

**CITY OF SALEM  
CITY MANAGER'S OFFICE  
BUDGET AND FINANCE DIVISIONS**

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**CITY OF SALEM  
REVENUE TASK FORCE**

Committee Members

Mayor Chuck Bennett-Chair  
Councilor Matthew Ausec  
Councilor Steve McCoid  
Britni Davidson-Cruickshank  
Antonia Decker  
Mike Erdmann  
Jesse Gasper  
Theresa Haskins  
Dayna Jung  
Raquel Moore-Green  
Monica D. Pacheco  
Kasia Quillinan  
Ray Quisenberry  
Dan Wellert

City Staff

Steve Powers, City Manager  
Kacey Duncan, Deputy City Manager  
Kelley Jacobs, Budget Officer  
David Lacy, Financial Operations Manager  
Ryan Zink, Budget Analyst  
Kali Leinenbach, Budget Analyst  
Josh Eggleston, Budget Analyst  
Samantha Naluai, Management Analyst  
Kelli Blechschmidt, Administrative Analyst

Next Meeting: October 30<sup>th</sup>, 2018

It is the City of Salem's policy to assure that no person shall be discriminated against on the grounds of race, religion, color, sex, marital status, familial status, national origin, age, mental or physical disability, sexual orientation, gender identity, and source of income, as provided by Salem Revised Code 97. The City also fully complies with Title VI of the Civil Rights Act of 1964, and related statutes and regulations, in all programs and activities.

**MEETING AGENDA**

October 15<sup>th</sup>, 2018

6:00 PM

555 Liberty Street SE, Council Chambers-RM 240

1. Call to Order
2. Public Testimony  
(Appearance of persons wishing to address the Task Force on agenda items)
3. Minutes
  - a. None
4. Action Items
  - a. Election of Vice Chair
  - b. Survey Document Explanation
5. Information Items
  - a. FY 2019-2023 Five Year Forecast\*
  - b. FY 2018 City Council Policy Agenda\*
  - c. FY 2019 City Manager Budget Message\*
  - d. Revenue White Papers\*
  - e. Revenue Options Survey\*
  - f. Presentation Handouts
6. Special Orders of Business
  - a. Oregon Property Tax
    - i. Staff Presentation by David Lacy
  - b. Oregon Public Employees Retirement System
    - i. Staff Presentation by David Lacy
  - c. Priority Based Budgeting Update/Context
    - i. Staff Presentation by Kacey Duncan
  - d. Revenue White Papers
    - i. Q&A with staff
  - e. Revenue Options Survey
    - i. Task Force members complete survey & provide staff direction
7. Adjournment

**TO:** Sustainable Services Task Force Members

**FROM:** Kacey Duncan, Deputy City Manager  
City Manager's Office

**DATE:** October 5, 2018

**SUBJECT:** **Task Force Member Preparation**

Please allow me to again express appreciation for your willingness to serve on the Sustainable Services Revenue Task Force. The materials included with this memorandum and described below are intended as preparation for the first task force meeting scheduled for October 15. In addition, this memorandum provides an outline for the four currently scheduled task force meetings.

#### Member Preparation – Materials Description

While service sustainability pertains to all City funds, the services supported by the City's General Fund are the primary focus of the task force charter. Several items of information included with this initial distribution provide context for the task force's work. The materials include:

- The *FY 2019 – FY 2023 Five-Year Forecast* with the General Fund section beginning on page 9. As the forecast document was presented in December 2017, an update for the General Fund reflecting the FY 2019 budget proposal is also included. It is important to note that while the imbalance of General Fund revenues and expenditures displayed in the forecast documents is anticipated to remain an issue, the forecast is periodically updated. An updated five-year forecast will be presented to the *Budget Committee on December 10, 2018 (in advance of the CC meeting) or on Wednesday, December 12.*
- The *FY 2018 City Council Policy Agenda* provided direction for FY 2019 budget development and represents the first of what is anticipated to be an ongoing practice of the Council. Formation of a policy agenda provides clarity for City staff and the community regarding the Council's priorities for the upcoming fiscal year.
- The *FY 2019 Budget Message* from the City Manager demonstrates the transition from policy agenda to fiscal appropriations. The message also highlights future service sustainability challenges.
- *Revenue White Papers* for task force's consideration, with the list appearing below, include 12 options intended to support General Fund services plus an analysis of a local gas tax option for the Transportation Services Fund. Provided in this section of your binder behind the yellow sheet is a survey to help determine which of the options listed below – or any new options generated by task force members – should be prioritized for additional research and analysis by staff. The survey will be completed at the first task force meeting.

1. 9-1-1 Tax
2. Admissions Tax
3. Business License Fee
4. City Operating Fee (utility bill)
5. Construction Excise Tax
6. Gas Tax
7. Income Tax
8. Lift Fee
9. Local Option Levy
10. Payment in Lieu of Taxes
11. Prepared Food Tax
12. Property Tax Reform
13. Special Taxing District

- *Presentations:* The final tab of your binder includes a spot for you to place copies of the presentations which will be given at the first meeting.
- The Sustainable Services Revenue Task Force charter is updated and provided for your reference.

#### Sustainable Services Task Force Meetings

*October 15* – the first meeting of the task force will focus on ensuring task force members develop a shared understanding of some of the significant factors influencing service sustainability in the General Fund. In addition, staff will be prepared to respond to questions regarding the list of revenue options to facilitate its prioritized (through the survey) during the meeting.

*October 30* – the agenda for this meeting will include presentations from staff related to a prioritized list of options.

*November 7* – at this meeting, staff presentations will continue and likely focus on any new options recommended by the task force not currently featured with the above list of white papers.

*November 28* – the final meeting is intended to focus on completing the task force's recommendation to the City Council (at the December 10 Council meeting).

## Alternate Revenue Survey

Please select and rank the top **five** alternate revenue options that you would like staff to provide further research on. If you have additional ideas for revenue that you would like staff to research and provide information about, please indicate those ideas in the blank spaces provided at the bottom of the survey. To learn more about the options below, please reference the Revenue Options tab in your notebook. Your feedback and participation is greatly appreciated.

Rank	Option	Summary Description
	<b>City Operating Fee</b>	Additional fee on City utility statement in a similar fashion as existing Streetlight Fee. Fee could be tied to specific programs or for general purposes.
	<b>Payment in Lieu of Taxes</b>	Fee assessed to State Agencies for services that are generally funded by property tax revenue. Examples include a Fire/Medical fee based on square footage or personnel.
	<b>Business License Fee</b>	Annual Business License Fee for all businesses operating in City limits. Structure could include small/large businesses, multi-family housing, or other variations.
	<b>Local Option Levy</b>	Voter approved local option levies are the only mechanism to raise operating revenue beyond the permanent rate; can be tied to a specific program. Subject to Measure 5 compression and are the first levies to be compressed.
	<b>Local Gas Tax</b>	Local tax on gasoline sales. Transportation focus.
	<b>New/Dividing/Merging a Taxing District</b>	Formation of a new taxing district, annex into a current district to provide a specified service, or merge with another taxing district.
	<b>Retirement Community/ Skilled Nursing Facility Bed Fee</b>	Fee to offset usage costs (Fire/Medical) for this type of provider. Could be billed monthly/quarterly.
	<b>Construction Excise Tax</b>	Excise tax on building permit valuation to fund affordable housing initiatives.
	<b>Income Tax (Payroll Tax)</b>	Local tax based on a percentage of employee wages, paid by employers on their behalf. Could be remitted annually or quarterly.
	<b>9-1-1 Tax Increase</b>	Increase to Emergency Communication Tax (9-1-1 tax), which supports operation and improvement of emergency reporting systems. Current rate is \$0.75 per phone line, per device capable of reaching 9-1-1, or per retail transaction of prepaid wireless services
	<b>Prepared Food/Beverage Tax</b>	Local tax on the prepared food sales in City limits. Would not include hospital or university dining halls. Captures revenue from non-residents.
	<b>Admission/Amusement Tax</b>	Tax on admission into events. Could be structured as a flat rate, a rate of the ticket value or a percent of gross receipts.
	<b>Property Tax Reform</b>	Oregon's property tax system operates under two constitutional amendments, Measure 5 and Measure 50, designed to limit property taxes and make them predictable for taxpayers each year. The current system would require legislative reform to make any changes across the system.

**City of Salem**  
**Alternate Revenue Options**

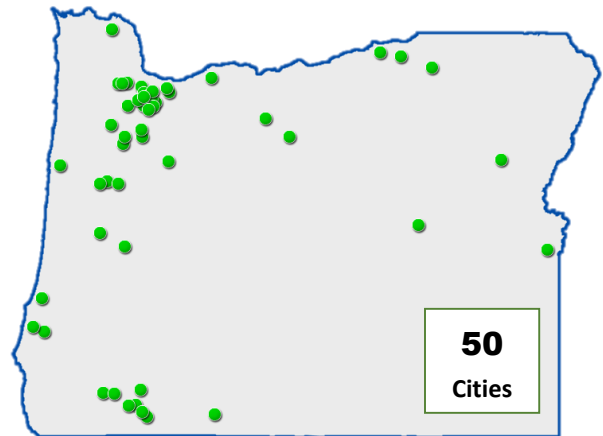
Option	Summary Description	Strategic Initiative	Authorization	Implementation	Revenue Potential
City Operating Fee	Additional fee on City utility statement in a similar fashion as existing Streetlight Fee. Fee could be tied to specific programs (Public Safety, Parks, Library) or for general purposes.	Sustainable Services	Council Adoption; Potential Voter Referral	Less Difficult - Utilize existing City utility bill; Monthly fee structure.	High - Greater than \$1M depending on fee size and structure.
Payment in Lieu of Taxes	Fee assessed to State Agencies for services that are generally funded by property tax revenue. Examples include a Fire/Medical fee based on square footage or personnel.	Sustainable Services	State Legislature	Very Difficult - Would require legislative changes.	High - Greater than \$1M depending on fee size and structure.
Business License Fee	Annual Business License Fee for all businesses operating in City limits. Structure could include small/large businesses, multi-family housing, or other variations.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Application processing and collection (similar to short-term rentals).	Medium - Between \$500K and \$1M depending on fee size/inclusion.
Local Option Levy	Voter approved local option levies are the only mechanism to raise operating revenue beyond the permanent rate; can be tied to a specific program. Subject to Measure 5 compression and are the first levies to be compressed. The levy would need to be larger (less efficient) since compression is present in Salem.	Sustainable Services	Council Adoption; Requires Voter Approval; Maximum 5 years	Difficult - Requires voter approval every 5 years. Subject to compression.	High - Greater than \$1M depending on levy size and structure.
Local Gas Tax	Local tax on gasoline sales. Transportation focus.	Critical Infrastructure	Council Adoption; Requires Voter Referral	Difficult - Potentially utilizing existing system of collection by the State of Oregon.	High - Greater than \$1M depending on tax size and structure.
New Taxing District/Dividing a Taxing District/Merging a Taxing District	Formation of a new taxing district, annex into a current district to provide a specified service, or merge with another taxing district.	Sustainable Services	Council Adoption; Overlapping Taxing district approval; Voter Approval.	Very Difficult - Would require a lengthy approval process.	High (Savings) - Could result in savings and operational stability.
Retirement Community/Skilled Nursing Facility Bed Fee	Fee to offset usage costs (Fire/Medical) for this type of provider. Could be billed monthly/quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Less Difficult - Could be invoiced like Downtown Parking Tax.	Low - Between \$50K and \$900K based on size/inclusion.
Construction Excise Tax	Excise tax on building permit valuation to fund affordable housing initiatives.	Affordable Housing	Council Adoption; Potential Voter Referral	Less Difficult - Invoiced under current permit system.	High - Greater than \$1M depending on fee size/inclusion.

Income Tax (Payroll Tax)	Local tax based on a percentage of employee wages, paid by employers on their behalf. Could be remitted annually or quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would require clear communication to community about what tax revenue use.	High - Greater than \$1M depending on tax size and structure.
911 Tax Increase	Increase to Emergency Communication Tax (9-1-1 tax), which supports operation and improvement of emergency reporting systems. Current rate is \$0.75 per phone line, per device capable of reaching 9-1-1, or per retail transaction of prepaid wireless services.	Sustainable Services	State Legislature	Difficult - Would require state legislative action and broad, state-wide support. Possible referral to voters.	Varies - \$600K-\$3.5M additional revenue depending on intent to cover cost of service (33%-100%).
Prepared Food/Beverage Tax	Local tax on the prepared food sales in City limits. Would not include hospital or university dining halls. Captures revenue from non-residents.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would need an operational process established, plus potential registration of food businesses.	High - Greater than \$1M depending on tax size and structure.
Admission/Amusement Tax	Tax on admission into events. Could be structured as a flat rate, a rate of the ticket value or a percent of gross receipts. Would be remitted via return-monthly or quarterly.	Sustainable Services	Council Adoption; Potential Voter Referral	Difficult - Would need a larger number of employees to manage program which may offset revenue.	Medium - Between \$400K and \$2M depending on tax size and structure.
Property Tax Reform	Oregon's property tax system operates under two constitutional amendments, Measure 5 and Measure 50, designed to limit property taxes and make them predictable for taxpayers each year. The current system has no periodic recalibration of values and would require legislative reform to address the inequity across the system.	Sustainable Services	State Legislature	Difficult - Would require state legislative action to modify, or implement new functions, within existing system.	Varies - Could generate significant additional revenue depending on the changes implemented.

## Alternative Revenue Source: City Operating Fee

For an identified operational need, a monthly fee could be added as a separate line item on customer utility bills. The fee would create a distinct and dedicated revenue source to fund a specific program, which could be especially beneficial for programs and services paid from the general fund. It could be structured as a flat fee for all utility customers or distinguished based on differences in customer class (e.g., residential, commercial, industrial). This revenue source would not be subject to Measure 5 property tax limitations because it is not a tax on individual property values, but simply based on the presence of an improved structure and an active utility account. An operating fee can be adopted by City Council or referred to voters. Examples of these fees include parks, public safety, transportation, or affordable housing and homeless initiatives.

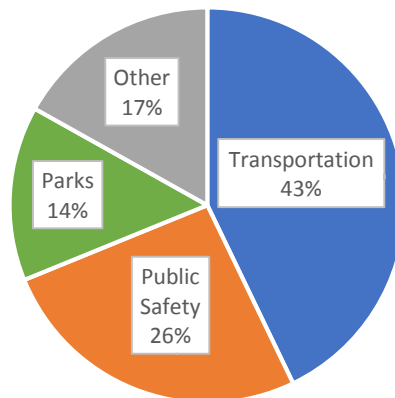
Fund / Service Area	General Fund
<b>Strategic Initiative</b>	Sustainable Services, Critical Infrastructure, or Affordable Housing and Social Services
<b>Approval Body</b>	City Council
<b>Calculation Method</b>	Utility Customer Classifications



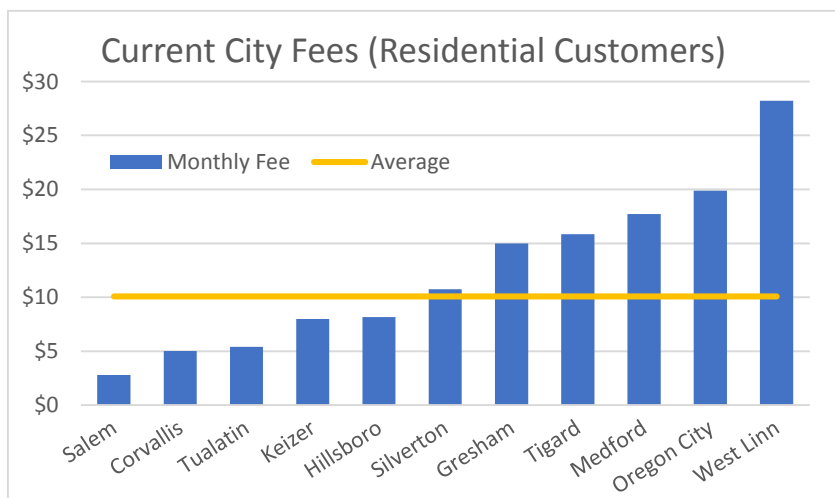
There are approximately 50 different cities in Oregon that have an operational fee on customer utility bills, as displayed on the map. Many of these cities (approximately 29) have two or more to fund different needs. Based on population size, 23 of the 30 largest cities in the state are utilizing this revenue source to provide core services.

**Types of Operating Fees Currently in OR**

The pie chart provides greater detail regarding the programs and services that communities are using fees to support and enhance. Transportation is the largest category and includes street maintenance, sidewalk repair and improvements, and streetlights. The "Other" category predominately incorporates fees identified for general city services, but it also includes services such as urban forestry and transit operations.



In comparing what other cities have implemented it is important to know what is being funded, and how much the fee costs per customer. This bar chart displays the currently adopted fees for residential customers (non-residential rates are typically higher). The yellow line is an average of all the comparable city fees that were identified, which is \$10.00 per month. Salem has the lowest fee of any city researched.



City Examples	Monthly Fee Residential	FY 2017 Revenue	Purpose of the Fee(s)
Corvallis	\$ 5.03	656,849	Transit Operations, Sidewalk Repair, Urban Forestry
Gresham	\$ 7.50	3,892,613	Police, Fire, Parks
Hillsboro	\$ 8.16	3,195,100	Transportation, Bicycle Paths
Medford	\$ 17.72	4,313,500	Parks, Public Safety, Street Maintenance
Salem	\$ 2.80	1,840,393	Streetlights
Tigard	\$ 15.86	3,597,494	Street Maintenance, Transportation, Parks
West Linn	\$ 28.23	3,215,000	Parks, Street Maintenance

The City of Salem implemented the streetlight fee through City Council approval in 2015 in order to pay for streetlight electricity costs and to convert to LED streetlights. This fee has a tiered rate structure that is differentiated based on stormwater customer class. The majority of customers (93.1%) pay the lowest rate of \$2.80 per month, including the 39,775 single family residential customers. While the heavier individual users of the utility system (commercial, industrial, large multi-family) pay proportionately higher rates, it is important to understand that these customer classifications do not generate a significant portion of the revenue. Simply because of magnitude, the fees charged to residential customers have the most substantial impact.

This same method could be used to implement an additional fee on the utility bill for another specified need. A benefit of this revenue type is the familiarity for customers since they have undergone this process previously with the streetlight fee. Another benefit is the ease of implementation, due to the fact there is an existing City program in place to invoice, collect, and process the new revenue stream.

The structure of this revenue source allows City Council and staff to develop rates based on the amount of revenue needed. The estimates below demonstrate a potential fee range that utility customers might pay in order to generate the specific amount of revenue. These estimates are based on an expectation of 2% payment delinquency. Due to the historic customer account growth of only 0.2% year over year, the ongoing revenue would be projected to remain consistent and level unless City Council were to approve increases or growth factors to the fees.

Fee Structure to Generate \$3M			
Total Utility Customers	Fee Range - Low	Fee Range - High	Annual Revenue
44,156	\$ 4.60	\$ 29.60	\$ 3,065,100
<b>Estimated Revenue</b> (less 2% delinquency)		<b>\$ 3,003,800</b>	

Fee Structure to Generate \$5M			
Total Utility Customers	Fee Range - Low	Fee Range - High	Annual Revenue
44,156	\$ 7.65	\$ 49.20	\$ 5,100,000
<b>Estimated Revenue</b> (less 2% delinquency)		<b>\$ 4,998,000</b>	



## Alternative Revenue Source: Payments in Lieu of Taxes (PILOT)

Property taxes in Oregon are used as the primary funding source for municipal general services. Property taxes are levied against the assessed value of properties. Some properties are exempt from property taxes and receive the same municipal services as the non-exempt properties. A few examples of exempt properties are 501(c)(3) organizations, various levels of government, and schools. In Salem, the largest non-City exempt property presence is the State of Oregon. As the state capital of Oregon, there is a concentration of state-owned properties requiring services that are effectively subsidized by other tax payers.

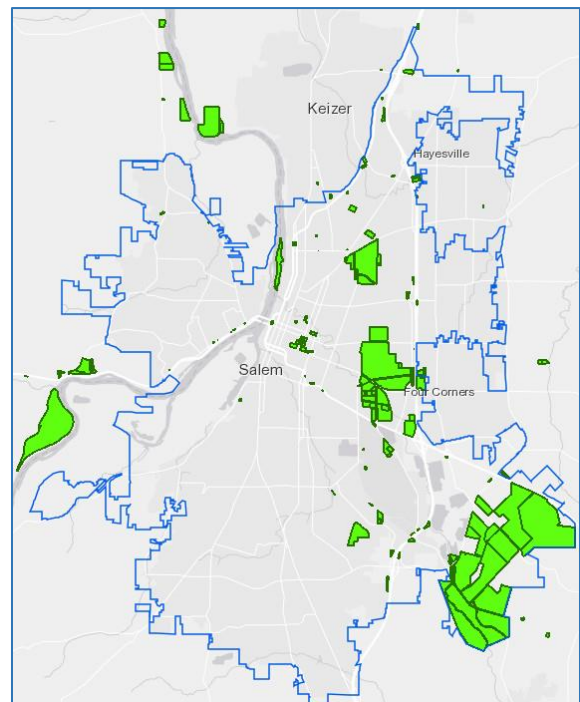
<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	State Legislature
<b>Calculation Method</b>	\$5.8315 per \$1,000 Assessed Value (AV)

A payment in lieu of taxes would be a direct payment made by the State of Oregon to the City of Salem to reimburse Salem for the tax revenue that would be received if the state-owned properties were not tax exempt. This revenue would be used to offset the portion of General Fund services that are provided to state-owned properties, such as police and fire protection.

Currently, the City of Olympia receives payments from the State of Washington for fire protection services. The total allowed amount for FY 2019 paid to this capital city was \$1,031,913.

The properties in green on the map to the right are state-owned as identified by tax lot. The green represents approximately 8% of area within the Salem city limits.

Revenue Forecast	Estimated Annual Revenue
<b>FY 2019</b>	\$ 5,689,687
<b>FY 2020</b>	\$ 5,860,378
<b>FY 2021</b>	\$ 6,036,189
<b>FY 2022</b>	\$ 6,217,275
<b>FY 2023</b>	\$ 6,403,793



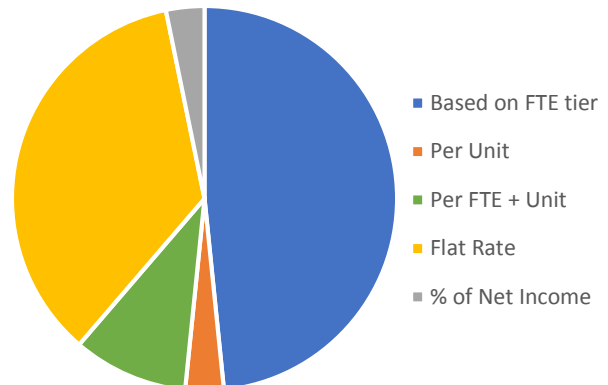
*Forecast Assumptions:* The revenue forecast is based on a payment of based on the City of Salem tax levy of \$5.8315 per thousand of the value of the state-owned properties. The value is based on the real market value (RMV) of approximately \$1.4 billion (as reported by the Marion and Polk county assessors) adjusted with a change property ratio of 70% to simulate the assessed value (AV). Assumes an increase in AV of 3% annually.

## Alternative Revenue Source: Business License Fee

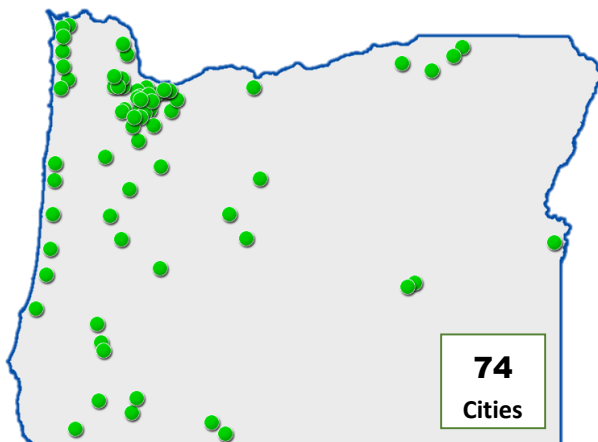
A Business License Program would require anyone doing business within the city limits to register and obtain a license. This registration would include an annual fee that could be calculated in a number of ways, some of which include: number of full-time employees (FTEs), a percentage of net income, on a per unit basis, or a flat annual rate. Business license fees can also apply to organizations that conduct business in Salem on a temporary or seasonal basis, as well businesses run from home. Minimums, maximums, and exemptions can be built into a business license fee structure.

<b>Fund / Service Area</b>	<b>General Fund</b>
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council
<b>Calculation Method</b>	Flat fee based on FTE tier
<b>Rate</b>	\$50 - \$200

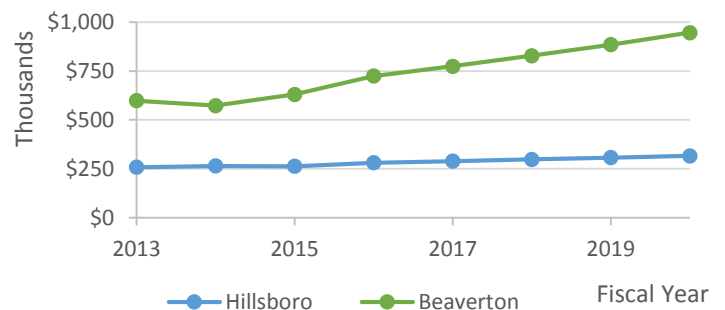
**Fee Structures of 30 Largest Cities in Oregon**



Business license fees could be determined using a tiered structure based on FTEs. In this scenario, the smallest businesses (up to 3 FTEs) would pay \$50 annually, while larger businesses (over 10 FTEs) would remit \$200 annually. This structure is commonly used among cities, straightforward to calculate, and is progressively structured so that larger businesses would pay a higher fee.



**City Revenue Examples: Hillsboro and Beaverton**



In Oregon, there are approximately 74 cities that require businesses to obtain city-issued licenses to conduct business within city limits. This includes 37 of the 50 largest cities in Oregon. The programs are utilized to promote the health and expansion of business and industry, track basic information regarding the businesses within the community that are benefiting from city services, and provide additional revenue for the general fund.

The City of Salem could potentially benefit from the creation and maintenance of a registered business database to assist with functions such as code compliance, short term rental licensing, fire inspections, and utility billing. A challenge facing this revenue source is that it may require the creation of a new program, development of a licensing system, additional staff members or reallocation of existing staff time; all of which would incur ongoing administrative costs. A business license fee would also be a potential increase in annual expenses for existing businesses operating in Salem. Outreach to the business community is recommended prior to implementation.

City	Calculation Method	Annual Fee Scenarios (\$)			FY 2016 Revenue (\$)	FY 2017 Revenue (\$)
		Base Rate	Per FTE Rate	Per Unit Rate		
Beaverton **	Base rate plus per FTE (5+ FTE)	75.00	8.50	1.25	638,571	673,195
Gresham	Base rate plus per FTE (3+ FTE)	75.00	3.00	-	6,874,811	6,423,412
Hillsboro	Base rate plus per FTE (3 - 147 FTE)	105.00	5.00	5.00	281,346	285,000
Bend	Flat rate	50.00	-	-	296,635	302,135
Medford <sup>+</sup>	Flat rate	100.00	-	-	513,500	513,500
Springfield <sup>+^</sup>	Rental businesses per unit (4+ units)	75.00	-	19.95	-	-
Portland	Percentage of net income (\$100 min)	100.00	-	-	108,063,578	117,864,765

*\* Cities that have a separate fee for multi-unit rental businesses that pay on a per unit basis*

*+ Cities that have separate fees for seasonal, temporary, or home business licenses*

*^ City of Springfield implemented their business license fee program in 2017. Anticipated revenue for FY 2018 is forecasted to be \$130,000.*

The table above highlights the business license fee structures for a select few of Salem's comparable cities as well as the revenue they received in the previous two fiscal years from the fees. While some cities have required business licenses for many years, such as Portland, with a program since 1854, other cities such as Springfield and North Bend have recently made the decision to require licenses to conduct business within city limits. Many cities, including Salem, have special licenses for certain types of businesses and vocations. The City of Salem could adopt a general business license fee while still retaining the licensing requirements that currently exist.

The forecast below demonstrates the potential revenue the City of Salem might receive if a business license program were implemented with an annual fee. The revenue numbers below are calculated based on the tiered fee structure described on the previous page which uses the number of FTEs a business employs. This is one example of how a fee structure may be adopted. The tier structure has businesses with 0-3 FTEs remitting \$50 annually, 3-9 FTEs paying \$110 annually, and 10+ FTEs paying \$200 each year. The estimate of total businesses and FTEs per business are sourced from the 2012 Census Survey of Business Owners (SBO). Revenues of comparable cities that have business license fees (Gresham, Hillsboro, Beaverton, Bend, Medford, and Tigard) grew on average 2% year over year. This is the growth factor used to estimate Salem's annual revenue.

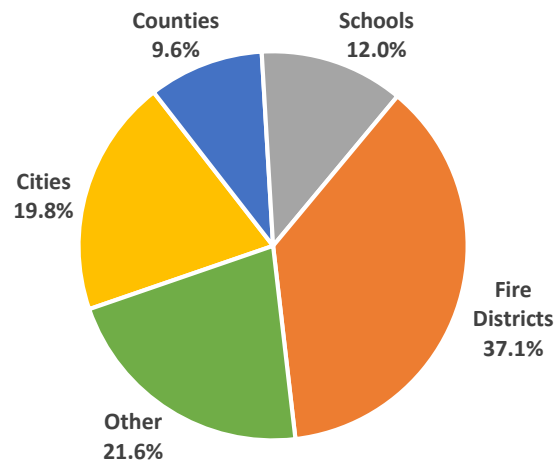
Revenue Forecast					
	FY 20	FY 21	FY 22	FY 23	FY 24
<b>Estimated Annual Revenue</b>	\$ 514,800	\$ 525,100	\$ 535,600	\$ 546,400	\$ 557,400

## Alternative Revenue Source: Local Option Levy

Property taxes in Oregon are divided into three main categories: permanent tax rates (limits established by each individual taxing district in 1997 on funds for general operating budgets), general obligation (GO) bond levies approved by voters to pay for specific capital construction projects, and local option levies that can be used for operating expenses or debt service payments. Measure 5 tax limitations apply to permanent and local option taxes, meaning that tax revenue is reduced (compressed) when the total governmental tax on a property's assessed value (AV) exceeds the \$10 per \$1,000 of real market value (RMV) test. When tax levies need to be reduced because of this test, local option taxes are the first levies to be compressed.

<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	Voters
<b>Calculation Method</b>	Assessed value (AV) of property
<b>Rate</b>	\$0.52 per \$1,000 AV

**Local Option Levies by Taxing District**



*"Other" includes the following district types: health, historic, library, parks, roads, water supply, vector control and transportation*

A local option levy requires voter approval, and can be levied for a maximum of five years for operational expenses, or ten years for capital expenses. If Salem voters approved a local option tax, the revenue could be used only for the identified needs. Once the levy expires, voters would then need to be asked to approve a new levy to continue collecting local option taxes for an additional five years. This revenue source is the only way to generate additional tax dollars that can be used for operating expenses. However, the Measure 5 tax limitations add a level of risk in how much the issuer may actually collect. Depending on market conditions or levies that are approved for other taxing jurisdictions, the revenue generation anticipated from the local option levy could be compressed.

**City Local Option Levy Ballot Measures**



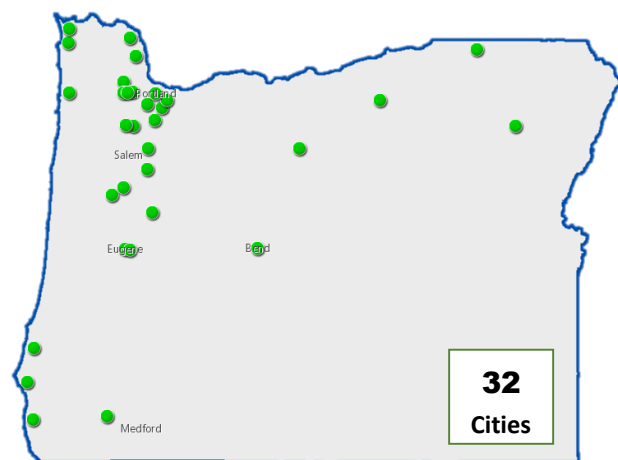
Currently, the Oregon Department of Revenue tax data indicates there are approximately 32 cities, 16 counties, and 20 school districts that collect taxes from a local option levy, ranging from \$0.18 to \$9.02 per \$1,000 of AV. Over the past ten years, 55 different cities have put forward ballot measures requesting voter approval for local option levies. The above chart shows the passage and failure of those ballot measure by year. During the financial crisis and in the years following (2008-2011), voters denied over 50% of the levies. In the past three years, the approval rating has increased substantially to over 76%.

## Examples of other cities in Oregon:

City	Permanent Tax Rate Levied	Bond Rate Levied	Local Option Tax Rate Levied	Total Tax Rate Levied by District	Purpose of Local Option Tax Levy
Sweet Home	1.4157	-	9.0200	10.4357	Public Safety, Library
Banks	1.9700	-	2.3500	4.3200	Public Safety, Library
Grants Pass	4.1335	0.3866	1.7900	6.3101	Public Safety
Hillsboro	3.6665	-	1.7200	5.3865	Public Safety, Parks, Library
Bandon	0.4580	0.6406	0.8455	1.9441	Street Capital Projects
Corvallis	5.1067	0.2507	0.8181	6.1755	Library, Aquatics, Code Enforcement, Public Safety
Canby	3.4886	-	0.4900	3.9786	Aquatics
Silverton	3.6678	0.1068	0.3659	4.1405	Aquatics
Bend	2.8035	0.1895	0.2000	3.1930	Public Safety
Eugene	7.0058	0.9759	0.1880	8.1697	Library

The table below demonstrates that potential revenue the City of Salem may receive if a local option levy were approved by voters at the rate of \$0.52 per 1,000 of AV. The revenue could be used to fund general fund programs such as police, fire, parks, or library services. The revenue forecast is based on a levy imposed on all taxable properties within the City of Salem (Marion and Polk counties). Property tax collections are based on an assumed 95% collection rate, due to historic trends of discounts and delinquencies. The forecast also assumes real market value (RMV) growth of 5% and assessed value growth of 3% year over year. These assumptions are subject to market change but establish the gap between RMV and AV, which provides the potential capacity for a local option levy.

### Cities with Local Option Levies



### Revenue Forecast

	FY 20	FY 21	FY 22	FY 23
<b>Estimated Annual Revenue</b>	\$ 5,592,000	\$ 6,140,000	\$ 6,696,000	\$ 7,055,000

## Alternative Revenue Source: Local Gas Tax

In 1919, the State of Oregon implemented the nation's first tax on gasoline at a rate of \$0.01 per gallon. Today, Oregon's gas tax is \$0.34 per gallon, with the tax paid by fuel distributors or retailers depending on the type of fuel. The Oregon Constitution mandates revenue derived from taxes on motor vehicle use and fuel be applied to construction, improvement, repair, maintenance and operation of public highways, roads, and streets, including facilities for pedestrians and bicycles that are located within the right-of-way. Currently, 27 cities and 2 counties in Oregon have a local gas tax ranging from \$0.01 to \$0.10 per gallon. Most cities charge \$0.03 per gallon. In the majority of locations, the tax is paid by retail gas stations. Starting in 2009, legislation required local gas tax measures to be approved by voters.

<b>Fund / Service Area</b>	Transportation Services Fund / Safe, Reliable, and Efficient Infrastructure
<b>Strategic Initiative</b>	Critical Infrastructure
<b>Approval Body</b>	Voters
<b>Calculation Method</b>	Amount per gallon
<b>Rate</b>	\$0.03 - \$0.06 per gallon

A benefit to a local gas tax is capturing revenue from through traffic, visitors, and work commuters. According to the State of Oregon Employment Department, 63% of Salem workers commute from other areas.

The current financial forecast for the Transportation Services Fund is relatively stable but most essential activities such as pavement maintenance are funded at minimal levels. There are many unmet needs, and this significant additional

revenue stream could be used to conduct or enhance pavement, sidewalk, or bridge maintenance, or traffic signal operations. Salem could move toward a model combining general obligation bonds and pay-as-you-go funds to accomplish transportation infrastructure projects.

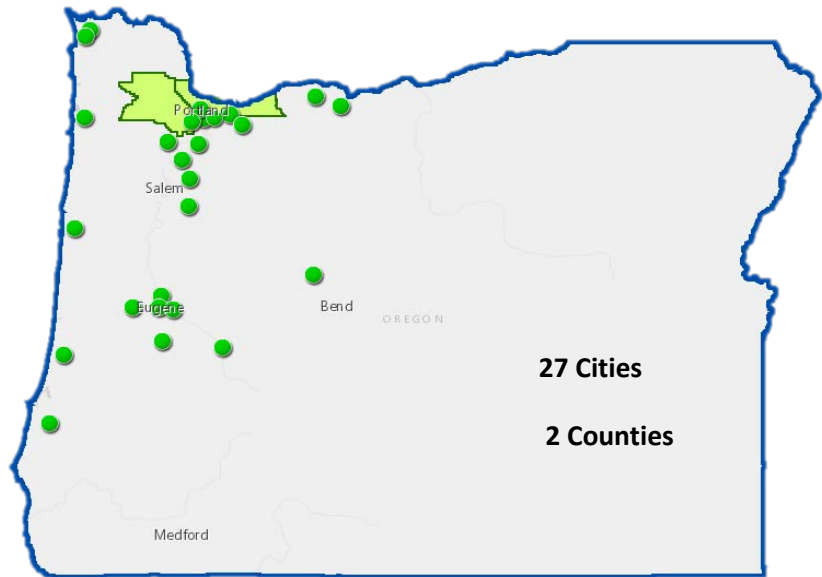
If a local gas tax was approved in Salem, implementation could occur without the addition of City administrative positions. Oregon Department of Transportation (ODOT) currently administers and collects local gas taxes on behalf of 19 municipalities for an affordable administration fee and minimal start-up costs. The fee remains low as long as cities mirror the state gas tax law as closely as possible when creating an ordinance.

In the past when this revenue idea has been explored, there was concern about unincorporated areas east of Salem abutting incorporated areas, with gas stations inside of Salem not having competitive prices due to a local gas tax. Of the 15 gas stations near the eastern border of the city, 8 are not within Salem city limits. In only one instance is a gas station in Salem within 0.2 miles of a gas station outside of the city. The remaining stations are further apart. In other areas where one city has a local gas tax and neighboring communities do not or have a lower gas tax rate, average gas prices are similar and competitive. In some cases, lower gas prices are still found in cities with a higher local gas tax.

Another consideration has been a regional gas tax to include Marion County and the City of Keizer, but this would require consensus among agencies and add complication to the implementation process.

**Oregon City Examples:**

The state and many communities in Oregon already charge a gas tax. This is an option Oregonians are familiar with and could see tangible improvements to streets and sidewalks as a result of the tax.



**27 Cities**  
**2 Counties**

City	Gas Tax	FY 2016 Revenue	FY 2017 Revenue	Additional Information
<b>Eugene</b>	\$.05 per gallon	\$3,050,845	\$3,081,192	Highest permanent gas tax rate in Oregon
<b>Portland</b>	\$.10 per gallon		\$9,787,463	Four year temporary rate through 2020
<b>Springfield</b>	\$.03 per gallon	\$1,089,825	\$1,071,487	
<b>Tigard</b>	\$.03 per gallon	\$712,408	\$844,866	

**Revenue Forecast:**

Eugene, the closest comparable city to Salem, has 21 gas stations. Based on property tax records, Salem has more than double that of Eugene. Comparing fuel sales data in Eugene to distributor deliveries destined for Salem (sales data is not accessible), it appears more fuel is sold in Salem. This means that at a lower rate, Salem could potentially earn more revenue than Eugene from a local gas tax.

Another option adopted by cities to fund transportation improvement and maintenance projects is a transportation fee on their utility bill based on trip generation by property type. For more detail see the white paper for City operating fees.

Revenue Forecast				
	\$0.03	\$0.04	\$0.05	\$0.06
<b>Estimated Annual Revenue</b>	\$2,394,000	\$3,202,000	\$4,010,000	\$4,818,000

Forecast Assumptions: Discounting 2017 ODOT distribution data by 20% to account for gas stations in the Salem area, but outside city limits, assuming a flat administration fee from ODOT of .3702% and start-up fees of \$30,000.

**Upcoming Transportation Work Session:**

City Council created the Congestion Relief Task Force to look at traffic levels downtown and in west Salem and recommend infrastructure improvements to enhance traffic flow. As part of their effort, a City Council work session will be held in November to discuss priority infrastructure projects and consider funding options for those projects.



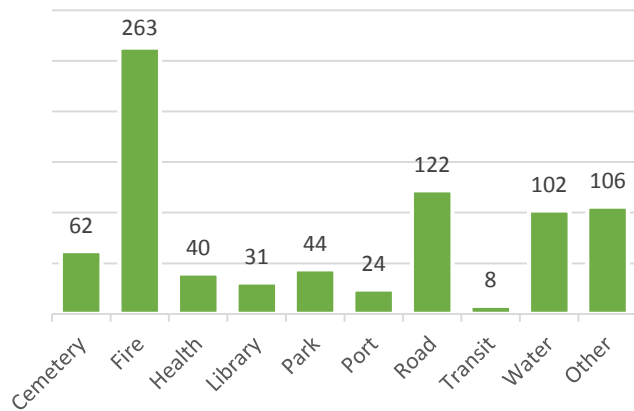
## Alternative Revenue Source: Special Taxing District

Communities across Oregon have certain services provided by a separate taxing district, often with a larger geographic boundary than the municipal border (city limits). Article XI Section 11 of the Oregon Constitution allows taxing districts to divide, with the specification that the limit on the levy rate of property tax to be imposed by each district after division cannot exceed the district's permanent rate prior to division.

Salem residents currently receive services from four special taxing districts: Marion County Soil & Water District, Chemeketa Regional Library, Salem Area Mass Transit, and OHSU & 4H District. The OHSU & 4H District was most recently approved by voters in May, 2015. The City of Salem is a full service municipality that currently provides services including police, fire, water and sewer, library, parks and recreation, and municipal court.

<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	Voters
<b>Calculation Method</b>	Assessed value (AV) of property
<b>Levy Rate</b>	\$0.50 per 1,000 of AV

**Special Taxing Districts in Oregon by Type**



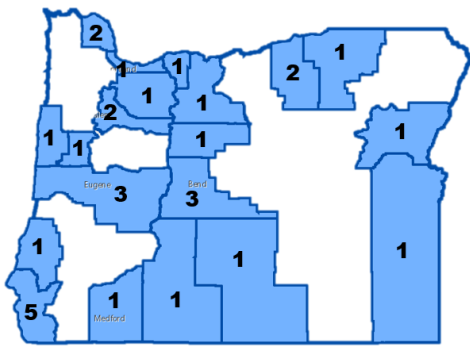
*"Other" includes vector control, service extension, sanitary, animal control, law enforcement, lighting, chemical control and radio.*

In the State of Oregon, there are over 800 taxing districts that are delivering specialized services to the resident's within their district boundaries. The chart below shows the special taxing districts that serve residents within some of the cities that Salem typically uses for comparison. Service delivery is an important consideration in the budget process each year as cities strive to deliver the highest level of service possible, knowing that ongoing expenditure increases are outpacing revenue growth. All of these cities provide varying levels of service and depend on taxing districts to provide the other essential services required by residents. In this display, it is important to note that if a city is not responsible for a program, the expenses incurred to deliver that program or service are not included in the city's budget. In some cases, it can be more cost effective to have a specialized district provide a service to multiple cities and counties, rather than each individual city needing to maintain that program.

	Salem	Beaverton	Bend	Eugene	Gresham	Hillsboro	Medford
Fire		✓					
Parks & Rec		✓	✓				
Soil & Water	✓	✓			✓	✓	✓
Water		✓		✓	✓	✓	
Library	✓		✓		✓		✓
Transportation	✓	✓			✓	✓	✓
Port		✓			✓	✓	
Other	✓		✓✓	✓			✓✓
Description:	-Extension District		-Police -Extension District	-Extension District			-Vector Control -Extension District

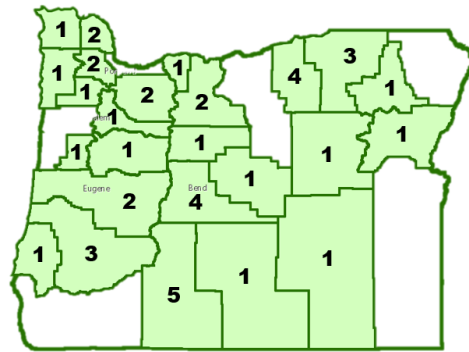


The maps below show all of the counties in Oregon containing the special taxing districts indicated. The numbers specify how many of those districts exist within each county.



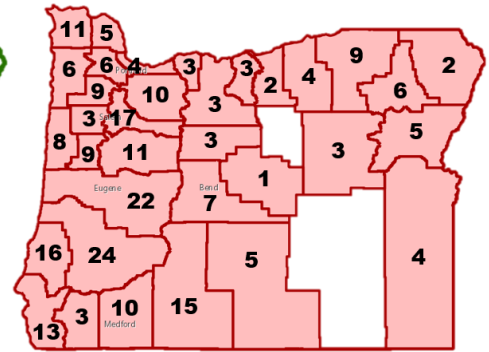
### Library Districts

Jackson County Library District was approved by voters in 2014 to provide a dedicated funding source of \$0.60 per thousand of AV for library operations and services. This levy generates \$9.8M from all the district's taxpayers. The district operates 15 library branches, including one previously operated by the City of Medford.



### Parks Districts

Many of Salem's regional comparisons depend on parks and recreation districts, including North Clackamas, Bend Metro and Tualatin Hills. These districts levy anywhere from \$0.54 - \$1.46 per thousand of AV, or between \$7M - \$17.5M. The average permanent levy for parks districts in Oregon is \$0.58 per thousand of AV.



### Fire Districts

Tualatin Valley Fire and Rescue (TVF&R) was formed in 1989, and since its origin many cities have opted to annex into the district. West Linn voters approved annexation in 2004, and Newberg voters made the same decision in November, 2017. TVF&R has a permanent levy rate of \$1.5252 per thousand of AV, a local option levy of \$0.45 per thousand of AV, and a \$0.13 bond levy, generating \$106.7M across the district.

## Revenue Forecast For District

	FY 20	FY 21	FY 22	FY 23
<b>Estimated Annual Revenue</b>	\$ 3,515,100	\$ 3,523,400	\$ 3,531,700	\$ 3,540,000

In this example, if a current City of Salem service became its own taxing district, requiring a \$0.50 levy rate, the City's levy rate would be reduced from its permanent rate of \$5.83 to \$5.33. If a district was divided and combined to form a larger geographic boundary involving other jurisdictions, the direct impact to the City's permanent rate may be lower. The City could also enter into an agreement with an existing taxing district that provides a similar service, therefore discontinuing the service and relying exclusively on that separate district. While the creation of a special taxing district would not generate additional revenue for the City, it would decrease expenditures because a program (and its prospective costs) would move to a separate district and funding source.

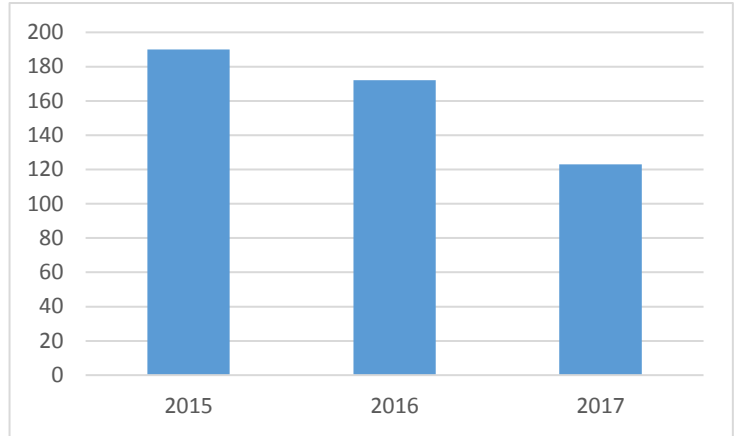
The revenue estimates are based on the Measure 50 limit that MAV can grow at a rate of 3% each year. The revenue forecast shows a scenario where the revenue generated from the \$0.50 levy per thousand of assessed value (AV) could be dedicated to that new district. While this would be a decrease in revenue for the City of Salem, the costs associated with that program would also be removed from the City budget.

## Alternative Revenue Source: Lift Assist / Bed Fee

The Salem Fire Department receives an annual average of 160 calls for non-emergency lift assists. This occurs when the sole purpose of a call is to lift someone who has fallen to the ground and needs to be lifted to a chair or bed. Often these calls are from commercial assisted living facilities that do not have the equipment or staff to lift individuals. Two options for cost recovery are detailed below.

<b>Fund / Service Area</b>	<b>General Fund</b>
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council
<b>Calculation Method</b>	Per Response / Per Bed
<b>Rate</b>	\$300 per response / \$41.50 per bed per month

**Lift Assist Call History**



*\*Data provided by the Salem Fire Department*

### Option One

Option one is a fee charged for each lift assist that would be assessed to the commercial assisted living / retirement facility. The main purpose of this fee would be to incentivize these facilities to invest in the equipment and staff to appropriately respond internally to lifting needs.

Revenue Forecast					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<b>Estimated Annual Revenue</b>	\$ 48,000	\$ 48,000	\$ 48,000	\$ 48,000	\$ 48,000

*Forecast Assumptions: Based on a \$300 per response fee with an average of 160 calls per year.*

### Option Two

Option two is assessment of a flat monthly fee based on the quantity of beds in the assisted living / retirement facility to recover the costs of the Salem Fire Department's ongoing staffing needs to respond to these non-emergency lift assist calls.

Revenue Forecast					
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<b>Estimated Annual Revenue</b>	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000	\$ 996,000

*Forecast Assumptions: Assumes a \$41.50 per bed monthly fee with an estimated 2,000 beds in Salem. The estimated bed count is based on county facility registrations.*

## Alternative Revenue Source: Construction Excise Tax

The State of Oregon expanded local control of affordable housing policy through the passage of SB 1533 B. The law, in addition to allowing for voluntary implementation of inclusionary zoning (requires or encourages new residential developments to make a certain percentage of the housing units affordable to low income residents), authorizes local governments to impose a Construction Excise Tax (CET) on improvements to real property to fund affordable housing initiatives.

<b>Fund / Service Area</b>	<b>General Fund</b>
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council
<b>Calculation Method</b>	Percentage of Permit Valuation
<b>Rate</b>	0% - 1%

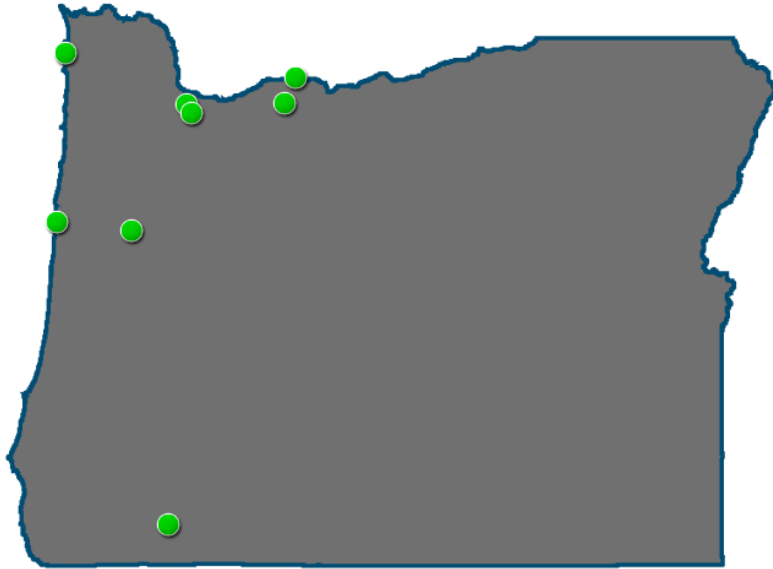
The legislation allows a tax rate up to 1% for residential properties and no limit on commercial properties. The tax would be based on a percentage of the permit valuation (estimated value of the construction project). The tax applies to new structures or additional square footage added to existing structures, including remodels that add living space. There are several mandated exemptions from the CET as well as a list of developer incentives that are allowed.

The revenue from the CET has restrictions on use based on whether the properties are residential or commercial with 4% of the revenue accessible by the City to fund the administration of the program. The balance of the funds from a tax of 1% for residential and commercial properties could be used as displayed in the table below.

Allowed Use	Annual Revenue Estimate
Administration	\$ 77,250
Developer Incentives	\$ 405,650
Affordable Housing	\$ 805,360
State HCSD	\$ 121,690
Unrestricted	\$ 521,410
<b>Total</b>	<b>\$ 1,931,360</b>

Property Type	Allowable Use of Revenue
<b>Residential</b>	<ul style="list-style-type: none"> <li>50% dedicated to fund developer incentives</li> <li>35% for city affordable housing programs and incentives</li> <li>15% distributed to the State Housing and Community Services Dept. (HCSD) for down payment assistance</li> </ul>
<b>Commercial and Industrial</b>	<ul style="list-style-type: none"> <li>50% for city affordable housing programs and incentives</li> <li>50% unrestricted</li> </ul>

*Revenue Assumptions:* The valuation data used to calculate the revenue estimate does include property that may be exempt from the CET. Also, the residential and commercial alteration valuation has been excluded since it is not clear if the alterations would qualify for the CET. The valuation is based on a five-year average from FY 2015 to FY 2018.



Several jurisdictions in Oregon have implemented a CET and several more are considering a CET. Tillamook County adopted a CET in May of 2017, and voters repealed the tax in November of 2017.

The rates vary slightly by jurisdiction and some opted to exempt additional property types from the CET.

City	Date Adopted	Residential Rate	Commercial Rate	Annual Revenue Estimate
Portland	June 29, 2016	1.00%	1.00%	\$8.1M
Hood River County	June 19, 2017	1.00%	1.00%	
Hood River City	July 24, 2017	1.00%	1.00%	\$165,000
Corvallis	November 7, 2016	1.00%	1.50%	\$660,000
Cannon Beach	June 6, 2017	1.00%	1.00%	\$96,000
Newport	August 7, 2017	1.00%	1.00%	\$100,000 - \$150,000
Milwaukie	November 21, 2017	1.00%	1.00%	
Medford	February 15, 2018	0.33%	0.33%	\$500,000

*\*Data as reported by the Oregon Housing Alliance*

## Alternative Revenue Source: Income Tax

There are taxing districts around the nation and even some in Oregon that assess an income tax on individual wages through a payroll tax. Benefits of this type of revenue source are the flexibility with implementation, collection, and assessment. Locally, Lane County Mass Transit District (LTD) and Tri-Met Transit (Tri-Met) have payroll taxes. LTD and Tri-Met collect their taxes as a percentage of gross payroll from employers who are paying wages earned within the district. Employers submit their taxes quarterly, while those who are self-employed submit annually, to the Oregon Department of Revenue, which disperses the revenue to the taxing district. Both jurisdictions use their income tax revenues to support operating and service funds.

### Current Rates of Local Taxing Jurisdictions

Jurisdiction	Current Rate (of Income)
Lane County Mass Transit District (LTD)	0.7300%
Tri-Met Transit	0.7537%

<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council or Voters
<b>Calculation Method</b>	Percent of Payroll Wages
<b>Suggested Rate</b>	.10%

In November 2015, Salem Area Mass Transit District (commonly known as Cherriots) placed a payroll tax on the ballot. In the proposal, businesses within the transit district would pay .21% of payroll or \$0.21 for every \$100. This tax needed to be paid by the employer and could not be passed through to employees with a payroll deduction. Ultimately, this measure failed with a rate of 42% of voters in favor and 58% of voters against the payroll tax. Vote counts for the 47 City of Salem precincts were 12,644 in favor and 15,665 opposed. This 44.6% approval rate suggests that Salem voters are potentially more inclined to support an income tax. It should be noted that only 35.8% of registered Salem voters participated in the election; an increase in voter participation could influence the level of support.

If this revenue source were to be supported, the State Department of Revenue already has a method of collection and disbursement for the two transit district income taxes. With the State's cooperation, the City could use a similar method. Additionally, it would be possible when drafting the required City code to include exemptions for residents of Salem, who are already contributing financially to the various services the City provides by way of property taxes. Revenue could be captured exclusively from commuters into the City for work, who benefit from City services but do not pay for those services. Employers would only pay on the wages of employees who are not residents of Salem.

It is important to distinguish the payroll tax described above and the one put forth by HB 2017 or the "Keep Oregon Moving" bill. The payroll taxes in place for both Tri-Met and LTD requires the employer to pay on the employee's behalf. However, the payroll tax put in place by HB 2017 is not paid by the employer and instead is passed on to the employee through traditional wage withholding. At a rate of .001% (or \$1 per \$1000), Cherriots anticipates \$7 million in revenue from their first disbursement from the State.

**TABLES:****Current Oregon Income Tax Examples:**

Taxing Jurisdiction	FY 2013 Revenue	FY 2014 Revenue	FY 2015 Revenue	FY 2016 Revenue	FY 2017 Revenue	FY 2018 Projected Revenue
<b>Tri-Met Transit</b>	\$258,513,157	\$274,573,832	\$291,294,171	\$323,999,360	\$336,130,653	\$358,848,440
<b>Lane CO. Mass Transit District</b>	\$28,409,666	\$28,936,731	\$33,275,526	\$36,698,219	\$35,222,680	\$38,101,275

Example References:

All revenue projections are from the taxing jurisdictions' financial reports (CAFRs and budget documents). Revenues are a combination of employer paid payroll taxes, self-employment taxes and state-in-lieu.

**Revenue Projections-Payroll Income Tax**

<b>City of Salem Revenue Projection-Payroll Income Tax- 2017 Data</b>						
	<b>Annual Wages Salem MSA 2017</b>	<b>.05%</b>	<b>.10%</b>	<b>.25%</b>	<b>.50%</b>	<b>1.00%</b>
<b>Estimated Annual Revenue (% of Payroll)*</b>	\$7,547,078,422	\$3,773,539	\$7,547,078	\$18,867,696	\$37,735,392	\$75,470,784

Projection Assumptions/Limitations:

\* Payroll wages are from the State of Oregon Employment Department 2017 Industry Summary Report for the Salem MSA. Due to the data reflecting the Salem MSA rather than Salem proper, revenue projections can be expected to be lower.

## Alternative Revenue Source: 9-1-1 Tax Increase

The Emergency Communications Tax (9-1-1 tax) supports the planning, installation, maintenance, operation, and improvement of the 9-1-1 emergency reporting system and is collected by the State of Oregon. The current monthly tax rate – set by the state 23 years ago – is 75 cents per phone line or per device capable of reaching 9-1-

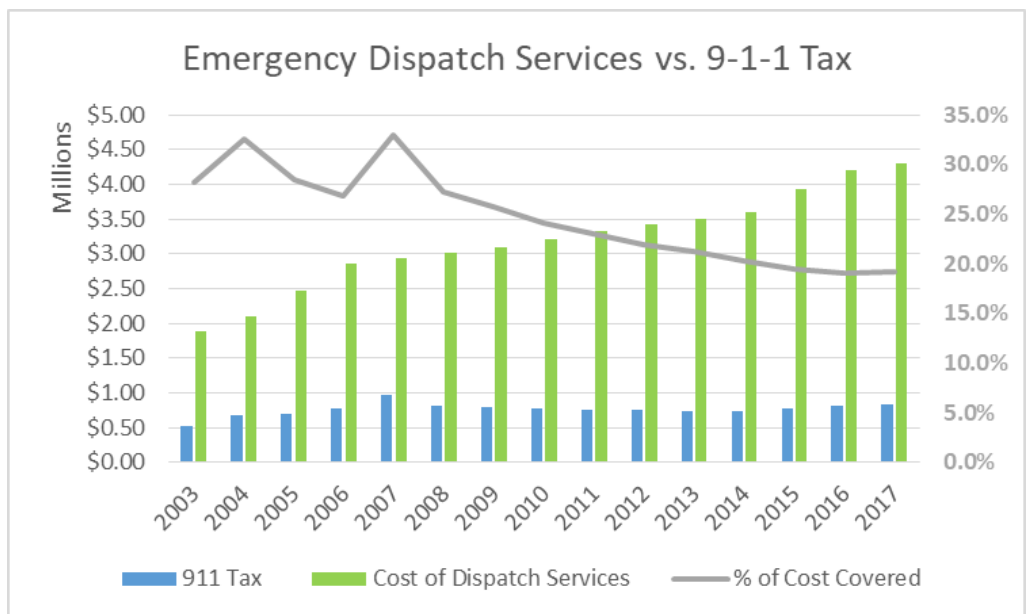
<b>Fund / Service Area</b>	General Fund / Safe Community
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	State Legislature
<b>Calculation Method</b>	\$ per phone line or device capable of reaching 9-1-1
<b>Rate</b>	\$1.30 – \$1.50 per month

1. This tax is applied to landlines, postpaid wireless, and *Voice over Internet Protocol (VoIP)*. For prepaid wireless, the tax is applied to each retail transaction for prepaid purchases.<sup>1</sup>

As directed by Oregon Revised Statutes (ORS) Chapter 403.240, the Oregon Department of Revenue retains a portion of receipts for the cost of collection and administration of the 9-1-1 tax. Of the remaining funds, 35% is placed in an account to fund the statewide 9-1-1 infrastructure, with the balance – approximately 60% –

distributed to the governing authorities of the 9-1-1 centers in the state. This distribution is based on the population of the area served by each 9-1-1 center. The 9-1-1 tax provides approximately 24% of the total cost of operating all of the 9-1-1 centers in the state. The balance of funding comes from local jurisdictions, primarily in the form of property taxes. Aside from the distribution of 9-1-1 tax, there is no other state funding for 9-1-1 centers.<sup>2</sup>

In calendar year 2017, Salem received just over \$825,000 in 9-1-1 tax revenue which provided 19.2% of the City's cost of almost \$4.3 million for emergency communication services, including police and fire call-taking and dispatch. From calendar year 2003 to 2010, 9-1-1 taxes covered an average of 28% of these services.



A look at other states shows that 9-1-1 taxes vary greatly. 9-1-1 taxes for landlines are as high as \$6.40 per month in parts of West Virginia, while other states – or parts of those states – charge no 9-1-1 tax at all.<sup>3</sup> The average maximum 9-1-1 tax for all states is \$1.30 per month per line with a median tax rate of \$1.00.

<sup>1</sup> ORS Chapter 403.200, 2017 Edition.

<sup>2</sup> <https://www.oregon.gov/OEM/911/Pages/911-Tax-Distribution.aspx>

<sup>3</sup> <https://www.nena.org/page/911RateByState> Maximum monthly 9-1-1 tax for *wireless* phones: Chicago at \$3.90 per month

If the 9-1-1 tax had been adjusted annually using a standard inflation factor, the current tax rate would be \$1.27.<sup>4</sup> With this rate, 9-1-1 tax receipts in calendar year 2017 would have provided an additional \$575,000, covering a total of 32.6% of Salem’s emergency communication services. Any increase to the 9-1-1 tax directly reduces the City’s dependency on general fund resources to pay for emergency communication services.

The table below shows the estimated *additional* 9-1-1 tax revenue the City of Salem would receive, and the percentage of Salem’s cost for emergency communication services that would be covered, at varying 9-1-1 tax rates.

<b>Estimated Additional Revenue</b>					
	<b>\$1.30</b>	<b>\$1.50</b>	<b>\$1.75</b>	<b>\$2.00</b>	<b>\$3.91</b>
<b>Estimated Additional Annual Revenue</b>	\$605,000	\$825,000	\$1,100,000	\$1,375,000	\$3,475,000
<b>Total % of 9-1-1 Services Covered</b>	33%	38%	45%	77%	100%

Changes to the emergency communications tax require legislative action at the state level. The current 9-1-1 tax will sunset January 1, 2022.<sup>5</sup> In order for the current 9-1-1 tax to remain in place, state legislative action will be required during one of the next two Oregon legislative sessions.

A related issue concerns the State of Oregon’s practice of diverting portions of 9-1-1 tax revenues as well as earned interest to the state’s general fund in support of activities unrelated to 9-1-1 services. This practice disqualifies the state from receiving federal funds for emergency communications and reduces the portion allocated to 9-1-1 centers. Without state legislation restricting this practice, increases to the 9-1-1 tax may not have the expected results for local jurisdictions.

<sup>4</sup> Portland-Salem, OR-WA, All Urban CPI, Not Seasonally Adjusted (Portland-Salem series no longer available effective Jan-2018)

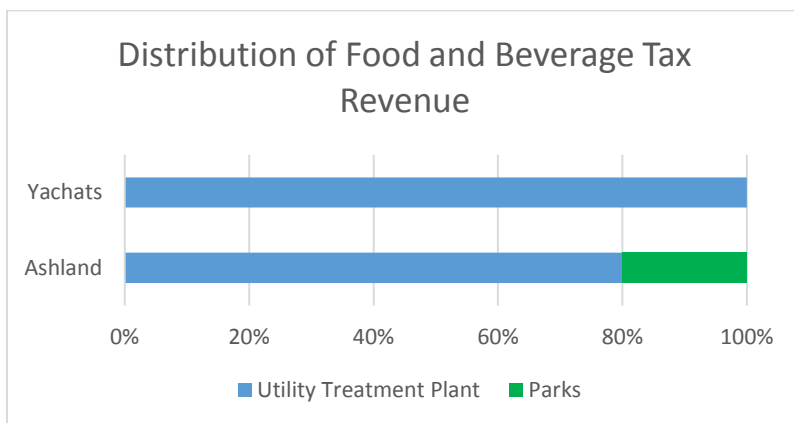
<sup>5</sup> ORS Chapter 403.202, 2017 Edition; HB 3317 (2013) extended the sunset date on the statewide 9-1-1 emergency communications tax to January 1, 2022



## Alternative Revenue Source: Food & Beverage Tax

A prepared food tax can be established on foods prepared by restaurants, food trucks, and ready-to-eat stations in Salem. This tax would capture revenue from both those who are visiting Salem and residents. Benefits to this type of tax are the flexibility of collection (e.g., when and how returns occur) and calculation (e.g. a percent of gross receipts of an establishment or per meal). Approval of this tax would need to be established by City Council through an ordinance or by referral to voters. The cities of Ashland and Yachats each have a 5% tax on prepared foods. Ashland’s tax was approved in 1993 and Yachats more recently in 2007.

Currently, the City of Jacksonville has a measure on the ballot for the upcoming November election for a 5% Food and Beverage (F&B) tax to fund public safety. In May, 2018 the Jacksonville City Council voted to place a \$20 monthly police surcharge on utility bills. This fee took effect July 1, 2018 and is an additional fee to the already existing \$35 monthly fire surcharge. If passed, the 5% F&B tax would replace the police surcharge completely, but the fire surcharge would remain. It is important to note this measure was initiated by Jacksonville resident and budget committee member Douglas Phillips through a petition. Phillips and those in favor of the F&B tax over a fixed fee on a utility bill argue that the funds generated from the tax would also capture revenue from out-of-town visitors that also benefit from emergency police services.



<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Sustainable Services
<b>Approval Body</b>	City Council or Referred to Voters
<b>Calculation Method</b>	Gross Receipts or Each Meal
<b>Rate</b>	1%-5%

The City of Salem previously considered a prepared food tax in 2002. At that time, City Council approved a Meals and Amusement Tax; a 5% rate for meals and 1% for amusement events. Revenue projections presented to Council at the time showed \$1,061,000 from the meal tax and \$500,000 from the amusement tax. These taxes were to take effect in January, 2004, but were repealed in the fall of 2003 after a task force assigned to review the tax returned to City Council with a split recommendation. The funding from this tax would have supported the City’s participation in the “Making After School Count” program in partnership with the school district and other local jurisdictions including a “Cops and Kids” sub program.

As demonstrated in the graph above, the F&B taxes in place for Ashland and Yachats go either exclusively to wastewater treatment plant operations or a portion to parks. As previously mentioned, if passed, Jacksonville’s F&B tax would support the police force. A similar F&B tax in Salem could fund services directly benefitting both visitors and residents, including maintaining current levels and/or increasing police services or expanding parks maintenance

and operations. Increased levels of service would align with City Council’s result areas of a safe community and a welcoming and livable community.

The first table below describes potential revenue a food and beverage tax would have generated in 2012 using the self-reported sales data of Salem food and drinking establishments to the US Economic Census. The US Economic Census compiles self-reported business data every five years and is an indicator of private sector economic health. Data for 2017 will be released early in 2019. The second and third tables depict actual revenue receipts and year-over-year change for the cities of Ashland and Yachats for the previous five years.

**TABLES:**

**Projections-City of Salem Food and Beverage Tax**

City	2012 Food Services and Drinking Places Sales*	Revenue-1% of Sales	Revenue-2% of Sales	Revenue-3% of Sales	Revenue-4% of Sales	Revenue-5% of Sales
Salem	\$289,160,000	\$2,891,600	\$5,783,200	\$8,674,800	\$11,566,400	\$14,458,000

\*Sales data from the 2012 US Economic Census.

**Actuals-City of Ashland Food and Beverage Tax\***

Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	\$2,181,000	\$2,347,000	\$2,413,000	\$2,653,000	\$2,202,000	\$3,030,000
YOY Change %	7.86%	7.61%	2.81%	9.95%	(17.00)%	37.60%

\*Revenue as reported in the City of Ashland CAFR 2017.

**Actuals-City of Yachats Food and Beverage Tax\***

Year	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	\$226,300	\$243,000	\$285,500	\$325,000	\$324,000	\$377,661
YOY Change %	(1.31)%	7.38%	17.49%	13.83%	(0.31)%	16.56%

\*Revenue as reported via correspondence with the City of Yachats.

## Alternative Revenue Source: Admission Tax

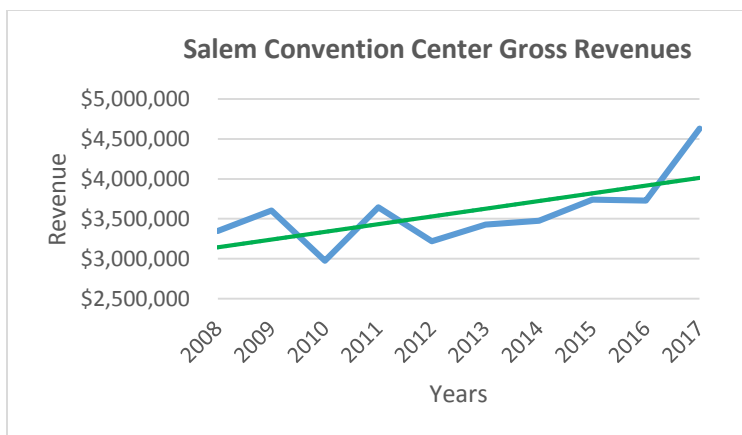
A tax or fee charged on admission into events is a potential revenue source. This tax or fee could be structured in multiple ways, either as a percent of gross receipts, a flat rate for the quantity of tickets sold, or as a fee on every ticket sold depending on the cost of the ticket (e.g., 5% of the ticket cost). These taxes could be remitted monthly or quarterly and exemptions could be applied, such as admission to nonprofit or school events.

The City of Salem previously considered an amusement tax in 2002. At that time, City Council approved a Meals and Amusement Tax with a 5% rate for meals and 1% for admission into certain events. Revenue projections presented to City Council at the time showed \$1,061,000 from the meal tax and \$500,000 from the amusement tax. These taxes were to take effect in January of 2004 but were repealed in the fall of 2003 after a task force assigned to review the tax returned to City Council with a split recommendation. The funding from this tax would have supported the City's participation in the "Making After School Count" program in partnership with the school district and other local jurisdictions including a "Cops and Kids" program.

The State of Oregon currently has a 6% tax on total gross receipts of ticket sales for admission to "an unarmed combat sport or entertainment wrestling event" (ORS 463.320) such as mixed martial arts or boxing. Administered by the Oregon State Athletic Commission, revenues from this tax first go to cover administrative costs with the balance going to the Oregon State Police. In the 2015-2017 biennium, revenues from this tax accounted for over \$284,000 from a total of 44 events. The 2017-2019 biennium budget has projected over \$267,000 in revenue with 25 events having already occurred.

<b>Fund / Service Area</b>	General Fund
<b>Strategic Initiative</b>	Vision for Growth and Development
<b>Approval Body</b>	City Council or Referred to Voters
<b>Calculation Method</b>	% of Gross Sales
<b>Rate</b>	1%-5%

The City of Portland owns three buildings which are operated by METRO through an Intergovernmental Agreement. These three buildings, Keller Auditorium, Schnitzer Concert Hall and Antoinette Hatfield Hall operate under the name Portland 5 Centers for the Performing Arts (Portland's 5). The Portland's 5 charges a flat rate user fee on top of the price of tickets to performances in those facilities. User fees are determined by performance type and go to operating and personnel costs.



The graph on the left shows the gross revenues over time at the Salem Convention Center (SCC), which is owned by the City of Salem Urban Renewal Agency. The SCC has shown an upward trend in the last decade as demonstrated by the green trend line. Gross revenues from fiscal year 2016-17 topped \$4.5 million for the first time since the SCC's establishment in 2004. Based on this trend data, it can be assumed Salem will continue to be a destination to host conferences and events. As Oregon's capital city, Salem is uniquely positioned to capture revenue from an admission tax on events such as the Oregon State Fair and various conferences.

*Travel Salem*, in their most recently released annual report for FY 2016-17 stated that Marion and Polk counties collectively saw more than \$135 million in arts and entertainment sales directly from visitors in 2016. A report compiled by Dean Runyan Associates for the Oregon Tourism Commission in 2018 sets this number at over \$139 million for 2017. Using data from the most recent US Economic Census in 2012, there were \$38 million in arts, entertainment, and recreation sales within the City of Salem proper in that calendar year. The US Economic Census compiles self-reported business data every five years and is an indicator of private sector economic health. Data for 2017 will be released early in 2019.

The table below demonstrates potential revenue for the City of Salem if there had been an admission/amusement tax in place during 2012. Revenue is calculated as a percentage of sales on arts, entertainment, and recreation revenue reported by Salem businesses during that year. The second table shows the amount of revenue other West Coast jurisdictions have collected through admission taxes.

**2012 Projections-City of Salem Revenue\***

City	Total Revenues	1% of Sales	2% of Sales	3% of Sales	4% of Sales	5% of Sales
<b>Salem</b>	\$38,025,000	\$380,250	\$760,500	\$1,140,750	\$1,521,000	\$1,901,250

Projection Limitations:

\* Revenue amount is based on the total revenue of businesses in Salem proper as reported in the 2012 US Economic Census conducted by the US Department of Commerce; 2017 data to be released in 2019.

**West Coast Jurisdiction Revenues\***

Jurisdiction	Rate	2013-2015 Biennium			2015-2017 Biennium	
<b>State of Oregon- Oregon State Patrol</b>	6%	\$207,000			\$285,000	
Jurisdiction	Rate	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Olympia, WA</b>	\$0.01/\$0.20 of admission price**	\$185,000	\$180,000	\$194,000	\$202,000	\$227,000
<b>Seattle, WA</b>	5%	\$7,938,000	\$8,116,000	\$8,793,000	\$10,328,000	\$13,408,000
<b>Bellevue, WA</b>	3%	\$603,626	\$626,001	\$500,000	\$500,000	\$527,880
<b>Santa Cruz, CA</b>	5%	\$2,299,000	\$2,274,000	\$2,395,000	\$2,524,000	\$2,483,000

Jurisdiction Revenue Analysis:

\*Revenues and rates are as reported in each jurisdiction's budget documents.

\*\*Structure of the Olympia tax dictates that for every \$0.20 of the ticket price, \$0.01 will be charged as the tax. For example, if a ticket cost \$20.00, then the tax would be \$1.00 bringing the total cost of the ticket to \$21.00.

# Alternative Revenue Source: Property Tax Reform

Property taxes are a main source of revenue for public entities within 46 of the 50 states. In an effort to control the amount of taxes property owners pay, and make the tax changes more predictable each year, limits and exemptions are created. There are three main types of limitations that can be imposed to restrict the taxes issued: assessment limits, rate limits, and levy limits. Oregon's property tax system has two of the three limits, implemented through Measure 5 and Measure 50.

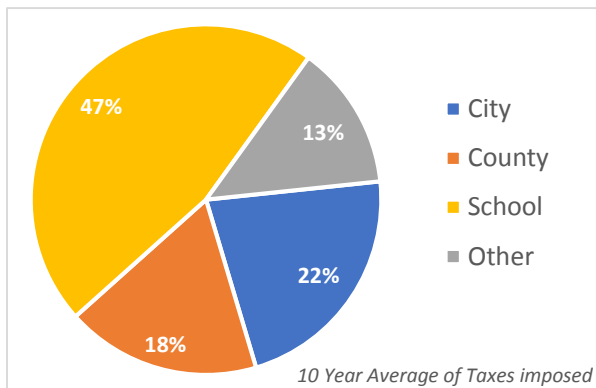
**Measure 5 (1990)** limits the taxes that can be imposed on individual properties to a combined \$5 per thousand of real market value (RMV) for schools, and \$10 per thousand for all other government districts. This limit does not include/apply to levies approved by voters for specific bonded capital projects.

**Impact:** If a property's taxes are above these limits, the taxes are reduced (compressed) proportionately among all the taxing districts until the taxes imposed equal the Measure 5 cap. Each year, public services lose millions of dollars in tax funding due to compression.

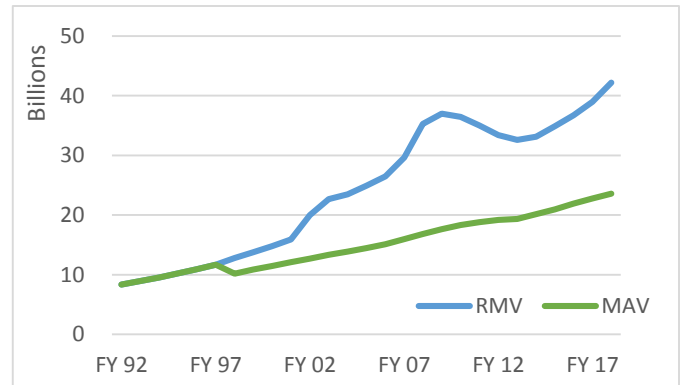
**Measure 50 (1997)** was created to reduce property taxes in Oregon and control future growth. It established a permanent rate for each taxing jurisdiction that limits the rate they can levy, created a Maximum Assessed Value (MAV) that no longer equals Real Market Value (RMV), and capped annual MAV growth to 3%.

**Impact:** This limit creates a disparity between an owner's property value and the value upon which their taxes are calculated. Homes with similar real market values could pay significantly different amounts in taxes due to the assessed value cap set in 1997.

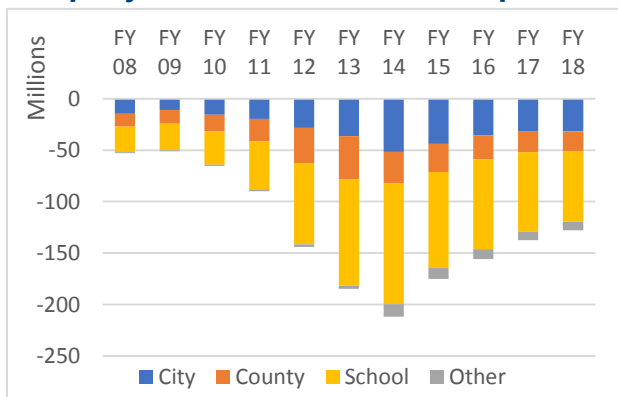
## Property Taxes: Where the Money Goes



## Impact of Measure 50 Split

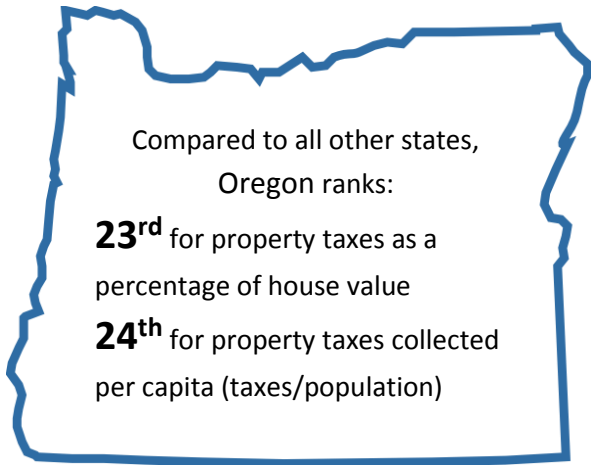


## Property Tax Revenue Lost to Compression



The pie chart on the left shows the breakout of total property tax dollars in Oregon by district type. The chart above demonstrates the split that occurred as a result of Measure 50. Before 1997 property taxes were calculated using the real market value (RMV) of all properties. After 1997 the RMV (blue line) continues to grow and fluctuate based on the market value a property can reasonably be sold for at that time, but the MAV (green line) is restricted to 3% growth. The "gap" or space between the lines represents taxes that could be seen as a "loss" of revenue due to the Measure 50 limit.

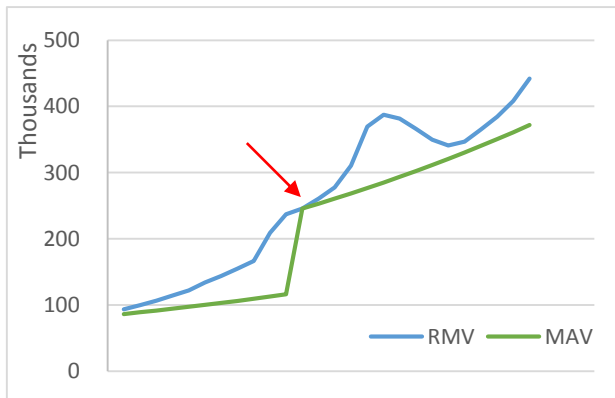
The chart above shows the amount of revenue lost to compression in Oregon over the past 10 years, broken out by type of district. The "Other" category listed in both charts includes more than 14 different types of special districts providing services such as fire, water, parks, library, or transit.



As one of five states in America without a sales tax, Oregon relies more heavily on property taxes to fund public services. Yet, as shown in these statistics, Oregon is in the middle of the pack in terms of the property tax burden on property owners.

While public entities have the ability to seek voter approval for temporary local option levies (to pay for employees, materials, and operational costs) or bond issuances (to pay for capital projects), the mechanisms to generate property tax revenue are limited within the current tax legislation. Statewide property tax reform, which requires changes to the Oregon Constitution, is needed to implement systems that many other states currently utilize.

**Example Property: Reset at Sale**



Reset at sale is the most popular mechanism to implement, meaning that when a property changes ownership, the RMV and MAV would be “reset” to the sale price. This helps to true-up the value of the home periodically and avoid the compounding gap between what the property is worth on the market and the value a homeowner is paying taxes on. Of the 17 states that have an assessed value limit (restricting how taxable value changes year over year), 15 have this feature built into the property tax system.

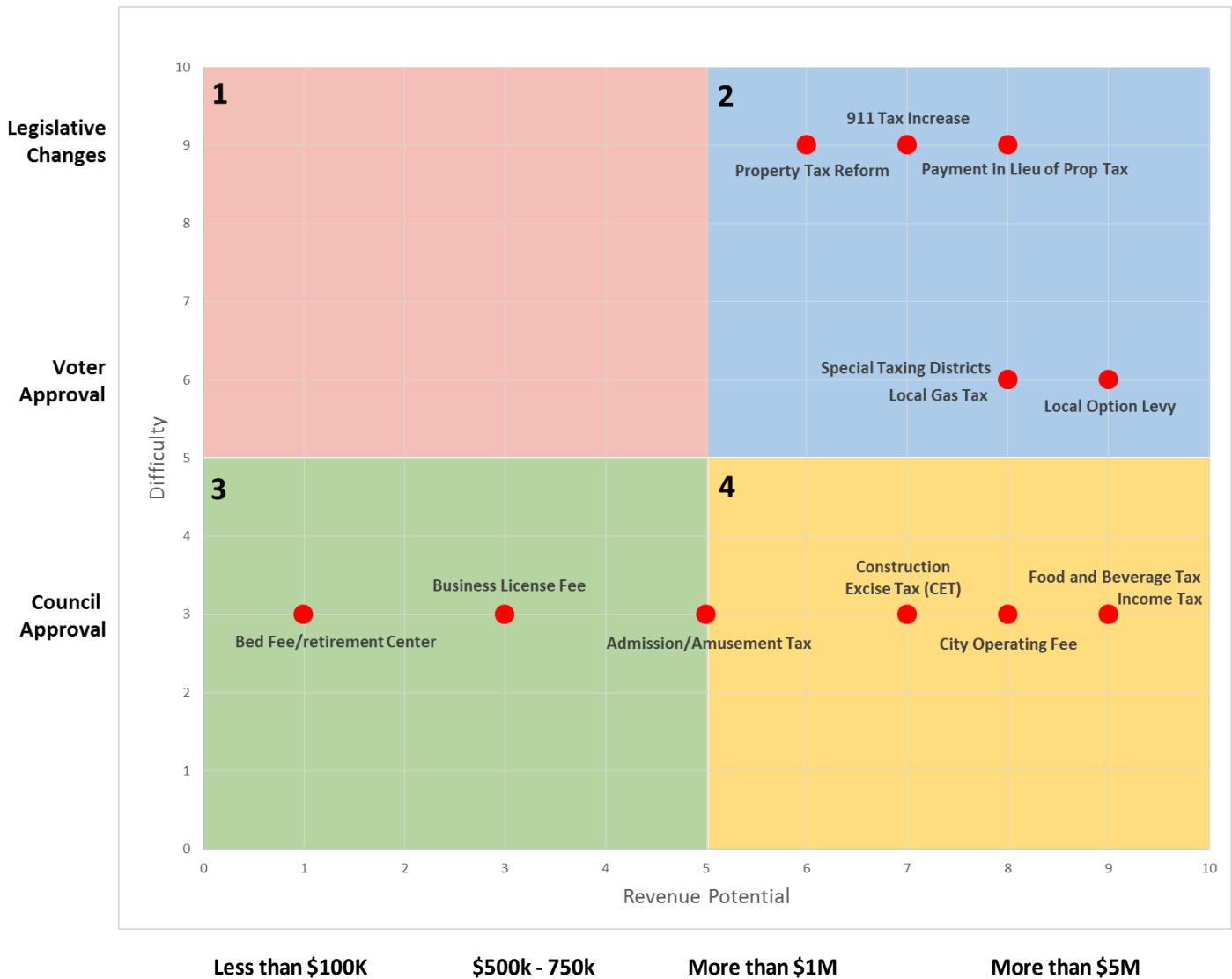
Coupled with this change, reform is also needed to address the compression caused by the combination of an assessment (M50) and levy (M5) limit. Compression not only reduces public service budgets, but it also has inequitable impacts across homeowners. Two properties with the same assessed value, but different real market values, could be compressed differently because of the Measure 5 limits.

The following table demonstrates the “unrealized” revenue for the City of Salem as a result of the current property tax legislation in Oregon. The first line shows how much revenue the City of Salem did not receive over the past five years due to compression. The second line projects the potential revenue that the City could have received when properties sold/changed ownership. This conservative estimate is based on the actual sales that occurred over those five years and tax increases that could have occurred by resetting MAV and RMV to the sale price.

<b>Historical Potential Unrealized Revenue</b>					
	<b>FY 14</b>	<b>FY 15</b>	<b>FY 16</b>	<b>FY 17</b>	<b>FY 18</b>
<b>Losses to Compression</b>	\$ 1,093,300	\$ 691,800	\$ 406,500	\$ 352,200	\$ 337,200
<b>Properties Sold (without reset)</b>	\$ 92,900	\$ 142,700	\$ 244,200	\$ 603,500	\$ 1,189,900
<b>Total</b>	\$ 1,186,200	\$ 834,500	\$ 650,700	\$ 955,700	\$ 1,527,100

## Revenue Prioritization: Decision Matrix

A decision matrix allows for systematic analysis and rating of options. The below basic matrix compares two variables, implementation difficulty (as defined by approval process) and the potential revenue yield for various revenue ideas.



Quadrant	Description
1	Low revenue potential, more difficult
2	High revenue potential, more difficult
3	Low revenue potential, less difficult
4	High revenue potential, less difficult

Score	Difficulty Measure
3	Council Approval
6	Voter Approval
9	Legislative Change

Score	Revenue Potential
1	\$0 - 100K
3	\$500k – 750k
5	\$1M – 1.25M
7	\$1.5M – 2M
9	\$5M – Above