

# City of Salem

## Revenue Town Hall FAQ

### Introduction to the Revenue Town Hall FAQ

Welcome to the Revenue Town Hall Frequently Asked Questions (FAQ) guide developed based on questions submitted during our recent town hall meetings. We appreciate the community's active participation and thoughtful inquiries about important topics concerning our city's services and financial future.

During the town hall meetings, we received a wide range of questions related to revenue options, budget priorities, and the sustainability of essential services funded by the City of Salem's General Fund. This FAQ is designed to address these questions comprehensively, providing clear and informative responses to help keep our community informed.

Whether you attended the town hall meetings or are simply interested in learning more about these critical issues, we hope this FAQ will serve as a valuable resource. Your engagement and curiosity play a vital role in shaping the decisions that impact our city's well-being and future. Thank you for your interest and dedication to the City of Salem.

Please explore the sections below to find answers to frequently asked questions about our city's finances, services, and ongoing efforts to ensure a sustainable and vibrant community for all residents.

The city previously released an FAQ to address questions raised by the 2024 Revenue Task Force. That document can be found here:

<https://saalemcityofor.prod.govaccess.org/home/showdocument?id=22350&t=638460055790990001>

### 1. How does Library Funding Compare to Other Cities?

According to data collected by the State Library of Oregon, Salem ranks lowest in the per capita funding for Library serving communities with populations greater than 50,000. For fiscal year 2022, Salem's per capita operating was \$25.80 compared to these example other cities:

- \$80.45 – Eugene
- \$69.80 – Hillsboro
- \$54.10 – Albany
- \$32.35 – Springfield]

## **2. What about Payment in Lieu of Taxes from religious organizations?**

Similar to State and other government properties, the property tax exemptions for religious organizations are governed at the State level based on property tax law and the City doesn't have a mechanism to require religious organizations to make a payment in lieu of taxes.

## **3. What has been done to reduce City government costs?**

The City has made many decisions over the years to both reduce expenses and increase revenue to extend the timing of the structural imbalance in the General Fund. A high-level overview of these decisions was presented last meeting and can also be found on the [City's website](#)

## **4. Have you considered that fewer employees are needed as computers are further adopted and automation improves?**

There are certain efficiencies that can be gained as a result of technology. However, savings in personnel through technology and automation will not ultimately be a long-term solution to the structural deficit faced by the city. Technology will also only carry city services provided through the General Fund so far. Libraries, Parks, Recreation, Fire, Police, and Code Enforcement which are some of the programs paid for by the General Fund, all still primarily rely on individuals to engage, respond, and maintain services provided to the community.

Additionally, advancements in technology and automation still come at a cost to the city. There is a cost for the technology itself, as well as operational costs to manage software subscriptions, data, etc. There will also still be personnel costs to manage the governance of the city's technology infrastructure to ensure that what is in place is functioning consistently and achieving target outcomes.

As a result of technology gains over time, your average American worker in 2024 is much more productive than in 1997 or 2008 during prior recessions. The city could take productivity data from the Bureau of Labor Statistics and perform an adjustment to this employee figure to get an adjusted measure of employment levels that takes productivity into account.

There are two important reasons why this analysis cannot be performed.

1. The Bureau of Labor Statistics does not measure the productivity of government services.
  2. The services performed by the City of Salem have changed over time.
- Much like the difficulty in measuring productivity for government, there is no

mathematical way that we can quantify this increase in services that Salem provides apart from the increase in inputs (\$) required to meet this demand for services. A quantifiable index of increased services provided by Salem would be necessary to adjust this staffing analysis for productivity if local government productivity were even capable of being determined.

## **5. What are other cities doing to address similar financial shortfalls?**

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

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

### Eugene

- \$13.9 million annual structural deficit, with \$5 million of additional priorities desired from council.
- The city has implemented significant budget strategies in recent years to help close the gap. Budget strategies include a combination of service reductions, efficiency reductions, service realignments, and miscellaneous revenue increases (e.g. service fees).
  - \$24.8 million of budget gap strategies in the current 2023-2025 biennium
  - A total of \$60 million of budget gap strategies going back to FY10, including the current biennium
- A minimum of \$8.3M of additional revenue or service reductions are needed in the current biennium.
- Eugene already has a Community Safety payroll tax.
- Eugene already has two local option levies in place. These local option levies must be renewed by vote in the coming years to continue current funding levels.
- Eugene is exploring making Parks services eligible for Stormwater funding, and a ~~city operations~~ Fire services fee (utility fee).
- Eugene Public Library reduction of \$4 million in latest biennium through the elimination of 9.2FTE that were vacant.

### Gresham

- Gresham's deficit is projected to be \$8.6 million in 2025 and \$11.5 million in 2026 (without proposed operating levy).
- Gresham voters rejected a public safety local option levy at the May 2024 election.

- Gresham City Council passed a new local option levy at the May 2025 election.
- Gresham also has increased their existing Police, Fire and Parks fee on a temporary basis since January 2021. As of April 2024, the increase has been made permanent.
- Gresham is continuing to explore additional revenue and expenditure actions to provide financial sustainability for General Fund services.

#### Bend

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

#### Corvallis

- The current deficit for Corvallis is about \$9.6 million.
- This deficit is deceptively small, as the City is using and depleting its remaining \$1.7M ARPA funds.
- Corvallis recently increased its city operations fees.
- In November, Corvallis voters passed a local option levy dedicated to Parks and Library services.

#### Springfield

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

#### Hillsboro

- Hillsboro's deficit is comparatively moderate in the next two years, between \$1.6 and \$3.2 million per their forecasted information provided in the BY 2023-25 Biennium budget. However, these smaller deficits rely on the use of federal and other one-time funds to ensure the City maintains a 15% ending fund balance by the end of this biennium.
- Hillsboro is in a unique situation in which its property tax (+\$9M) and local option tax (+\$4.5M) will increase in fiscal year 2025-26 when the 2005 Strategic Investment Program agreement with Intel Corporation moves out of abatement and back on the tax rolls of all overlapping taxing jurisdictions including Hillsboro. Much of this value

will be machinery and equipment and will have a short useful life causing concerns that assessed value growth could be impacted negatively in future years as the equipment depreciates.

- Hillsboro has a local option levy of \$1.72 that pays for public safety and parks maintenance. The local option levy is in place until 2027-28. The City has had a local option levy since 1999. If this levy were not renewed, deficits will increase sharply.
- The City is also reliant on Washington County's library local option levy that goes through 2025-26 and provides funding to nine cities in the county as well as other funding from the County's General Fund that has historically been used for Library services across the County. Approximately half of the City's Library funding comes from these two sources.
- Hillsboro has no local income tax, sales taxes or government service fees carried on the utility bills other than a Transportation Utility Fee to pay for pavement management. The City does have a local Transient Lodging Tax and local Marijuana tax. Hillsboro does not have any General Obligation Bonds.

#### Medford

- Medford is anticipating a \$7 million General Fund deficit for the 2023-25 biennium.
- Convened our Revenue Committee and ultimately Council approved the following:
  - Increased the City's electric franchise fee from 7% to 9%.
  - Changed the structure of business licenses to be based on # of employees which doubled the business license revenue.
  - Increased the Public Safety Fee by \$1 each year for six years.
  - Used \$3.7 million of ARPA monies for operations.

### **6. Knowing that ARPA was one-time funding, how were funds spent?**

The U.S. Department of Treasury was responsible for establishing the Coronavirus State and Local Fiscal Recovery Funds (CSLFRS), established by the American Rescue Plan Act (ARPA) of 2021, to provide emergency funding for eligible state, local, territorial, and Tribal governments. The allocation methodology was determined by the U.S. Department of Treasury and eligible state, territorial, metropolitan city, county and tribal governments were able to submit requests for funds starting in early May 2021. Funds were directly distributed by the U.S Department of Treasury to the individual agencies. Eligible use criteria was also developed by the U.S. Department of Treasury, which included the ability for recipients to use the funds as a source for awarding grants to other agencies, so long as the funds were still spent on the eligible uses of the program. In addition to the direct allocation the City received from the U.S. Department of Treasury, the City applied for and was awarded a grant

from Marion County which was funded by the CSLFRS/ARPA program. This type of grant is often referred to as a pass-through grant or sub-award grant. Below is a summary of the funding received and what projects the funds supported:

<b>Direct allocation to the City from the federal government</b>	
Tranche 1 - Received May 2021	17,063,958
Tranche 1 - Received June 2022	<u>17,063,958</u>
<b>Total</b>	<b><u>34,127,916</u></b>
<b>Indirect allocation to the City from Marion County*</b>	
Grant awarded May 2022, funding received August 2022	<u>3,000,000</u>
<i>* Originally allocated to County from the federal government</i>	
<b>Total ARPA funding received by the City</b>	<b><u>37,127,916</u></b>

<b>ARPA Funded Costs</b>			
<b>Project Type</b>	<b>Direct Allocation</b>	<b>Marion County Subaward</b>	<b>Total Funds</b>
Sheltering Projects	4,714,517	-	<b>4,714,517</b>
Hotel Acquisition Loan	500,000	-	<b>500,000</b>
Navigation Center	2,700,958	3,000,000	<b>5,700,958</b>
Affordable Housing	2,163,000	-	<b>2,163,000</b>
Revenue Replacement	24,049,442	-	<b>24,049,442</b>
<b>Total Funded Costs</b>	<b><u>34,127,916</u></b>	<b><u>3,000,000</u></b>	<b><u>37,127,916</u></b>

Revenue Replacement is a category where funds that were directly impacted by COVID and lost revenue were able to be made closer to whole. The General Fund had XYZ of the \$24M listed above for revenue replacement.

**7. What is the status of Payment in Lieu of Taxes from the State of Oregon? Why doesn't the state contribute property tax for the buildings they have?**

The State of Oregon (and most other governments like the City) is exempt from paying property taxes on the buildings it owns—this includes both taxes it would pay to itself and takes it would pay to local governments. In order to change this, or to provide Payment in Lieu of Taxes (PILOT), the State Legislature would need to take action. A Payment in Lieu of Taxes is generally an annual payment that is paid from an exempt property holder to the municipality to pay for the services that would have been paid with property taxes.

Earlier this year, the State Legislature considered a bill (HB 4072) that would provide a \$5 million to \$6 million annual payment to the City of Salem under a three-year pilot program, recognizing the local government services provided by the City to the State.

Unfortunately, this bill did not advance.

As the State capital, Salem provides emergency and public safety services to state-owned properties concentrated in our community. These services are effectively subsidized by other taxpayers. State-owned properties represent approximately 8% of the area within the City limits and at least \$1.65 billion in real market value, or \$1.26 in assessed valuation (2022). **The approximate amount – if the State-owned properties were on the tax rolls – would be \$7.25 million annually.**

**8. What is the definition of a “progressive tax?” What is the definition of a “regressive tax?”**

The Internal Revenue Service defines different types of taxes as follows:

Progressive Tax	A tax that takes a larger percentage of income from high-income groups than from low-income groups.
Proportional Tax	A tax that takes the same percentage of income from all income groups
Regressive Tax	A tax that takes a larger percentage of income from low-income groups than from high-income groups

See also, [IRS, Comparing Regressive, Progressive, and Proportional Taxes](#)

**9. How much of the City budget is Police? How much of the City budget is Fire? How much is Paid in overtime to Police and Fire?**

For the FY 2024 Adopted Budget, General Fund Budgeted expenditures in the Police and Fire departments were:

Police

- Police: \$60,299,310
- Police Overtime: \$1,309,240

Fire

- Fire: \$48,697,150
- Fire Overtime: \$3,205,110

**10. Is it possible to lobby the state to change Measure 5 and Measure 50 to improve local government funding?**

Yes, this is possible. Property tax reform would help the City of Salem and other Oregon local governments to continue providing the services that their populations demand. The complicated answer is: it's going to take too long. This is a long-term solution that would not be able to be implemented in time to address Salem's financial issues. Other actors, including the League of Oregon Cities, have been actively [seeking reform for years](#). The League of Oregon Cities has [documented impacts and issues with Measure 5 and Measure 50](#) to the public and Legislature. To further this initiative, in February 2024, the League hired a contractor to create a municipal revenue reform plan with a focus on improvements and modifications to Oregon's property tax system.

**11. What would the process and timeline be like to introduce a local option property tax levy?**

To be placed on the ballot for the November 2024 election, the deadline would be in September 2024, and revenue could be collected starting Fiscal Year 2026 in the fall of 2025. (A May 2025 ballot measure would also generate funds beginning November 2025. However, due to timing of budget development and adoption requirements, a May 2025 election would result in a budget developed without the assumption of a successful election and would reflect additional budget reductions.

**12. Where is revenue Generated from increases to the City Operations fee going?**

In 2023 the City increased its Operations fee and adjusted it again in January 2024 in response to inflation. The increase to the City Operations Fee was always part one of a two part process to close the deficit and maintain services (requiring an increase to staff). With the failure of part two, the Safe Salem Payroll Tax, the increase to the City Operations Fee helped to prevent the deficit gap from growing at an even faster pace. Most of the proposed new services were eliminated except for the security services at the downtown parking garages and some limited security at the Civic Center complex. If the City Operations Fee had not been increased, the City would have to consider additional deeper reductions in services.

**13. How much do developers contribute to Salem revenue?**

The primary revenue contribution related to infrastructure impacted by development is Salem comes from Site Development Fees and System Development Charges (SDCs). These fees are collected from developers at the time of building permit issuance based



on the relative impacts of each project. System Development Charges can only be used to pay for construction of new public infrastructure that provides for growth in our community. Programs in the General Fund like the Police, Fire, Library, Parks, can not be legally funded with these dollars.

Site Development Fees are calculated based on each 0.1 acre of developed area at a current rate of \$1,272 or \$12,720 per acre. System Development Charges are collected for impacts to the Transportation, Water, Sewer, Storm, and Parks systems. Below is a summary of how each fee is determined:

- Transportation impacts are based on new vehicle trips generated by the proposed development
- Water and Sewer impacts are based on the size of new water meter(s) necessary to serve the proposed development
- Storm impacts are based on new impervious surfaces proposed
- Parks impacts are based on the number of new dwelling units

System Development Charges vary based on the factors described above, but here's an example of an impact fee calculated for a 210-unit multi-family complex proposed in 2022 in Salem.

- Parks SDC - 210 Units at \$3,838 per unit = \$805,980.00
- Transportation SDC – 1373 New Trips at \$460 per trip = \$631,580.00
- Storm SDC - 300,531 sf of new impervious area at \$0.24 per new sf = \$72,127.44
- Water/Sewer SDC - 6 Inch water meter = \$354,288

If you would like more information about Site Development Fees and System Development Charges, I recommend reviewing the following web resource:

<https://www.cityofsalem.net/business/building-in-salem/fees-and-forms/salem-fee-schedule>

#### **14. Would new revenue actually meet the issue or would we be back here again in 5 years?**

The goal of the recommendation to come from the Task Force is to propose a long-term, if not permanent solution. The vision is to minimize, or even eliminate the need to have recurring revenue Task Forces in the future. If the recommended solution includes property tax type proposals (local option levies, special district), the structural issues will continue to create challenges with revenues growing at a slower pace than expenses.

**15. I've heard about legislative actions that can generate a significant amount of revenue. What's being done about that?**

The Task Force has proposed three funding mechanisms be considered for Salem's legislative agenda. These include:

- Local Marijuana Tax Increase
- Payments in lieu of taxes from county and federal buildings
- Payment in lieu of taxes from the state government buildings

These options would be nice to have, but are outside the City's control. Either there would need to be amendments to state law or there would need to be agreements from partners who have property (county, state, federal governments) to pay a payment in lieu of taxes. As a result, the Task Force voted to develop recommended legislative priorities forward to Council, at a future Task Force meeting.

**16. What are the general characteristics of properties under compression? What is the proportion of the community that is already under compression?**

Generally, the properties under compression are older properties. The City is working with Marion County to determine more specific characteristics of the compressed properties. There are approximately 3500 (7.6% of total Marion County/Salem accounts) accounts that are experiencing compression, this is a combination of real property and personal property accounts.

**17. What's the proportion of business vs. residential properties in Salem? How does that compare to other cities in Oregon?**

The average of 30 counties (6 not reported) include 51.5% of residential property value and 16.3% commercial/industrial property value. Marion and Polk Counties combined track these percentages very closely, with a total of 51.2% residential and 16.1% commercial/industrial.