

SECURING OUR SAFETY

Subcommittee on Sales Tax – Summary of Discussion Points



Subcommittee Summary:

Opportunity – because we have no sales tax in Oregon (per se), we can be very creative to come up with a plan that meets our needs. Is a win/win sales tax possible? Perhaps, but the chance of success requires significant input from business and the whole community in general. A sales tax is really the only type of local tax that spreads the burden of providing Public Safety services and reduces the total funds that need to come from local residents. It may be possible to structure a sales tax proposal that would not negatively impact local businesses. In fact, it could actually slightly increase the profit margins for local businesses if property taxes are reduced and small percentage tax rebates are offered.

If the community wants to take this idea and discuss it further, key options that need to be discussed (among many others) are as follows:

- 1) Should small businesses be exempted to avoid certain costs and problems associated with a typical sales tax program? If so, what defines a small business?
- 2) What exemptions need to be considered to avoid a negative impact on businesses?
- 3) Should the community work towards either a regional or statewide effort to implement a sales tax in the place of former federal funding? Or are the financial needs of Josephine County unique enough to consider a local program before a regional program?

Above all, the community needs to provide input on the idea of a sales tax in general and the specific options available to Josephine County and Grants Pass before Securing Our Safety or any group can move forward with crafting an official proposal. Consideration of a sales tax should happen at the same time as other potential solutions are discussed. This is not a proposal but a “Menu of Options” to consider if a sales tax discussion moves forward. Please read on for further details of the “Menu of Options” for the Sales Tax Subcommittee.

Subcommittee Task Goal

- Short-term: Put together public input / sales tax plan that would allow enough time for sufficient public surveys and working out all details by December 2012. Any financial measure targeted for a May of 2013 election would have to be placed on the ballot no later than January of 2013 to allow for proper public education. Local elected officials would have to vote to place it on the ballot in January of 2013. This meets the overall group goal of Securing Our Safety which is a solution in place by May of 2013.
- If it is decided that the community would prefer to establish an initiative process to gather signatures to put it on the ballot, at least 6 months of additional time would need to be added to this timetable.
- Do we want to work with other counties or state legislators? A statewide effort would be tricky because of the concentration of voters up in the Portland area and the perception that Portland area business would lose Washington customers. We should study the pros and cons of a region-wide effort after more local public input. The loss of federal funding is also affecting many of our neighboring counties.

Sales tax structure – menu of options

- A sales tax that would bring in adequate revenues can't single out specific types of businesses. The sales tax would have to be a somewhat broad sales tax in order to keep the percentage low enough to limit impact on local business. The general sales tax would likely have to include some services in addition to typical retail sales.
- A sales tax may have to exclude small business to gain favor locally: Small business versus large business would have to be defined, but for example a business would have to have \$500,000 in annual sales before it would have to report and remit sales taxes. Excluding small business avoids the unfair burden of tracking and reporting sales taxes for the smaller businesses, and also results in significantly less business filings and less administrative costs to managing the sales tax program. A rough estimate is that 300-500 businesses in the City may have to report sales taxes (represents approximately 10-20% of businesses in the City that submit annual business tax filings).
- Potential Exemption examples (menu of potential exemptions to consider):
 - Businesses with less than \$500,000 in annual gross sales (or \$125,000 in quarterly sales) would be exempt and consider a grace period for businesses growing into this category
 - Newspapers & magazines
 - Food for home consumption (unprepared food)
 - Medical prescriptions

- Any vehicle with a unique vehicle identification number from the manufacturer
 - Alcohol, Tobacco, and Gasoline (governed by a state tax)
 - Flea Markets & other Temporary Sales / Festival Booths
 - Coffee Stands
 - Medical / Dental services
 - Construction contractors
 - Retail Sales by Governments & other Non-Profit Organizations
 - Utilities subject to the City Right-Of-Way Ordinance or City/County Franchise Taxes
 - Primary building/construction materials (wood, bricks, blocks, asphalt, cement)
 - Wholesale businesses (or supplies purchased by a business for resale by another business that would be subject to paying the sales tax on the final consumer sale)
 - Rental services
 - Banking, Loan, and Investment services
 - Individual service or single items in excess of \$1000
 - Exempt sales to customers outside Josephine County (if the service is provided outside of the County or goods are shipped outside the County)
 - Others?
- A rebate to businesses paying sales tax could be important. The program could effectively rebate a small percentage of taxes collected to compensate businesses for the time and trouble of collecting sales taxes.
- It's possible the City could administer the program since the City already has data on many of the larger businesses in the County (many of the County businesses that would be subject to reporting are within the City). It would be manageable for either the City or County to administer if the program was limited to larger business and filings were quarterly. The costs of administration would be minimal with a small business exemption.

Scope of a potential Sales Tax – menu of options

- Consider both the City's property tax levy needs for Public Safety and the County's Criminal Justice System needs in the proposal. City Public Safety is part of the Criminal Justice System. Reducing the property tax levy in Grants Pass and replacing with a sales tax could be appealing to GP voters to solve both City and County public safety / criminal justice funding needs at the same time.
- Menu of Options – The public needs an opportunity to comment on a sales tax in general in addition to all of the options discussed throughout this document.
- Consider a Sales Tax Oversight Committee as part of the eventual proposal.
- The eventual proposal should state that the County/City cannot increase the sales tax rate without another vote.

- Consider a separate City and County district vote. Most of the sales tax eligible business in the County happens in the City. If a City measure was successful and a County measure was not successful, the program would still have a significant amount of revenue to share for City and County services – significant enough to revive much of the Criminal Justice system. A separate district vote could have the same tax terms and similar language. The County district vote could provide restricted funding for Patrol, the Jail, the DA, Juvenile Justice, and Animal Control. The City district vote could provide restricted funding for the Jail, the DA, Juvenile Justice, Animal Control, and City Public Safety services.
- Consider a 4-year sunset option.

Financial estimates

- We have collected peer numbers from 20 cities in Washington (the state of Washington has a similar tax program that Cities participate in). If this program was set up similar to the Washington program, a rate of approximately 1.76% would be needed to fund County criminal justice programs and also eliminate the City public safety property tax levy. With the unique rules and exemptions we would consider, the ultimate rate of this program would likely be between 2% and 3% to cover all City and County Public Safety / Criminal Justice needs. However, if the City’s levy was excluded from this proposal, the rate needed would be less. We have also collected industry sales tax data by NAICS (North American Industry Classification System) for each of the cities in the peer sample so if specific exemptions such as vehicles or furniture are considered we would be able to roughly estimate the impact on the total rate needed to provide for Public Safety services.
- If this idea moves forward we should check with the State of Oregon on what data is available regarding Josephine County business sales. There may be some more relevant data since the implementation of Oregon Ballot Measure 67.

Receiving input from the public / business community is critical!

- Initial surveys, forums, and general public feedback should be about all potential Public Safety funding solutions (not just sales tax)
- “Business town hall meeting” may be proposed for Chamber of Commerce members (could discuss sales tax and other potential proposals at the same time)
- Survey for businesses (online, phone, and/or mail in survey)
- Present / talk to TCA representatives
- Ask for meetings with various other groups such as Rotary, Realtors, etc for feedback
- Ask the City and County to consider criminal justice town hall funding meetings
- Booths at other public events
- Do we want to consider a ballot petition?