Attachment A

Community Safety Revenue Team
Key discussion points from 4/17/19 meeting

A meeting of the Community Safety Revenue Team was held on Wednesday, 4/17/19, in follow-up to community feedback received regarding the Community Safety payroll tax proposal and the City Council deliberations on this topic, with two follow-up discussion topics being an update on the River Road/ Santa Clara annexation analysis and the City personal income tax analysis. Copies of the updated annexation and personal income tax analyses are included in this attachment.

Annexation Analysis Update

Staff provided the Revenue Team with an updated summary of the River Road/ Santa Clara annexation analysis. This analysis was based on updating the work that was previously done by the Financial Investigation Team (FIT), using 2018 tax year data from Lane County Tax Assessor for all unincorporated tax lots in the River Road/Santa Clara area, which includes all residential, commercial and industrial properties.

The key takeaway from the updated annexation analysis is that brining all of the River Road/ Santa Clara unincorporated areas into the City would leave a gap of about $1.2 million between the additional General Fund ad valorem tax revenues and the total costs of providing City services to this area (annual cost of $871 per capita), assuming a full permanent City tax rate rather than "hold harmless " tax rate that could be in place for up to 10 years. Revenue Team noted that the cost of providing services to a property, net of the property tax revenues generated by this property, is typically higher for residential properties than for commercial and industrial properties, which may explain some of this gap.

Revenue Team noted that continuing to pursue annexation is an important policy goal and that the City should be working towards that end in order to provide local government services more efficiently to the River Road/Santa Clara area. Team also noted that annexation is not an adequate funding mechanism to address community safety funding needs and that pursuing annexation options other than voluntary annexation would likely be controversial. Team also briefly discussed equity considerations around using property tax revenue from the River Road/Santa Clara area to address community-wide public safety needs.

City Personal Income Tax Analysis Update

Staff provided the Revenue Team with a copy of the updated City personal income tax analysis. Staff noted that the City Council has charter authority to implement a personal income tax by ordinance or may choose to put it on the ballot. Some of the feedback received from the community on the payroll tax proposal is that taxing City residents would be more equitable, and that it would take the tax burden away from businesses that will face higher state gross receipt taxes after this year's legislative session. While previous Lane County and City of Eugene personal income tax proposals were not successful, Multnomah County did implement personal income tax for three years in 2003.

The City of Eugene would need to contract with the Oregon Department of Revenue (DOR) to administer personal income tax, and it would take at least one year or more to implement. If income tax was effective 1/1/20, first personal income tax payment would be due by April 2021, as personal income taxes are based on income for the preceding calendar year. Staff shared other assumptions behind the analysis, which are documented in the analysis summary, including cost of administration, impact of tax avoidance and tax evasion, revenue collection rates, and other variable that affect personal income tax revenues.

Revenue Team reviewed a side-by-side comparison of three personal income tax scenarios and discussed how a City personal income tax would impact taxpayers at different income levels. In responding to the team's question about whether a City personal income would be collected via employer payroll withholdings, staff clarified that the current analysis assumes no employer withholdings and that taxpayers would remit tax payments to the DOR.

Revenue Team noted that a City personal income tax would have many of the same shortcomings as the City payroll tax. It also does not capture revenues from people who use Eugene public safety services but do not reside in the community. A personal income tax will likely have much higher implementation and administration costs, is more variable during the economic downturn that a payroll tax, and would also take longer to implement. Team also discussed that the community has previously rejected the idea of a City personal income tax.

Revenue Team also discussed impact of the payroll tax on low-wage employees and whether exempting employees below certain wage level may address some of the concerns. It was noted that doing so would significantly increase the cost of payroll tax administration. The team also discussed the advantages of sharing the tax burden broadly across the people of different income levels.

Revenue Team noted that community concerns about the payroll tax proposal may be addressed by structuring payroll tax in a way that reduces the tax burden on the employers. The team agreed that while they do not endorse the personal income tax option, they are open to the idea of modifying the payroll tax proposal in order to address concerns that have been raised.

The Revenue Team acknowledged spending less time on potential revenue sources other than the payroll tax and personal income tax for the primary reason that those sources would not raise the revenue needed to fund the Community Safety Initiative which was one of the revenue evaluation criteria.

Positive aspects of the income tax discussed by the Revenue Team are that it can be scaled to ease the burden on low-income households, has less of an impact on the business community, it could be retroactive, and it could raise the funding needed to support community safety needs. Revenue Team acknowledged that despite its shortcomings, personal income tax may be a viable option to raise community safety revenues. Revenue Team concluded its discussion by reaffirming its recommendation to the City Manager to pursue a City payroll tax as the Community Safety revenue source.

Title: River Road/Santa Clara Annexations

Description: A large number of unincorporated properties within Eugene's Urban Growth Boundary are located in the River Road/Santa Clara (RR/SC) and the Industrial Corridor Community Organization (ICCO) areas. These properties now receive services from several special districts and Lane County. There are also many properties in RR/SC and ICCO that are within the City and receive City services. The patchwork character of unincorporated and City properties make service delivery among properties in these areas difficult, inconsistent and inefficient.

The Eugene/Springfield Metropolitan Plan, adopted by Eugene, Springfield and Lane County, includes policies that encourage annexation as the preferred means of providing urban-level services for new development and for a city to be the providers of these services within its Urban Growth Boundary. The Lane County Code, which the City administers through an urban transition agreement, requires owners of unincorporated property to agree to annex for land divisions, zone changes, new commercial or industrial development, new dwellings and any other activity that increases demand for services. Annexation is not required for accessory dwelling units, minor property improvements, residential outbuildings, room additions, home remodeling or other activities that do not increase demand for services.

State law governs how annexations may occur. To be eligible for annexation a property must be contiguous with city boundaries or separated only by a right-of-way. All property owners and at least 50% of residents on a property must consent to annexation. There are numerous unincorporated islands in the area and state law allows such island properties to be annexed without consent; however the Metro Plan and City policy promote that annexations occur on a voluntary basis, rather than city initiated actions.

After annexation, a property is removed from any special districts and no longer pays special district taxes. The property then receives full city services and is subject to all city property taxes. The property tax paid by newly annexed properties does not quite cover the marginal costs of extending city services to the property, on average. State law allows taxes to be deferred up to ten years.

How could this idea help solve a budget gap? This idea is unlikely to help fill a budget gap because it is anticipated that taxes on newly annexed properties would not cover cost of extending city services to the property.

What are some potential benefits? The RR/SC and ICCO areas are currently a patchwork of incorporated and unincorporated properties. Additional annexations would consolidate incorporated properties and improve urban service delivery and service efficiencies.

What are some drawbacks? If taxes were deferred for up to ten years to encourage more annexations, there would be a significant deficit between the costs of providing the services and the revenues received. Property taxes would go up for those that are annexed.

What are longer-term or indirect implications from this idea? If the RR/SC and ICCO areas were entirely annexed, City service delivery would benefit due to increase efficiency. Residents in areas would benefit from consistent availability of urban-level services to their properties. Special districts in the areas would experience a loss of significant property within their boundaries, and community members are concerned about what happens to those districts and their community assets.

Financial Impact on City from Annexations

Updated: 4/16/2019

Goal: Estimate potential financial impact on the City of large-scale annexation in the River Road/Santa Clara/Industrial Corridor Community Organization areas

Key Assumptions: All City services are provided at the same cost per capita as current City services. Annexation brings in property tax revenues at (i) full City permanent tax rate or (ii) a “hold harmless” tax rate that maintains pre-annexation total tax rate for a period of up to 10 years as an annexation incentive. Annexed properties also generate the same per capita amount of other General Fund revenues per capita

Results: Revenues generated from annexing the area would be insufficient to pay the cost of providing the services, even at the full City tax rate. If a "hold harmless" rate is used as an annexation incentive, the shortfall would be even greater.

	Percent of RR/SC/ICCO Area Annexed			
	100%	75%	50%	25%
Assessed Value Annexed Area	$ 1,504,000,000	$ 1,128,000,000	$ 752,000,000	$ 376,000,000
Population Annexed Area	18,012	13,509	9,006	4,503
Total General Fund Revenues from Annexation				
At Full City Permanent Tax Rate	$ 14,500,000	$ 10,860,000	$ 7,240,000	$ 3,620,000
At "Hold Harmless" Tax Rate	$ 8,240,000	$ 6,170,000	$ 4,120,000	$ 2,060,000
Cost of Current Services	$ 15,690,000	$ 11,760,000	$ 7,840,000	$ 3,920,000
Surplus / (Deficit)				
At Full City Permanent Tax Rate	$ (1,190,000)	$ (900,000)	$ (600,000)	$ (300,000)
At "Hold Harmless" Tax Rate	$ (7,450,000)	$ (5,590,000)	$ (3,720,000)	$ (1,860,000)

Eugene Central Services
Finance

City of Eugene Personal Income Tax Report

Prepared for the Community Safety Revenue Team

April 17, 2019

Introduction

This report was prepared by City of Eugene Budget and Analysis staff to provide basic information about a personal income tax option.

Personal Income Tax

Description

Summary

A personal income tax would be levied as a percent of income earned by Eugene residents. The tax described in this report mirrors the income tax that the City presented to voters in 2011, but there are other ways that an income tax could be structured.

Legal Authority

Under Oregon's constitutional home rule powers, the Eugene City Charter grants the City Council broad authority over matters within the city's boundaries. The City Council may implement a personal income tax by ordinance. Alternatively, the tax may be placed on a ballot by the Council, by citizen initiative, or through a successful referendum petition.

Precedence

In November 1985 there was an income tax measure on the Eugene ballot. It failed 89% to 11%.

In the summer of 1994 the City Club of Eugene issued a report suggesting the City Council consider a personal income tax.

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.

In 1997, the Council Committee on Finance reviewed multiple revenue sources that would stabilize the General Fund after the impact of Measure 50. The committee recommended that Council direct staff to develop an implementation plan for a business and personal income tax. Council took no action on the recommendation.

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 to 32% yes.

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 $128 million per year.

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.

City of Eugene 2011 Temporary City Income Tax for Schools

In a May 2011 special election, Eugene's Measure 20-182 proposed a temporary City income tax for schools. 62% voted against the measure. Eugene's Temporary City Income Tax for Schools was structured with tiered rates applied to Oregon Taxable Income: incomes below $22,000 were not taxed; between $22,001 and $35,000 had a rate of 0.35%; between $35,001 and $50,000 had a rate of 0.47%; between $50,001 and $75,000 had a rate of 0.75%; and income above $75,000 had a rate of 1.2%. These rates were for joint incomes and single filer income levels were half of the joint levels. It was estimated that this would generate a net amount of $16.8 million per year, after subtracting tax avoidance and evasion, exemptions and administration.

Administrative Effort

As part of the 2011 Temporary Income Tax for Schools discussions City staff had preliminary conversations with Oregon Department of Revenue (DOR) and City of Portland Revenue Bureau (Portland) staff regarding possible administration of a personal income tax.

The City also considered administering the tax in house however remitting income tax forms for state tax to the DOR and city tax forms to the City of Eugene creates additional work for individuals to file multiple returns and forms, follow multiple compliance procedures and have different points of contact for their taxes.

The following information should be considered high-level and preliminary; more conversations would be needed to solidify the details.

Timeline

It is estimated that approximately one year would be needed to create the necessary framework for tax administration if the DOR or Portland were to administer the tax. If the City of Eugene did the work, the timeline could be longer as the City has not undertaken administration of a revenue of this scope or scale. It's anticipated there will be a one-year projected timeline between passage of the ordinance and the assumed tax collection start date. It's unlikely the City would be able to implement the necessary framework for income tax administration within this time period. However, it might be possible with adequate dedicated resources.

The current community safety bridge funding covers services through FY20. Income tax revenue is generated on a calendar year basis, with the due date for taxes from the prior year of April 15. If the income tax became effective as of January 1, 2020, revenues from the tax would not be due until April 15 of 2021. If another entity administered the tax, there would likely be a delay of one to three months in receiving the revenues once they were due. It would be challenging to put an income tax in place by January 1, 2020. However, there are short term options that Council could enact to continue services into FY21 until implementation was complete and revenues flowed in, such as appropriating one-time funding or using short-term borrowing in anticipation of tax revenues.

Costs

For this analysis, it is assumed that it would cost approximately 10% of gross revenues to administer the tax. Initial costs to implement the tax would be higher, as systems would need to be set up, publications designed, administrative rules developed, public outreach conducted, and so on. Future years would be less expensive for ongoing costs. Administrative cost estimates would be refined if Council decided to move forward with this option.

Other Considerations

The 2011 Temporary Income Tax was structured to be based on Oregon Taxable Income (OTI) because of its relative ease to administer. This is a clear line item on Oregon's tax forms, and there is a precedence for using this as a basis to determine individual tax liability. Multnomah County had an income tax in place for three years, and their County tax liability was based on the OTI on the Oregon tax form. This method also has some limitations; for instance, it would not consider exemptions such as number of dependents in the household.

The data in this analysis is based on the DOR's reported taxable income for the City of Eugene. The DOR does not identify which taxpayers live inside City limits; rather, this data simply reports returns that come from a Eugene mailing address. To estimate income on Eugene residents, reported income in Eugene was reduced by 17% based on an analysis of addresses done in 2011.

Oregon PERS and federal retirement benefits are exempt from local income taxes by Oregon and federal laws. The City of Eugene cannot collect taxes on this income, although the State can. The DOR data on Eugene income was adjusted to estimate the impact of PERS and federal pension income.

Revenue estimates must be adjusted to account for tax evasion and avoidance. Tax avoidance is a legal behavior that has the effect of reducing the taxpayer's exposure to a tax liability. For instance, new or existing residents might choose to change residence in order to avoid paying the tax. This is particularly notable for high-income households. Tax evasion is the unlawful failure to pay an owed tax liability. Because this is a new tax, many taxpayers might fail to pay out of simple confusion or because they aren't aware of the tax. If employers were required to withhold taxes for its Eugene residents, compliance would likely be higher, but there are other challenges with requiring withholding and City Council chose not to require withholding in the 2011 tax. For this analysis, the evasion and avoidance rates vary from 5% to 50%, depending on the income levels, based on a review of literature on this topic. The average evasion and avoidance factors range from 6-8% of gross revenue, depending on the structure of the tax.

The table in the Appendix sets out detailed information about tax returns, taxable income, and the evasion and avoidance rates used in the analysis.

Income Tax Structure and Rates

The estimates in this section are based on an analysis originally prepared in 2011 for the Temporary Income Tax for Schools. The tax data from the DOR has been updated to show 2016 tax information. No other methodology has been changed. The impact from recent federal tax reform, for instance, has not been considered. These estimates are designed to generate about $27 million of net revenue for community safety purposes, after taking into account evasion and avoidance (6-8% of gross revenue) and administration (10% of gross revenue).

Three scenarios are shown on the following page. The first two were designed for Council discussion in 2011 to show the rates and structure from different approaches to the tax. The third scenario (Scenario C) represents the tax brackets as were included in the 2011 Temporary Income Tax for Schools, although the rates were adjusted to generate $27 million of net revenue. The table shows Adjusted Gross Income (AGI) to provide context about general income levels, but the model's tax brackets are applied to OTI.

Income Tax Structure and Rates

	Scenario A		Scenario B		Scenario C	
	Rate	AGI	Rate	AGI	Rate	AGI
Brackets & Rates for Joint Incomes	1.04%	>$49,000	0.44%	<$12,000	0.35%	$30-49,000
			0.62%	$12-23,000	0.47%	$49-73,000
			0.81%	$23-323,000	0.75%	$73-107,000
			0.97%	>$323,000	1.20%	>$107,000
% of Taxpayers Affected	55%		100%		71%	

Impact on Taxpayers

The table below shows the expected liability for households filing a joint return for incomes ranging from $5,000 AGI to $250,000 AGI. The table shows AGI levels, estimated OTI, and then estimates the tax liability for each income level. In the model, incomes above $250,000 are captured, but because of the variation in income levels, an example tax liability is not shown below.

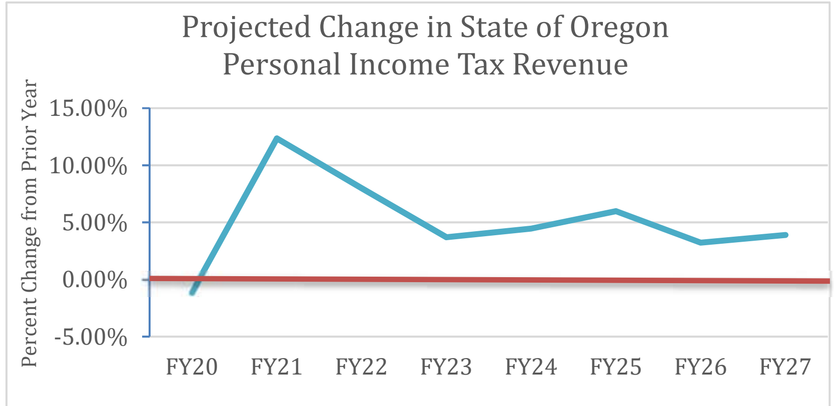
Estimated tax liability for a joint filing household

	Estimated	Estimated Tax Liability for a Joint Filing Household		
AGI	OTI	A	B	C
$5,000	$1,500	$0	$7	$0
$10,000	$5,700	$0	$25	$0
$15,000	$9,700	$0	$60	$0
$20,000	$13,900	$0	$86	$0
$25,000	$18,100	$0	$176	$0
$30,000	$22,000	$0	$213	$0
$35,000	$25,700	$0	$249	$90
$40,000	$29,100	$0	$282	$102
$45,000	$32,300	$0	$313	$113
$50,000	$35,400	$368	$343	$166
$60,000	$41,500	$432	$403	$195
$70,000	$48,200	$501	$468	$227
$80,000	$55,400	$576	$537	$416
$90,000	$62,500	$650	$606	$469
$100,000	$70,400	$732	$683	$528
$250,000	$193,600	$2,013	$1,878	$2,323

Income Tax Considerations

Sustainability

It is difficult to project future incomes with much certainty. The Oregon Office of Economic Analysis generates the state's revenue forecast and it estimates revenue receipts over the next several years. If the state's forecast is correct, actual tax liabilities from a Eugene personal income tax could vary significantly from year to year, even projecting to drop in FY20.



Source: State of Oregon, Oregon Economic Forecast, February 27, 2019

Revenue Fluctuations

Actual tax receipts could vary substantially from this projection for many reasons. Oregon has seen significant volatility in personal income taxes over the past years and that volatility is projected to continue. One factor is the income from capital gains has been volatile and tax revenues from capital gains is concentrated in the high end of the income distribution. If a tax is structured to depend on the high end of the income distribution, relatively small changes in economic conditions can yield large changes in income tax collections. One way to address these fluctuations is to maintain flexibility in changing the tax rate to ensure adequate revenues are received to cover approved expenses.

Income tax revenue and approved community safety expenditures would be maintained in a new fund separate from other City funds to provide adequate transparency. Like other City operating funds, the goal would be that the new fund will have enough balance available to cover two months of operating expenses. However, due to potential revenue fluctuations, the annual balance available could be significantly more or less than anticipated. Flexibility in changing the tax rate up or down could be utilized to smooth out potential revenue fluctuations.

Fairness and Who Pays

During the conversations about the 2011 Temporary Income Tax for Schools, several arguments were made about whether the tax was fair or not. Some people thought that exempting low-income residents was fair, while others thought everyone should pay something. Some people thought that childless people shouldn't have to pay the tax because they didn't send children to school. Some people thought that the brackets were unfair because they could result in "cliffs", where a person who earned $1 more would pay significantly more than the person who earned $1 less. Some people thought that higher-income people should pay a higher rate than lower income people, while others thought that a flat rate paid by all was fairer.

Triple Bottom Line: Social Equity

A personal income tax may be viewed as unfair, depending on how the tax is structured. The tax could be structured to provide exemptions for low-income households, however this would increase the rate needed to generate a particular dollar amount and increase the associated administration costs. Generally, an income tax is designed to be progressive, but the structure of the tax can increase or decrease progressivity.

Triple Bottom Line: Environmental Stewardship

This revenue option has a neutral impact on the environment. It will not impact greenhouse gas emissions, fossil fuels, waste, or pollution.

Triple Bottom Line: Economic Prosperity

In 2011, the City asked ECONorthwest to provide the broader economic impacts of a local income tax. They conducted an input-output analysis that shows a local income tax has a net positive impact on the local economy. This is because the reduction in household spending (the individual tax liability) is directed to local jobs. Most household spending is not directed to the local economy. The tax causes local households to reduce spending on non-local goods (i.e., cell phones) to directly support local jobs (e.g. in that instance, teachers, or public safety staff in this instance).

The positive economic benefits of additional public goods, such as law enforcement and other community safety initiatives, are difficult to quantify and are currently unknown.

Estimated Number of Tax Returns and Average Taxable Income in Eugene City Limits, by AGI Level

AGI Level ($000)	Number of Returns	Joint Number of Returns	Separate Number of Returns	Total Taxable Income ($1,000s)	Taxable Income w/ Pensions Removed ($1,000s)	Average Taxable Income ($)	Evasion and Avoidance Rate	
							Joint	Single
<0	853	393	460	47	43	51	50%	50%
0-5	5,439	1,099	4,340	4,531	4,211	774	50%	50%
5-10	6,047	871	5,176	28,918	26,876	4,444	50%	50%
10-15	5,876	989	4,887	53,151	49,398	8,407	50%	40%
15-20	5,524	1,063	4,461	75,637	70,297	12,726	40%	30%
20-25	5,195	1,104	4,091	95,097	88,383	17,013	30%	20%
25-30	4,594	1,084	3,510	104,030	96,685	21,044	20%	10%
30-35	4,121	1,108	3,013	110,515	102,713	24,926	10%	5%
35-40	3,434	1,048	2,386	105,312	97,877	28,500	5%	5%
40-45	3,030	1,047	1,983	103,900	96,564	31,870	5%	5%
45-50	2,578	988	1,590	97,243	90,378	35,063	5%	5%
50-60	4,605	2,071	2,534	196,294	182,436	39,616	5%	5%
60-70	3,803	2,026	1,777	190,794	177,324	46,629	5%	5%
70-80	3,237	1,973	1,264	188,720	175,396	54,185	5%	5%
80-90	2,751	1,867	884	182,038	169,186	61,507	5%	5%
90-100	2,349	1,714	635	176,123	163,689	69,695	5%	5%
100-250	8,781	7,275	1,506	1,077,717	1,001,630	114,072	5%	8%
250+	1,435	1,232	203	902,264	838,564	584,307	8%	8%
In City Limits:	**73,651**	**28,952**	**44,699**	**3,692,329**	**3,431,650**	**46,594**		

Source: Oregon Department of Revenue. Oregon Personal Income Tax Statistics, Characteristics of Filers. 2018 edition, Tax Year 2016.

Note: Only totals are available at the city level. To estimate AGI, OTI, and number of returns by income levels, it was assumed Eugene resembled Lane County.