

City of Salem
Revenue Task Force

Pre-Read Packet 2:
Understanding Revenue Needs, Targets, and Options

WHAT IS THE SIZE OF THE REVENUE SHORTFALL?

The Revenue Task Force has been charged with identifying potential options to increase the City of Salem's revenue. Before revenue options are considered, it is important to understand the size of the revenue shortfall that must be overcome. However, the answer to this question is more complex than one might think.

The size of the revenue gap is dependent on the level of service provided to the residents of Salem. If Salem residents and policymakers desire a greater level of service, revenue needs will be larger. If Salem residents and policymakers accept a lower level of service, revenue needs will be smaller.

The level of service provided to the residents of Salem largely depends on the City's staffing levels. The services and costs of local government services predominantly involve *people*. If residents and policymakers desire a higher level of service, the City will need more staff. If residents and policymakers accept a lower level of service, the City will need fewer staff.

CONTEXT: SALEM REVENUES, SERVICE LEVELS, AND THE GREAT RECESSION

Any discussion of revenues and staffing levels must be informed by the history of staffing at the City of Salem. Like many local governments and businesses, General Fund staffing at the City of Salem never recovered from the 2008 Financial Crisis and the Great Recession.

In 1997, the City of Salem had 614 Full Time Equivalent (FTE) employees whose salaries were paid for through the City's General Fund.^{1,2} This level of staffing was equal to 5.2 staff per thousand Salem residents. Staffing levels gradually increased in the late 1990's and 2000's at a rate of approximately 2% per year. Although this increase was usually lower than the rate of increase in the Salem population served, staffing levels generally remained at or above 5.0 employees per thousand Salem residents during these years.

Due to the Great Recession, the City eliminated or reduced a significant number of services. These cutbacks included the elimination of municipal pools, the closure of two fire stations, and the elimination of the former Community Services Department. This resulted in the dismissal of a large number of employees, even as the City's population continued to grow. From 2008 to 2016, the City decreased its General Fund staffing levels by about 1.3% per year on average, even as the City population grew by about 1% each year. By 2016, when the federal unemployment rate returned to its pre-recession level, staffing had fallen to 4.24 FTE per thousand residents, a 10% decrease in the level of service provided since 2008.

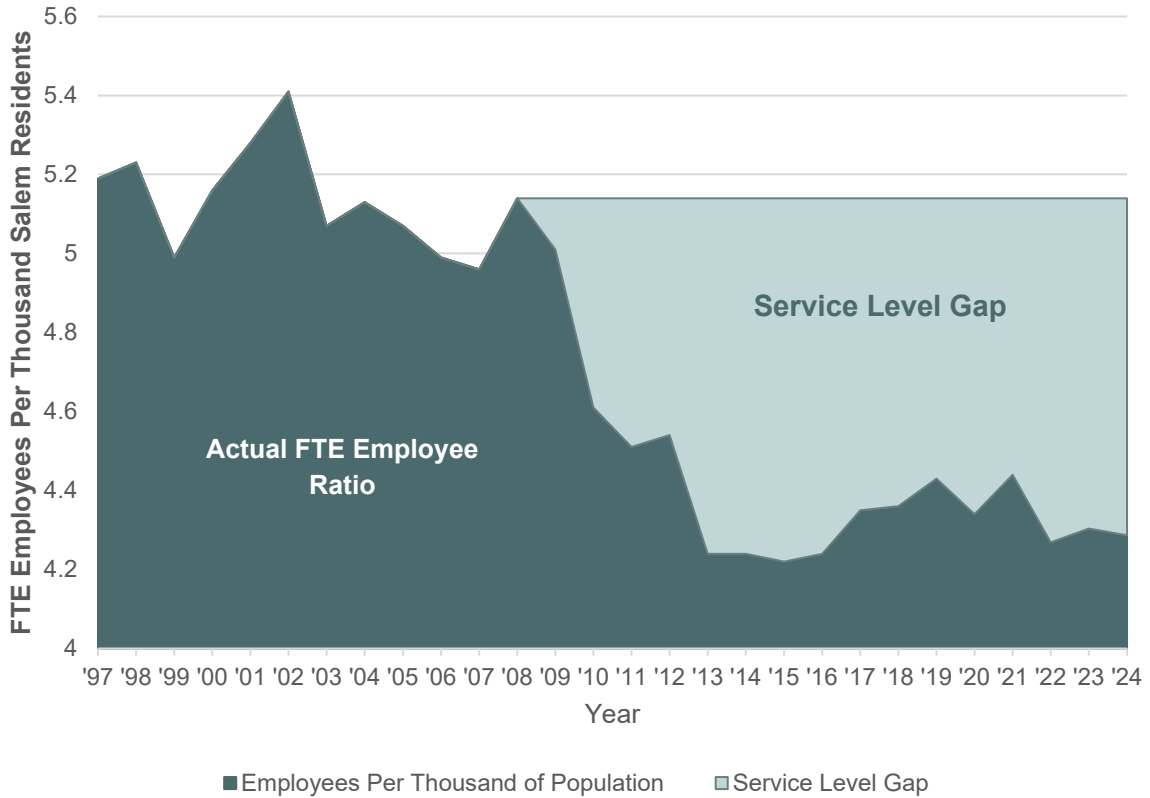
¹ Full Time Equivalent (FTE) is a measure of staffing that incorporates the fact that not all staffing members work full time. Part time staff are assigned a numerical value proportionate to their work schedule. So, for example, a half-time staff would be 0.5 FTE. Two half-time staff would be equal to 1.0 FTE. One full time staff would also equal 1.0 FTE.

² While the City has eight different types of funds, the large majority of City services are paid for through the General Fund—including police, fire, library, parking, Center 50+, planning, parks, recreation, code enforcement, economic development, and administration and support services (including the City Manager's Office, Finance, Information Technology, and Legal). The Revenue Task Force is focused on developing revenue options to support the City's General Fund only.

YEAR	GENERAL FUND FULL TIME EQUIVALENT EMPLOYEES	FTE PER 1,000 SALEM RESIDENTS
1997	614.4	5.19
2008	757.2	5.14
2016	675.1	4.24
2024	776.2	4.29

Although the number of General Fund FTE employees finally returned to 2008 levels in 2022, the City's population had grown 20% larger. This meant that about 30,000 additional residents were being served by the same number of FTE employees as 14 years prior. The staffing-per-resident ratio has never recovered from the Great Recession. Because the quality and quantity of public services are largely a function of the people employed by a government, the level of service at the City government is currently much lower than in 2008.

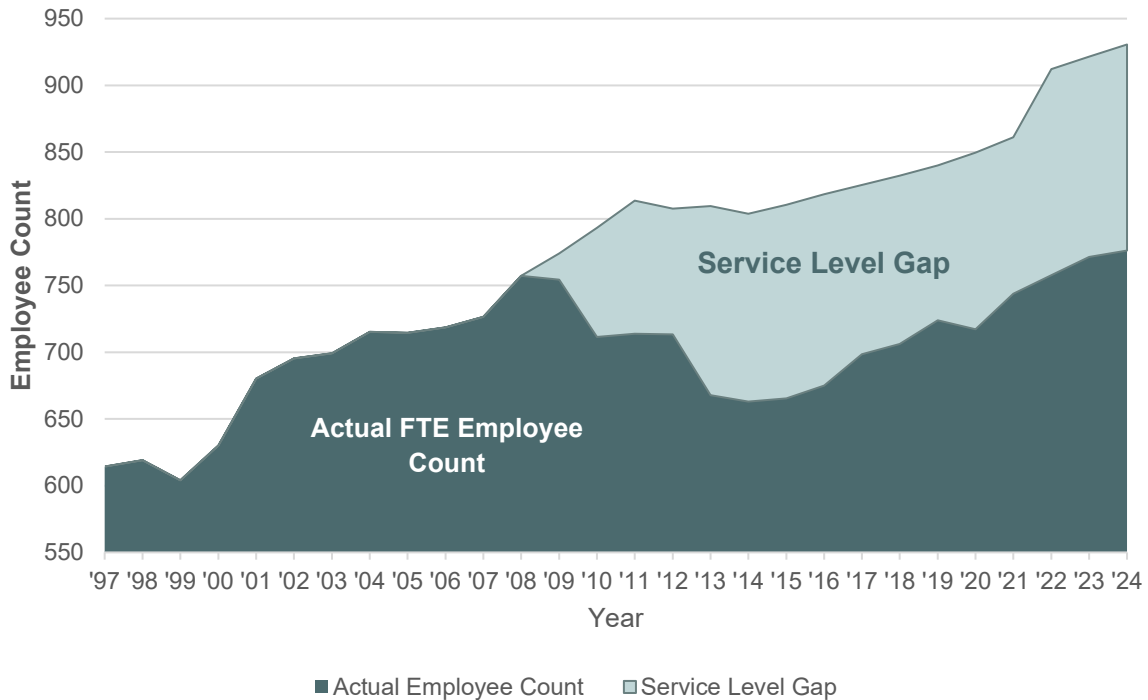
City of Salem Service Level Gap General Fund Employees Per Thousand Residents



The decrease in General Fund staffing in proportion to population can be thought of as a *Service Level Gap*: the staffing that would be needed to maintain City service levels as they were in 2008, as measured by the ratio between Salem FTE employees and residents. The graph above details Salem’s ratio of General Fund employees to City residents over time. It also illustrates the gap between post-2008 staffing ratios and the City’s pre-recession General Fund staffing levels. Staffing and service levels at the City remain well below the standards of the 1990’s and 2000’s.

The City has not returned to the level of service that was standard before the Great Recession. In the past decade, if the City had hired additional staff to return its staffing ratios and level of service to its pre-recession standards, staffing levels at the City would be *much* higher than they are today. If the City maintained it’s 2008 staffing ratios, there would be over 121 more FTE employees than there are today, a 15% increase over current staffing levels.

City of Salem Service Level Gap Actual vs. Modeled Employee Count



The graph above shows a model of how staffing levels at the City would have grown over time if the City maintained staffing and service levels at its pre-recession standard. The graph also shows the gap between this staffing standard and the City’s actual General Fund FTE staffing levels. Once again, this gap can be conceptualized as a *Service Level Gap*—levels of service that the City has foregone in its efforts to provide government services with fewer staff.

The actual degree of relative understaffing at the City, when compared to 2008 levels, is likely even more severe than these figures and graphs suggest. Residents demand more from the City government than they did in the early 2000’s. For example, Salem did not generally provide

community policing, homeless services, or climate response in 2008. Salem staff are providing even more services with these relatively lower staffing levels.

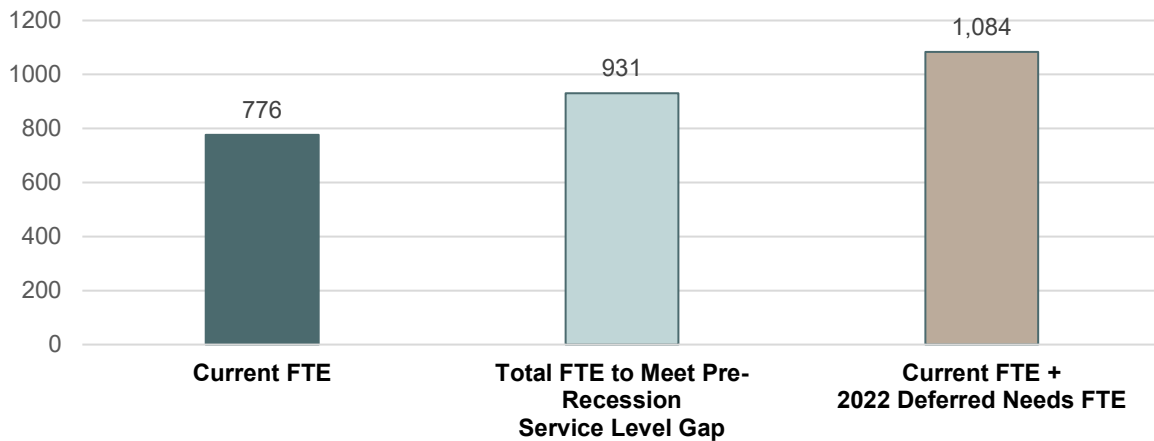
The City of Salem's Deferred Needs Analysis

Although the gap between pre-recession and current staffing levels is a useful framework for contextualizing current staffing levels, the City also completed an analysis of deferred staffing needs in 2022 that provides other important context and knowledge. This analysis studied service level declines since 2008 in greater complexity and depth, examining service level declines beyond differences in population ratios.

The study examined many factors to estimate the deferred staffing needs of the City, including:

- **The demand for City services that has increased due to population growth.**
- **The demand for City services that has outpaced population growth.** For example, the growth in calls for Police and Fire has far outpaced the City's population increase. Purely examining employee-to-population ratios understates understaffing to meet this community need.
- **The many additional/new services provided by the City.**
- **Deferred maintenance** of infrastructure, equipment, and other physical assets.
- **Changing technology.** Today's services are much more online and integrated into technology than before the great recession, which requires additional staff to maintain.
- **The staffing levels necessary to implement municipal government best practices.** Although the quality of City services was higher in 2008, the pre-recession City government still had plenty of areas for improvement. Staffing above 2008 levels would be necessary to implement many governing best practices.

The 2022 study identified that 307.5 additional staff would be necessary to provide City services to the level necessary to successfully address the six factors outlined above. Because these factors have only increased in the previous two years, the amount of additional staff that would be necessary to provide this level of service is likely even greater.



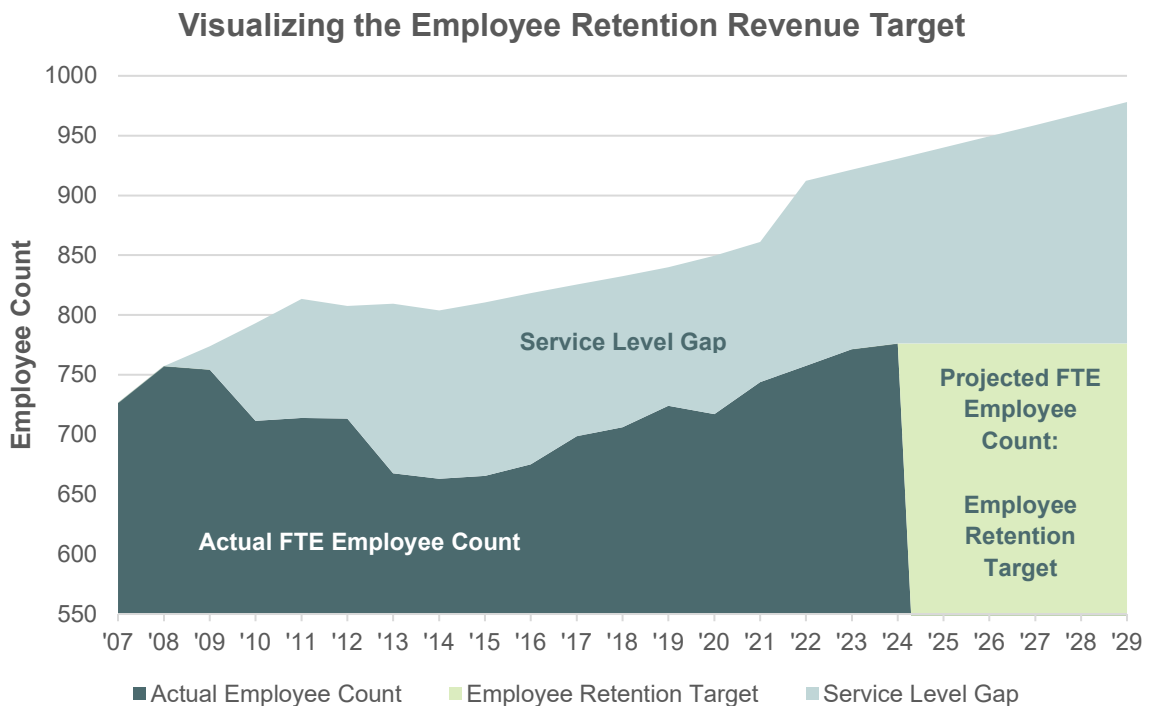
Any revenue targets under consideration should be contemplated in the context of the City's *Service Level Gap* and *Deferred Staffing Needs*. Maintaining or slightly increasing current General Fund staffing levels in Salem still results in levels of service below those provided to residents in 2007.

THREE POTENTIAL REVENUE TARGETS

There are three potential revenue targets that the City has considered in the recent past. A description of how these options interact and build upon one another is included in the tables in the next section. We will also be reviewing each of these in more depth during the Task Force meetings to solicit questions and additional input on these potential targets.

Employee Retention Target: Keep current staffing levels, while service levels decline over time

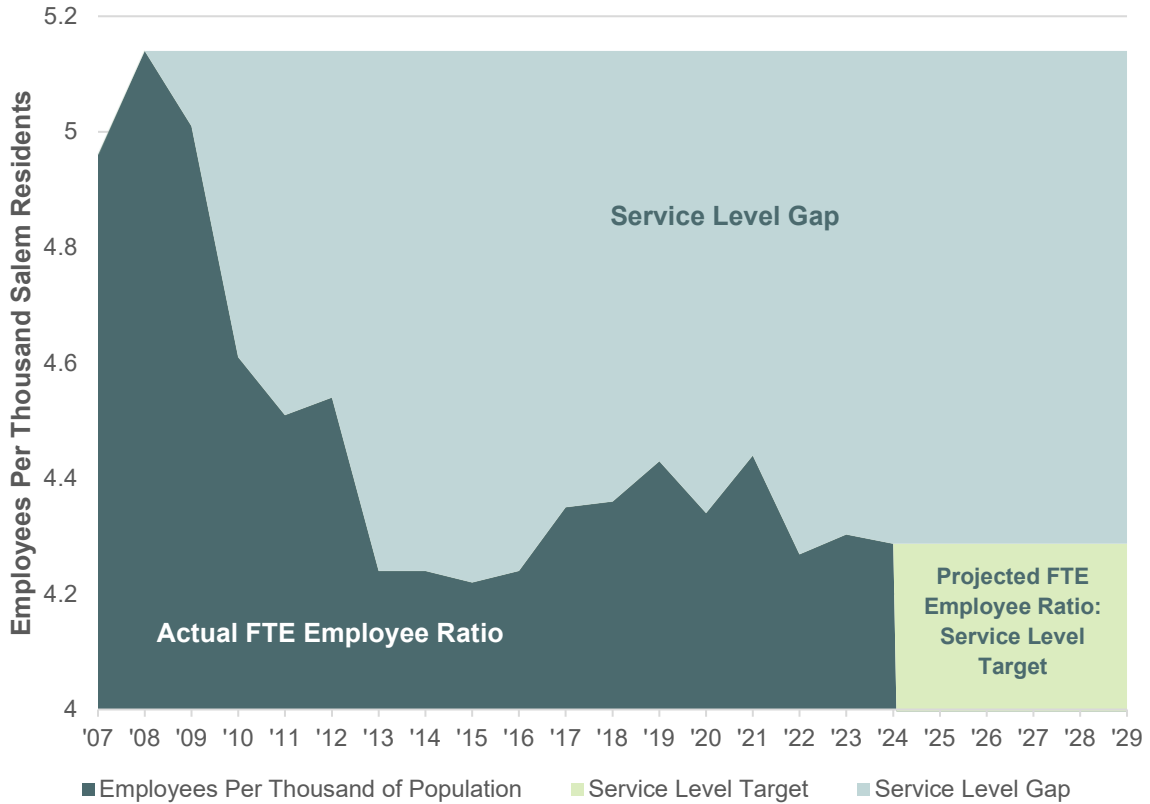
This revenue target keeps staffing levels as they are today if expenses increase at the pace that is estimated. As Salem’s population increases, this means that the *level* of service provided to residents decreases over time as staff levels remain constant.



Service Level Target: Maintain current standard of service over time

This target should only be considered in conjunction with the above employee retention target. Because the City’s population continues to grow, additional funding would be required to keep staffing levels, and therefore service levels, roughly proportional to population growth. This aims to maintain the *level* of service that Salem residents currently receive, though this remains well below 2007 service levels. To maintain the current level of service, this target includes the staff necessary to operate the new facilities that are being built as part of the \$300 million Safety and Livability Bond, like the new fire station and branch library locations.

Visualizing the Service Level Revenue Target



Sheltering Target: Continue Shelter Services for Those Experiencing Homelessness

This target should only be considered in conjunction one or both of the above two targets. The City funded sheltering programs with one-time revenues from state and federal funds. To continue Salem’s micro-shelter village communities and Salem Outreach Services Team, additional funding is needed.

ESTIMATING THESE THREE REVENUE TARGETS

Revenue and expense forecasting is a complicated process. Similar to the process of estimating the budget of a household or business, local government forecasting uses the best available evidence to try and predict revenues (e.g., taxes, other income) and expenses (e.g., staffing, materials) to provide foresight on what it will cost to provide public services. This process inherently comes with uncertainty. For example, few, if any, local government forecasts made in 2019 were accurate, as the COVID pandemic and consequent fiscal and monetary policy changes radically changed government costs and revenues across the country.

Despite its limitations, financial forecasting is still a useful tool to guide City operations and staffing. The City has been able to forecast estimates of the three targets over the next five years.

REVENUE TARGET	FY 2025-2026	FY 2026-2027	FY 2027-2028	FY 2028-2029	FY 2029-2030
Employee Retention Target Keep Current Staff	\$9.7M	\$10.4M	\$14.3M	\$16.8M	\$16.7M
Service Level Target Maintain Service Levels with Population Growth	Additional \$6.1M	Additional \$10.8M	Additional \$13.1M	Additional \$17.1M	Additional \$23.1M
Sheltering Services Target Continue Shelter Services	Additional \$9.6M	Additional \$10.1M	Additional \$10.6M	Additional \$11.1M	Additional \$11.7M

DEFINING THE FIVE PATHWAYS FORWARD FOR THE CITY

These three potential targets can be considered alone or in combination with one another. However, there are two rules for how these targets can interact.

- The Service Level Target can only be considered *on top of* the Employee Retention Target
- The Sheltering Target can only be considered *on top of* the Employee Retention Target or *on top of* both the Employee Retention Target and the Service Level Target.

Because of these rules, when considering the possible combinations of these three potential General Fund revenue targets, there are five main funding pathways forward for the City. The total amounts show how much these revenue targets are estimated to be during the 2029-2030 fiscal year. The total cost of each pathway would be less during each of the preceding four fiscal years.

Pathway & Total Cost During FY2029-2030	<u>Employee Retention Target:</u> Keep Current Staff	<u>Service Level Target:</u> Maintain Current Standard of Service	<u>Sheltering Target:</u> Continue Shelter Services
Pathway 1 No Revenues			
Pathway 2 \$16,700,000	Included \$16,700,000		
Pathway 3 \$28,400,000	Included \$16,700,000		Included \$11,700,000
Pathway 4 \$39,800,000	Included \$16,700,000	Included \$23,100,000	
Pathway 5 \$51,500,000	Included \$16,700,000	Included \$23,100,000	Included \$11,700,000

These five revenue pathways would have drastically different effects on City services and the experiences of Salem residents. Brief descriptions of the consequences of these funding pathways are outlined below. Again, total costs would be less during each of the prior fiscal years.

PATHWAY & TOTAL AMOUNT IN FY 2028-29	REVENUE TARGET(S)	ANTICIPATED CONSEQUENCES
Pathway 1 \$0	None	A sharp reduction in funding, staffing, and service levels occur in the near future. Further reductions take place over time as expenses continue to outpace revenues. Sheltering programs are no longer funded by the City.
Pathway 2 \$16,700,000	Employee Retention Target Only	Staffing levels remain the same as they are now, but service levels decrease. As Salem's population continues to grow, the standard of service that residents experience declines as there are fewer employees per capita.
Pathway 3 \$28,400,000	Employee Retention Target & Sheltering Services Target	Staffing levels remain the same as they are now, but service levels decrease. As Salem's population continues to grow, the standard of service that residents experience declines as there are fewer employees per capita. Homeless sheltering programs continue to be funded by the City.
Pathway 4 \$39,800,000	Employee Retention Target & Service Level Target	City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now.
Pathway 5 \$51,500,000	All Revenue Targets	City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now. Homeless sheltering programs continue to be funded by the City.

CAN THESE FINANCIAL PROJECTIONS CHANGE OVER TIME?

Yes. In fact, regularly updating financial forecasts to incorporate new information is a cornerstone of effective financial management. It is likely that these figures will change over time as new or updated operational, financial, economic, and/or demographic information is ascertained.

The purpose of a financial forecast is to evaluate current and future fiscal conditions to guide policy and programmatic decisions. Forecasting is an integral part of the annual budget process. Every year, City of Salem staff regularly maintain and update financial forecasts.

Every financial forecast is, to some degree, inexact. This inherent potential for imprecision increases for each additional year into the future that a forecast predicts. There is too much uncertainty and too many potential variables to create a forecast that perfectly predicts the future.

Although there is no such thing as a perfect financial forecast, some forecasts are more accurate than others. The best forecasts have smaller degrees of imprecision. A key factor in striving toward this

higher level of precision is to update forecasts with the most recent information available. As such, we will be making adjustments to the forecast figures as needed throughout the Revenue Taskforce process. This is a sign of effective management practices, not an indication of shortfalls in prior forecasting efforts.

WHAT OPTIONS DOES THE CITY HAVE FOR NEW REVENUES?

Oregon state law limits the type and amount of revenues (taxes) that local governments can impose. Within this context, the City has identified over 40 options to generate additional revenues. We will begin the process of reviewing the revenue options listed below and sharing a more detailed analysis of options at the next Revenue Task Force Meeting.

1. Admissions/Entertainment Tax
2. Bicycle Registration Fee
3. Business Gross Tax Receipts
4. Business License Fees
5. Carbon Tax (likely takes the form of a Local Gas Tax)
6. Construction Excise Tax
7. Corporate Income Tax
8. Electric Vehicle Charging Station Permit Fees
9. First Responder Fee Increase
10. Franchise Fee Increase
11. Heavy Vehicle Tax (only for Transportation Services Fund)
12. Higher/New Fees for Services
13. Land Value Tax
14. Local Gas Tax (only for Transportation Services Fund)
15. Local Marijuana Tax Increase
16. Local Option Property Tax Levy
17. Luxury Tax
18. Motor Vehicle Rental Tax
19. Operations Fee Increase
20. Parking Tax Increase
21. Payment in Lieu of Taxes (from the State Government)
22. Payroll Tax (Employee-Paid)
23. Payroll Tax (Employer-Paid)
24. Payroll Tax (Jointly Paid)
25. Personal Income Tax
26. Photo Red Light Cameras and/or Photo Speeding Cameras
27. Private Foundation Endowment
28. Property Tax on Vehicles
29. Rental Housing Fee
30. Restaurant Tax

31. Sale of Surplus Property
32. Sales Tax (General)
33. Sales Tax (Selective), includes any "sin taxes"
34. Solid Waste Collection Fee
35. Special District(s) Formation
36. Street Lighting District
37. Sweetened Beverages Distributor Tax
38. Tolls on Marion Street or Center Street Bridges
39. Transient Lodging Tax Increase
40. Urban Renewal - Increase Frozen Base
41. Vacancy Tax (Empty Dwelling Fee)