



SEATTLE CITY COUNCIL
CENTRAL STAFF

Revenue Stabilization Work Group Briefing

ALY PENNUCCI, DEPUTY DIRECTOR

SELECT BUDGET COMMITTEE

JUNE 5, 2024

2022 Statement of Legislative Intent

(SLI) FG-002-B-001 (2022)

Expressed the City Council's commitment to work with the Mayor to identify options for making Seattle's tax structure more equitable and generating new revenue for city priorities

The SLI requested that this work include empaneling a task force of community experts to develop a report listing progressive revenue options

Revenue Stabilization Work Group (RSWG)

- Established in October 2022 in response to SLI FG-002-B-2022
- Included 13 members and two co-chairs who met nine times between October 2022 and August 2023.
- After considering a list of 63 different revenue ideas, the Workgroup created a short list of nine review options for further consideration by the Council and the Mayor:
 1. Changes to the JumpStart Payroll Expense Tax
 2. City-level Capital Gains Tax
 3. High CEO Pay Ratio Tax
 4. Vacancy Tax
 5. Progressive Real Estate Excise Tax
 6. Estate Tax
 7. Inheritance Tax
 8. Congestion Tax
 9. Income Tax

RSWG continued

- Final report was released in August 2023
- 2022-2023 Finance and Housing Committee briefing on the final report August 10, 2023
- At that meeting, Central Staff noted that:
 - Changes to the JumpStart tax and a City-level capital gains tax had legislation ready, making them best positioned to be considered on a shorter timeframe
 - A High CEO Pay Ratio tax may be the other option technically most ready to pursue
 - Former Finance and Housing Chair Mosqueda requested Central Staff prepare for potential consideration of RSW Options 1-3, during the 2023 budget deliberations:
 1. Changes to the JumpStart Payroll Expense Tax
 2. City-level Capital Gains Tax
 3. High CEO Pay Ratio Tax

Changes to the JumpStart Payroll Expense Tax

- Ordinance 126933 (passed in November 2023): increased the rates for all businesses subject to the payroll expense tax to increase annual revenues from this tax by \$20 million
- The stated purpose for this increase was to provided additional for the Department of Education and Early Learning (DEEL) to expand educational supports at Seattle Public Schools, prioritizing mental health services including, but not limited to, school-based mental health counselors and culturally specific and responsive programming from community-based organizations
 - The 2024 Adopted Budget appropriated \$20 million to DEEL for this purpose
 - Additional legislation is necessary before DEEL can fully implemented this appropriation

City-level Capital Gains Tax

Council Bill 120601, introduced in 2023, proposed a local Capital Gains Excise Tax that:

- Used the same structure as the state capital gains tax, with different rate (2%)
- Two percent excise tax on gains from the sale of non-exempt capital assets
- At that time, the Forecast Office estimated that a local Capital Gains Excise tax could generate about \$19 million annually. Both the Forecast Office and Central Staff highlighted an unusually high degree of uncertainty in the estimate and that annual revenues could fluctuate widely above or below this estimate
- Ultimately, the 2023 City Council did not take action on this proposal in 2023. The legislation is still available for the 2024 City Council to consider.

High CEO Pay Ratio

Central Staff began analysis to understand options for a Seattle High CEO Pay Ratio Tax.

Areas of inquiry included:

- Review of similar taxes enacted in other cities: Portland and San Francisco
- Review data available to help implement and administer the tax
- Consider options for how to structure a local tax:
 - Surtax on the JumpStart Payroll Expense Tax
 - New stand-alone tax structure with a unique nexus to business activity in Seattle
 - Adapt B&O tax, which requires processes unique to Washington State
- Initial work identified that the clearest path to implementation would not generate significant new revenues; additional work is needed to determine if other options are feasible

Questions?