

City of Salem – Handout for 3/7/13

Five-Year Forecast

The City of Salem has continued to manage its way through the great recession, but not without service reductions and deferring capital needs. Changes in anticipated revenues have resulted in the loss of 89 General Fund positions over the past five years. Police Department reductions include five sworn officers and 6 non-sworn staff, and reductions for the Fire Department have resulted in two closed stations. Library hours have been reduced, code enforcement and long-range planning have been reduced, park maintenance hours have been scaled back, and pavement maintenance along with other capital projects have been deferred. An additional \$9.6 million in expense reductions will need to be realized over the next five years in order to keep pace with current revenue projections.

City of Salem - Property Values

The City of Salem has continued to experience declines in Real Market Value over the past five years. Median Single-Family housing value hit a high of \$211,500 in May 2007, and has since declined to \$156,000 as of December 2012, a 26% decline. While the rate of decline has been leveling off over the past year, the damage has been done. The once healthy spread between Real Market Value and Taxable Assessed Value has eroded, in fact, it is estimated that approximately 55% of the residential properties in the Salem portion of Marion County will have a Real Market Value equal to their Taxable Assessed Value within the next Fiscal Year.

While this is a common story throughout Oregon, it is particularly difficult for the City of Salem because of Measure 5 limitations and the total government rate cap of \$10 per \$1,000 of Real Market Value. The City of Salem has a permanent tax rate of \$5.83 which is extended to all non-exempt properties within the city limits in both Marion and Polk counties. The City of Salem permanent rate is one component of the total government rate, which also includes: Marion and Polk County individual rates, Soil and Water Conservation districts, Salem Mass Transit, Regional Library, and Urban Renewal Areas. The total Government rate for the Salem portion of Marion County is \$10.5518, and \$9.2974 for the Salem portion of Polk County. Since the government rate for the Salem portion of Marion County is over \$10, Compression can and is occurring on all properties where Real Market Value equals Taxable Assessed Value, as well as properties where these values are close to one another. For Fiscal Year 2013, the City of Salem will experience \$1.1 million in compression loss, which is nearly twice the amount experienced in Fiscal Year 2012. Nearly 60% of all residential properties in the Salem portion of Marion County are experiencing some level of compression.

City of Salem – Limited Options

Due to the Government Rate in the Salem portion of Marion County, the City of Salem has few options when considering an operating levy within the current tax structure. There is a specific order for allocating compression, starting with reducing local option taxes to zero, before reducing the permanent

tax rates proportionately. If the City of Salem decided to pursue a \$1.00 per \$1,000 of assessed value operating levy, it would increase the total government rate for the Salem portion of Marion County to \$11.5518 and result in the Salem portion of Polk County government rate going above the \$10 Measure 5 cap. Initial modeling estimates that this would cause a decrease in current property tax revenue because it would push an additional 5,000 properties into compression, as well as increase the compression loss for properties already experiencing some level of compression – Resulting in an estimated \$3.8 million compression loss for the next fiscal year. It is important to note that a local operating levy would affect other local government option levies as levies are compressed to \$0 before permanent rates are compressed.

