



SEATTLE CITY COUNCIL  
**CENTRAL STAFF**

# **Revenue Options: Potential to Increase Revenues for General Government Purposes**

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# Overview

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- Background Regarding Available Revenue Options
- Overview of Potential Sources
  - Sales Tax
  - Property Tax
  - Capital Gains Tax
  - Business & Occupations Tax
  - Payroll Expense Tax?
- Questions?

# Financial Context and Background

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- For the current analysis and setting the financial context, General Fund (GF) and Payroll Expense Tax (PET) are treated as a joint resource and projected financial deficits reflect the sum of GF and PET.
- Before the April revenue forecast “downgrade,” the City was already facing a ~\$89M structural deficit in 2027 and beyond.
- The revised revenue projections created a ~\$150M one-time shortfall in 2025 and 2026, AND increased the long-term structural deficit to ~\$233M. (Per year on an ongoing basis!).
- While increased revenues of any magnitude will help narrow the deficit, a larger-scale proposal would be needed to offset the April revenue forecast update.
- Presentation is thus focused on sources that could generate ~\$10M+.

# Sales Tax(es)

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## Background

- The Current sales tax rate in the City of Seattle is 10.35% (6.5% is state-imposed, the remaining 3.85% is local).
- The City currently collects ~\$350M of sales tax revenue, so a 01% increase can generate revenue of ~\$35M.
- Sales taxes are regressive.

## Potential Increments

1. Councilmanic authority for 0.1% for public safety. This would be additive to a county-wide 0.1% that the County can also impose councilmanically.
2. Voter approval for an additional 0.1% for public safety. This could be additive to the City's Councilmanic 0.1%.
3. Up to an additional 0.15% for transportation, via the Seattle Transportation Benefit District.

# Property Tax

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## Background

- The City can impose a maximum tax rate of \$3.60 per assessed value.
- Property taxes can be imposed directly by the City Council or via voter approval.
- Councilmanic imposed property tax revenues can grow at 1% per year, plus the value of new construction.
- Changes in assessed value do NOT change tax revenues. Assessed value changes influence the rates charged per \$1,000, and the maximum amount of property tax revenues.

## Potential Increment

1. The City's projected 2026 tax rate is \$2.97 per \$1,000. This leaves ~\$0.60 per \$1,000 of available capacity. This translates to approximately \$180M per year in potential revenue capacity remaining. A voter-approved measure, which could include a permanent levy lid-lift, would be required to access this revenue.
2. However, assessed value can also decline; thus, it would not be prudent to impose the maximum \$3.60 rate.

# Capital Gains Tax

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## Background

- Washington State imposes a 7% tax on long-term capital gains above an annual exemption of \$270,000.
- In 2025, the legislature added a 2.9% surcharge for gains over \$1M; creating a maximum rate of 9.9%.

## Potential increment

- The City appears to have the authority to impose such a tax, but this has not been tested.
- There are no direct constraints imposed on the rate the City could charge.
- As part of a legislative proposal Central Staff developed last fall, the Forecast Office estimated that a 2% City tax, modeled on the state's, would raise \$16M to \$51M per year.

# Business & Occupations (B&O) Tax

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## Background

- B&O tax is levied on gross income, not on net income or profits.
- Current rates are fractions of a percent, equal to 0.222% or 0.427% of gross income, depending on business type (e.g., retail trade, services, etc.).
- Businesses with \$100,000 gross income or lower are exempt.
- Rates are constrained by state statute and can only be increased via voter-approval.
- Current tax raises ~\$350M per year.

## Potential increment

- No limit to voter-approved rate increases.
- Changes must align with the state's Model Tax Ordinance framework, to facilitate compliance across WA cities with a similar tax

# Questions?