

SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
LEG	Jennifer LaBrecque	

1. BILL SUMMARY

Legislation Title: A RESOLUTION regarding Initiative 137 concerning excess compensation payroll taxes to fund the Social Housing Developer (which the City Council determined not to enact on September 19, 2024); authorizing the City Clerk and the Executive Director of the Ethics and Elections Commission to take those actions necessary to enable proposed Initiative 137 to appear on the February 11, 2025 ballot and the local voters' pamphlet in conjunction with the Payroll Expense Tax proposal (City Council Bill 120864), which is a proposed alternative measure dealing with the same subject matter in accordance with Charter Article IV; requesting the King County Elections Director to place the proposed Initiative 137 and its alternate on the February 11, 2025 election ballot in accordance with applicable law; and providing for the publication of such proposed Initiative Measure and its alternate.

Summary and Background of the Legislation:

This resolution directs King County Elections to place both Initiative 137 (I-137) and an alternative on the February 11, 2025 election ballot.

I-137 was filed with the Office of the City Clerk on February 13, 2024 (Clerk File 322950). On July 26, 2024 King County elections provided a Certificate of Sufficiency verifying that there were sufficient signatures to place the petition on the ballot. I-137 would impose a tax on payroll expenses for employers doing business in Seattle for purposes of social funding. Proponents estimate it would generate about \$50 million annually. The alternative, Council Bill (CB) 120864, would amend the Payroll Expense Tax (PET) so that the Seattle Social Housing Developer receives \$10 million annually, administered by the Seattle Office of Housing (OH), in dedicated PET funding for five years. Funding could be used to acquire, develop, or rehabilitate social housing and provide administrative support to the Social Housing Developer. CB 120864 provides some accommodations to the Seattle Social Housing Developer as compared to other affordable housing developers accessing capital through OH, while also providing some accountability measures for public funding.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project?

☐ Yes ☒ 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.

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City?

☐ Yes ☒ No

The resolution submits I-137 and the alternative to the Seattle voters for their approval in the February 11, 2025 special election. Because the resolution only sends I-137 and the alternative to voters, and does not actually implement the proposed tax or PET amendments, there are no financial impacts associated with the resolution.

3.d. Other Impacts

I-137 Impacts

If approved, proponents of I-137 estimate that the tax would generate about \$50 million each year over the next ten years.

The Seattle Office of Economic and Revenue Forecasts (Forecast Office) reviewed the methodology used to develop these projections and found that it seemed generally sound and on the conservative side. The Forecast Office also noted that there are several data limitations which make projecting this type of tax revenue difficult: 1) compensation data does not exist at the City of Seattle level, so assumptions must be made to extrapolate from data provided for a larger geographic area and 2) payroll data from the Employment Security Department does not include some corporate officer positions, which are more likely to be high income earners.

The Forecast Office also indicated other challenges with projecting the tax revenue associated with I-137. Like the current Payroll Expense Tax, tax revenue collections associated with I-137 would be potentially volatile. According to the Forecast Office, a large share of annual revenue from the existing payroll expense tax comes from a small subset of businesses in the technology sector. Further, a not insignificant amount of compensation paid by employers in the technology sector comes in the form of grants of company stock. For that reason, recent forecasts of the existing payroll expense tax by the Forecast Office have shown a positive correlation between tax collections and trends in technology stock values. As such, volatility in value of technology stocks can reasonably be expected to translate into volatility in tax collections.

Additionally, the increase to the payroll expense tax proposed by I-137 could cause businesses to change their hiring behavior to avoid taxation – such as moving existing employees to locations outside Seattle and/or shifting new hires to locations outside the city. As noted by the Forecast Office, these types of behavioral shifts could impact not only the potential revenue from the proposed new tax, but also revenues from the existing payroll expense tax and other tax revenue sources, including the sales tax, real estate taxes, and the business and occupation tax.

Overall, according to the Forecast Office the proponent's estimate of annual proceeds around \$50 million per year seems conservative and could be significantly higher. But given the volatility of the tax revenue and its potential to impact business decisions about employee locations, it could also be lower.

The Office of City Finance (OCF) has indicated that, should I-137 be approved by voters, they would request an additional 1.0 FTE Senior Customer Service Representative (Sr. CSR) and 1.0 FTE Tax Auditor to assist with the additional work resulting from the new tax. The fully loaded costs for these positions, assuming a 2026 start date, is \$119,057 for the Sr. CSR and \$151,725 for the Tax Auditor. Based on the cost of previous projects, OFC estimates that the cost of developing the technology system to administer this tax could be around \$1.5 million and that the ongoing maintenance fees for the system would be about \$10,000 per year.

I-137 Alternative Impacts

This legislation will not change total City revenues or total expenditures but does impose new restrictions on the use of PET revenues. Under existing City code, PET revenues must be allocated, on a percentage basis, across five categories:

- 5% for administration, collection, and evaluation of the tax;
- 62% for housing and housing services;
- 9% for the City's Equitable Development Initiative;
- 15% to support economic recovery and provide economic stability; and
- 9% to advance the Seattle Green New Deal.

If approved by voters, this legislation would further require \$10 million of annual PET revenues to be allocated to the Seattle Social Housing Developer for a period of five years.

The Council can anticipate being asked to review the policies governing the allocation of PET proceeds as part of the upcoming 2025-2026 biennial budget process. PET revenues are likely to play a significant role in the Mayor's proposal to address the City's General Fund projected deficit. Council modifications to the PET expenditure policies will need to accommodate the potential for voters to approve a \$10 million allocation to the Social Housing Developer.

4. OTHER IMPLICATIONS

a. Please describe how this legislation may affect any departments besides the originating department.

OCF would administer the tax.

b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact Statements, Determinations of Non-Significance, or other reports generated for this property.

No

c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.

- i. **How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.**

In Seattle low-income households are disproportionately black, indigenous, or people of color (BIPOC) households and black households are most likely to be low-income¹. BIPOC renter households are also disproportionately rent-burdened. Over half (57%) of all Black renter households in Seattle are cost-burdened, and over a quarter (27%) are severely cost burdened, meaning they spend over half of their incomes on housing costs.² Provision of income and rent restricted housing for low-income households can provide housing stability and reduce rent burden.

- ii. **Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.** N/A

- iii. **What is the Language Access Plan for any communications to the public?** None

d. Climate Change Implications

- i. **Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.** Legislation not likely to have material impact on carbon emissions.
- ii. **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.** Legislation not likely to have material impact on climate change resiliency.

- e. 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)? What mechanisms will be used to measure progress towards meeting those goals?**

There are no specific long-term or measure goals included in I-137 or any mechanisms to measure progress towards meeting goals.

¹ Seattle Market Rate Housing Needs and Supply Analysis, BERK, April 2021, page 19/
<https://www.seattle.gov/Documents/Departments/OPCD/OngoingInitiatives/HousingChoices/SeattleMarketRateHousingNeedsAndSupplyAnalysis2021.pdf>

² Ibid, page 23

5. CHECKLIST

Please click the appropriate box if any of these questions apply to this legislation.

- ☐ **Is a public hearing required?**
- ☐ **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?**
- ☐ **If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?**
- ☐ **Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?**
If yes, please review requirements in Resolution 31203 for applicability and complete and attach “Additional risk analysis and fiscal analysis for non-utility partner projects” form.

6. ATTACHMENTS

List Summary Attachments (if any):