

City of Salem
Revenue Task Force

Packet 6:
Detail on High-Interest Revenue Options



HIGH-INTEREST REVENUE OPTIONS

The Revenue Task Force has identified the following options for further consideration. The information included in this packet includes previously provided details about each option, as well as updated information, and/or additional revenue forecast details for some options. The revenue options are grouped by timeline:

- **Near-Term Options:** Revenue options that are within City authority and that could potentially generate revenue for the City within 1-2 years of initiation.
- **Medium-Term Options:** Revenue options that are within City authority and that could potentially generate revenue for the City within 2-5 years of initiation.
- **Long-Term Options (previously referenced as legislative agenda or policy memo options):** Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.

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¹ Please note: The broader topic of tax reform or restructuring is included in the Long-Term Revenue Options section (#44). The Task Force could choose to sequence these options (ex: introducing a personal income tax and then pursuing broader reforms) or recommend the options as a package.



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SUMMARY OF HIGH-INTEREST REVENUE OPTIONS

				TF Decision Criteria							Community Survey Feedback				
Funding Type	#	Revenue Type	Potential Revenue	Generates Ongoing, Sustainable Revenue for the General Fund	Could be Structured Equitably (regressive vs. progressive structures)	Is Legally Viable	Impact on Economy	Impact on Environment	Administrative Complexity	Timeline Between Initiation and When Revenue is Received	Community Approval of Funding Type	Proportional to income or wealth (preferred)	Tax or Fee for a specific item (preferred)	Tax or Fee Paid by Business (preferred)	Implement New Tax or Fee (preferred)
Near-Term Revenue Options															
Business tax	4	Business License Fees	\$8,000-\$4M	Yes	Yes	Yes	Yes	No	Low	1-2 Years	50%	Yes	Yes	Yes	No
Utility fee	10	Franchise Fee Increase	\$685,000-\$6.8M	Yes	N/A	Yes	Yes, Likely Low	No	Low	6-12 Months	27%	Yes	Yes	Yes	No
User fee	12	Higher/New Fees for Services	Cannot be calculated without additional specification/low	Yes	Maybe	Yes	Maybe, depends on specification	Likely no, depends on specification	Low-to-Medium	1-2 Years	66%	Yes	Yes	No	Yes
Utility fee	19	Operations Fee Increase	\$454,000-\$9M	Yes	No	Yes	N/A	No	Low-to-Medium	1 Year or Less	27%	No	No	No	No
User Fee	20	Parking Tax Increase	Currently unknown	No, funding is restricted and capped	No	Yes	Maybe	No	Low	1 Year or Less	66%	Yes	Yes	Yes	No
User Fee	39	Transient Occupancy Tax Increase	\$520,000-\$5.6M	Limited as funding is restricted	No	Yes	Yes, Likely Low	No	Low	1 Year or Less	66%	No	Yes	No	No
Property tax	40	Urban Renewal - Increase Frozen Base	Currently unknown	Yes	N/A	Yes	No	No	Low-to-Medium	6-12 Months	37%	Yes	No	No	No
Medium-Term Revenue Options															
Property tax	16	Local Option Property Tax Levy	\$1M-\$55M	Yes	Yes	Yes	Yes, Likely Low	No	Low	2-3 Years	37%	Yes	No	No	Yes
Income tax	25	Personal Income Tax	\$113,000-\$92M	Yes	Yes	Yes	Yes, Likely Low	No	High	2+ Years	36%	Yes	No	No	Yes
User Fee	30	Restaurant Tax	\$0 and \$12.75M	Yes	No	Yes	Yes	No	High	2+ Years	66%	Yes	Yes	No	Yes
User Fee	41	Vacancy Tax (Empty Dwelling Fee)	Currently unknown	Yes	No	Unclear	No	No	High	2-5 Years	66%	Yes	Yes	No	Yes
Long-Term Revenue Options															
Sales tax	15	Local Marijuana Tax Increase	Currently unknown	Yes	No	Viability requires a change in state law	Yes, Likely Low	No	Low	Unknown (likely 5+ years)	35%	No	No	Yes	No
Other	21	Payment in Lieu of Taxes (State Government)	Currently unknown, could potentially be between \$5M-\$6M annually	Yes	N/A	Viability requires a change in state law	No	No	High	Unknown (likely 5+ years)	N/A	N/A	N/A	N/A	N/A
Other	42	Payment in Lieu of Taxes (Non-State Government Entities)	Currently unknown	Yes	N/A	Viability requires agreement from external party	No	No	High	Unknown (likely 5+ years)	N/A	N/A	N/A	N/A	N/A
Other	35	Special District(s) Formation	Cannot be calculated without additional specification	Maybe depending on specification	Maybe depending on specification	Yes	Unknown without additional specification	Likely no, depends on specification	Very High	3-5 Years or Longer	N/A	Yes	Yes	Yes	Yes
Other	43	Intergovernmental Agreements & Entities	Cannot be calculated without additional specification	Maybe depending on specification	Maybe depending on specification	Viability requires agreement from external party	No	Likely no, depends on specification	High	Unknown (likely 5+ years)	N/A	N/A	N/A	N/A	N/A
Other	44	Tax Reform/Restructuring	Cannot be calculated without additional specification	Yes	Yes	Viability requires significant changes in City policy	Unknown without additional specification	No	High	Unknown (likely 5+ years)	N/A	Yes	N/A	N/A	N/A



NEAR-TERM REVENUE OPTIONS

Revenue options that are within City control and that could potentially generate revenue for the City within 1-2 years of initiation.

4. Business License Fees

4. BUSINESS LICENSE FEES	
Description	A business license is a government-issued permit that authorizes an individual or a company to conduct business in that government’s jurisdiction. The fee calculation could take several different forms: a fixed amount per business or be tiered, based on business size (measured by gross receipts or number of employees). It is typically paid prior to engaging in business, paid on an annual basis, and does imply a regulatory relationship.
Legal Authority	<p>Salem already requires a license and fee for certain types of businesses.</p> <p>Authority is clearly established. State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City’s boundaries. Revenue would be unrestricted and available to the general fund.</p> <ul style="list-style-type: none"> ● Council may adopt fees by ordinance. ● Or fee could be placed on ballot by Council or petition.
Legal Restrictions	None currently known
Peer Usage	<p>Salem already requires a license and fee for certain types of businesses.</p> <p>Business license requirements vary widely across Oregon.</p> <p>The City of Portland business license rate is 2.6% of net income after allowable deductions. The annual minimum fee is \$100. Business licenses are required from the opening date of business. Multnomah County’s business income tax rate is 2% of the net income after allowable deductions. The annual minimum fee is \$100 (started 2008). Business income taxes are due at the same time they file federal and state income tax returns. Both have exemptions, most notably businesses that gross less than \$50,000 annually for the Portland tax and \$100,000 annually for the Multnomah tax.</p> <p>Springfield requires a license for 28 business types with a fee schedule tailored to those business types. In 2014, Springfield’s Finance Director estimated that 75-80% of the estimated \$105,000 - \$120,000 generated per year revenue was devoted to personnel expenses to administer the program. A large portion of the remaining revenue covered software, supervision, and indirect program costs, leaving approximately 5-10% of collection as net revenue.</p> <p>Medford requires an annual business license for all businesses. The application review fee is \$50 and the commercial business license fee is \$100. A subset of business types are exempt (such as non-profits). Some business categories have fees specific to that category (mobile food vendor, home-based business). The fee application process requires information for the Fire Department, including emergency contacts, type of fire protection system, and the presence of hazardous or combustible materials. The business license process consolidates a variety of regulatory issues into a single, streamlined process.</p> <p>Eugene currently requires the following businesses to apply and pay a fee for a license: payday lenders, public passenger vehicles, and recycling and solid waste</p>



4. BUSINESS LICENSE FEES

	haulers. Eugene requires permits and fees for on-street commercial activity in the Downtown Activity Zone.
Administrative Effort	Salem already has infrastructure in place for some types of businesses. There would be additional costs and complexity to expanding the types of fees, but few costs to increasing the amount of current fees.
Timeline	1-2 years
Who Pays	<ul style="list-style-type: none">• Businesses• All types of business taxes or fees may be passed onto consumers
Equity Implications	Any increase in the cost of a good or service has a disproportionate effect on low-income households because they spend a higher share of income on goods and services.
Environmental Sustainability Implications	None
Local Economic Implications	<ul style="list-style-type: none">• Businesses could shift to nearby jurisdictions to avoid tax burden.• This could negatively impact the perceived business climate in Salem.
Revenue Potential	Variable, depends on the fees chosen. Estimated \$8,000-\$4 million. See Revenue Deep Dive section for more details.
Overall Viability	<ul style="list-style-type: none">• More viable• Can be administratively and politically complex• Revenue Potential is highly variable depending on the structure of the tax.



10. Franchise Fee Increase

10. FRANCHISE FEE INCREASE	
Description	Right-of-way franchise fees are assessed for the privilege of use of City-owned rights-of-way for distribution of utility services or products.
Legal Authority	Clear, unambiguous
Legal Restrictions	<p>There is an Oregon Constitutional limitation under Article IX (OR Const, Art IX, § 3b) that caps the rate of any tax levied on oil products or natural gas, other than motor vehicle fuel, to no more than 6% of its market value.</p> <p>There is also a 7% cap on franchise fees for telecom carriers (ORS 221.515) and a 5% cap on cable operators (47 U.S.C § 541); 5% for electric and natural gas (ORS 221.450). There is no cap on franchise fees for water, wastewater, and solid waste.</p> <p>The Federal Communications Commission (FCC) approved a rule change that took effect in September 2019, reducing franchise fee payments from cable operators by allowing providers certain deductions from cable franchise fees. The rule change also preempted local governments from regulating or imposing fees related to non-cable services that rely on use of the public right-of-way such as internet service providers.</p>
Peer Usage	Very common. Salem already has 5% franchise fees for all utilities in place with a 7% fee for telecommunications and solid waste (refuse).
Administrative Effort	Low
Timeline	6 months to 1 year
Who Pays	The operator of the utility Indirectly, all utility users
Equity Implications	Increased cost of basic utilities will have a disproportionate impact on lower-income customers.
Environmental Sustainability Implications	Minimal, if any.
Local Economic Implications	Could have some negative impacts on the City's perceived business climate and cost of living for residents.
Revenue Potential	Estimated \$6,685-\$6.6 million. See Revenue Deep Dive section for more details.
Overall Viability	More viable. Increase in franchise fees are limited to water, wastewater, or solid waste (refuse).



12. Higher/New Fees for Service

12. HIGHER/NEW FEES FOR SERVICE	
Description	A user fee or service charge is paid by those who use and benefit from a specific public good, service, or facility, as a condition for receiving or using it.
Legal Authority	Clear and unambiguous
Legal Restrictions	Few to none
Peer Usage	Nearly every city in the United States
Administrative Effort	<ul style="list-style-type: none">• Low for increased fees• Medium for new fees
Timeline	<ul style="list-style-type: none">• Depends on complexity and if fees are new or increased.• A few weeks, several months, or longer than a year.
Who Pays	Users of City services
Equity Implications	Perception of fairness will vary depending on the good or service involved and the level of the charge.
Environmental Sustainability Implications	Depends on the fee and service, but likely none.
Local Economic Implications	Can discourage residents from taking advantage of an underpriced (effectively subsidized) City service
Revenue Potential	Low
Overall Viability	More viable. <ul style="list-style-type: none">• Can help somewhat, to the extent that it would reduce any service subsidization by the general fund, but cannot solve the revenue gap• If fees are set too high, the amount of revenue collected can actually decrease due to fewer customers.• Would likely require a fee study, which comes with costs



19. Operations Fee Increase

19. OPERATIONS FEE INCREASE	
Description	Fees added to the bills of utility customers
Legal Authority	Authority clearly established. State constitutional home rule powers & Salem City Charter grants City Council broad authority over matters within the City's boundaries. <ul style="list-style-type: none">● Council may adopt fee by ordinance.● Or fee could be placed on ballot by Council or petition.
Legal Restrictions	None. Revenue could be unrestricted and available to the General Fund.
Peer Usage	Salem already has an operations fee in place Gresham, Corvallis, Hillsboro, Oregon City, Medford, Tigard, Tualatin
Administrative Effort	Low-to medium if a flat rate Higher effort if different levels of fees are assessed on different customers
Timeline	Will vary with fee complexity
Who Pays	Utility account holders
Equity Implications	Technically regressive since fee is the same regardless of property value or income.
Environmental Sustainability Implications	N/A
Local Economic Implications	N/A
Revenue Potential	High. Yield will vary with fee level. Estimate of \$454,000-\$9M based on increase of fee between \$0.50-\$10. See Revenue Deep Dive section for more details.
Overall Viability	More viable.



20. Parking Tax Increase

20. PARKING TAX INCREASE	
Description	The City of Salem has had a Downtown Parking District since 1976 to provide funding for economic promotion and public parking within Salem's downtown core. The District is supported by tax assessments on all for-profit businesses of a proportionate share of the costs of the District, calculated on type of business, square footage and associated customer parking demand. Annual assessments are reported by category and currently range from \$460 for small businesses to \$145,000 for the retail category consisting of 87 businesses. Current revenues are collected in the Downtown Parking Fund and support the downtown through free parking, cleanliness and beautification efforts, and parking garage maintenance.
Legal Authority	Clear and unambiguous, already in place
Legal Restrictions	None
Peer Usage	At least 49 cities in the U.S. impose parking taxes, varying from 6-40%.
Administrative Effort	Low. Structure is already in place.
Timeline	Less than a year
Who Pays	All for-profit businesses in the parking district
Equity Implications	<ul style="list-style-type: none">• Tax is structured to charge more to businesses who use more parking services.• These costs may be passed along to customers, which has a disproportionate effect on those with lower socioeconomic status, since they use a higher portion of their income for goods and services.
Environmental Sustainability Implications	Could encourage the use of alternatives to cars, which has beneficial effects on emissions.
Local Economic Implications	Additional parking taxes could have negative effects on the perceived business climate of the City.
Revenue Potential	Currently Unknown
Overall Viability	More viable. <ul style="list-style-type: none">• Probably best used for parking-related City services within the district.



39. Transient Occupancy Tax Increase

39. TRANSIENT OCCUPANCY TAX INCREASE	
Description	A transient occupancy tax (TOT, also known as a transient lodging tax or TLT) is levied as a rate applied to the cost of rentals of temporary lodging. The tax is collected from hospitality providers (hotels, motels, lodges, bed & breakfasts) and RV parks and campgrounds, including private, city, county, and state. Federal parks are exempt.
Legal Authority	<ul style="list-style-type: none">• Clear and unambiguous• City already has a TOT, which is 9% of total gross rents (includes cleaning fees, pet fees, etc.)• Would require a charter change
Legal Restrictions	State law and the City Charter the revenue from the City's tax must continue to go to the Cultural and Tourism fund.
Peer Usage	Very common. City already has a TOT.
Administrative Effort	Low
Timeline	Less than 1 year
Who Pays	Primarily non-residents
Equity Implications	An increase in room rates would disproportionately affect those without stable housing or in transition.
Environmental Sustainability Implications	N/A
Local Economic Implications	<ul style="list-style-type: none">• Depending on the size of any rate increase, this could make Salem lodging less competitive and cause some visitors to obtain lodging outside the City.• A large enough increase in TOT could leave revenue unchanged or could reduce revenue
Revenue Potential	Estimate of \$520k (1% increase in tax rate) to \$5.6M (11% increase in tax rate). See Revenue Deep Dive section for more details.
Overall Viability	More viable.



40. Urban Renewal – Increase Frozen Base

40. URBAN RENEWAL - INCREASE FROZEN BASE	
Description	<p>The City's Urban Renewal Agency could permanently increase the frozen base, which would result in less tax increment dollars for the Agency but more City General Fund dollars.</p> <p>Each Urban Renewal Area has a 'frozen base', which is the assessed value in the Area at its creation. The tax revenue from the frozen base is distributed to all the overlapping taxing districts according to their rates. Property taxes based on the assessed value in excess of the frozen base are directed to the Area. An Urban Renewal Agency can choose to 'raise' its Frozen Base if the tax increment is not needed to pay indebtedness, thereby increasing the revenue to the overlapping districts and diminishing the annual revenue directed to the Urban Renewal Area.</p>
Legal Authority	ORS 457 enables Tax Increment Financing, the mechanism behind Urban Renewal.
Legal Restrictions	Both temporary and permanent frozen base increases are authorized under ORS 457.455.
Peer Usage	Eugene is planning to increase their Urban Renewal frozen base.
Administrative Effort	This would be implemented through the budget process and submittal of the Form UR-50 to the Tax Assessor.
Timeline	6 months to a year
Who Pays	The Urban Renewal Agency receives less revenue each year. Property taxes for individual property owners do not change.
Equity Implications	Increasing the frozen base may limit the ability of the urban renewal district to have a meaningful impact on the redevelopment of land and improvements to the public realm within the district.
Environmental Sustainability Implications	N/A
Local Economic Implications	Less revenue to urban renewal agency and district
Revenue Potential	Currently Unknown
Overall Viability	More viable.



MEDIUM-TERM REVENUE OPTIONS

Revenue options that are within City control and that could potentially generate revenue for the City within 2-5 years of initiation.

16. Local Option Property Tax Levy

16. LOCAL OPTION PROPERTY TAX LEVY	
Description	A local option levy is a temporary property tax that is paid by all owners of taxable property within the city limits. The City could impose a local option levy for general fund services for a maximum of five years or for capital projects for up to 10 years.
Legal Authority	Clear and unambiguous
Legal Restrictions	New or additional property taxes must be approved by a majority of the people voting in a May or November election.
Peer Usage	Very common throughout the state
Administrative Effort	Low. Property taxes are administered by counties
Timeline	To be placed on the ballot for the November 2024 election, the deadline would be in July 2024, and revenue could be collected starting FY26 (July 2025).
Who Pays	<ul style="list-style-type: none"> • The tax is paid by all owners of taxable property within city limits. Property owners include business and residences. • Businesses may pass the costs of the tax onto their customers.
Equity Implications	<p>The property tax is a proportional tax on the assessed value of real and personal property for businesses and residences.</p> <p>An additional property tax levy could marginally affect how affordable housing is in West Salem.</p>
Environmental Sustainability Implications	N/A
Local Economic Implications	Would slightly increase ongoing cost of property ownership in Salem. Property taxes are already compressed for approximately 3,500 properties in the Salem portion of Marion County. A local option levy would cause additional properties to be in compression, increasing the number of tax payers not paying the full tax rate.
Revenue Potential	<ul style="list-style-type: none"> • Variable, depends on tax level chosen • Local option levies are subject to the \$10 per \$1,000 of real market value tax rate cap for all general governments under Measure 5. Local option levies are the first to be reduced in the event of tax rate compression. This means that if the combined total levies for the overlapping general governments exceed the Measure 5 cap, any local option levies would be proportionally reduced until the tax rate limit is satisfied. • Estimate of \$1M-\$55M. See Revenue Deep Dive section for more details.
Overall Viability	<ul style="list-style-type: none"> • More viable. • Local option levies are familiar and understandable to the public, which helps with political feasibility versus a new type of revenue source.



16. LOCAL OPTION PROPERTY TAX LEVY

- The potential impact of tax compression should be examined in further depth when modeling the actual revenue derived from a proposed tax amount
- Local option levies grow at a similar rate as current Salem property taxes, meaning revenue would not keep pace with the services the levy supports. Additional increases would be needed to cover ongoing structural imbalances.



25. Personal Income Tax

25. PERSONAL INCOME TAX	
Description	A tax on income of residents of Salem; may also be assessed on employees working within city limits.
Legal Authority	<p>State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City's boundaries.</p> <ul style="list-style-type: none"> ● Council may adopt tax by ordinance. ● Or tax could be placed on ballot by Council or petition.
Legal Restrictions	None currently known
Peer Usage	<p>Portland, Multnomah County, Lane County Transit District</p> <p>Eugene has had several income tax proposals fail the public vote</p> <p>About a third of all states allow their counties, municipalities, and other local jurisdictions to impose an income tax. However, not all states have a local tax in every jurisdiction. Only five cities in Colorado impose the tax, for example, while Iowa has hundreds of school districts that levy income taxes.</p>
Administrative Effort	<ul style="list-style-type: none"> ● High, annual tax returns would be required ● Salem could potentially contract collection out to the Oregon Dept. of Revenue or City of Portland Revenue Bureau, reducing administrative burden. ● Such a tax would likely face significant political opposition making implementation difficult, lengthy, and increasing costs.
Timeline	Two years or longer
Who Pays	Residents and any non-residents who work in city limits
Equity Implications	Income taxes can be structured progressively since you pay more if you earn more. The impact on low-income households would depend on the structure of the tax and what exemptions are included.
Environmental Sustainability Implications	None
Local Economic Implications	Impact on the City's perceived business climate is uncertain. A higher local income tax rate could discourage in-migration and encourage workers to relocate, reducing economic activity and negatively impacting businesses in City limits.
Revenue Potential	High. Tax revenues would fluctuate with changes in personal income and would likely mirror economic conditions. Estimate of \$113,000-\$92M. See Revenue Deep Dive section for more details.
Overall Viability	More viable.



30. Restaurant Tax

30. RESTAURANT TAX	
Description	Tax on sales of food and non-alcoholic beverages served by restaurants in Salem. The tax is typically applied as a rate and paid by customers on their restaurant bill.
Legal Authority	The City Council may implement a restaurant tax by ordinance without state enabling legislation. Alternatively, the fee may be placed on a ballot by the Council, by citizen initiative or by referendum petition. Revenue would be available to the General Fund.
Legal Restrictions	While ORS 317A.158 restricts commercial activity taxes based on the receipts from grocery sales, the definitions for ORS 317A.100 expressly exclude from preemption "(U) Local taxes collected by a restaurant or other food establishment on sales of meals, prepared food or beverages." More legal analysis might be needed to understand how this statute would affect any restaurant tax.
Peer Usage	Ashland, Yachats, and Cannon Beach. In 2021, Newport voters rejected such a tax.
Administrative Effort	If patterned after Ashland's process, businesses would remit the tax. After the initial registration of all eligible businesses, dedicated staff time would be required to post payments, work with business owners and enforce the tax uniformly. A portion of the proceeds may be retained by the restaurants to help defray costs.
Timeline	Two years or longer
Who Pays	<ul style="list-style-type: none">• Restaurant patrons; residents and non-residents.• Determining how much of this amount would be paid by out-of-town visitors vs. City residents would require additional research.
Equity Implications	There is disagreement over whether a restaurant tax is equitable. Some argue that low-income households spend a larger portion of their income on prepared food. However, multiple studies have shown that higher-income households spend a greater portion of their food budgets on prepared food. ²
Local Economic Implications	Even if consumer behavior does not change in response to higher restaurant meal costs, it could have an effect on the City's perceived business climate.
Revenue Potential	Revenue would fluctuate with changes in personal income and the economic environment. Estimate of \$0 and \$12.75 million. See Revenue Deep Dive section for more details.
Overall Viability	More viable.

² [USDA: Higher Incomes and Greater Time constraints Lead to Purchasing More Convenience Foods](#)



41. Vacancy Tax (Empty Dwelling Fee)

41. VACANCY TAX (EMPTY DWELLING FEE)	
Description	A vacancy tax is a tax levied on property owners who have vacant properties. The purpose of a vacancy tax is to disincentivize keeping properties empty, thus increasing the housing supply for renters. Alternatively, an Empty Dwelling Fee or Fine could be charged on properties or parcels that remain unused for an extended period.
Legal Authority	Currently unknown
Legal Restrictions	A Vacancy Tax by means of property taxes is restricted by Article 1 section 32: Section 32. Taxes and duties; uniformity of taxation. No tax or duty shall be imposed without the consent of the people or their representatives in the Legislative Assembly; and all taxation shall be uniform on the same class of subjects within the territorial limits of the authority levying the tax.
Peer Usage	No city in Oregon currently has a vacancy tax, though the City of Portland's Housing Advisory Committee (PHAC) recently evaluated an Empty Dwelling Fee. Cities with such taxes/fees include Oakland, Washington DC, and San Francisco (commercial properties)
Administrative Effort	High
Timeline	2-5 years
Who Pays	Property owners who have properties that are vacant for more than an allowable time period
Equity Implications	Designed to lower housing costs, creating a disproportionate benefit to low-income households. The intent of this fee would be to provide a disincentive for property owners to leave habitable properties vacant, thereby increasing the supply of housing in the city and reducing market-rate rents.
Environmental Sustainability Implications	N/A
Local Economic Implications	<ul style="list-style-type: none">● It could have a marginally counter-productive impacts on property development if lot owners decide not to develop homes to avoid the tax.● Could have a negative impact on the City's perceived business climate.● On the other hand, however the fee could also encourage development of vacant properties, bring more residents into City limits and improving local economic activity, leading to a healthier overall business climate.
Revenue Potential	Currently unknown
Overall Viability	Less viable.



LONG-TERM REVENUE OPTIONS

(PREVIOUSLY REFERENCED AS LEGISLATIVE AGENDA OR POLICY MEMO OPTIONS)

Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.

15. Local Marijuana Tax Increase

15. LOCAL MARIJUANA TAX INCREASE	
Description	A tax on recreational marijuana items sold to consumers within city limits.
Legal Authority	In 2023, the state legislature considered legislation that would allow cities to increase the local retail sales tax to 10%, but also required sharing 20% of that increased tax revenue with counties. Similar legislative concepts were considered in 2021. This discussion is likely to come up again, although the legislature appears to be taking an “either/or” approach to reducing the financial hit that Measure 110 had on cities beginning in 2021 – either allow cities to increase the retail sales tax or change how the state shared marijuana revenue is calculated to increase city shares. In time, the legislature may pass both types of bills, but a timeline for accomplishing this is unknown.
Legal Restrictions	Once it is legal to do so, City Council would be required to pass an ordinance to increase the local tax. The tax would then need to be placed on the ballot and approved by electors in order to become effective.
Peer Usage	The City currently imposes a 3% local marijuana tax. The State of Oregon also levies a retail marijuana sales tax of 17%, making the current total tax rate 20% within Salem.
Administrative Effort	Administering an increased tax would be straightforward: the City currently contracts with the Department of Revenue (DOR) to administer and collect the local marijuana tax. Revenues are sent quarterly to the City.
Timeline	Unknown (likely 5+ years). Would depend upon actions by the state.
Who Pays	<ul style="list-style-type: none"> • The tax is paid by all consumers of marijuana products purchased at dispensaries located in Salem. • Both residents and non-residents.
Equity Implications	<ul style="list-style-type: none"> • Recreational marijuana is purchased with discretionary income and consumers are paying the tax proportional to their purchasing power. • However, any raise in the price of goods is technically regressive, as lower-income households spend a larger portion of their incomes.
Environmental Implications	None
Local Economic Implications	There is a possibility that consumers may take their business outside of City limits if Salem is the only nearby jurisdiction that opts to increase the tax.
Revenue Potential	Variable, depending on changes to state law



15. LOCAL MARIJUANA TAX INCREASE

Overall Viability

Viability requires a change in state law. If the state approves this change, it could be a piece of the funding solution in the medium-to-long terms. However, declines in marijuana purchases could threaten these funds.



21. Payment in Lieu of Taxes (From the State Government)

21. PAYMENT IN LIEU OF TAXES (FROM THE STATE GOVERNMENT)	
Description	<p>A payment in lieu of tax (“PILOT”) is a payment made by a tax-exempt entity, like a government or non-profit organization, to a municipality to compensate for some of the cost of providing municipal services to that entity. The City already receives an annual PILOT from the Salem Housing Authority and West Valley Housing Authority.</p> <p>The most significant entity in Salem would be the Oregon State Government.</p>
Legal Authority	<p>The Council has broad authority to negotiate a PILOT agreement with the State. Would require legislative agreement.</p>
Legal Restrictions	<p>Needs agreement by the state legislature.</p>
Peer Usage	<p>According to a study by the Lincoln Institute of Land Policy in 2012, PILOTs worth more than \$92 million per year have been received by at least 218 localities in at least 28 states over the prior 12 years. That report found that many of these agreements were in the Northeast region of the US, and most of the payments come from higher education institutions, followed by hospitals.</p>
Administrative Effort	<p>Depends on the actions of the state legislature</p>
Timeline	<p>Unknown (likely 5+ years). House Bill 4072, establishing such taxes, has been showing signs of progress.</p>
Who Pays	<p>The State of Oregon</p>
Equity Implications	<p>N/A</p>
Environmental Sustainability Implications	<p>N/A</p>
Local Economic Implications	<p>N/A</p>
Revenue Potential	<p>Unknown. Would be a voluntary agreement with the state, so there is a wide range of possibilities. Recent conversations on House Bill 4072 indicate a payment between \$5 to \$6 million annually, but that is not guaranteed.</p>
Overall Viability	<p>Viability requires a change in state law, however, there are promising signs of state action. City has no control over the receipt or timing of funds.</p>



42. Payment in Lieu of Taxes from County and Federal Buildings

42. PAYMENT IN LIEU OF TAXES (NON-STATE GOVERNMENT ENTITIES)	
Description	A payment in lieu of tax (“PILOT”) is a payment made by a tax-exempt entity, like a government or non-profit organization, to a municipality to compensate for some of the cost of providing municipal services to that entity. The City already receives an annual PILOT from the Salem Housing Authority and West Valley Housing Authority. This option would focus on generating PILOT from County and Federal Buildings.
Legal Authority	City Council has authority to negotiate with other governmental entities.
Legal Restrictions	Needs agreement by the County and/or Federal government.
Peer Usage	According to a study by the Lincoln Institute of Land Policy in 2012, PILOTs worth more than \$92 million per year have been received by at least 218 localities in at least 28 states over the prior 12 years. That report found that many of these agreements were in the Northeast region of the US, and most of the payments come from higher education institutions, followed by hospitals.
Administrative Effort	Depends on the actions of the County and/or Federal government
Timeline	Unknown (likely 5+ years)
Who Pays	<ul style="list-style-type: none"> ● The County ● The Federal Government
Equity Implications	<ul style="list-style-type: none"> ● N/A
Environmental Sustainability Implications	N/A
Local Economic Implications	N/A
Revenue Potential	Unknown. Would be a voluntary agreement with the other government, so there is a wide range of possibilities.
Overall Viability	Viability requires the other government to enact a change in policy. City has no control over the receipt or timing of funds.



35. Special District(s) Formation

35. SPECIAL DISTRICT(S) FORMATION	
Description	Special districts are governmental entities that provide a single service or a group of services within a delineated local service area. Oregon state law authorizes formation of many different special districts for particular purposes. Each special district has services, formation requirements, governance structure, revenue authority, and other powers and limitations described in the Oregon statutes, usually in a “principal Act” for each type of district.
Legal Authority	<ul style="list-style-type: none">• The formation process for most types of special districts is covered in ORS Chapter 198 – “Special Districts Generally” and ORS Chapter 255 – “Special District Elections”. Some types have additional formation requirements that are found in the district’s principal Act.• Applicable law also addresses annexation to an existing special district. Formation of or annexation to a special district requires voter approval.
Legal Restrictions	See above
Peer Usage	Special districts have a long history and are found throughout Oregon. Most districts provide services in rural or unincorporated urban areas but, as long as there is no duplication of services, special districts may also provide services within city boundaries.
Administrative Effort	Very High
Timeline	3-5 years or longer. Very political process.
Who Pays	Owners of taxable property would be liable for district property taxes as well as city property taxes. A district may also be able to charge fees or assessments for services provided.
Equity Implications	The additional property taxes levied by a district in Polk County would increase the overall tax load within the city and could be a burden to households with limited income, though this is true of nearly any tax. This would not occur in Marion County because the County is already at levels where taxes are compressed.
Environmental Sustainability Implications	<ul style="list-style-type: none">• Likely none• Depends on special district(s) specifics
Local Economic Implications	Increased property taxes in Polk County could affect housing prices
Revenue Potential	Special districts are a viable funding option for ongoing service costs because they can be used to fund certain City services, and the City would not be legally required to levy less than the current General Fund permanent rate. However, voters very likely would expect the City to levy less property taxes if spinning out a special district. The potential impact of property tax compression should be particularly examined and understood.
Overall Viability	Less viable



43. Intergovernmental Agreements & Entities

43. INTERGOVERNMENTAL AGREEMENTS & ENTITIES	
Description	<p>An Intergovernmental Agreement (IGA) is a formal arrangement between two or more governments to collaborate on mutual interests or resolve specific issues. To generate revenue, the City could explore establishing agreements with other government agencies to provide services on their behalf for a fee.</p> <p>An Intergovernmental Entity (IGE) is an organization created by multiple governments to collaborate on shared objectives. To generate revenue, the City could explore creating an intergovernmental entity to pool resources and provide services in a way that could reduce costs. An intergovernmental agreement (IGA) would be required to establish an IGE.</p> <p>IGAs/IGEs are service-specific. To explore the financial impacts to the City requires a selection of service(s).</p>
Legal Authority	Yes
Legal Restrictions	Allowed under the provisions of ORS 190.010(5)
Peer Usage	IGAs are common among local governments in Oregon. Many local governments in Oregon have created IGEs for public safety, utilities, economic development, and other services.
Administrative Effort	High. Depends on the specifics of the agreement/entity.
Timeline	Unknown (likely 5+ years)
Who Pays	Depends on the specifics of the agreement, typically a combination of user fees and subsidies from participating governments.
Equity Implications	Depends on the specifics of the agreement/entity.
Environmental Sustainability Implications	Depends on the specifics of the agreement/entity.
Local Economic Implications	Depends on the specifics of the agreement/entity.
Revenue Potential	Depends on the specifics of the agreement/entity. This option would be service-dependent and could fund service-specific costs.
Overall Viability	Depends on the specifics of the agreement/entity. Viability requires the other government(s) to enact a change in policy, which the City does not have control over.



44. Tax Reform/Restructuring

44. TAX REFORM/RESTRUCTURING	
Description	<p>The process of revising tax policies and regulations to improve tax system efficiency, effectiveness, equity, and/or revenue generation.</p> <p>As proposed by the Revenue Task Force, this option would focus on implementing an income-tax and revising or eliminating other current taxes or fees (like the Operating Fee) with the goal of creating a more progressive tax structure.</p>
Legal Authority	<p>State constitutional home rule powers and Salem City Charter grants City Council broad authority over matters within the City's boundaries.</p> <ul style="list-style-type: none">● Council may adopt tax by ordinance.● Or tax could be placed on ballot by Council or petition. <p>Depending on the structure recommended, this option would likely require multiple ordinances, public votes, and administrative actions to implement.</p>
Legal Restrictions	None currently known.
Peer Usage	While some local income taxes are in place in Oregon, the proposed model is unique.
Administrative Effort	Very High.
Timeline	Unknown (likely 5+ years)
Who Pays	Unknown, depends on the specifics of the restructuring. May impact residents, Salem-based employees, and/or businesses.
Equity Implications	Tax restructuring could be established to increase the equity of Salem's tax structure.
Environmental Sustainability Implications	Unknown. Depends on the specifics of the restructuring.
Local Economic Implications	Unknown. Depends on the specifics of the restructuring.
Revenue Potential	High.
Overall Viability	Unknown. Depends on the specifics of the restructuring and may be dependent on the passage of multiple ballot measures.



REVENUE DEEP DIVES

To support the Revenue Task Force’s discussions, we have collected basic revenue modeling information for some of the highest interest options. While we do not currently have revenue estimates for all high-interest options (especially since many options would require additional specification before revenue estimates could be calculated), we hope that the data in this section will provide useful context.

4. Business License Fee

Revenue Modeling

There are two primary ways that business license fees could be structured:

1. Flat amount(s) paid by businesses
2. Amounts proportional to businesses’ incomes

Business license fees proportional to income are identical in potential revenue to a corporate income tax. To understand the potential revenues for proportional fees, see **Corporate Income Tax**.

To estimate businesses paying flat fees, we created a simple model, displayed below. Like other potential revenue options (e.g., Personal Income Tax). One potential issue is that flat fees are *very* customizable. So, if the Revenue Task Force pursues this option, the eventual fees at the end of the process could look different from the simple model below.

FEE ASSESSED TO EACH BUSINESS	PROJECTED REVENUE FROM FEES
\$50	\$8,000
\$100	\$216,000
\$150	\$424,000
\$200	\$632,000
\$250	\$840,000
\$300	\$1,048,000
\$350	\$1,256,000
\$400	\$1,464,000
\$500	\$1,880,000
\$600	\$2,296,000
\$700	\$2,712,000
\$800	\$3,128,000
\$900	\$3,544,000
\$1,000	\$3,960,000

Assumptions

- Approximately 5,200 businesses in Salem report wages.
- Fees are uniformly assessed to every business annually
- Assumes \$200,000 in collection and administrative costs
- 20% of projected revenues are unable to be collected

10. Franchise Fee Increase

Revenue Modeling

The City already collects Franchise Fees on Refuse and Water/Sewer. Because of this, the City already has an established budget amount for expected Franchise Fees for FY25. Using this data, we can project the potential revenues to be gained from increases to the franchise fee rates.

RATE INCREASE	REFUSE	WATER/SEWER	TOTAL
+0.50%	\$224,464	\$460,707	\$685,171
+1.00%	\$448,927	\$921,414	\$1,370,341



RATE INCREASE	REFUSE	WATER/SEWER	TOTAL
+1.50%	\$673,391	\$1,382,121	\$2,055,512
+2.00%	\$897,854	\$1,842,828	\$2,740,682
+2.50%	\$1,122,318	\$2,303,535	\$3,425,853
+3.00%	\$1,346,781	\$2,764,242	\$4,111,023
+3.50%	\$1,571,245	\$3,224,949	\$4,796,194
+4.00%	\$1,795,709	\$3,685,656	\$5,481,365
+4.50%	\$2,020,172	\$4,146,363	\$6,166,535
+5.00%	\$2,244,636	\$4,607,070	\$6,851,706

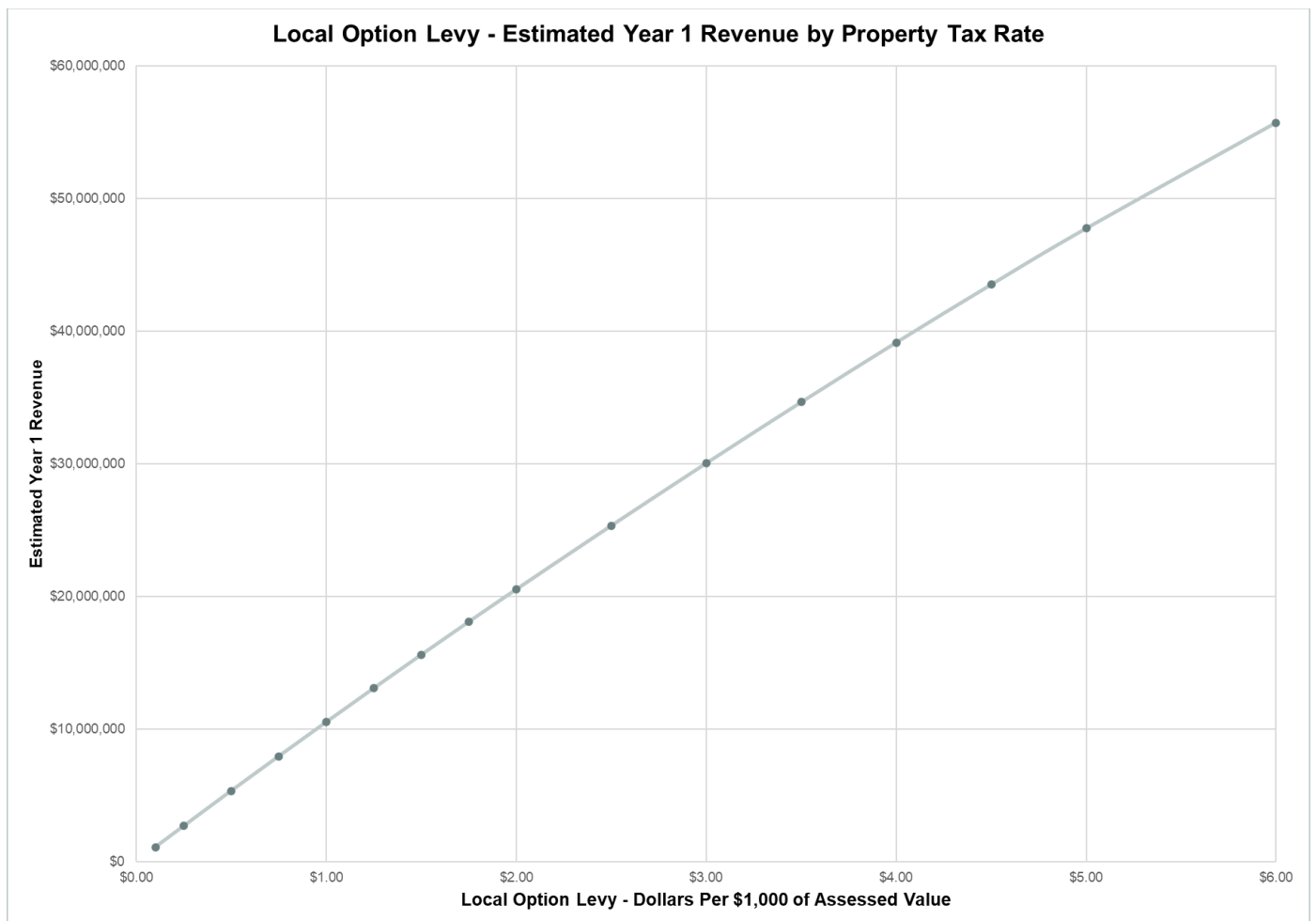
16. Local Option Property Tax Levy

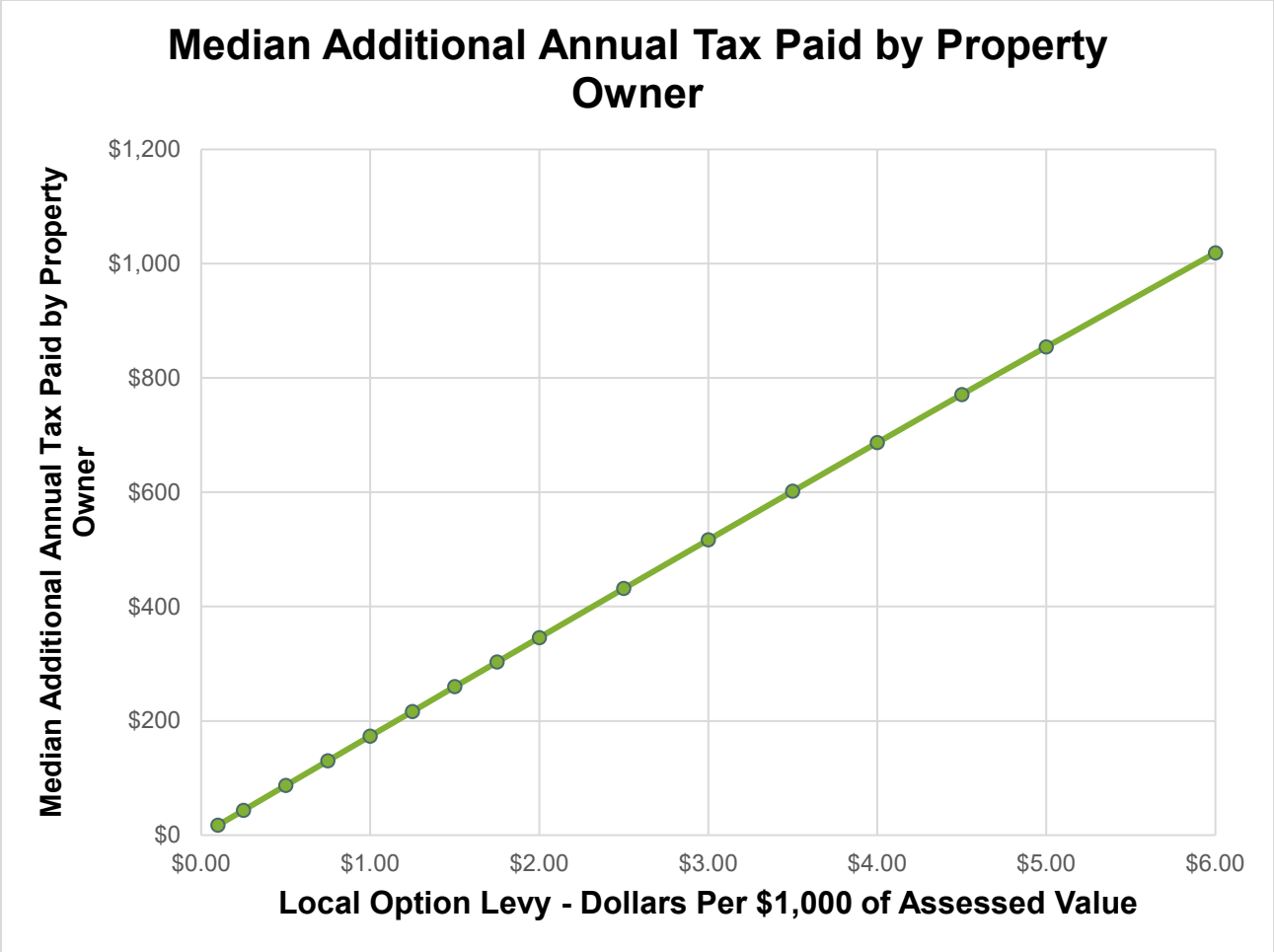
Revenue Modeling

Rate Dollars Per \$1,000 of Assessed Value (%)	Percent Tax	Estimated Year 1 Total Revenue	Median Additional Annual Tax Paid by Property Owner
\$0.10	0.010%	\$1,076,798	\$17
\$0.25	0.025%	\$2,680,444	\$43
\$0.50	0.050%	\$5,327,944	\$87
\$0.75	0.075%	\$7,935,455	\$130
\$1.00	0.10%	\$10,512,867	\$173
\$1.25	0.13%	\$13,062,830	\$216
\$1.50	0.15%	\$15,585,855	\$260
\$1.75	0.18%	\$18,070,913	\$303
\$2.00	0.20%	\$20,513,754	\$346
\$2.50	0.25%	\$25,316,089	\$431
\$3.00	0.30%	\$30,028,197	\$517



Rate Dollars Per \$1,000 of Assessed Value (%)	Percent Tax	Estimated Year 1 Total Revenue	Median Additional Annual Tax Paid by Property Owner
\$3.50	0.35%	\$34,635,278	\$602
\$4.00	0.40%	\$39,134,159	\$687
\$4.50	0.45%	\$43,505,807	\$771
\$5.00	0.50%	\$47,738,547	\$854
\$6.00	0.60%	\$55,719,814	\$1,019





19. Operations Fee Increase

Revenue Modeling

Since the City already has an operations fee, modeling is simple. The City has extensive data on its utility fee billing and can model how an increase in the operations fee would increase revenues.

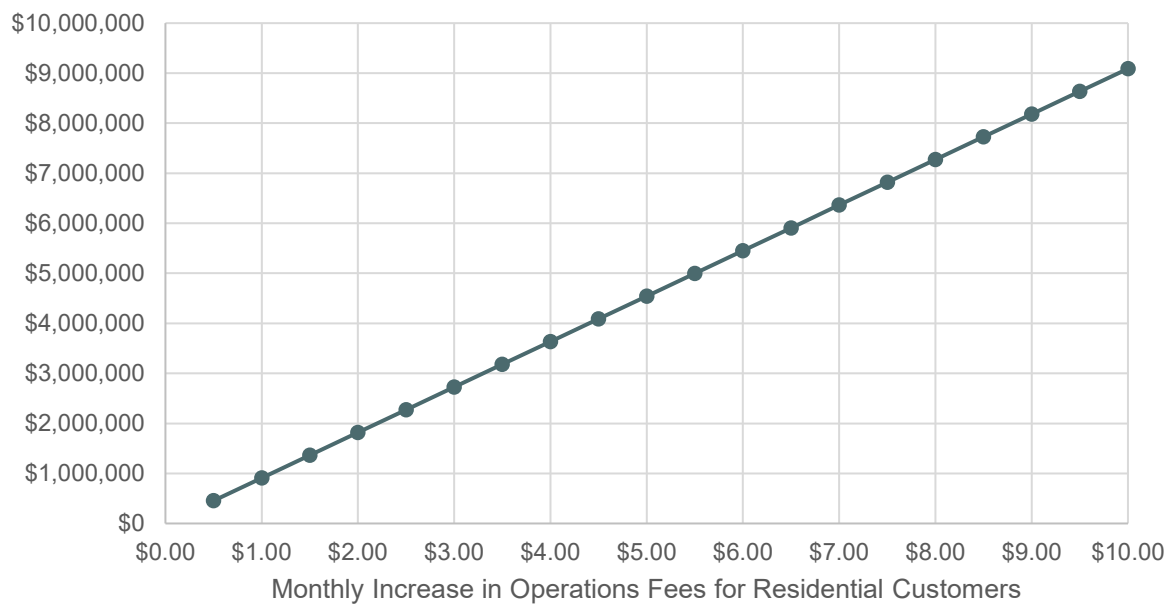
Importantly, different classes of customers are charged different rates, represented in the following ratios.

Customer Class	Rate Ratio in relation to Residential Accounts	How much a \$1 Increase in Residential Monthly Operations Fees would Increase The Fees for This Customer Class	Total Units Regularly Billed
Residential	N/A	\$1	39,998
Stormwater / Streetlight Only	1:1	\$1	378
Multifamily	0.8:1	\$0.80	25,897



Customer Class	Rate Ratio in relation to Residential Accounts	How much a \$1 Increase in Residential Monthly Operations Fees would Increase The Fees for This Customer Class	Total Units Regularly Billed
Commercial	4.82:1	\$4.82	2,876
Public	4.82:1	\$4.82	118
Industrial	4.82:1	\$4.82	30
Institutional	4.82:1	\$4.82	15

Revenue from Operations Fee Increase



It is important to note that revenue could increase even more than by what is represented here in this model. **There is nothing requiring the monthly increase to only be \$10. It could be even more, further increasing revenue.**

MONTHLY INCREASE IN OPERATIONS FEE FOR RESIDENTIAL CUSTOMERS	REVENUE
\$0.50	\$454,449
\$1.00	\$908,899
\$1.50	\$1,363,348



MONTHLY INCREASE IN OPERATIONS FEE FOR RESIDENTIAL CUSTOMERS	REVENUE
\$2.00	\$1,817,798
\$2.50	\$2,272,247
\$3.00	\$2,726,697
\$3.50	\$3,181,146
\$4.00	\$3,635,596
\$4.50	\$4,090,045
\$5.00	\$4,544,495
\$5.50	\$4,998,944
\$6.00	\$5,453,394
\$6.50	\$5,907,843
\$7.00	\$6,362,293
\$7.50	\$6,816,742
\$8.00	\$7,271,192
\$8.50	\$7,725,641
\$9.00	\$8,180,091
\$9.50	\$8,634,540
\$10.00	\$9,088,990

25. Personal Income Tax

Revenue Modeling

The U.S. Census Bureau’s American Community Survey creates estimates for household income thresholds for nearly all jurisdictions across the country every few years. Using this income distribution information, we have created a model of what an income tax may look like in Salem. The latest publicly available data (2022) reports the following income distribution for Salem households:

Income Group	Number of Households Estimate	Percent of Total Households
Total	68,667	100%
Less than \$10,000	4.9%	4.90%
\$10,000 to \$14,999	3.0%	3.00%
\$15,000 to \$24,999	7.6%	7.60%
\$25,000 to \$34,999	9.1%	9.10%
\$35,000 to \$49,999	11.1%	11.10%



Income Group	Number of Households Estimate	Percent of Total Households
\$50,000 to \$74,999	17.3%	17.30%
\$75,000 to \$99,999	13.4%	13.40%
\$100,000 to \$149,999	19.3%	19.30%
\$150,000 to \$199,999	7.8%	7.80%
\$200,000 or more	6.6%	6.60%
Median income (dollars)	\$70,220	N/A
Mean income (dollars)	\$90,806	N/A

The tricky thing when modeling income taxes is that **they are very customizable**. Think about filing your taxes this year, how many deductions you qualified for, and how your marginal tax rate changed on each additional dollar you earned.

The Multnomah County-Based Model

This first iteration of the Salem income tax model is based on the structure of Multnomah County's personal income tax, in that:

- It defines a threshold over which income is subject to the tax
- This rate is constant for all earnings over this threshold

To provide a more conservative estimate, this model also assumes that 20% of projected revenues are unable to be collected.

Tax Model Limitations

All revenue models are, by definition, simplified ways of understanding complex phenomena. By necessity, a model requires the use the best data that is available to us, even if it is limited. The best public data on income distributions in Salem comes from the American Community Survey. However, this does mean that the model has important limitations that should be considered:

- This model assumes that all households within most of the income brackets represented above earn at the midpoint of each of these brackets. Because it has no upper end, however, households earning \$200,000 or more are assumed to earn exactly \$200,000. We do not have more specific information on household income distribution in Salem.
- The "households" that the census bureau reports in this data may be different from the households that would be subject to the tax. This would depend on legal and implementation considerations. Households may also choose to move to avoid the tax.
- Importantly, current revenue projections do not include any offsetting costs to collect the tax. These costs are still unknown.

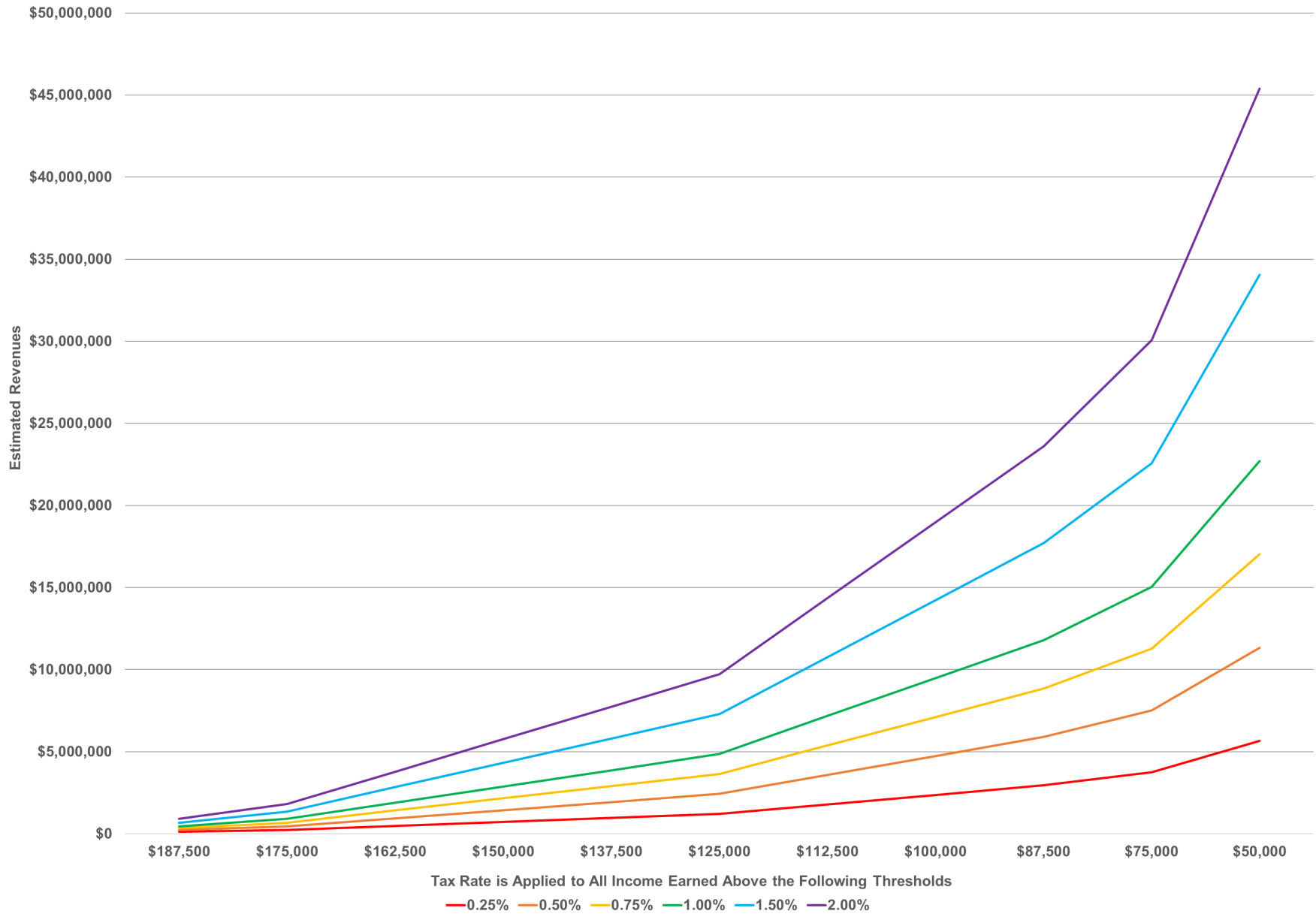


Taxes all Household Income Above:	Tax Rate:							
	0.25%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.00%
\$0	\$11,412,455	\$22,824,911	\$34,237,366	\$45,649,822	\$57,062,277	\$68,474,732	\$79,887,188	\$91,299,643
\$25,000	\$8,213,947	\$16,427,893	\$24,641,840	\$32,855,786	\$41,069,733	\$49,283,679	\$57,497,626	\$65,711,572
\$50,000	\$5,673,611	\$11,347,222	\$17,020,833	\$22,694,444	\$28,368,054	\$34,041,665	\$39,715,276	\$45,388,887
\$75,000	\$3,759,518	\$7,519,037	\$11,278,555	\$15,038,073	\$18,797,591	\$22,557,110	\$26,316,628	\$30,076,146
\$87,500	\$2,950,964	\$5,901,929	\$8,852,893	\$11,803,857	\$14,754,822	\$17,705,786	\$20,656,750	\$23,607,715
\$100,000	\$2,372,445	\$4,744,890	\$7,117,335	\$9,489,779	\$11,862,224	\$14,234,669	\$16,607,114	\$18,979,559
\$112,500	\$1,793,925	\$3,587,851	\$5,381,776	\$7,175,702	\$8,969,627	\$10,763,552	\$12,557,478	\$14,351,403
\$125,000	\$1,215,406	\$2,430,812	\$3,646,218	\$4,861,624	\$6,077,030	\$7,292,435	\$8,507,841	\$9,723,247
\$137,500	\$968,205	\$1,936,409	\$2,904,614	\$3,872,819	\$4,841,024	\$5,809,228	\$6,777,433	\$7,745,638
\$150,000	\$721,004	\$1,442,007	\$2,163,011	\$2,884,014	\$3,605,018	\$4,326,021	\$5,047,025	\$5,768,028
\$162,500	\$473,802	\$947,605	\$1,421,407	\$1,895,209	\$2,369,012	\$2,842,814	\$3,316,616	\$3,790,418
\$175,000	\$226,601	\$453,202	\$679,803	\$906,404	\$1,133,006	\$1,359,607	\$1,586,208	\$1,812,809
\$187,500	\$113,301	\$226,601	\$339,902	\$453,202	\$566,503	\$679,803	\$793,104	\$906,404



Personal Income Tax Model

Based on Household Income, 20% of modeled tax uncollectible





30. Restaurant Tax

Revenue Modeling

Estimating revenue from a restaurant tax relies on a few key data points and assumptions:

DATA POINT / ASSUMPTION	
\$388,449,000	Sales at Salem Food Services & Drinking Places businesses, as estimated by the 2017 Economic Census from the U.S. Census Bureau. ³ This is likely a conservative estimate, as retail sales nationwide have increased 58% since December 2017. ⁴ However, no Salem-specific authoritative data is available after 2017.
\$1,000,000	Annual cost to administer a restaurant tax. This is likely a conservative estimate.
2.3	Price Elasticity for restaurant meals, as estimated by the U.S. Department of Agriculture. ⁵ For every 1% Increase in the price of restaurant meals, we can expect a 2.3% decline in the quantity of restaurant meals purchased

Using these assumptions, we can estimate the expected revenues from a restaurant tax, incorporating the reduced sales of restaurant foods from higher prices. We also incorporate an estimate of the percent of estimated tax receipts that are uncollected. We include this assumption to account for potential inaccuracies in data, potential noncompliance, and/or other unexpected factors.

TAX RATE	PERCENT OF ESTIMATED TAX UNCOLLECTED		
	20%	35%	50%
0.50%	\$535,927	\$247,941	-\$40,045
1%	\$2,036,117	\$1,466,845	\$897,573
1.50%	\$3,500,570	\$2,656,713	\$1,812,856
2%	\$4,929,286	\$3,817,544	\$2,705,803
2.50%	\$6,322,264	\$4,949,339	\$3,576,415
3%	\$7,679,504	\$6,052,097	\$4,424,690
3.50%	\$9,001,008	\$7,125,819	\$5,250,630

³ U.S. Census Bureau, 2017 Economic Census, EC1772BASIC: Accommodation and Food Services: Summary Statistics for the U.S., States, and Selected Geographies

⁴ U.S. Census Bureau, Retail Sales: Food Services and Drinking Places [MRTSSM722USS], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/MRTSSM722USS>, May 8, 2024.

⁵ Anderson, McLellan, Overton, and Wolfram, Price Elasticity of Demand, November 1997.



TAX RATE	PERCENT OF ESTIMATED TAX UNCOLLECTED		
	20%	35%	50%
4%	\$10,286,774	\$8,170,504	\$6,054,234
4.50%	\$11,536,803	\$9,186,152	\$6,835,502
5% (Rate used by other Oregon cities)	\$12,751,095	\$10,172,764	\$7,594,434

39. Transient Occupancy Tax Increase

Revenue Modeling

Using existing data, we were able to estimate the potential revenues that could be collected through an increased Transient Occupancy Tax (TOT). Estimating such tax revenue requires us to answer two questions:

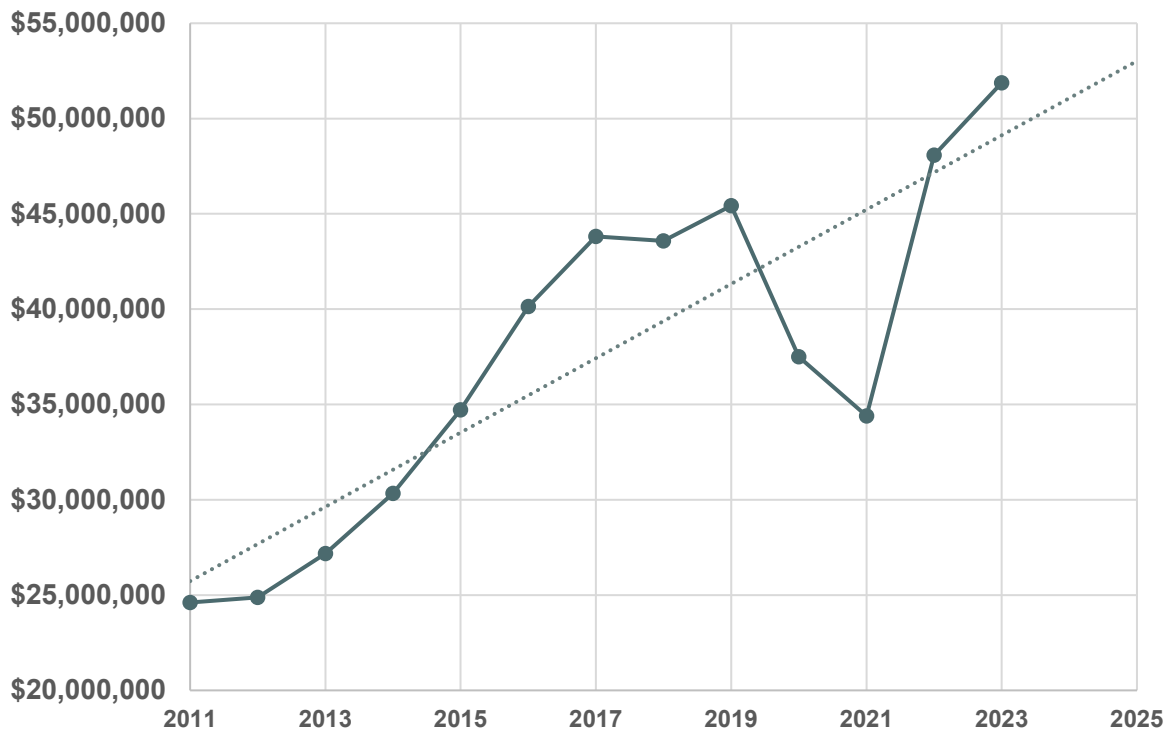
1. How much economic activity and current TOT do we expect to collect in the next fiscal year if the current 9% TOT rate does not change?
2. How much would we expect demand for lodging to decrease if the tax is increased? And given that, how much revenue would we expect to collect at given tax rates?

Step 1: How much Lodging-related Economic Activity do we expect in FY2025?

The City has detailed records of the TOT collected over the past 13 fiscal years at its 9% rate. From this, we can determine the amount of lodging-related economic activity that was taxed at this rate.



Baseline Estimated Lodging Economic Activity



Using this data, we can create a simple linear model to project how much economic activity might be expected in FY25. This linear model creates an estimate of \$53,018,828 for FY25. This is very likely to be a conservative estimate, since this linear model incorporates the COVID- related downturn in lodging demand in FY2020 and FY2021. One estimate created by private industry places the average hotel room in Salem at \$137 per night. This implies a quantity of guest-nights in FY25 of 386,999.

Step 2: How much do we expect demand for lodging to decrease given increased taxes, and how does this affect revenue collection?

The quantity of a good sold has an inherent relationship to the price of that good. In economics, this is represented by a concept called *the elasticity of demand*. A study from the Cornell School of Hotel Administration estimates that the elasticity of demand for all lodging rooms across the USA is -0.19.⁶ This means that for every 1% increase in the price of a room, we would expect 0.19% fewer rooms sold.

$$-0.19 \text{ Demand Elasticity} = \frac{\% \text{ Change in Quantity of Rooms Sold}}{\% \text{ Change in Price of Rooms}}$$

⁶ Corgel, Lane, & Woodworth, *Hotel Industry Demand Curves*, *Journal of Hospitality Financial Management*, 20(1), 2012.



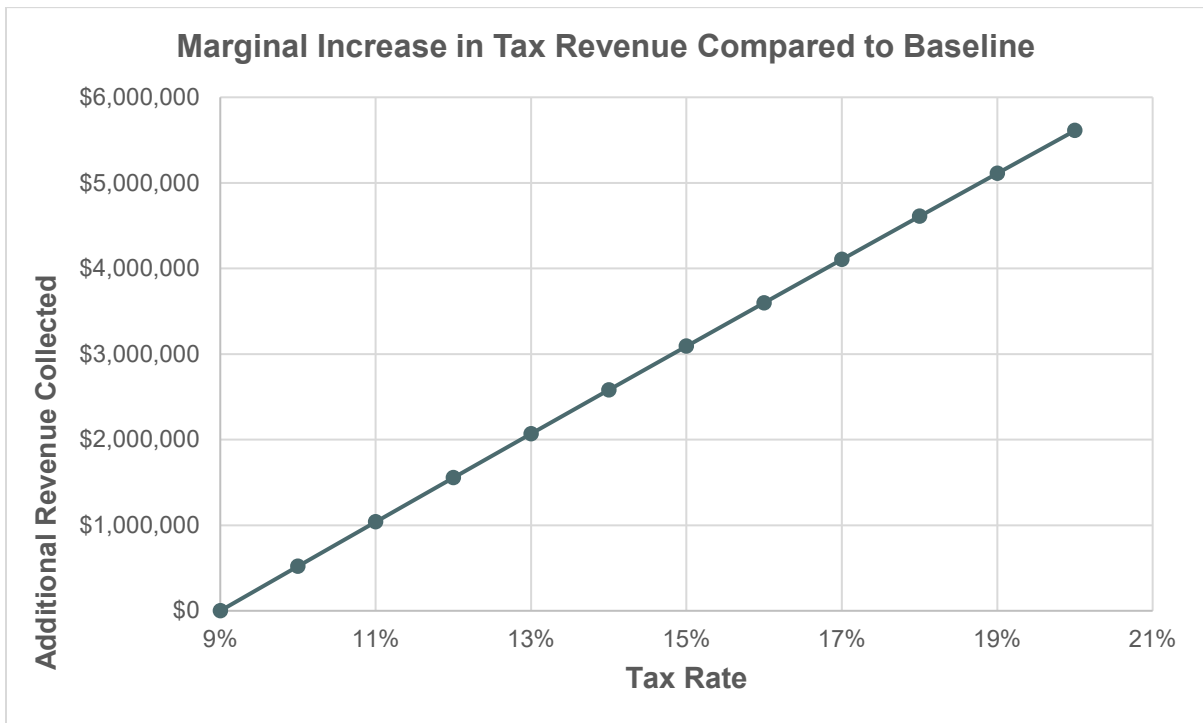
Using this information, we can estimate how a change in the increase of the TOT tax will lower the quantity of rooms sold, and the reduced amount of TOT that would be collected.

TAX RATE:	ESTIMATED REDUCED DEMAND	ESTIMATED LODGING NIGHTS IN SALEM	LODGING-RELATED ECONOMIC ACTIVITY	ESTIMATED TOT TAX REVENUE
9%	0% (Status Quo)	386,999	\$53,018,828	\$4,771,695
10%	-0.19%	386,263	\$52,918,093	\$5,291,809
11%	-0.38%	385,528	\$52,817,357	\$5,809,909
12%	-0.57%	384,793	\$52,716,621	\$6,325,995
13%	-0.76%	384,058	\$52,615,885	\$6,840,065
14%	-0.95%	383,322	\$52,515,149	\$7,352,121
15%	-1.14%	382,587	\$52,414,414	\$7,862,162
16%	-1.33%	381,852	\$52,313,678	\$8,370,188
17%	-1.52%	381,116	\$52,212,942	\$8,876,200
18%	-1.71%	380,381	\$52,112,206	\$9,380,197
19%	-1.90%	379,646	\$52,011,471	\$9,882,179
20%	-2.09%	378,910	\$51,910,735	\$10,382,147

TAX RATE:	ESTIMATED TOT TAX REVENUE	INCREASE IN TAX REVENUE OVER CURRENT 9% RATE
9%	\$4,771,695	\$0
10%	\$5,291,809	\$520,115
11%	\$5,809,909	\$1,038,215
12%	\$6,325,995	\$1,554,300
13%	\$6,840,065	\$2,068,371
14%	\$7,352,121	\$2,580,426
15%	\$7,862,162	\$3,090,468
16%	\$8,370,188	\$3,598,494



TAX RATE:	ESTIMATED TOT TAX REVENUE	INCREASE IN TAX REVENUE OVER CURRENT 9% RATE
17%	\$8,876,200	\$4,104,506
18%	\$9,380,197	\$4,608,503
19%	\$9,882,179	\$5,110,485
20%	\$10,382,147	\$5,610,452



With an average night of lodging in Salem (before taxes) priced at \$137, we can estimate how each of these tax increases would marginally impact an average lodging consumer per night.

TAX RATE:	AVERAGE MARGINAL IMPACT PER NIGHT
9% (Status Quo)	\$0.00 (Status Quo)
10%	\$1.37
11%	\$2.74
12%	\$4.11
13%	\$5.48
14%	\$6.85



TAX RATE:	AVERAGE MARGINAL IMPACT PER NIGHT
15%	\$8.22
16%	\$9.59
17%	\$10.96
18%	\$12.33
19%	\$13.70
20%	\$15.07