SUMMARY and FISCAL NOTE

Department:	Dept. Contact:	CBO Contact:
City Budget Office/Legislative	Ben Noble	Adam Schaefer

1. BILL SUMMARY

Legislation Title: AN ORDINANCE relating to the Payroll Expense Tax; adjusting the allocation of tax proceeds; eliminating the Payroll Expense Oversight Committee; amending Section 5.38.055 of the Seattle Municipal Code; adding a new Section 5.38.105 to the Seattle Municipal Code; and repealing Section 3.35.100 of the Seattle Municipal Code.

Summary and Background of the Legislation: The City Council passed the Payroll Expense Tax (PET), a tax on certain payroll expenses of businesses with payroll of $7 million or higher, in 2020. That year, the Council adopted Resolution 31957 that outlined a specific spending plan for the use of revenues from the tax. In 2021, the City Council passed an ordinance (Ordinance 126393) creating a separate Fund in the City Treasury for tax proceeds, and prescribing how those proceeds could be spent in 2022 and beyond.

In 2020 and 2021, the City Council adopted one-time exceptions to the spending plan to allow a significant transfer of PET revenues to support General Fund activities. In 2022, the City Council adopted a two-year bill to again allow for a significant transfer of PET revenues to the General Fund. And in 2023, the City Council raised the PET rate and designated the additional funds to be used to support student mental health without amending the adopted spending plan to allow it. In short, the framework originally described by Resolution 31957 (2020) and codified by Ordinance 126393 (2021) has never been adhered to as City revenues and community needs coming out of the COVID-19 public health emergency have not aligned nor reverted to pre-pandemic levels. As the City heads into a new biennium, there is no realistic prospect that revenues and needs have reverted to a pre-pandemic level that would allow the allow the City to align with the original spending plan.

This proposed legislation respects the general intent of the Payroll Expense Tax by designating the proceeds primarily for the original categories of supporting affordable housing, economic revitalization efforts, advancing Green New Deal initiatives and goals, supporting the City's Equitable Development Initiative, student mental health and youth violence prevention (added by the City Council in 2023) and maintaining core City services, while also providing flexibility needed to meet the City's obligation to adopt a balanced budget. Consistent with the spending priorities originally established in Ordinance 126393, this legislation sets out percentage allocations designed to guide the use of PET revenues deployed in support of those original priorities. In recognition of the fact that relative priorities may shift over time, these percentage allocations are, however, established as guidelines, rather than prescriptive, binding restrictions.

Given the critical nature of Payroll Expense Tax proceeds, the legislation also establishes formal policies regarding the creation and maintenance of a Revenue Stabilization Account for the Payroll Expense Tax Fund. The legislation sets the target funding level for the reserve at 10% of annual revenues, with mechanisms established for both "voluntary" and automatic transfers into the Account.

This legislation also eliminates the Payroll Expense Tax Oversight Committee, which was established in code as part of the original tax legislation adopted in 2020. However, the Payroll Expense Tax spending plan has never been implemented in the way envisioned when it was adopted in 2020 due to the length and severity of the COVID-19 public health emergency and its impacts on the City's budget. A substantial portion of the revenue has been needed to maintain core City services in each budget since and the City's financial outlook makes that likely for years to come. The committee has never convened, but the Mayor's Proposed Budget includes $100,000 to fund an independent consultant to evaluate the impacts of the tax and effectiveness of its investments.

2. CAPITAL IMPROVEMENT PROGRAM

Does this legislation create, fund, or amend a CIP Project? ☐ **Yes** ☒ **No**

3. SUMMARY OF FINANCIAL IMPLICATIONS

Does this legislation have financial impacts to the City? ☒ **Yes** ☐ **No**
As described above, this legislation would: modify the spending restrictions on Payroll Expense Tax proceeds; and establish a formal Revenue Stabilization Account;.

3.d. Other Impacts

Does the legislation have other financial impacts to The City of Seattle, including direct or indirect, one-time or ongoing costs, that are not included in Sections 3.a through 3.c? If so, please describe these financial impacts.
No.

If the legislation has costs, but they can be absorbed within existing operations, please describe how those costs can be absorbed. The description should clearly describe if the absorbed costs are achievable because the department had excess resources within their existing budget or if by absorbing these costs the department is deprioritizing other work that would have used these resources.
N/A

Please describe any financial costs or other impacts of *not* implementing the legislation.
Not amending the prescription of Payroll Expense Tax proceeds means that the City Council will need to find alternative ways to balance the 2025 Adopted Budget, as required by state law.

4. OTHER IMPLICATIONS

a. Please describe how this legislation may affect any departments besides the originating department.
Several departments currently receive Payroll Expense Tax proceeds. This legislation will provide the flexibility needed to fund previous investments made in many City departments.

b. Does this legislation affect a piece of property? If yes, please attach a map and explain any impacts on the property. Please attach any Environmental Impact Statements, Determinations of Non-Significance, or other reports generated for this property.
No.

c. Please describe any perceived implication for the principles of the Race and Social Justice Initiative.

i. How does this legislation impact vulnerable or historically disadvantaged communities? How did you arrive at this conclusion? In your response please consider impacts within City government (employees, internal programs) as well as in the broader community.

The potential implications of this legislation are unclear. While investments under the current spend plan may disproportionately impact BIPOC or other historically marginalized groups, the City services that might be preserved by this legislation may also service vulnerable and historically disadvantaged communities.

ii. Please attach any Racial Equity Toolkits or other racial equity analyses in the development and/or assessment of the legislation.

iii. What is the Language Access Plan for any communications to the public?

d. Climate Change Implications

i. Emissions: How is this legislation likely to increase or decrease carbon emissions in a material way? Please attach any studies or other materials that were used to inform this response.
N/A

ii. Resiliency: Will the action(s) proposed by this legislation increase or decrease Seattle's resiliency (or ability to adapt) to climate change in a material way? If so, explain. If it is likely to decrease resiliency in a material way, describe what will or could be done to mitigate the effects.
N/A

e. If this legislation includes a new initiative or a major programmatic expansion: What are the specific long-term and measurable goal(s) of the program? How will this legislation help achieve the program's desired goal(s)? What mechanisms will be used to measure progress towards meeting those goals?
N/A

5. CHECKLIST

☐ **Is a public hearing required?**

☐ **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required?**

☐ **If this legislation changes spending and/or revenues for a fund, have you reviewed the relevant fund policies and determined that this legislation complies?**

☐ **Does this legislation create a non-utility CIP project that involves a shared financial commitment with a non-City partner agency or organization?**

6. ATTACHMENTS

Summary Attachments: None.