



## Staff Report

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**File #:** 23-82

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**TO:** Mayor and City Council

**THROUGH:** Keith Stahley, City Manager

**FROM:** Josh Eggleston, Chief Financial Officer

**SUBJECT:**

Revenue options to sustain City services.

Ward(s): All Wards

Councilor(s): All Councilors

Neighborhood(s): All Neighborhoods

Result Area(s): Good Governance.

**SUMMARY:**

On February 3, 2023, the Finance Committee held a public meeting where information regarding four revenue options was presented, the Committee recommended the three revenue options for the General Fund be forwarded to the City Council for discussion at a work session, with the acknowledgement of the need to explore additional revenue in the Transportation Services Fund, but not recommending a local gas tax.

Staff are looking for direction on the target for additional revenue, preferred revenue options, and the level of community engagement.

**ISSUE:**

Review of revenue options to sustain City services.

**RECOMMENDATION:**

Information and discussion.

**FACTS AND FINDINGS:**

### *General Fund - Status*

Since the early 1990's, the City's cost to provide service has outpaced revenues. The passage of Measures 5, 47, and 50 severely limited the rate of property tax revenue growth. To manage within this environment, the City has reduced services. Then, in FY 2020, the City added a new revenue source with the City Operations Fee. The fee is charged through the City's utility bills and helped address the structural deficit in the General Fund. A local payroll tax was referred to the ballot in May of 2020, but the City Council withdrew the measure due to the pandemic.

Due to one-time funding that was provided to support local governments through the federal Coronavirus Aid, Relief and Economic Security Act (CARES) and the American Rescue Plan ACT (ARPA), the General Fund working capital, or fund balance, is in a good position. These funds were used to both replace the revenues the General Fund lost due to the Pandemic and to create new programs to address sheltering needs. Additionally, the State of Oregon and Marion County have provided critical grant funding for sheltering needs and the Navigation Center.

As both Federal grants have now been largely exhausted and State sheltering funds are projected to last until the end of fiscal year 2024, the City is in a critical stage to implement additional revenue options or reduce expenditures.

### *Revenue Target*

As the City Council considers the preferred revenue options, staff are also looking for direction on the target for a revenue goal. The target could include a combination of the following:

- General Fund deficit - There is a structural imbalance (expenses exceed revenues) in the General Fund that needs to be addressed to continue the current service levels across services.
- Sheltering programs - The current sheltering programs that are funded with one-time federal or state funding will be depleted by FY 2024, with some funds for the Navigation Center lasting until FY 2025. Additional funding will be needed to continue these programs.
- Deferred staffing needs - The City has not kept pace with General Fund staffing needs to meet community demand and recognizes a need of 308 positions to meet desired service levels. Attached are the Deferred Staffing Needs (attachment 5) and Internal Services Benchmarking analysis (attachment 6) that were presented to the Budget Committee in January of 2023 for further information.
- Baseline staffing level - Additional staffing is needed to maintain current service levels for external and internal programs to keep pace with a growing population into the future.

The revenue target will be important as the City considers the phasing and structure of both additional revenues and potential service enhancements.

### *General Fund - Solutions*

Below are three options for discussion for the General Fund. Of the three, the first two were

recommended by the Sustainable Services Revenue Task Force in 2018. The Local Option Levy is being included in the recommendation by staff as an option due to the changing property tax environment.

**City Operations Fee:** The City Council enacted this recommendation in 2019. The operations fee appears on utility bills and funds services within the General Fund like the Library, Police, Fire and Parks. The rate of the fee is assessed based on the type of utility account (ex: residential, multi-family, commercial, etc) and increases annually based on the consumer price index (CPI). Since it was first assessed on bills in January 2020, the residential rate has increased from \$8 per month to \$8.93 per month as of January 2023. The Finance Committee and the City Council may consider an adjustment above the CPI for the City Operations Fee (attachment 1).

**Payroll Tax:** Prior to the Pandemic, the City had submitted a referral to the voters on an employee paid payroll tax (attachment 2). The tax would have been tiered in nature at a rate determined by an individual's hourly wage for employees working within City limits. Due to the anticipated economic pressures on residents and employees in the community during the Pandemic, the City Council chose to withdraw the measure prior to the scheduled election. One of the benefits of a payroll tax is that it organically grows with the economic conditions of the employees in the City limits and may be better able to keep up with the costs of providing services. Different than the 2020 version, staff would recommend that an employee paid payroll tax be made at a single rate that is paid by everyone earning wages in Salem. The complexity and administrative burden on employers and self-employed individuals to withhold, report, and pay for a tiered tax structure could result in loss of revenue and a significant increase is the cost of administration. It should be noted that although the City Council in 2020 referred the payroll tax to voters, this is not a requirement to implement this revenue option.

**Local Option Levy:** The final recommended revenue option for discussion is a Local Option Levy (attachment 3). This revenue option was explored by the Sustainable Services Revenue Task Force back in 2018, but was ultimately not recommended in part due to concerns about required voter renewal every five years and the methodology of assessment being on property values. A Local Option Levy, however, is a long-used tool by local governments to fund essential services since the restrictive Measures 5 and 50 were enacted in the 1990's. The levy is a set rate that is assessed annually on properties in a jurisdiction through property taxes. Local examples include the Cities of Stayton (recreation and library) and Silverton (pool operations) as well as Polk County (Sheriff).

### *Transportation Services Fund - Status*

The Transportation Services Fund is managed by the Public Works Department and provides critical services to operate and maintain the City's roadways, sidewalks, bike lanes, and rights of way. Revenue for this fund comes largely through the City of Salem's portion of the State assessed gas tax which is called State Highway Revenue. During the presentation of the Five-Year Forecast in January, staff projects that if this revenue comes in at the levels forecasted by ODOT, a reduction in expenditures or new revenue would be required to balance and adopt a budget by FY 2026. In addition to concerns about decreasing State Highway Revenue in the future, the pavement condition in Salem continues to deteriorate as even the most basic maintenance cannot be funded with the current resources.

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### *Transportation Services Fund - Solution*

Along with the two recommendations by the Sustainable Services Revenue Task Force for the General Fund, the group also recommended a local option gas tax for Salem. During the Finance Committee meeting, this solution was not selected to be forwarded to City Council for consideration due to concern of financial pressure for consumers and equitability of responsibility to pay for roads by all who use them (bike, EVs, traditional cars, etc).

The Public Works Department is planning to conduct a comprehensive assessment of the fund, including the exploration of revenue options. It is unknown at this time what those additional revenue options could be beyond a local gas tax.

### **BACKGROUND:**

The Sustainable Services Revenue Task Force that was formed in 2018 reviewed 13 revenue options (attachment 4) and recommended three options for City Council consideration. The initial recommendation of a City Operations Fee was approved by Council and was effective in January 2020. To date, revenue from this fee was provided \$21.4M in General Fund revenue to continue essential City services like Police, Fire, Parks, Code Enforcement, and internal services. Although deterred by the pandemic in early 2020, returning to these revenue options and conversations with the Finance Committee, City Council and community will be vital to the next few years for the City's fiscal health in both the General and Transportation Services Funds.

Kelli Blechschmidt  
Management Analyst I

### **Attachments:**

1. Revenue Source - City Operations Fee
2. Revenue Source - Payroll Tax
3. Revenue Source - Local Option Levy
4. Summary of Revenue Options Considered by the Sustainable Services Revenue Task Force
5. Budget Committee Report - Deferred Staffing Needs
6. Moss Adams - Internal Service Benchmarking