



# CITY OF SALEM

585 Liberty St SE  
Salem, OR 97301

## Staff Report

---

File #: 19-374

Version: 1

Date: 8/12/2019

Item #: 4.b.

---

**TO:** Mayor and City Council

**THROUGH:** Steve Powers, City Manager

**SUBJECT:**

Public hearing on Ordinance Bills 11-19 and 12-19 regarding a payroll tax and operating fee to fund City services.

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.

**ISSUE:**

Shall City Council pass Ordinance Bill 11-19 and Ordinance Bill 12-19 implementing a payroll tax and a city operating fee respectively?

**RECOMMENDATION:**

Pass Ordinance Bill 11-19 and Ordinance Bill 12-19 implementing a payroll tax and a city operating fee respectively.

**SUMMARY:**

There is a structural imbalance in the City's General Fund. Current revenues are insufficient to fund current services. Without new revenue, services provided by the City will have to be reduced.

The City is using 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:**

The City Council requested the following changes to be made to the City Manager's recommendation presented on July 8, 2019:

- 1) Maintain the targeted \$16.2 million for the combined payroll tax and operating fee gross revenues in the first full year of collections by:
  - a. Creating a payroll tax ordinance with a progressive rate structure dependent on hourly wage and an exemption for those earning minimum wage and;
  - b. Creating a City operating fee ordinance based on utility account customer classification with an initial \$8 per month Residential rate, an annual adjustment for inflation, a discount equal to the Residential rate for qualified customers who are approved for the Utility Rate Assistance program, and an adjustment to the Commercial, Industrial, Institutional and Public utility account customer classifications relative to the streetlight fee ratio.

## **CITY OPERATING FEE**

### **Fee Structure**

The fee structure for the operating fee is based on utility account customer classification and is set at a monthly rate.

1. Residential: \$8 per account per month;
2. Multifamily: \$6.40 per unit per month;
3. Commercial, Industrial, Institutional, and Public: \$38.56 per account per month.

### **Estimated Revenue**

The total estimated revenue for the first year of implementation is approximately \$7.1 million. If enacted, the operating fee would be effective January 2020.

<b>Customer Class</b>	<b>Total Accounts / Units</b>	<b>Rate Ratio to Residential</b>	<b>Monthly Rate</b>	<b>Annual Rate</b>	<b>Total Revenue</b>
Residential	40,012	1.00	\$ 8.00	\$ 96.00	\$ 3,841,152
Multi-family	23,971	0.80	6.40	76.80	1,840,973
Commercial	2,839	4.82	38.56	462.72	1,313,662
Public	116	4.82	38.56	462.72	53,676
Industrial	18	4.82	38.56	462.72	8,329
Institutional	8	4.82	38.56	462.72	3,702
<b>Total</b>	<b>66,964</b>				<b>\$ 7,061,493</b>

### **Annual Adjustments**

Under the proposed ordinance the operating fee rates would be adjusted annually for inflation.

### **Utility Rate Relief Program**

Salem offers a utility rate relief program in the form of a monthly discount on single-family residential utility bills for qualified elderly or disabled customers meeting program requirements. Households are limited to receiving only one Utility Rate Relief discount. Customers must reapply for the program each year to continue receiving the monthly discount. The proposed ordinance provides a discount equal to the residential rate for qualified residential customers who are approved for the program.

## **Administration**

The operating fee would be administered internally and is estimated to cost \$100,000 annually.

## **PAYROLL TAX**

### **Rate Structure**

The below rate structure for the employee-paid payroll tax is based on the hourly rate of the employee.

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 4.3%

## **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 not only increase the cost to administer the tax, but 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 of which could support services in the General Fund. The Task Force recommended three options to the City Council and held a joint work session on April 15, 2019, to deliver their recommendation. 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 operating fee ordinance for Council consideration.

The City held two focus groups on Sunday, July 14, 2019, with Salem residents to share information and gather feedback about City services, the fiscal situation and the revenue proposal. The purpose of the research was to assess Salem voters' knowledge about the City's structural budget deficit and their initial reactions to two potential new funding sources. Focus group research is not intended to represent the views of a population with statistical accuracy and results in the attached summary report (Attachment 5) should be interpreted with caution.

Participants were recruited by DHM Research from a list of registered voters. Efforts were made to ensure diversity by gender, age, income, and political party.

Participants reported satisfaction with services they receive from the City, with homelessness and infrastructure as their top concerns in our community. This mirrors findings from the 2018 community satisfaction survey. Most were not aware of the City's fiscal situation, and many don't differentiate between the City's General Fund and other sources of government services (such as funding for schools, transit, or State-collected funding like lottery or income taxes). Participants had mixed feelings about whether the City needs more revenue to address the problems they see in Salem but do see budget shortfalls linked to possible decline in quality of life here.

Faced with the two revenue proposals, many had questions about how the City would use the money and condition their support on being provided with evidence that the new revenues would make a difference in their lives. Fairness was an important value as participants considered the revenue proposals, with some preferring the operating fee as it would function more like a user fee (those who use the services pay) and others preferring the employee-paid payroll tax who were concerned about repressiveness. After an initial test, most were open to supporting both proposals if they were certain the revenue would go to the services they care about.

Attachments:

1. Ordinance Bill No. 11-19
2. Exhibit A to Ordinance Bill No. 11-19
3. Ordinance 12-19
4. Exhibit A to Ordinance Bill No. 12-19
5. City of Salem Revenue Options Focus Group Report
6. Public Comments received by 5:00 p.m., August 7, 2019