

SUMMARY and FISCAL NOTE*

Department:	Dept. Contact:	CBO Contact:
LEG	Ann Gorman / 4-8049	n/a

** Note that the Summary and Fiscal Note describes the version of the bill or resolution as introduced; final legislation including amendments may not be fully described.*

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to commercial tenancies; establishing limits on the maximum personal guaranty that may be included in or as a condition of commercial leases; and establishing limits on the value of a commercial lease’s required security deposit and/or letters of credit; and adding a new Chapter 6.104 to the Seattle Municipal Code.

Summary and Background of the Legislation: Most commercial lessors require, as either an element or a condition of the lease, one or more financial commitments on the part of the tenant. These commitments are a personal guaranty, a security deposit, and letters of credit. The legislation provides definitions for each of these commitments.

The legislation would establish limits on a commercial lease’s maximum personal guaranty, in terms of both its value and its duration, that a commercial lessor may require. A personal guaranty is made by an individual, who is usually but not always the business owner.

The legislation would also establish a framework for the aggregate maximum value of the security deposit and/or letters of credit that a commercial lessor may require. These commitments may be made either by a business or by an individual, who is usually but not always the business owner.

Each of these limits would apply to newly executed leases only.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ___ Yes X No

If yes, please fill out the table below and attach a new (if creating a project) or marked-up (if amending) CIP Page to the Council Bill. Please include the spending plan as part of the attached CIP Page. If no, please delete the table.

Project Name:	Project I.D.:	Project Location:	Start Date:	End Date:	Total Project Cost Through 2028:

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation amend the Adopted Budget? ___ Yes X No

If there are no changes to appropriations, revenues, or positions, please delete the table below.

Does the legislation have other financial impacts to The City of Seattle that are not reflected in the above, including direct or indirect, short-term or long-term costs?

This legislation imposes requirements on the Department of Finance and Administrative Services (FAS) that may have financial impacts. FAS would adopt rules to implement the legislation and would be authorized to investigate any potential violations and issue citations to lessors determined to have violated its requirements. FAS would also develop a summary of the legislation's provisions, along with any other regulations that pertain to commercial leases, and it would make the summary available initially upon passage of the legislation and as necessary in the future.

FAS would incur both one-time and ongoing costs associated with its enforcement of the new regulations, although an estimate of these costs and the period over which they would be incurred is not currently available. For example, the department would need to devise, implement, and maintain a means for receiving complaints about possible violations. FAS staff would support tasks such as the drafting and enactment of Director's Rules, the development of public-facing information about the regulations and its translation consistent with City language-access standards, the investigation of complaints, the citation of lessors found to be in violation, and participation in hearings. Affected staff would include customer service representatives, license and standards inspectors, and strategic advisors. Because the legislation does not include new staff resources, the incremental work would increase the aggregate purview of FAS's Consumer Protection Division, such that division staff may not be able to carry out, in the future, some bodies of work that are currently performed.

Are there financial costs or other impacts of *not* implementing the legislation?

No.

4. OTHER IMPLICATIONS

a. Does this legislation affect any departments besides the originating department?

The legislation primarily affects the Department of Finance and Administrative Services, as described above. The bill also provides for appeals of a civil citation to be heard by the Hearing Examiner.

b. Is a public hearing required for this legislation?

No.

c. Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No.

d. Does this legislation affect a piece of property?

No.

e. Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged

communities? What is the Language Access plan for any communications to the public?

Business owners from historically disadvantaged communities whose businesses require the leasing of commercial space would benefit from this legislation. Business owners with access to capital and credit have an economic advantage in that these resources can provide a longer runway for a new business to establish itself, becoming known among its target market and moving towards profitability. Limiting the collective financial liability that is associated with signing a commercial lease means that the individual who assumes this liability (who is usually the business owner) will likely have increased access to capital and credit. Historically, lack of access to credit has impeded small business owners of color from building sufficient wealth and standing to grow these businesses. Research conducted by the U.S. Department of Commerce has found that lack of access to capital was the most important factor limiting the establishment, expansion, and growth of “minority-owned businesses.”¹

Any Language Access Plan associated with this legislation has not yet been scoped or developed.

f. Climate Change Implications

1. Emissions: Is this legislation likely to increase or decrease carbon emissions in a material way?

No.

2. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle’s resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.

Actions proposed by this legislation will not increase or decrease Seattle’s resiliency in a material way.

g. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program’s desired goal(s)?

This legislation does not propose a new initiative or a major programmatic expansion.

Summary Attachments (if any):

¹ Robert W. Fairlie and Alicia M. Robb (U.S. Department of Commerce, Minority Business Development Agency), “Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs” (2010)