

JumpStart Payroll Expense Tax Fund Balancing Analysis

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Introduction

The 2024 Proposed Budget Adjustments (Proposed Adjustments) modify the resource assumptions and expenditures from the JumpStart Payroll Expense Tax Fund (JS Fund) approved in the 2024 Endorsed Budget. The proposed adjustments:

- Reduce expenditures from the JS Fund by \$8.2 million (a three percent reduction);
- Reduce the transfer from the JS Fund to the General Fund (GF) by \$10 million; and
- Modify expenditures approved in the 2024 Endorsed Budget, prioritizing the use of higher than anticipated GF revenues to replenish emergency reserves and other new expenditures ahead of funding the expenditures from the JS Fund approved in the 2024 Endorsed. This includes a proposal to amend Seattle Municipal Code (SMC) 5.38.055 to expand the flexible use of JS Funds in 2024 only.

This memo covers:

1. How the Proposed Adjustments respond to the changes in the revenue assumptions and keep the fund in balance;
2. The Mayor's proposed changes to the JS Fund policies to expand the flexible use of funds; and
3. Describes other proposed changes to the JS Fund expenditures and JS Tax deductions.

Balancing

Based on the August 2023 Revenue Forecast, revenues from the JumpStart Payroll Expense Tax (JS Tax) in 2024 are projected to be \$21.6 million below what was assumed when the 2024 Endorsed Budget was approved. The reduction in projected revenues required adjusting the expenditures from the JS Fund included in the 2024 Endorsed Budget. To balance, the proposed adjustments:

- Reduce the JS Fund Reserves included in the 2023 Adopted Budget by \$10.5 million;
- Reduce total spending from the fund by \$8.2 million; and
- Assume a \$3 million underspend over the 2023-2024 biennium.

Issue 1: Use of the JS Fund to balance the General Fund

General Fund revenues are projected to be \$41 million higher than what was assumed in the 2024 Endorsed Budget (excluding grant revenues). The policies for the JS Fund say that "up to \$84,053,126 of projected 2024 revenues may be transferred into the General Fund if necessary to support the *programs and services funded by the General Fund in the 2023 Adopted and 2024 Endorsed Budget* that are in excess of available General Fund revenues" *[emphasis added]* ([SMC 5.38.055.D.1](#)).

Table 1 illustrates how this policy was applied during the Council’s fall 2022 budget deliberation and resulted in authorizing the transfer of “up to \$84 million” of JS Funds to the GF (*‘2024 Endorsed’ column*). It then applies Central Staff’s interpretation of that policy using that same methodology applied last year, to show how the transfer would be reduced in 2024, based on that analysis. Lastly, *‘2024 Proposed’ column shows* Central Staff’s assumption about how the Executive may have interpreted the policies.¹

The main difference is that Central Staff uses the 2024 Endorsed expenditures, based on the italicized section of the policy quoted above, adjusted to account for increased cost assumptions applied to 2024 endorsed expenditures and to 2024 endorsed planning reserves in the GF.² The Proposed Adjustments, to come to a conclusion to only reduce the transfer by \$10 million, must have relied on the proposed 2024 expenditures, which includes new spending that was not contemplated in the 2024 Endorsed Budget.

Table 1: JS Fund transfer to balance the General Fund (\$ in 1,000s)

	2024 Endorsed	CS Analysis	2024 Proposed
GF Beginning Fund Balance	\$210,898	\$242,216	\$242,216
Total GF Budgetary Revenues ¹	\$1,550,456	\$1,608,184	\$1,608,184
(A) Total GF Resources	\$1,761,354	\$1,850,400	\$1,850,400
GF Expenditures	(\$1,651,357)	(\$1,651,357)	(\$1,702,405)
Adjustment to Endorsed expenditures	n/a	(\$34,120) ²	n/a
(B) Total expenditures	(\$1,651,357)	(\$1,685,477)	(\$1,702,405)
2024 Endorsed Reserves	(\$194,049)	(\$194,049)	(\$194,049)
Adjustment to the 2024 reserves	n/a	(\$27,541)	(\$27,541)
(C) Total Reserves	(\$194,049)	(\$221,590)	(\$221,590)
TOTAL AUTHORIZED TRANSFER (A + B + C)	(\$84,052)	(\$56,667)	(\$73,595)³
¹ Excludes JS Fund transfer included in the total GF revenues assumed for balancing in 2024			
² The Proposed Adjustments include standard and technical cost changes to the 2024 Endorsed expenditures. In this analysis, Central Staff used the calculations for technical cost increases and revenue backed expenditures presented in the CS GF Balancing Analysis memo (Table 8) to adjust the expenditures.			
³ The Proposed Adjustments transfer a slightly higher amount of JS Funds to balance the GF (\$74.1 million versus \$73.6 million), likely due to final balancing decisions.			

Based on Central Staff’s calculations, the transfer from the JS Fund to the GF should be decreased by approximately \$27 million; the Executive’s interpretation or policy choice resulted in reducing the transfer by \$10 million. Using either approach, the expenditures authorized from the JS Fund in the 2024 Endorsed Budget could have remained unchanged. Put another way, the \$8.2 million reduction to the 2024 Endorsed expenditures was not necessary to keep the fund in balance. However, without reducing some endorsed expenditures, the new

¹At the time of this writing staff did not have an opportunity to confirm if the Executive’s proposal was calculated based on an interpretation of the current law or if it was a more general policy choice. In either case, to propose a reduction of only \$10 million indicates that the decision was made to balance to the proposed expenditures versus the endorsed expenditures.

² The ‘Planning Reserves’ for the GF includes amounts that are intended to be budgeted in the future but are not yet part of the budget due to legal or other planning considerations, as determined by the Executive. Please see the Central Staff GF Balancing Analysis memo for additional discussion of the planning reserves.

expenditures described in the next section, and some of the new expenditures funded from the GF in the proposed adjustments, may not have been possible.

Options:

- A. Reduce the amount of JS Funds transferred to the GF in 2024 by \$17 million. This will require reducing GF spending by the same amount.
- B. No change.

Flexible Use of JS Funds

Passed in November 2023, [Ordinance \(ORD\) 126719](#) (the Fund Flexibility ORD) amended Seattle Municipal Code (SMC) 5.38.055 to provide temporary flexibility of the use of proceeds from the JS Tax in 2023 and 2024. This flexibility was intended to prevent program reductions in other funds and to preserve City services for specific expenditures included in the 2023 Adopted and 2024 Endorsed Budgets. Specifically, the Fund Flexibility ORD allowed for the flexible use of JS Funds in 2023 and 2024 for four specific expenditures (see [Attachment A to ORD 126719](#) for more details), with the intent that they are accommodated within the administrative component of the JS Fund spend plan, which allows administrative expenditures of up to five percent. The allowed expenditures, which are detailed in the original ordinance, include:

- \$162,400 in 2023 and 2024 to the Seattle Department of Transportation (SDOT) to support Sound Transit 3 staffing outreach and planning that includes racial equity, in-depth community engagement, and station-area planning and work on equitable development;
- \$456,000 in 2023 and 2024 to the Seattle Department of Construction and Inspections (SDCI) to expand funding for organizations that provide eviction legal defense services;
- \$1.2 million in 2023 and 2024 to address a revenue shortfall in the Sweetened Beverage Tax Fund to avoid reduction in food service and early learning programs; and
- \$1 million in 2023 and 2024 to expand mental health services available in School-Based Health Centers.

The Proposed Adjustments would expand the flexibility approved last year to include the following uses:

- \$850,000 to the Department of Finance and Administrative Services for start-up costs for the Social Housing Public Development Authority (PDA);
- \$142,000 to SDCI to add a code compliance analyst to support the Economic Displacement Relocation Assistance (ERDA) program;
- \$2.9 million to the Department of Education and Early Learning for childcare workers; and
- \$4.5 million to the Human Services Department (HSD) for Human Services Provider Pay.³

³The funds for the human service provide pay increases are first transferred from the JS Fund to Finance General, and then appropriated to department budgets and therefore, within the department budgets, it appears that these investments are funded by GF resources but are only possible due to the transfer from the JS Fund.

Based on the Fund Flexibility ORD (as codified in [SMC 5.38.055.D.2](#)), after subtracting out the amount of JS Funds transferred to the GF for revenue backfill, and then subtracting out any JS Funds spent under the specific flexibility in SMC 5.38.055.D.2, funds are allocated to each of the JS Fund spending categories by the percentages outlined in the spending plan: five percent for administration and evaluation, 62 percent for Housing and Services, 15 percent to Economic Revitalization; nine percent for Green New Deal Investments and nine percent for the Equitable Development Initiative.

As mentioned previously, when Council adopted the 2023 budget and endorsed a budget for 2024, the flexible use of JS Funds was intended to be capped at the level of JS Funds that would otherwise be allocated to the up to five percent of JS Funds for administration and evaluation. In other words, flexible uses plus all other administrative expenses would not exceed five percent of revenues. Attachment A to ORD 126719 articulates Council’s intent: “[t]hese expenditures are supported by JumpStart funds that otherwise would be allocated to the administration category within JumpStart.” However, a literal reading of the SMC 5.38.055.D.2 does not limit the amount of JS Funds used flexibly to underspend in the administration and evaluation category – it just limits what specific uses are eligible for that flexibility.

Table 2 illustrates how JS Funds would be allocated, comparing the 2024 Proposed to the 2024 Endorsed, using a frame that reflects the legislative intent expressed in Attachment A to the Fund Flexibility ORD. As shown in the table, using this framing, the administrative component is over the policy limit due to the flexible uses in the Proposed Adjustments and the Housing and Services and the Economic Revitalization categories are below the policy target.

Table 3 illustrates how JS Funds would be allocated applying a literal reading of how one would calculate the amount allocated to the JS Fund spending categories as codified in [SMC 5.38.055.D.2](#) that was applied by the Executive. The Executive’s proposal is consistent with current law in terms of how that gets calculated; however, it requires amending the Fund Flexibility ORD to add new specific uses to the flexibility list.

Table 2: JS Spending – Council Framing (Legislative intent)

JS Spending Category (\$ in 1,000s)	2024 Endorsed		2024 Proposed	
	\$	%	\$	%
GF Balancing	\$84,053	n/a	\$74,053	n/a
Administration and Evaluation (<i>Includes flexible uses</i>)	\$10,965	5%	\$18,380	8%
Economic Revitalization	\$33,435	15%	\$31,329	14%
Equitable Development Initiative	\$20,467	9%	\$20,459	9%
Green New Deal	\$20,311	9%	\$20,328	9%
Housing	\$140,039	62%	\$136,483	60%
<i>Subtotal - JS Spending Plan</i>	\$225,216	100%	\$226,979	100%
Grand Total	\$309,269		\$301,032	

Table 3: JS Spending - Executive Framing (meets letter of the law)

JS Spending Category (\$ in 1,000s)	2024 Endorsed		2024 Proposed	
	\$	%	\$	%
GF Balancing	\$84,053	n/a	\$74,053	n/a
Flexibility	\$2,818	n/a	\$11,239	n/a
Administration and Evaluation	\$8,147	4%	\$7,141	3%
Economic Revitalization	\$33,435	15%	\$31,329	15%
Equitable Development Initiative	\$20,467	9%	\$20,459	9%
Green New Deal	\$20,311	9%	\$20,328	9%
Housing and Services	\$140,039	63%	\$136,483	63%
<i>Subtotal - JS Spending Plan</i>	\$222,398	100%	\$215,739	100%
Grand Total	\$309,269		\$301,032	

Issue 2: JS Spending – Temporary Flexibility v. Permanent Policy Change

The flexibility provisions do not technically limit the amount of JS Fund used under the flexibility provision only to underspend in the administration and evaluation category. The Proposed Adjustments, if the amendments to the Fund Flexibility ORD are approved, meet the letter of the law, though it is not in line with Council’s intent. This interpretation is how the Executive was able to add new spending from JS Fund that does not fall within the JS Fund spending policies. This includes proposed investments to: increase wages for human service providers (making progress on Council’s policy goals described in [Resolution 32094](#)), investments to support child care workers consistent with previous Council budget actions, and fulfilling the requirements of the voter-approved Social Housing PDA.

The spending plan for the JS Fund was designed to “help the City make the necessary changes to shift Seattle’s economy to be more equitable and ecologically sustainable.”⁴ The original intent was, in the first year (2021), to use the majority of the JS Tax revenues to replenish emergency funds used in 2020 to make public assistance available to households and businesses impacted by the COVID-19 civil emergency, to maintain services supported by the GF where revenues were (and still are) below pre-pandemic projections, and provide longer term solutions to address the inequities exacerbated by the COVID-19 crisis. And then, in 2022 and beyond, fully allocate funds to the spending plan categories.

At the time the original plan was created, no one anticipated that the COVID emergency would persist for so long, with the associated impacts to the community and the economy. Due to these lingering effects, the Council each year has approved broader use of the JS Fund as a short-term strategy, delaying permanent decisions to address longer-term sustainability issues in the GF. Given the proposals in the Proposed Adjustments, which increase GF spending with no permanent solutions to the fund’s sustainability challenge, the Council will continue to consider short-term strategies as it considers adjustments to the 2024 Endorsed Budget.

Given the persistent inequities in our economy that continue to increase service needs, and the projected limited to no growth in GF revenues, the Council will continue to be challenged to

⁴ [SEATTLE CITY COUNCIL - Record No: Res 31957 \(legistar.com\)](#)

preserve the JS Funds for the specific spending categories approved in 2020, without making reductions in other GF spending that may require reducing City staff or service levels. With that in mind, to ensure that the JS Fund is used to help shift to a more equitable and ecologically sustainable economy: is it time to consider expanding the areas of spending the JS Fund can be used for on a permanent basis?

By expanding the categories to include other areas of City spending, such as workforce equity, community health or homelessness services, the Council could ensure that JumpStart funds are preserved for equity investments and are also part of the solution to help address the longer-term sustainability issues in the GF. This could be done by adding new categories and changing the percent of funds allocated to each category or broadening the eligible expenditures under each category (e.g., allowing investment in worker wages to be an eligible use under the economic revitalization category). Although there are discussions underway about new progressive revenues, there is no one revenue idea currently on the table that will be sufficient to address the projected GF deficit and to expand City services to meet community needs, without reductions in GF spending – reductions that will likely result in service reductions and City staffing reductions – unless new revenue ideas are combined with some expansion of the eligible uses of the JS Fund.

The City has a longstanding commitment to social justice and ending individual racism, institutional racism, and structural racism; this commitment was codified this year in [Ordinance 120525](#), establishing the Race and Social Justice Initiative (RSJI) as City policy. One tool available as part of the RSJI is the Racial Equity Toolkit (RET). The toolkit lays out a process and a set of questions to guide the development, implementation and evaluation of policies, initiatives, programs, and budget issues to incorporate racial equity considerations in critical policy and budget decisions. A RET could help identify and understand the equity impacts of using JS Funds on GF expenditures versus the equity programs defined in the JS Fund policy, or on expanding the categories.

Options:

- A. Reject the proposed changes to the Fund Flexibility ORD and reduce or find alternative sources to fund the expenditures added to the flexibility provisions (e.g., ERDA staffing and Human Service Provider wages).
- B. Do not reduce the amount of JS Funds transferred to the GF by \$10 million and fund the three new areas of flexible spending proposed by the Mayor from the GF. This would clearly express Council's intent that this spending should not be an ongoing liability from the JS Fund in future years.
- C. Amend the JS Fund policies to allow ongoing use of the JS Fund for certain expenditures (e.g., new categories of spending, expanded definition of eligible uses under each category). The Council could request that the Executive conduct a [Racial Equity Toolkit](#) analysis before any decisions are made about future changes to the JS Fund policies. This could be combined with a proposal to adjust the JS Tax rates to increase revenues (see a [proposal from Councilmember Sawant to increase JS Tax](#) revenues from Council's 2022 budget deliberations that did not proceed but could come forward again).
- D. No change.

Proposed Adjustments to 2024 JS Fund Expenditures & JS Tax Deductions

The Proposed Adjustments also include changes to programs, services, and positions funded from the JS Fund within the spending categories. A few of the general changes are identified as issues below. Attachment A provides more details on all the proposed spending from the JS Fund in the 2024 Proposed Adjustments. Additional changes to endorsed expenditures and proposed new spending from the JS Fund in the Proposed Adjustments are described in Central Staff's department specific budget memos that will be presented to the Committee on October 12 and 13.

Issue 3: Reduction to total spending in the Economic Revitalization and Housing and Services categories

The Proposed Adjustments reduce spending within the Economic Revitalization category by \$2.1 million and in the Housing and Services category by \$3.6 million compared to the 2024 Endorsed spending levels. This is part of the \$8.2 million reduction in total spending from the JS Fund used to balance the fund described previously.

The \$2.1 million reduction in the Economic Revitalization category is a reduction to the \$13.1 million that had previously been held in a reserve in Finance General to implement the Future of the Seattle Economy (FSE) strategic framework and the forthcoming workforce development strategic plan. This does not reduce funding for any specific program or service included in the 2024 Endorsed budget but does reduce overall resources available for investments under this spending category. See Central Staff's memo on the Office of Economic Development's 2024 Proposed Adjustments that will be presented to the Committee on October 12 for additional information on the FSE strategic framework and proposed investments under the economic revitalization category.

The \$3.6 million reduction in the Housing and Services category impacts the Office of Housing's (OH) 2024 budget, reducing resources in the Multifamily Housing program. In addition, the adjustments further reduce available resources in that program due to a proposed \$2.3 million GF reduction in OH that was backed by JS Fund revenues within the Administration category. The adjustments eliminate funding to OH allocated from the administration category and instead, the administrative costs will be paid for in 2024 with funds allocated from the Housing and Services category. This reduces the resources available for the development or acquisition of affordable housing and associated services. See Central Staff's memo on the Office of Housing 2024 Proposed Adjustments, that will be presented to the Committee on October 12, for additional discussion of this issue.

In the second year of a biennium, it was assumed that endorsed expenditures would be maintained to the greatest extent possible, before new spending is proposed. Because these reductions were used to balance new expenditures both from the JS Fund and the GF, restoring funding to the 2024 Endorsed levels will require reducing spending somewhere else.

Options:

- A. Reduce other proposed GF spending and transfer the funds back to the JS Fund to restore the categories to the 2024 Endorsed levels.
- B. No change.

Issue 4: Proposed \$1 million for Administration and Evaluation

The JS Fund allocates up to five percent of JS Fund resources to administer and evaluate the effectiveness of the JS Tax and to administer the investments and evaluate the effectiveness of those investments funded with JS Tax revenues. At the time the JS Tax was adopted the Council established a Payroll Tax Oversight Committee to provide “oversight on the services and programs supported by the tax in Chapter 5.38 and its impacts on the number of jobs and businesses in the City, and other data that directly relates to measuring the impact of the tax on the City's economy.” The 2022 Adopted Budget added a position and ongoing funding from the JS Fund to the Department of Neighborhoods to establish and staff this committee. No appointments have been made by either the Mayor or the Council to date, but committee recruitment is underway.

The Proposed Adjustments include a proposal rejected by the Council last year to add \$1 million under the Administration and Evaluation category to the City Budget Office’s Innovation & Performance (IP) team for two evaluation advisors⁵ and other funding that may be needed to conduct evaluation and reporting on the effectiveness of programs funded by the JS Fund.

When the Oversight Committee was established in code, the intent was that existing City staff would provide information to the committee to inform their oversight role.⁶ Once established, the committee will be engaged in shaping how the City evaluates the impacts of this tax and the investments supported by the fund. Because it is not yet established (but expected to be established by the end of 2023 or early 2024), it still appears premature to determine if new positions are necessary and if the IP Team is the right home for those positions. In addition, any proposal to add staffing this year should be considered carefully until decisions about how to address the longer-term budget sustainability issues are addressed. These positions are being added in the context of a projected \$247 million GF deficit. The Council may want to wait to invest in new evaluation positions and resources until after the Oversight Committee is established and decisions are made about if or how the JS Fund will be part of the solution to address the projected GF deficit.

⁵ The Proposed Adjustments add 16.5 new FTEs funded by the JS Fund, of which 14.5 are permanent. See the section in Central Staff’s “2024 Proposed Budget Adjustments Overview” memo about adjustments to positions throughout the budget and additional policy considerations.

⁶ [SMC 3.35.100.A](#): The Director of Neighborhoods or such other department head as may be designated by the Mayor *shall provide the Committee such information as is necessary for the Committee to determine the status of individual programs and projects.* [emphasis added]

Options:

- A. Reject the proposed \$1 million GF increase to CBO for administration and evaluation work related to the JS Fund and repurpose those funds for other purposes. This could include partially restoring the reduction to the Economic Revitalization and Housing and Services categories.
- B. No change.

Issue 5: Proposed extension of deduction for non-profit healthcare entities

In addition to the changes to JS Fund polices described previously, the budget legislation to amend those policies includes a proposal to extend for three years an existing deduction from the JS Tax that applies to compensation between \$150,000 to \$399,999.99 at non-profit healthcare entities.

This exemption has been in place since the tax was enacted and non-profit healthcare entities do receive other deductions or exemptions from certain state taxes.⁷ The most recent revenue forecast produced by the Office of Economic and Revenue Forecasts (Forecast Office) for the JS Tax did not assume that revenues will increase when this deduction is currently set to expire at the end of 2023, so this extension would not impact the assumptions for revenues from this tax in 2024. However, Central Staff consulted with the Forecast Office who estimated that if the deduction did expire at the end of 2023, revenues from the payroll tax would be about \$5 million higher than current estimates in 2024.

Separate from the legislation transmitted by the Mayor, Chair Mosqueda asked Central Staff to prepare legislation that would only amend the JS Fund policies to extend this deduction. If the Council chooses to reject the other changes to JS Fund polices, they could instead proceed with Chair Mosqueda's narrower proposed changes. In addition to extending the deduction described above for three years, the Chair's proposal would give the Director of City Finance authority to adjust the salary range subject to the deduction based on inflation.

Options:

- A. Do not pass. Reject the proposed extension to this deduction, increase the revenue assumptions from the JS Tax in 2024 by \$5 million and use for other priorities.
- B. No change.

⁷ See <https://apps.leg.wa.gov/wac/default.aspx?cite=458-20-168> WAC 458-20-168; that provides an example of how State Business and Occupation taxes are applied to a nonprofit versus for profit hospital.