

July 6, 2021

## MEMORANDUM

**To:** Finance & Housing Committee  
**From:** Tom Mikesell, Analyst, and Aly Pennucci, Policy and Budget Manager  
**Subject:** Council Bill 120118 – JumpStart Fund

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On July 9, 2021, the Finance & Housing Committee (Committee) will discuss and possibly vote on [Council Bill \(CB\) 120118](#) which would create a new JumpStart Payroll Expense Tax Fund (JumpStart Fund) in the City’s treasury. This would provide accountability and transparency in the budget for the use of revenues raised from the payroll expense tax authorized by [Ordinance 126108](#), in line with the purposes detailed in the JumpStart spending plan passed by the City Council on July 6, 2020, through [Ordinance 126109](#), and further detailed through adoption of [Resolution 31957](#) on July 20, 2020.

This memo (1) provides background information on the proposal, (2) describes CB 120118 and highlights certain policy considerations for the Committee, and (3) outlines next steps.

### **Background**

#### JumpStart Seattle Plan

On July 6, 2020, the Council passed Ordinance 126108, which authorized a progressive payroll expense tax on businesses with payrolls above \$7 million annually. The tax was estimated to generate \$214 million in 2021, with increasing collections in future years. To provide direction on use of the new tax proceeds, on July 6, 2020 the Council passed Ordinance 126109, which included a spending plan for the new payroll tax revenues. Subsequently adopted on July 20, 2020, Resolution 31957 provided detailed percentages for each spending plan category in Ordinance 126109. In combination, this suite of legislation formed the JumpStart Seattle Spending Plan that establishes specific uses for the payroll tax revenues.

In 2021, the spending plan directed the new tax revenues to repay uses of the City’s Emergency Fund for 2020 COVID response, to extend these COVID relief programs into 2021 as needed, to support existing City services in 2021 that would otherwise be cut due to pandemic-induced revenue losses, and to administer the new tax.

In 2022 and thereafter, the spending plan directs annual revenues from the payroll expense tax to affordable housing, the Equitable Development Initiative (EDI), Green New Deal investments, and small business investments, with a small portion dedicated to administering the new tax. Ordinance 126109 requested that the Executive submit an implementation plan for the new tax revenues that funds these stated uses by June 30, 2021. However, the Executive has not submitted the plan and there is no indication to date that the plan requested in Ordinance 126109 will be produced.

### Payroll Expense Tax in 2021 Budget and General Fund Financial Plan

Passed by the Council on November 23, 2020, [Ordinance 126237](#) (the 2021 budget bill) included \$214 million from the payroll tax in 2021, allowing the City to avoid large reductions in City services and to provide immediate COVID-19 emergency relief, uses which were generally consistent with Ordinance 126109. Further, after the bill's passage, the City Budget Office (CBO) published the [2021 Adopted Budget Book](#), which memorialized the projected revenues and spending choices in the 2021 budget, and also included a [six year financial plan](#) for the General Fund, that included revenue and spending projections through 2024.

As presented in a [staff presentation](#) to the Finance & Housing Committee, the projections in the six-year financial plan signal future spending of payroll tax revenues for uses which may not be consistent with Ordinance 126109. While the financial plan did include the full amount of projected revenues from the payroll expense tax in 2022 and each year thereafter, it was not clear that its intended purposes as proscribed in Ordinance 126109 would be fulfilled based on a review of the financial plan. Further, the lack of an implementation plan requested in Ordinance provides additional uncertainty about whether the 2022 Proposed Budget will be consistent with the spending plan.

### **CB 120118 – JumpStart Fund**

To provide transparent and accountable use of the use of payroll expense tax revenues in a manner consistent with Ordinance 126109, CB 120118 creates a new JumpStart Payroll Expense Tax Fund in the City treasury. Payroll expense tax revenues would be deposited in the JumpStart Fund, and spent according to the proscribed uses of the fund, which are consistent with Ordinance 126109, as follows:

- 62% for affordable and low-income housing;
- 15% for local business and tourism support;
- 9% for Equitable Development Initiative investments;
- 9% for Green New Deal; and,
- Up to 5% for administering the tax.

While the spending plan provided for the full measure of the new payroll expense tax revenues to be used for the above purposes in 2022 and beyond, recent revenue forecasts indicate that in the near term some amount of support for continuity of General Fund services may be necessary. To allow for the possibility that in 2022 General Fund revenues may not have fully recovered to pre-pandemic projections, and to provide continuity of staffing and services that were in place in place prior to the pandemic, a limited portion of payroll expense tax revenues would be allowed to cover revenues in 2022 and beyond to the extent which they are below the City Budget Office revenue projections made prior to the pandemic.

As shown in the [six-year financial plan](#) produced with the 2020 Adopted Budget (produced prior to the pandemic) projected 2022 General Fund revenues totaled \$1,510,029,000. This is higher than the amount of General Fund revenue currently expected in 2022, after excluding the payroll expense tax. As shown in the table below, after accounting for the increase in 2022 revenue projections presented by CBO in its [April 2021 Revenue Forecast](#) update to the Finance & Housing Committee in April 2021, General Fund revenues (less revenue from the new payroll expense tax) are projected to be lower than pre-pandemic projections. This is shown in row A.

	<b>2022 General Fund Base Revenues</b>
2020 Adopted Budget (6 yr. plan)	\$1,510,029,000
2021 Adopted Budget (6 yr. plan) <sup>1</sup>	(\$1,362,003,000)
CBO April '21 Forecast Update	(\$30,730,000)
<b>A. 2022 General Fund revenue shortfall from pre-pandemic level</b>	<b>\$117,296,000</b>
<b>B. Allowed transfer from JumpStart Fund to General Fund</b>	<b>\$117,296,000</b>
<b>C. Payroll Expense Tax revenues for JumpStart Fund purposes <sup>2</sup></b>	<b>\$116,615,000</b>

<sup>1</sup> Less projected 2022 revenue from payroll expense tax.

<sup>2</sup> Based on CBO payroll expense tax forecast of \$233,911,000 in 2022, as presented in April '21 Forecast Update to the Finance & Housing Committee.

Based on these numbers, as shown in Row B, CB 120118 would allow for \$117.3 million of payroll expense tax revenues to be transferred to the General Fund to support base services in the 2022 Budget. The remainder, shown in Row C and estimated to be \$116.6 million based on CBO's April revenue projections, would be restricted for the JumpStart Fund uses noted earlier.

It is worth noting that, given recent economic trends, and the likely economic boost from the impact of the full 'reopening' of the economy slated for June 30, the August revenue forecast could ultimately show an even higher level of base General Fund revenues than the number in the table above. This would further reduce the level of transfer from the new JumpStart Fund to the General Fund in the 2022 Budget and allow for a larger amount of the payroll tax revenues to be used for JumpStart Fund purposes. Alternately, if new virus variants or other unforeseen circumstances lead to slower reopening and a revenue forecast downgrade in August, the allowed transfer to the General Fund would be higher. CB 120118 would create the new fund effective January 1, 2022.

### Policy Consideration

Creating a new fund does introduce some administrative complexities, such as managing and monitoring the cash balances for this new fund, and additional reporting and monitoring. In establishing a new fund, the administrative complexities need to be considered alongside the need to provide greater transparency in how the funds are used. The requested implementation plan would have provided more detail on the Executive's intent in implementing the spending plan; without transmittal of an implementation plan it is not clear how the payroll tax revenues will be allocated in the 2022 Proposed Budget. Creating this fund

is a strategy available to the council to codify in the SMC the authorized uses of the payroll tax revenues and to ensure that their legislative intent is clear.

In terms of the administrative challenges, the spending plan authorized by the Council in 2020, and the policies proposed in CB 120118, allows use of up to five percent of the payroll tax revenues for administering the tax and the proposed investments; this can be used to provide resources needed to implement and administer the JumpStart Fund. If CB 120119 is approved and departments determine that additional resources are needed to manage this new fund, the Council could consider modifying the fund policies in the future. In addition, the budget office indicated that directing the five percent for administration directly to the general fund, and not depositing that amount into the proposed JumpStart fund, would help mitigate some of the administrative burden. Chair Mosqueda is proposing an amendment to include this change for the Committee's consideration. Staff will distribute the specific amendment language prior to the committee discussion.

### **Next Steps**

If the Committee votes to recommend passage of CB 120118 on July 9, 2021, the City Council could consider the legislation at the City Council Meeting on July 19.

cc: Dan Eder, Interim Director