

Meeting the Challenge

Final Report

January 22, 2010

Meeting the Challenge Task Force Members

John Barofsky
Merle Bottge
Dave Funk
Gerry Gaydos
Jared Mason-Gere
Gretchen Pierce
Michael Redding
David Tam
Jean Tate



Meeting the Challenge

For the last several years, the City of Eugene's General Fund has been projected to have large deficits beginning in July of 2012. Four major factors are causing this deficit.

1. The City's General Fund will be responsible for paying the cost of library operations that are currently paid by a local option levy when it expires in June 30, 2011;
2. The cost of employee wages, benefits and retirement continue to increase;
3. Previously, the City has used one-time money to pay for on-going services that will need to be paid for by the General Fund; and
4. The economic downturn, which began in 2008, has reduced the amount of money the City will be adding to the General Fund.

The City Manager's goal is to resolve this General Fund challenge by looking at a number of different solutions. This could include ways to reduce spending or increase City revenue. Gathering citizen input on service priorities as well as possible revenue sources is critical to this effort.

A special committee, the Meeting the Challenge Task Force, was appointed to recommend new revenue sources that, together with existing revenues, would help balance General Fund budget. A description of the Meeting the Challenge process is included in the Appendix. The Task Force developed one recommendation as well three options for revenue. The Task Force also had several considerations they felt should be taken into account as the City moves forward to solve this challenge.

Recommendation

The Meeting the Challenge Task Force recommends a Restaurant Tax of 5.0%, which would generate about \$14 million annually for the City. After filling the General Fund gap, any remaining funds could be used to assist restaurants in covering the costs to implement the tax, to market and promote Eugene as a destination, and to increase high priority services such as public safety.

Considerations

- Economic development and growth will provide the City with an ongoing opportunity for more revenue. City policies and procedures should stay consistent throughout different economic cycles and should encourage economic development and growth to maximize resulting property tax revenue to the General Fund. The Task Force recognizes that this is not a short-term solution, but believes it will bring results over the long-term.
- The Task Force is sensitive to the efforts of the State to raise revenue by changing the tax rates on personal income and increasing the minimum tax for corporations. The Task Force members acknowledge that an income tax would be a broad-based and equitable alternative for funding City services. In addition, the Task Force recognizes that other state and local governments are discussing new ways to generate revenue. Individual and businesses will be more likely to support additional payments if they know what will be achieved with the money.
- To maintain the public's trust, when revenue is associated with services and the revenue is not generated because it lacks public support, the services associated with the revenue should be scaled back or eliminated.

- The income from the revenue source should naturally grow with the growth of the City without the need for a rate adjustment, corresponding to the additional need for services.
- Review existing fees for services regularly and make predictable, periodic adjustments to reflect the increased cost of doing business. Some revenue opportunities might be worthwhile, but by themselves would not be sufficient to fill the entire General Fund revenue shortfall.
- It may not be possible to get all the way to a sustainable new revenue source immediately; a strategy that uses a local option property tax levy might be appropriate as a bridge until the new revenue source is in place. Any new revenue measure needs a comprehensive campaign designed to give voters a complete understanding of why the money is needed, who will pay the tax, fee or charge and what it will buy. A list of cuts in services that would be made if no new revenue source is identified should be provided.

Options

- **Restaurant Tax** – This tax is paid by residents of Eugene as well as others who use City services but do not live here. Since the payer of the tax can afford to eat out, this tax may not be considered as much of a burden. A tax of 3 to 5% would generate approximately \$8-\$14 million and would be a small addition to a restaurant bill.

While a Restaurant Tax is the recommended option for new revenue, the Task Force also identified two other options that might be further considered. The Task Force felt these alternatives are of interest but problematic and would require more thorough and careful examination.

- **Utility Consumption Tax** – This is a tax that would be paid by both individuals and businesses. A tax of 1.5% would generate at least \$2 million annually after administrative costs and adjustments for low-income and high volume users. It would be optimal to work collaboratively with the Eugene Water & Electric Board (EWEB) to identify any potential problems with this option early on. Piggy-backing this tax on an existing billing system such as the one used by EWEB would be the most cost-effective way to implement it.
- **City-wide Monthly Fee for Service** – This is a per unit fee that is used to pay for certain services. The fee should not be for a service that is deemed to be essential, such as public safety services. The amount of the fee is important. Recognizing that the fee needs to generate enough to cover the administrative costs, \$5 a month is considered acceptable whereas \$10 a month would be too much. The fee would be paid by both individuals and businesses and the basis for the fee could be used to encourage other types of desired changes.

Revenue Options That Were Not Recommended

Initially, a list of 15 revenue sources was considered. The appendix includes a description of each option and the recommended action of the Task Force.

Attachments

1. Templates for All Revenues Sources That Were Considered.
2. Criteria for Evaluating Revenue Alternatives – September 21, 2009 Memo.
3. Previously Identified General Fund Revenue Alternatives – October 22, 2009 Memo.
4. Meeting the Challenge Background and Process.

**Meeting the Challenge Task Force
Review of General Fund Revenue Alternatives
January 22, 2010**

| Restaurant Tax – Recommended | |
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| Description | Tax on sales of food and non-alcoholic beverages served by restaurants in Eugene and paid by the customers based on their bill. |
| Meeting the Challenge Action | The Task Force recommended a 5% Restaurant Tax. |
| Legal Authority & Restrictions | Under home rule authority, Oregon cities have the power to enact a sales tax without state enabling legislation. |
| Precedence | <p>Currently, there are two cities in Oregon that collect this tax. The City of Yachats collects a 5.0% tax that applies to most prepared foods and dispensed beverages, not including alcoholic beverages. Yachats City Council voted 4-1 in favor of the tax on November 6, 2006; collection of this tax started in July of 2007. Tax proceeds are dedicated to debt payments on the wastewater treatment plant. The ordinance that imposed the tax does not have a sunset clause, and contains a provision allowing the City Council to increase the tax rate in the future after a public hearing.</p> <p>The City of Ashland collects a 5.0% tax on all prepared food. Currently, 80% of the tax goes towards debt payments for past upgrades to the sewage treatment plant and 20% goes for park land purchases. The tax was to sunset in 2010. On November 3, 2009, Ashland voters voted to extend the 5% tax to 2030, 58.8% to 41.2% in favor. One of the factors in this vote was that the wastewater rates would have gone up by 55% had the tax not been renewed.</p> <p>In March 1993, the City of Eugene proposed a 3.0% restaurant tax to be used as a general revenue source; the proposal failed at public vote with 60% opposed and 40% in favor.</p> |
| Revenue Yield & Stability | <p>Based on estimates developed for the 1993 proposed restaurant tax and assuming 4% average growth, a 1.0% restaurant tax would generate approximately \$2.8 million in 2009. If levied at 5.0% rate, this tax would raise approximately \$14 million annually. Determining how much of this amount would be paid by out-of-town visitors vs. City residents would require additional research, as this information is not immediately available.</p> <p>Revenues would fluctuate with changes in personal income and the economic environment.</p> |
| Revenue Adequacy | Based upon the estimated annual yield, this revenue source would |

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| | <p>meet some, but not all of the City of Eugene’s General Fund need if imposed at 1.0% level. If imposed at a higher rate, this tax may meet all of the General Fund needs, depending on the rate.</p> |
| Administrative Effort | <p>If patterned after Ashland’s process and the City’s Telecommunications Tax, businesses would remit the tax quarterly to the City. After the initial registration of all eligible businesses, staff time would be required to post payments, work with business owners and enforce the tax uniformly. Dedicated staff would be needed to perform this function. An effort will need to be made to clearly identify foods and beverages that are subject to this tax to make compliance easier for local businesses. A portion of the proceeds may be retained by the restaurants to help defray the costs associated with collections and remittance activities.</p> |
| Timeline | <p>This tax could be implemented by FY12. The tax would most likely be referred to the voters for approval. Lead time would also be necessary to establish administrative and enforcement mechanisms.</p> |
| Incidence & Equity | <p>Designed to be a single, proportional rate. In the political campaign of 1992-93, it was argued that this tax is regressive because low income households spend a high proportion of their income on “fast food”. However, according to the Economic Research Service/USDA, “The wealthiest households tend to spend a greater share of their food budget on eating away from home than the least wealthy households: 47% versus 36% in 2008 – almost double the share of low-income households.”</p> <p>A relatively large proportion of this tax would be paid by visitors, similar to the transient room tax.</p> |
| Nexus | <p>This tax would be paid by both residents and non-residents of the City. Both residents and nonresidents use and benefit from a wide variety of city services including public safety, parks and cultural services.</p> |
| Consistency with Council Goals & Policies | <p>A restaurant tax would be consistent with City Council goals and policies.</p> |
| Fairness & Political Feasibility | <p>In the current economic environment, an additional tax on food and beverages may be seen as unfair by some segments of the local community, including businesses and those representing low-income populations. Opposition to this tax is likely from industry groups such as the Oregon Restaurant Association.</p> |
| Sustainability Impact | <p>A restaurant tax would not create an undue burden on future generations.</p> |

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| Utility Consumption Tax – Recommended as Second Choice | |
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| Description | A tax on utility services used by residents of the City; levied on the amount of consumption or established as a flat fee per account. |
| Meeting the Challenge Action | As an alternative to the Restaurant Tax, a Utility Consumption Tax of 1.5% that would net \$2 million annually after administrative costs and adjustments for low income and high volume users, was recommended by the Task Force. |
| Legal Authority & Restrictions | Under home rule authority, Oregon cities can enact a consumption tax. |
| Precedence | <p>The City of Ashland imposes an Electric Utility User Tax. The tax is designed as a surcharge of 25% on monthly energy use. This tax generates revenue to fund general City services such as Police, Fire, Planning, Building and Senior Programs, offsetting property taxes. This tax generates approximately \$2.6 million annually.</p> <p>In March 1996, the City of Eugene proposed a 1% utility tax to fund low income housing which failed at public vote; 61% no to 39% yes.</p> |
| Revenue Yield & Stability | <p>If the tax were structured as a percentage surcharge on the use of electricity, natural gas, water, storm water and wastewater a rough estimate for potential yields are as follows:</p> <p>1.0% = \$2.2 million 1.5% = \$3.3 million 2.0% = \$4.5 million</p> <p>The monthly impact to the average residential user of electric, water, storm water and wastewater services is estimated below:</p> <p>1.0% = \$1.25 1.5% = \$1.87 2.0% = \$2.50</p> <p>Impact to commercial users is not provided as commercial consumption varies greatly by business. Residential consumption accounts for approximately 60% of the electric retail revenue</p> |

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| | <p>collected by EWEB.</p> <p>A portion of the tax revenue would be needed to offset administrative costs for the utilities to collect and remit the tax.</p> <p>An annual allocation could be set aside to help mitigate the financial impacts of the tax on low-income households. Implementation of these items would reduce the yield estimates given.</p> |
| Revenue Adequacy | Based on the estimated annual yield, this revenue source would meet some, but not all of the City of Eugene General Fund needs. |
| Administrative Effort | <p>If the tax were imposed on utility companies based on gross receipts with the presumption that the tax is passed on to the customer, the on-going administrative effort would be minimal.</p> <p>An administrative fee for collecting and remitting the tax to the City would be negotiated with EWEB and NWNG. As an example, if an administrative fee of 5% of the net tax due were instituted (similar to the administrative fee in place for transient room tax) the foregone revenue would be approximately \$110,000 at the 1% tax level.</p> <p>The City has talked with EWEB in the recent past about being the billing agent for the Street Utility Fee. If both the Street Utility Fee and the Utility Consumption Tax move forward, City and EWEB staff would need to agree that both charges would be placed on the EWEB bill.</p> |
| Timeline | This tax could be implemented by FY12. It is assumed that such a tax would be referred to the voters prior to being implemented. |
| Incidence & Equity | <p>All utility users in the city would pay. An increase would be a greater financial burden to low-income households who have little to no discretionary income.</p> <p>Additionally, when the tax is established as a percent of consumption, large utility users are affected more than other users in the community. Developing a program to rebate some portion of the tax to large users could mitigate creating a barrier to economic development.</p> |

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| Nexus | An energy consumption tax would be levied across the community. The community as a whole benefits from the full range of services provided by General Fund Revenues. |
| Consistency with Council Goals & Policies | A Utility Consumption Tax would be consistent with Council goals and policies. |
| Fairness & Political Feasibility | In the current economic climate, given the unemployment rate in our region – there may not be community support or the political will to tax energy consumption in our community – particularly as this tax would have a greater impact on large businesses, low income residents or those who are out of work. |
| Sustainability Impact | A utility consumption tax would not create an undue burden on future generations. The tax could lead to reduced consumption, a sustainable practice which is a high priority value for the City. |

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| (XYZ) Public Service Fee – Recommended as Second Choice | |
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| Description | A public service utility is a defined group of related services that are generally available to and are broadly accessed by occupants of property in a city. Utility fees are typically set to recover part or all of the costs of the service, and are billed to persons who occupy or have use of developed property, not the owners of property. Unlike electricity, water, stormwater and sewer utility services, this fee would fund services that are not delivered directly to the property and are not directly measurable. The purpose of the fee is to provide stable funding to ensure the service remains available to the community. |
| Meeting the Challenge Action | After a Restaurant Tax, the Task Force recommended a Public Service Fee of between \$5 and \$10 a month to pay for services that are not deemed high priority services such as public safety. |
| Legal Authority & Restrictions | Under Oregon’s Home Rule principle municipality may charge fees for services. Revenues are not restricted. In January, 2007, the Oregon Supreme Court, in <i>Knapp v. City of Jacksonville</i> , upheld the City of Jacksonville’s public service utility fee. This case clarified that city fees for utility services may be charged to a person with the right to occupy or use property, but they may not be based on property ownership or value of property. |
| Precedence | <p>The City of Eugene currently does not charge any public service utility fees. A utility fee for street operations and maintenance, with revenue going to the Road Fund, has been under discussion for a number of years but has not been implemented.</p> <p>Several municipalities in Oregon do charge public service utility fees for parks, street operations and maintenance, police and/or fire services.</p> <ul style="list-style-type: none"> • <u>Jacksonville</u> currently charges a utility fee of \$20 per month on the occupant of each unit of developed property. This fee provides about 50% of the funding needed for Jacksonville’s fire services. • <u>Medford</u> charges \$2.60 per single-family home per month, producing \$1 million annually for police and fire services. Medford also charges a parks utility fee of \$2.87 per month per single-family home. • <u>Newberg</u> charges \$3 per residential unit per month for public safety services. • <u>Shady Cove</u> charges a utility fee of \$15 per month per residential or non-residential unit, dedicating the revenue to police services. • Numerous Oregon cities charge utility fees for street operation and maintenance. |
| Revenue Yield & Stability | Yield will vary with the fee level. Public service utility fee revenue |

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| | <p>usually supplements other resources. Fees are set with consideration of the impact on the customer as well as the target revenue yield. Utility fee revenues are stable because the fee is levied broadly across the community and the typical basis for the fee (occupancy and use of property) is fairly inelastic.</p> |
| <p>Revenue Adequacy</p> | <p>A public service utility fee could produce adequate revenue to replace net General Fund expenditures for selected public service. General Fund service areas most suitable for a public service utility fee are those that are broadly available to all residents, for which individual consumption of the services is not easily measurable and that have the greatest incidence of use according to the City's Community Survey.</p> <p>In Eugene these include:</p> <ul style="list-style-type: none"> • <u>Parks & Open Space</u>: (includes aquatics) net FY10 General Fund support is \$7.2 million; the Community Survey shows that parks & open space service are used by 78% of city residents. • <u>Library</u>: net FY10 General Fund support is \$7.1 million, and an additional \$2.8 million is funded by the Library Local Option Levy which will expire in FY11; the Library is used by 70% of city residents according to the Community Survey. <p>In FY09 in Eugene there are roughly 58,000 developed property units (53,000 residential and 5,000 non-residential units). If a flat utility fee of \$1 per month were imposed on all units and 100% collection is assumed, it would provide about \$700,000 gross revenue annually. If the fee was levied on a per-unit basis and was included on EWEB customer bills, the collection rate would be high and annual administrative costs could be in the neighborhood of \$200,000. With these assumptions, the fee would need to be about \$10.60 per unit per month to fully replace General Fund support for Parks & Open Space services including aquatics. To fully replace General Fund and the soon-to-expire LO Levy support for Library services, the monthly fee would need to be about \$14.50 per unit.</p> |
| <p>Administrative Effort</p> | <p>Most cities collect utility fees as part of a sewer, stormwater or water utility billing for a property unit. In Eugene, this would require cooperation by EWEB. If the utility fee is levied on a per-unit basis and is included on existing EWEB utility bills annual costs of administration, billing, collection and enforcement could be relatively low at about \$200,000. The City has talked with EWEB in the recent past about being the billing agent for the Street Utility Fee. If both the Street Utility Fee and the Public Service Utility Fee move forward, City and EWEB staff would need to agree that both charges would be placed on the EWEB bill. Administrative costs could be much higher and the collection rate lower if the City had to develop and implement a billing process separate from EWEB. In addition, administrative costs would likely be higher if the basis of the fee requires development and maintenance of property-specific data on which to base the fee.</p> |
| <p>Timeline</p> | <p>Because this fee would be a new, unfamiliar approach for funding</p> |

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| | <p>General-funded services in Eugene, substantial time would be needed to allow for full review and discussion by the City Council as well as by members of the community. It would be reasonable to expect a referral of a utility fee proposal to the ballot. Additional time would be needed to determine billing, collection and enforce processes. It would likely take at least two years to implement a new public service utility fee.</p> |
| Incidence & Equity | <p>All occupants of developed property will benefit from continued availability of the public services, and all could be equitably charged the utility fee. Publicly-owned or non-profit-owned facilities including dormitories and group housing would subject to the fee. The City could negotiate what fee level is appropriate rather than applying a standard rate, or these facilities could be subsidized through an exemption which would shift their share to other payers.</p> |
| Nexus | <p>The typical basis for existing public service utility fees in Oregon is the occupancy or use of a developed property, and the fee is typically levied as a flat fee on residential and nonresidential units, or on residential units only, depending on the service funded. The cost of the funded service is distributed as a simple average among all occupied units. This basis recognizes two key points: (1) the generality of the nexus between the public service funded by the fee and the common benefits provided by the availability and broad usage of the service by occupants of developed property across the community, and (2) the lack of practical ways to base the fee on actual measured usage of the public service.</p> <p>Other possible basis for levying the fee besides the per-unit basis include floor area or street frontage of units, number or ages of occupants, type of unit, etc. But these would be arbitrary measures unrelated to actual usage of the funded service, and would not increase equity. Developing and maintaining this kind of property- specific data may be difficult and would likely have a higher administrative cost without achieving a greater degree of equity in relating the fee to individual usage of the funded service.</p> |
| Consistency with Council Goals & Policies | <p>This fee is consistent with Council goals and policies.</p> |
| Fairness & Political Feasibility | <p>The successes of cities that have implemented utility fees for public services demonstrates that such fees can be seen as fair and can be politically feasible. However, as a new idea for the City of Eugene, it is likely that substantial discussion would be required before a consensus on fairness emerges and politically feasible is determined.</p> |
| Sustainability Impact | <p>The fee would have no adverse impact on sustainability goals.</p> |

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| Expanded/Increased Charges for Service – Not Recommended as Major Revenue Source | |
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| Description | These are charges to customers who purchase, use or directly benefit from a specific good or service provided by the City. The charge is usually imposed as a fee at the time and location a good or service is delivered. Some charges for service are contractual. Revenue reimburses the City for part or all costs for provision of the good or service. Business privilege licenses, fines and use permits are not considered charges for service and are not included in this discussion. |
| Meeting the Challenge Action | The Task Force recommended reviewing existing fees for services regularly and making predictable, periodic adjustments to reflect the increased cost of doing business. |
| Legal Authority & Restrictions | Under Oregon’s Home Rule principal, a municipality may charge for the provision of goods and services. Revenues are not restricted. |
| Precedence | Most cities impose a wide range of charges. The City of Eugene currently imposes charges for more than 120 specific General-funded goods and services, providing estimated revenue of about \$10.4 million for the General Fund in FY10. It is possible to establish new charges for goods and services not currently charged for. |
| Revenue Yield & Stability | <p>Charges may provide all but more typically yield only part of the direct cost of providing the services. Overhead costs may also be included in the cost recovery calculation for service charges.</p> <p>Fees are usually set with consideration of the impact on the customer as well as the revenue yield. Some considerations that might influence governmental pricing practices are the need to regulate demand, the desire to subsidize a certain product, administrative concerns such as the cost of collection, and the promotion of other goals.</p> <p>Consumption of some City goods and services is elastic and if charges are set too high, customer volume and eventually revenue may decline. Some fee revenues will vary with economic conditions as individual’s income increases or decreases. Changes in building activity will impact revenue from charges for planning services. These concerns are taken into account by departments when fees are set or contracts are negotiated.</p> <p>Summary of FY10 budgeted revenues for charges for service:</p> <ul style="list-style-type: none"> • Rental Revenue: \$90,000 • Central Business Functions: \$20,500 • Cultural/Leisure Service Revenues: \$5.1 million • Infrastructure and Planning Services Revenue:\$1.1 million • Public Safety Service Revenues: \$4.1 million <p>Largest individual charges for service include:</p> |

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| | <ul style="list-style-type: none"> • Amazon Pool Fees: \$318,000 • Hult Concessions Revenue: \$275,000 • Hult Hall Rental: \$415,000 • Hult Patron Charges: \$329,000 • Hult Reimbursement Charges: \$732,000 • Downtown Service District Fees: \$308,000 • Zoning & Vacation Charges: \$485,000 • Animal Surgery Charges: \$210,000 • Fire Contracts with Rural Fire Districts: \$1.5 million • Fire Dispatching Charge: \$696,000 • Police Charges to UO: \$509,000 <p>Revenue yield from new charges are likely to vary by type and level.</p> |
| Revenue Adequacy | Revenue from expansion or increase of individual charges would be tiny compared to the needs of the General Fund. Total revenue improvement from broadly reviewing charges would likely raise more revenue, but still small compared to the anticipated funding gap. The total revenue potential cannot be estimated accurately, but would likely be inadequate to contribute much towards a sustainable budget. |
| Administrative Effort | To update existing individual charges, an analysis of costs, customer demand for the service, economic conditions and other considerations may or may not be necessary. Development of new charges for service may require more substantial administrative effort. Once set or adjusted, charges are relatively simple to impose and collect at the time and place of delivery of the good or service. |
| Timeline | Charges for service are set administratively. Adjustment of existing charges may be done within a few weeks, while establishing new charges may take several months or longer. |
| Incidence & Equity | Most charges for service can be avoided because the services they fund are optional to the customer. Only people who use the good or service are charged, so the incidence of payment to consumption corresponds exactly. Equity can be a concern if charges are set so high that some people cannot afford to pay, even though they desire the service. City policy towards maintaining affordable charge levels may come into play to address equity concerns. |
| Nexus | There is a very close nexus between the good or service and who pays; those who directly use the good or service are charged. |
| Consistency with Council Goals & Policies | Charges for service are generally consistent with Council goals and policies. However, City policy towards maintaining affordable charge levels may come into play to address equity concerns. |
| Fairness & Political Feasibility | Perception of fairness will vary depending on the good or service involved and the level of the charge. Existing City charges are seen by Council and community as a fair way to generate revenue for the particular service provided. |
| Sustainability Impact | There is no adverse impact on City sustainability goals. |

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| Business License Fee – Not Recommended | |
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| Description | A business license fee is a fee for the privilege of conducting business within the City of Eugene limits. It could be imposed on any person, partnership, corporation or similar entity doing business in the City of Eugene. The fee calculation could take several different forms: a fixed amount per business, a flat percentage of income earned in the City of Eugene, a fixed fee levied on business according to the number of its employees. It is typically paid prior to engaging in business, paid on an annual basis, and does imply a regulatory relationship. |
| Meeting the Challenge Action | The Business License Fee was dropped from consideration since the effort required to implement the fee would not result in a substantial revenue source, less than \$2 million annually and the administrative costs would likely be substantial. The revenue stream would be more appropriate for new City services. |
| Legal Authority & Restrictions | Oregon home rule principle does not preclude the imposition of a business license fee. The City has the legal authority under the state law to implement this fee, and there are currently no legal restrictions on the use of this source of revenue. |
| Precedence | <p>The City of Portland business license rate is 2.2% of the net income after allowable deductions. The annual minimum fee is \$100.00. Business licenses are required from the opening date of business. Multnomah County's business income tax rate is 1.45% of the net income after allowable deductions; there is no minimum tax. Business income taxes are due after each tax year end.</p> <p>Many other Oregon municipalities also collect business license fees, with amounts varying greatly by jurisdiction. Some jurisdictions, such as the City of Springfield, restrict business license fees to certain types of businesses, while others, e.g. Portland, Gresham and Beaverton collect this fee from all businesses operating within their city limits. A number of other Oregon municipalities, e.g. the City of Salem, do not impose a business license fee.</p> |
| Revenue Yield & Stability | Based on the Oregon Employment Department records, there were approximately 5,800 businesses registered in Eugene area zip codes as of 2001. According to the 2005 study by Chastain Economic Consulting, the number of private firms in Lane County has grown by an average 1.7% per year between 1990 and 2004; however, it is likely that this trend has reversed during the 2007-09 recession. A flat fee of \$100 per year would generate approximately \$580,000 in business license revenue, assuming |

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| | <p>no increase in the number of businesses since 2001.</p> <p>The stability of this revenue source would presumably fluctuate with area's economic conditions.</p> |
| Revenue Adequacy | Based on the estimated annual yield, this revenue source would only meet a small portion of the City of Eugene General Fund needs. The fee amount would need to be raised annually to keep up with the growth in City's General Fund expenditures. |
| Administrative Effort | There are currently no specific estimates of the cost of administration, collection and enforcement associated with this revenue source. As there is currently no existing similar program, administration costs associated with a business license fee program would be significant. Start-up cost estimates would also need to include the cost of implementing an automated tracking system. |
| Timeline | A reasonable timeline for implementation of a business license program would be a minimum of 8-12 months. If a decision to impose this fee was made today, FY12 would likely be the first year in which this program would be fully implemented. |
| Incidence & Equity | While this fee would be paid by businesses, some portion of it would likely be passed on to the customers. The equity of this fee would largely depend on its structure. A flat fee per business would be a greater burden on smaller businesses. This fee would not be related to business profitability. It would be a deductible business expense for federal and state tax purposes. |
| Nexus | Businesses operating in the City of Eugene would benefit from beneficial and favorable business climate associated with adequate provision of general government services, such as police and fire protection, parks and libraries. |
| Consistency with Council Goals & Policies | This revenue source would be consistent with adopted City Council goals & policies. |
| Fairness & Political Feasibility | City Council and community acceptance of this revenue source has not been assessed. It would be reasonable to expect that this revenue source would be opposed by the business community that would be affected by the business license fees. |
| Sustainability Impact | This fee would not impose a burden on future generations. However, it would increase the cost of doing business within the City of Eugene and would make the city a slightly more expensive place to do business. |

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| Local Option Property Tax Levy – Not Recommended | |
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| Description | A local option levy is a property tax that is paid by all property owners within the City limits. The City could impose a local option levy for capital projects for up to 10 years, or for other purposes for a maximum of five years. |
| Meeting the Challenge Action | Local option levy is not recommended because by statute the funding is limited to 5 years for operating purposes. The revenue from the levy is not ongoing and should not be used to pay for ongoing expenses. |
| Legal Authority & Restrictions | New or additional property taxes must be approved by a majority of the people voting in a primary or general election. |
| Precedence | Property taxes are used extensively by local governments across the United States. The City currently imposes a four-year local option levy, for library service improvements. The City has not proposed any capital local option levies in the past. |
| Revenue Yield & Stability | <p>To fund \$5,000,000 of operating costs with a five-year local option levy, the City would have to levy approximately \$5,664,000 per year. The typical single-family home with a taxable assessed value of \$158,447 would pay about \$0.49/\$1000 of AV, or \$77.67 per year over the five-year period.</p> <p>Local option levies are subject to the \$10/\$1000 of real market value tax rate cap for all general governments under Measure 5. Under Measure 50, 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> |
| Revenue Adequacy | <p>A substantial portion of the City’s revenue needs could be met in the short term via a local option levy – if passed by voters.</p> <p>A local option levy is not necessarily a long-term solution as future funding would be contingent upon voters renewing the levy in future years to continue the revenue stream.</p> |
| Administrative Effort | Property taxes are administered by the County. The County prepares the tax bills, collects the funds, and remits the appropriate amount to the City on a regular basis. Enforcement is performed by both the County and the City in the foreclosure process. |
| Timeline | A local option levy could be placed on the ballot in May of 2010 to be implemented in FY11. |
| Incidence & Equity | The tax is paid by all property owners within City limits. Property owners include business and residences. Businesses may choose to pass the tax |

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| | on to their customers. |
| Nexus | The local option levy is a broad based tax across all property owners in the community, and non-resident property owners. Members of the community benefit from and enjoy a broad range of services provided by General Fund resources including public safety, parks, and cultural services. |
| Consistency with Council Goals & Policies | <p>The City Council has several financial policies stating that, to the extent possible, non-recurring resources, such as a local option levy, should be used for non-recurring expenses – not to fund ongoing services.</p> <p>Council goals also include a desire to foster affordable housing. An additional property tax levy would be contrary to that goal, as it would raise the cost of housing.</p> |
| Fairness & Political Feasibility | <p>The property tax is a proportional tax on the value of real and personal property for both businesses and residences. It does not take into account the ability of the taxpayer to pay the tax. There are numerous exemptions from the property tax designed to promote a variety of policy goals, including some designed to lessen the impact on low-income owners and tenants.</p> <p>The property tax is understandable to the voters (as opposed to a new form of user fee or taxes), making it politically feasible from that standpoint.</p> <p>Local option levy proposals have had mixed success in the Eugene area in recent years. There have been six local option levy proposals on the ballot from Eugene or Lane County since Measure 47 passed, and three of those have been successful. Council members have expressed dissatisfaction with heavy reliance on property taxes in various forums in recent years.</p> |
| Sustainability Impact | A local option levy would not create an undue burden on future generations. |

**Meeting the Challenge Task Force
Review of General Fund Revenue Alternatives
January 22, 2010**

| Payroll Tax – Not Recommended | |
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| Description | A tax on wages and salaries earned within the City. When collected via a payroll deduction, it is commonly called a payroll tax; when collected from employer based on total payroll, it is commonly called a head tax. |
| Meeting the Challenge Action | Although this tax would capture revenue from individuals living outside the City who use City services, the tax was not recommended because it is not paid by employers of the State and the method of charging per head is difficult on small businesses and low-income jobs. |
| Legal Authority & Restrictions | Cities in Oregon have the legal authority to impose a payroll tax under the Oregon home rule principle, as there is no preemption under the current state law. However, it is unlikely that the Oregon Department of Revenue would agree to collect this tax on behalf of the City of Eugene unless it is compelled to do so by the state legislature. |
| Precedence | <p>The State of Oregon collects a tax on gross payroll within the Lane Transit District in Eugene/Springfield area and the Tri-County Metropolitan Transit District (Tri-Met) in the Portland area to provide partial funding for those districts. Transit districts do not have the home rule authority and may not impose these taxes unless allowed by the state statute.</p> <p>Effective January 1, 2009, LTD payroll tax rate was increased to 0.65%. In 2003, Oregon legislature provided LTD with the authority to increase the rate annually until it reaches 0.7% in 2014. Certain wages, such as those paid by the federal government units and public school districts are exempt from the tax under the state law. A number of other employers, such as cities and County are exempted from this tax by an LTD ordinance.</p> |
| Revenue Yield & Stability | According to an analysis completed in 2001, a 1% payroll tax in Eugene would raise an estimated \$29.6 million per year if applied to all payrolls. This amount would need to be reduced in order to adjust for payrolls that are likely to be exempt from this tax, such as that of federal and state agencies. A more up-to-date estimate of the amount of payroll taxes that can be collected annually is currently not available due to lack of breakdown of payroll tax collected within the LTD service area by jurisdiction. |

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| | The amount of revenue collected is likely to mirror employment and wage trends and therefore correlate strongly with the current economic conditions in the area. |
| Revenue Adequacy | This revenue source would generate a very significant amount of revenue and would provide a sustainable source of revenue for the General Fund for the foreseeable future. |
| Administrative Effort | The effort associated with administration, collection and enforcement of this revenue source would be born primarily by the State of Oregon and would be similar to the effort associated with collecting payroll taxes on behalf of LTD and Tri-Met by the Department of Revenue. If the City of Eugene were to collect this tax on its own, the administrative costs of doing so would be very high. |
| Timeline | A reasonable timeline for implementation of this revenue source cannot be estimated at this point. |
| Incidence & Equity | Even when established at a flat rate, this tax is often regressive in its nature, because it ignores non-wage income such as self-employment earnings, investment income, rents and dividends. This tax may affect household relocation decisions and this have a negative impact on population growth. An employer-paid option would create a disincentive for job creation. |
| Nexus | Citizens employed within the City of Eugene limits would benefit from adequately funded general government services, such as police and fire protection, parks and libraries. Citizens who work in the City of Eugene and live elsewhere, but use City services while within the City limits, would contribute to the City's tax base. |
| Consistency with Council Goals & Policies | This revenue source would not be inconsistent with adopted City Council goals and policies. It would strongly support the goal of achieving fair, stable and adequate financial resources. |
| Fairness & Political Feasibility | <p>Opposition to a payroll tax from both business and labor groups, as well as city residents in general, would be likely. When this tax is withheld from the wages of only non-city residents, it is sometimes called a work privilege tax; it was considered and rejected by the Eugene City Council in 2004.</p> <p>The Eugene Decisions surveys identified this revenue source as one of the three least favored taxation choices. It is likely to face opposition at the state level as well.</p> |
| Sustainability Impact | This revenue source would not impose an undue burden on future |

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| | <p>generations. However, it would reduce the amount of disposable income available to City residents, and may therefore have a negative impact on economic activity in the City of Eugene.</p> |
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**Meeting the Challenge Task Force
Review of General Fund Revenue Alternatives
January 22, 2010**

| Personal Income Tax – Not Recommended | |
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| Description | A tax on income of residents of Eugene and nonresidents earning income in Eugene. |
| Meeting the Challenge Action | The Task Force agreed that the Personal Income Tax was the best, most fair tax to pay for a broad range of General Fund services, but it is politically unfeasible at the current time. Measure 66 which raises the personal income taxes State-wide and is on the ballot in January 2010 was the reason for not considering the tax any further. |
| Legal Authority & Restrictions | Under Oregon’s Home Rule principle, a municipality has the authority to assess a personal income tax on residents and non-residents earning income in Eugene. |
| Precedence | <p>There is a personal income tax precedent in Oregon. In 2003 Multnomah County passed a three-year temporary personal income tax on County residents to fund public schools, healthcare, senior services and public safety. The tax raised about \$128 million per year.</p> <p>In November 1985 there was an income tax measure on the Eugene ballot. It failed 89% to 11%.</p> <p>In the summer of 1994 the City Club of Eugene issued a report suggesting the City Council consider a personal income tax but a tax was not considered in that year.</p> <p>A personal income tax on incomes above \$100,000 to fund public safety services was considered and rejected by City Council in July of 1996.</p> <p>In the Fall of 1997, City Council formed the Council Committee on Finance to review multiple revenue sources that would stabilize the General Fund after the impact of Measure 50. The committee reviewed multiple revenue sources and ultimately recommended that Council direct staff to develop an implementation plan for a business and personal income tax. Although Council took no action on the recommendation, this effort contributed to the allocation of Urban Renewal funds to the new library and the successful passage of the Parks and Open Spaces Bond Measure.</p> <p>In November of 1999, Lane County proposed an 8% income tax surcharge to support public safety needs. The measure failed, 74% no 26% yes; in Eugene, it failed 68% no 32% yes.</p> <p>In May of 2007, Lane County proposed a 1.1% income tax measure to support public safety needs. It failed 71.1% to 28.9% in Lane County.</p> <p>The City Council has undertaken additional alternative revenue study efforts which included considering a personal income tax in 1992, 2002 and most</p> |

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| | recently in 2007 for transportation needs. |
| Revenue Yield & Stability | <p>Assuming that approximately 68% of Lane County income is earned within Eugene or by Eugene residents, a 1 percent tax on Adjusted Gross Income would generate \$51 million. Alternatively, a Eugene income tax could be levied as a percentage of the taxpayer's state income tax liability. A Eugene surcharge of 10 percent would have raised about \$28 million for fiscal year 2007-8.</p> <p>Tax revenues would fluctuate with changes in personal income and mirror economic conditions.</p> |
| Revenue Adequacy | A personal income tax could meet the revenue needs of the city – however there could be a high administrative cost associated with collection. |
| Administrative Effort | <p>There are no specific estimates of the cost of administration, collection and enforcement associated with administration of this revenue source. It is assumed in-house administration costs would be significant.</p> <p>An alternate collection possibility could be to “piggy back” on the state income tax much like municipalities do with a local sales tax with states that collect a state sales tax. The state collects the entire sales tax and remits the local share back to the municipality. The responsibility for compliance and collection then rests with the state. It is possible that a similar mechanism could be used for a local personal income tax if the State were willing to collect the local share.</p> |
| Timeline | A personal income tax would most likely be referred to the ballot – the earliest opportunity to go before the voters would be in May of 2010. The City would have to establish a collection mechanism – either in house or in coordination with the Department of Revenue to establish procedures around the distribution of the tax. The earliest collections from a personal income tax would start being received would most likely be April 2012 for tax year 2011. |
| Incidence & Equity | <p>All Eugene residents earning income would pay the tax regardless of employer or source location and potentially non-residents that are earning income in Eugene as well.</p> <p>Generally an income tax is designed to be progressive, but the structure of the tax can increase or decrease progressivity. This tax would mirror the progressivity of Oregon state income taxes if established as a surcharge to state income tax liability.</p> |
| Nexus | A personal income tax is a general tax that would support a wide range of City services. |
| Consistency with Council Goals & Policies | This revenue source would be consistent with adopted City Council goals & policies. |
| Fairness & Political Feasibility | In the current economic environment, a personal income tax may be viewed as unfair especially given the high unemployment rate in the region. Lane County was unable to pass a personal income tax in a more stable economic environment. It is expected there would be limited Council and community support for such a measure at this time. |

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| Sustainability Impact | A personal income tax would not impose an undue burden on future generations. |
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MEMORANDUM

Date: September 21, 2009

To: Meeting the Challenge Task Force

From: John Huberd, Sr. Budget Analyst, 541-682-5386

Subject: Suggested Criteria for Analysis of Revenue Alternatives

Listed below are suggested criteria for selecting revenue alternatives. An evaluation of each revenue alternative using this criterion would provide a balanced approach in selecting revenue options. Due to the short timeline for the Task Force each initial analysis would be kept simple while allowing for the selection of the most feasible revenue alternatives.

1. Legal Authority & Restrictions: May the City legally implement the revenue alternative and are there legal restrictions on the use of the revenue?
2. Precedence: What is the prior history of the revenue alternative in Eugene?
3. Revenue Yield & Stability: What would be the magnitude of the estimated revenue yield and how would that likely change over time?
4. Revenue Adequacy: Would the yield meet a significant part of the City's projected revenue needs?
5. Administrative Effort: How could administration, collection and enforcement be performed and would there be significant costs involved?
6. Timeline: What is a simple timeline for implementation of the revenue alternative and collection of revenue?
7. Incidence & Equity: Who would likely pay and could the revenue alternative be imposed impartially?
8. Nexus: What relationship would exist between the sources of the revenue, the services it would help fund, and who would pay?
9. Consistency with Council Goals and Policies: Would the revenue alternative be consistent with adopted goals and policies?
10. Fairness & Political Feasibility: To what extent would the revenue alternative likely be viewed as fair or unfair? How likely is Council approval and community acceptance of the revenue alternative?
11. Sustainability: Would the revenue alternative impose an undue burden on future generations?



MEMORANDUM

Date: October 22, 2009

To: Meeting the Challenge Task Force

From: Larry Hill, Senior Financial Analyst, 682-5722

Subject: Previously Identified General Fund Revenue Alternatives

The City of Eugene has comprehensively reviewed new alternative revenue sources for the General Fund a number of times since the mid-1980s. In the past we have identified the following as possible revenue alternatives for the City's General Fund.

Amusement or Admissions Tax – An excise tax applied to the price of amusement fees or admissions to spectator events, performances, sporting events, festivals or other forms of entertainment or amusement.

Annexation of Additional Property within the Urban Growth Boundary – Increase property tax revenue by annexing taxable property outside City limits but within the Urban Growth Boundary.

Business License Fee – A fee imposed on a person, partnership, corporation or similar entity for the privilege of conducting business within the City of Eugene. May be a general business license or specifically targeted.

Corporate/Business Gross Receipts Tax – A tax imposed on a person, partnership, corporation or similar entity for the privilege of conducting business within the City of Eugene, measured by gross income within the City of Eugene.

Corporate/Business Net Income Tax – A tax applied to the net income of a person, partnership, corporation or similar entity doing business in the City of Eugene. Tax could be piggybacked on state income tax.

Contribution in Lieu of Taxes (CILT) on City-Operated Sewer and Stormwater Utility Revenues - A percentage of gross revenues the City receives for provision of sanitary sewer and wastewater utility services. City code currently states that revenue derived from the above standard shall be used for the reconstruction, repair, maintenance, operation, and preservation of city-owned roads and streets. The Council can make this source available for general fund operations, but it would require a code change.

Contribution in Lieu of Taxes (CILT) on EWEB Water Utility Revenues – A percentage of gross revenues EWEB receives for provision of water utility services.

Expanded/Increased Fees for Service – Increase in the range of services for which the City charges fees and/or increase in the amount of fees charged.

Head or Payroll Tax – A tax on wages and salaries earned within the City of Eugene, collected either from employers on total payroll or from employees via a payroll deduction.

Retail Sales Tax – An excise tax levied on a broad range of or specific goods and services at the point of sale.

Local Option Property Tax Levy – A limited-duration tax levied on all taxable property in the City.

Personal Income Tax – A tax on income of residents of Eugene and on nonresidents earning income in Eugene. Tax could be piggybacked on state income tax.

Private Sector Sponsorship of Certain City Facilities or Services – Negotiated term sponsorship by private sector individuals, organizations, business or corporations to support specific City facilities or services.

Restaurant Tax – An excise tax on sales of food and beverages in the city paid either by customers on their bill or by the restaurant based on gross receipts.

Utility Consumption Tax – An excise tax on utility services used by residents of the City, levied either on amount of consumption or as a flat per-account fee.

Meeting the Challenge Process

Five Task Force meetings were held, including an initial meeting with staff and the City Manager to share perceptions of the financial condition of the City. The initial meeting included an overview of the General Fund, a comparison of benchmark revenues and expenditures from other jurisdictions, a presentation of the budget saving strategies put in place for FY09 and FY10 and a review of criteria to evaluate revenue alternatives.

Next, two meetings focused on a review of revenue alternatives and discussion by Task Force members of the pros and cons of each. Three options, Utility Consumption Tax, Restaurant Tax and XYZ Public Service Fee were chosen on November 11, 2009.

The subsequent two meetings were spent developing the Meeting the Challenge recommendation. During the month of December, Task Force members refined their recommendation for revenue alternatives focusing the conversation on adequacy, equity and political feasibility. The Task Force ultimately recommended a Restaurant Tax.

A final meeting is scheduled for January 26, 2010 for the Task Force to present the results of their work and recommendation to the City Manager.