



## Staff Report

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**File #:** 19-528

**Version:** 1

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**Item #:** 7.2b.

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**TO:** Mayor and City Council

**FROM:** Steve Powers, City Manager

**SUBJECT:**

Second reading of Ordinance Bill No. 11-19, creating an employee-paid tax on wages earned within the city of Salem, and referring the proposal to voters.

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 the City Council conduct a second reading of Ordinance Bill 11-19, creating an employee-paid payroll tax, and referring the proposal to voters?

**RECOMMENDATION:**

Conduct a second reading of Ordinance Bill 11-19, creating an employee-paid payroll tax, and referring the proposal to voters.

**SUMMARY:**

Ordinance Bill 11-19 creates an employee-paid payroll tax on wages earned within the city of Salem and refers the proposal to Salem voters. The proposal creates a progressive tax rate; employees earning minimum wage are exempt from the tax; employees earning more than the minimum wage and up to and including \$15.00 an hour are taxed at a rate of 0.266 percent; and employees earning more than \$15.00 an hour are taxed at a rate of 0.390 percent. The tax would only apply on wages earned for work within the city limits. Revenue from the tax would be dedicated and used for public safety purposes and administration of the tax. If approved by Council, the proposal will be referred to voters for the May 19, 2020 election. If approved by voters, the tax would not take effect before July 1, 2022.

## **FACTS AND FINDINGS:**

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 widens each year, with expenditures increasing at a higher rate than current revenues. As Salem's population grows, greater demand for City services continues to strain existing programs. Without new revenue, services provided by the City will need to be reduced to align expenses with current revenues.

The City has used its working capital, or General Fund reserves, to close the gap between current revenues and the cost of current services. Working capital is a finite resource that will be depleted during the 2023 fiscal year (FY) at current service levels. Reduction of essential City services would be required no later than FY 2022 without additional revenue to maintain compliance with Oregon budget law.

During the July 8, 2019 City Council meeting, the City Council directed staff to make changes to the City Manager's recommended revenue options of a payroll tax and a city operating fee:

- 1) Target \$16.2 million for the combined payroll tax and operating fee gross revenues in the first full year of collections,
- 2) Create a payroll tax with a progressive rate structure dependent on hourly wage and an exemption for those earning minimum wage

During the August 12, 2019 City Council meeting, City Council directed staff to make the following changes to the payroll tax option:

- 1) Refer the ordinance to voters, and
- 2) Dedicate payroll tax revenue to public safety.

## **Payroll Tax 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 total payroll increases over time, revenue generated from the payroll tax will proportionately increase. Since 2009, Salem has seen an average annual payroll growth of 4.3%. Based on 2015 US Census data, approximately 47% of working Salem residents commute outside of the city for work, while 63% of workers who work in Salem commute into the City.

## Revisions to Ordinance

At its August 12, 2019 meeting, Council directed staff to return with a revised payroll tax ordinance that would refer the ordinance to voters and dedicate the funds to public safety.

### *Referral to Voters*

The draft ordinance provides that the proposal will be referred to Salem voters for the May 19, 2020 election. At the same council meeting where second reading of this ordinance will occur, Council will consider a resolution to refer the question to Salem voters, and to direct the City Attorney to prepare a ballot title for placement on the May 19, 2020 statewide general election.

### *Dedication of Revenues*

As proposed, the revenue from the payroll tax would be dedicated for public safety programs and services, and administration of the tax. The recommended public safety language for use in the ballot explanatory statement:

The tax revenue will continue and enhance City services dedicated to maintaining a safe community, including police and fire services, municipal court, criminal prosecution, and code enforcement.

## BACKGROUND:

During the fall of 2018 the Sustainable Services Revenue Task Force considered 12 revenue options to fund 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 included both a City Operating Fee and an 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 with further revisions requested during the August 12, 2019 Council meeting. On October 28, 2019 City Council conducted a first reading of the ordinance and approved it for second reading.

Attachments:

1. Ordinance Bill 11-19
2. Exhibit A to Ordinance Bill 11-19