Manzanita Funding Diversification Study

Spring 2023

Prepared for City of Manzanita

Final Report

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ECONorthwest (ECO) completed this project under contract to the City of Manzanita.

The City of Manzanita asked ECO to explore several alternative revenue sources that could bridge the funding gaps that the City is currently experiencing. City staff and ECO agreed that ECO would produce a high-level review of alternative revenue sources, with potential revenue estimates and an evaluation of each tool against a set of consistent criteria.

This report identifies sources of information, assumptions, and analytic techniques used in the analysis. Within the limitations imposed by uncertainty and the project budget, ECO and the City of Manzanita have made every effort to check the reasonableness of the data and assumptions and to test the sensitivity of the results of our analysis to changes in key assumptions. ECO and the City of Manzanita acknowledge that any forecast of the future is uncertain. The fact that ECO evaluates assumptions as reasonable does not guarantee that those assumptions will prevail.

ECONorthwest prepared this report based on our knowledge of public finance and fiscal sustainability and information derived from government agencies, the reports of others, and other sources believed to be reliable. ECONorthwest has not verified the accuracy of such information, however, and makes no representation regarding its accuracy or completeness. Any statements nonfactual in nature constitute the authors' current opinions, which may change as more information becomes available.

The contents of this document do not necessarily reflect views or policies of the City of Manzanita.

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1. Context and Purpose

The City of Manzanita is facing fiscal sustainability challenges and is seeking to diversify its revenue streams to build fiscal resilience and create a healthier financial portfolio. The City's fiscal challenges are driven primarily by low and statutorily constrained property taxes, an overreliance on transient lodging tax (TLT) revenue, and longstanding trends driving financial challenges in local jurisdictions across the state.

In the 1990s, Oregon enacted Measures 5 and 50, which together capped overall property tax rates, divorced assessed value from real market value, limited growth in assessed value, and permanently froze local property tax rates at 1996 levels.[1] Measures 5 and 50 impose structural limitations on the growth of property tax revenues, even as statewide infrastructure and service needs continue to increase. As with all other cities in Oregon, Measures 5 and 50 hamper Manzanita's ability to fund its core services and creates real fiscal limitations for the City as it seeks to provide high-quality services and infrastructure.

Since the passage of Measures 5 and 50, Manzanita has grown into a popular tourist destination. Summer visitation to Manzanita's shops, beaches, and attractions can peak at over 200,000 monthly visits.[2] While visitation has increased over the past two decades, growth in Manzanita's resident population has been slow. Between 2000 and 2021, Manzanita's population increased by about eight percent (compared to 24 percent for the state) from 565 to 609 people.[3]

Manzanita's small and slow growing resident population limits local revenue growth. In addition, the City's property tax rate remains roughly the same as it was in 1997—frozen in time and capped at $0.42 per $1,000 of assessed value, among the lowest of all Oregon cities.[4] Due to the structural deficit caused primarily by limitations on growth in property taxes, Manzanita is heavily reliant on TLT revenue, which is restricted in use.

While many cities across Oregon face fiscal challenges, Manzanita's are exacerbated by its extremely low property taxes, the nature of its tourist economy, and the City's over-reliance on TLT revenue. On the expenditure side of the ledger, Manzanita's expenditures are at risk of outpacing revenues. Already, the City has deferred maintenance and underinvested in infrastructure. In addition, Manzanita faces growing service demands due to tourist traffic and inflationary cost increases.

In the face of these challenges, the City identified the need to explore new funding sources to fund transportation infrastructure, deferred infrastructure maintenance, and maintain key amenities like public restrooms for visitors. City decision-makers are interested in revenue

[1] Measure 5 (1990) and Measure 50 (1996) dramatically changed Oregon's property tax system. https://www.oregon.gov/DOR/programs/gov-research/Documents/303-405-1.pdf.

[2] ECONorthwest analysis of data from Placer.ai

[3] U.S. Census Bureau. American Community Survey, 2000 and 2021.

[4] League of Oregon Cities. "City Property Tax Report." March 2016. https://www.orcities.org/application/files/4015/7480/9685/City_Property_Tax_Report_2016.pdf.

sources that balance what current residents pay versus second homeowners, day-trippers, and overnight visitors. They also want to understand the revenue capacity and administrative aspects of these revenue alternatives.

2. Manzanita's Upside-Down Fiscal Picture

Foundational sources such as property taxes and user charges account for around 75 percent of a typical city's revenue mix in Oregon. In Manzanita, however, this picture looks very different. The majority of Manzanita's revenue comes from TLT, which is driven by Manzanita's tourism-based economy and the prevalence of short-term rentals (STRs) within the city.

Manzanita's reliance on TLT revenue comes with challenges. For example, while the City brings in relatively stable TLT revenue year to year, revenues peak during the tourism season from June through August and drop during winter when tourism declines. New TLT revenue is limited in use (70 percent must be spent on tourism promotion or tourism-related facilities) and revenues do not adequately cover the costs of core city services for overnight visitors, such as parking, road maintenance, visitor amenities, and emergency services,

The City's resident population drives proportionately fewer costs and revenues. Development of second homes and spending by second homeowners may drive some growth in property taxes and other revenues. However, primary residents of Manzanita contribute very little revenue to support core City services.

Manzanita's Transient Lodging Tax

Manzanita has a TLT rate of 9 percent. Because the City's rate was 7 percent prior to the passage of ORS 320.345 and 320.350, which limited the use of TLT revenue on July 2, 2003, 100 percent of the 7 percent is available for discretionary use.

Manzanita increased its TLT rate to 9 percent after July 2, 2003, when new limitations were in place. These limitations require that 70 percent of new TLT revenues be spent on tourism promotion and tourism-related facilities and 30 percent of the revenue is discretionary.

This upside-down fiscal picture, where most of the City's revenues are derived from non-residents due to Manzanita's reliance on TLT, suggests structural or equity problems inherent in the City's ability to generate revenue.

Manzanita shares the financial challenges of many Oregon cities, but also faces unique constraints.

Manzanita is not alone in its fiscal challenges. Essentially every Oregon city will face fiscal challenges over the next twenty years as expenditures outpace revenues.[5] These challenges are related to continued inflationary pressures, limits on property taxes imposed by Measure 5 and

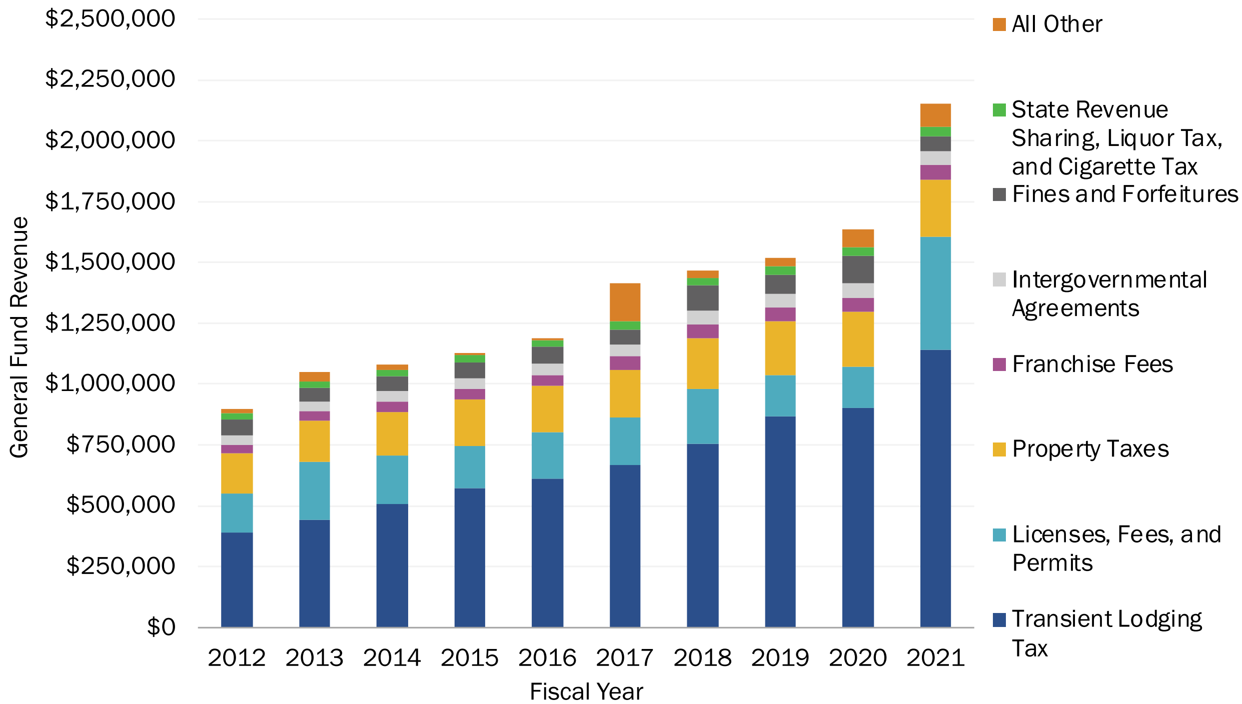
[5] ECONorthwest analysis of data from U.S. Census Bureau. Annual Survey of State and Local Government Finances. Projection factors based on historical growth rates.

Measure 50, and PERS obligations.[6] Manzanita's unique fiscal situation imposes additional challenges.

Exhibit 1 summarizes Manzanita's general fund discretionary revenues from 2012 to 2021. Dollars are nominal and not adjusted for inflation. Unlike most cities in Oregon, Manzanita brings in the majority (53 percent of General Fund revenue in FY2021) of its revenues from TLT and not from property taxes and user fees. Manzanita's small and aging resident population and its statutorily-limited low property taxes means that the City cannot leverage traditional revenue sources to cover its expenses.

Exhibit 1. General Fund Discretionary Revenues, City of Manzanita, FY 2012–2021

Source: City of Manzanita



Why are Manzanita's revenues so limited?

In Oregon, property taxes have substantial limitations. Measure 5 and Measure 50 were ballot measures enacted in the 1990s which drastically reduced the amount of revenue that municipalities can collect.

These measures:

- Froze property tax rates at the rate they were in the 1995-1996 fiscal year;

[6] According to the *Our Next 20 Is This Really All About PERS* supplemental report: "Oregon's plan to fully fund the PERS Unfunded Actuarial Liability (UAL) requires increases in employer contributions over the next 20 years. In 2017-18, public employer rate increases exceeded property tax revenue growth rates for the vast majority of jurisdictions. These rate increases represented 4-5 percentage points of payroll for most local governments." *North Star Civic Foundation.* April 2019. OurNext20.org

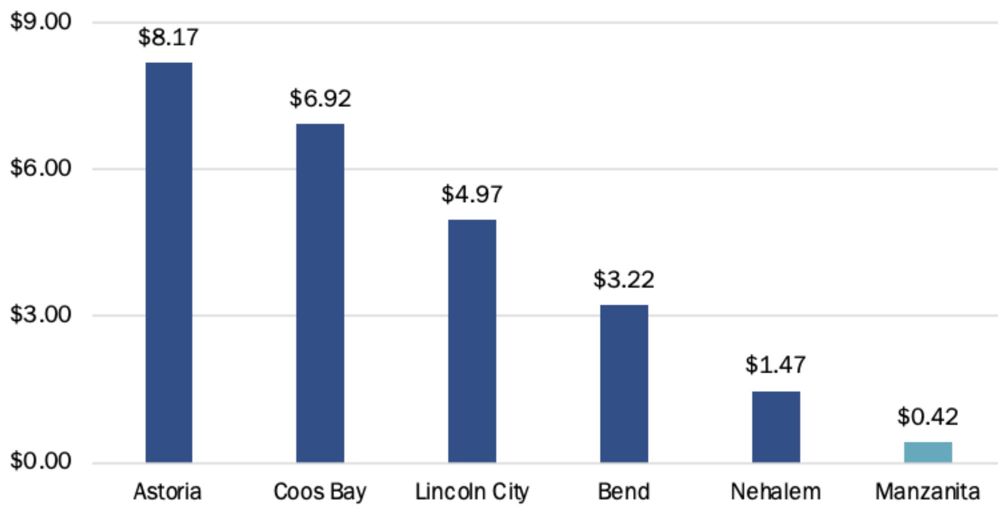
- Linked the frozen rate to the assessed value of a property rather than the real market value of a property;
- Compressed taxes to no more than $10 per $1,000 of real market value for general government, and
- Limited growth of assessed value to 3 percent rather than the general rate of inflation or changes in real market value.

In practice, these limitations can mean that costs (which have grown faster than inflation) outpace revenues, leaving funding gaps that require strategic budgeting.

When Measure 5 and 50 were enacted, Manzanita had a very low property tax rate (see Exhibit 2). These measures froze the low rate in place and limited subsequent increases in the rate. At $0.42 per $1,000 of assessed value, Manzanita has one of the lowest property tax rates in the state.

Exhibit 2. Oregon Property Taxes (per $1000 of Assessed Value) Total City Rate, Manzanita and Sample Cities, FY 2014–2015

Source: League of Oregon Cities. "City Property Tax Report." March 2016. Note: Data from FY 2014–15



Revenue Diversification Approaches Across Oregon

Manzanita is not alone. Oregon's strict limitations on property tax revenues have led many other cities to identify new revenue sources to allow budgets to grow in pace with inflation, population, and service demands. A few examples:

- Salem approved an operations fee in 2019, charged through utility bills, to fund basic city services.
- Corvallis employed a multi-pronged strategy including a local option levy for parks and libraries, two separate public safety fees for police and fire, and a county-level 9-1-1 service district.
- Newberg has implemented a transportation utility fee (TUF) and a 9-1-1 subscription service and annexed into a fire protection district.
- Ashland has had a food and beverage tax in place since 1993.
- Many cities (e.g., Oregon City, Phoenix, and others) have implemented franchise fees or in-lieu-of franchise fees on utilities operated by the city or special service districts for use of city-owned right of way.

Manzanita's economy is built around tourism, which must be managed appropriately.

Manzanita's status as a tourist destination influences its revenue mix and has implications for its financial planning. The City's comprehensive plan identifies tourism and second homes / homeowners as the City's primary means of economic stimulus. The spending of these visitors and part-time residents drives the City's fiscal picture.

New construction of second homes brings in additional property tax revenue, since the assessed value of the home will be far closer to the real market value than it is for older homes where growth in assessed value is statutorily limited.

> "Manzanita does not wish to be a major economic center. Manzanita's primary economic stimulus lies in the second home and weekend tourist business."
>
> *-City of Manzanita Comprehensive Plan*

Because Manzanita's TLT was in place prior to the passage of ORS 320.345 and 320.350 in 2003, the majority of TLT revenue is available for discretionary use. Manzanita raised its STR rate from seven percent to nine percent after restrictions were put in place. Therefore, only 30 percent of the two percent increase is available for discretionary use. Future increases in the TLT rate will be similarly limited. The limitations of future increases in TLT revenues means that the City cannot rely on new TLT as purely discretionary revenue to fund core services.

Furthermore, revenue sources should have a nexus to expenditures. While overnight visitors to Manzanita strain core City services, residents also rely on these services and contribute proportionally little in terms of revenue. And most importantly, the City's large number of summer day-trippers currently contribute no revenue to cover the costs they impose.

Manzanita's tourism-based economy must be carefully managed with overnight visitors, full-time and part-time residents, and day-trippers contributing revenue proportionally to the costs they impose.

Reliance on transient lodging tax revenue creates risks.

TLT also has limitations that go beyond statute and considerations about who pays for services. TLT revenue can be volatile and is not a guaranteed source of income. Declines in tourism, the shuttering of hotels or STRs, or natural disasters can all lead to unexpected drops in TLT revenue. TLT revenue varies seasonally, with revenues dropping in the winter and increasing in the summer.

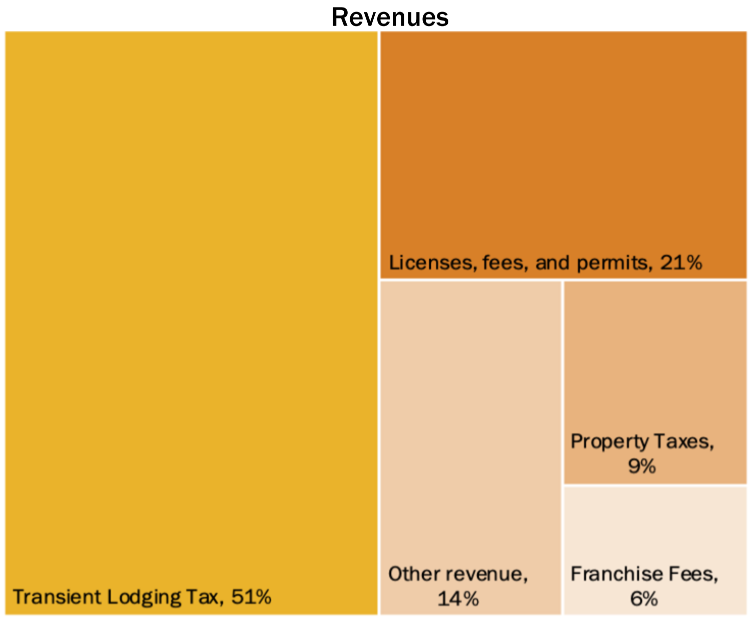
Growth in TLT revenue is limited not only by statute but by public appetite and City ordinance. Full-time residents of Manzanita have expressed frustration with the high concentration of STRs. For context, 76 percent of units in Manzanita are second and vacation homes. In response to the negative impact of STRs on Manzanita's livability for permanent residents, the City Council chose to freeze the issuance of new STR permits for 36 months.[7] However, limits on STR growth will also limit growth in the City's largest revenue stream.

[7] Per Council Resolution No. 22-05, the City has frozen the issuance of new STR permits through April 6, 2025.

Current revenue sources are not aligned with needs and do not cover core City functions.

Manzanita's major revenue sources are not well-aligned with its major expenses. City staff indicated that the City needs to make additional investments in infrastructure (particularly related to transportation) and that the tourism economy and increasing costs of code compliance need to be better managed. Exhibit 3 summarizes Manzanita's revenue mix alongside its expenditures, demonstrating a mismatch between revenue sources and expenditure needs.

Exhibit 3. Total Revenues and Expenditures, City of Manzanita, FY 2021
Source: City of Manzanita

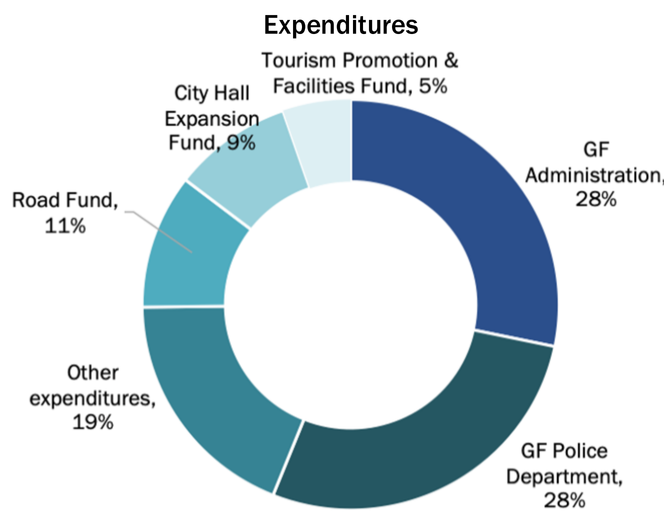


Manzanita's primary sources of revenue in 2021 were its TLT (51 percent of total revenue), and licenses, fees, and permits (21 percent of total revenue).

Property taxes, which typically account for the largest share of a city's revenue mix, only accounted for 9 percent of total revenues.

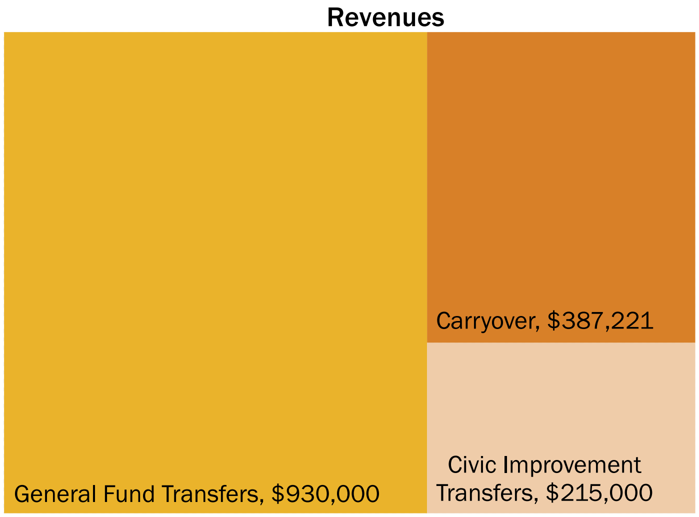
On the expenditure side, the City's largest expenses in 2021 were related to general fund (GF) administration and GF police department expenditures.

The City's primary revenue sources have little connection to these primary expenditures, indicating a need to recalibrate the City's revenue mix.



As a further example illustrative of the City's need for additional transportation investments, Exhibit 4 shows capital sources for the City's Road Fund. The Road Fund is heavily subsidized by transfers from other City funds, particularly the General Fund—a large proportion of which is drawn from TLT.

Exhibit 4. Road Fund Capital Sources, City of Manzanita, FY 2018–2023
Source: City of Manzanita



Manzanita's Road Fund is heavily subsidized by transfers from other funds, particularly the General Fund.

More than 75 percent of revenues transferred in from the General Fund come from TLT and Visitor/Development Fees and Charges and 100 percent of Civic Improvement transfers come from Short Term Rental Permit Fees and Business License Revenue.

In addition to the misalignment between revenues and expenditures, City staff expressed a need for additional investments in several areas not covered by the current revenue mix:

- **Infrastructure investments** – The City has extensive deferred and ongoing road maintenance needs alongside a list of future capital improvements and expansions/connections to improve traffic flow. Additional investments are also needed in stormwater infrastructure.

  Even with substantial transfers in from other funds, the City cannot meet current and future needs for infrastructure investments. According to the City's Capital Improvement Plan (CIP), nearly $8 million in additional revenues is needed to cover the expenses of upcoming capital projects in the near-term (see Exhibit 5).

Exhibit 5. Needed Infrastructure Investments, City of Manzanita, FY 2023
Source: City of Manzanita City Manager, based on city CIP

	Project Cost Estimate (2023)	Estimated Resources	Remaining Required Resources
Water Construction Fund	$5,600,000	$2,500,000	**$3,000,000**
Stormwater Construction Fund	$1,900,000		**$1,900,000**
Road Construction Fund	$3,000,000	$140,000	**$2,900,000**
Total Capital Projects	$10,500,000	$2,700,000	**$7,900,000**

- **Managing the tourism economy** – Greater investments are needed to support visitor amenities (public restrooms, garbage, beach access points, etc.) and to preserve the livability of the city for permanent residents.
- **Increasing costs of code enforcement** – STRs are an important generator of revenue for the City and support its tourist-based economy, but the City faces costs in managing the large number of STRs present in Manzanita, particularly as it pertains to resident complaints, inspections, and code violations. Additional revenue with a nexus to STRs would allow the City to hire a code enforcement specialist specifically focused on STR management.

3. Potential New Revenue Sources

The City should explore additional revenue generating mechanisms to ensure it can cover its expenses and establish a nexus between revenues generated and costs imposed. To this end, ECONorthwest and Galardi Rothstein Group explored a menu of options with City staff to identify potential revenue options that could meet the City's needs in a way that is equitable and sustainable.

Based on the consultant team's research of other communities' funding approaches and conversations with Manzanita staff, the consultant team developed a list of potential funding tools that could diversify the City's revenue generation. This list encompasses tools that the City could use for operations expenses as well as capital expenses (both broadly and for specific uses). The complete list of tools explored in this exercise are provided in Exhibit 6.

Exhibit 6. Funding Tools Evaluated for City of Manzanita

Source: City of Manzanita and ECONorthwest and Galardi Rothstein Group analysis

Options	Description
Water rate mechanism	Surcharge on water usage for non-primary residents; seasonal structure; higher rate; or other structure that would shift burden from residents.
General utility fee	Assessed based on size of water main, size of parcel, etc. Can be used on any operational or other need.
Paid parking	Paid street parking in certain high traffic areas of the city.
Franchise fee	Charged on wastewater district (Nehalem Bay Wastewater Agency) for use of right-of-way.
Levies	A voter-approved, short-term local property tax. Could be used to fund operating or capital expenses.
Food & beverage tax	Local tax on food and beverages. Used in other localities across the state, Ashland and Cannon Beach, for example.
Re-evaluate public safety Intergovernmental agreement (IGA)	Change any aspects in existing cost-sharing arrangement for the public safety IGA.
Special district	For any purposes (parking, sanitary, beach-related, public safety, other tourism-driven needs).
Capital Funding	**Description**

System development charge	Used for infrastructure expansion (capacity-increasing improvement for future development) or improvement.
Dedicated Funding	**Description**
Transportation utility fee	Assessed to utility customers (per dwelling unit or business) but dedicated to transportation.
Construction excise tax	Placed on residential or commercial construction and limited at 1% of permit value. Oregon statute specifies that the majority revenues must be spent housing-related incentives and affordable housing programs. .
Stormwater utility fee	Charged to property owners for the cost of conveying stormwater from their properties. Utility fees typically pay for capital costs related to utility provision.
Permit fees	Permit fees on new construction, which generally pay for the staffing costs to process building and planning permits.

With the guidance of City staff and the City Council, four funding tools were advanced for further exploration.

The consultant team worked with the City to narrow the list of potential tools to explore in more depth, based on the City's capacity to implement each tool and the potential revenues the tool could generate. A general obligation (GO) Bond, a transportation utility fee (TUF), prepared food and beverage sales tax, and paid parking were evaluated. Exhibit 7 provides an overview of each of these funding tools, including the need it served, how it works, and who pays.

Exhibit 7. Select Funding Tools Overview for City of Manzanita
Source: City of Manzanita and ECONorthwest and Galardi Rothstein Group analysis

	General Obligation Bond	Transportation Utility Fee	Prepared Food and Beverage Sales Tax	Paid Parking
Need Served	✅ Transportation Infrastructure	✅ Transportation Maintenance & Infrastructure	✅ Tourism Management ✅ Transportation Infrastructure	✅ Tourism Management ✅ Transportation Infrastructure
How?	Voter-approved 10–20-year bond with property tax levy	New fee on utility bill	Sales tax for prepared foods, requires voter approval	Parking fees to high-traffic areas
Who pays directly?	Property owners	Property owners	Food consumers, esp. at restaurants, delis, and cafes	Visitors to paid parking zones
Who pays indirectly?	Business patrons, overnight visitors in STRs	Overnight & day visitors indirectly	Food consumers, esp. at restaurants, delis, and cafes	Visitors to paid parking zones

The consultant team evaluated each tool in the narrowed list using the criteria in Exhibit 8. The criteria include whether the tool aligns with the City's funding needs, how stable revenues could be, administrative considerations, and concerns about equity and unintended consequences.

Exhibit 8. Proposed Funding Tool Evaluation Criteria for City of Manzanita
Source: City of Manzanita and ECONorthwest and Galardi Rothstein Group analysis

Parameters	Definition
Fiscal Need	Does it address cost pressures and help the City meet its fiscal needs?
Stability	Does funding fluctuate from year to year?
Equity or fairness	Who benefits or pays? Who imposes costs?
Flexibility	Is it used to fund operational or capital uses, designated for certain uses, etc.?
Ease of Administration	How costly or burdensome is it on the City to operate, collect new data, meet requirements, etc.?
Neutrality	Does the option influence behavior or create unintended consequences?
Ease of Implementation	Voter-approved v. councilmanic approval? Legality?

Exhibit 9 provides a summary how each of the tools matched up with the criteria, with a high-level evaluation from low to high for each criterion. Depending on how the City formulates the final funding options, these assessments might change. For example, if the City implements paid parking in two-hour zones in the downtown area, this would likely influence behavior for people to park outside the zone. When exploring the implementation of each tool, the City should explore potential unintended consequences.

Exhibit 9. Select Funding Tool Performance on Evaluation Criteria for City of Manzanita
Source: City of Manzanita and ECONorthwest and Galardi Rothstein Group analysis

	GO Bond	Transportation Utility Fee	Prepared Food & Beverage Tax	Paid Parking
Funding Capacity	High; maximum capacity exceeds City's needs	Med; about $200K for transportation-related projects	Med; about $400K per year with 5% tax	Med; depends on program setup
Stability	High; derived from property taxes	High; derived from utility bills	Med; depends on visitor traffic	Med; depends on visitor traffic
Fairness: who pays?	High; property owners directly, but also day and overnight visitors indirectly	High; property owners/ renters directly, but also visitors indirectly	Med; visitors and residents; potential negative effect on local businesses	Med; depends on fee level
Flexibility	High; capital projects, flexible use	Med; transportation infrastructure projects (e.g. bike/ped improvements)	High; capital projects and operations expenses	High; capital projects and operations expenses

Admin. ease	High, once put into place	High, once put into place	Med; requires monitoring and collection	Low; difficult to implement and requires ongoing enforcement
Neutrality	High; set rate for property owners	High; set rate for utility bills	Med; could influence consumer behavior in Manzanita	Med; potential fee avoidance and enforcement issues
Implementation ease	Low; requires voter approval	Med; requires rate setting and system development	Low; requires voter approval	Med; requires system and enforcement

To enable the City to better understand the revenue generating capacity of each of the selected funding tools, the consultant team produced revenue estimates.

Revenue estimates range from around $145,000 annually for a paid parking program to a high of $17.5 million total for a GO Bond.

The consultant team produced high-level estimates of the revenue generated under each of the revenue tools selected by the City. We used simple assumptions for the structure of the fees, estimated the number of users impacted, and provided a range of rates based on our review of other jurisdictions. Exhibit 10 below summarizes the revenue generating capacity of each of the selected funding tools.

Exhibit 10. Select Funding Tools Summary of Revenue Estimates, City of Manzanita
Source: City of Manzanita and ECONorthwest and Galardi Rothstein Group analysis.

	GO Bond	Transportation Utility Fee	Prepared Food & Beverage Tax	Paid Parking
Estimated Revenue	$17.5 million in total bonds (10–20-year bond)	$194,000 annually for transportation-related projects	$408,000 annually with 5 percent tax	$145,000 annually (depends on program setup)

More information is provided about each funding tool below, including a description, a revenue estimate, a description of the analysis the consultant team completed around the tool, and implications / next steps if the City were to move forward with the tool.

General Obligation Bond

Description: General Obligation (GO) Bonds are publicly issued debt by a municipality. The issuance of a GO Bond requires voter approval and is paid off with property tax increases, which can be raised to whatever rate necessary to meet debt payment obligations. The State of Oregon grants municipalities the authority to issue debt under Oregon Revised Statute (ORS) 287.050 and limits its use to capital construction or capital improvements. Municipalities typically use GO Bonds for projects that do not generate their own revenue stream. The total amount of bonds that a municipality can issue in the State of Oregon cannot exceed 3 percent of total real market value (RMV) of all taxable properties within the municipality.

As of early 2023, Manzanita has a refinanced water revenue bond outstanding with an aggregate debt amount of $2,960,000 with a 3 percent to 4 percent interest rate.[8] While this bond is an outstanding debt for the City of Manzanita, it is paid using revenue collected from charges associated with their water system making it a revenue bond, not a GO Bond. The interest rate and terms of an issued bond are dependent on the issuing jurisdiction's credit rating and current bond market conditions.

Maximum revenue estimate: ~$17.5 million[9]

Analysis: With an aggregate property value of taxable properties of approximately $585 million, Manzanita can issue up to $17.5 million in bonds, given the 3 percent State of Oregon municipality limit.

Exhibit 11 presents estimated annual payments and subsequent needed property tax millage rate increases for a $4 million, $6 million, and $8 million GO Bond in Manzanita. ECONorthwest used a 3.5 percent interest rate with a 15-year maturity to calculate payments, given Manzanita's current AA- credit rating and the current going rates in Oregon's municipal bond markets.[10] Because Manzanita's property tax rate is already extremely low, the financing of any GO Bond will result in a large percent increase in millage rate, even with a comparatively low millage rate increase. Financing a $4 million GO Bond would still keep Manzanita's municipal property tax rate below $1 for every $1,000 of assessed value but would result in a 106 percent increase in total municipal property tax millage rate.

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[8] City of Manzanita. "Basic Financial Statements." June 30, 2022.

[9] GO bond basic methodology:

> ECONorthwest obtained assessor's data for Tillamook County and subset the properties to active taxable properties in Manzanita.
>
> Aggregate value of active taxable properties in Manzanita is multiplied by 3% to obtain a max bond issuance amount of $17,536,850. This value is underestimated given that assessed value, rather than real market value, was utilized in calculations.
>
> ECONorthwest met with Manzanita's finance specialist to discuss potential terms and conditions of a Manzanita issued GO bond based on Manzanita's credit rating and current financial position.
>
> The estimated increase in property tax millage rate is generated by calculating the annual payment amount of the GO Bond and applying a new millage rate increase to all active taxable Manzanita properties until the GO Bond payment amount is covered.

[10] This credit rating was generated by S&P Global in November of 2022. A credit rating is performed by Standard & Poor's, a credit rating agency. The condition of a jurisdiction's credit is dependent on a number of factors including standing cash reserves, revenue stream, and ability to pay off outstanding debt.

Exhibit 11. Estimated GO Bond Annual Payments and Subsequent Needed Property Tax Millage Rate Increase, City of Manzanita

Source: City of Manzanita and ECONorthwest analysis Note: Annual payments are calculated assuming a 3.5% interest rate with a 15-year bond term.

Bond Amount	Annual Payment	New Total Municipal Millage Rate	Millage Rate Percent Increase	Annual Additional Tax Payment for $400K AV House, with Bond
$4 Million	$272,931	0.8744	106%	$180.45
$6 Million	$409,397	1.1000	160%	$270.68
$8 Million	$545,862	1.3256	213%	$360.91

Implications/next steps for evaluation:

GO Bonds require voter approval to be implemented. Next steps for the City would be to work with a bond underwriter to develop rates and conditions of bonding, as well as what the necessary millage increase would need to be to cover bond payments. After terms and conditions are set for a GO Bond, the proposition must be taken to ballot and achieve a majority vote to be implemented. Bringing a GO Bond to a vote would require staff time and material costs. The marginal costs associated with bringing a GO Bond to ballot can be minimized if the City brings the proposition alongside other voting propositions.

Transportation Utility Fee

Description: The City could assess a transportation utility fee (TUF) to all businesses and households within the city limits. Historically, utility fees in Oregon were limited to water and sewer utilities. However, given funding constraints and rising costs from general inflation and regulatory and design standards, many cities have implemented utility fees for an expanded suite of services, including transportation.

A 2008 survey from the League of Oregon Cities (LOC)[11] identified 19 cities in Oregon charging TUFs. Since then, many more cities have implemented or are considering imposing TUFs to fund a variety of transportation-related capital and operation and maintenance needs. For example, the City of Bay City adopted a TUF in 2022 to pay for street maintenance and repair, and the cities of Portland and Bend are among others currently considering implementation of TUFs to pay for street preservation and other transportation-related capital and operating needs.

Revenue estimate: $193,800 annually

Analysis: Water utility billing data were analyzed to determine the number of residential and commercial customers within the city for the purposes of estimating potential revenue from a TUF. Exhibit 9 shows an annual revenue estimate based on typical TUF rates per unit. Residential rates are typically assessed based on the number of accounts, while lodging customers are assumed to be charged based on the number of rooms.

[11] League of Oregon Cities. "TUF Solutions for Local Street Funding, A Survey on Transportation Utility Fees (TUFs)" January 2008.

Exhibit 12. Estimated Annual Revenue from TUF, City of Manzanita

Source: City of Manzanita water utility billing data and Galardi Rothstein Group analysis

Customer Type	Units	Unit Count	TUF Monthly Rate	Annual Revenue
Inside City Residential				
Short Term Rentals	Account	245	$10.00	$ 29,400
Other Residential	Account	1,179	$10.00	$ 141,480
Subtotal Residential		1,424		$ 170,880
Inside City Businesses				
Lodging Rooms	Rooms	89	$10.00	$ 10,680
Other	Account	51	$20.00	$ 12,240
Subtotal Business		140		$ 22,920
Total Revenue				**$ 193,800**

There are a variety of options for assessing the TUF on commercial customers. Some cities utilize water or stormwater utility billing information (water meter size or equivalent service units based on water consumption or impervious area) as a basis for assessing the TUF. Others develop more complex transportation-specific billing bases that consider the type of business and the customer's building size to scale the fees more closely to potential system impacts. The selection of a specific fee structure needs to balance administrative costs with fairness considerations.

As shown in Exhibit 12 above, a simple rate structure based on the number of water utility accounts and lodging rooms is estimated to generate just under $200,000 annually, assuming a monthly rates of $10 per residential/lodging unit, and $20 per commercial account.

Implications/next steps for evaluation:

Implementation of a TUF requires three primary tasks:

1. Development of a policy framework that would include determining the revenue target and allowed uses of TUF revenues (e.g., street preservation and or other capital improvements, bike, and pedestrian improvements, etc.); how the fees would be structured, including the base fee and application of any discounts, waivers, or fee differentials related to trip generation.
2. Technical analysis to determine the overall fee level and individual fees for different user types based on the policy framework.
3. Development of an implementation plan which would outline the internal tasks needed to enact the fees across different departments in the City, including legal, finance, utility billing, and public works. Specific issues to be addressed include billing policies and practices, customer assistance program, appeals processes, program monitoring and fee indexing or updating.

City Council can adopt the TUF via ordinance or resolution once the fees have been determined and required policies and procedures have been established.

Local Food and Beverage Sales Tax

Description: A local food and beverage sales tax would apply to prepared foods sold within the City of Manzanita. Oregon law allows municipalities to enact their own local sales taxes at their discretion. Each city can develop its own sales tax rate and rules for what can be taxed. Several communities have enacted a local prepared foods sales tax, including the cities of Cannon Beach (5% sales tax, split between the city and the Cannon Beach Rural Fire Protection District for emergency services and city infrastructure) and Ashland (5 percent sales tax first established in 1993, for the acquisition of open space and wastewater debt[12]).

Revenue estimate: $407,500 (5 percent tax)[13]

Analysis: To estimate local food and beverage tax revenue, ECONorthwest gathered a list of Tillamook County commercial kitchens that are inspected by the County Health Department and located in Manzanita. We examined the industry and the four NAICS subsectors of those businesses.

Using payroll data from the Oregon Employment Department starting in 2017 and data from the 2017 Oregon Economic Census to look at sales by the subsectors, we calculated the ratio of sales by subsector to employment payroll. We multiplied these ratios against the 2021 payroll of each of the subsectors. With that forecast, we applied the forecast inflation rate (approximately 18 percent) between 2021 and 2024.

The result was an estimate of sales by the four food and beverage subsectors. From this total, we deducted sales of alcoholic beverages. We estimated the share of sales that are alcoholic beverages by type of subsector using the 2017 Economic Census data for the State of Oregon.

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[12] Silver, Dean. The Evolution of the Food and Beverage Tax. *The Ashland Chronicle.* https://theashlandchronicle.com/the-evolution-of-the-food-and-beverage-tax/#:~:text=%E2%80%9CThe%20City%20of%20Ashland%20first,open%20space%20(park%20land).

[13] Local food and beverage tax basic methodology:

> ECONorthwest gathered a list of Tillamook County commercial kitchens that are inspected by the County Health Department and located in Manzanita. We examined the industry and four NAICS subsectors of those businesses.
>
> We also used payroll data from the Oregon Employment Department starting in 2017. These data count everything that is on a W-2 form that employees receive each year except benefits and employer paid payroll taxes.
>
> We also used data from the 2017 Oregon Economic Census to look at sales by the subsectors. We calculated the ratio of sales by subsector to employment payroll. We multiplied these ratios against the 2021 payroll of each of the subsectors. With that forecast, we applied the forecast inflation rate (approximately 18%) between 2021 and 2024.
>
> The result was an estimate of sales by the four subsectors. From this total, we deducted sales of alcoholic beverages. We estimated the share of sales that are alcoholic beverages by type of sub sector using the 2017 Economic Census data for the State of Oregon.
>
> We arrived at our sales estimate for taxable food and beverage for 2024 for each sub sectors. We cannot report the details of the analysis due to confidentially laws for the Quarterly Census of Employment data.

We arrived at our sales estimate for taxable food and beverage for 2024 for each of the subsectors. We cannot report the details of the analysis due to confidentially laws for the Quarterly Census of Employment data.

Implications/next steps for evaluation: The City should refine its assumptions for the tax level and how it would expect to use the funds. In addition, the City should discuss the impact of the proposal on local businesses before proceeding with conversations about advancing a food and beverage tax proposal to voters.

Paid Parking

Description: The implementation of paid parking, both through parking meters and permits, can provide enough revenue to cover enterprise costs, as well as provide additional revenue for general fund expenditures. The implementation of a paid parking system will require a full parking study that will assess the infrastructure capabilities of Manzanita's streets (ability to install meters), as well as understanding the patterns of parking to optimize permit types and locations and parking rates.

In addition to the costs of implementing paid parking infrastructure, parking enforcement, maintenance, and administration of the paid parking program will be required. The development of a paid parking program will require an upfront fixed cost investment of parking infrastructure, as well as continual variable costs of staff for enforcement and staff/current staff hours for administration.

Revenue estimate: ~$145,000 annually[14]

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[14] Paid parking basic methodology:

> ECONorthwest used Milwaukie, Oregon's downtown paid parking program as a proxy municipality for potential volume, meter revenue, and citation revenue in Manzanita.
>
> Citation revenue is estimated by multiplying the unpaid meter citation fine in Milwaukie, $60, to the number of annual parking citations in Milwaukie. This value is halved given that paid parking will not be enforced during winter months.
>
> ECONorthwest used Hood River, Oregon's paid parking program as a proxy municipality for expenditures and administrative costs for Manzanita. (Methodology continued on next page).

[14] Paid parking basic methodology continued:

> Given that parking in Manzanita would not be enforced in winter months, Hood River parking program salary and wage and office operation expenditures are split in half to proxy for Manzanita.
>
> ECONorthwest used Placer.ai cellphone data to estimate the proportion of duration of visits (two hours or less or two hours or more) for Manzanita. Placer.ai data segments visitation into 15-minute intervals up to 150 minutes. Visits over 150 minutes cannot be parsed out further. Given this limitation the revenue from a potential $8/day short term visitation rental permit is not included in this analysis.
>
> Oregon Department of Transportation's (ODOT) average annual daily traffic (AADT) count for Laneda Avenue in Manzanita to estimate total amount of people parking annually.
>
> The proportion of Placer.ai and ODOT data that is Manzanita residents cannot be derived. Given that residential permits are free, the inclusion of potential residents will overestimate estimated revenue. To adjust for this overestimation, a compliance rate of 60% is applied to estimates.

Analysis: To estimate potential parking revenue for Manzanita, parking programs in Hood River and Milwaukie, Oregon, are used as proxies for a potential parking system.[15,16] While Manzanita is smaller than both Hood River and Milwaukie, the potential volume of traffic is similar given Manzanita's popularity as a tourist destination.

Exhibit 13 illustrates revenue estimates of a parking-meter-only program in Manzanita, taking into account potential citation revenue and potential operational expenses. A net revenue estimate of $145,390 is derived using the assumptions detailed in the footnotes (paid parking will not be enforced six months out of the year during the winter and shoulder seasons). While not presented here, the implementation of a daily parking permit for STRs could yield substantially more revenue than a parking meter program alone. To determine the terms, conditions, implementation, and functionality of a parking program, a full parking study would be necessary to determine Manzanita's true parking system profitability.

Exhibit 13: Estimated Net Revenue from a Parking Meter Program, City of Manzanita

Source: City of Milwaukie Downtown Parking Management Strategy 2018, City of Hood River Downtown Parking Study- Rick Williams Consulting 2019, Placer.ai, Oregon Department of Transportation

Visitation Length	Price	Average Annual Daily Traffic Counts	Estimated Revenue
2-Hours or Less Visitors Visit	$1/HR	6,797	$198,495
Parking Citations	$60/ticket	-	$106,920
Total Parking Operations Revenue	-	-	$305,415
Estimated Annual Operations Expenditures	-	-	-$160,025
Net Parking Operations Revenue	-	-	$145,390

Implications/next steps for evaluation:

To implement a parking program, Manzanita will need to hire a consultant to perform a comprehensive parking study. A comprehensive parking study will capture daily parking volume more accurately, as well as assess Manzanita's current infrastructure capacity for on-street parking and potential permit parking. Given the intermingling of long-term rentals (LTR) and STR, as well as day visitation, Manzanita will need to structure its parking program in a way that minimizes impact to local residents, while simultaneously maximizing revenue capture from tourist visitation.

[15] City of Milwaukie. 2018. City of Milwaukie, Oregon Downtown Parking Management Strategy. Available online at: https://www.milwaukieoregon.gov/sites/default/files/fileattachments/ordinance/93841/r82-2018_with_final_plan_document.pdf

[16] Rick Williams Consulting. 2019. City of Hood River Downtown Parking Study. Available online at: https://cityofhoodriver.gov/wp-content/uploads/bsk-pdf-manager/2020/02/Hood-River_Draft_FINAL_parking.pdf

4. Next Steps

This study provided high-level revenue estimates for four promising potential revenue tools for the City of Manzanita. The next step for each of the potential tools will be additional study or actions to refine the potential rates and implement the tools. Manzanita should reach out to communities across Oregon who can share implementation lessons.

Our recommended next steps include:

- **Implement a TUF to help pay for maintenance and capital expenses.** A TUF could provide additional revenue to help the City cover infrastructure-related expenses. Next steps will include additional analysis to determine the rates and overall framework of the TUF.
- **Conduct a full parking study to refine the City's approach to paid parking.** The City should commission a parking study to better understand the parameters of a paid parking program, including boundary, fees, seasons, and permit costs. From this study, the City will have better information about revenue estimates, enforcement costs, and administrative costs.
- **Explore the political feasibility of a GO bond and the food and beverage tax.** The City could generate significant revenues for important projects through both tools. The City must take both mechanisms to the ballot and achieve a majority vote to be implemented.

Another opportunity that emerged toward the end of the study period was the potential for the City to evaluate its franchise fee agreements for utilities to use the City's right of way. This will help to prepare the City for discussions during the renewal period for franchise fees. The City could work with the Cities of Nehalem and Wheeler on a coordinated approach to utility franchise fees.

The City should also continue to frequently review and update existing water rates, system development charges, and other fees and charges to ensure that they are recovering needed revenue.

Diversifying the City's revenue streams will help to pay for important infrastructure projects and the services necessary to support the community's tourism economy. Implementing these tools will require the coordinated effort of elected leaders, staff, and key stakeholders to understand community concerns and develop a path forward that achieves the community's vision.