



Eugene City Council

125 E. 8th Ave., 2nd Floor
Eugene, OR 97401-2793
541-682-5010 • 541-682-5414 Fax
www.eugene-or.gov

EUGENE CITY COUNCIL AGENDA

May 8, 2019

12:00 p.m. CITY COUNCIL WORK SESSION
Harris Hall, 125 East 8th Avenue
Eugene, Oregon 97401

Meeting of May 8, 2019;
Her Honor Mayor Lucy Vinis Presiding

Councilors

Betty Taylor, President
Mike Clark
Chris Pryor
Jennifer Yeh

Emily Semple, Vice President
Greg Evans
Claire Syrett
Alan Zelenka

12:00 p.m. EUGENE CITY COUNCIL WORK SESSION

1. WORK SESSION: Community Safety Initiative Funding

For the hearing impaired, an interpreter can be provided with 48 hours' notice prior to the meeting. Spanish-language interpretation will also be provided with 48 hours' notice. To arrange for these services, contact the receptionist at 541-682-5010. City Council meetings are telecast live on Metro Television, Comcast channel 21, and rebroadcast later in the week.

El consejo de la Ciudad de Eugene agradece su interés en estos asuntos de la agenda. El lugar de la reunión tiene acceso para sillas de ruedas. Se puede proveer a un intérprete para las personas con discapacidad auditiva si avisa con 48 horas de anticipación. También se puede proveer interpretación para español si avisa con 48 horas de anticipación. Para reservar estos servicios llame al 541-682-5010. Las reuniones del consejo de la ciudad se transmiten en vivo por Metro Television, Canal 21 de Comcast y son retransmitidas durante la semana.

For more information, contact the Council Coordinator at 541-682-5010
or visit us online at [**www.eugene-or.gov**](http://www.eugene-or.gov).

EUGENE CITY COUNCIL AGENDA ITEM SUMMARY



Work Session: Community Safety Initiative Funding

Meeting Date: May 8, 2019
Department: Central Services
www.eugene-or.gov

Agenda Item Number: 1
Staff Contact: Kristie Hammitt
Contact Telephone Number: 541-682-5524

ISSUE STATEMENT

This work session is a follow-up to the City Council's work session on April 8, 2019, regarding a Community Safety Payroll Tax. City Council will be provided with an overview of the draft Community Safety Payroll Tax ordinance language as a mechanism to fund service system gaps. City Council will be asked to provide input and direction regarding next steps in considering this funding mechanism.

BACKGROUND

At the September 26, 2018, Community Safety System work session, Council unanimously passed a motion to include \$8.6 million to fund a one-time 18-month Community Safety service strategy as a short-term plan to begin addressing the \$23.6 million gap in public safety services. The 18-month funding plan ends June 30, 2020.

Council directed staff to immediately begin work on a long-term funding plan. A Community Safety Revenue Team was formed to develop a recommendation for the City Manager. The Community Safety Revenue Team began reviewing funding options in November 2018 and completed their report in February 2019. The Community Safety Revenue Team report to the City Manager recommended a payroll tax as the ongoing funding mechanism for the Community Safety Initiative. The group was reconvened in April 2019 to do further revenue analysis on an income tax and River Road/Santa Clara annexation funding options. The team completed this work on April 19, 2019 (Attachment A). Further evaluation of the income tax and annexation funding options did not change the Community Safety Revenue Team's original recommendation of a payroll tax. However, the team did support giving consideration to structuring the payroll tax to lessen the burden on businesses.

Following the April analysis by the Community Safety Revenue Team, staff prepared, for council review and discussion, a draft Ordinance to Fund Community Safety Services with a Payroll Tax (Attachment B). The draft ordinance includes input and feedback received from City Council, the Community Safety Revenue Team, and community outreach. Specifically, the draft ordinance includes the following:

	Draft Ordinance	5/8 Council Decision
Employee and Employer Rate	3.724 To be Determined	Council will be provided with three potential rate structures for consideration (see chart below). Council direction will be requested to provide direction on the rate. All rate structures proposed provide revenue to fund \$23.6 million for the Community Safety Service additions.
Equity Component for Low Wage Earners	3.724(3) 	
Funds may only be used for Community Safety Initiative	3.728 	
Independent Financial Audit of Fund Use	3.736 	
Citizen Advisory Board Annual Performance Audit	3.738 	
Payroll Tax revenue will be maintained in a separate fund.	Section 2 	
Payroll Tax Funds will not replace existing dedicated funds	Section 3 	
Eliminate \$840,000 annual transfer from parking fund for police services	Section 4 	
7 Year Review and Reauthorization	Section 5 	

Council will be asked to provide direction on the rate structure. The three rate structures noted in the chart below will be presented to City Council at the May 8 work session. The chart below also reflects a .0020 tax rate imposed on minimum wage employees.

Tax Rate Options	Employee (\$15/hour)	Minimum Wage Employee (0.0020 tax rate)	Employer (\$500,000 gross payroll/year)
Employee Only: 0.0057	\$15/month (60 minutes of work)	\$4/month (20 minutes of work)	\$0
Employee: 0.0040 Employer: 0.0020	\$10/month (40 minutes of work)	\$4/month (20 minutes of work)	\$83 / Month
Employee/Employer Same Rate: 0.0031	\$8/month (30 minutes of work)	\$4/month (20 minutes of work)	\$129/month

In addition to the Community Safety Payroll Tax Ordinance, council could consider referring a charter amendment to the voters that would cap the payroll tax rate at a specific amount and would limit use of any City payroll tax revenues to funding community safety services. If council decides to refer such a charter amendment, it would be done by council resolution, separate from the Ordinance. A potential charter amendment could read: *“Any payroll tax imposed by the City is capped at [____] on total wages paid by employers and [____] on wages earned by employees. Revenues from a payroll tax imposed by the City may only be used to fund community safety services and administration of the tax.”*

At the work session, council will receive an overview of the draft Ordinance to Fund Community Safety Services with a Payroll Tax and will be asked to provide direction on: 1) the payroll tax rate structure to include in the draft ordinance; and 2) moving the ordinance forward to a public hearing.

PREVIOUS COUNCIL DIRECTION

September 26, 2018, Work Session

<https://eugene.ompnetwork.org/sessions/51006?embedInPoint=134&embedOutPoint=4378&shareMethod=link>

February 13, 2019, Work Session

<https://eugene.ompnetwork.org/sessions/98151?embedInPoint=1&embedOutPoint=5617&shareMethod=link>

February 23, 2019, Workshop

<https://eugene.ompnetwork.org/sessions/99837?embedInPoint=3575&embedOutPoint=15696&shareMethod=link>

April 8, 2019, Work Session

<https://eugene.ompnetwork.org/sessions/102601?embedInPoint=1110&embedOutPoint=4356&shareMethod=link>

COUNCIL OPTIONS

1. Select one of the three payroll tax rate options for inclusion in the draft ordinance and direct the City Manager to schedule a public hearing on the ordinance on May 28.
2. Postpone a decision and schedule a future work session for further discussion.

CITY MANAGER'S RECOMMENDATION

Select the payroll tax rate of 0.0040 on employees and 0.0020 on employers for inclusion in the draft ordinance and direct the City Manager to schedule a public hearing on the ordinance on May 28, 2019.

SUGGESTED MOTIONS

1. Move to direct the City Manager to prepare an ordinance with a payroll tax rate of 0.0040 on employees and 0.0020 on employers.
2. Move to direct the City Manager to schedule a public hearing for May 28, 2019, on an ordinance consistent with Attachment B to this AIS and with Council's direction on the proposed payroll tax rate.

ATTACHMENTS

- A. Community Safety Revenue Team Report
- B. Draft Ordinance to Fund Community Safety Services with a Payroll Tax

FOR MORE INFORMATION

Staff Contact: Kristie Hammitt, Assistant City Manager

Telephone: 541-682-5524

Staff E-Mail: KHammitt@Eugene-or.gov

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 bringing 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 than 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)

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.

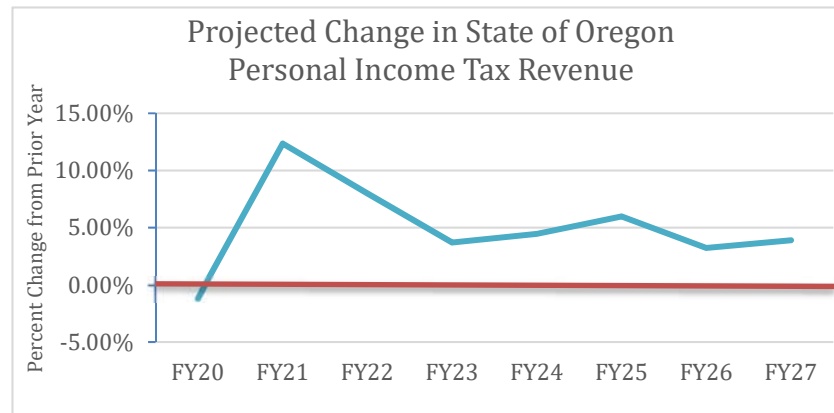
Estimated tax liability for a joint filing household

AGI	Estimated OTI	Estimated Tax Liability for a Joint Filing Household		
		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.

ORDINANCE NO. _____

**AN ORDINANCE TO FUND COMMUNITY SAFETY SERVICES WITH A
PAYROLL TAX AND ADDING NEW SECTIONS TO THE EUGENE CODE, 1971.**

The City Council of the City of Eugene finds as follows:

A. Being safe, and feeling safe, is important to everyone. The City, through its community safety services, strives to make Eugene a safe and welcoming place for everyone to live, work, and do business.

B. The City's community safety services include the Eugene Police Department, the Eugene-Springfield Fire & EMS Department, Eugene Municipal Court, and multi-departmental efforts aimed at addressing and preventing homelessness. These City services provide the foundation needed to have accessible parks and natural resources, a prosperous economy, thriving arts and culture, and healthy, safe neighborhoods.

C. During the recession the City eliminated over 20% (\$30 million) of the general fund operating budget, primarily through efficiencies, reorganizations and trimming of some services. Recognizing the importance of providing safety services, during the recession and continuing today, the public safety budget has remained steady, at around 60% of the City's total general fund budget.

D. To better serve our community's expanding and changing public safety needs, the City has worked over the last five years to optimize available resources and become even more efficient in its provision of services. Programs such as the Community Outreach Response Team, Mental Health Court, and Community Court provide alternative paths out of the traditional public safety system, helping reduce overall demands on the system. Eugene-Springfield Fire implemented Basic Life Support response for non-life-threatening calls to the Fire Department and added an Advanced Life Support ambulance unit which has improved patient outcomes for some of the most critical emergency medical calls for service across both Eugene and Springfield. Increased CAHOOTS services provide mobile crisis intervention that responds to thousands of police calls for service every year providing critical behavioral health services. Using grant funding, Municipal Court was able to make improvements that reduced their case backlog by 20%. While all of these programs are positive additions to our community safety system, more needs to be done.

E. The community's need for safety services has continued to grow, outpacing City resources and resulting in critical gaps in the system. From 2014 to 2017, daily average calls for police services increased 21%, but staffing has remained flat. Homicide, rape, robbery, assault, sex offenses and family offenses have increased by 18% in that same time. Police response time has increased 86% from 23 minutes in 2014 to 42 minutes in 2017. Police are unable to respond to 1 in 3 non-life-threatening calls for service, an increase of 40%. Eugene Municipal Court handles 5,000 misdemeanor criminal cases (like theft, disorderly conduct, or driving under the influence) annually – second in the state to Multnomah County's Circuit Court. The number of unsheltered homeless adults in Eugene is significantly higher than in many other similarly-sized communities.

F. It is not just statistics that demonstrate the City's need for increased community safety resources, community members have said there is a need too. A survey of Eugene voters in July 2018 demonstrated that the community strongly supports addressing the City's public safety needs. A vast majority of survey respondents (84%) believe that City Officials should take steps to address issues that impact public safety. Follow-up community outreach confirmed the community's very real and growing concern for a delayed, or no, police response due to police resource levels.

G. Seeing the immediate, critical need for additional community safety services, in September, 2018, the City Council approved spending \$8.6 million to add some limited capacity and maintain funding for several critical programs (often referred to as the "bridge funding"). When appropriating the bridge funding, the Council made clear its intent to find a long-term, sustainable funding source for the community safety system.

H. Without a new, permanent source of funds, the community safety services funded by the \$8.6 million bridge will end, and the gaps in the system will continue to widen. Specifically, response times will keep getting longer, an increasing number of calls will go unanswered, a higher percentage of violations and citations will not make it to the courts, safety concerns in parks, along pathways and in neighborhoods will continue to go unsolved, the little time currently available for proactive policing will dissipate, and fewer opportunities will be available to move homeless community members onto paths of wellness.

I. Making some of the systematic changes needed to alter the current trajectory of our safety system will cost an additional \$23.6 million per year. The \$23.6 million funding need is based on the following package of community safety services:

- Police services, including 40 patrol officers, 5 detectives, 4 sergeants, 10 community service officers, 9.5 staff for 911, animal welfare and traffic safety officers, and evidence control and forensic analysts.
- Fire and emergency medical services, including the creation of a 911 triage program and field triage/community response unit.
- Municipal court and prosecution services, including opening third courtroom, expanding community court and mental health court programs and adding 10 jail beds and increased jail services.
- Prevention and homelessness services, including adding emergency shelters, a day center and funding after school programs at Title 1 schools.

J. To fund the above-described package of services, the \$23.6 million would generally be allocated among the services as follows: 65% for police services; 10% for fire and emergency medical services; 15% for municipal court and prosecution services; and, 10% for prevention and homelessness services.

K. By increasing capacity and services with an additional \$23.6 million in funding, the community can expect that, as the safety system ramps-up over the next one to five years, the following is will occur:

- Faster and more responsive police services.
- Increased proactive community policing by sworn officers, achieved through the use of Community Response Units and Community Service Officers (CSOs) that can provide public safety support to assist with non-emergency calls like routine crashes and retrieving stolen property.

- Crime deterrence through the establishment of a 10-person Street Crimes Unit that will proactively deter crimes and increase officer presence in neighborhoods.
- Implementation of prevention efforts aimed at keeping people and youth off the streets, such as adding homeless services that help people stabilize and improve their lives, strengthening the network of support with nonprofit and medical organizations to help reduce the number of people who chronically use the system, and growing youth programs to engage and help at-risk youth, including after-school programs, 15th Night and inclusion programs.
- More people who commit crimes will be held accountable through the addition of detectives to investigate crimes, the opening of a third courtroom to resolve cases more quickly, the addition of more prosecutors, court appointed attorneys and court staff, and the increase the number of jail beds and probation officers.

L. Providing the community safety services necessary to achieve the above-described outcomes requires a new, long-term, sustainable funding source. As part of the effort to find a new funding source, the Council directed the formation of a Community Safety Revenue Team to make recommendations to the City Manager. The Revenue Team focused on identifying a funding mechanism that could raise the amount needed, would be stable and flexible, fair and feasible. The Revenue Team recommended a modest payroll tax to address the significant and urgent gaps in our system and to provide the services that those who live, visit and work in Eugene need, expect and deserve.

M. A payroll tax on both employers and employees provides the funds needed to bring our community safety services up to the level that the community is expecting and entitled to receive. The addition of this separate, dedicated, revenue source for community safety services, together with the City's current, stable budget, will make a real difference in how community safety services are provided throughout the City.

THE CITY OF EUGENE DOES ORDAIN AS FOLLOWS:

Section 1. Sections 3.720, 3.722, 3.724, 3.726, 3.728, 3.730, 3.732, 3.734, 3.736, and 3.738 of the Eugene Code, 1971, are added to provide as follows:

Community Safety Payroll Tax

3.720 **Payroll Tax – Purpose.** The provisions contained in sections 3.720 to 3.738 of this code are for the purpose of providing funding to increase community safety services through the adoption of a dedicated tax on wages, hereinafter referred to as the payroll tax.

3.722 **Payroll Tax - Definitions.** For the purposes of sections 3.720 through 3.738 of this code, the following words and phrases shall have the following meanings, unless the context requires otherwise:

City. The City of Eugene

City Manager. The city manager or the city manager's designee.

Employer. Any of the following:

- (a) A person who is in such relation to another person that the person may control the work of that other person and direct the manner in which it is to be done;
- (b) An officer or employee of a corporation, or a member or employee of a partnership, who as such officer, employee or member is under a duty to perform the acts required of employers by ORS 316.167, 316.182, 316.197, 316.202 and 316.207;
- (c) The State of Oregon or any political subdivision of the state; or
- (d) An independent contractor.

Employee. An individual who renders personal services at a fixed rate to an employer if the employer either pays or agrees to pay for personal services or permits the individual to perform personal services.

Independent Contractor. As defined in ORS 670.600.

Minimum Wage Employee. An employee working for the minimum wage rate established by ORS 653.025.

Tax Administrator. The city manager, the manager's designee, or any person or entity with whom the city manager contracts to perform those duties.

Wages. As defined in ORS 267.380(1)(c), (2)(a) – (c), and (2)(e) – (j).

3.724

Payroll Tax – Tax Imposed.

- (1) A tax is hereby imposed on every employer, except the State of Oregon or any political subdivision of the state, with a physical address in the city at a rate of [REDACTED] of wages paid by the employer.
- (2) A tax is hereby imposed on every employee working at an employer located in the city at a rate of [REDACTED] of employee's wages.
- (3) Notwithstanding subsection (2) of this section, the tax rate imposed on every minimum wage employee working at an employer located in the city is .0020 of the employee's wages.
- (4) If an employer located in the city also has one or more business locations outside the city, no tax is owed for those hours an employee works at an employer's business location that is outside the city.
- (5) Every employer at the time of the payment of wages shall deduct and withhold from the total amount of the wages paid to employees an amount equal to the total amount of wages, without exemption or deduction, multiplied by the rate of tax imposed under subsection (2) or (3) of this section.

3.726

Payroll Tax – Payment and Remittance. The employer shall pay the tax imposed by 3.724(1), and remit the tax imposed by 3.724(2) and (3), to the tax administrator quarterly, or less frequently than quarterly if directed by the rules adopted under section 3.732 of this code. The tax administrator is authorized to exercise all supervisory and administrative powers with regard to the enforcement, collection and administration of the wage tax, except any administrative rules may only be adopted by the city manager under section 3.732.

3.728

Payroll Tax – Use. Payroll tax revenue shall only be used to fund:

- (1) Police services, including but not limited to, patrol officers, detectives,

sergeants, community service officers, 9-1-1 staff, animal welfare and traffic safety officers, and evidence control and forensic analysts;

- (2) Fire and emergency medical services, including but not limited to, the creation of a 9-1-1 triage program and a field triage/community response unit;
- (3) Municipal court and prosecution services, including but not limited to, staffing a third courtroom, expanding community court and mental health court programs and adding 10 jail beds and increased jail services;
- (4) Prevention and homeless services, including but not limited to, adding emergency shelters, a day center and funding after school programs at Title I schools; and,
- (5) Administration of the payroll tax.

3.730 Payroll Tax – Interest and Penalties.

- (1) In addition to assessing any civil penalties under section 3.045 and 3.995, if the city manager determines that an employer has failed to pay all or any part of the payroll tax due under section 3.724(1) of this code, interest shall be due on the entire unpaid amount, assessed at the rate of .833 percent simple interest per month or fraction thereof (10 percent per annum), computed from the original due date of the tax.
- (2) An employer that fails to deduct, withhold, or remit the tax required under this section is deemed responsible for the payment of the tax obligation in an amount equal to the amount that had been required to be withheld from the employee's wages and remitted to the tax administrator.

3.732 Payroll Tax – Implementing Rules. The city manager may adopt regulations, procedures, forms, guides and written policies pursuant to section 2.019 of this code for implementation of sections 3.720 through 3.738 of this code, including but not limited to collection and enforcement, partial refund processes, and further clarification of the definitions contained in 3.722.

3.734 Payroll Tax – Appeal. Any person aggrieved by any decision under this code may appeal the decision in the manner provided in section 2.021 of this code. The appeal shall be heard and determined as provided in section 2.021 of this code.

3.736 Payroll Tax - Annual Audit. The city manager shall contract with an outside auditor to prepare an annual written report on the use of the payroll tax revenue. The auditor shall ascertain and report on whether the tax revenue was used in compliance with the purpose and use set forth in sections 3.720 and 3.728 of this code. The city manager shall provide the report to the Council and make the report publicly available.

3.738 Payroll Tax - Citizen Advisory Board. The city manager shall convene a Citizen Advisory Board. The Citizen Advisory Board shall prepare an annual report, separate and distinct from the report prepared by the outside auditor, documenting the city's use of the tax revenue and noting whether the tax revenue was spent in compliance with the purpose and use set forth in sections 3.720 and 3.728 of this code. The city manager shall provide the Citizen Advisory Board's report to the council and make the report publicly available.

Section 2. Payroll tax revenues shall be budgeted and accounted for in a separate fund that is easily identifiable by members of the public.

Section 3. The purpose of the payroll tax is to raise additional revenue to be able to increase community safety services beyond what the City was able to fund in FY18 (before the \$8.7 “bridge” funding). Therefore, the Council intends to use the payroll tax revenues to supplement, and not replace, funding used in FY18 for community safety services.

Section 4. Notwithstanding Section 3, the Council intends to use payroll tax revenues to replace \$840,000 of downtown police services funding that is currently coming from the parking fund.

Section 5. In FY27, the Citizen Advisory Board established by section 3.738 of this code shall conduct a comprehensive review of the city’s use of the payroll tax revenues and prepare and deliver a report to the city manager no later than March 31, 2027. The city manager shall provide the Citizen Advisory Board’s report to the council and make the report publicly available. After receiving the report, the council shall hold a public hearing to hear citizen input regarding whether the payroll tax is accomplishing the objectives specified in this Ordinance’s findings and the purpose specified in section 3.720. After reviewing the Citizen Advisory Board’s report and public testimony, the City Council shall determine whether the payroll tax should continue. If the Council concludes that the payroll tax should continue, the Council shall adopt a motion not later than June 30, 2027, stating that the payroll tax will continue after FY28. If the Council fails to adopt such a motion by June 30, 2027, then the payroll tax shall automatically terminate with respect to wages earned on or after July 1, 2028.

Section 6. The City Recorder, at the request of, or with the consent of the City Attorney, is authorized to administratively correct any reference errors contained herein, or in other provisions of the Eugene Code, 1971, to the provisions added, amended or repealed herein.

Passed by the City Council this

__ day of ____, 2019.

City Recorder

Approved by the Mayor this

_____ day of ____, 2019.

Mayor