
Sustainable Budget Task Force

October 26, 2016
8:00 AM
City Manager's Meeting Room
501 SW Madison

1. Approve minutes from September 12, 2016
2. Summary from the Council Work Session
3. Revenue Alternatives
 - a. Review of the data from November 2015
 - b. Property tax rates to raise \$13 million
4. Community Comments
5. Adjourn

Sustainable Budget Goal

The Council will continue to manage a long-term sustainable budget including the consideration of possible new or expanded revenue sources. An inventory of known infrastructure and unmet program needs, including public safety, will be compiled and prioritized by December of 2015. By September 2015, possible new or expanded revenue sources will be identified that could fund these program and infrastructure needs. By September 2016 the Council will create and begin implementing a long-term revenue plan.

Next Meeting

November 16, 2016

City Hall Meeting Room D (basement)

DRAFT
CITY OF CORVALLIS
SUSTAINABLE BUDGET TASK FORCE ACTION MINUTES
September 28, 2016

The City of Corvallis Sustainable Budget Task Force meeting was called to order at 8:06 AM, September 28, 2016, in the City Manager’s Meeting Room, Corvallis, Oregon, with Chair Hal Brauner presiding.

ROLL CALL:

Members Present: Hal Brauner, Barbara Bull (8:10), Karyle Butcher, Joel Hirsch (8:25), Mark O’Brien, Curtis Wright

Staff Present: Nancy Brewer, Mark Shepard, Patrick Rollens, Mary Steckel

Others: Bill Glassmire, Mark Page, Jim Day

SUMMARY OF DISCUSSION:

Agenda Item	Actions/Recommendations
Approve minutes from August 24 and September 14, 2016	Minutes were approved unanimously.

Agenda Item	Actions/Recommendations
Finish Discussion on the Strategic Plan Framework	<p>The SBTF briefly discussed the Strategic Plan Framework which had been reviewed at the September 14 meeting. The members present agreed that the Council needs to identify at least one mid-point between \$4 million and \$13 million as a potential funding target.</p> <p>Karyle Butcher moved, and Curtis Wright seconded a motion to approve the framework and proposed timeline. The motion passed unanimously.</p>

Agenda Item	Actions/Recommendations
Recommendations to Council on transportation and utility funding for infrastructure	<p>Members of the SBTF discussed whether the primary approach to funding utility (water, wastewater, and storm water) infrastructure replacement should be by using bonds or a pay-as-you-go approach. Bond funding provides significant resources for large projects, but with interest, costs over time end up being considerably higher. Consensus among SBTF members was to recommend Council use a pay-as-you-go approach unless there is a significant single project, such as a major plant upgrade or replacement where bonds would be the best way to fund the project on the desired timeline. Members also discussed staff’s recommendations on Council’s Financial Policies as they relate to the three utilities. The SBTF did not have a recommendation on the policy.</p>

Agenda Item	Actions/Recommendations
	<p>The SBTF discussed funding for street infrastructure. The City currently uses state highway taxes, with a small increment from the local Transportation Maintenance fee (TMF). Chair Brauner stated he looked back at information from the November 8, 2015 SBTF meeting where staff had shared the single family rates for TMF fees charged by other communities. Corvallis has the lowest rate at 71¢ per month; Medford has the highest rate at \$8.46. The second lowest rates are in Philomath and Stayton at \$2.00 per month. The mean rate is \$4.64 and the mode is \$5 per month. He stated there was room to increase the TMF and begin to address the infrastructure maintenance needs of the community and not exceed averages or comparable community rates.</p> <p>Ms. Butcher stated there is a significant need for street maintenance and she thought there would be support for the increase, especially if legacy roads would be maintained.</p> <p>Members discussed timing for a TMF rate increase and whether initiating the increase before or after pursuing a new revenue source for General Fund services was a better approach. In general, the consensus was that the issues that each funding source addresses are different, and the need for street infrastructure funding was so significant the Council should consider moving forward with a phased increase in the TMF.</p> <p>The SBTF members also discussed how to get information out about the rate increases. Mr. Rollens explained the communication strategy for a newsletter is focused on the General Fund; other communication mechanisms can be used for a TMF rate increase.</p> <p>Mr. Wright moved and Ms. Butcher seconded to recommend the City Council implement increases in the Transportation Maintenance Fee to get to a revenue of \$3 million annually. The motion passed unanimously.</p>

Agenda Item	Actions/Recommendations
Preliminary discussion of Survey	<p>Mr. Rollens stated the proposal from the research firm is to look at a mail survey to 1,200 people, with most questions focused on the revenue alternatives. Member Wright said he thought there would need to be some level of service information – what people would get for \$4 million, \$13 million, and something in between. Ms. Bull said she thought a discussion focused on gold/silver/or bronze levels of service could be a way to discuss services. She also asked if this scientific survey would be a chance to ask people about other matters, such as their opinion on the Vision. Other members said they thought it would be better to keep the survey focused on the money issues.</p> <p>Mr. Rollens stated he could bring a draft of the survey to an early December meeting.</p> <p>Ms. Bull asked if the option of a property tax levy is still being considered. Members asked for data on whether a local option levy could be structured to raise \$13 million annually. Ms. Brewer replied this information would be developed for a future meeting.</p>

Agenda Item	Actions/Recommendations
Other Business	The SBTF agreed to cancel its planned October 12 meeting.

Agenda Item	Actions/Recommendations
Community Comments	Bill Glassmire stated he supported doing a statistically valid survey that is developed with neutral questions. However, he also stated that he hears there is considerable dissatisfaction in the community with the lack of public outreach from the City.

The Task Force adjourned at 9:28 AM.

An audio recording of the entire meeting can be listened to at:

<https://archives.corvallisoregon.gov/internal/Browse.aspx?startid=597112&dbid=0>

SUSTAINABLE BUDGET TASK FORCE

REVENUE PROJECTIONS:

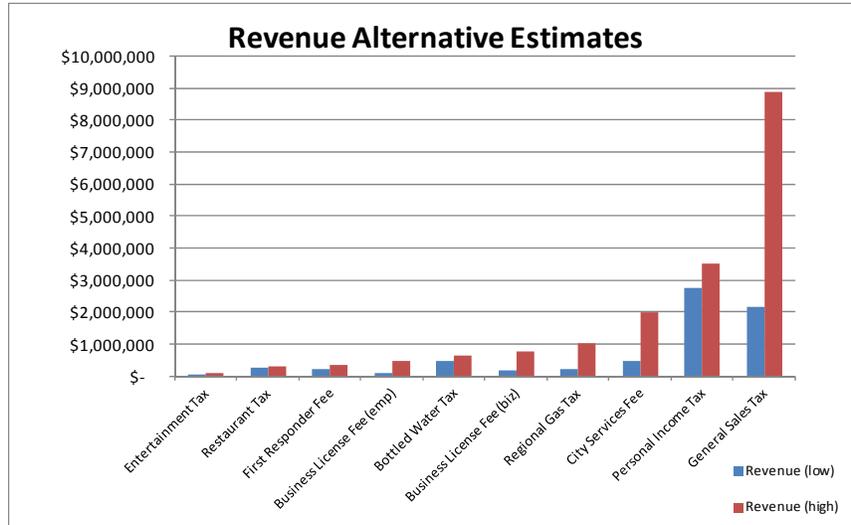
- A total of nine revenue alternatives were researched by Finance Department staff. Each revenue alternative was analyzed and revenue forecasts were estimated. Below is a table and a graph of these forecasts.

General Fund Revenue				
Alternative ¹	Tax Rate	Revenue (low)	Tax Rate	Revenue (high)
Entertainment Tax	1.00%	\$41,644	1.00%	\$81,948
Restaurant Tax	1.00%	\$254,737	1.00%	\$299,700
First Responder Fee ²	\$167.20	\$219,868	\$248.60	\$326,910
Business License Fee (# employees)	\$3.00	\$93,462	\$15.00	\$467,310
Bottled Water Tax	\$0.05	\$472,067	\$0.05	\$661,460
Business License Fee (# businesses)	\$50.00	\$199,000	\$200.00	\$796,000
City Service Fee	\$2.57	\$500,000	\$10.28	\$2,000,000
Personal Local Income Tax	0.25%	\$2,738,875	0.25%	\$3,536,040
General Sales Tax	0.25%	\$2,216,203	1.00%	\$8,864,814
Marijuana Sales Tax	3.00%	\$180,000	3.00%	\$360,000

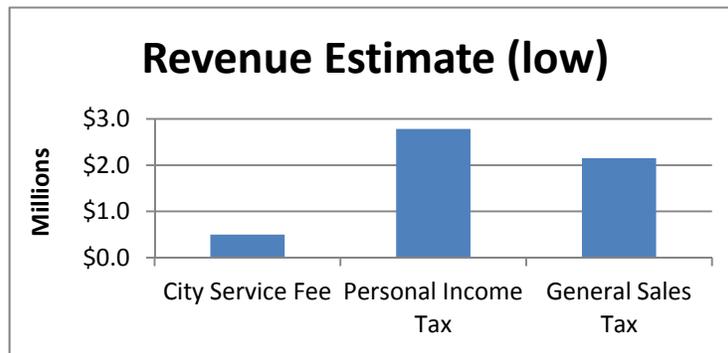
Street Fund Revenue				
Alternative	Tax Rate	Revenue (low)	Tax Rate	Revenue (high)
Transportation Maintenance Fee (TMF)	\$0.71	\$495,000	\$7.10	\$5,000,000
Regional Gas Tax	\$0.01	\$208,787	\$0.05	\$1,043,936

¹ Some rates in the table are the same yet result in different estimated revenue amounts due to a range of drivers/assumptions underlying the revenue base, such as lower/higher sales by restaurants, lower/higher taxable population for personal income tax, etc.

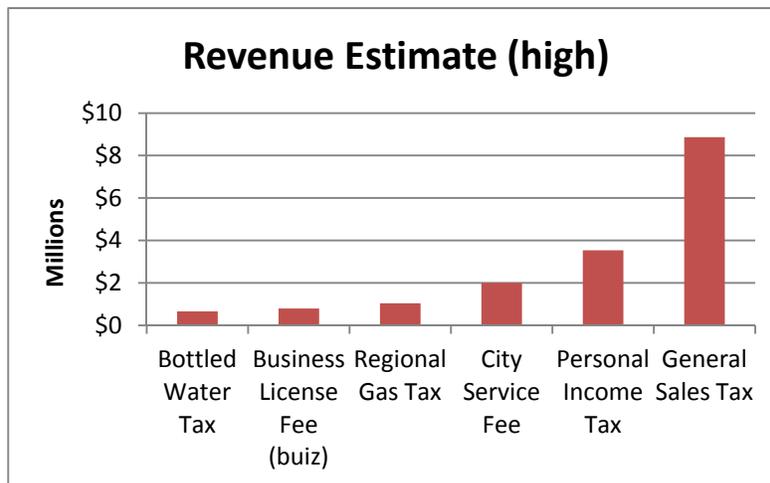
² Using Recovery Rate Estimates of 50%



- Using conservative (low) revenue estimates, only a **city service fee**, **general sales tax**, and **personal income tax** are predicted to generate *over* \$500,000 in new revenue.



- Using more liberal (high) revenue estimates, a **bottled water tax**, **business license fee (# of businesses)**, **gas tax**, **city services fee**, **personal income tax**, and a **general sales tax** are predicted to generate *more* than \$500,000.



- Using even more liberal assumptions, below is a look at what the rates would be in order to achieve a \$5 million revenue target for each General Fund revenue alternative.

General Fund Revenue Alternative³	Tax Rate	Revenue
Entertainment Tax	81%	\$5,000,038
Restaurant Tax	18%	\$5,000,186
First Responder Fee	\$1,901.14	\$5,000,000
Business License Fee (# employees)	\$160.49	\$5,000,000
Bottled Water Tax	\$0.44	\$5,057,998
Business License Fee (# businesses)	\$1,256.28	\$5,000,000
City Service Fee	\$25.70	\$5,000,000
Personal Local Income Tax	0.46%	\$5,000,000
General Sales Tax⁴	1%	\$5,056,894
Marijuana Sales Tax⁵	3%	\$5,000,400

REVENUE ALTERNATIVE SUMMARIES

- **Entertainment Tax:**
 - Tax on Corvallis movie theaters and the Majestic Theatre.
 - OSU most likely excluded from the tax, due to its status as a state institution.
 - Not anticipated to be a significant revenue alternative—especially without OSU being involved.
- **Restaurant Tax**
 - Two cities in Oregon collect a restaurant tax.
 - Although it is possible that some consumers may choose to go outside of city limits to avoid the tax, a small tax is unlikely to significantly impact local restaurant revenues, similar to the implementation of a gas tax.
 - A meal tax cannot be imposed on alcoholic beverages.
- **Bottled Water Tax**
 - Multi-billion dollar global industry, with the largest presence in the United States.
 - Research shows that consumers’ demand for bottled water is relatively inelastic (e.g. not responsive to price changes), making it a feasible revenue generator.
 - Corvallis residents assumed to have lower demand for bottled water than across the country, due to typically high ratings by consumers of the City’s treated water.

³ Assumptions related to rate and/or revenue base have been aggressively modified in order to portray a \$5 million revenue target.

⁴ Method applies assumptions of a \$20 tax cap on purchases \$1,000 and greater.

⁵ To attain \$5 million in tax revenues for Corvallis, a marijuana tax of 3% would have to be premised on very aggressive sales levels of \$13.89 million per month, or \$167 million per year. There is no indication that these levels are attainable based on tax estimates for the entire State of only \$11 million in 2016, as outlined in the Marijuana Tax memo attached.

- **Business License Fee**
 - Can be levied in many different ways (e.g. flat fee/percent of gross receipts) and on either businesses or number of employees.
 - Several communities in Oregon have a Business License Fee.
 - In 2008, City Council pursued a business license fee to fund economic development; however, the business community that originally proposed the fee eventually withdrew their support. As a result, the Council terminated its discussion of the fee.
- **Regional Gas Tax**
 - The “region” contemplated for such a tax would be local cities including: Corvallis, Philomath, and Albany.
 - This type of tax is often considered regressive since it is applied “uniformly” and thus hits lower-income individuals harder.
 - Many communities in Oregon currently have a regional or local gas tax.
- **City Services Fee**
 - Fee could be added to residents’ bills, keeping administrative costs low.
 - Adding city service fees to utility bills has become more and more common in recent years among municipalities in Oregon, setting definite precedence.
 - Currently, the City assesses a Transit Operations Fee (TOF) and Sustainability Initiative Fees (SIF) on the City Services Bill for transit system operations, urban forestry, and sidewalk repairs.
- **General Sales Tax**
 - Using survey data from the 2015 Community Survey, only 25% of residents surveyed said that the cost of living in Corvallis was “good” or “great.” A local sales tax may make this statistic even worse.
 - Outside of Oregon, most states have sales tax. In Washington, every city has a local sales tax—with a rate ranging from .5% to 3.10%.
 - A sales tax may have unintended consequences on long term budget sustainability.
- **Personal Income Tax**
 - Would require substantial administrative assistance (potentially from Oregon Dept. of Revenue).
 - Generally a progressive tax, yet the level of progressivity depends on the tax structure.
 - 4,000+ local income taxes in the US. In Oregon only Lane County Transit District and Tri Met Transit District have payroll taxes.
- **First Responder Fee**
 - These First Responder fees may unduly affect the elderly or indigent populations who may disproportionately rely on First Responder services for care.
 - Legal precedent appears to make a distinction between municipalities charging users to recover costs versus charging users to generate revenue. First Responder Fees are carefully crafted to prove the former and avoid the latter. It is more often considered a fee to try and impact behaviors for more efficient use of Fire staff time (discourage calls which truly don’t require a Paramedic or Fire Fighter response, for which other social agencies or resident staff/family members could provide the same level of “service”).
 - There doesn’t appear to be precedent in Oregon—or most states, generally. However, some First Responder Fees found include: Elk Grove, CA & Galt, CA (\$143); Contra County, CA (\$416.14); Tracey, CA (\$300).

TO: Sustainable Budget Task Force for October 26, 2016, Meeting
FROM: Nancy Brewer, Finance Director NB
DATE: October 12, 2016
THROUGH: Mark W. Shepard, P.E., City Manager MWS
SUBJECT: Property Tax Levy Follow-up



Action Requested:

For information only, no action required.

Discussion:

At the last SBTF meeting, members asked whether the City could raise \$13 million on a local option tax levy. Subsequent to the meeting, Benton County set the tax rolls for FY 16-17, so staff was able to get current data on tax accounts in Corvallis.

There are 16,688 tax accounts in Corvallis. All accounts pay the same general government tax rate of \$9.474 of assessed value that is subject to the Measure 5 (real market value) compression calculation. The City has an additional levy of \$0.2507 for the existing General Obligation debt, which will expire in 2019. This levy is not subject to the M5 calculation, but is a tax assessed to the same property owners.

A local option levy of \$3.24 per \$1,000 of assessed value would produce a total tax bill of \$14,940,097. Monies lost to Measure 5 compression total \$1,933,161 or nearly 13% of the levy. This would net to \$13,006,936 in revenue to the City, before discounts for early payment. The City loses about 2.5% of the levy each year for the early discount, which would be around \$325,200. If the early payment discount was included as lost revenue in an effort to get to a true \$13 million, the tax rate would have to be \$3.365 per \$1,000 of AV to net to a final estimated revenue (including compression and discounts losses) of \$13,012,411.

With the higher levy, more parcels of property would be in compression. A levy of \$3.24 would result in 5,442 or 32.6% of tax accounts not paying a portion of the local option levy. A levy of \$3.365 would result in 5,903 or 35.37% of tax accounts no paying a portion of the local option levy.