

TO: Sustainable Services Task Force Members

FROM: Steve Powers, City Manager
City Manager's Office

DATE: November 5, 2018

SUBJECT: Revenue Task Force Meeting Three

November 7, 2018 Meeting Packet:

The agenda materials with this transmittal letter represent the result of your deliberation at the October 30 task force meeting.

The agenda packet for the November 7 meeting includes staff reports restating and providing additional information regarding two revenue options for the General Fund – an operating fee and a payroll tax. A section at the end of each report provides the proposed body of a recommendation to the City Council including the rate required to achieve a minimum of \$6 million, an explanation of administrative responsibilities, and other considerations.

In addition to the two General Fund options, a local gas tax, which would support the Transportation Services Fund and enhance resources for transportation system operations, maintenance, and improvements is presented in the same format for consideration by the task force.

As requested by the task force, the materials for the November 7 meeting also include a staff report with information regarding potential benefits to be derived from a business license program. This fee was not promoted by the task force for consideration as a viable revenue option for the General Fund. However, building a database with business information and charging an annual fee sufficient to cover the cost of administering the program has significant value for the City of Salem as documented in the report.

Sustainable Services Task Force Recommendation:

The task force has been asked to deliver a recommendation to City Council within a brisk timeline. Understanding the significance of this responsibility, staff endeavored to support your work with weeks of research and analysis prior to distributing the white papers for 13 revenue options contained in your member notebooks. The timing and pace of the task force meetings denotes understanding of the challenge that lies ahead to successfully implement an alternate revenue source or sources within the next two years.

As an advisory body to the City Council regarding revenue, staff have offered a recommendation format that aligns with the responsibilities of the task force. As the policy-making body for the City of Salem, the Council may choose to support or

increase the minimum rate in the task force recommendation or disqualify a revenue option from further consideration. The City Council will have the responsibility of determining how best to perform outreach and inform the community of the need for additional revenue and the potential offered by the recommended options. The City Council also has the responsibility for determining the best course for sustaining current service levels or accessing alternate revenue sources to enhance services.

The task force recommendation is an essential first step in what may be a complex, multi-year initiative to align General Fund revenues with the cost of providing services. The currently underway update of the five-year financial forecast will inform this effort as will the discipline of Priority Based Budgeting. The projected ongoing imbalance in the General Fund would ideally be addressed through sufficient, new revenue sources. However, it is not unlikely that restoring balance between revenues and expenditures will require action focused on both sides of the equation.

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

Si necesita ayuda para comprender esta información, por favor llame 503-588-6274

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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: November 28th, 2018, if needed

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

November 7, 2018

6:00 PM

555 Liberty Street SE, Council Chambers

1. Call to Order
2. Public Testimony
(Appearance of persons wishing to address the Task Force on agenda items)
3. Minutes
 - a. Approval of October 30th, 2018 Minutes
4. Information Items
 - a. Presentation by Kacey Duncan, Deputy City Manager-
Explanation of Staff Reports, further information on Payment in Lieu of Tax, Local Improvement Districts, and Urban Renewal Areas.
5. Action Items
 - a. Recommendation to Council-
Business License Program
 - b. Recommendation to Council-
City Operating Fee
 - c. Recommendation to Council-
Payroll Tax
 - d. Recommendation to Council-
Local Gas Tax
6. Adjournment

**City of Salem Sustainable Services Revenue Task Force
Minutes**

DATE: OCTOBER 30, 2018

CHAIRPERSON: Mayor Bennett

PLACE: Council Chambers

STAFF LIAISON:

Kelley Jacobs, Budget Officer

503-588-6049

kjacobs@cityofsalem.net

Members Present:

Mayor Bennett
Councilor McCoid-Vice Chair
Councilor Ausec
Member Antonia Decker
Member Mike Erdmann
Member Theresa Haskins
Member Dayna Jung
Member Raquel Moore-Green
Member Monica D. Pacheco
Member Kasia Quillinan
Member Ray Quisenberry
Member Dan Wellert

Staff Present:

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

Members Absent:

Member Britni Davidson-Cruickshank
Member Jesse Gasper

1. CALL TO ORDER: 6:03pm – Quorum

2. APPROVAL OF MINUTES:

- a. October 15, 2018

3. PUBLIC COMMENT:

- a. None

4. ACTION ITEMS:

- a. A motion was made by Councilor McCoid to approve the October 15th, 2018 meeting minutes. Motion was seconded by Councilor Ausec.

The motion carried by the following vote:

Aye: 12

Nay: 0

Absent: 2- Davidson-Cruickshank, Gasper

Abstain: 0

5. INFORMATION ITEMS:

- a. Staff Presentation by Kacey Duncan, Deputy City Manager, on General Fund outlook, Revenue Options Survey results, methodology and next steps.

Questions or Comments by: Mayor Bennett, Councilor McCoid, Member Haskins, Member Wellert, Member Quillinan.

Staff Responses: Deputy City Manager Duncan, Budget Officer Jacobs, Financial Operations Manager Lacy.

- b. Staff Presentation by Samantha Naluai, Management Analyst, on the revenue option of a City Operating Fee on the utility bill.

Questions or Comments by: Mayor Bennett, Member Erdmann, Member Haskins, Member Jung, Member Pacheco, Member Moore-Green, Member Quillinan, Member Quisenberry, Member Wellert

Staff Responses: Deputy City Manager Duncan, Financial Operations Manager Lacy

- c. Staff Presentation by Josh Eggleston, Budget Analyst, on the revenue option of a Construction Excise Tax.

Question or Comments by: Mayor Bennett, Councilor Ausec, Member Erdmann, Member Haskins, Member Jung, Member Moore-Green, Member Pacheco, Member Quillinan, Member Quisenberry, Member Wellert,

Staff Responses: Deputy City Manager Duncan

- d. Staff Presentation by Josh Eggleston, Budget Analyst, on the revenue option of a Payment in Lieu of Taxes.

Questions or Comments by: Mayor Bennett, Member Decker, Member Erdmann, Member Haskins, Member Moore-Green, Member Quillinan.

Staff Response: Management Analyst Naluai

- e. Staff presentation by Kelli Blechschmidt, Administrative Analyst, on the revenue option of a Payroll Tax.

Questions or Comments by: Mayor Bennett, Member Decker, Councilor McCoid, Member Moore-Green, Member Pacheco, Member Quisenberry, Member Wellert

Staff Response: Deputy Manager Duncan,

- f. Staff presentation by Kali Leinenbach, Budget Analyst, on the revenue option of a Local Gas Tax.

Questions or Comments by: Member Haskins, Member McCoid, Member Quillinan.

- g. Staff presentation by Samantha Naluai, Management Analyst, on the revenue option of a Local Option Levy.

Questions or Comments by: Member Erdmann, Member Haskins, Member Quillinan.

6. SPECIAL ORDERS OF BUSINESS

- a. Task Force Discussion of Revenue Options
 - 1. Task Force requests additional information on a City Operating Fee, a Payroll Tax and a Local Gas Tax to formulate a potential recommendation to the City Council.

7. ADJOURNMENT: 8:25 PM

The next meeting of the Sustainable Services Revenue Task Force is Wednesday November 7th, 2018 at 6PM in Council Chambers.

TO: SUSTAINABLE SERVICES REVENUE TASK FORCE

FROM: STEVE POWERS, CITY MANAGER

SUBJECT: BUSINESS LICENSE PROGRAM

ISSUE:

Should the Sustainable Services Revenue Task Force forward a recommendation to implement a Business License Program with a fee to cover the cost of administration to the City Council for consideration?

SUMMARY AND BACKGROUND:

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.

A Business License Program would require anyone doing business within the city limits to register and obtain a license. A business license would include an annual fee that could be calculated in several ways, some of which include: the number of full-time employees (FTEs), a percentage of net income, 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.

Many cities exempt various businesses or organizations.

Some examples of exemptions include:

- Religious, educational and charitable organizations
- Utilities that already pay a franchise fee
- Time limited or annual events
- Garage sales
- Government agencies
- City-sponsored activities
- Persons under the age of 19 who sell or deliver newspapers
- A business with anticipated gross revenue of no more than \$1,000
- A business or entity who is required to obtain a specific business or vocational license

The City of Salem could still require all organizations and business to register for the business license but exempt certain businesses and organizations from the fee. This would allow for a more comprehensive set of data.

The City of Salem could potentially benefit from the creation and maintenance of a registered business database. Some examples of benefits that could be derived from a business registration database include:

Code Enforcement

- Providing easier access to contact information for enforcement issues.
- Clarifying property use to:
 - Avoid change of use and zoning issues;
 - Provide additional information for the Trash Area Management Program; and
 - Allow for more efficient identification and scheduling of grease trap inspections.

Community Outreach

- Enabling the City to create more efficient and targeted community engagement and communication efforts.
- Allows for a critical customer list for informing and providing good customer service during emergency or routine utility work.

Economic Development

- Providing information to business owners about City requirements for operating a business prior to beginning business operations, including related to code compliance, land use, and health and safety.
- Providing certainty to a new business that the business is allowed to operate in the desired location and that the space is safe for those that occupy it, thereby avoiding costly surprises and delays later.
- Enabling the City to accurately track existing businesses within the community, and at a later phase, creates opportunity for the City to assist businesses with expansion and recruitment efforts through a business advocacy program.
- Supplements data collected by the Urban Development Department to track building vacancies and business retention and growth, respond to City Council goals, and communicate with businesses about available financial incentives.

Data Sharing / Mapping

- Incorporating registration data into the Geographic Information System (GIS) increasing the utility of the system.
- Creating a more accurate data set and reducing the need to validate place types and place names.
- Standard Industrial Classification (SIC) codes to correctly classify businesses.
- Allowing for more automated data collection for sewer / storm impact reporting.
- Replacing manual data collection for the downtown parking tax.

Public Safety

- Enhancing the database of emergency contacts and phone numbers for area businesses used by Fire and Police Department personnel.
- Further enhancing data available to the Fire Department to assist with emergency responses to businesses, prevention efforts, and building occupancy safety.
- Increasing accuracy of data on active chemical or material storage types and quantities.

- Increasing accuracy of verification for the required backflow prevention devices and certification of devices when a business use changes to ensure public health and safety.

The Oregon Secretary of State Corporate Division does maintain the Oregon Business Registry that could assist the City of Salem in identifying businesses within the City limits. However, the data collected is minimal and generally contains the registry number, entity type, business name, site address, and mailing address. There is additional information that would be helpful for the City to collect to establish a database offering the above-noted benefits.

RECOMMENDATION TO CITY COUNCIL:

The Sustainable Services Revenue Task Force forward a recommendation to implement a Business License Program with a fee to cover the cost of administration to the City Council for consideration.

JOSH EGGLESTON
SENIOR FISCAL ANALYST

TO: SUSTAINABLE SERVICES REVENUE TASK FORCE
FROM: STEVE POWERS, CITY MANAGER
SUBJECT: CITY OPERATING FEE

ISSUE:

Shall the Revenue Task Force forward a recommendation to implement a city operating fee to the City Council for consideration?

SUMMARY AND BACKGROUND:

FEE VERSUS PROPERTY TAX

A monthly fee could be added as a separate line item on customer's utility bills for an identified operational need. The fee would create a distinct and dedicated revenue source to fund specific City programs, such as police and fire. It can be structured as a flat fee for all in-City 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. It is simply based on the presence of an active utility account on an improved parcel. An operating fee can be adopted by City Council or referred to voters.

ACCOUNT CLASSIFICATIONS

The current utility billing system can administer a new fee in the same customer account classifications that the existing rates and fees utilize. The system could not be used to implement a billing process based on other metrics, including income level qualifications or property values. If these specifications were included, it would mean the development or purchase of a new system to invoice customers with a mechanism separate from the utility bill. The City would incur significant additional costs to implement and ongoing costs to administer the program.

In order to address affordability, the utility offers the wastewater rate assistance program, which provides for a credit on the wastewater bill. This program is currently available to qualifying senior citizens and disabled heads of household for discounts toward the wastewater portion of their bill. The income threshold is 30% or less than the Salem area median income, based on family size, as defined by the U.S. Department of Housing and Urban Development. The low-income assistance program administered through the Salvation Army and St. Vincent de Paul is also available to customers in need of immediate assistance with a bill, limited to \$150 per customer account per year. The City could take into consideration alterations to their current assistance programs in coordination with the implementation of a new fee.

IMPACT OF RESIDENTIAL ACCOUNT CLASSIFICATIONS

The streetlight fee is currently collected from 44,115 accounts within Salem city limits. Of those accounts, 90% are residential. The table below demonstrates the revenue generated by residential accounts relative to other customer classifications. In this example, a \$0.05 increase or decrease for residential accounts would mean a gain or loss of almost \$24,000 per year. For each of the other customer classifications, the below chart demonstrates the rate required to generate the same dollar amount as a nickel generates for all residential customers.

Customer Classifications	Accounts	Percentage of Accounts	Rate	Revenue
Residential	39,732	90.06%	\$ 0.05	\$ 23,839
Multiple Dwellings <5	1,259	2.85%	\$ 1.58	\$ 23,839
Multiple Dwellings 5-25	393	0.89%	\$ 5.05	\$ 23,839
Multiple Dwellings >25	177	0.40%	\$ 11.22	\$ 23,839
Irrigation	23	0.05%	\$ 86.37	\$ 23,839
Commercial	2,360	5.35%	\$ 0.84	\$ 23,839
Small Commercial	70	0.16%	\$ 28.38	\$ 23,839
Industrial -- Other	12	0.03%	\$ 165.55	\$ 23,839
Institutional	8	0.02%	\$ 248.33	\$ 23,839
Public Building	81	0.18%	\$ 24.53	\$ 23,839

As another way of looking at it, if there were a nickel decrease in the residential fee, there would need to be a proportionate increase distributed to all the other customer classes equal to \$0.45 per customer per month to make up the \$24,000 lost by the residential decrease.

OPERATING FEES IN OTHER JURISDICTIONS

There are approximately 50 cities across the state that have an operational fee on their customer's utility bill, including 23 of the 30 largest cities in Oregon. The following table provides examples of residential fee amounts, and specific fee purposes for communities in Oregon:

City	Population	Monthly Residential Fee	Purpose of the Fee
Ashland	20,700	\$ 9.64	Public Safety, Transportation
Aumsville	3,970	\$ 12.00	Public Safety
Gresham	109,820	\$ 7.50	Public Safety, Parks
Hillsboro	101,540	\$ 8.16	Transportation
Jacksonville	2,950	\$ 20.00	Public Safety
Keizer	38,345	\$ 8.00	Public Safety, Parks
Medford	79,590	\$ 17.72	Public Safety, Parks, Transportation
Newberg	23,480	\$ 10.03	Public Safety, Transportation
Oregon City	34,610	\$ 19.89	Public Safety, Transportation
Silverton	10,070	\$ 10.75	Parks, Transportation
Tigard	50,985	\$ 15.86	Parks, Transportation
West Linn	25,695	\$ 28.23	Parks, Transportation

VOTER REFERRAL

The League of Oregon cities compiled elections data across all counties in Oregon from 1997-2017, and in that dataset there were no ballot measures referring a city operating fee to voters. In the current election, the City of Sheridan has asked voters to approve a city operating fee of \$13.42 per month for police services. Further research identified examples of some cities that have proposed local option levies to voters, been unsuccessful, and later implemented an operating fee in order to maintain those identified services with insufficient revenue.

The City of Gresham is an example of one of the cities that experienced this sequence of events. In November 2008 the City of Gresham proposed a \$0.97 per \$1,000/AV levy for public safety. After the levy failed to receive voter approval, the City Council chose to implement a temporary fee in 2012 of \$7.50 to avoid immediate reduction in police services. The fee was adopted with specifications to sunset on June 30, 2014 due to the second attempt at a local option levy occurring on the May 2014 ballot. However, when the 2014 local option levy failed as well, the City Council opted to renew the \$7.50 fee in order to provide necessary revenue for their police, fire and parks operations.

RECOMMENDATION TO THE CITY COUNCIL:

OPTION

The Sustainable Services Revenue Task Force forward a recommendation to City Council to explore implementation of a city operating fee.

PURPOSE

The recommendation would be to dedicate the revenue to fund public safety programs (police and fire services). In the general fund, police and fire services currently account for 58% of the budgeted expenditures, totaling \$79M. In order to maintain the current service levels into the forecasted years, without the potential of reductions, additional revenue is needed. The fee could be collected at the beginning of a future fiscal year.

RATES AND REVENUE

Rates that generate an additional \$6M in revenue, net the projected administrative costs and forecasted 2% payment delinquency, are recommended.

Customer Classification	Utility Accounts	% of Accounts	Monthly Fee	Annual Fee	Annual Revenue	% of Revenue
Residential	39,732	90.06%	\$9.20	\$110.40	\$4,386,413	71.6%
Multiple Dwellings <5	1,259	2.85%	\$9.20	\$110.40	\$138,994	2.3%
Multiple Dwellings 5-25	393	0.89%	\$34.10	\$409.17	\$160,805	2.6%
Multiple Dwellings >25	177	0.40%	\$59.00	\$708.00	\$125,316	2.0%
Irrigation	23	0.05%	\$9.20	\$110.40	\$2,539	<0.1%
Commercial	2,360	5.35%	\$44.25	\$531.00	\$1,253,160	20.5%
Small Commercial	70	0.16%	\$9.20	\$110.40	\$7,728	0.1%
Industrial	12	0.03%	\$44.25	\$531.00	\$6,372	0.1%
Institutional	8	0.02%	\$44.25	\$531.00	\$4,248	0.1%
Public Building	81	0.18%	\$44.25	\$531.00	\$43,011	0.7%
					\$6,128,585	
Less 2% delinquency					(122,572)	
Estimated Annual Revenue					\$6,006,014	

The recommended rate structure uses the same customer classifications as the streetlight fee, since that fee structure is currently in place and applies exclusively to inside city residents. These customer classifications determine accounts based on the presence of some type of improvement on the property, including irrigation-only accounts. The database allows customers to be divided into more discrete customer classes beyond residential and non-residential, using the area of impervious surface of a customer's site or the number of dwelling units. This calculation method would charge small commercial customers the single-family fee instead of the fee for large

commercial accounts because the size and amount of impervious surface equates to that of a residential home. This also allows use of tiers for multi-family residential accounts based on the number of dwelling units. Another benefit of using the same customer classification as the streetlight fee is that it charges customers by site and not by water meter account, meaning that customers with more than one water meter account on their property would only pay the fee once.

IMPLEMENTATION and ADMINISTRATION

The City's utility currently has a system to maintain the information regarding a proposed operating fee and bill customers for this fee. Modifications to the system may be needed to design, test and implement the fee on customer's monthly bills. An audit of existing accounts may also be performed as part of the implementation process. Additional staff resources, or reallocation of staff time, may be needed during implementation to respond to customer requests for information and assistance.

SAMANTHA NALUAI
MANAGEMENT ANALYST I

TO: SUSTAINABLE SERVICES REVENUE TASK FORCE
FROM: STEVE POWERS, CITY MANAGER
SUBJECT: MUNICIPAL PAYROLL TAX

ISSUE:

Shall the Sustainable Services Revenue Task Force forward to City Council a recommendation to consider a municipal payroll tax?

SUMMARY AND BACKGROUND:

The City of Salem is currently facing an increasing gap between revenues and expenditures in the General Fund. Projections indicate working capital may fall below City Council policy as early as the current fiscal year. Among the various revenue options available to address the gap is a municipal payroll tax.

Payroll taxes are calculated as a percentage of wages, and either paid by the employer and not passed on to the employee, or paid by the employee through a wage deduction. There are three taxing jurisdictions in Oregon using a payroll tax as a method to fund transit projects or general operations; the Lane Transit District (LTD), the Tri-County Metropolitan Transportation District of Oregon (TRIMET), and the State of Oregon. The two transit districts use the method of employer paid taxes, while the State of Oregon uses a direct payroll deduction from employee wages. The City of Salem considered a payroll tax in 1999 as part of a previous revenue task force.

Currently, LTD and TRIMET assess a rate of 0.73% and 0.7537% respectively, while the State of Oregon assesses a 0.10% rate for its transit tax. Mass transit districts like LTD and TRIMET, are limited by statute to not exceed a 1% rate. The City Council could consider a variety of rates to address the current revenue gap.

RECOMMENDATION TO CITY COUNCIL:

OPTION

Staff recommends the Sustainable Services Revenue Task Force submit a municipal payroll tax for City Council's consideration. To address equity across the community rather than specifically assigning the tax to a particular sector, staff further recommends the payroll tax be assigned to all sectors and paid by the employee as a percentage of wages in the same manner as the State transit tax.

RATE AND MINIMUM REVENUE ESTIMATE

To address the estimated gap between General Fund revenues and expenditures, staff recommends a tax rate of one quarter of one percent (0.25%), which would calculate to approximately \$6.67 million in revenue. This rate equals a \$2.50 deduction for every \$1,000 of wages earned. The Employment Department of Oregon reports that the average annual wage for 2017 in the Salem MSA was \$43,760. At a 0.25% rate, this average annual wage would have realized a total wage deduction of approximately \$109.40 or \$4.55 per pay period, assuming bi-monthly pay periods.

OTHER CONSIDERATIONS AND IMPLEMENTATION/ADMINISTRATION

Other Considerations

The exact payroll amounts within Salem's city limits are unknown at this time. After comparing the industries in the 2017 Employment Department report and the 2012 U.S. Economic Census reports, staff has estimated that wages earned within Salem's city limits comprise roughly 49% of the wages earned in Marion and Polk counties across the same industries.

Applying this percentage to the 2017 wages earned as described in the Employment Department report, earnings within City of Salem in 2017 were over \$2.67 billion. At a tax rate of 0.25%, this level of earnings would have resulted in \$6.7 million in revenue across the same industries found in both reports. If the total industrial sector was used, revenue assumptions would be higher and perhaps a lower tax rate could be applied to and still achieve a minimum revenue need of \$6 million for the General Fund.

Implementation and Administration

While the City has the authority to collect and administer the tax, staff would need to analyze the most cost effective and efficient method for establishing a comprehensive program.

There are various avenues that City Council could elect to administer this tax. One option would be collection by the Department of Revenue (DOR) on behalf of the City. The DOR has established programs for collecting a payroll tax already in place with reasonable administration costs. Since this would be a new program for the DOR to administer, the City would need to have detailed discussions with the State before choosing this option.

For context, the established LTD payroll tax program had costs for the DOR's administration in FY 2017 of approximately \$500,000. In that year, LTD realized total revenue slightly above \$35 million from its payroll tax. The administrative costs of the program equated approximately 1.4% of the total revenue. The DOR already administers the local marijuana sales tax on behalf of the City of Salem. In this instance, administrative overhead withheld from the City's tax revenue has equated to

MUNICIPAL PAYROLL TAX

Sustainable Services Revenue Task Force Meeting of November 7, 2018

Page 3

approximately 1%.

Another option would be to have the administration of the tax handled internally by City staff. Additional resources, such as personnel, may be needed to effectively administer this program. If the City moves forward with a Business License Program, it would make a payroll tax option more efficient to run internally for both collection and enforcement purposes. The data provided from a Business License Program would allow City staff to know what businesses are in Salem and the number of employees so that the tax could be assessed properly

With whatever administrative option is eventually selected, costs would need to be factored in when setting an appropriate rate to net the expected revenue.

KELLI BLECHSCHMIDT
ADMINISTRATIVE ANALYST

TO: SUSTAINABLE SERVICES REVENUE TASK FORCE
FROM: STEVE POWERS, CITY MANAGER
SUBJECT: LOCAL GAS TAX REVENUE OPTION

ISSUE:

Should the Sustainable Services Revenue Task Force forward a recommendation to implement a local gas tax to City Council for consideration?

SUMMARY AND BACKGROUND:

Local gas tax is an amount charged per gallon of motor vehicle fuel used or distributed in a city or county. The Oregon Constitution mandates that revenue derived from the sale, import or distribution of motor vehicle fuel must be used to construct, improve, repair, maintain, or operate public highways, road, and streets.

The State of Oregon instituted the nation's first tax on gasoline in 1919 and it still exists today. In addition to the State tax, 27 cities and 2 counties have a local gas tax ranging from one cent to ten cents per gallon of motor vehicle fuel. The most common rate of three cents per gallon is charged by 17 cities and 1 county. Eugene's tax is five cents per gallon and was the highest in the state from 2005 through 2016 until Portland implemented a temporary local gas tax of ten cents per gallon which will sunset in December of 2020.

Since 2009, all local gas tax measures must be approved by voters. Depending on when City Council took action and which election cycle was targeted for a measure of this nature, it could take two years or more before the City would begin receiving revenue from this source. If voters approved a local gas tax in Salem, implementation could occur in a short timeframe and without the addition of City administrative positions if the Oregon Department of Transportation (ODOT) were to administer and collect the tax.

The current financial forecast for the Transportation Services Fund is relatively stable in the short term 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.

RECOMMENDATION TO CITY COUNCIL:

OPTION

Local gas tax would be paid by dealers on the first sale of the fuel.

PURPOSE

Revenue generated from a local gas tax in Salem would be dedicated to maintain and improve our transportation system, as required by the Oregon Constitution. Increased revenue could be used for sidewalks, preventive pavement maintenance, intersection and signal improvements, safe crossings, bridge maintenance and pavement rehabilitation. It could also be a matching source for federal grants or systems development charges, or as a revenue stream for bonding larger projects.

RATE

A tax rate of six cents per gallon on motor vehicle fuel is recommended to maintain and improve Salem's 640 miles of streets. This rate is one cent higher than the gas tax in Eugene, which uses the approximately \$3 million it generates each year to operate and maintain its 538 miles of streets.

REVENUE ESTIMATE

It is estimated that Salem would collect between \$4.2 million and \$5.2 million each fiscal year at a rate of six cents per gallon.

ADMINISTRATIVE RESPONSIBILITIES

The Oregon Department of Transportation currently administers and collects local gas tax on behalf of 19 municipalities. ODOT currently charges cities 0.3702% of the tax collected as an administrative fee and a set-up charge of less than \$40,000. The administration fees stay low as long as Salem's ordinance closely mirrored the State fuel tax law.

KALI LEINENBACH
MANAGEMENT ANALYST I