

**City of Salem
Revenue Task Force**

Revenue Option Recommendations DRAFT

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PROCESS OVERVIEW

Background

The City of Salem (the City) has relied on cost reductions, deferring on-going needs, reducing services, and foregoing long-term investments to maintain compliance with financial policies and fiscally responsible operations. Even with these actions and the one-time infusion of millions in federal American Rescue Plan Act dollars, the costs to provide ongoing services are greater than the revenues received to support those services, and costs are escalating at a faster rate. The City's five-year revenue forecast reflects a growing gap between revenues and expenses. To sustain the current levels of service, additional revenue is needed or significant reductions in services will be required.

Purpose of the Revenue Task Force

As described in its charter, the purpose of the Revenue Task Force was to explore new, additional revenue sources and adjustments to fees to sustain those services that do not have a dedicated revenue stream. The Revenue Task Force reviewed the City's financial situation and evaluated the appropriateness of all available revenue options to meet the City of Salem's current and long-range needs. In this packet, the Revenue Task Force is recommending new revenue options and/or changes to current revenue sources that should be further explored. The City Council will use this input in their ongoing deliberations about the City's current and future budget.

Timeline

The Revenue Task Force met seven times between January and June 2024. The Revenue Task Force's work was carried out in parallel with the work of the Budget Committee and City Council as they considered amendments to the 2024 adopted budget and formulated the proposed 2025 budget based on revised revenue projections.

Decision-Making Process

The City Council appointed 25 members, plus two alternates and one ex-officio member to the Revenue Task Force through the City's standard boards and commissions appointment process (see [Appendix E](#) for a full list of all members).

The Revenue Task Force members evaluated a wide variety of information including the size of the potential revenue shortfall (see [Appendix B: Revenue Context and Pathways](#)), revenue option details and financial models (see [Appendix C: Revenue Modeling](#)), community survey reports, focus group results, and direct input from community members (see [Appendix D: Community Engagement Summary](#)). To assist in the decision-making process, the Revenue Task Force developed a set of decision-making criteria (see [Appendix A: Revenue Task Force Decision-Making Criteria](#)).

The group strove for consensus on matters and issues considered. In the absence of consensus, a vote was taken, and majority decisions were advanced. The Revenue Task Force's recommendations were approved by the group at the final meeting, prior to submission to the City Council.

RECOMMENDED REVENUE OPTIONS

NOTE FOR REVENUE TASK FORCE MEMBERS: The Overarching Considerations section will be updated based on the discussion at the June 26 meeting. Please review highlighted section.

OVERARCHING CONSIDERATIONS

The challenge of identifying feasible and sustainable revenue options is great. However, the Revenue Task Force believes that the opportunity to fundamentally enhance the City's revenue potential is even greater. It is the hope of the Revenue Task Force that these recommendations will enhance the ability of the City to provide the services on which its community members have come to rely.

As City Council considers the recommended revenue options, the Revenue Task Force would like the emphasize the following considerations:

- **Equity:** The Revenue Task Force is highly aware of the impact that new taxes and fees may have on our community. Equity (generally defined by the idea that revenue generation should reflect the taxpayer's capacity to pay, which means higher earners should contribute more) is a key consideration that should be considered for each revenue option.
- **Sequencing:** The Revenue Task Force recommends implementing near-term revenue options to cover the City's most immediate needs, while pursuing medium- and longer-term options that may provide more sustainable revenue over time. As part of this process, the Revenue Task Force recommends exploring options to sunset or reduce near- or medium-term revenue options if longer-term solutions can be put into place.
- **Public Input:** The Revenue Task Force recognizes that additional public input on the recommended revenue options would be beneficial. In particular, it may be important to bring some or all options to a public vote.
- **Community Survey:** The Revenue Task Force would like to clarify how community support for various options was calculated based on the survey methodology (including the distinction between the Town Hall results and the community survey) and clarify whether the survey sample was fully representative of the Salem community.

Summarized Suggestions from Revenue Task Force Survey to Update the Overarching Considerations

- **Equity**
 - Update the Equity section to specifically note the desire to actively avoid regressivity.
- **Sequencing**
 - Update the Sequencing section to clarify that the Task Force recognizes that the City may need to take a strategic approach to determine which funding option to pursue when.
- **Public Education and Communication**
 - Update first sentence to read: "The Revenue Task Force recognizes that additional public input on the recommended revenue options is essential and would be highly beneficial."

- Update the second sentence to read: "In particular, it is imperative to bring all options to a public vote, to be transparent and build trust in our city."
- Note that the significant public education is needed to better communicate the City's revenue shortfall and the potential impacts. We recommend that the City communication tangible examples of specific service impacts (ex: showing how a reduced number of library employees reduces the hours the library is open), rather than just describing the total number of FTEs per 1,000 residents.
- **Community Survey**
 - Remove this topic from the recommendation packet and communicate this need directly to the DHM survey consultant.
- **Financial Management**
 - Note that these recommendations should be just one component of a comprehensive consideration of the City's financial management model, where financial security is achieved through both sustainable and equitable revenue generation and efficient expense and process management.
 - Note that these considerations should happen in conjunction with City financial managers performing scope-shaping and scope-focusing analysis to reduce City spend in areas that are outside of the City charter (e.g. the ever-increasing amounts being spent on "sheltering services").
- **Other Topics**
 - Add the recommendation to minimize economic impacts on local businesses.
 - Add the recommendation to consider sustainability.

REVENUE OPTIONS SUMMARY

The Revenue Task Force recommends the following revenue options for Council consideration. The revenue options are grouped by timeline:

Timeline	Recommended Options
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.	<ul style="list-style-type: none"> A. Business License Fees B. Franchise Fee Increase C. Urban Renewal – Increase Frozen Base
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.	<ul style="list-style-type: none"> D. Local Option Property Tax Levy E. Person Income Tax
Long-Term Options: Revenue options that would require significant changes to state law or city policy, or action on the part of other governmental agencies.	<ul style="list-style-type: none"> F. Payment in Lieu of Taxes (County, State, Federal) G. Intergovernmental Agreements & Entities H. Tax Reform/Restructuring

The Revenue Task Force generated criteria to guide their decision-making (see [Appendix A](#) for more details). In the table on the next page, we have rated each recommended revenue option against the decision-making criteria and the community survey results (see [Appendix C](#) for more details).

				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	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	A	Business License Fees	\$8,000-\$4M	Yes	Yes	Yes	Yes	No	Low	50%	Yes	Yes	Yes	No
Utility fee	B	Franchise Fee Increase	\$685,000-\$6.8M	Yes	N/A	Yes	Yes, Likely Low	No	Low	27%	Yes	Yes	Yes	No
Property tax	C	Urban Renewal - Increase Frozen Base	\$1-\$3M	Yes	N/A	Yes	No	No	Low-to-Medium	37%	Yes	No	No	No
Medium-Term Revenue Options														
Property tax	D	Local Option Property Tax Levy	\$1M-\$55M	Yes	Yes	Yes	Yes, Likely Low	No	Low	37%	Yes	No	No	Yes
Income tax	E	Personal Income Tax	\$113,000-\$92M	Yes	Yes	Yes	Yes, Likely Low	No	High	36%	Yes	No	No	Yes
Long-Term Revenue Options														
Other	F	Payment in Lieu of Taxes (County, State, and Federal	Currently unknown	Yes	N/A	Viability requires a change in County, State, or Federal legislation	No	No	Low	N/A	N/A	N/A	N/A	N/A
Other	G	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	N/A	N/A	N/A	N/A	N/A
Other	H	Tax Reform/ Restructuring	Cannot be calculated without additional specification	Yes	Yes	Viability requires significant changes in City policy	Unknown without additional specification	No	High	N/A	Yes	N/A	N/A	N/A



NEAR-TERM REVENUE OPTION DETAILS

NOTE FOR REVENUE TASK FORCE MEMBERS: The Key Implementation Considerations section will be updated based on the discussion at the June 26 meeting. Please review the highlighted sections.

A. Business License Fees

A. BUSINESS LICENSE FEES	
Description	<p>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.</p> <p>Implementing a business license would help provide accurate data for the number of businesses within City limits. In addition to providing statistical data, business licenses aid in ensuring proper permits have been pulled, if applicable, which verifies minimum code requirements have been met, accessibility standards have been met, and Fire and life safety requirements have been met. It provides protection for the patrons by implementing a check and balances and provides legal protection for a business to ensure compliance with State and Local codes, ordinances, and regulations has been met. A business license and business tax would provide transparency between the City, patrons, and businesses and corporations. Additionally, it would create an opportunity for the businesses and corporations to invest in the local economy and further development of the community.</p>
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">• Strongly recommend structuring this fee progressively so as not to harm small and/or local businesses. Options may include higher fees for businesses with higher number of employees and/or different fees for businesses not headquartered in Salem.• It will be important to communicate the benefits of a business license fee (for example, how license fees can ensure that public safety requirements have been met by the business). <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Recommend that the City establish limits so that fee increases do not exceed the annual federal cost of living adjustment.2. Note that the City could provide services in exchange (for example, information for first responders to better support registered businesses). Note that it may be possible to tie it to providing services exclusively for businesses, especially the businesses in the CBD.3. Note that this funding source may not need to be taken to a public vote.4. Note that this funding source can help facilitate other City functions and reduce administrative effort required to accomplish existing tasks.5. Note that the City already imposes business license fees on some types of businesses (like food trucks and marijuana dispensaries).6. Note that many other Oregon communities also have business fees.



A. BUSINESS LICENSE FEES	
Revenue Potential	Estimated \$8,000-\$4 million. Variable depending on the fees and fee levels that are chosen. See Revenue Modeling section for more details.
Timeline to Receive Funds. ¹	1-2 years
Administrative Effort	Salem already has infrastructure in place for some types of businesses. There may be additional costs and complexity to expanding the types of fees, but few costs to increasing the amount of current fees.
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.
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</p>

¹ **Please note:** The estimated timelines in this document indicate the time between the date of implementing a revenue option and when the City would begin receiving funds. This timeline does not incorporate the time it may take to gain approval or establish agreements to implement a given revenue option.



A. BUSINESS LICENSE FEES

revenue covered software, supervision, and indirect program costs, leaving approximately 5-10% of collection as net revenue.

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.

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 haulers. Eugene requires permits and fees for on-street commercial activity in the Downtown Activity Zone.



B. Franchise Fee Increase

B. 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.
Key Implementation Considerations	<p>Original Draft</p> <p>None.</p> <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Note that measures should be put in place that either limit or do not allow fee increases that exceed the annual federal cost of living adjustment.2. Note that residents would likely experience this fee increase as an increase of their utility bills (assuming the utility service providers pass along the increased franchise fee expenses to their customers).
Revenue Potential	Estimated \$6,685-\$6.6 million. See Revenue Modeling section for more details.
Timeline to Receive Funds	6 months to 1 year
Administrative Effort	Low
Who Pays	<ul style="list-style-type: none">• 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.
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).



C. Urban Renewal – Increase Frozen Base

C. 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>
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">None. <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">Note that if a URA is closed, it cannot be reopened.Note that this option will appear as the City moving money from one budget item (Urban Renewal) to another (Operations Fund).Note that the Revenue Task Force did not look at activities within Urban Renewal that would be adversely impacted by increasing the frozen base, and it is possible that there is a project in that area that could raise objections from community members.
Revenue Potential	Estimated at \$1-\$3 M. However, a full model or economic development impacts have not been evaluated.
Timeline to Receive Funds	6 months to a year
Administrative Effort	This would be implemented through the budget process and submittal of the Form UR-50 to the Tax Assessor.
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
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.



MEDIUM-TERM REVENUE OPTION DETAILS

D. Local Option Property Tax Levy

D. 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.
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">● Strong recommendation to structure the levy to pay for specific services that are important to the community.<ul style="list-style-type: none">○ Option A: Create a “Livability Levy” that would fund key quality of life services including library, parks, recreation, and Center 50+.○ Option B: Create a “Public Safety Levy” that would fund police and fire services.● Requires approval every five years, so the structure and what it covers would be reexamined.● Concerns about the sustainability of property taxes to fund City services, given the current revenue situation. <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Only recommend the “Livability Levy.” Public safety is already prioritized and the services at risk of being eliminated for lack of funds are those that would fall under livability.2. Clarify that due to compression not every property will be affected by this local option levy. It is important to clarify this for homeowners/community members.3. Note that property taxes contribute to the high cost of housing in Salem and Oregon, and that shifting away from property taxes could be part of the solution if tax reform is pursued.
Revenue Potential	<ul style="list-style-type: none">● Estimate of \$1M-\$55M. See Revenue Modeling section for more details.● Variable, depends on tax level chosen <p>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.</p>
Timeline to Receive Funds	1-2 years, need to reapprove every five years
Administrative Effort	Low. Property taxes are administered by counties
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>



D. LOCAL OPTION PROPERTY TAX LEVY	
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 taxpayers not paying the full tax rate.
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



E. Personal Income Tax

E. PERSONAL INCOME TAX	
Description	A tax on income of residents of Salem. This tax may also be assessed on employees working within city limits.
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">● Strong recommendation to ensure that this tax would be levied in an equitable manner, including not adding any additional taxes for lower-income residents (anyone making below \$70,000).● Strong recommendation to combine the personal income tax with overarching tax reform as a long-term solution. Within this scenario, the personal income tax would be the first step that would be followed by tax reform where certain fees or taxes (like the Operations Fee) could be restructured or eliminated to create a more equitable tax structure. This messaging will be critical to gain public support for this option. See Tax Reform/Restructuring option for more details. <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Recommend that personal income tax discussions <u>must</u> be paired with guaranteed tax reform, not a promise to restructure taxes and fees after implementing a potential personal income tax.2. Emphasize that this is the only option that the Task Force has identified that can solve the City's budget problems into the future. The other options should be considered stopgap measures that will give the City time to successfully bring it to a vote.3. Recommend placing this option on the ballot in Fall 2025, to give the City time to work through the details and involve the public in the discussion.4. Clarify that the first \$70,000 (or whatever the ultimate number is) of <i>everybody's</i> income is not taxed.5. Recommend that all taxpayers—including those at the lower income levels—be taxed.6. Note that the progressive nature of the tax will require several step increases in rates as taxable income increases.7. Note that reducing reliance on property tax revenues, which are shared by the City, County, and school system, would also increase the equitability of the tax system.8. Note that unless steps are taken to keep the County and schools from taking funds that were formerly used by the City, the tax relief would not make its way to the taxpayer.9. Amend the description to clarify that there may not be a feasible mechanism to levy this tax on employees working within city limits who do not live within Salem.
Revenue Potential	<ul style="list-style-type: none">● Estimate of \$113,000-\$92M. See Revenue Modeling and the Revenue Task Force's income tax scenario section for more details.● Tax revenues would fluctuate with changes in personal income and would likely mirror economic conditions.
Timeline to Receive Funds	Two years or longer
Administrative Effort	<ul style="list-style-type: none">● High, annual tax returns would be required● Salem could potentially contract collection out to the Oregon Department of Revenue or City of Portland Revenue Bureau, reducing administrative burden.



E. PERSONAL INCOME TAX	
	<ul style="list-style-type: none">● Such a tax would likely face significant political opposition making implementation difficult, lengthy, and increasing costs.
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.
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>



LONG-TERM REVENUE OPTION DETAILS

F. Payment in Lieu of Taxes (From the County, State, or Federal Government)

F. PAYMENT IN LIEU OF TAXES (FROM THE COUNTY, STATE, OR FEDERAL 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 is the Oregon State Government. In addition, there may be opportunities to partner with the County and/or Federal government for PILOT options.</p>
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">Recommendation to focus exploring PILOT options related specifically to the County, State, and/or Federal government (no interest in exploring PILOT options from universities, hospitals, or other similar groups). <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">Note that the federal, state, and county governmental bodies (notably, the State of Oregon through its large office and institutional presence) consume City resources—in the form of street and infrastructure usage, police and fire response, and more—yet do not pay any property taxes. This places an inordinate burden on the City and should be remedied through a payment in lieu of taxes program.Do not use the PILOT acronym as it may cause confusion with people thinking it would not be permanent and only a pilot program, particularly in verbal communication.Use the term "tax-exempt" or "non-profit" rather than using examples of institutions like universities and hospitals.Strongly recommendation exploring options from the state.Note that exploring PILOT options with the State will be tied to the legislative session. Options should be strategically planned as soon as possible for the 2025 legislative session, otherwise the next full session is in 2027.Consider expanding the recommendation to explore PILOT options from all entity types, not just County, State, and Federal entities.If the option is expanded to include other entities apart from County, State, or Federal government, consider if there is a way to structure this equitably for non-profit organizations. For example, there are some churches that are flourishing economically, and others that are struggling.
Revenue Potential	Unknown. For the state PILOT, recent conversations on House Bill 4072 indicate a payment between \$5 to \$6 million annually, but that is not guaranteed.
Timeline to Receive Funds	Unknown (likely 5+ years). House Bill 4072, establishing such taxes, has been showing signs of progress.
Administrative Effort	Low. However, viability requires a change in county, state, or federal legislation. City has no control over the receipt or timing of funds.
Who Pays	The county, the State of Oregon, and/or the federal government.



F. PAYMENT IN LIEU OF TAXES (FROM THE COUNTY, STATE, OR FEDERAL GOVERNMENT)	
Equity Implications	N/A
Environmental Sustainability Implications	N/A
Local Economic Implications	Impact on the local economy is uncertain. The County or State could potentially move offices out of the Salem area.
Legal Authority	The Council has broad authority to negotiate a PILOT agreement with the State. Would require legislative agreement.
Legal Restrictions	Needs agreement by the county, state, or federal legislature.
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.



G. Intergovernmental Agreements & Entities

G. 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>
Key Implementation Considerations	<p>Original Draft</p> <p>None.</p> <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Include an existing example, such as 911, in the description.2. Recommend exploring the option of an IGE centered on tackling homelessness in Salem, Keizer, Marion, and Polk Counties.3. Recommend that the City explore and engage in inter-agency cooperation (for example, state, federal and county funding sources in conjunction with service delivery by capable not-for-profit organizations) to appropriately share the total resource burden for the administration of the general services termed as “homeless sheltering and support services.” These services have proven to be a source of substantial financial strain on the City (with no dedicated or sustainable funding source), and it is inequitable that the financial burden for these services be placed solely on the City.4. Note that this is option is a necessary part of Tax Reform/Restructuring, especially with regard to changes in the existing property tax revenue stream. City, County, and Salem-Keizer Schools are all affected by insufficient revenues to support desired programming.
Revenue Potential	Depends on the specifics of the agreement/entity. This option would be service-dependent and could fund service-specific costs. However, the formation of an IGA/IGE could ultimately free up some General Fund dollars.
Timeline to Receive Funds	Unknown (likely 5+ years)
Administrative Effort	Unknown. 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 control.
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	Depends on the specifics of the agreement/entity.
Local Economic Implications	Depends on the specifics of the agreement/entity.



G. INTERGOVERNMENTAL AGREEMENTS & ENTITIES	
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.



H. Tax Reform/Restructuring

H. 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>
Key Implementation Considerations	<p>Original Draft</p> <ul style="list-style-type: none">● Strong recommendation to perform additional work (through Council work sessions, Council subcommittee, or a targeted task force) to explore long-term tax restructuring and reform. The goal of this work would be to shift the City's tax structure to a more equitable model. As such, the City should explore which taxes or fees could be structured more equitably or eliminated altogether in favor of revenue sources that are more equitable.● Strong recommendation to combine the <u>personal income tax</u> with overarching tax reform. Within this scenario, the personal income tax would be the first step that would be followed by tax reform. As such, the higher the revenue generated by the personal income tax, the more options the City would have in terms of restructuring other sources of revenue. <p>Summarized Suggestions from the Task Force</p> <ol style="list-style-type: none">1. Use the Operations Fee as a specific example of a fee that could be adjusted or eliminated to make the existing tax system more equitable.2. Clarify that tax reform should focus on simplicity for payers, i.e. personal income tax should be paid by adding one line to the state income tax form, not a separate form, even if it takes longer to be implemented.3. Note that conscious and deliberate involvement with the public to get buy-in will be necessary.4. Note that Intergovernmental Agreements are probably required to implement this option.5. Emphasize the Task Force recommendation to establish a Council sub-committee or Task Force.
Revenue Potential	High.
Timeline to Receive Funds	Unknown (likely 5+ years)
Administrative Effort	Unknown. Potentially very high.
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.



H. TAX REFORM/RESTRUCTURING	
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.



APPENDIX A: REVENUE TASK FORCE DECISION-MAKING CRITERIA

The Revenue Task Force generated the following criteria to help guide their decision-making.

- **Are legally viable.** Any revenue option where the City does not currently have legal authority would be discarded.
- **Are able to generate sustainable, ongoing revenue.** Revenue options with one-time or low estimated revenue potential will be considered less viable.
- **Are equitable.** We will take equity considerations into account, recognizing that revenue options that are regressive in structure will have higher impacts on lower-income earners and are therefore less desirable than revenue options with more progressive structures.
- **Do not have widespread negative impacts on the local economy.** We will take impacts to the local economy into account, recognizing that revenue options that are anticipated to negatively impact the local economy have significant drawbacks. However, negative impacts on the economy would not necessarily rule out a revenue option.
- **Can achieve short-, mid-, and long-term results.** We will review an impact timeline to help determine how soon the city can expect to see revenues generated from that option. Options will not be eliminated based on the impact timeline but could be combined with other options.
- **Require an administrative effort that is commensurate to the revenue potential.** Revenue options with high estimated administrative effort would be considered more difficult to implement. However, high administrative effort would not necessarily rule out a revenue option.
- **Do not have negative environmental impacts.** Revenue options with negative environmental impacts are out of alignment with the City's strategic goals and therefore would be considered less viable.



APPENDIX B: REVENUE CONTEXT AND PATHWAYS

WHAT IS THE CITY'S REVENUE SHORTFALL?

The Revenue Task Force was charged with identifying potential options to increase the City of Salem's revenue. To understand the size of the revenue shortfall that must be overcome, the Revenue Task Force examined five potential **Revenue Pathways**.

In short, 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.

Background Context: Salem Revenues, Service Levels, and the Great Recession

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

In 1997, the City of Salem had 614 Full Time Equivalent (FTE) employees whose salaries were paid for through the City's General Fund.^{2,3} This level of staffing was equal to 5.2 staff per thousand Salem residents. Staffing levels gradually increased in the late 1990's and 2000's at a rate of approximately 2% per year. Although this increase was usually lower than the rate of increase in the Salem population served, staffing levels generally remained at or above 5.0 employees per thousand Salem residents during these years.

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

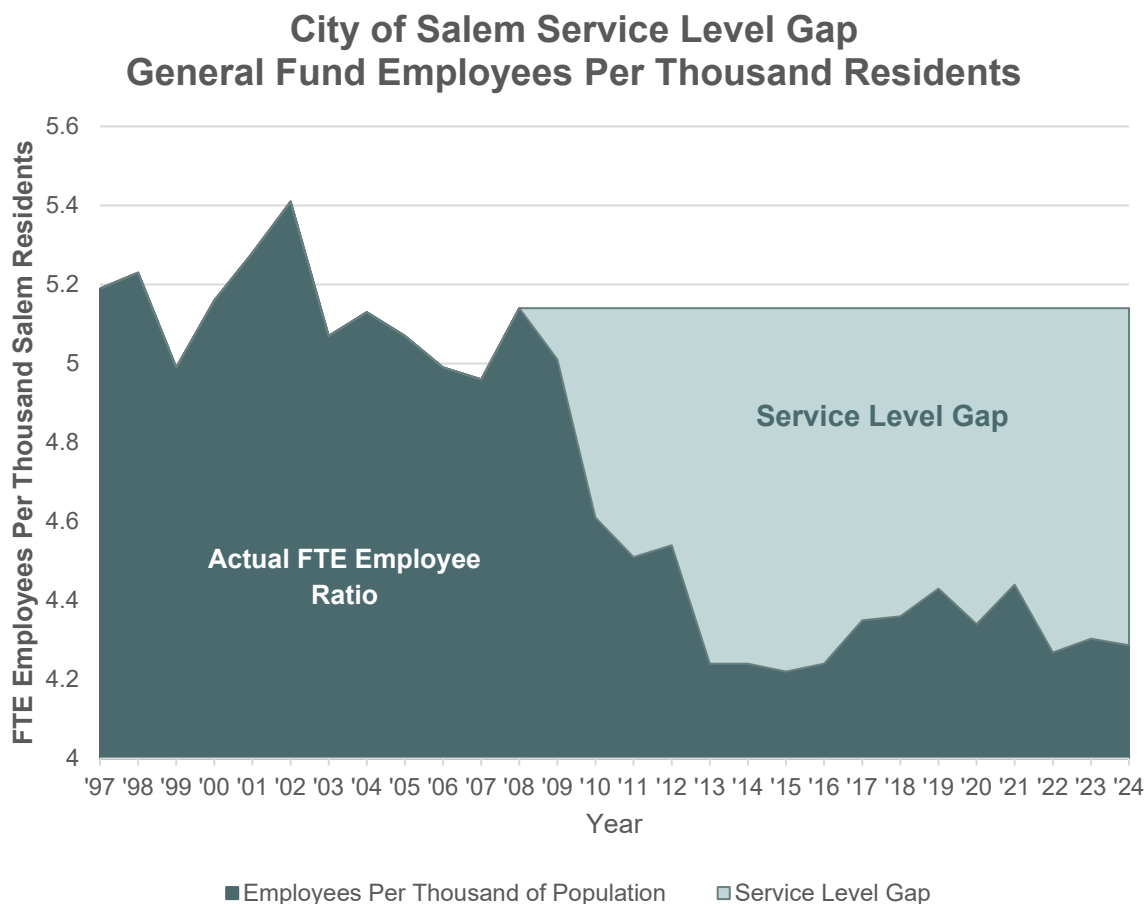
² Full Time Equivalent (FTE) is a measure of staffing that incorporates the fact that not all staffing members work full time. Part time staff are assigned a numerical value proportionate to their work schedule. So, for example, a half-time staff would be 0.5 FTE. Two half-time staff would be equal to 1.0 FTE. One full time staff would also equal 1.0 FTE.

³ While the City has eight different types of funds, the large majority of City services are paid for through the General Fund—including police, fire, library, parking, Center 50+, planning, parks, recreation, code enforcement, economic development, and administration and support services (including the City Manager's Office, Finance, Information Technology, and Legal). The Revenue Task Force is focused on developing revenue options to support the City's General Fund only.



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

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

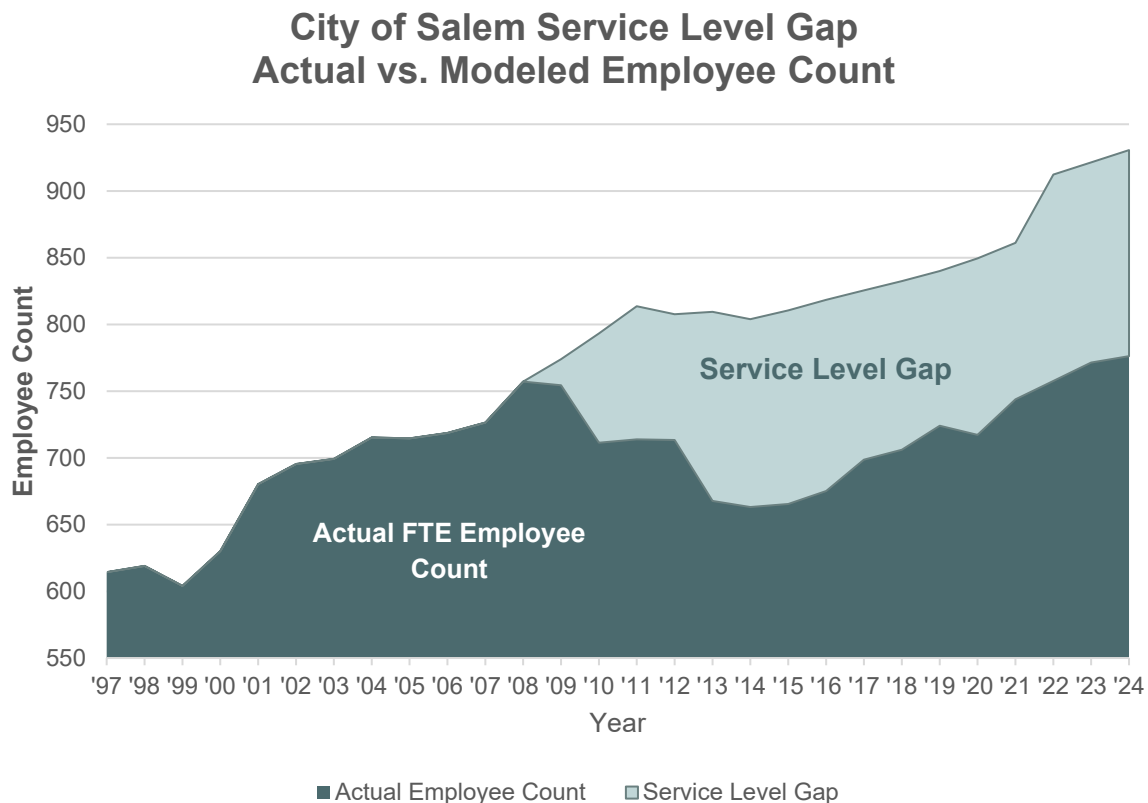


The decrease in General Fund staffing in proportion to population can be thought of as a *Service Level Gap*: the staffing that would be needed to maintain City service levels as they were in 2008, as measured by the ratio between Salem FTE employees and residents. The graph above details Salem's ratio of



General Fund employees to City residents over time. It also illustrates the gap between post-2008 staffing ratios and the City's pre-recession General Fund staffing levels. Staffing and service levels at the City remain well below the standards of the 1990's and 2000's.

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



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

The actual degree of relative understaffing at the City, when compared to 2008 levels, is likely even more severe than these figures and graphs suggest. Residents demand more from the City government than they did in the early 2000's. For example, Salem did not generally provide community policing, homeless services, or climate response in 2008. Salem staff are providing even more services with these relatively lower staffing levels.



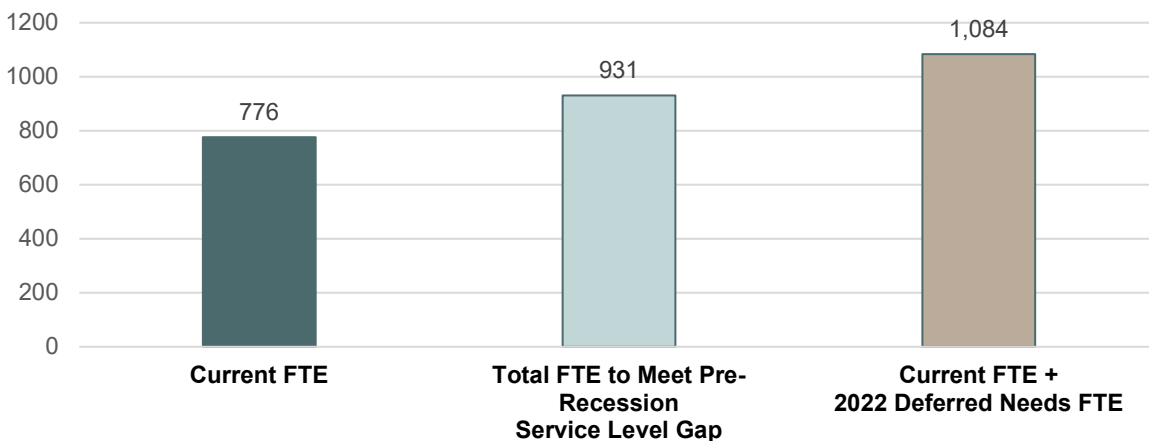
The City of Salem's Deferred Needs Analysis

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

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

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

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



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

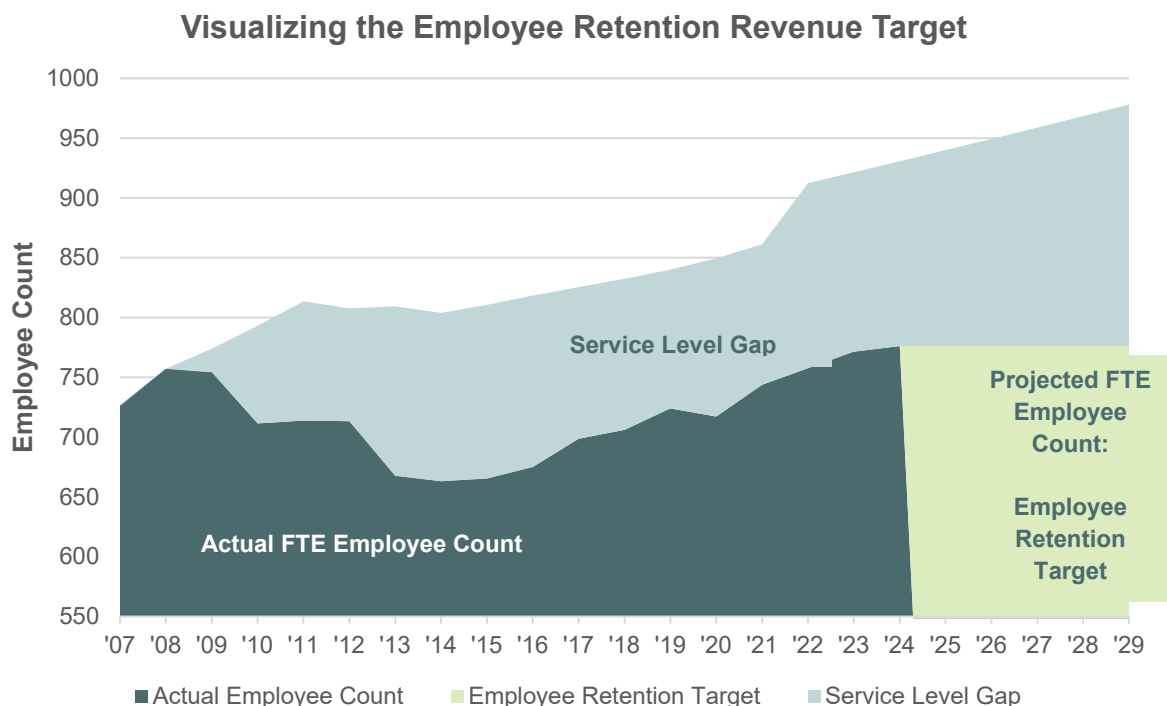


Three Potential Revenue Targets

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

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

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

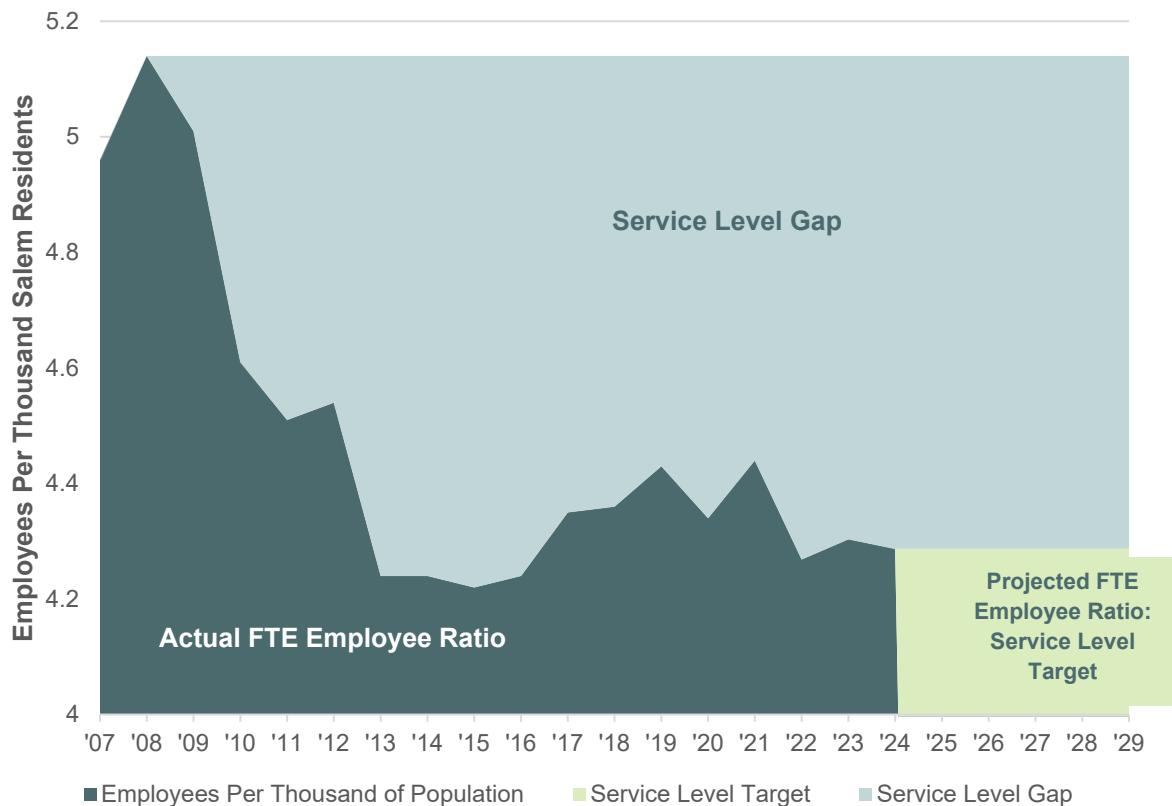


Service Level Target: Maintain current standard of service over time

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



Visualizing the Service Level Revenue Target



Sheltering Target: Continue Shelter Services for Those Experiencing Homelessness

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

Estimating These Three Revenue Targets

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

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



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

Defining the Five pathways forward for the City

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

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

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

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



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

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

Can these Financial Projections Change Over Time?

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

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

Every financial forecast is, to some degree, inexact. This inherent potential for imprecision increases for each additional year into the future that a forecast predicts. There is too much uncertainty and too many potential variables to create a forecast that perfectly predicts the future. The City intends to update financial forecasts as additional information becomes known. As such, financial forecast data may change over time. This is a sign of effective management practices, not an indication of shortfalls in prior forecasting efforts.



APPENDIX C: REVENUE MODELING

To support the Task Force, Moss Adams and the City constructed the following models to estimate potential revenue generation for each option. While it was not possible to develop estimates for all options under consideration—primarily because additional details would need to be determined in order to provide accurate estimates—these estimates should provide a useful starting point for future analysis.

A. 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

B. 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

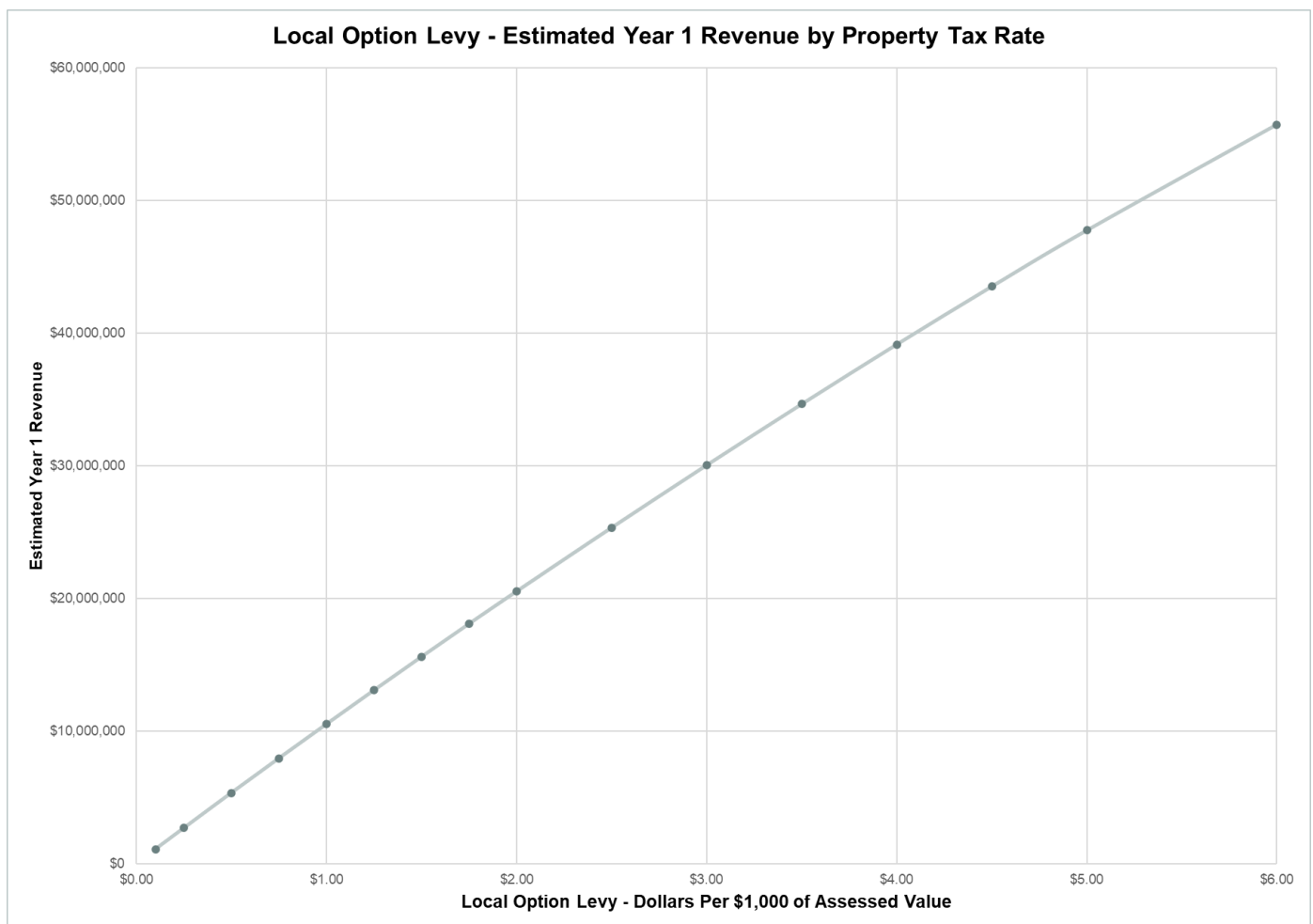
D. Local Option Property Tax Levy

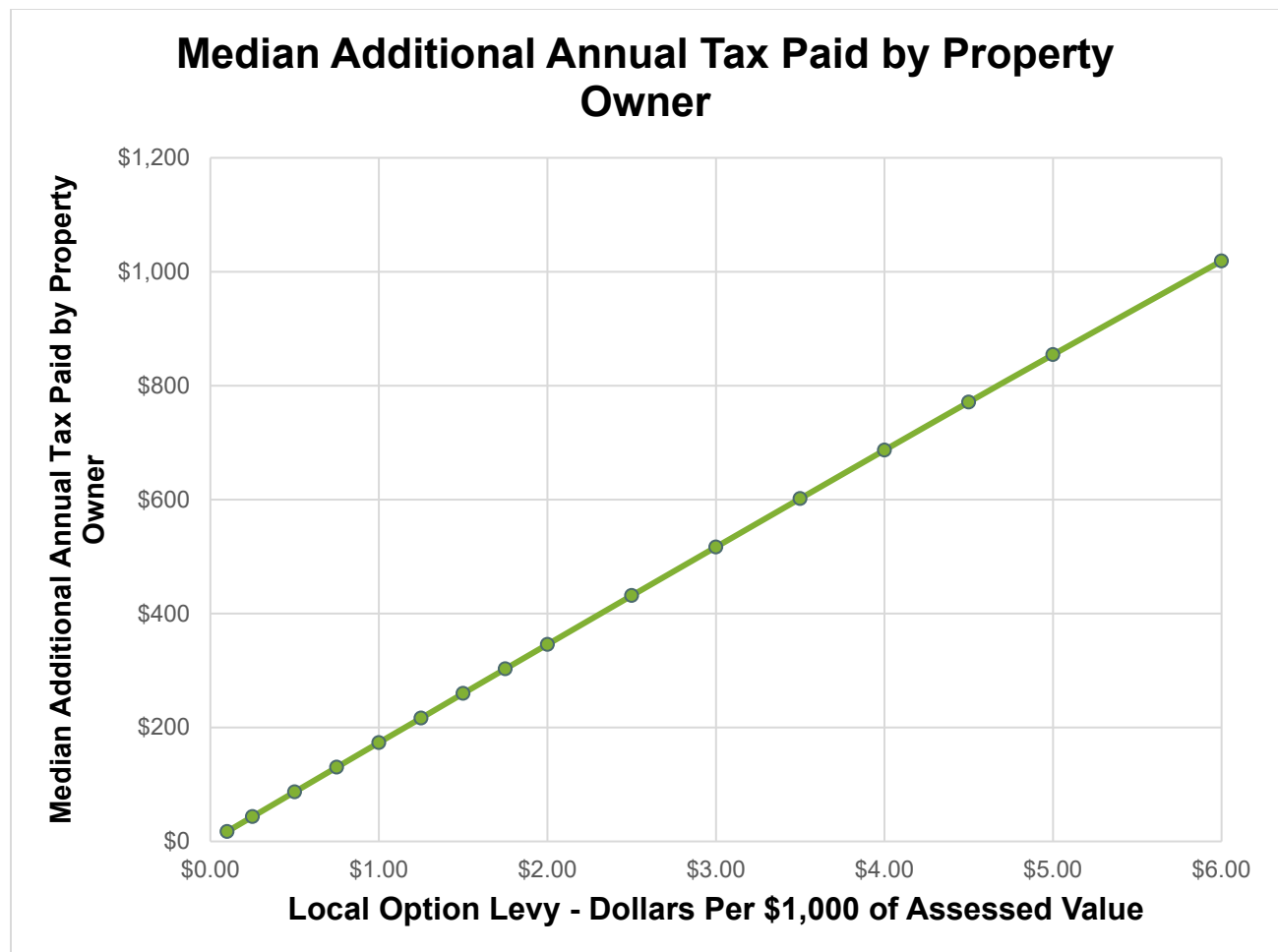
Revenue Modeling

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





E. 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%



Income Group	Number of Households Estimate	Percent of Total Households
\$35,000 to \$49,999	11.1%	11.10%
\$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.

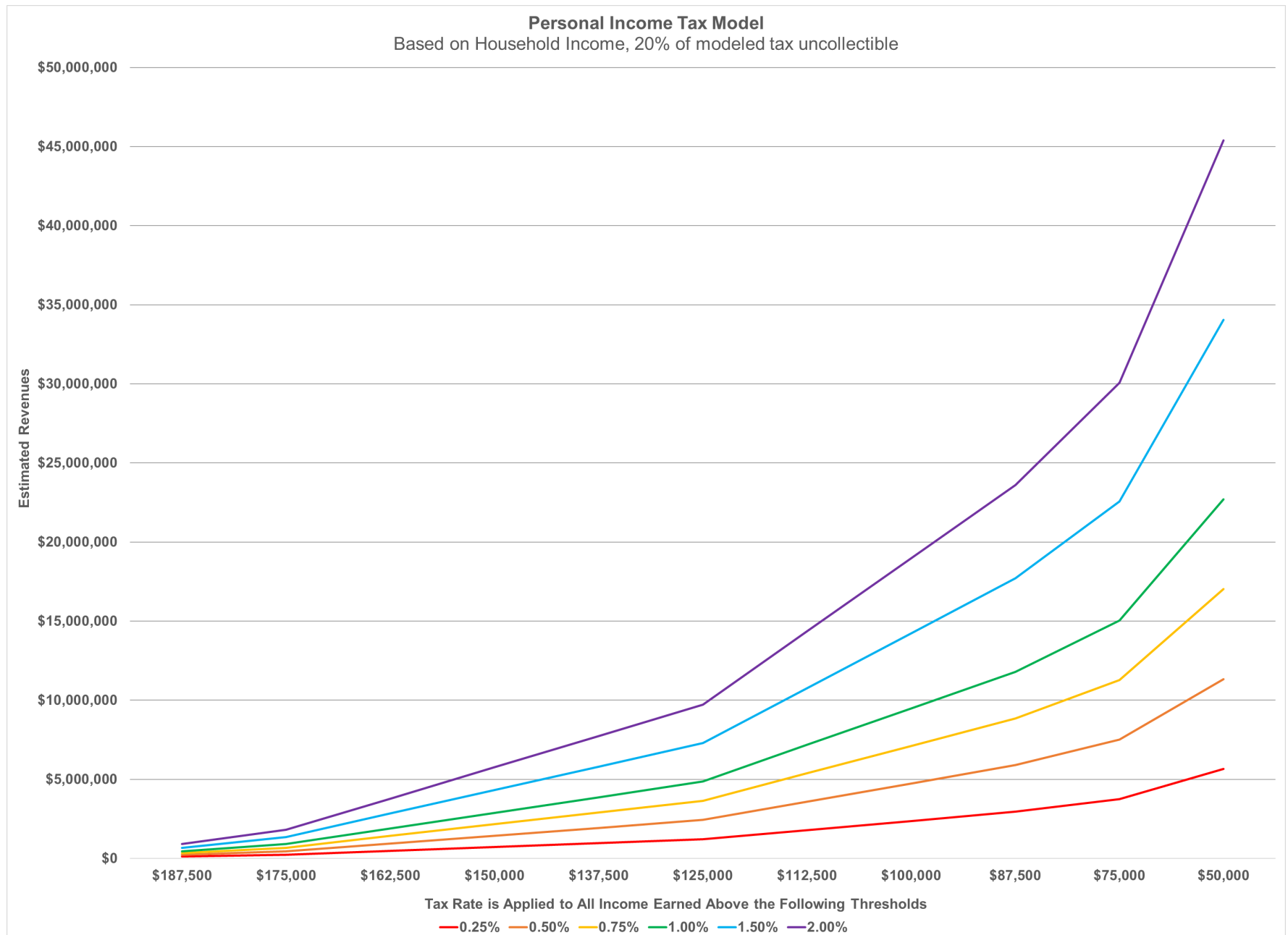
Tax Model Limitations

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





Four Structural Scenarios for Salem Income Tax

In addition to the revenue modeling performed by Moss Adams and the City, members of the Revenue Task Force developed the following potential scenarios based on 2021 Oregon Income Tax Data.

#1: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	.5%	.75%	1.00%	2.00%

Estimated tax: \$25.9M

#2: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	1.00%	1.50%	2.00%	3.00%

Estimated tax: \$43.2M

#3: Tax exemption level: \$70K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-70K	\$70-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.50%	1.00%	2.00%	3.00%	4.00%

Estimated tax: \$58.3M

#4: Tax exemption level: \$40K (tax rate 0 for category #1)

Tax rates for six income categories:

1	2	3	4	5	6
\$0-40K	\$40-100K	\$100-150K	\$150-200K	\$200-500K	\$500K+
0%	.25%	1.50%	2.50%	3.50%	5.00%

Estimated tax: \$73.7M



APPENDIX D: COMMUNITY ENGAGEMENT SUMMARY

This Appendix provides a summary of the community engagement efforts undertaken by the City to inform Revenue Task Force's deliberations.

The community engagement process underscores the City's commitment to inclusive governance and transparent decision-making. By incorporating resident perspectives into the Revenue Task Force's deliberations, the city aims to ensure that proposed revenue options align with community priorities and effectively support the delivery of essential services. Ongoing collaboration with residents will remain a cornerstone of the city's efforts to address fiscal challenges and sustainably fund critical services.

In addition, the community is invited to submit input via a dedicated email (revenue@cityofsalem.net), or provide public comment during any of the Council, Task Force, or Budget Committee meetings.

A. COMMUNITY OUTREACH OVERVIEW

Focus Groups per Ward

Focus groups were conducted virtually for each ward of Salem to gather localized perspectives on financial priorities and service needs. All community members who expressed interest in participating in a focus group were invited to ensure representation from various neighborhoods. Discussions centered around residents' perceptions of current city services, areas needing improvement, and preferences regarding revenue generation for sustaining essential services.

Townhall Meetings

Three town hall meetings were organized—one virtual and two in person—to provide platforms for direct engagement and dialogue with community members. The meetings facilitated open discussions on revenue options, city service priorities, and community concerns related to budget sustainability.

Statistically Representative Community Survey

A city-wide survey was administered using statistically valid sampling methods to ensure representation across demographics. The survey solicited feedback on residents' priorities for city services, satisfaction levels with existing services, and preferences regarding potential revenue sources or fee adjustments to support these services.

B. COMMUNITY OUTREACH RESULTS

Focus Group Insights

- Full focus group results can be found within the [Revenue Task Force Meeting 3 Presentation](#)

Community Survey Results

- Community survey results can be found here [City of Salem Funding Survey](#)

Townhall Meeting Feedback



- Full Townhall Results can be found within the Revenue Task Force Meeting 4 Presentation. Link TBD.
- Town Hall FAQ. Link TBD.

Use of Community Input by the Revenue Task Force

The insights gathered from the community engagement activities have been instrumental in shaping the discussions and understanding of community needs and preferences by of the Revenue Task Force. The Revenue Task Force has leveraged this input to evaluate the appropriateness of various revenue sources available to Salem.



APPENDIX E: REVENUE TASK FORCE MEMBERSHIP

The following community members participated in the Revenue Task Force. The City of Salem would like to thank each member for their time, energy, and commitment to this process.

- Ariel Loveall
- Becky Beaman
- Beth Vargas Duncan
- Bev Ecklund
- Bill Riecke
- Bill Smaldone
- Cathy vanEnckevort
- David Rheinholdt
- Gretchen Schlie (alternate)
- Jean Palmateer
- Jesus Resendiz
- Kaitlin Strathdee
- Kathy Knock
- Katie Ciacetta
- Keith Norris
- Ken Collins
- Lee McKenzie
- Levi Herrera-Lopez
- Matthew Hale
- Meliah Masiba (ex-officio)
- Nathan Rafn (alternate)
- Raquel Moore-Green
- Ray Quisenberry
- Russ Beaton
- Scott Cantonwine
- Sean Nikas (chair)
- Stephen Jenkins
- TJ Sullivan (vice chair)
- Zak Ostertag (ex-officio)