

PAYMENT IN-LIEU OF TAXES

Protecting municipalities' ability to provide the state community safety in the midst of a beleaguered municipal tax system



THE PROBLEM

State-owned property in Oregon is exempt from municipal property taxes (ORS 307.090), yet it benefits from the fire, first response, and public safety services that municipal governments provide. Municipal governments are struggling to keep up with the costs of these services as they face budget shortfalls due to numerous ongoing issues, including compression, and the state needs to ensure that it continues to have access to the services these municipalities provide to state-owned properties.

THE MUNICIPAL PERSPECTIVE

State-owned properties exist in every municipality across Oregon. These strain local resources that provide community safety without paying for the benefit of those services. Salem is uniquely impacted by these shortfalls. As the state capital, Salem must service the many state-owned properties within city limits. Public demonstrations, recreation, tourism, and general state government functions create circumstances where the municipality must prepare for, accommodate, and act to maintain community safety. This includes all types of operations of a full-service city. Other municipalities have services covered by special districts, but Salem provides them all itself, despite a lower frozen property tax than other similarly sized municipalities in the state.



THE SOLUTION

Create a Payment In-Lieu of Taxes (PiLT) pilot program requiring state owned properties within the City of Salem to pay the municipal government in-lieu of the taxes from which they are exempt. These payments will be based on taking a share of Salem's budget for first response equal to the share of land which is state-owned within city limits. This is structured similarly to fees for the right to occupy property. In the case of Salem, this equates to roughly \$5-6 million annually. The pilot program will last for three years, during which time the city and agencies implementing the PiLT program will give reports at the end of 2024, 2025, and 2026 on how it benefited the city and the state and how it could potentially be scaled into a statewide program.

ADDRESSING STATEWIDE ISSUES

While Salem is in a unique position as a full-service city, the second largest city in the state, and the state capital, it isn't the only city facing potential cuts due to budget constraints. The reports produced for this pilot program will set the stage for how a payment in-lieu of taxes arrangement can be used to ensure that the state government continues to benefit from high quality municipal services.