

# EUGENE CITY COUNCIL

## AGENDA ITEM SUMMARY



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Possible Action: Adoption of Resolution 5023 Calling a City Election on May 17, 2011, on a Temporary City Income Tax to Raise Funds for Local Schools

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Meeting Date: February 14, 2011  
Department: Central Services  
*www.eugene-or.gov*

Agenda Item Number: 4  
Staff Contact: Sue Cutsogeorge  
Contact Telephone Number: 541-682-5589

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### ISSUE STATEMENT

The council will consider whether to place a measure on the May 2011 ballot authorizing a City income tax to fund local schools.

### BACKGROUND

As the magnitude of the budget shortfall facing the Eugene School District has become clearer in recent months, a community discussion has emerged around the possibility of the City of Eugene enacting a tax on behalf of the local public school systems.

On December 14, 2010, Mayor Piercy held a public forum on the topic to hear from concerned citizens and a citizen group was formed to explore the idea further.

On January 11, 2011, the council met to discuss a possible new revenue for schools. Several key questions were posed in order to provide direction on whether to move forward, and if it was decided to move forward, what the revenue package should look like.

As a result of their discussion, the council created an education subcommittee that would include representatives of the City of Eugene, the Bethel and 4J school districts, Stand for Children and the business community, and to return to the council with recommendations. On January 18 and January 20, the Subcommittee on Education Funding met to discuss an income tax proposal for education funding. Subcommittee materials are available on the City's website at [www.eugene-or.gov/schooltax](http://www.eugene-or.gov/schooltax).

On January 24, 2011, the council discussed the subcommittee's recommendations and the potential for a City income tax for schools. As a result of their discussions, the council directed the City Manager to bring back for council consideration on February 14, a proposed ballot measure for the May ballot that:

1. Approves a local income tax on Eugene residents that would sunset after six years;
2. Is designed to raise revenue sufficient to (a) allow the two school districts to reduce or eliminate furlough days and keep average class size from increasing to the extent possible; and (b) to cover the costs of implementing the measure;

3. Divides the tax revenues (after deducting the costs of implementation) between the two school districts based on the number of students in each district who reside within the city limits;
4. Would reduce or suspend the local income tax if the State either (a) increases state funding of the districts to the point that additional local revenues are no longer needed to restore furlough days or prevent average class size from increasing, or (b) requires that the local income tax revenues decrease the amount of state funding for the districts;
5. Requires the school districts to provide annually a report to the City Council describing how the income tax revenues were spent; and
6. Requires the school districts to establish a review panel, similar in nature to the Citizen Street Repair Review Panel, comprised of four members appointed by the Bethel school district, four members appointed by the Eugene school district, and four members appointed by the Mayor, two of whom should be business representatives and two who opposed the measure.

In addition, the council directed the City Manager to ask each school district how much revenue the district would like to receive from the measure to achieve the outcomes.

Resolutions: Attachments A and B set out resolutions referring an income tax measure for schools to the May ballot. There are two resolutions included because there is a fundamental policy choice for the council with regard to the measure: will the income tax be structured to attempt to raise a particular dollar amount of revenue, or will it be structured to set tax rates that will generate an amount that may or may not be the dollar amount desired by school districts.

Under resolution Option A, included as Attachment A, the council would set the tax rate or tax rates to be imposed under the income tax measure. If the dollar amount that is raised by those rates is below what was desired to be raised, then district budgets will fall short. In this option, taxpayers will have more certainty about what they will pay, and the school districts will bear the risk that revenues do not reach the target amount.

Under resolution Option B, included as Attachment B, the council would set the amount desired to be raised by the income tax measure. The council would subsequently set tax rates that are designed to raise that amount of net income to schools. If the actual amount raised comes in different than the desired amount, the council would adjust the next year's tax rate or rates to raise the desired amount, subject to a maximum rate or rates specified in the ballot measure. The rate could go up or down each year in order to raise that target amount of money, within the maximum rate specified in the measure. In this option, school districts will have more certainty about what revenue they will eventually receive from the measure, but taxpayers will bear the risk that rates may go up in order to reach that target.

Both resolutions leave blanks for the particular set of facts needed, such as the tax rate or rates, or the dollar amount to be raised. In addition, the resolutions set out the following key points:

- Type of Tax – personal income tax on Eugene residents
- Use of Funds – reduce or eliminate furlough days and reduce class size
- Funds Split – based on the number of Eugene residents enrolled in each district
- Term of Tax Levy – starting for tax year January 1, 2011 and sunseting after six years, or December 31, 2016

- Reduced or Suspended Tax – if the State increases school funding so that this tax is no longer needed in order to achieve the goals, or if the State requires that local income tax dollars reduce other State funding for the districts
- Review of Tax – districts must report to the council each year how the tax revenues were spent
- Review Panel – districts must create a review panel consisting of specific members designated in the resolution
- School District Support – each school district must provide a written statement by March 16 that the district supports the council placing the measure on the May ballot in order for the City Manager to submit the measure to the County Elections Chief

School District Response: The FY12 projected deficit for 4J is \$24 million and for Bethel is between \$4.8 and \$7.6 million. The districts requested that two City income tax scenarios be developed. One scenario would raise a net of \$26.6 million for schools, with approximately \$19 million for 4J and \$7.6 million for Bethel. A second scenario would raise \$16.8 million for schools, with approximately \$12 million for 4J and \$4.8 million for Bethel. Because of the desired split of tax revenues by percentage of Eugene residents in each district, it was not mathematically possible to size a tax that would solve the entire deficit for both districts perfectly.

Staff requested responses from each district about the impacts of these City income tax scenarios on teacher layoffs, furlough days and class size. Their responses are included below.

#### **Response from Bethel:**

1. How much revenue is needed in FY 12 to allow Bethel to eliminate instructional furlough days and keep average class size from increasing?

*Depending on finalized state revenue numbers (which will be determined by the end of the legislative session or possibly sooner), they need: \$4.8 million to \$7.6 million.*

2. Will Bethel impose instructional furlough days or increase class size if a local income tax is approved by the voters in May?

*It is possible Bethel will still have to increase class size or impose instructional furlough days. Imposing an income tax to collect \$4.8-7.6 million does not guarantee that amount being available for use in FY 12 because:*

- *there is no guarantee of collection rates;*
- *this does not include the cost of implementation of the tax;*
- *the timing of the receipt of tax revenue in the District may be very late into FY12 or even into FY13; and*
- *estimated tax revenue may not match realized tax revenue.*

*If a school income tax were projected to raise the entire amount of the FY12 deficit, until Bethel receives the entire first year of new City income tax revenues, the District cannot guarantee the number of teachers, the number of furlough days or class sizes. A major concern for the District is “bridging the gap” or responsibly covering the expense of providing the service (instructional days and maintaining class size) until the projected revenue is received. The “bridging”*

*strategies include a limited, but still substantial, risk until it is determined that projected City tax revenue is matched by realized revenue from the tax.*

*For subsequent years, the level of state funding, labor negotiations, changes in City income tax revenue and other factors that affect budgets could change, and those changes could require additional reductions in teachers, increases in furlough days and/or increases in class size.*

3. Will Bethel impose instructional furlough days or increase class size if a local income tax is referred to the voters in November, either at \$4.8 million or \$7.6 million as per the assumptions above?

*Yes, it is likely that one or both of these budget reduction methods would necessarily be imposed.*

**Response from 4J:**

1. How much revenue is needed in FY 12 to allow 4J to eliminate instructional furlough days and keep average class size from increasing?

*Assuming that 4J receives from the State the current projected revenues, then they need: At the \$12 million revenue level, reductions directly affecting classroom instruction could likely be reduced significantly in 2011-12 if other budget reduction strategies including compensation-related adjustments are achieved and the district issued Tax Anticipation Notes. Given the uncertainty of these budget variables, the district would not be able to assess this until after the May 17<sup>th</sup> election. This level of funding would not preclude further reductions in 2012-13.*

*If the \$19 million in revenue were guaranteed, it is likely that reductions directly affecting classroom instruction could potentially be eliminated assuming other budget reduction strategies including compensation-related adjustments are achieved and the district issued Tax Anticipation Notes. Again, given the uncertainty of several budget variables, the district would not be able to assess this until after the May 17<sup>th</sup> election.*

2. Will 4J lay off any teachers, impose instructional furlough days or increase class sizes if a local income tax is approved by the voters in May, either at \$12 or \$19 million as per the assumptions above?

*Probably, but depending on the level of income tax realized, the reductions directly affecting classroom instruction would likely be reduced. We potentially could put furlough days at the end of the year and then restore them once the measure is passed and income is realized. Imposing an income tax to collect \$12 or \$19 million does not guarantee that amount being available for FY 12 because there is no guarantee of collection rates, cost of implementation, timing of tax payments, or taxpayer incomes.*

*If a school income tax were projected to raise the entire amount of the FY12 deficit, until the legislature acts and 4J receives the first year of new City income tax revenues, the District cannot guarantee the number of teachers, the number of furlough days or class sizes. For subsequent years, the level of state funding, labor negotiations, changes in City income tax revenue and other factors that affect our budgets could change, and those changes could require additional reductions in teachers, increases in furlough days and/or increases in class size.*

*A major concern for the district is "bridging the gap" or responsibly covering the expense of providing the service (instructional days and maintaining class size) until the projected revenue is received. The "bridging" strategies include a limited, but still substantial, risk until it is determined that projected City tax revenue is matched by realized revenue from the tax.*

3. Will 4J lay off any teachers, impose instructional furlough days or increase class size in FY12 if a local income tax is referred to the voters in November, either at \$12 or \$24 million as per the assumptions above?

*Yes.*

#### **4J Board Meeting on February 9:**

In addition to the responses provided by 4J in writing, the board discussed the income tax proposal at their meeting on February 9. At that meeting, the board discussed the possibility of three "bridging" ideas: using reserves, issuing tax and revenue anticipation notes repaid from income tax receipts, and/or scheduling furlough days towards the end of the year. Regardless of the bridging method chosen, the District will have to prepare their FY12 budget assuming that there are no income tax revenues available. Layoff notices will have to go out in March. This is not unusual in school district budgeting, especially since the legislature doesn't set school funding until May. If the state funding and a potential May ballot measure provide good financial news, the District can make adjustments to their FY12 budget at that point, before it is adopted by the end of June.

Much of the remainder of the discussion revolved around the risks inherent in using any kind of bridging strategy designed to minimize the impact of planned FY12 budget reductions. Aside from the obvious financial risk that taxes won't come in as anticipated, there were other areas of risk that were discussed that stem in part from council decisions. Some of the points raised were:

- Whatever conditions the council puts on the use of funds could impact the district's ability to use borrowing for bridging.
- What happens if the termination clause comes into effect because the state solves the school funding issue or the review panel recommends that the City no longer give the districts the dollars? Will the district still be able to use tax proceeds to pay off any cash flow borrowing that has been implemented?
- What happens if someone sues over the use of the tax, as occurred with the school levy a few years ago? Who pays for those legal costs?
- There was a concern about how the tax measure would be "grossed up" to take into account evasion, avoidance, pension exclusion and administration, and the risks inherent in that calculation being incorrect.

There was discussion around "risk sharing" for legal challenges and revenue shortfalls in the event that actual revenues come in less than anticipated. City staff responded that the City would basically be acting as a conduit for the districts in this measure, and wouldn't be bearing any of the risks from legal actions or revenue shortfalls. The City would be reimbursed for any costs, including legal costs, for the tax. The risk of revenue shortfalls would be borne by the districts.

Board members also expressed concern about how the ballot language would read in terms of the desired classroom outcomes and the board's ability to influence or achieve those outcomes. Some examples given were: (i) what does a furlough day mean; (ii) classroom time means more than teachers; (iii) the board can only control the "ratios", and cannot control furlough days; and (iv) will having furlough day language in the ballot measure affect the district's ability to successfully negotiate with its teachers? There were no definitive answers to these questions, nor were there any specific suggestions from the board about how the ballot language should read in order to work best for the district. City staff suggested that board members attend the February 14 meeting and present their ideas or concerns to the council directly during the public comment period.

Tax Brackets and Revenue Yield: The net revenue that would be available to schools from several different scenarios, along with tax bracket options, is included in Attachment C. These estimates were calculated using a model developed by EcoNW. An explanation of the methodology and more details about the calculations are incorporated in the EcoNW report included as Attachment D.

Taxation of PERS and Federal Retirement Benefits: State law prohibits the City from applying an income tax to PERS benefits and federal retirement benefits that are taxable in Oregon. ORS 238.445 prohibits municipal taxation of PERS benefits, but allows the state to apply personal income taxes to such benefits. When Multnomah County implemented their tax, they determined that if Oregon PERS benefits are not taxed, then federal law would prohibit an income tax on federal pension benefits.

City staff were unable to obtain information from Multnomah County staff about the impact that the PERS and federal pension income exemptions had on their tax receipts. The revenue projections included in Attachments C and D estimate the impact of the prohibition against taxing PERS and federal retirement benefits on City income tax revenues. The combined estimate of the impact is approximately 6% of taxable income.

Implementation and Administration: The cost of implementing and administering the program includes the cost of tax avoidance activities, tax evasion, and administration of the revenue collections. The council will need to consider both the staff effort needed to implement and administer the tax, as well as the cost of having a local income tax program.

With regard to the amount of time and effort needed to implement a local income tax, staff has made inquiries of the City of Portland, who administered the Multnomah County income tax for schools in fiscal years 2003-04 through 2005-06 and of the Department of Revenue. We have not done a thorough analysis, given the short timeline, but we have some initial information that will be useful for the current discussions.

The Multnomah County tax was approved on the ballot in May 2003, and the tax was effective for the 2003 tax year, timing similar to what Eugene is considering. In Multnomah County, their system was up and running by the end of the calendar year, about seven months after passage of the ballot measure. City of Portland staff told us that they estimate it would take at least six months to implement the new tax.

Start-up and on-going administration of a local income tax would be complex. Implementation activities would include: policy work with the council regarding the tax; staff and contractor costs; election costs; economic modeling of tax projections for budget and planning purposes; negotiation of an intergovernmental agreement with the City of Portland or the Department of Revenue to administer the tax (if at all possible, rather than creating a new City revenue collection infrastructure from scratch); legal costs; cash flow borrowing costs (if needed) for implementation activities; education of taxpayers; set-up and maintenance of a computerized billing and collections system; set-up and staffing of customer service phone lines; creation and maintenance of a web site with tax information, ability to file forms on line and payment acceptance abilities; processing of payments, deposits and refunds including acceptance of credit card payments; audit activities to ensure taxpayer compliance, including matching data with state income tax information and local address verification; and collection of delinquent taxes.

With regard to tax evasion and tax avoidance, the EcoNW report included in Attachment D describes some of these activities. Both activities result in reduced revenue to the City. The very preliminary estimates of the cost of implementing and administering an income tax program, including the cost of tax avoidance and evasion and tax implementation and collection activities, are estimated between 10-20% of the gross revenue in the EcoNW calculations. When added to the estimated impact of the state-mandated exemption for PERS and federal pension benefits, the total difference to get from gross potential revenue to net receipts for distribution to schools is approximately 16-26%.

Economic Impacts: EcoNW describes some of the economic impacts on businesses and the community as a whole. The analysis included two aspects. First, EcoNW reviewed literature on the effects of tax rates on economic development and provided some conclusions based on that review. Second, EcoNW estimated the impact on the local economy from a City income tax to fund local schools using an economic model. The analysis is included in Attachment D.

Governor's Budget for Education: According to the Governor's Budget, which was released last week, it establishes a stable funding floor for Oregon's public school system. It provides \$5.56 billion for the biennium. However, 52% (\$2.9 billion) will be distributed during the first school year of the biennium, equivalent to a \$5.8 billion budget for school funding. The effect is to provide an increase in state funding for the 2011-12 school year. Front-loading the funding also provides a year to find cost savings through consolidation and other efficiencies to maintain this level of classroom support during the 2012-13 school year. In addition, the Governor is recommending shifting funding for State Police patrol officers from the General Fund to the State Highway Fund, freeing up an additional \$93 million in General Fund support for 2012-13 school funding. The shift would require voter approval. The budget includes significant governance changes that direct a greater share of available resources to the classroom and give schools more flexibility in how they provide education services to their children. An excerpt from the Governor's Budget with regard to education funding is included as Attachment E.

Election Information: The council will consider whether to place the measure on the May ballot, or wait until November. A chart comparing some of the factors that will influence the decision is included as Attachment F. The school districts provided some of the information and had the opportunity to review and edit the chart.

One factor that has been discussed frequently is the cost difference between May and November elections. The cost to the City of an election this year, whether it be in May or November, will depend on what else is on the ballot. We don't know yet what is on either ballot, because the deadlines for placing measures on the ballots haven't arrived and the legislature hasn't concluded its session. We do know that the May ballot includes board positions for several special districts, and that will bring the costs down for any May measure that is put forth.

Election costs include Lane County expenses for putting on the election, City costs for advertising the election, and printing and mailing for voters' pamphlets and neutral information statements. Eugene has not had a May special election since the 1990's, but we have had some November special elections recently. A May election would be estimated to cost between \$50,000 and \$100,000, assuming that a voters' pamphlet and neutral information statement are prepared, and the County assesses some amount for administering the election process.

If the City had the only measure on the ballot, which could occur in the November election, the bill for an election could be as high as \$290,000 for all of the various costs involved, including a voters' pamphlet and neutral information statement. If other items are referred to the November ballot, then the cost would be lower. Some recent experience with costs for odd-year November ballot measures: \$113,000 for the November 2007 election and \$77,000 for the November 2005 election.

Voters' Pamphlet and Information Statement: EC 2.993 (2) requires the City Manager to publish and distribute a local voters' pamphlet for elections in which a City measure is on the ballot. EC 2.996 (1)(b) establishes that for council-referred measures, the argument in favor and the rebuttal to the opposition argument are to be prepared by one or more of the councilors who voted in favor of the measure.

Production of a voters' pamphlet is not a regular budget item and requires the expenditure of contingency funds. Production costs, including mailing, for the voters' pamphlets the past few years, after into account increased costs for postage and labor, are estimated at approximately \$25,000.

The City has prepared neutral information tabloids for some of the previous bond measures, such as the street bonds. Staff proposes in this case, however, that any tabloid for this measure be prepared by school districts and/or advocates. The cost of printing and mailing the tabloid is estimated at \$25,000.

The council could cover a portion of the election costs through council contingency, which has a balance of \$100,000 at the current time. Other funding would need to be determined to cover the additional costs. The council could also ask the school districts to cover the election costs, since this measure benefits the school districts and not the City directly.

Development of Ordinance: If the council votes to send a measure to the May ballot, staff will return to the council to discuss an ordinance to implement the tax. The ordinance will include specifics such as definitions of who is subject to the tax and what income is taxable, details about how the tax will be imposed, how the tax revenues will be dedicated, withholding (if desired), payments, refunds, time and place for filing returns, penalties for failure to file or pay taxes, and

so on. The ordinance would contain a section making it effective only if the voters approved the ballot measure.

The preliminary schedule for development and approval of the ordinance are as follows:

- Work session prior to council break on March 16 to discuss the ordinance
- Public hearing on the ordinance in mid-April
- Final approval of the ordinance by end of April

This schedule is designed to have the ordinance approved by the council prior to the mailing of ballots, which will occur 14 to 18 days before the election (end of April/beginning of May).

### **RELATED CITY POLICIES**

There are no City policies related to City support for school funding. There is a council goal of Fair, Stable and Adequate Financial Resources: A government whose ongoing financial resources are based on a fair and equitable system of revenues and are adequate to maintain and deliver municipal services.

### **COUNCIL OPTIONS**

1. Decide to proceed with a May ballot measure and adopt one of the attached resolutions, having filled in the blanks.
2. Decide to proceed with a November election and give direction to the City Manager about further details for the ballot measure.
3. Decide to not proceed with a ballot measure at this time.

If the council moves ahead with a May ballot measure, determine how to pay for the election costs and which councilor(s) will serve on the proponent committee. Attachment G includes a series of questions to help the council move through the decisions needed for this item.

### **CITY MANAGER'S RECOMMENDATION**

The question before the council – whether to refer a tax measure to the ballot to support schools – is a complicated question involving a number of political and fiscal considerations. Schools need additional revenue. As we've discussed, the City also will need additional revenue in the future to develop and maintain a long-term sustainable budget, including the maintenance of existing services as well as considering new or expanded services. The council should weigh the school districts' needs against the potential impact of a City tax measure (to support schools) on a possible future revenue measure for City services. Since this assessment primarily is a political conclusion about how voters will react, my recommendation to the council is limited to encouraging the council to consider these other impacts when deciding whether to refer a measure to support schools.

## **SUGGESTED MOTIONS**

If the council decides to refer a measure to the May ballot:

1. Move to adopt the Resolution included as Attachment \_\_\_\_\_. [The council will need to decide how to complete the blanks in the resolution before making this motion.]
2. Move to authorize the expenditure of funds from the General Fund contingency account to pay the costs of the election, including the cost to produce and distribute the voters' pamphlet.
3. Move to appoint Councilor(s) \_\_\_\_\_ to the voters' pamphlet proponent committee.

## **ATTACHMENTS**

- A. Resolution Calling a City Election on May 17, 2011, on a Temporary City Income Tax to Raise Funds for Local Schools – Option A Specific Rate
- B. Resolution Calling a City Election on May 17, 2011, on a Temporary City Income Tax to Raise Funds for Local Schools – Option B Adjustable Rate
- C. Summary of Scenarios to Raise \$26.6 Million or \$16.8 Million for Schools
- D. EcoNW Report
- E. Excerpt from Governor's Budget – Education Funding
- F. Comparison of May and November Elections
- G. Questions to Assist in Development of Council Motion

## **FOR MORE INFORMATION**

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**OPTION A - SPECIFIC RATE  
RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION CALLING A CITY ELECTION ON MAY 17, 2011, ON A  
TEMPORARY CITY INCOME TAX TO RAISE FUNDS FOR LOCAL  
SCHOOLS.**

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

**A.** Due to the extent of the budget shortfall facing the Eugene and Bethel School Districts, the schools districts are preparing to close schools, increase class size, and implement more teacher furlough days. Concerned citizens have been discussing the need to find new revenue sources in order to alleviate the damaging impacts that the school budget deficit will create.

**B.** Many community members have recommended that a temporary personal income tax be imposed to help fund Eugene schools so that teacher furlough days can be reduced or eliminated, and class size can be reduced.

**C.** The City Council recognizes the importance of a strong education system and finds that the electors of the City of Eugene should be given the opportunity to decide whether to implement a school funding tax measure.

**NOW, THEREFORE, based upon the above findings,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a  
Municipal Corporation of the State of Oregon, as follows:**

**Section 1.** A City election is called for the purpose of referring to the legal electors of the City of Eugene a measure authorizing the implementation of a personal income tax on the residents of the City of Eugene, in order to raise school funding for use by Eugene and Bethel School Districts to reduce or eliminate furlough days and to reduce class size, and to pay the debt service and other costs of any borrowing to implement the tax or achieve the desired outcomes.

**OPTION A:**

**Section 2.** The tax shall consist of a flat tax of \_\_\_% on income in excess of \$\_\_\_\_\_, and shall be collected annually on income earned between January 1, 2011 and December 31, 2016.

**OPTION B:**

**Section 2.** The tax shall consist of a graduated tax of: (a) \_\_% if income is less than \$\_\_\_; (b) \_\_% if income is between \$\_\_\_ and \$\_\_\_; and (c) \_\_% if income is more than \$\_\_\_, and shall be collected annually on income earned between January 1, 2011 and December 31, 2016.

**Section 3.** If necessary in order to have the Oregon Department of Revenue or another governmental entity collect the tax for the City, then the specifics contained in Section 2 of this Resolution may be adjusted by Council resolution. In addition, the Council shall, by resolution, reduce or suspend the tax if the State either (a) increases state funding of the districts to the point that additional local revenues are no longer needed to restore furlough days or prevent average class size from increasing, or (b) requires that the local income tax revenues decrease the amount of state funding for the districts.

**Section 4.** Funds generated by the tax shall be split between the two school districts based on the number of Eugene residents enrolled in each district. Before any funds are split between school districts, funds shall first be distributed to cover the costs of implementation of the tax measure.

**Section 5.** The school districts must provide a report to the City Council describing how the income tax revenues were spent. In addition, the school districts must establish a review panel, similar in nature to the Citizen Street Repair Review Panel, comprised of four members appointed by the Bethel School District, four members appointed by the Eugene School District, and four members appointed by the Mayor, two of whom should be business representatives and two of whom opposed the measure. The first report from the school districts and the review panel will be due by December 31, 2012 for the 2011 tax year. The reports must be completed annually and are a condition of continuing to receive the funds.

**Section 6.** Except for the actions described in section 3 of this resolution which will be accomplished by adoption of one or more additional Council resolutions, the details of the income tax shall be adopted by Council ordinance.

**Section 7.** The City Council orders this City election be held in the City of Eugene, Oregon, concurrently with the primary election on the 17<sup>th</sup> day of May, 2011, in accordance with the provisions of Chapter 254 of the Oregon Revised Statutes, and the ballots shall be counted and tabulated and the results certified as provided by law.

**Section 8.** The City Manager is directed to request from each school district a written statement that the district supports the Council placing this measure on the May ballot. If the City Manager does not receive such a written statement from each school district by March 16, then the City Manager shall not forward the ballot title to the County elections chief and no election on the measure will be held.

**Section 9.** The City Recorder is directed to give not less than ten days' notice of the City election by publication of one notice in the Register Guard, a newspaper published in the City and of general circulation within the City.

**Section 10.** This Resolution shall become effective immediately upon its adoption.

**The foregoing Resolution adopted the \_\_\_\_ day of \_\_\_\_\_, 2011.**

\_\_\_\_\_  
**Deputy City Recorder**

**OPTION B - ADJUSTABLE RATE  
RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION CALLING A CITY ELECTION ON MAY 17, 2011, ON A  
TEMPORARY CITY INCOME TAX TO RAISE FUNDS FOR LOCAL  
SCHOOLS.**

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

**A.** Due to the extent of the budget shortfall facing the Eugene and Bethel School Districts, the schools districts are preparing to close schools, increase class size, and implement more teacher furlough days. Concerned citizens have been discussing the need to find new revenue sources in order to alleviate the damaging impacts that the school budget deficit will create.

**B.** Many community members have recommended that a temporary personal income tax be imposed to help fund Eugene schools so that teacher furlough days can be reduced or eliminated, and class size can be reduced.

**C.** The City Council recognizes the importance of a strong education system and finds that the electors of the City of Eugene should be given the opportunity to decide whether to implement a school funding tax measure.

**NOW, THEREFORE, based upon the above findings,**

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EUGENE, a  
Municipal Corporation of the State of Oregon, as follows:**

**Section 1.** A City election is called for the purpose of referring to the legal electors of the City of Eugene a measure authorizing the implementation of a personal income tax on the residents of the City of Eugene, in order to raise school funding for use by Eugene and Bethel School Districts to reduce or eliminate furlough days and to reduce class size, and to pay the debt service and other costs of any borrowing to implement the tax or achieve the desired outcomes.

**OPTION A:**

**Section 2.** The tax shall be designed to raise \$\_\_\_\_\_ in the 2011 tax year for the school districts plus the costs of implementation. The tax shall consist of a flat tax and be collected annually on income earned between January 1, 2011 and December 31, 2016.

**OPTION B:**

**Section 2.** The tax shall be designed to raise \$\_\_\_\_\_ for the school districts in tax year 2011 plus the cost of implementation. The tax shall consist of a graduated tax that shall be shall be collected annually on income earned between January 1, 2011 and December 31, 2016.

**Section 3.** The Council shall specify the actual tax rate or rates by resolution with the goal of raising \$\_\_\_\_\_ in tax year 2011 for the school districts, plus the estimated costs of implementation. In subsequent years, the amount raised will increase by the rate of inflation. Rates may be increased or decreased to achieve the desired amount of revenue or meet Oregon Department of Revenue requirements. The Council also shall, by resolution, reduce or suspend the tax if the State either (a) increases state funding of the districts to the point that additional local revenues are no longer needed to restore furlough days or prevent average class size from increasing, or (b) requires that the local income tax revenues decrease the amount of state funding for the districts.

**Section 4.** Funds generated by the tax shall be split between the two school districts based on the number of Eugene residents enrolled in each district. Before any funds are split between school districts, funds shall first be distributed to cover the costs of implementation of the tax measure.

**Section 5.** The school districts must provide a report to the City Council describing how the income tax revenues were spent. In addition, the school districts must establish a review panel, similar in nature to the Citizen Street Repair Review Panel, comprised of four members appointed by the Bethel School District, four members appointed by the Eugene School District, and four members appointed by the Mayor, two of whom should be business representatives and two of whom opposed the measure. The first report from the school districts and the review panel will be due by December 31, 2012 for the 2011 tax year. The reports must be completed annually and are a condition of continuing to receive the funds.

**Section 6.** Except for the actions described in section 3 of this resolution which will be accomplished by adoption of one or more additional Council resolutions, the details of the income tax shall be adopted by Council ordinance.

**Section 7.** The City Council orders this City election be held in the City of Eugene, Oregon, concurrently with the primary election on the 17<sup>th</sup> day of May, 2011, in accordance with the provisions of Chapter 254 of the Oregon Revised Statutes, and the ballots shall be counted and tabulated and the results certified as provided by law.

**Section 8.** The City Manager is directed to request from each school district a written statement that the district supports the Council placing this measure on the May ballot. If the City Manager does not receive such a written statement from each school district by March 16, then the City Manager shall not forward the ballot title to the County elections chief and no election on the measure will be held.

**Section 9.** The City Recorder is directed to give not less than ten days' notice of the City election by publication of one notice in the Register Guard, a newspaper published in the City and of general circulation within the City.

**Section 10.** This Resolution shall become effective immediately upon its adoption.

**The foregoing Resolution adopted the \_\_\_\_ day of \_\_\_\_\_, 2011.**

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**Deputy City Recorder**

**Summary of Scenarios to Raise \$26.6 Million for Schools**

Scenario	Rate		AGI		OTI		% of Taxpayers Affected
			Joint Income (\$)		Joint Income (\$)		
A	1.54%	>	51,000		35,000		47%
B	1.42%	>	35,000		25,000		68%
C	0.73%	<	10,000		6,100		100%
	1.02%	between	10,000 - 22,000		6,101 - 15,200		
	1.33%	>	22,000		15,201		
D	Exempt	<	51,000		35,000		47%
	0.94%	between	51,000 - 74,000		35,001 - 50,000		
	1.32%	between	74,000 - 106,000		50,001 - 75,000		
	1.72%	>	106,000		75,001		

**Estimated Tax Liability for a Joint Filing Household Under Scenarios A-D to Raise \$26.6 Million for Schools**

AGI	Estimated OTI	Estimated Tax Liability for a Joint Filing Household			
		A	B	C	D
\$5,000	\$1,800	\$0	\$0	\$13	\$0
\$10,000	\$6,000	\$0	\$0	\$44	\$0
\$15,000	\$9,900	\$0	\$0	\$101	\$0
\$20,000	\$13,900	\$0	\$0	\$142	\$0
\$25,000	\$18,100	\$0	\$0	\$241	\$0
\$30,000	\$21,500	\$0	\$0	\$286	\$0
\$35,000	\$24,800	\$0	\$0	\$330	\$0
\$40,000	\$28,000	\$0	\$398	\$372	\$0
\$45,000	\$31,100	\$0	\$442	\$414	\$0
\$50,000	\$34,300	\$0	\$487	\$456	\$0
\$60,000	\$40,700	\$627	\$578	\$541	\$383
\$70,000	\$47,600	\$733	\$676	\$633	\$447
\$80,000	\$54,700	\$842	\$777	\$728	\$722
\$90,000	\$62,100	\$956	\$882	\$826	\$820
\$100,000	\$70,500	\$1,086	\$1,001	\$938	\$931
\$250,000	\$190,300	\$2,931	\$2,702	\$2,531	\$3,273

## Notes:

Separate filing households would have brackets equal to half of the joint filing households.

The OTI excludes non-taxable income under a local tax, such as PERS and federal pensions and other Oregon non-taxable income.

**Summary of Scenarios to Raise \$16.8 Million for Schools**

Scenario	Rate		AGI		OTI		% of Taxpayers Affected
			Joint Income (\$)		Joint Income (\$)		
A	1.02%	>	51,000		35,000		47%
B	0.91%	>	35,000		25,000		68%
C	0.49%	<	10,000		6,100		100%
	0.69%	between	10,000 - 22,000		6,101 - 15,200		
	0.90%	>	22,000		15,201		
D	Exempt	<	51,000		35,000		47%
	0.63%	between	51,000 - 74,000		35,001 - 50,000		
	0.88%	between	74,000 - 106,000		50,001 - 75,000		
	1.14%	>	106,000		75,001		

**Estimated Tax Liability for a Joint Filing Household Under Scenarios A-D to Raise \$16.8 Million for Schools**

AGI	Estimated OTI	Estimated Tax Liability for a Joint Filing Household			
		A	B	C	D
\$5,000	\$1,800	\$0	\$0	\$9	\$0
\$10,000	\$6,000	\$0	\$0	\$29	\$0
\$15,000	\$9,900	\$0	\$0	\$68	\$0
\$20,000	\$13,900	\$0	\$0	\$96	\$0
\$25,000	\$18,100	\$0	\$0	\$163	\$0
\$30,000	\$21,500	\$0	\$0	\$194	\$0
\$35,000	\$24,800	\$0	\$0	\$223	\$0
\$40,000	\$28,000	\$0	\$255	\$252	\$0
\$45,000	\$31,100	\$0	\$283	\$280	\$0
\$50,000	\$34,300	\$0	\$312	\$309	\$0
\$60,000	\$40,700	\$415	\$370	\$366	\$256
\$70,000	\$47,600	\$486	\$433	\$428	\$300
\$80,000	\$54,700	\$558	\$498	\$492	\$481
\$90,000	\$62,100	\$633	\$565	\$559	\$546
\$100,000	\$70,500	\$719	\$642	\$635	\$620
\$250,000	\$190,300	\$1,941	\$1,732	\$1,713	\$2,169

Notes:

Separate filing households would have brackets equal to half of the joint filing households.

The OTI excludes non-taxable income under a local tax, such as PERS and federal pensions and other Oregon non-taxable income.

# **ECONorthwest**

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**February 9, 2011**

**TO: Sue Cutsogeorge and Twylla Miller, City of Eugene**  
**FROM: Anne Fifield, Senior Economist**  
**SUBJECT: PRELIMINARY ESTIMATE OF LOCAL INCOME TAX REVENUE**

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The City of Eugene asked ECONorthwest to estimate the revenue that could be generated by an income tax imposed on residents of the City. This memorandum summarizes the research ECONorthwest conducted to estimate the revenue and economic impacts of a local income tax.

## **SUMMARY**

This analysis estimates the tax liability to households in the City of Eugene if an income tax to support K-12 schools were imposed. It shows different scenarios based on varied levels of progressivity.

The analysis also discusses the broader economic impacts of such a tax. We 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 (e.g., iphones) to directly support local jobs (e.g., teachers).

An input-output model is static, and it fails to take into account how households will react over time to tax levels. A local income tax will cause some households to consider locating outside City limits—either within or outside the region. The tax is unlikely to be a prime motivation for households to move, but the tax will factor into the decision-making process for households facing a relocation decision anyway.

There is evidence that shows when tax revenue is used to fund improved public services the favorable impact on location and production decisions provided by the enhanced services may more than counterbalance the disincentive effects of the associated taxes. Households with children will consider the quality of the local schools when considering whether or not to locate in the Eugene area.

The broad conclusion of the literature is that taxpayers are more willing to pay for public services if it is clear that the higher taxes will yield better public services. To convince the community to voluntarily increase its local tax burden, the schools must be able to show that education outcomes are positively correlated to increased spending.

## ASSUMPTIONS

The City of Eugene is considering if it should ask the voters to impose a local income tax on City residents. The City has not decided the structure of the tax, so ECONorthwest had to make a variety of assumptions. We list the key assumptions here, with an explanation of how they affect revenue.

### Identifying taxable income

Figure 1 shows a basic schematic of different terms used and how taxpayers determine their liability in Oregon. To determine tax liability, taxpayers first determine their gross income, then follow the steps on the federal tax form to calculate their adjusted gross income (AGI). The AGI is used as the basis for determining their Oregon Taxable Income (OTI), which is used to determine the gross tax. The gross tax is reduced after subtracting out exemption credits for dependents, disabilities, and retirement income credits to determine the actual tax liability.

**Figure 1: Computation of Personal Income Tax in Oregon**

<b>Federal Gross Income</b>
-
Federal adjustments to income (e.g., IRA deduction, student loan interest deduction)
=
<b>Federal Adjusted Gross Income (AGI)</b>
+
Oregon Additions
-
Oregon Subtractions
-
Oregon Deductions (e.g., itemized deductions)
=
<b>Oregon Taxable Income (OTI)</b>
x
Tax Rates
+
Interest on Installment Sales
=
<b>Gross Tax</b>
-
Credits (e.g., exemptions for dependents, retirement income credit)
=
<b>Tax Liability</b>

Source: Oregon Department of Revenue. *Oregon Personal Income Tax Statistics, Characteristic of Filers*. 2010 Edition Tax Year 2008. p. 4.

This analysis relies on the OTI because of its relative ease to administer—it is a clear line item on Oregon’s Form 40. Also, there is precedence in Oregon to use this as a basis to determine individual tax liability. During the three years that Multnomah County had an

income tax; taxpayers determined their local liability based on the OTI on the Oregon tax return.

The City of Eugene would need to determine if its income tax is to be based on the OTI or some other measure of income. Using the OTI as the basis for determining tax liability means that the tax would not take into account the number of exemptions—such as the number of dependents in a household. This would yield a tax that imposes a relatively higher burden on households with children. This fact could, however, make it more politically palatable to voters, as those households would be the primary beneficiaries of the tax revenue.

### **Geographic inconsistencies**

The income data in this analysis is based on the Oregon Department of Revenue's (DOR) reported taxable income for the City of Eugene. The DOR is not able to identify which taxpayers live inside the City limits. The data reported by the DOR is simply from tax returns with a Eugene mailing address. Some tax returns only list a Post Office box, so the DOR does not have reliable data about where that household actually lives.

A large number of households have a Eugene mailing address but are actually located outside the City limits. The City of Eugene conducted an analysis of addresses using GIS software to determine the portion of households with a "Eugene" address that are within the City limits. That analysis found that 17% of households with a Eugene address are outside the City limits. To estimate income tax in the City of Eugene, we reduced reported income for Eugene by 17%. This method does not take into account that household location relative to the City limits may be correlated with income.

A large portion of households in the River Road/Santa Clara area lies outside the City limits but within the boundaries of the Eugene school districts. Those households would not pay the income tax but they would benefit from it, as they are part of the school districts. This factor may affect the political viability of a City income tax, and City residents may view the tax to be a subsidy for those households.

### **PERS and federal benefits exemption**

Oregon PERS and federal retirement benefits are exempt from local income taxes by Oregon and federal law. The State, however, can collect tax on this income. The City of Eugene is not able to collect income tax from these sources. This analysis relies on data from Oregon PERS to exclude this non-taxable income

Oregon PERS reports that, in Lane County, there were 10,385 PERS recipients receiving \$283,167,203 in benefit payments in 2009.<sup>1</sup> We calculated that the PERS benefits paid represented 5.4% of Taxable Income reported in Lane County.

We were not able to locate similar data for federal benefits. To develop an estimate of federal benefits to residents of Lane County, we relied on statewide employment and income data from 1976 to 2006. Total income earned by federal employees represents roughly 14% of income earned by state and local employees in Oregon over the years. We used this figure as a proxy for the value of federal benefits. We increased the portion of

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<sup>1</sup> Public Employees Retirement System. *PERS: By the Numbers*. November 2010.

Taxable Income attributable to PERS (5.4%) by 14% to estimate the portion of taxable income in Lane County that is from PERS or federal benefit. Based on this approximate algorithm, we estimated that these benefits make up 6.2% of OTI in Lane County and in the City of Eugene.<sup>2</sup>

### **Estimating tax avoidance**

The City of Eugene asked that this revenue estimate take into account tax evasion and avoidance. We were unable to find good information on the compliance with new local income tax increments. We relied on earlier work by ECO that included a review of the literature regarding tax amnesty and tax compliance statistics.

Tax evasion is the unlawful failure to pay an owed tax liability. A local income tax in Oregon would experience some evasion because it is a new tax, and many taxpayers may fail to pay the tax out of simple confusion or frustration with compliance procedures. Also, it would not be possible to require all employers to withhold estimated tax liability because many Eugene residents work outside of Eugene. IRS studies have determined that tax compliance is particularly poor among low income, blue collar, and self-employed filers. The range of compliance estimated by a recent IRS study was as low as 11% among cash-transaction service providers to 97% for high-income professionals.<sup>3</sup> The income and occupational characteristics of Oregon and Eugene filers suggests that there may be a high rate of non-compliance.

Tax avoidance is legal behavior that has the effect of reducing the taxpayer's exposure to a tax liability. A city income tax in Oregon would experience avoidance for these reasons:

- Households with multiple residences may change the locus of their residence for tax purposes.
- If the income tax is temporary, taxpayers have an incentive to delay realization of income until it expires.
- New migrants to the region will have an incentive to avoid or delay locating in Eugene City limits, and some existing residents planning to change residences may seek to reside outside the city. Since approximately one in twelve households change location each year, significant avoidance behavior can occur without great cost to the taxpayer.

In this analysis, tax avoidance includes households who choose to not locate within the City limits. This is particularly notable for high-income households. Our best empirical evidence

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<sup>2</sup> The portion of an Oregon taxpayer's federal pension income that is based on federal service before October 1, 1991 is subtracted from the taxpayer's OTI. Therefore, some portion of federal pensions has already been exempted from the OTI. The method used here to estimate the federal exemption merely generates a rough approximation of federal benefits.

<sup>3</sup> See, for example: Adam Forest, *Occupation, Reputation, and Tax Compliance*, June 2002 (Pacific Lutheran University Working Paper); U.S. General Accounting Office. *Who's Not Filing Income Tax Returns? IRS Needs Better Ways to Find Them and Collect Their Taxes*. Washington: U.S. General Accounting Office, Doc. No. GGD-79-69, July 11, 1979; U.S. General Accounting Office. *Taxpayer Compliance: Reducing the Income Tax Gap*. Washington: U.S. General Accounting Office, Doc. No. GGD-95-176, 1995.

regarding shifts in household behavior is from Multnomah County. From 2003 to 2005 when Multnomah County levied a 1.25% income tax on residents, statewide tax revenue data show that high-income households were able to avoid paying taxes from that jurisdiction. During those three years the share of state income taxes from households with an AGI greater than \$250,000 from Multnomah County declined—there were 8.3% fewer affluent taxpayers in Multnomah County than in years without the tax. Total taxes from affluent taxpayers were 13.5% less than had been projected.

Table 1 shows the estimated number of tax returns in the Eugene City limits by AGI, total taxable income by AGI level, and the estimated total taxable income after subtracting out PERS and federal pensions. It shows the calculated average taxable income and evasion and avoidance rates for different AGI levels.

**Table 1: 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	965	450	515	1	0	0	50%	50%
0-5	5,663	953	4,710	5,842	5,481	968	50%	50%
5-10	6,339	937	5,402	31,511	29,567	4,664	50%	50%
10-15	5,871	1,176	4,695	53,664	50,353	8,576	50%	40%
15-20	5,509	1,340	4,169	74,418	69,827	12,675	40%	30%
20-25	4,900	1,330	3,570	88,290	82,843	16,907	30%	20%
25-30	4,339	1,316	3,023	94,806	88,957	20,504	20%	10%
30-35	3,734	1,287	2,447	95,211	89,336	23,922	10%	5%
35-40	3,300	1,291	2,009	96,231	90,294	27,363	5%	5%
40-45	2,881	1,266	1,615	93,991	88,192	30,614	5%	5%
45-50	2,570	1,254	1,316	92,877	87,147	33,906	5%	5%
50-60	4,505	2,552	1,953	186,446	174,942	38,831	5%	5%
60-70	3,735	2,485	1,250	182,777	171,500	45,918	5%	5%
70-80	2,949	2,189	760	167,669	157,324	53,357	5%	5%
80-90	2,317	1,845	472	150,456	141,173	60,918	5%	5%
90-100	1,790	1,493	297	132,831	124,635	69,618	5%	5%
100-250	5,529	4,811	718	645,159	605,353	109,490	5%	8%
250+	847	730	117	469,708	440,727	520,450	8%	8%
<b>In City Limits:</b>	<b>67,745</b>	<b>28,705</b>	<b>39,040</b>	<b>2,661,886</b>	<b>2,497,648</b>	<b>36,869</b>		

Source: Oregon Department of Revenue. *Oregon Personal Income Tax Statistics, Characteristics of Filers*. 2010 Edition, Tax Year 2008.

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

### Projecting tax liability beyond 2011

This analysis does not project tax liability into the future. This projection is based on 2008 tax revenue data. Given the shifts in the national and state economy, it is difficult to forecast future incomes with much certainty. The Oregon Office of Economic Analysis generates the state's revenue forecast, and it estimates that statewide income tax will slowly increase starting in fiscal year 2010-2011, after two years of no growth. If the state's forecast is correct, actual tax liabilities from a Eugene personal income tax could be higher than estimated here.

Actual tax liability could vary substantially from this projection for many reasons. Oregon has seen increased volatility in personal income tax revenue caused by turmoil in financial markets and passage of Measure 66. Another factor is that income from capital gains is

volatile, and tax revenue 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.

## **ECONOMIC IMPACTS OF THE TAX**

The City asked ECO to discuss the economic impacts a local personal income tax might have on the community and businesses.

### **Economic development impacts**

There is an extensive literature on the effects of tax rates on the economy. Most of it focuses on the location decisions of firms in response to corporate tax rates. The literature discusses the behavior of firms, but it applies to households. Researchers have found that firms tend to seek locations where they can optimize their after-tax profits. Location decisions are based on many factors, only some of which could be influenced by local government. Location decisions often have more to do with the fundamental characteristics of a region: its access to markets and factors of production; the quality of its labor force; the quality, cost, and stability of its public infrastructure; and the quality of life it afforded to its employees (especially the decision makers who influenced the location decision).

However, within a region, production factors are likely to be similar, so differences in tax levels across communities are more important in the location decision than are difference in tax levels between regions. Taxes have a small effect on *inter-regional* location behavior. But the effect of an area's taxes depends also on the extent to which the tax levels are significantly different from the average of the regions it competes against. Tax rates have a much greater effect on *intra-regional* behavior, that is, the difference between Springfield and Eugene.

An essential issue is the value provided to the community for the taxes collected. Because taxes fund public services, regions with low tax rates may end up with poor services. Thus, the area is less attractive. When competing jurisdictions have roughly comparable public services and quality of life, then tax rates can make a difference.

There is evidence that shows when tax revenue is used to fund transfer payments, economic growth is deterred. But when the revenue is used instead to fund improved public service the favorable impact on location and production decisions provided by the enhanced services may more than counterbalance the disincentive effects of the associated taxes.

One of the key public services funded by taxes is education. Households with children will consider the quality of the local schools when considering whether or not to locate in the Eugene area.

Quality of education has clear impacts on the long-term health of the local, regional, and national economies. A recent study found that effective teachers have a direct impact on the future earnings capacities of their students.<sup>4</sup>

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<sup>4</sup> By measuring teacher effectiveness using long-term, quantitative data, researchers found that a teacher one standard deviation above the mean effectiveness annually generates marginal gains of over \$400,000 in present

The broad conclusion of the literature is that taxpayers are more willing to pay for public services if it is clear that the higher taxes will yield better public services.<sup>5</sup> To convince the community to voluntarily increase its local tax burden, the schools must be able to show that education outcomes are positively correlated to increased spending.

### Income and employment impacts

To quantify the impact of the income tax, ECO estimated local economic impacts with IMPLAN<sup>6</sup>, an input-output model. Input-output models provide a comprehensive picture of the economic activities in a given study area using data assembled for national income accounting purposes and mathematical relationships that describe the interactions of local industries with each other, with industries outside of the region, with households as suppliers of the factors of production, and with final users of goods and services.

ECONorthwest constructed an economic impact model of the Lane County area using 2008 IMPLAN data (the most recent data available). The primary inputs and assumptions in this analysis are:

- Total income tax revenue generated for spending on schools is assumed to be \$27 million.
- Cost estimates were for school spending allocated to the state and local government education sector. This sector includes colleges, as there are no means to isolate K-12 education.

Table 2 shows the summary results of the input-output model. The impacts reported represent the gross economic impacts generated from spending \$27 million on local government and the impacts of \$27 million of foregone spending by local households. The net impacts are difference between the two.

**Table 2: Gross and Net Economic Impacts (millions of 2010 dollars)**

Type of Impact	Total Expenditure	Output	Personal Income	Jobs (full and part-
Gross Impacts( Spending on Schools)	\$27.0	\$42.4	\$28.7	648
Foregone Household Spending	\$27.0	\$25.3	\$7.9	227
<b>Net Impacts</b>	<b>\$0.0</b>	<b>\$17.1</b>	<b>\$20.8</b>	<b>421</b>

The input-output model shows a large net benefit to the Lane County economy by imposing the income tax. This is because the reduction in household spending (the individual tax

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value of student future earnings.

Hanushek, Eric A. *The Economic Value of Higher Teacher Quality*. NBER Working Paper 16606. National Bureau of Economic Research, Cambridge, MA. December 2010.

<sup>5</sup> Helms, Jay L. 109785. "The Effects of State and Local Taxes on Economic Growth: A Time Series-Cross Section Approach." *Review of Economics and Statistics*: 574-82.

<sup>6</sup> IMPLAN was developed by the Forest Service of the US Department of Agriculture in cooperation with the Federal Emergency Management Agency and the Bureau of Land Management of the US Department of the Interior to assist federal agencies in their land and resource management planning. Applications of IMPLAN by the US Government, public agencies and private firms span a wide range of projects, from broad, resource management strategies to individual projects, such as proposals for developing ski areas, coal mines, and transportation facilities, and harvesting timber or other resources.

liability) is directed to local jobs. Most household spending is *not* directed towards the local economy. The tax causes local households to reduce spending on non-local goods (e.g., iphones) to directly support local jobs (e.g., teachers).

## ESTIMATE OF TAX RATES AND LIABILITY

The City asked ECO to model the tax rates required to generate \$26.6 million a year, after taking into account evasion, avoidance, and administration costs, under four different scenarios:

- Scenario A. Flat tax exempting households with an OTI under \$35,000, with the \$35,000 limit applied to a joint return income level.
- Scenario B. Flat tax exempting households with an OTI under \$25,000, with the \$25,000 limit applied to a joint return income level. This OTI level approximates the AGI level of \$35,000, affecting a greater percentage of taxpayers than Scenario A.
- Scenario C. Graduated tax mirroring state marginal tax brackets, based on OTI joint return income levels.
- Scenario D. Graduated tax exempting households with an OTI under \$35,000 with the \$35,000 income limit applied to a joint return income level with three graduated tax brackets.

Table 3 summarizes the rates that would be applied to each joint return income level. The tax rates vary, showing how each particular tax structure could generate roughly \$26.6 million for schools. The table shows both the AGI and the estimated OTI for each AGI level. The table shows the AGI to provide some context about general income levels, but the model's tax brackets are applied to OTI. The table also shows the portion of taxpayers that would be subject to the tax. Joint filing households are illustrated in the table, and it is assumed that separate filing households would have brackets equal to half of the joint filing households.

**Table 3: Summary of scenarios raising \$26.6 million for schools**

Scenario	Rate		AGI		OTI		% of Taxpayers Affected
			Joint Income (\$)		Joint Income (\$)		
A	1.54%	>	51,000		35,000		47%
B	1.42%	>	35,000		25,000		68%
C	0.73%	<	10,000		6,100		100%
	1.02%	between	10,000 - 22,000		6,101 - 15,200		
	1.33%	>	22,000		15,201		
D	Exempt	<	51,000		35,000		47%
	0.94%	between	51,000 - 74,000		35,001 - 50,000		
	1.32%	between	74,000 - 106,000		50,001 - 75,000		
	1.72%	>	106,000		75,001		

Table 4 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.

**Table 4: Estimated tax liability for a joint filing household**

AGI	Estimated OTI	Estimated Tax Liability for a Joint Filing Household			
		A	B	C	D
\$5,000	\$1,800	\$0	\$0	\$13	\$0
\$10,000	\$6,000	\$0	\$0	\$44	\$0
\$15,000	\$9,900	\$0	\$0	\$101	\$0
\$20,000	\$13,900	\$0	\$0	\$142	\$0
\$25,000	\$18,100	\$0	\$0	\$241	\$0
\$30,000	\$21,500	\$0	\$0	\$286	\$0
\$35,000	\$24,800	\$0	\$0	\$330	\$0
\$40,000	\$28,000	\$0	\$398	\$372	\$0
\$45,000	\$31,100	\$0	\$442	\$414	\$0
\$50,000	\$34,300	\$0	\$487	\$456	\$0
\$60,000	\$40,700	\$627	\$578	\$541	\$383
\$70,000	\$47,600	\$733	\$676	\$633	\$447
\$80,000	\$54,700	\$842	\$777	\$728	\$722
\$90,000	\$62,100	\$956	\$882	\$826	\$820
\$100,000	\$70,500	\$1,086	\$1,001	\$938	\$931
\$250,000	\$190,300	\$2,931	\$2,702	\$2,531	\$3,273

Note: The OTI excludes non-taxable income under a local tax, such as PERS and federal pensions and other Oregon non-taxable income.

**Education**

Excerpt from Governor's Budget

**DEPARTMENT OF EDUCATION**

	<b>2007-09 Actuals</b>	<b>2009-11 Legislatively Approved</b>	<b>2011-13 Governor's Balanced</b>
General Fund	\$5,272,290,511	\$5,594,170,040	\$5,281,669,587
Lottery Funds	\$1,117,673,277	\$549,318,319	\$427,416,330
Other Funds	\$60,883,458	\$60,411,670	\$47,585,138
Federal Funds	\$875,676,402	\$1,229,435,317	\$722,225,628
Other Funds (Nonlimited)	\$140,351,340	\$100,687,342	\$84,024,055
Federal Funds (Nonlimited)	\$283,428,367	\$278,692,417	\$285,380,254
Total Funds	\$7,750,303,355	\$7,812,715,105	\$6,848,300,992
Positions	481	393	385
Full-time Equivalent	443.51	375.22	365.40

**Overview**

The Oregon Department of Education is the lead agency for Oregon's Pre-Kindergarten through grade 12 public education system. Its mission is to improve the achievement of all students. The Superintendent of Public Instruction is elected to lead the agency. The agency provides support to the State Board of Education and the Superintendent in carrying out their responsibilities, including:

- Adopting rules for general governance of schools and distributing funding for all public schools.
- Implementing statewide standards for schools.
- Establishing rules for schools and ensuring that they are followed.
- Administering Oregon's statewide assessment testing system.
- Acting as a liaison and monitoring implementation of federal programs.
- Working in partnership with all education stakeholders. This includes local school districts, education service districts, community colleges, parents, teachers, administrators, businesses and community members.

The agency also contracts for services for certain education programs such as services to infants and young children with disabilities, preschool programs, compensatory education programs and professional/technical education programs. Through regional programs, the department provides special education services to children with disabilities such as autism, hearing impairments and vision impairments.

The agency provides direct educational services at the School for the Deaf. In addition, the department contracts for most educational services at Oregon Youth Authority work-study camps and correctional facilities.

# Education

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## Balanced Budget

Investment in education is a top priority in the Governor's Balanced Budget. However, the loss of significant one-time revenues and the weak economic recovery, limits the state's ability to invest in "business-as-usual".

- State School Funding. The State School Fund accounts for about 94 percent of the General Fund and Lottery Funds resources in the Department of Education. Currently it is distributed to all public elementary and secondary school districts and education service districts throughout the state. State funds, including federal stimulus dollars, contributed about 65 percent of total school funding for the 2009-11 biennium. Local property taxes and other local revenues contributed the remaining 35 percent.

The Governor's Balanced Budget establishes a stable funding floor for Oregon's K-12 public school system. It provides \$5.56 billion for the biennium. However, 52 percent (\$2.9 billion) will be distributed during the first school year of the biennium, equivalent to a \$5.8 billion budget for school funding. The effect is to provide an increase in state funding for the 2011-12 school year. Front-loading the funding also provides a year to find cost savings through consolidation and other efficiencies to maintain this level of classroom support during the 2012-13 school year.

In addition, the Governor is recommending shifting funding for State Police patrol officers from the General Fund to the State Highway Fund, freeing up an additional \$93 million in General Fund support for 2012-13 school funding. The shift would require voter approval.

This budget includes significant governance changes that direct a greater share of available resources to the classroom and give schools more flexibility in how they provide education services to their children.

- Rather than diverting 4.75 percent of school funding to education service districts, the Governor's proposal will distribute all of the funds to school districts, allowing them to shop for the regional services that best meet their needs. In addition, a portion of these funds will be used to target assistance to schools facing challenges, develop and disseminate teaching practices that enhance student success, improve teacher quality and evaluation, and smooth the change in regional service delivery.
- The formula for calculating student transportation grants will be revised to emphasize efficiency as well as safety, thereby freeing additional funds for direct classroom activities.
- Incentives will be developed to encourage consolidation of school districts and schools. The cost of providing educational services is less in larger districts and the quality and variety of those services is generally greater in the larger districts. Likewise, it is less costly to operate school buildings that are at or near capacity. These consolidation efforts will liberate additional funds for direct teaching activities.
- The facilities grant portion of the school fund formula will be eliminated, thereby giving schools the flexibility to direct an additional \$25 million into helping students be successful.

## Education

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- Finally, the Governor will direct the Department of Education to encourage school districts to make comprehensive online options available to their students and to work toward the ultimate goal that any student can have access to a full-time virtual school. A recent Reset Cabinet report states that, “the cost of providing these online options has been calculated to be 70 to 80 percent of the cost in a traditional bricks and mortar setting.” The savings generated from an increase in virtual education technology can be reinvested into students who benefit more from the classroom experience and other more intensive services.
- Department Operations. Department Operations provides leadership, accountability, and support to schools statewide in several areas, including school improvement, assessments, special education, professional/technical education, legal requirements, nutrition, and transportation. The budget funds operations at 3.5 percent below the 2009-11 level, for a total budget of \$120.3 million. It maintains most current programs without inflation adjustments. Selected reductions will limit the agency’s ability to advance current initiatives. The Office of Early Childhood is moved to the Early Learning Council.
- Special Schools. The department operates the Oregon School for the Deaf. This is an educational facility designed to meet the needs of hearing-impaired children whose needs cannot be met by their local school district. The school provides comprehensive education and training services to 115 residential and day-program students, kindergarten through 12<sup>th</sup> grade. About 30 percent of these children have learning problems in addition to their hearing impairment.

The Oregon School for the Blind was closed in 2009. Funding was set aside to establish a Blind and Visually Impaired Student Fund to assist former School for the Blind students as they transition and complete their schooling, as well as to provide services to visually impaired students across the state. In addition, proceeds from the sale of the School for the Blind property are dedicated as follows: 50 percent for repair and maintenance on the School for the Deaf campus and 50 percent to the Blind and Visually Impaired Student Fund.

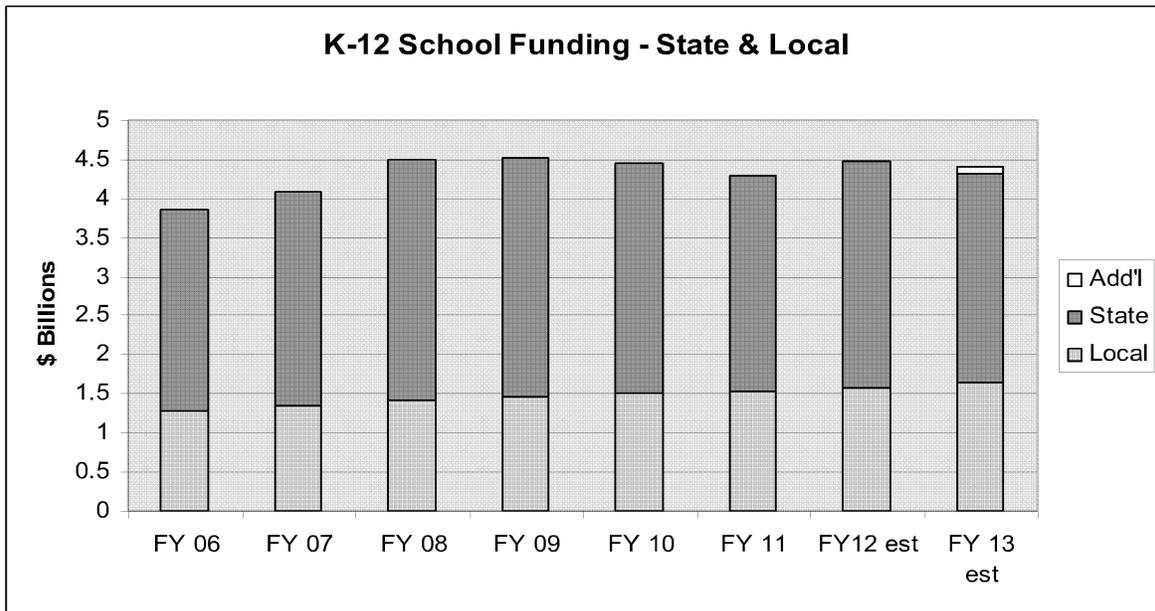
This balanced budget includes use of some of these funds to work down the backlog of deferred maintenance items that are affecting the health, safety, and education of Oregon’s deaf and hard of hearing students at the School for the Deaf. No additional General Fund is needed for the Blind and Visually Impaired Student Fund. The current balance in this fund should be sufficient.

- Lottery Bond Debt Service. The budget includes \$55.5 million Lottery Funds and \$2.5 million Other Funds to pay the 2011-13 debt service costs on Lottery-backed Revenue Bonds for education that were originally issued in the 1997-99 and 1999-2001 biennia.
- Youth Corrections Education Program. The department funds education for young offenders at the Hillcrest and MacLaren schools, juvenile work-study camps, and at other Oregon Youth Authority facilities. The funding comes from the State School Fund on a per-student basis. Most educational services are provided through contracts with local schools and education service districts. The department is also responsible for the Juvenile Detention Education program, which provides education services for youth in county detention centers around the state. The budget for

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these programs reflects a significant decrease in the number of incarcerated youth at the Oregon Youth Authority. It is \$11.5 million total funds, a 45.2 percent decrease from 2009-11.

- Grant-in-Aid.** This program serves students with specific educational needs. School districts or other entities outside of state government administer these services. Services include pre-kindergarten, child nutrition programs, special education, early intervention services, compensatory education, vocational and workforce development and education reform implementation. The Governor’s Balanced Budget moves Oregon Pre-Kindergarten grant funding and Early Intervention/Early Childhood Special Education grant funding to the Early Learning Council. The remaining General Fund grants have been prioritized, with the breakfast and lunch programs being continued at the current service level. Special Education programs are maintained at a level that is at least equal to the average percentage reduction from current service level in other programs statewide. Other General Fund grant programs are funded at 25 percent below the current service level.



## Revenue

General Fund supports the primary K-12 education infrastructure in the state. The State School Fund allocates General Fund to districts. General Fund also finances department operations, Special Schools and Grant-in-Aid programs. Lottery Funds finance a portion of the State School Fund and Lottery Revenue Bonds debt service.

Other Fund revenues include revenues passed from other agencies, as well as fees paid by regulated industries, county school fund revenues and charges for services to local school districts.

Federal Fund revenues include funding for compensatory education programs, school improvement, child nutrition and special needs education.

### Comparison of Election Date Impacts

	<b>May 2011</b>	<b>November 2011</b>
Impact on Furlough Days	Unknown based on information available to date. Funds would be used to reduce furlough days to the extent possible.	Unknown, based on information available to date. Funds would be used to reduce furlough days to the extent possible.
Impact on Teacher Layoffs and Class Size	Unknown based on information available. Funding would be used, in part, to support teaching positions and thereby reduce teacher layoffs and minimize increases in class size.	Unknown based on information available. Funding would be used, in part, to support teaching positions and thereby reduce teacher layoffs and minimize increases in class size in the 2012-2013 school year and beyond for the life of the tax. Districts would need more information about when revenue would be available in order to determine whether bridging strategies could be used to fund teaching positions in 2011-12.
Effective Date of Tax	Tax may be effective as of January 1, 2011	Tax may be effective as of January 1, 2011, although it would be unlikely that a tax approved at the November election date could be implemented in time for tax year 2011 collections (as of January 1, 2012). An alternative would be to have the tax effective as of January 1, 2012, which would leave sufficient time for implementation activities prior to collection date for the tax.
Revenue Availability	If tax is effective as of January 1, 2011, payments from taxpayers would be due April 15, 2012; preliminary anecdotal information from City of Portland indicates 50-60% of revenue would be received in April and the rest in October when taxpayers who filed for extensions pay their taxes	If tax is effective as of January 1, 2011, payments from taxpayers would be due April 15, 2012; preliminary anecdotal information from City of Portland indicates 50-60% of revenue would be received in April and the rest in October when taxpayers who filed for extensions pay their taxes. If tax is effective as of January 1, 2012, revenue would be received in April 2013.

	<b>May 2011</b>	<b>November 2011</b>
Implementation of Tax	Should provide sufficient time to implement tax so that 2011 tax year returns can be filed and payments made by January 1, 2012	Will not provide sufficient time to implement tax so that 2011 tax year returns can be filed and payments made by January 1, 2012 (or maybe not even by April 15, 2012). In order to implement the tax for the 2011 tax year, it might be necessary for the school districts to pay for some implementation activities prior to knowing the results of the election. An alternative would be to make the tax effective as of January 1, 2012, which would leave sufficient time for implementation activities.
Cash Flow/ Bridging Issues for Schools	School districts would need to explore bridging strategies, such as spending reserves or using tax anticipation notes, in order to minimize reductions in teaching positions and furlough days in 2011-12, in anticipation of receiving the revenue. Boards may need to use conservative estimates regarding revenue projections until actual revenue levels are determined.	This would depend on when the tax becomes effective, and whether it can be implemented in time for 2011 tax year collections.
Other Measures on the Ballot	Many special district board positions; potential bond measures for both 4J and Bethel school districts	Nothing currently scheduled; deadline to file is late August/early September

	<b>May 2011</b>	<b>November 2011</b>
Impact on School District Bond Measures	<p>The 4J and Bethel Boards will determine how to proceed with a bond measure after City Council decides whether to refer an income tax measure to voters and selects an election date.</p> <p>School districts have until March 17 to file a measure with Lane County Elections for the May ballot.</p> <p>A May bond measure would allow 4J to take advantage of a federal program that would save \$17-23 million for taxpayers, allow the district to not increase tax rates for general obligation bonds, and allow for construction over the 2011 summer months.</p>	<p>The 4J and Bethel Boards will determine how to proceed with a bond measure after City Council decides whether to refer an income tax measure to voters and selects an election date.</p> <p>School districts have until March to file a measure with Lane County Elections for the May ballot and until early September to file a measure for the November ballot.</p> <p>A November bond measure would mean that 4J would not receive the \$17 million of federal subsidy for their borrowing, general obligation bond tax rates would increase, and several construction projects would be deferred until 2012.</p>
Election Cost	Will depend on what else is on the ballot. Likely to be in the range of \$50,000 to \$100,000, including voters' pamphlet and neutral information statement	Will depend on what else is on the ballot. Could be as high as \$290,000, including voters' pamphlet and neutral information statement if this were the only thing on the ballot
Engagement of Advocates	Current engagement level is high and a May election would keep that momentum going	If schools made reductions in their FY12 budgets, that might discourage parents and advocates from engaging in the tax discussions, or it might demonstrate more clearly the impacts of school funding reductions and provoke more parents and advocates to get involved.
Form of Council Action	Resolution placing measure on ballot in February. Ordinance implementing tax approved by council before ballots are mailed.	Resolution placing measure on ballot and ordinance implementing tax can be approved simultaneously, with deadline of mid-August.

**Questions to Assist in Development of Council Motion**

- Q1: Does the Council want to refer a local income tax to the May ballot?
- If yes, continue to next question.
  - If no, decide when to have the November ballot discussion or decide to not move forward with a City income tax for schools.
- Q2: Does the Council want to (a) establish the specific tax rate(s) and raise whatever amount of funds produced by the rate(s); or (b) raise a specific amount of money, regardless of the tax rate?
- If *specific tax rate*, choose Resolution option A and go to question 3A.
  - If *specific amount of money*, choose Resolution option B and go to question 3B.
- Q3A: *Resolution Option A – Specific Tax Rate*: Does the Council want (a) a flat tax; or (b) a graduated tax?
- If a flat tax, what is the amount of exempt income and what is the tax rate?
  - If a graduated tax, what are the income brackets and what are the tax rates for each bracket?
- Q3B: *Resolution Option B – Specific Amount Raised, with Adjustable Rate*:
- What is the amount to raise?
  - Does the Council want (a) a flat tax; or (b) a graduated tax?
    - If a flat tax, what is the amount of exempt income?
      - Staff will estimate at the time that the ordinance comes back to council the tax rate needed to achieve “total”
    - If a graduated tax, what are the brackets and how much difference should there be between tax rates for different brackets?
      - Staff will estimate at the time that the ordinance comes back to council the tax rates needed to achieve “total”
- Q4: Does the Council want to know whether both school districts would like the Council to place the measure on the May ballot?
- If no, then remove section 8 of the resolution.