



SEATTLE CITY COUNCIL | POSITION 8

COUNCILMEMBER TERESA MOSQUEDA

Date: May 10, 2018
To: Councilmember Mosqueda
From: Michael Maddux
Subject: Review of high-level data from the McKinsey/Chamber Report, and how that might translate into county-wide funding, the impacts on Seattle residents and businesses, and proportionality of share of cost.

The Seattle Times recently reported on the McKinsey/Chamber report that was done for the Seattle Metropolitan Chamber of Commerce. In their reporting, it was shown that the concept of “efficiencies” in order to address homelessness is just not feasible, and that the number one barrier to transitioning people into permanent housing is a lack of permanently affordable housing in King County. This follows the reports done as part of the One Table group that attempted to identify solutions earlier this year, and to date has come up with no action plan for a regional approach. This is also in line with the Poppe Report, and gives further credence to the concept of Pathways Home as an ideal model to exit households from homelessness.

The most significant component in the McKinsey/Chamber report was the notation that in order to make a meaningful impact on the crisis, the county would need to increase annual spending by **\$164 mm** and **\$215 mm** (roughly) per year, **and spend 85% of that on building housing**. There is nothing to suggest *how* to do that, but given the limitations on revenue sources, along with the political realities of the county, we are likely looking at, effectively, a county-wide levy in this range as the main comparison option.

With this information, I worked with Central Staff to run some quick numbers on what that might look like for Seattle households, the business share, and how that compares with the current EHT proposal on the revenue side.

I. Population

King County has an estimated population of 2,188,649 persons, with 713,700 of those residing in Seattle. This means Seattle residents make up 32.6% of the overall county population. At the same time, Seattle is home to an estimated 75% of those experiencing homelessness in King County.

Looking at the range, and determining the “fair share” based on population, Seattle is essentially responsible for raising an additional \$53,464,000 to \$70,090,000 per year to better meet the need as described in the McKinsey/Chamber report. This does not take into account Seattle’s current funding of the Housing Levy at about \$30 million per year – the only city in King County that has such a sustained program.

II. Assessed Value

Overall, King County has an assessed value of \$514,186,373,203. Seattle's assessed value is \$208,104,881,908, representing 40.4% of the total assessed value of property in King County.

When looking at the \$164 million to \$210 million range, much like the Levy Swap, Seattle would be put in a position wherein we are further subsidizing other jurisdictions' inadequate funding of homelessness and housing services, being on the hook for between \$64,512,513.39 and \$87,404,050.40 per year.

Based on some early figures, the actual levy rate for a county-wide levy to raise \$205,000,000 per year, based on 2017 assessed values, would be about \$0.31 to \$0.42 per \$1,000 of assessed value.

In 2017, the median assessed home value in Seattle was \$528,000. This would translate to an annual cost for such a levy of between \$161.51 and \$221.76.

The current median home value based on sales, however, is \$819,500. This would mean the potential of a first-year rate collection (assuming such a levy passed) of \$254.05 and \$344.19 per year.

III. Proportional Share

In Seattle, approximately 66% of property tax levy payments for general fund payments come from residential properties, with 34% from commercial properties. Because the senior rate essentially reduces or exempts this part, this share proportion is lower for residential than a levy would be (which is typically not subject to the low-income senior exemption). The exact difference is likely marginal, however.

In the event there was a county-wide property tax levy, the percent of the cost to all businesses would essentially be \$21,934,254.55 to \$29,717,377.14 per year (34%), with residents paying \$42,578,258.84 to \$57,686,673.26 per year (66%), maintaining the lopsided balance of revenue generated from this source.

IV. Comparison to the EHT as Proposed by CMs Herbold, O'Brien, Mosqueda, & González

The current EHT proposal at \$0.26 per employee hour is estimated to raise approximately \$75,000,000 per year, at a cost to the top 3% of businesses paying approximately \$500 per FTE per year. Where this lines up with respect to Seattle's proportional share depends largely on which figures we use. If we rely solely on the low-end figures for both the population model and the assessed value model, Seattle's mean proportional share is **\$58,988,256.70** based on the McKinsey/Chamber report. Alternatively, if we shoot for the highest-funding options, the mean proportional share is **\$78,747,025.20**. Right in the middle of these is **\$68,867,640.95**. Essentially, any figure that falls somewhere in this range on the revenue side essentially matches Seattle's "Fair Share" pursuant to the McKinsey/Chamber report.

When looking more broadly at the proportional share component, it is also helpful to consider that federal corporate income tax collections in 2016 represented 9% of total federal revenues, with 47% coming from personal income taxes, and 34% from payroll taxes (with the 50/50 employer/employee split). In Seattle, revenues from businesses essentially come to about 53% of total revenues collected (47% of sales taxes, 100% of B&O taxes, 34% of property taxes), and an addition of an EHT at \$75,000,000 in revenue would increase that to about 55-56%, give or take (and depending on levy renewal rates). This does not consider TBD funding, which I have been unable to get a clear picture of funding proportion on.

V. Comparison to the EHT as proposed by Mayor Durkan

The Mayor's proposal would generate new revenue of approximately \$39 million per year, give or take. This falls about \$20 million less than the McKinsey/Chamber report suggests is needed from Seattle as our proportional share based on the lowest figure calculation, and as much as \$40 million below the McKinsey/Chamber report recommendation.

Perhaps more out of line with what the McKinsey/Chamber data-driven report suggests, the spending plan, such as it is (being far less detailed than the Council plan, and without any public discussion of what any of the phrases mean, it is unclear what it is the plan does, but the estimated number of people served is significantly lower than the Council plan), appears lopsided inappropriately. Where the McKinsey/Chamber report, following basically every other study and report I've ever seen, states that 85% of revenue generated should go toward housing people – either through capital or stable rent subsidies (ie: the city having control of a unit of housing for no less than 5 years, even if that is through renting on the private market in and around Seattle).

The Durkan plan suggests spending just 30% on housing, creating up to 250 units. 70% would be spent on "Shelter and Services," including increased funding for encampment removals. There does not seem to be increased capacity in funding to support short-term enhanced shelter, and with the draconian cuts to the housing component, no plan appears in place to provide permanent housing for people moved into the few new beds created (about 1,000) by the Mayor's plan.

VI. Conclusion

Based on the report and considerations from the Chamber, it is clear that we are, as a city, moving in the right direction on expenditures, while also needing more money, especially for capital investments (long-term) and immediate rental support (short-term). Seattle's "share" of that revenue, when not considering existing programs that we do, is somewhere between \$53,464,000 and \$87,404,050.

While a property tax increase would land on the higher amount, it would be spread further, and have a disproportionate impact on low-income and fixed-income households, as well as small businesses. Conversely, the EHT would have an impact only on the largest employers (by revenue), while helping to balance some of the tax imbalance caused by the Trump corporate tax breaks (and providing some backfill for the Trump programmatic cuts to health, food, and housing support).