



City of Seattle
Mayor Jenny A. Durkan

July 17, 2020

Monica Martinez Simmons
Seattle City Clerk
600 4th Avenue, 3rd Floor
Seattle, WA 98124

Dear Ms. Martinez Simmons,

I have returned Council Bill 119810 unsigned, understanding it will become law. Council's action imposes significant new payroll expense taxes (on top of all existing taxes) on certain businesses in Seattle. Our shared goal should be to make sure our companies and their workers thrive in Seattle, pay taxes in Seattle, and that resulting revenue increases equity and benefits the people of Seattle. Unfortunately, this bill and its average \$2,700 per job tax will likely have the opposite results.

I believe our city will need additional progressive revenues to make it through and emerge from these unprecedented times, and that we need to move from a regressive tax system to one that is more progressive. Workers and the middle class should pay less, and wealthy businesses and individuals should pay their fair share. But this bill will not get us there, and ultimately will hurt Seattle's ability to recover from the economic devastation caused by COVID-19.

Our workers have lost tens of thousands of jobs, and a record number of businesses have closed permanently. We are only four months into a crisis that has already proven more devastating than the Great Recession, and there is no end in sight to the pandemic or its devastating consequences. When we finally do emerge, rebuilding a robust and more equitable economy will be more challenging than in any time in our city's history. And we will be doing it as every city in America is fighting for jobs and talent.

I recognize that the bill passed by a veto-proof margin at Council, and therefore a veto will not change the outcome of this legislation. However, the taxes under the bill will not be collected until 2022, so there is time to try forge a path that will create progressive taxes we can collect, ensure an even regional playing field and enhance Seattle's ability to escape a long-term economic depression. I am committed to continuing to find that path – as I did by supporting the regional payroll tax in Olympia and have done in conversations with Councilmembers. I hope that Council and the coalition we built for the regional bill will earnestly engage in collaboration to do so.

I regretfully cannot support this law in its current form. Council's fast track approach to passing one of the largest taxes proposed in City history has led to serious concerns about not just the legality, size and scale of this tax, but its long-term impacts on the city and our small businesses. It is unclear what will be left of our economy when we emerge from COVID-19 next year. Right now, the very employers this bill seeks to tax are the ones that continue to employ workers and pay the majority of taxes to our city. The

impacts of this bill on those employers and the economic impacts on our city will certainly be felt before revenue is collected in 2022 (or longer if there is litigation).

I strongly believe that a better alternative path forward is a city income tax, a reduction of other regressive city taxes, and a regional payroll tax. This would tap into the wealth created by jobs, reduce taxes on workers and the middle class, and raise more revenue to allow significant investments to address income inequality. I would propose:

Citywide Income Tax. I believe it is now time to pass and implement a city income tax, and permanently roll back regressive taxes. A city income tax has recently been litigated and utilizing the recent opinion by the courts, we could create a tax that could be made even more progressive through a strong spending plan. In addition to protecting current city programs, I will propose that the new revenue should be used for 1) new investments in the Black community as determined by a community-led participatory process; 2) housing and homelessness; 3) permanently rolling back regressive taxes and taxes on small business; and 4) a universal basic income for our lower-earning residents.

Regional Payroll Tax. Last year, I began pushing a progressive regional payroll tax in Olympia despite the short session. We developed a coalition of local elected officials, legislators, labor, advocates, and the businesses to be taxed. All were willing to commit to quickly implement a progressive regional business tax. It is beyond dispute that affordability issues like housing and homelessness are regional, and the surge in our new economy jobs has spurred our affordability crisis regionally. The regional payroll tax that I supported (and still support) ensured that employers would contribute to offsetting these negative impacts by paying taxes to support affordable housing and reduce homelessness. It also ensured the companies would not have a financial incentive to locate or return jobs to another city in our region, or in another state. Notably, those businesses agreed and were at the table supporting legislation to create that tax. I believe this tax should be immediately implemented in any special session or the upcoming session.

As it relates to the current Council proposal, I share the following concerns:

Detrimental Impact on Seattle's Small Businesses and Their Workers. Before the pandemic, Seattle's small businesses employed more than 200,000 people. Many are now closed. While some smaller businesses may not pay this tax directly, the success of our small businesses is inextricably linked to the success of our larger and innovative companies who will be subject to this tax.

The Office of Economic Development recently reviewed topline data regarding the initial impact that tech and information sector workers in and around South Lake Union (SLU) have on our local economy. The data suggests what we all know — the success of small businesses deeply dependent on our robust ecosystem of large and small companies. We saw this starkly when the largest employers had their employees work from home beginning in March. Almost immediately, the smaller businesses around those employers started failing for lack of customers. In downtown, without these larger employers, we

have already had dozens of businesses close permanently with thousands of workers permanently laid off.

Considering we were one of the most robust economies in the entire country with record employment and vibrant small businesses and tourism, I have grave concerns about emerging from COVID-19 without small businesses and its workers, especially our service economy. And unfortunately, we know that the individuals who have lost their jobs and the service economy including hotels and restaurants are primarily those most on the margins.

Continued Teleworking or Relocation of Jobs and Impacts on our Long-Term Recovery. Our city is the economic driver of the state. The first few months of the pandemic has led to record unemployment, permanent closure of our small businesses and some of our large businesses and boarded up neighborhoods. A vast majority of downtown workers who still have jobs are telecommuting, and there is great uncertainty of the impacts in the weeks and months to come. I do not say this lightly, but Seattle's downtown and commercial core may take many years to recover, and recovery is not certain. If Council's revenue projections are correct, this tax would cost on average approximately \$2,700 per year for each of the 78,000 jobs affected by this tax in the city. For comparison, it is almost ten times the size of the repealed employee hours tax of 2018 that would have cost \$275 per employee per year.

Right now, the most impacted sectors of this tax are working from home. And because of the worsening pandemic, that will continue into next year. Employers have already extended telecommuting into 2021. When we emerge from the pandemic, we need those workers to return to Seattle. But we will have to compete for those jobs – not just against other cities locally and nationally, but to counter new business models that will continue to have employees work remotely from almost anywhere. It is very unclear when and what jobs will return to Seattle, especially downtown and in South Lake Union, which have been hubs for our technology companies.

The new tax only raises revenue if there are jobs and payrolls to tax. Every worker and business that does not return to Seattle will mean a decrease in existing revenues like the sales tax and potentially business & occupancy tax. An unprecedented number of Seattle workers have lost jobs, and businesses have shuttered. Many businesses, which employed thousands of workers, are closed for good. This negative result increases significantly in scale if tens of thousands of jobs will be shifted outside of Seattle.

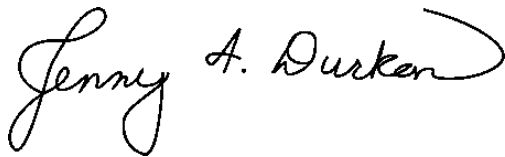
Any Legal Challenges Will Impact the Ability to Spend the Projected Revenues. In addition to the uncertainty of the projected revenues, none of the projected revenues under this bill are to be collected until 2022 at the earliest, and potentially later if there are legal challenges. This is another novel tax, as no city in the state has enacted a local payroll tax nor graduated local payroll tax. This uncertainty cannot be denied and must be acknowledged in budgeting decisions.

We are in the midst of a global health pandemic that has resulted in significant economic challenges. Our downtown is boarded up, a record number of businesses throughout the city have closed for good –

and, with them, jobs are gone as well. Every indicator tells us that these challenges are going to get worse over the next several months and into next year. These economic impacts have hit our small businesses, low wage workers and communities of color the hardest. We cannot restore those parts of the economy and instill greater equity if we do not bring jobs back to the city.

Again, there is limited time to try to forge a path that will create progressive taxes we can collect, ensure an even regional playing field and enhance Seattle's ability to escape a long-term economic depression. I am committed to continuing to find that path – as I did by supporting the regional payroll tax in Olympia. I will continue to reach out to Councilmembers and hope they will engage in collaboration to do so. If not, the consequences for our city's health and recovery could be very dire.

Sincerely,

A handwritten signature in black ink that reads "Jenny A. Durkan". The signature is written in a cursive, flowing style.

Jenny A. Durkan
Mayor of Seattle