



Legislation Details (With Text)

**File #:** 19-367      **Version:** 1

**Type:** Ordinance First Reading      **Status:** Agenda Ready

**In control:** City Council

**On agenda:** 8/12/2019      **Final action:**

**Title:** Consideration of creating a tax on wages earned

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; Welcoming and Livable Community.

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Ordinance Bill No. 11-19, 2. Exhibit A to Ordinance Bill No. 11-19, 3. Public Comments received by 5:00 p.m. on 8-7-2019

Date	Ver.	Action By	Action	Result
8/12/2019	1	City Council		returned to city staff for further review

**TO:** Mayor and City Council

**FROM:** Steve Powers, City Manager

**SUBJECT:**

Consideration of creating a tax on wages earned

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

**ISSUE:**

Shall City Council conduct first reading of Ordinance Bill 11-19 creating Salem Revised Code chapter 39 establishing an employee paid payroll tax, and advance to second reading for enactment on August 26, 2019?

**RECOMMENDATION:**

City Council conduct first reading of Ordinance Bill 11-19 creating Salem Revised Code chapter 39 establishing an employee paid payroll tax, and advance to second reading for enactment on August 26, 2019.

## **SUMMARY:**

There is a structural imbalance in the City's General Fund. Current revenues are insufficient to fund current services. The gap between revenues and expenditures worsens with the increasing demand for services as Salem's population grows and as the City's expenses increase. Without new revenue, services provided by the City will have to be reduced.

The City has used working capital, or our savings account, to close the gap between recurring revenues and the cost of services. Working capital is a finite resource that will be depleted during FY 2023 at the current service level. Reduction of essential City services would be required no later than FY 2022 without additional revenue to maintain compliance with Oregon budget law.

## **FACTS AND FINDINGS:**

### **Rate Structure**

The below rate structure for the employee-paid payroll tax is based on the hourly rate of the employee and is estimated to generate \$9.1 million in its first full year of collections.

1. Minimum Wage Earners: 0.00% (full exemption)
2. More than Minimum Wage Earners up to and including \$15.00 per hour: 0.266%
3. More than \$15.00 per hour: 0.390%

### **Estimated Revenue**

The total estimated revenue for the first year of implementation is approximately \$9.1 million. As payrolls increase over time, revenue generated from the payroll tax will proportionately increase. Since 2009, Salem has seen an average annual payroll growth of 4.30 percent.

### **Administration**

Staff recommends that the Oregon Department of Revenue (DOR) administer and enforce the payroll tax on behalf of the City. The DOR has not committed to an implementation date or cost to administer the payroll tax. The DOR has expressed that adding complexity to the rate structure of the payroll tax will increase the cost to administer the tax and could also negatively impact compliance and collection rates. Staff will continue conversations with the DOR should this ordinance move forward.

## **BACKGROUND:**

During the fall of 2018 the Sustainable Services Revenue Task Force considered 13 revenue options, 12 that would support services in the General Fund. The Task Force recommended three options to the City Council. City Council and the Task Force discussed the recommendations at a work session on April 15, 2019. The recommendation included two General Fund revenue sources and a Transportation Services Fund revenue source. The two options for the General Fund are the City Operating Fee and Employee Paid Payroll Tax. The City Council held an additional work session on June 17, 2019, to explore the recommendation in more depth. On July 8, 2019, the City Council directed staff to prepare an employee paid payroll tax ordinance for Council consideration.

**Attachments:**

1. Ordinance Bill No. 11-19
2. Exhibit A to Ordinance Bill No. 11-19