

**Agenda Bill**

Date: October 12, 2023

For Meeting: October 17, 2023

To: Rory Bialostosky, Mayor  
Members, West Linn City Council and Budget Committee

From: Lauren Breithaupt, Finance Director *LB*  
John Williams, City Manager *JRW*

Subject: City of West Linn financial outlook, potential revenue sources, and next steps in balancing the City's budget.

---

**Purpose**

The purpose of this report is to discuss the City's financial outlook, consider potential revenue sources, and determine next steps for revenue possibilities.

**Question(s) for Council:**

Is the City Council interested in revenue sources that could stabilize the City's fiscal outlook or fund additional services? If so, what services are of interest and what revenue options would the City Council like to explore further?

**Public Hearing Required:**

None

**Background & Discussion:**

The City's Budget Committee held two meetings in May and June to approve the City's biennial budget. The budget was later adopted by the City Council in June 2023. While the budget was balanced, as required by law, the future years are a concern.

During the budget committee meetings, beginning with the City Manager's budget message, structural issues with the City's budget were discussed. Most of the City's revenues are flat or limited in growth, including our relatively low tax rate, but almost every basic supply, material, and contract has gotten more expensive in recent years. Following the budget process, the Council requested the Budget Committee be reconvened to discuss the City's financial outlook and possible revenue options to help stabilize the City's General Fund budget.

First, we have a few potential revenue sources that are already in development, including:

1. Finding efficiencies is always first on our minds. We will always look for ways to provide great service more efficiently.
2. Transient Lodging Tax (TLT) – The City Council revised the TLT Ordinance earlier this month. We began collecting a 6% tax on short term vacation rentals in 2021 and have been collecting approximately \$9k per year. We are working on an Intergovernmental Agreement with the State

of Oregon to begin collecting our TLT and administrating the program. We expect the revenues to increase when the State begins administering the program.

3. Right of Way (ROW) / Franchise Fees – During our budget process, a new position was approved in the finance department with a focus on revenues and procurement. One of the priorities of this position will be looking at our Right of Way code and auditing the revenues we are receiving from ROW. We believe that there are operators in our ROW that are not paying the City. It is unclear how much revenue this audit can bring in, but we believe it is worth looking into. We expect to hire a new employee before the end of this calendar year.
4. Tax Increment Financing (TIF) – The City Council has approved a TIF District in the Waterfront Project Area. While in the short term this will have a small negative impact on the City's General Fund, it will more than pay for itself in the medium-term through financing needed infrastructure and in the long-term by raising the tax base for the City and all other taxing entities. The Council has also discussed exploring the Highway 43 Corridor for TIF in the future.
5. Master Planning/Visioning for certain areas – The City Council has prioritized community visioning projects for the Waterfront Area and for the full length of Highway 43. These projects may result in certain subareas starting down a road of different zoning to allow development in keeping with community values, creating additions to the City's tax base. It must be emphasized that increasing tax value is not the purpose or goal of these visioning projections, but it may be a byproduct.

If the Council is interested in exploring additional options for stabilization of funding current services, or for supporting additional services, below are a few possibilities. These would all obviously require significant community conversation before becoming reality.

1. Marijuana Tax Revenue – In 2016, the City passed Ordinance 1644 prohibiting marijuana processing sites, dispensaries, wholesalers, and retailers in West Linn. The state imposes a 17% tax on recreational marijuana products. Distributions of the tax revenue are made to cities that certify that they do not ban any marijuana license type within city limits. Beginning in 2021, eligible cities receive a portion of the flat \$1,125,000 each quarter. Of this, 75% is distributed per capita (based on population of eligible cities), and 25% of the share is distributed based on the licensure numbers in the city compared to the total licenses in all eligible cities.

If the ban was removed, the City of West Linn would expect to receive approximately \$40,000 per year from the per capita distribution. Each operator equates to an additional approximately \$50-60,000 per year (based off Oregon City revenue). Due to the location of schools and commercial areas in West Linn, there would be very limited opportunities for operators to locate.

Staff can provide more information on process requirements if requested.

2. Operating Levy – Oregon Law allows for a Local Option Tax Levy with approval of the voters. An operating levy would need to be renewed every five years. It would be computed as a rate per dollar of assessed value.

3. Adding to existing fees or creating a new fee – A fee that is charged on the monthly city services bill. For example, Council could create a public safety fee to increase public safety operations and/or pay for a portion of current public safety operations.
4. Annexation – the City currently has numerous islands of unincorporated land and has allowed these to apply for annexation at the owner's timeline. The City could study annexation of these properties, which would represent a small addition to the City's tax base. Some cities have offered a discounted or free annexation process in exchange. The interest among property owners for this action is unknown and would need to be assessed of course.
5. Private sector partnership on existing underutilized facilities – for example, the McLean House and Bolton Station. Such partnerships could result in positive revenue generation.

**Budget Impact:**

The exact budget impact depends on which option(s) we move forward with.

**Sustainability Impact:**

Not applicable.

**Staff Recommendation/Options:**

Stabilizing the City's ability to provide current service levels in the future at a minimum is important. In every budget cycle in recent years, we have faced the possibility of medium-range shortfalls. These shortfalls have been avoided in different ways – usually a combination of careful financial management, unplanned project delays (for example, caused by COVID-19), and unexpected grants (like the Federal American Rescue Plan Act). Ideally, we would not need to rely on such things to balance our budget. We will always live within our means, but the Council and Budget Committee have also repeatedly heard community requests for additional services and programs. Staff has no recommendation currently about specifics but stands ready to support Council, Budget Committee, and community discussions of this topic.