



SEATTLE CITY COUNCIL
CENTRAL STAFF

Payroll Expense Tax & Interfund Loan

Council Bills 119772 & 119773

KIRSTAN ARESTAD | DAN EDER | TOM MIKESELL

SELECT BUDGET COMMITTEE | APRIL 29, 2020

AGENDA

Briefing and Discussion:

- **Payroll Expense Tax - CB 119772: Tom Mikesell**
- **Interfund Loan (IFL) - CB 119773: Dan Eder**

Payroll Expense Tax - Overview

- Annual Revenue Amount
- Tax Structure (Rate & Threshold)
- Businesses Subject to the Tax
- Exemptions
- Emergency Clause Effect
- Imposition Date and Due Dates

Payroll Expense Tax, Cont'd

□ Annual Revenue Amount:

- \$500 million annually
- 2020 partial year: \$286.4 million, assuming June 1, 2020 start

Payroll Expense Tax, Cont'd

□ Tax Structure:

- Rate: 1.3% of payroll assigned to Seattle
- Generally business with \$7 million or higher Seattle payroll in previous year
- Determining Seattle-assigned payroll:
 - The employee is primarily assigned within Seattle;
 - The employee is not primarily assigned to any place of business for the tax period and the employee performs 50 percent or more of the employee's service for the tax period in Seattle; or
 - The employee is not primarily assigned to any place of business for the tax period, the employee does not perform 50 percent or more of the employee's service in any one city, and the employee resides in Seattle.

Payroll Expense Tax, Cont'd

- **Example Businesses:**
 - **Independent Contractors**
 - Payments included in payroll expenses if not included in another business' payroll
 - **Integrated Enterprises**
 - Seattle payroll for each business license holder measured against \$7 million threshold, irrespective of integration with other discrete businesses
 - **Franchise Businesses**
 - Each franchise business with a discrete business license measured against \$7 million threshold vs. aggregating all similar franchises

Payroll Expense Tax, Cont'd

Businesses Subject to Tax:

- Businesses with Seattle payroll above the \$7 million annual threshold

Tax Exemptions:

- Non-profit organizations
- Educational employers
- Grocery stores
- Local government employers

Payroll Expense Tax, Cont'd

Entities the City does not have the authority to tax:

- Federal and state governments and subsidiaries
- Insurance businesses and their agents
- Businesses that only sell, manufacture, or distribute motor vehicle fuel
- Businesses that only sell or distribute liquor

Payroll Expense Tax, Cont'd

Tax Effective and Due Dates:

- Effective June 1, 2020
- 2020 and 2021 payments due with final quarterly payment of 2021 (February 2022)
- Accruals to meet 2021 spending obligations

Emergency Clause:

- Immediate effective date with three-fourths ($\frac{3}{4}$) City Council vote and Mayor's signature

Payroll Tax Questions

Interfund Loan Overview

- Cumulative Loan Amount
- Six Potential Fund Sources
- Minimizing Impacts
- Year-End Fund Balances
- Additional Context
- Emergency Clause

Interfund Loan Detail

- ❑ **Cumulative Loan Amount: \$200 million**
- ❑ **Six Potential Fund Sources, up to \$50 million each**
 - 1) Low Income Housing Fund
 - 2) Housing Incentive Fund
 - 3) Move Seattle Levy Fund
 - 4) Families Education and Preschool Promise Fund
 - 5) Parks Levy Fund
 - 6) 2019 Library Levy Fund

Interfund Loan Detail, Cont'd

Minimizing Impacts

- Requests analysis
- Requests a report within three weeks

Interfund Loan Detail, Cont'd

All figures in \$millions

2020 Year-End Fund Balances

Source Funds	2020 Budget	CBO Update
Low Income Housing Fund	\$ 146	\$ 257
Move Seattle Levy Fund	\$ 43	\$ 2
Families, Education, Preschool and Promise Fund	\$ 51	\$ 51
2019 Library Levy Fund	\$ 5	\$ 4
Subtotal	\$ 245	\$ 314
Housing Incentive Fund *	n/a	n/a
Metropolitan Parks District	\$ (6)	n/a
Subtotal	\$ (6)	n/a
Grand Total	\$ 238	n/a

* "Housing Incentive Fund" does not appear in the Fund and Funding Source Financial Plans

Interfund Loan Detail, Cont'd

□ Additional Context

■ Routine Practice

- \$85 million – Seawall Replacement (Ord. 118346 – 2015)
- \$29 million – Affordable Housing (Ord. 125263 – 2019)
- \$26 million – Mercer West (Ord. 125992 – 2019)
- \$19 million – Waterfront LID (Ord. 125991 – 2019)
- \$5 million – Short-Term Rental Tax (Ord. 125464 – 2017)

■ Property Tax Projections: Stable

■ COVID-19 Fiscal Impacts on Year-End Balances: Unknown

Interfund Loan Detail, Cont'd

Emergency Clause

- Necessary to support 2020 Appropriations
- Effective immediately upon:
 - An affirmative vote of $\frac{3}{4}$ of Councilmembers AND
 - The Mayor's signature

Interfund Loan Questions

Thank you