\$8,793,000	\$10,328,000	\$13,408,000
Bellevue, WA	3%	\$603,626	\$626,001	\$500,000	\$500,000	\$527,880
Santa Cruz, CA	5%	\$2,299,000	\$2,274,000	\$2,395,000	\$2,524,000	\$2,483,000

Jurisdiction Revenue Analysis:

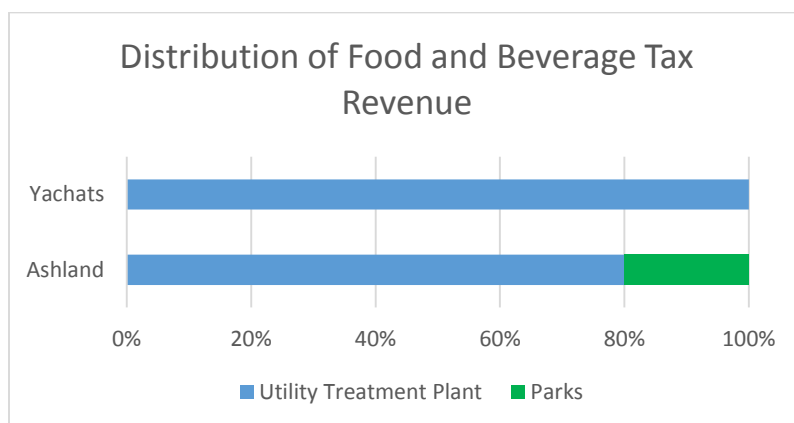
*Revenues and rates are as reported in each jurisdiction's budget documents.

**Structure of the Olympia tax dictates that for every \$0.20 of the ticket price, \$0.01 will be charged as the tax. For example, if a ticket cost \$20.00, then the tax would be \$1.00 bringing the total cost of the ticket to \$21.00.

Alternative Revenue Source: Food & Beverage Tax

A prepared food tax can be established on foods prepared by restaurants, food trucks, and ready-to-eat stations in Salem. This tax would capture revenue from both those who are visiting Salem and residents. Benefits to this type of tax are the flexibility of collection (e.g., when and how returns occur) and calculation (e.g. a percent of gross receipts of an establishment or per meal). Approval of this tax would need to be established by City Council through an ordinance or by referral to voters. The cities of Ashland and Yachats each have a 5% tax on prepared foods. Ashland's tax was approved in 1993 and Yachats more recently in 2007.

Currently, the City of Jacksonville has a measure on the ballot for the upcoming November election for a 5% Food and Beverage (F&B) tax to fund public safety. In May, 2018 the Jacksonville City Council voted to place a \$20 monthly police surcharge on utility bills. This fee took effect July 1, 2018 and is an additional fee to the already existing \$35 monthly fire surcharge. If passed, the 5% F&B tax would replace the police surcharge completely, but the fire surcharge would remain. It is important to note this measure was initiated by Jacksonville resident and budget committee member Douglas Phillips through a petition. Phillips and those in favor of the F&B tax over a fixed fee on a utility bill argue that the funds generated from the tax would also capture revenue from out-of-town visitors that also benefit from emergency police services.



Fund / Service Area	General Fund
Strategic Initiative	Sustainable Services
Approval Body	City Council or Referred to Voters
Calculation Method	Gross Receipts or Each Meal
Rate	1%-5%

The City of Salem previously considered a prepared food tax in 2002. At that time, City Council approved a Meals and Amusement Tax; a 5% rate for meals and 1% for amusement events. Revenue projections presented to Council at the time showed \$1,061,000 from the meal tax and \$500,000 from the amusement tax. These taxes were to take effect in January, 2004, but were repealed in the fall of 2003 after a task force assigned to review the tax returned to City Council with a split recommendation. The funding from this tax would have supported the City's participation in the "Making After School Count" program in partnership with the school district and other local jurisdictions including a "Cops and Kids" sub program.

As demonstrated in the graph above, the F&B taxes in place for Ashland and Yachats go either exclusively to wastewater treatment plant operations or a portion to parks. As previously mentioned, if passed, Jacksonville's F&B tax would support the police force. A similar F&B tax in Salem could fund services directly benefitting both visitors and residents, including maintaining current levels and/or increasing police services or expanding parks maintenance

and operations. Increased levels of service would align with City Council's result areas of a safe community and a welcoming and livable community.

The first table below describes potential revenue a food and beverage tax would have generated in 2012 using the self-reported sales data of Salem food and drinking establishments to the US Economic Census. The US Economic Census compiles self-reported business data every five years and is an indicator of private sector economic health. Data for 2017 will be released early in 2019. The second and third tables depict actual revenue receipts and year-over-year change for the cities of Ashland and Yachats for the previous five years.

TABLES:

Projections-City of Salem Food and Beverage Tax

City	2012 Food Services and Drinking Places Sales*	Revenue-1% of Sales	Revenue-2% of Sales	Revenue-3% of Sales	Revenue-4% of Sales	Revenue-5% of Sales
Salem	\$289,160,000	\$2,891,600	\$5,783,200	\$8,674,800	\$11,566,400	\$14,458,000

*Sales data from the 2012 US Economic Census.

Actuals-City of Ashland Food and Beverage Tax*

Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	\$2,181,000	\$2,347,000	\$2,413,000	\$2,653,000	\$2,202,000	\$3,030,000
YOY Change %	7.86%	7.61%	2.81%	9.95%	(17.00)%	37.60%

*Revenue as reported in the City of Ashland CAFR 2017.

Actuals-City of Yachats Food and Beverage Tax*

Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	\$226,300	\$243,000	\$285,500	\$325,000	\$324,000	\$377,661
YOY Change %	(1.31)%	7.38%	17.49%	13.83%	(0.31)%	16.56%

*Revenue as reported via correspondence with the City of Yachats.

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

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