



Staff Report

File #: 23-140
Version: 1

Date: 4/5/2023
Item #: 2.a.

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; Natural Environment Stewardship; Safe Community; Safe, Reliable and Efficient Infrastructure; Strong and Diverse Economy; Welcoming and Livable Community.

SUMMARY:

The City Council held a work session on February 21, 2023 to discuss revenue options to sustain City services. Based on feedback from that work session, staff are returning with additional information to continue discussion of new revenues.

ISSUE:

Review of revenue options to sustain City services.

RECOMMENDATION:

Information and discussion.

FACTS AND FINDINGS:

Without adding new revenue sources or reducing the services we provide our community, the City's General Fund working capital will be almost gone by June 30, 2025. We will not have enough resources to fund services for the following year. Salem is not alone in experiencing a projected deficit in its General Fund, see attachment 1 for Salem peer city financial research that was compiled by Moss Adams.

Staff are looking for feedback and options to:

- Address the gap between cost of services and available revenues.
- Avoid cuts to critical community services.
- Create a sustainable funding source for some of the public safety services to meet the community needs that the City is unable to provide today.
- Provide funding for day-to-day operations of new Bond-funded facilities.

Safe and Secure Community Funding Proposal

To ensure continued safety and security of our community, Staff have prepared three options to continue funding for some existing services, and begin adding some new services.

Option

- City Operations Fee Monthly Increase (beginning July 1, 2023)
 - Revenue Generated: \$5.13 million
 - Added fee:
 - \$5.50 - Residential
 - \$4.40 - Multi-Family Unit
 - \$26.51 - Industrial/Institutional/Commercial
- Employee-Paid and Self Employment Tax (beginning January 1, 2025)
 - revenue generated: \$20.39 million
 - 0.49% on wages for services performed in Salem.

Option B

- City Operations Fee Monthly increase (noted above)
- Employee-Paid and Self Employment Tax
 - revenue generated: \$23.45 million
 - 0.56% on wages for services performed in Salem.

Option C

- City Operations Fee Monthly increase (noted above)
- Employee-Paid Self Employment Tax

- revenue generated: \$27.55 million
 - 0.66% on wages for services performed in Salem.

Increased City Operations Fee

An increase to the City Operations Fee is included in each of the three options. The increased City Operations fee could provide additional security services to parking structures, more capacity to Code Enforcement response and Park Rangers, and funds SOS Team 7 days/week. The breakdown of existing and new services is included in table 1. The impact to City utility accounts is included in table 2.

Equity concerns have been raised by Councilors and community members regarding the Operations Fee and differentiation among commercial account holders.

- Currently, the City offers a discount to low income customers that are either senior or disabled. There are currently 625 customers that receive this discount and that wouldn't pay the increased City Operations Fee.
- In addition to this program, the City is exploring options to break out commercial accounts differently. The current Utility Billing system is being replaced and the new system (implemented by mid-2024) will have more flexibility to use a different set of data applied to commercial accounts.

Table 1

Program Funded	Existing Services*	New Services	Total
Security Services	\$300,000	\$700,000	\$1,000,000
Code Enforcement (2 new FTE)	\$300,000	\$310,610	\$610,610
Park Ranger Program (2 new FTE)	\$200,000	\$310,610	\$510,610
Fund and Expand SOS Team	\$0	\$1,348,095	\$1,348,095
Support Services**	\$764,270	\$896,415	\$1,660,685
Total	\$1,564,270	\$3,565,730	\$5,130,000

* This new funding source protects these existing services through future budget challenges.

** Maintains current ratio of support (HR, IT, Legal, Finance) to front-line, community-focused services

Table 2

Customers	Total Accounts/ Units	Ratio to Residential	Increase to Monthly Rate	Total Proposed Rate 7/1/2024	CPI Adjusted 1/1/2025
Residential	39,998	1.00	\$5.50	\$14.43	\$15.33
Storm/Streetlight Only	378	1.00	\$5.50	\$14.43	\$15.33
Multifamily Units	25,897	0.80	\$4.40	\$11.54	\$12.26
Commercial/Public/ Industrial/Institutional	3,039	4.82	\$26.51	\$69.55	\$73.90
Total	69,312				

New Employee-Paid and Self-Employment Payroll Tax

Staff have looked at three different payroll tax rates. Each rate provides the same base funding for some new and existing services but allows for different levels of funding to the City's sheltering services. All options provide more community policing; funds Homeless Outreach Team 7 days/week; adds fire crew/station for new Bond-funded station; funds Airport safety and security. The three options are broken down in tables 3,4, and 5.

Table 3 - Option A, .49% (.0049)

Program Funded	Existing Services*	New Services	Total
Community Policing	\$0	\$2,000,000	\$2,000,000
Baseline Policing	\$7,000,000	\$0	\$7,000,000
Fund and Expand Police Homeless Outreach Team	\$1,000,000	\$545,097	\$1,545,097
Fire Response – New Station	\$4,223,030	\$2,285,458	\$6,508,488
Navigation Center - Fund	\$0	\$944,195	\$944,195
Shelter Site – Grant Program	\$0		\$0
Airport Safety and Security	\$500,000	\$0	\$500,000
Support Services	\$1,000,000	\$896,415	\$1,896,415
Total	\$13,723,030	\$6,671,165	\$20,394,195

Table 4 - Option B, .56% (.0049) Provides more navigation Center funding and funds one existing micro-shelter community village.

Program Funded	Existing Services*	New Services	Total
Community Policing	\$0	\$2,000,000	\$2,000,000
Baseline Policing	\$7,000,000	\$0	\$7,000,000
Fund and Expand Police Homeless Outreach Team	\$1,000,000	\$545,097	\$1,545,097
Fire Response – New Station	\$4,223,030	\$2,285,458	\$6,508,488
Navigation Center - Fund	\$0	\$2,000,000	\$2,000,000
Shelter Site – Grant Program	\$0	\$2,000,000	\$2,000,000
Airport Safety and Security	\$500,000	\$0	\$500,000
Support Services	\$1,000,000	\$896,415	\$1,896,415
Total	\$13,723,030	\$9,726,970	\$23,450,000

Table 5 - Option C, .66% (.0049) Provides full navigation Center funding and funds the three existing micro-shelter community village.

Program Funded	Existing Services*	New Services	Total
Community Policing	\$0	\$2,000,000	\$2,000,000
Baseline Policing	\$7,000,000	\$0	\$7,000,000
Fund and Expand Police Homeless Outreach Team	\$1,000,000	\$545,097	\$1,545,097
Fire Response – New Station	\$4,223,030	\$2,285,458	\$6,508,488
Navigation Center - Fund	\$0	\$2,400,000	\$2,400,000
Shelter Site – Grant Program	\$0	\$5,500,000	\$5,500,000
Continue Towing Program	\$0	\$200,000	\$200,000
Airport Safety and Security	\$500,000	\$0	\$500,000
Support Services	\$1,000,000	\$896,415	\$1,896,415
Total	\$13,723,030	\$13,826,970	\$27,550,000

Table 6 - Payroll tax rates applied to various wage levels

		Payroll Tax Rate					
		.49% (.0049)		.56% (.0056)		.66% (.0066)	
Hourly Wage	Annual Wage	Monthly	Annual	Monthly	Annual	Monthly	Annual
\$ 13.50	\$ 28,080	\$ 11.47	\$ 137.59	\$ 13.10	\$ 157.25	\$ 15.44	\$ 185.33
\$ 15.00	\$ 31,200	\$ 12.74	\$ 152.88	\$ 14.56	\$ 174.72	\$ 17.16	\$ 205.92
\$ 24.04	\$ 50,000	\$ 20.42	\$ 245.00	\$ 23.33	\$ 280.00	\$ 27.50	\$ 330.00
\$ 29.90	\$ 62,185	\$ 25.39	\$ 304.71	\$ 29.02	\$ 348.24	\$ 34.20	\$ 410.42
\$ 36.06	\$ 75,000	\$ 30.63	\$ 367.50	\$ 35.00	\$ 420.00	\$ 41.25	\$ 495.00
\$ 48.08	\$ 100,000	\$ 40.83	\$ 490.00	\$ 46.67	\$ 560.00	\$ 55.00	\$ 660.00
\$ 60.10	\$ 125,000	\$ 51.04	\$ 612.50	\$ 58.33	\$ 700.00	\$ 68.75	\$ 825.00
\$ 72.12	\$ 150,000	\$ 61.25	\$ 735.00	\$ 70.00	\$ 840.00	\$ 82.50	\$ 990.00

Potential Implementation Timeline

- City Operations Fee Increase, available as early as August 2023
 - April 2023: increase in Proposed FY 2024 Budget
 - June 2023: increase adopted in Fee Schedule, communicate with utility customers
 - July 2023: increase effective

- August 2023: increase appears on utility bills
- If Payroll Tax referred to voters, effective as early as January 2025
 - April-August 2023: finalize ordinance language, Council refers to voters
 - November 2023: General Election
 - If approved:
 - December 2023: add administrative FTE and begin RFP for software program
 - January - June 2024: administrative rulemaking and programming
 - July - December 2024: communication with employees, employers, and community
 - **January 2025: Payroll tax effective**
 - April 1, 2025: First quarterly reporting and payments due

BACKGROUND:

What is the problem?

Our community is growing, but City services are not able to keep up. To keep pace, we need a more balanced way to pay for services in the City's General Fund. The City's General Fund **supports services like public safety, parks and recreation, library, land use planning and zoning, enforcement of codes or rules to maintain neighborhood livability, social services that help those in need, municipal court, and other services that provide a general citywide benefit.** As more people live in our community, the need for and cost of services increase each year, but revenue to provide those services grows at a slower rate.

As a result, by June 30, 2026, the **cost for these services will be more than \$17 million greater than the revenues collected in the General Fund** and the working capital, the money needed to cover payroll from July 1 to October each year for these essential services, will be gone. Solving this General Fund deficit, or structural imbalance, will continue current City services and staffing levels. Closing this immediate funding gap will not increase community services or add staffing.

In addition to solving the structural imbalance in the General Fund, more funding will be needed to continue Salem's sheltering programs, continue existing service levels to meet community need, and to add services and programs as the population continues to grow.

If the City does not align expenses with anticipated revenues, we will not have enough money to pay for the services we provide today.

How did we get here?

- In the 1990s, Measures 5 and 50 artificially capped property tax revenue growth to no more than 3% per year of a property's assessed valuation (not market value). The result of these measures is a structural imbalance in that revenue has not kept pace with inflation or increases in demand for services due to population growth and increased expenses. Due to

these limitations, property tax revenues are not sufficient to support increasing cost of employees, goods, and services local governments use to provide community services. For example, budgeted property tax revenue to the City in the 2023 would only cover 81% of Police and Fire Department expenses. This is not a problem unique to Salem. To balance budgets, cities have used reserves, relied on user fees, deferred maintenance at City properties and facilities, and cut services. Without additional revenue, the City will have to reduce services to the community, including police and fire services. Property taxes are the largest source of revenue for the City's general fund.

- We have **stepped in where our community has asked the City to fill gaps**. In the 2017 Strategic Plan, residents looked to the City to do more to provide affordable housing and serve the homeless in our community. Traditionally, this valuable work has been outside the City's core service areas. This continuing commitment, in addition to ongoing services, outpaces our available funding.
- **We've restored services**. We made big changes in 2009 to align services with the drop in revenues from the recession and made further changes again in 2013. We closed two fire stations, reduced library hours, reduced recreation services and support to neighborhoods. Since that time, we've re-opened the two fire stations and have continued to make improvements to services the community expects and values.
- **Costs of services are increasing**. Expenses for our services, which rely on our people, have increased as Salem remains a competitive employer in a robust job market and as the cost of public sector retirement escalates.
- **Being more efficient helps but is not enough**. We are always looking for ways to be more efficient and continue to provide high quality services the community expects. To be good stewards of the resources entrusted to us, we are using technology in new ways and changing the ways we provide services, using more energy efficient products, charging for services that make sense, and engaging volunteers and foundations to support community services.

What happens if we do nothing?

We must move to align our services with available funding within the next two years, by June 30, 2024. Without reducing the services or adding to our revenue sources, the City's General Fund working capital will be almost gone by June 30, 2025. We will not have enough resources to fund services for the following year.

- These are hard choices. If the City is unable to raise money within the next two years, then the City will not be able to continue provided essential City services.
- City Council, in conversation with our community, would provide direction on options for reducing City services. A \$17 million reduction to services in the General Fund would be the equivalent of decreasing services by 91 police officers, **or** seven fire stations (\$2.3 million each), **or** most community services (\$14 million) **and** all the Library services (\$6 million).

Attachments:

1. Salem Peer City Financial Research