

City of Salem
Revenue Town Hall
WELCOME

We will get started shortly ...



CITY OF *Salem*
AT YOUR SERVICE

What's Happening Tonight?

The City is facing a serious revenue shortfall and is looking for ways balance its budget. One piece of that work is identifying options to raise City revenue.

Tonight we will:

- **Share information** about the background, current state, and future work to address the revenue shortfall
- Ask for **community input** on potential revenue targets and options
- **Provide space** for community members to ask questions and share feedback

Town Hall Agenda

01 Welcome and Introductions

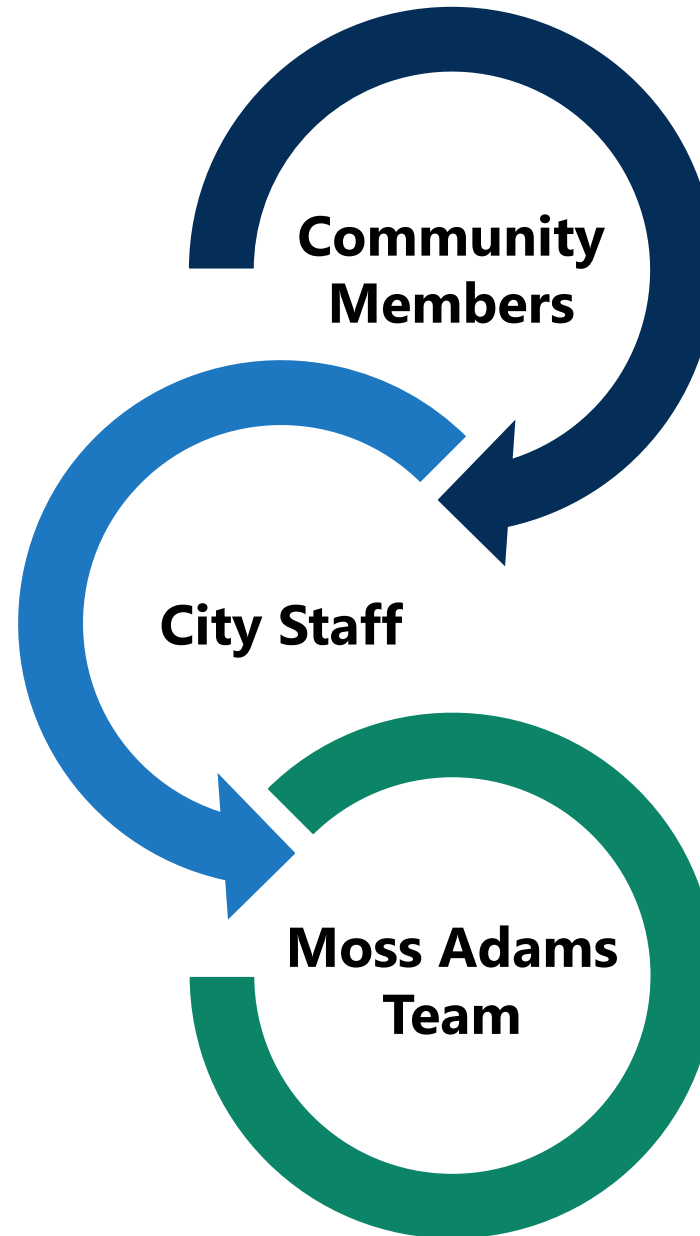
02 City Revenue Background

03 Potential Revenue Targets

04 Potential Revenue Options

05 Activities and Q&A

Who's Here Tonight?



Room Logistics

- Welcome Form
- Interpretation and Access
- Activities and Materials
- Food
- Bathrooms

Town Hall Norms

- Be respectful of each other and City staff
- Ask questions and provide input in a constructive manner
- Share your feedback and ideas
- Recognize that everyone is here because you want what is best for your community

Introduce Yourself

- Turn to a neighbor
- Introduce yourself
- Share one main reason why you're here tonight

What's our Challenge?



The Revenue Challenge

The City's projected general fund revenues will soon not be enough to pay for the services we provide today.

The demand for and cost of services increases each year, but the revenue to provide those services grows at a slower rate. As a result, the cost of providing services is projected to be at least **\$15 million greater than revenues collected by June 2026**. However, this may change over time.

To give a sense of scale, a \$15 million is the equivalent of:

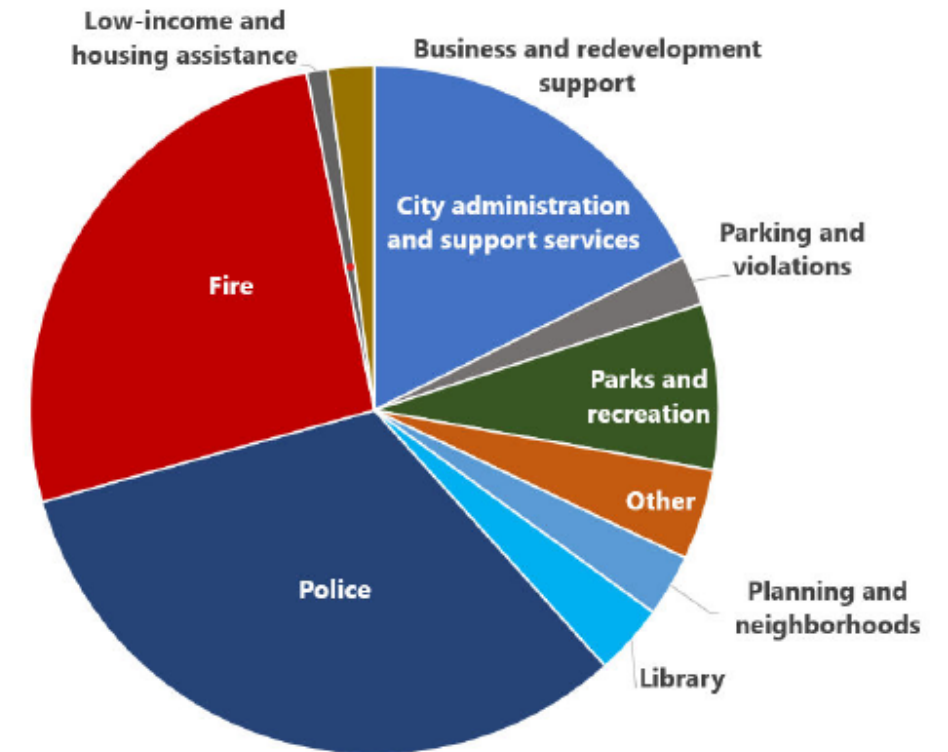
- 65 police officers (about 20%), or
- Six fire stations (\$2.3 million each), or
- All park maintenance (\$9.3 million) and all Library services (\$6 million)

What is the General Fund?

The City's General Fund supports services that provide a general citywide benefit, such as:

- Police
- Fire
- Parks and recreation
- Library
- Land use planning and zoning
- Social services that help those in need
- Municipal court

The FY 2024 General Fund Expenditures are budgeted a \$186.2 million. Emergency and Public Safety services account for 59% of General Fund Expenses.



*Other includes construction project transfers, contingency, and shared costs.

How Did We Get Here?



How We Got Here



MEASURE 5

Limited the total amount of general property tax that could be collected across jurisdictions.

Salem property taxes are allocated to the City, Marion, and Polk County as well as Marion County Extension and 4H Service District.



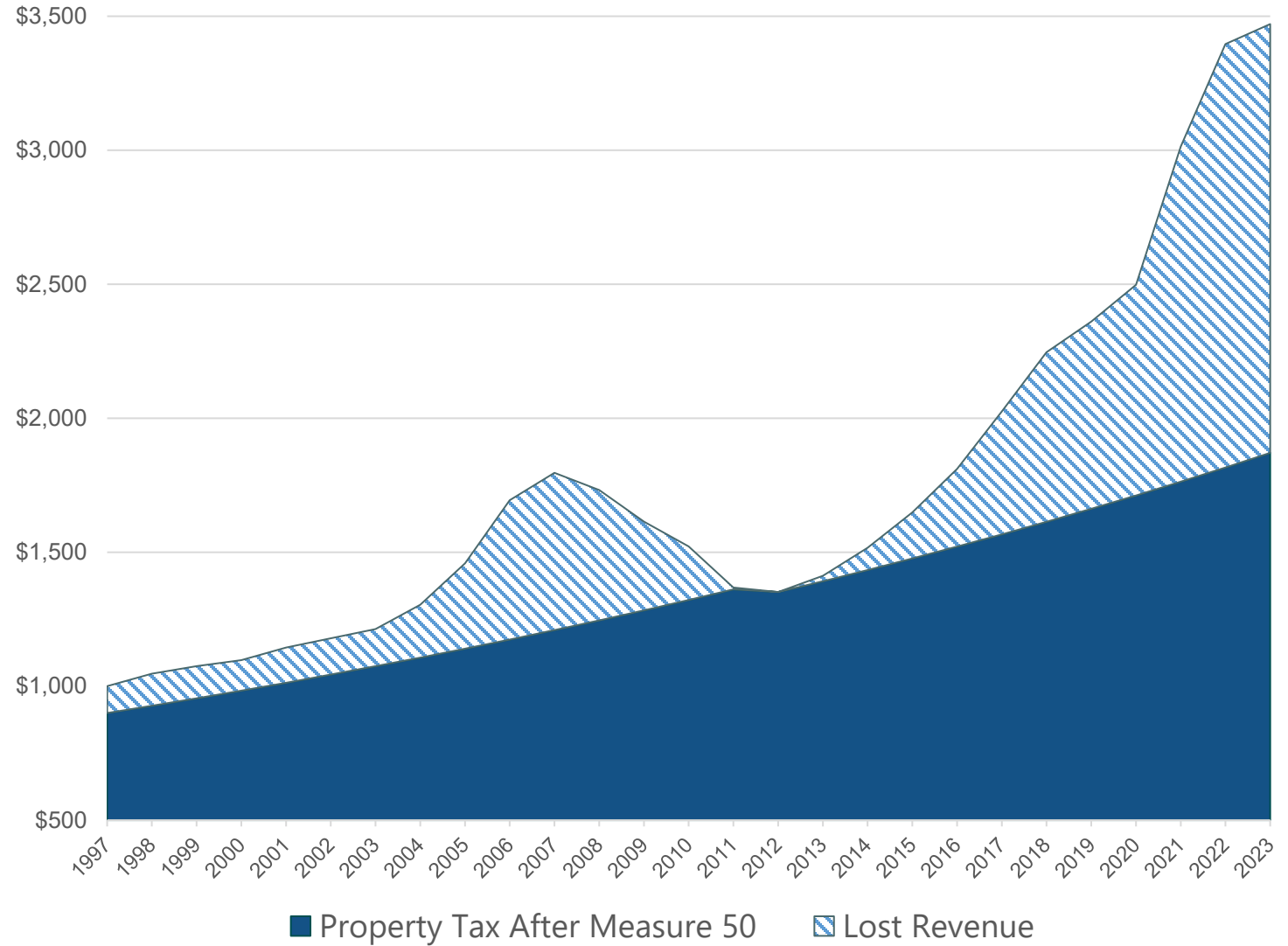
MEASURE 50

1. Restricted property tax rates to what they were in 1997.
2. Created assessed value by which properties are taxed.
3. Limited the maximum annual growth to 3% annually.

Impacts Over Time

The graph illustrates the impact of one household.

Effects of Measure 50 on the Property Tax of an Average Salem Home Valued at \$100,000 in 1997



What's the Bottom Line?

Property taxes constitute the lion's share of city revenues across the State of Oregon.

Oregon law restricts both the type and size of taxes that local governments can impose.

New taxes can face public resistance. Multiple Oregon city tax ballot measures failed in 2023.

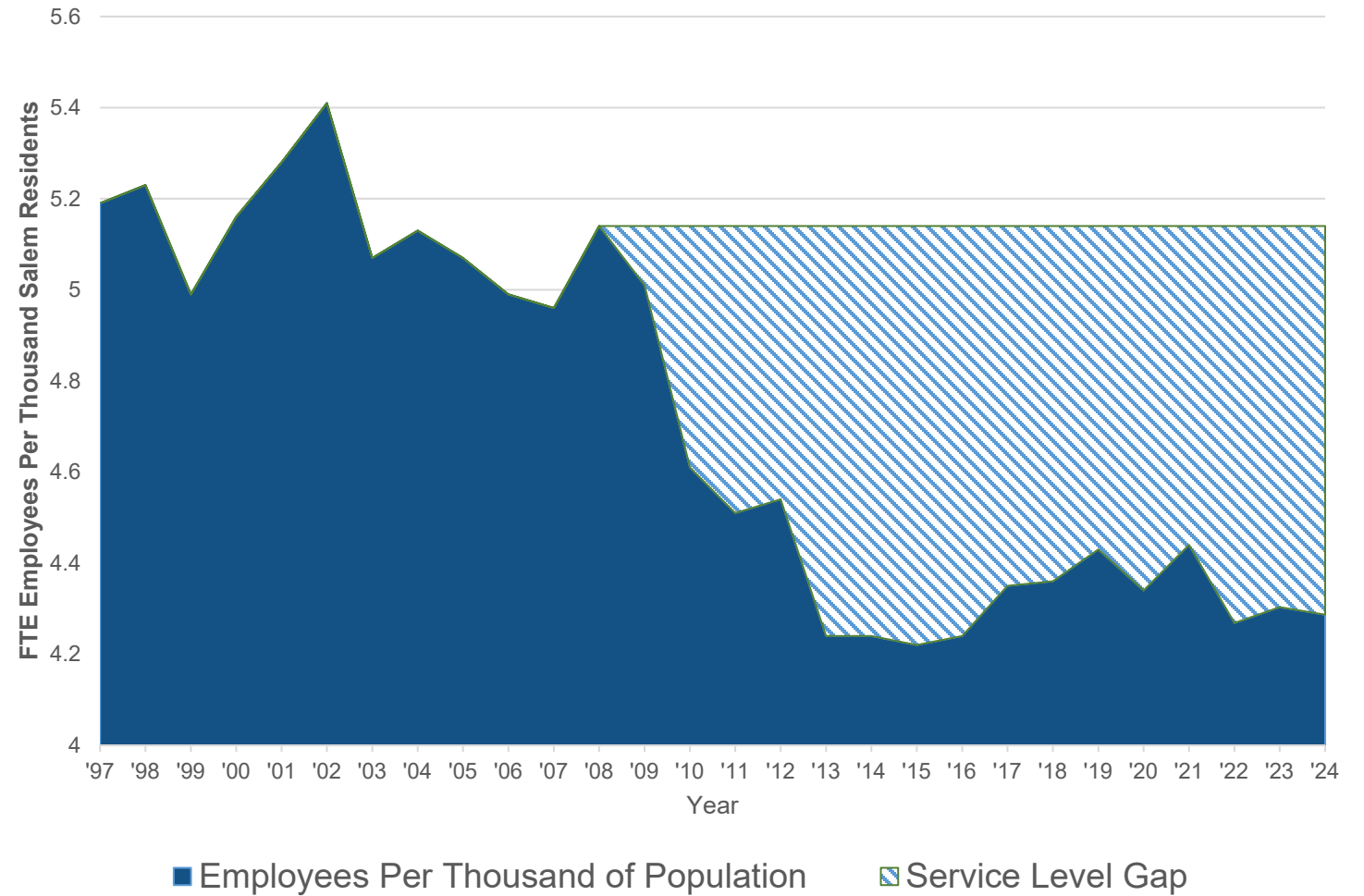
Without new revenues, Oregon cities will have to eliminate or reduce services beyond what most residents would consider acceptable.

This creates a situation where residents demand more and better services, but do not provide the financial resources to support service delivery.

This is called a structural deficit and is unsustainable.

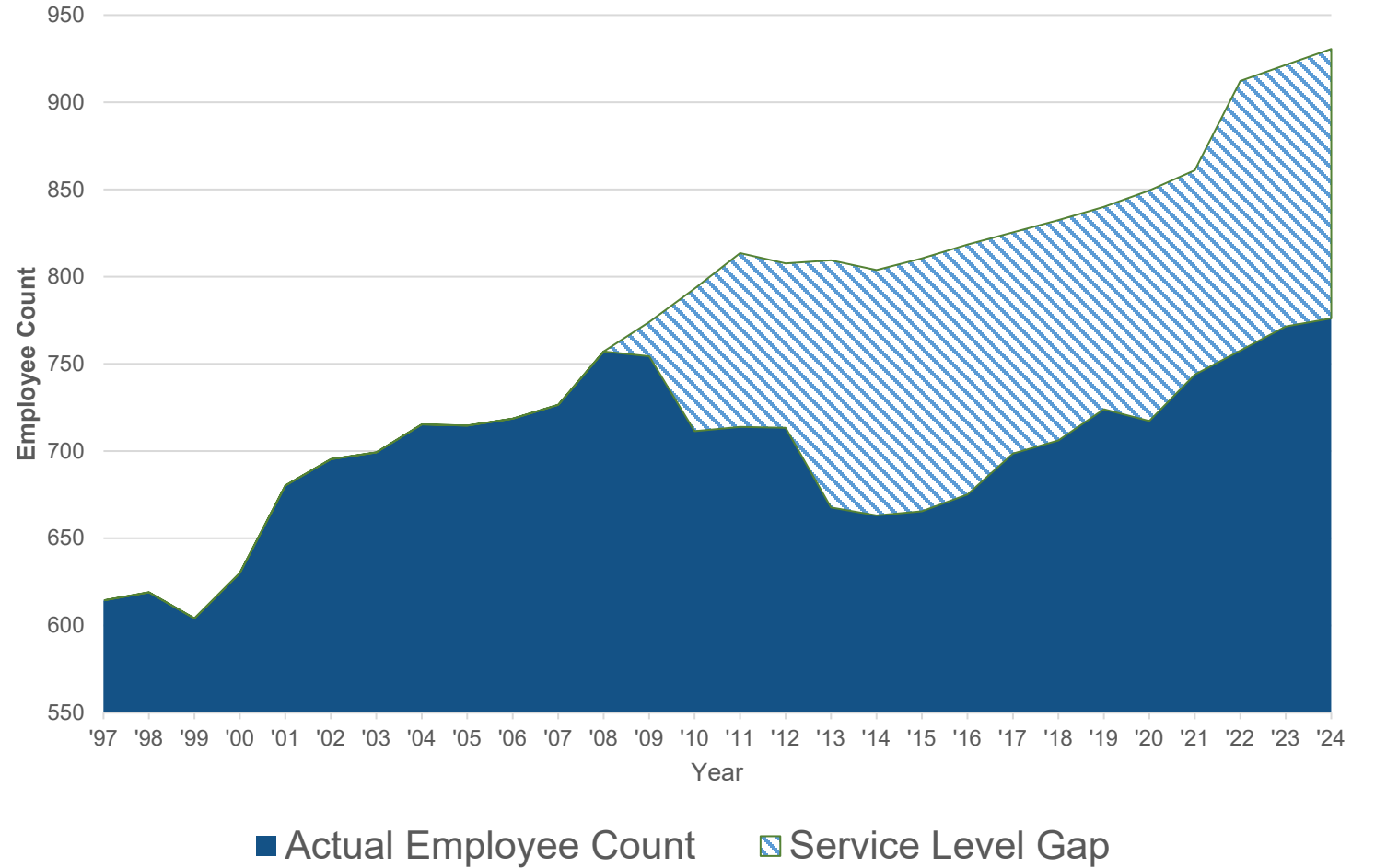
Impacts Over Time

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



Impacts Over Time

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



What Can We Do?



What's being done to address the shortfall?

Ultimately, a balanced budget will likely result from reducing expenses (aka decreasing services) and increasing revenue.

- **Reducing expenses:** The City has and continues to reduce the number of City staff and explore efficiencies, though this can come at the cost of reduced service quality and quality of life for residents
- **Increasing Revenues:** The City is currently exploring options to increase revenues

Who's involved in these processes?



What Can the Community Do?

Provide input!

We're going to walk through some information on **Revenue Targets** and **Revenue Options** before we ask for your input.

What are the Potential Revenue Targets?



What's a Revenue Target?

- **Revenue Target:** How much money the City needs to raise, in addition to current funding.
- **Decision Process:** City Council will make a policy decision about how much revenue to attempt to raise (and therefore what service levels will be available to community). To inform this decision, they are looking for input from community members.

Potential Revenue Targets

EMPLOYEE RETENTION TARGET

Keep current staffing levels, while service levels decline over time

SERVICE LEVEL TARGET

Maintain current standard of service over time

SHELTERING TARGET

Continue shelter services for those experiencing homelessness

Cost Estimates

Revenue Targets	FY 2025-2026	FY 2026-2027	FY 2027-2028	FY 2028-2029	FY 2029-2030
EMPLOYEE RETENTION TARGET	\$9.7M	\$10.4M	\$14.3M	\$16.8M	\$16.7M
SERVICE LEVEL TARGET	Additional \$6.1M	Additional \$10.8M	Additional \$13.1M	Additional \$17.1M	Additional \$23.1M
SHELTERING SERVICES TARGET	Additional \$9.6M	Additional \$10.1M	Additional \$10.6M	Additional \$11.1M	Additional \$11.7M

Potential Pathways

Pathway & Total Cost During FY2029-2030	EMPLOYEE RETENTION TARGET	SERVICE LEVEL TARGET	SHELTERING TARGET
Pathway 1 No Revenues			
Pathway 2 \$16.7 million	Included \$16.7 million		
Pathway 3 \$28.4 million	Included \$16.7 million		Included \$11.7 million
Pathway 4 \$39.8 million	Included \$16.7 million	Included \$23.1 million	
Pathway 5 \$51.5 million	Included \$16.7 million	Included \$23.1 million	Included \$11.7 million

What are Potential Ways to Raise Revenue?



Revenue Option Types

Broadly speaking, there are several main types of revenue options.

01

Property taxes, such as increasing property taxes with a local option levy, taxes on new construction, etc.

02

Sales taxes, such as general sales tax, local gas tax, luxury items tax, taxes on food and beverages purchased at restaurants, increasing hospitality taxes, carbon tax, etc.

03

Business taxes, such as changing or increasing business license fees, taxes on local for-profit corporations, increase in parking taxes, etc.

04

Income taxes, such as employer-paid or jointly paid payroll tax, personal income tax, etc.

05

User fees, such as speeding or traffic violation fees, electric vehicle charging station installation fees, increasing or new fees for services used, etc.

06

Utility fees, such as an operations fee added to utility bills, increasing utility company fees to operate in the city

Potential Revenue Options

1. Admissions/Entertainment Tax
2. Bicycle Registration Fee
3. Business Gross Tax Receipts
4. Business License Fees
5. Carbon 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

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
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)
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 of Frozen Tax Base
41. Vacancy Tax (Empty Dwelling Fee)

**We Want to Hear
From You**



Feedback Activities

- **Activity Area 1:** City Services
- **Activity Area 2:** Revenue Targets
- **Activity Area 3:** Revenue Options
- **Activity Area 4:** Other Input
- **Q&A Table:** Questions and Handouts

You do *not* need to complete the activities in order.

How Can I Stay in the Loop?

- **Meetings & Public Comment:** Attend or stream a Budget Committee meeting or Revenue Task Force meeting.
- **Website Updates:** Check out the updates posted on the City's Revenue Task Force page at www.cityofsalem.net/2024Revenue
- **Mailing List:** Get on the City's mailing list to receive updates.
- **Contact Us:** Email revenue@cityofsalem.net, with questions, comments, or feedback.

THANK
YOU



City of Salem

Overview of How We Got Here

Background

Salem is facing a significant budget shortfall, and the City's projected revenues will soon not be enough to pay for the services we provide today through the General Fund. These services include police, fire, public safety, parks and recreation, library, land use planning and zoning, enforcement of codes or rules to maintain neighborhood livability, social services that help those in need, municipal court, and other services that provide a general citywide benefit.

As more people live in our community, the demand for and cost of services increase each year, but the revenue to provide those services grows at a slower rate. As a result, the cost of providing General Fund services is projected to be \$15 million greater than revenues collected by June 2026. However, this may change over time.

For years, the City has relied on reducing costs and services, deferring ongoing needs, and foregoing long-term investments to maintain compliance with financial policies and fiscally responsible operations. Additionally, implementing the City operations fee provided significant revenue. Even with these efforts and the one-time infusion of federal funds during the pandemic, the costs to provide ongoing services are greater than the revenues received to support those services, and costs continue to escalate faster than revenues.

Solving this General Fund deficit, or structural imbalance, is critical to maintaining City services and staffing levels. Closing this immediate funding gap will not increase community services or add staffing.

If the City is unable to resolve the budget shortfall with additional revenue, then services will need to be reduced to adopt a balanced budget. In addition to the Task Force's work to identify new potential sources of revenue, the Budget Committee and City Council will develop options to reduce City services in conversation with our community. Ultimately, a balanced budget will likely result from both increased revenue and decreased services.

1990's Oregon Tax Measures

In the 1990s, Oregon voters passed two initiatives that restricted the amount of property tax that could be collected: Measure 5 and Measure 50. While these measures immediately reduced government revenues to a limited extent, they also set the stage for major structural deficits and severe revenue shortfalls for cities across the state.

Measure 5: Total Limits Across All Governments

Measure 5 limited the total amount of general property tax that could be collected. For general governments, this was limited to \$10 per \$1,000 of real market value for a property. So, for example, the

property tax for a \$100,000 home was limited to \$1,000. This limit is a total limit across all general governments, so the total tax levied against one household by all local jurisdictions (e.g., city, county) cannot exceed that amount. So, in this example, the maximum of \$1,000 is not just for the City of Salem. This \$1,000 would have to be split between Salem, Marion, or Polk County, and any special districts where the home is located, such as the Marion County Extension & 4-H Service District.

Measure 50: Permanent Rates, Assessed Value, Growth Limits

Permanent Rates: Measure 50 restricted property tax rates (percentages) to the rates they were in 1997. This means that cities like Salem cannot set property tax rates higher than this limit, though voters can temporarily increase these limits through a local option levy—which we will talk about later.

Assessed Value: Measure 50 also separated property tax from a property’s real market value—the dollar value that a home or parcel of land would be sold for to another party in the free market—by creating a new concept called **assessed value**, an amount at which properties would be taxed that is *artificially lower* than real market value. As a result of Measure 50, **properties in Oregon are not taxed at their actual market value.**

Measure 50 set the initial assessed value of all properties to 90% of their value in 1997. So, our example home bought at \$100,000 would have an assessed value of \$90,000. Because of the \$10 tax limit per \$1,000 of value from Measure 5, this home could now only have a maximum property tax of \$900 across all governments.

Market value of an example home purchased in 1997	\$100,000
Maximum property tax before Measure 50	\$1,000 Restricted by Measure 5
“Assessed Value” of Home after Measure 50	\$90,000
Maximum property tax after Measure 50	\$900

Growth Limits: Finally, and most importantly, Measure 50 **limited the maximum annual growth of assessed value to 3%**, even if the property value increased by far more. If our \$100,000 home increased 15% in value to \$115,000 the next year, its assessed value would be \$92,700—only 3% greater than its assessed value the previous year.

Example Of The Tax Impact of Measure 50 In A Single Year

PRIOR TO MEASURE 50			
Market Value of House	Prior Year Property Tax	Increase in Market Value of House	New Year Property Tax
\$100,000	\$1,000	+15% → \$115,000	\$1,150
AFTER MEASURE 50			
"Assessed Value" of House	Prior Year Property Tax	Increase in Assessed Value of House	New Year Property Tax
\$90,000	\$900	+3% → \$92,700	\$927

These limits on the growth of assessed value meant that small amounts of lost revenue for cities in 1997 gradually got bigger and bigger over time. Average home values in Salem have increased 247% since 1997. Before Measure 50, property tax revenues would have gone up by approximately 247%. However, the average assessed value for all Salem homes is only 108% greater than in 1997, meaning property tax values are about half as much as they would have been prior to Measure 50. Our example house worth \$100,000 in 1997 would provide local governments with nearly double the amount of revenue if Measure 50 was not passed (see table below). These lower levels of property tax, repeated across thousands and thousands of properties across Oregon, have decimated municipal government revenues throughout the state.

It's important to remember that Measure 5's cap on property taxes means that even this lower level of property tax is *shared between all local governments*. The City of Salem alone would not receive this artificially low property tax amount of \$1,870 in our example. This lower amount is shared between Salem, Polk/Marion County, and any special district governments that the property is within.

Example Of The Tax Impact Of Measure 50 Through 2023

PRIOR TO MEASURE 50			
Market Value of House	1997 Property Tax	Increase in Market Value of House 1997 → 2023	2023 Property Tax
\$100,000	\$1,000	+247% → \$347,000	\$3,470
AFTER MEASURE 50			
"Assessed Value" of House	1997 Property Tax	Increase in Assessed Value of House 1997 → 2023	2023 Property Tax
\$90,000	\$900	+108% → \$187,071	\$1,870

Why Are These Property Tax Limits Such A Big Issue?

1. Property taxes are the lifeblood of local governments in the western United States. Property taxes constitute the majority of General Fund revenue in cities across the State of Oregon.
2. The costs of providing city government services have increased much more quickly than the growth in revenues. **This is true for city governments across the state**, not just Salem.
 - Inflation *alone* has been about 90% since 1997. In inflation-adjusted dollars, our example house's \$1,870 of property taxes is only worth \$984 in 1997 dollars, only 9% greater than three decades ago.
 - Local government services predominantly involve **people** and **physical infrastructure**. The costs of both of these things have increased by much *more* than inflation.¹ Even if Oregon cities provided the *exact* services at the *exact* same levels as in 1997, there would not be enough property tax money to provide them.
 - Residents *expect more* from city governments than they did in the 1990's. Residents expect both *more types* of services and *greater levels* of service. For example, in the 1990s, Salem did not fund community policing, homeless services, or a climate response.
3. There are a limited number of additional revenue options available to cities. Oregon law restricts both the type and size of taxes that local governments can impose.
4. New taxes or fees can face public resistance. Multiple Oregon city tax ballot measures failed in 2023.

However, this creates a situation where residents are demanding more and better services from cities, but do not provide city governments with the financial resources to provide these services. This is called a *structural deficit* and is unsustainable.

Additional detailed information can be found on the City's Revenue Task Force webpage under, "Revenue Task Force Pre-Read Packet 1."

¹ Public administration wages have increased 127% and construction wages (a proxy for public works) have increased by 111% since 1997. Road construction costs have increased by 196% since 2003. You can learn more by visiting the websites of the [Bureau of Labor Statistics](#) or the [National Highway Construction Cost Index](#).

City of Salem

What are Other Cities Doing?

Salem is not alone in its current efforts to find revenues. Cities across Oregon, and mid-sized cities in particular, are dealing with sharp budget deficits and exploring new revenue options as a result. These cities include but are not limited to Bend, Corvallis, Eugene, Gresham, Hillsboro, Medford, and Springfield.

City staff, Councilors, and residents from these cities are also currently engaged in solving similar revenue issues as the Task Force. The information below summarizes the current available status of the efforts of other cities.

Eugene

- \$15 million structural deficit, with \$5 million of additional priorities desired from council.
- The city has undergone significant reductions in recent years to help close the gap:
 - \$16.5M in annual, ongoing service reductions
 - \$4.3M of one-time reductions
- A minimum of \$8.3M of additional revenue needed.
- Eugene already has a payroll tax.
- Eugene already has multiple local option levies in place. These local option levies must be renewed by vote in the coming years to continue current funding levels.
- Eugene is exploring a city operations fee (utility fee).

Gresham

- Gresham's deficit is projected to be \$11 million in 2025 and \$15 million in 2026.
- Gresham voters rejected a public safety local option levy in November 2023.
- Gresham City Council supports pursuing a new local option levy in a future election.
- Gresham is also exploring an increase to its city operations fee (utility fee).

Bend

- Bend's annual deficit is approximately \$7.9 million.
- Bend voters recently approved an increase in the Fire/EMS services local option levy, ensuring that Fire and EMS services are provided at a consistent level for the next few years.
- Bend is seeking to increase the amount collected by its operations fee.
- Bend is not using city funds to support the homeless shelter facilities that it purchased in recent years.

Corvallis

- The current deficit for Corvallis is about \$9.6 million.

- This deficit is deceptively small, as the City is using and depleting its remaining \$1.7M ARPA funds.
- Corvallis recently increased its city operations fees.
- In November, Corvallis voters passed a local option levy dedicated to Parks and Library services.

Springfield

- Springfield's general fund shows a relatively small deficit now of \$1.2 million, though it is relying on the continued use of federal COVID funds to keep its deficit at this level.
- Over the next few years, this deficit will gradually increase to \$4.8 million.
- If trends continue, the city expects that it will be unable to adopt a budget in 2028.
- Springfield is currently exploring revenue options and expense reduction scenarios with consultants from the Center for Public Service at Portland State University.

Hillsboro

- Hillsboro's deficit is comparatively moderate in the next two years, between \$1.6 and \$3.2 million. However, these smaller deficits rely on the use of federal and other one-time funds.
- Hillsboro is in a unique situation in which its property tax (+\$9M) and local option tax (+\$4.5M) will increase in the next few years as the city's 2005 Strategic Investment Program is moving out of abatement.
- Hillsboro must renew two local option levies to maintain current funding levels: one in 2026 and the other in 2028. If these are not renewed, deficits will increase sharply.
- The City is also reliant on Washington County's library local option levy that provides funding to nine cities in the county.

City of Salem

Role of the Task Force

The Salem Revenue Task Responsibilities

- Understanding the City's needs, evaluating different revenue scenarios, and reviewing information from City Council, the Budget Committee, and staff.
- Recommending to City council the **means** through which the City will pursue revenue. In other words, what new fees or taxes will the City attempt to collect?

Why A Task Force?

The purpose of the Revenue Task Force is to explore new, additional revenue sources and adjustments to fees to sustain services that do not have a dedicated revenue stream. Community Task Forces are a common tool used by cities to make strategic decisions that greatly affect residents. These short-term advisory committees are usually a group of representative stakeholders who are selected to develop a specific policy recommendation. Considerable care is taken to select the committee members. The Task Force will prepare a recommendation to the City Council, who will make the final decision.

Who's On the Task Force?

- Becky Beaman
- Russ Beaton
- Scott Cantonwine
- Katie Ciancetta
- Ken Collins
- Beth Vargas Duncan
- Bev Ecklund
- Matthew Hale
- Levi Herrera-Lopez
- Stephen Jenkins
- Kathy Knock
- Ariel Loveall
- Zak Ostertag
- Leola McKenzie
- Raquel Moore-Green
- Sean Nikas
- Keith Norris
- Jean Palmateer
- Ray Quisenberry
- Nathan Rafn
- David Rheinholdt
- Bill Riecke
- Gretchen Schlie
- Kaitlin Strathdee
- William Smaldone
- TJ Sullivan
- Cathy vanEnckevort

Fiscal Year 2024



Budget in Brief

Find out more at

www.cityofsalem.net/budget

The City of Salem adopts its budget each June for the following fiscal year, which runs from July 1 to June 30.

While the budget is a financial document, it is also an important policy document, outlining the City Council's priorities for the upcoming year and showing how financial resources will be committed toward those goals.

The City of Salem Community Result Areas

Good Governance



Natural Environment Stewardship



Safe and Healthy Community



Safe, Reliable, and Efficient Infrastructure



Strong and Diverse Economy



Welcoming and Livable Community



Over the past several years, the City has framed its budget around result areas that have been defined by the community and City Council through development of the Strategic Plan. This presentation clearly demonstrates how the City plans to fund and realize these priorities.

Annual Budget Process



How it All Works Together

The budget is one component in an annual cycle of planning and collaboration. The City Council looks to the community for feedback through survey responses, board or commission service, and neighborhood association participation to inform its policy agenda. The City Council's policy agenda reflects spending priorities that are included in the budget. Results achieved through funded programs and projects in the budget are featured in an annual community report.

City Budget

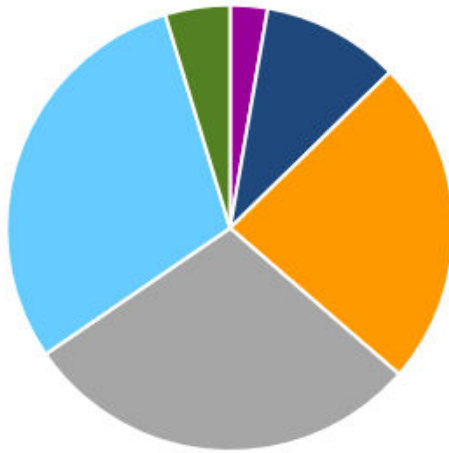
Operating Expenditures: \$531.5 Million

Supporting Community Outcomes

The City's FY 2024 total operating budget is summarized by service groupings provided in each result area. A majority of the budget is allocated to support infrastructure, governance, and safety.

Strong and Diverse Economy	\$14.4M
Parking infrastructure and enforcement	4.2M
Business and redevelopment support	4.1M
Cultural events and tourism	3.7M
Salem Municipal Airport	2.3M

Welcoming and Livable Community	\$53.0M
Parks and recreation	13.0M
Low-income programs and housing support*	27.1M
Salem Public Library	6.5M
Planning and neighborhoods	5.6M
Community events and art	0.8M



Safe and Healthy Community	\$158.8M
Emergency and public safety services	146.2M
Building permits and inspections	9.9M
Salem Municipal Court	2.6M

Good Governance	\$125.9M
Health benefits and risk management	48.6M
Administration and support services	41.8M
Vehicles and equipment	16.4M
General shared costs	9.4M
Bond debt payments	6.6M
City building maintenance	3.2M

Natural Environment Stewardship	\$24.9M
Wastewater treatment	13.5M
Environmental monitoring and compliance	11.4M

Safe, Reliable, and Efficient Infrastructure	\$154.5M
Stormwater, wastewater, and water	98.4M
Bond debt payments	35.6M
Streets, sidewalks, and signals	19.1M
Streetlight	1.3M

*Includes one-time grant supported sheltering services and sites. Expenses shown are not anticipated to be fully spent in FY 2024.

Capital Improvements Expenditures: \$224.8 Million

Multiple **Geer Park Improvement** projects are in the design phase. They include a fenced off-leash dog park, picnic shelters, a skate park, pathways, and sport field renovations. Skate park facilities are expected to conclude design this fiscal year.



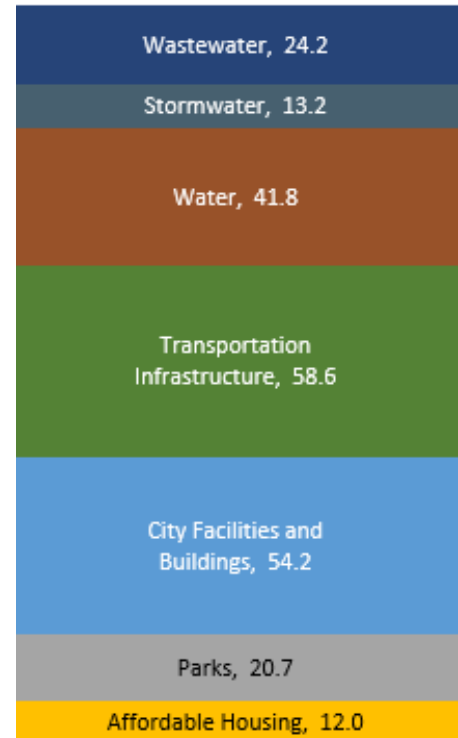
Multiple **McGilchrist Street SE Corridor Improvement** projects are ongoing. The projects will include construction of a cycle track, sidewalks, curbs, gutters, center turn lane, signal improvements, and stormwater improvements.

Initial planning for **Civic Center Seismic Improvements** will begin this fiscal year. The project will construct seismic improvements to reinforce the Civic Center structure, mitigate potential existing hazards, and revitalize areas within the complex including Peace Plaza.



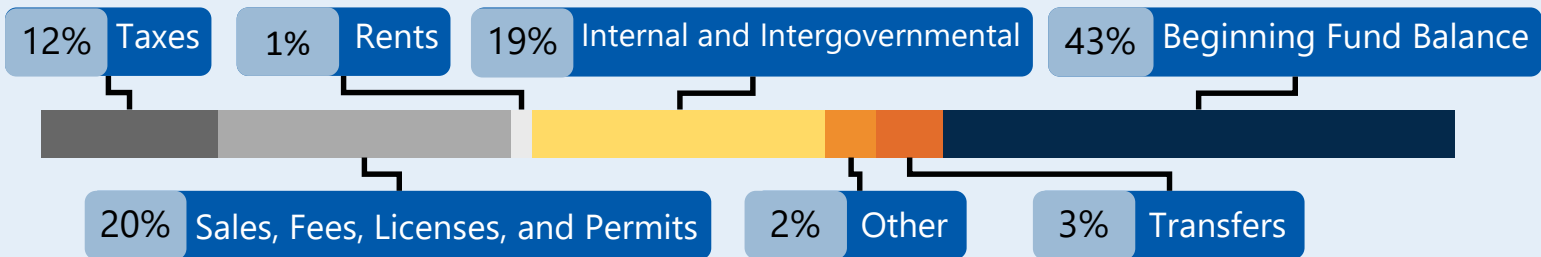
Geren Island Roughing Filter No. 2

Geren Island Roughing Filter No. 2 Reconstruction is expected to conclude by the end of the fiscal year. The project will reinforce or replace aging components of the facility and divide the filter into two separate cells, ensuring there is enough safe, clean drinking water for years to come.



\$ In Millions

Total Resources: \$908.8 Million



The **Taxes** category includes property taxes that support general City operations, voter-approved bonds for infrastructure projects, taxes paid by overnight visitors, and marijuana sales taxes.

Sales, Fees, Licenses, and Permits are composed of over 70 different charges, the largest being utility rates, planning fees, franchise fees, and building permits.

Internal and Intergovernmental revenues consist of employee insurance premiums, specific sales tax revenues shared by the State of Oregon, grants, and reimbursements from other agencies.

Transfers move money from one City fund to another for a specific expense, usually for personnel costs or construction projects.

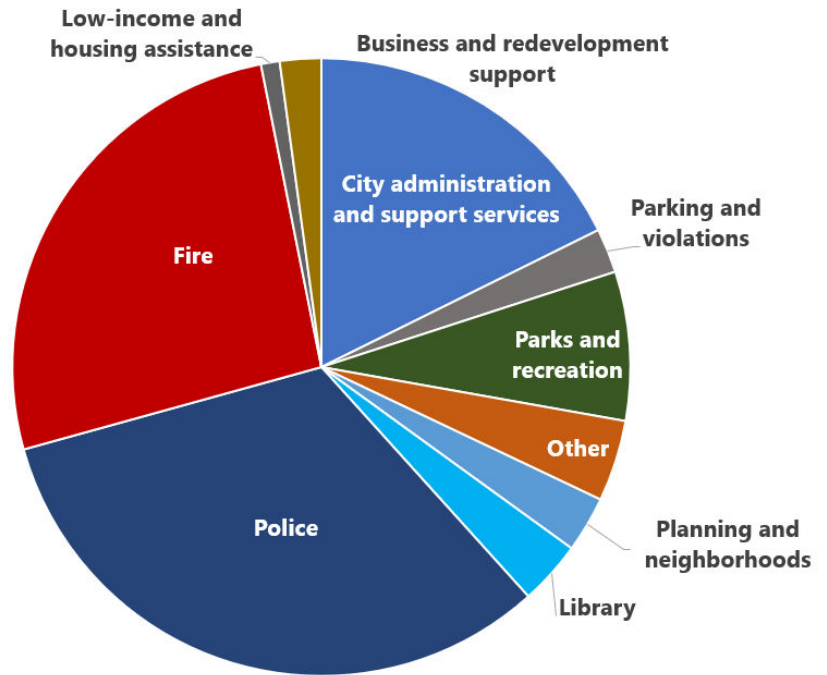
Beginning Fund Balance is the available cash in each City fund before revenues or expenses occur in the new fiscal year.

General Fund

Total Expenditures: \$186.2 Million

The General Fund pays for a wide variety of City services and programs 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). Emergency and public safety services account for 59 percent of General Fund expenses.

Most revenue sources in the General Fund, including property taxes, are not restricted which means they are not designated for a certain purpose or legally limited to fund specific services.

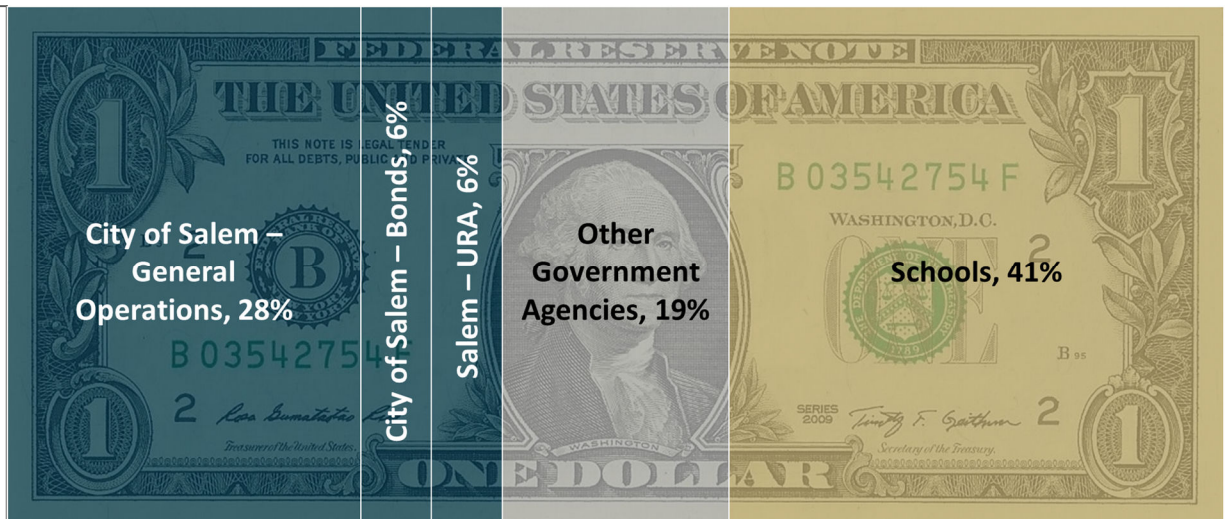


*Other includes construction project transfers, contingency, and shared costs.

More About Property Taxes

In Oregon, municipal services are funded by a combination of property taxes, fees, and charges. Income taxes paid in Oregon are used to fund State and Federal services. In Salem, nearly \$84M in property tax receipts are estimated for FY 2024 to support General Fund services which equates to 50% of total budgeted General Fund revenue. Bonds are voter-approved ballot measures used to pay for large City construction projects and cannot be used for general operations. Property taxes also fund Salem’s Urban Renewal Agency (URA) to invest in key locations in specified geographic areas of the city to spur redevelopment. The URA is a separate municipal corporation from the City but is supported by City staff.

EXAMPLE:
Residents in Marion County pay property taxes to fund services provided by many different taxing districts, not just the City, as shown to the right.



For more details about the City of Salem or Urban Renewal Agency budget, visit www.cityofsalem.net/budget.

City of Salem

Targets and Pathways Overview

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.

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.

Sheltering Target: Continue Shelter Services for Those Experiencing Homelessness

This target should only be considered in conjunction with 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</u> <u>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.

<p>Pathway 3 \$28,400,000</p>	<p>Employee Retention Target & Sheltering Services Target</p>	<p>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.</p> <p>Homeless sheltering programs continue to be funded by the City.</p>
<p>Pathway 4 \$39,800,000</p>	<p>Employee Retention Target & Service Level Target</p>	<p>City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now.</p>
<p>Pathway 5 \$51,500,000</p>	<p>All Revenue Targets</p>	<p>City staffing levels gradually increase over time to keep pace with population growth. Service levels stay the same as they are now.</p> <p>Homeless sheltering programs continue to be funded by the City.</p>

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.

Additional detailed information can be found on the City’s Revenue Task Force webpage under, “Revenue Task Force Pre-Read Packet 2: Understanding Revenue Needs, Targets, and Options.”

City of Salem

Revenue Options Overview

Types of Revenue Options

The Revenue Task Force is currently working to identify the various revenue options that they will present to City Council. Broadly speaking, there are three main types of revenue options:

- **Taxes:** Compulsory contribution to City revenue, imposed by the government on ownership, economic activity, or another phenomenon occurring within City limits (e.g., property tax, sales tax, income tax, or income tax)
- **Fees:** A method of financing government goods and services that is usually based on a resident's actions or activities (e.g., user fees, or utility fees)
- **Levy/Levies:** A term for a specific type of tax imposed on property (e.g., Local Option Levy)

Limitations and Processes for Approval

Oregon state law limits the type and amount of revenues that local governments can impose. Oregon state law also governs the processes by which revenue options can be adopted. Some revenue options can only be adopted through certain processes. There are three primary ways that revenue options can be approved and imposed:

- **Ballot Measure:** A revenue option can be placed on a citywide election ballot through Council action or public petition
- **Council Action:** A revenue option can be directly adopted through City Council resolution
- **Managerial Action:** In *very few* cases, existing revenues can be adjusted through the actions of City professional staff. This is extremely rare and could likely only take place for revenue options that the City has already adopted and is updating, and where City Council has previously established a process for small adjustments to revenues.

Evaluative Criteria

Task Force Members unanimously agreed to the following set of evaluative criteria to use when examining potential revenue options:

- **Sustainability:** Revenue options are able to generate sustainable, ongoing revenue. Revenue options with one-time or low estimated revenue potential will be considered less viable.
- **Equity:** The Task Force will take equity considerations into account, recognizing that revenue options that are regressive in structure will have higher impacts on low-income earners.
- **Estimated Revenue Potential:** The magnitude of revenue able to be collected by various revenue options will be considered. Revenue options with higher estimated revenue will be considered more viable.

- **Impact on Local Economy:** Revenue measures can impact economic activity and the local business climate. These impacts will be considered.
- **Impact on Environment:** Revenue measures can incentivize activities that can positively or negatively impact the environment. These impacts will be considered.
- **Legal Viability:** Oregon state law governs the type, amount, and approval process for revenue measures. These constraints will be considered.
- **Impact Timeline:** Different revenue options are able to provide boosts to City finances at different speeds. Some would take months; others may take multiple years. These differences in timelines will be considered.
- **Level of Administrative Effort:** Revenue options with high estimated administrative effort will be considered more difficult to implement. However, high administrative effort does not necessarily rule out a revenue option.

Revenue Options: Customizability

For all revenue options, including the ones highlighted above and all others that may be identified later, the City has the flexibility to customize these taxes to address public desires. These aspects of customizability include:

- **Number of additional revenues:** The City does not have to choose *just one* option. Generally, a wider variety of revenue sources improve government resiliency.
- **Size:** How much tax is collected by each revenue measure?
- **Branding & Spending Restrictions:** Tax measures can be *branded*, associating these taxes with certain city services. For example, a local option levy could be dedicated to public safety so that voters could be motivated to vote for the increase in taxes, knowing that the funding would go to fire services and police services.
 - If desired, funds could be legally *restricted* to certain purposes. In the example above, the spending of local option levy funds on public safety could be legally mandated to only be spent on fire or police. This could provide more assurance to voters who worry that the City will spend these additional funds on other services. Restricting the funds would mean new revenue would be spent on the specified services, while some existing funds supporting those services would be reallocated to support other programs in the General Fund.

Preliminary Revenue Option Considerations

Oregon state law limits the type and amount of revenues that local governments can impose. Within this context, over 40 preliminary revenue options were identified for consideration. The preliminary list was developed based on work from the previous task force and options considered by other cities in Oregon.

As the work of the Task Force continues, this list will change. To stay up to date on how options are refined (added, removed) to form the ultimate recommendation, you're invited to join an upcoming Revenue Task Force Meeting (*Stay Connected Handout*)

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
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 Occupancy Tax Increase
40. Urban Renewal - Increase Frozen Base
41. Vacancy Tax (Empty Dwelling Fee)

Additional detailed information can be found on the City's Revenue Task Force webpage, under "Salem Task Force Revenue Options 2024-02-22."

City of Salem

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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
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Additional detailed information can be found on the City's Revenue Task Force webpage, under "Salem Task Force Revenue Options 2024-02-22."

City of Salem Stay Connected

You're invited to stay engaged and contribute to ongoing revenue conversations.

Revenue Task Force Website	www.cityofsalem.net/government/boards-commissions/other-advisory-groups/2024-revenue-task-force
Revenue Email Address	Revenue@cityofsalem.net
Upcoming Task Force Meetings	<ul style="list-style-type: none"> • April 25, 6:30pm • May 21, 6:30pm • June 6, 6:30pm • June 26, 6:30pm
Upcoming Budget Committee Meetings	<ul style="list-style-type: none"> • April 17, 2024, 6:00pm • April 24, 2024, 6:00pm • May 1, 2024, 6:00pm • May 8, 2024, 6:00pm • May 15, 2024, 6:00pm
Upcoming City Council Meetings	<ul style="list-style-type: none"> • April 22, 6:00pm • May 13, 6:00pm • May 28, 6:00pm • June 10, 6:00pm • June 17, 6:00pm • June 24, 6:00pm • July 8, 6:00pm • July 15, 6:00pm • July 22, 6:00pm
Other Ways to Connect	<p>Don't miss out on what's happening at the City of Salem. The city offers a variety of ways to connect with us.</p> <p>Our website, https://www.cityofsalem.net, is the core of our communications system. Most of our other ways of communicating tie back to resources on our website. You can sign up for topic-specific alerts by visiting: www.cityofsalem.net/community/connect-with-us</p>