



# Seattle City Council

## Central Staff - Memorandum

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**Date:** June 13, 2016  
**To:** CRUED&A Committee  
**From:** Tony Kilduff  
**Subject:** Funding for OLS

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### Background

The Chair of the Committee has requested additional staff analysis of options for funding the Office of Labor Standards (OLS). This memorandum provides a brief summary of options already identified and presents a new option with three variations on implementation.

Staff's April 1, 2016 memorandum to the Committee identified four options for raising \$4.8 million in additional revenue to fund OLS:

1. Establish an employee-hours tax at an annual rate of \$16.50/fulltime-equivalent employee (FTE), or roughly \$0.0086/employee-hour;
2. Increase the Business License Fee (BLF) from \$55 to \$95 per year on businesses with gross incomes of \$20,000 or less, and from \$110 to \$190 per year for businesses earning more than that. This represents about a 70% increase in the fee;
3. Increase the Business License Fee by \$0.01/employee-hour (this option was suggested by the Service Employees International Union); and
4. Increase the Business and Occupation (B&O) Tax by 2.1%. The April 1 memorandum assumed this would require a vote of the people; however, new information suggests there is sufficient tax capacity available to the Council without a vote.

The \$4.8 million number was provided by the City Budget Office (CBO) as the cost to run OLS in 2017. CBO subsequently updated the estimate to \$5.58 million: \$3.28 million for operations and enforcement and \$2.3 million for outreach and education. Discussions with stakeholders suggests that the outreach and education budget should be larger, resulting in a new estimate of \$6.0 million for the 2017 budget.

Options 2 and 4 above have been complicated by a proposal from the Mayor to use the remaining B&O Tax capacity, coupled with an increase in the BLF, to fund an expansion of the police force, and the Chair requested options other than 1 and 3 for consideration.

### New Option

The option presented below is to establish a new regulatory fee on businesses under authority granted the City by RCW 35.22.280. The fee would be levied specifically and solely to cover the cost of implementing the City's labor statutes and therefore would be sized to recover \$6.0

million. As an exercise of the City's authority to recover the cost of regulation, the fee would be established under Title 6 of the Seattle Municipal Code.

The Chair expressed an interest in following the model established by the Paid Sick and Safe Time Ordinance, which stratifies businesses by size based on the number of FTEs and imposes different paid-leave requirements depending on the tier into which they fall. The tiers are: 5 to 49 FTEs; 50 to 249 FTEs; and 250 or more FTEs.

### Data Issues

Using the PSST model naturally suggests the number of employees as the measure for the fee; that is, the basis upon which the fee would be assessed. Unfortunately, the City does not have accurate, up-to-date data on the number of employees by business within the city. The most recent data available are from 2009, the last year the City imposed an employee-hours tax on local businesses. The analysis below relies on those data. Arguably, since the economy was in a deep recession at that time and employment has grown significantly since then, the numbers used here underestimate current actual employment in the city.

Of the approximately 67,000 businesses in the available data set, around 63,000 have four or fewer employees and so are not part of the PSST target demographic (48,000 have no employees). This leaves just over 5,000 businesses from which to raise the revenue.

The data available disaggregate the tiers somewhat. For example, Tier 1 is broken into five business sizes. This allows us to create a weighted average of employment within the Tier to support the analysis, but it is less than satisfactory. With more granular data it will be possible to improve that estimate.

Another issue is the structure of the Tiers. The largest business in Tier 1 is ten times larger than the smallest business, while the largest business in Tier 2 is only five times larger than the smallest business. Most problematic in this regard is Tier 3 where the largest business is at least 80 times larger than the smallest business.

There is also the challenge converting employees to FTEs to be consistent with the PSST construct. The analysis below is based on head count and does not attempt to make that conversion.

With these caveats the rate per employee needed to generate \$6.0 million annually from the target population is \$22.47. Below are three options for collecting the fee from businesses.

In Table 1, each business in a Tier is charged the same fee, but the fee varies across the Tiers. The fee for each Tier is arrived at by dividing the cost to that Tier by the number of businesses in that Tier. The cost to the Tier is the number of employees in the Tier times \$22.47.

**Table 1: Tier Cost Based on Tier Employment**

<b>Tier</b>	<b>Fee</b>	<b># of Businesses</b>
5 – 49	\$328	4,498
50 – 249	\$2,359	487
250 and above	\$38,823	87

With any block structure where businesses of different sizes are lumped together, a flat fee will introduce anomalies. For example, a business in Tier 3 with 250 employees will pay the same as a business (like Amazon) with more than 20,000 employees.

Table 2 repeats Table 1 but using a different percentage of base cost (\$22.47) per employee for each Tier, thereby shifting the costs from Tiers 1 and 2 to Tier 3.

**Table 2: Tier Cost Re-allocated**

<b>Tier</b>	<b>Fee</b>	<b>% of Base</b>
5 – 49	\$164	50%
50 – 249	\$1,887	80%
250 and above	\$50,470	130%

Table 3 takes a different approach, assessing the fee for each business based on the number of employees in that business. The Tier structure is irrelevant in this case; however, the table uses it to show the costs to businesses within each Tier.

**Table 3: Fee Based on Business Head Count**

<b>Tier</b>	<b>Cost to Businesses Based on Size</b>		
	<b>Smallest</b>	<b>Middle</b>	<b>Largest</b>
5 – 49	\$112	\$607	\$1,101
50 – 249	\$1,123	\$2,235	\$5,527
250 and above	\$5,617	\$227,479	\$449,341

Clearly, there are many ways to raise the target revenue using a fee based upon the total number of employees in the target population. These examples are meant to be indicative.

If the Committee chooses to move forward with this proposal, work would need to be done to establish more accurate data on the distribution on employees over businesses in the city. At that time some thought should be given to the definition of employer for the purpose of the fee. Depending on that definition, franchisees of large corporations could end up in very different tiers.