

**FINAL REPORT OF THE REVENUE
STABILIZATION WORKGROUP**

August 7, 2023

I. Executive Summary

Seattle strives to support a social safety net for people in need and to uplift our diverse communities. Those services are too often financed by putting a disproportionate burden on those least able to afford it. Washington State ranks as having the most regressive tax system in the country.¹ It doesn't need to be that way. The City has an opportunity to re-envision the way it operates.

The City Council adopted a Statement of Legislative Intent as part of the 2022 Adopted Budget;² and Mayor Bruce Harrell and Councilmember Teresa Mosqueda empaneled the Seattle Revenue Stabilization Workgroup (Workgroup) to identify equitable financial solutions.³ The Workgroup includes a diverse group of innovative thinkers from across disciplines to explore feasible sources of progressive revenue options for City policymakers.⁴ The Workgroup was invited to review progressive revenues that could address a growing General Fund deficit. The Workgroup reviewed information about the City's spending needs and trends, but Workgroup members were not asked to weigh in on changes in City spending or other structural changes such as financial policies.

The Workgroup screened potential revenue ideas using evaluation criteria. The Workgroup was particularly mindful of impacts on disadvantaged communities and small businesses, and it sought to evaluate all proposals on the ability to support and stimulate sustained economic growth.

The report acknowledges the ongoing work the City is doing to evaluate reductions in spending, identifies other policy choices within the City's decision-making power, and highlights several suggested areas of future work to inform longer-term decisions.

II. Problem Statement

The City of Seattle passed a balanced biennial budget for the 2023-2024 cycle with the temporary authority to use higher than anticipated revenue from JumpStart Payroll Expense Tax to fill the General Fund revenue gap. Though General Fund expenses were projected to outpace revenues during this cycle, the Executive and Legislative branches worked together to close the gap through temporary support from the relatively new JumpStart Payroll Expense Tax. This temporary support allowed City leadership to meet the immediate needs of the City, while also providing a longer runway to consider the more significant fiscal cliff ahead for the 2025-2026 biennial budget.

If the City continues to operate and maintain services to the public at its current level (no expansions or consolidations), the General Fund expenses would outpace revenues by approximately \$221M in 2025 and an additional \$207M in 2026.

¹ [Who Pays? 6th Edition \(Institute on Taxation and Economic Policy\)](#)

² [SLI FG-002-B-001 - SLI FG-002-B-001 \(legistar.com\)](#)

³ Appendix A identifies the members of the Workgroup.

⁴ Appendix B includes the ground rules that the Workgroup used to govern its deliberations.

Table 1: Problem Definition

Year	Bottom Line
2023 Adopted	GF is balanced
2024 Endorsed	GF is balanced
2025 Projected	\$221M gap in GF
2026 Projected	\$207M further gap in GF

1. Cut expenses through:
 - eliminating lines of business;
 - consolidating existing services; or
 - reducing/ eliminating services that do not meet outcomes, are not aligned with the City’s current priorities, or have grown faster than real-world demand; and
2. Increase revenue through:
 - expanding the City’s revenue base; or
 - creating new revenue types.

The Workgroup was tasked with focusing on the second lever: evaluating potential new revenue sources to help to close the projected General Fund gap.

The public at large will have ample opportunity to convey feedback about whether the Mayor’s proposed budgets and any City Council amendments properly balance competing priorities between potential spending cuts and potential new revenues. The Workgroup explored sustainable and equitable options for new revenue creation or expansion to support the City’s expenditures.

There is likely no single action that could be taken to fill the projected General Fund gap. Rather, multiple strategies will likely be needed to provide a pathway towards a sustainable City government that equitably meets the needs of its constituents while also addressing the projected 2025-2026 General Fund shortfall.

III. Context and Background

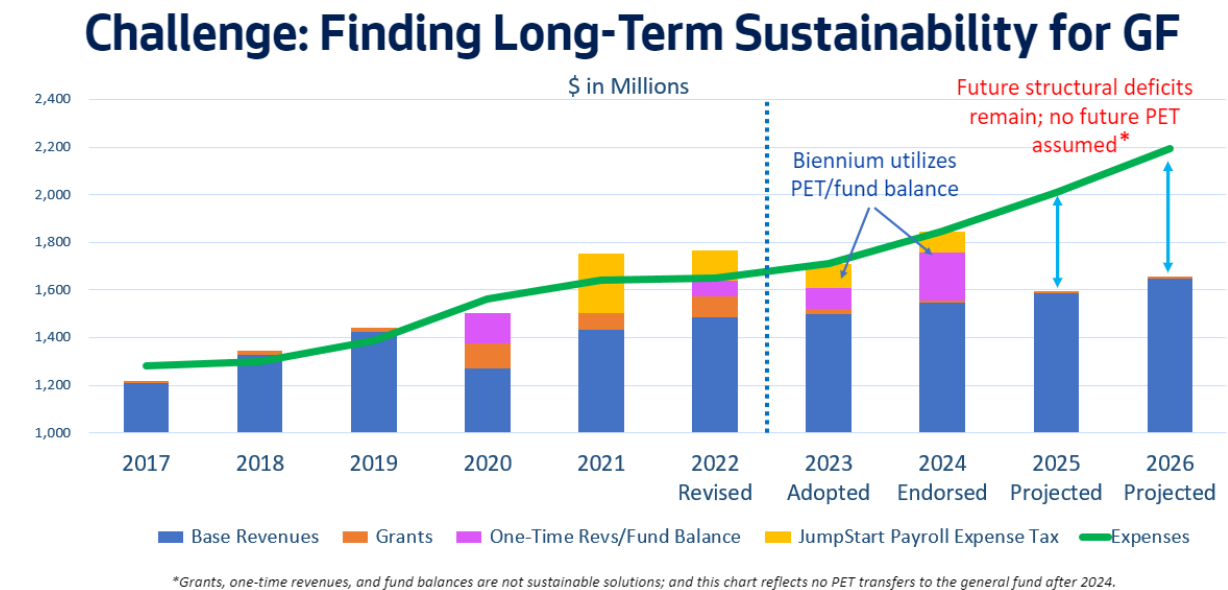
Though the City’s revenues have grown since 2017, expenditures were growing even faster. In recent years, the City expanded the number of departments to address emerging needs of a growing population, and it undertook considerable new spending in efforts to address the homelessness crisis. New revenue sources created over the last several years have been passed for specific and important uses rather than for broader General Fund needs.

When the COVID-19 pandemic hit, General Fund revenues declined precipitously; and the City was faced with critical decisions around how to bring the budget back into balance.

While many jurisdictions around the country introduced extensive austerity measures and numerous layoffs, the City temporarily shored up the General Fund through short-term use of the JumpStart Payroll Expense Tax and one-time emergency COVID-related funding support from the federal government.

- From 2017 to 2023: General Fund expenditures have grown at an average of 5.5% annually, largely driven by increases to the City’s labor base and program expenses such as homelessness efforts.
- The 5.5% growth in General Fund expenditures was faster than inflation (4.3% annually on average during the same period) and faster than the Seattle Metro Area population (averaging less than 1% annually during these years⁵) but about equal to the compounding effects of inflation and population growth.
- Net of one-time grants, use of fund balance, and transfers from the JumpStart Payroll Expense Tax Fund, General Fund revenues grew at approximately 3.7% annually from 2017 through the 2023 Adopted Budget.⁶

Chart 1: Finding Long-Term Sustainability for General Fund



The City’s current overall budget is \$7.4 billion, but most revenues are restricted to prescribed purposes. For example, the two utility funds can only be used for utility purposes; and the Transportation Fund has many revenues that can only be used for transportation purposes. In contrast, the General Fund’s \$1.6 billion is where the City pools its most flexible taxes and fees.

⁵ <https://www.macrotrends.net/cities/23140/seattle/population>

⁶ In 2019, net General Fund revenues were at a peak in real dollars (i.e., accounting for inflation). In nominal dollars, net General Fund revenues have generally risen between 2019 and the 2023 Adopted Budget. Annual inflation exceeded the nominal growth in the net General Fund revenues during this period. This trend reduced the City's buying power and therefore its ability to sustain the existing level of services.

Table 2 shows the unrestricted General Fund and a range of funds that have State-imposed restrictions, voter-imposed restrictions, and City-imposed restrictions.

Table 2: City's Revenues

Sources		2023 Adopted
Unrestricted	General Fund (taxes and fees)	\$1.6 billion
Restricted	Seattle Public Utilities (utility rates and wholesale revenues)	\$1.4 billion
Restricted	Seattle City Light (utility rates and wholesale revenues)	\$1.5 billion
Restricted	SDOT (excluding General Fund)	\$0.5 billion
Restricted	Dedicated taxes restricted by City ordinance (e.g., JumpStart Payroll Expense Tax, Sweetened Beverage Tax, Admissions Tax, Transportation Network Company Tax)	\$0.3 billion
Restricted	Other restricted sources (e.g., permits/fees, capital financing, REET, federal/state grants)	\$1.7 billion
Restricted	Voter-approved levies and Seattle Parks District	\$0.4 billion
	Total City Revenues	~\$7.4 billion

Broadly speaking, the City has the power to make changes to some categories of restricted revenue but not others. The City does not have the authority to change restrictions that flow from either the State Constitution or State law. For instance, the State Constitution requires that utility rates and certain types of user fees be used only for prescribed purposes; and the City can only use gas tax revenues for transportation investments. Similarly, State law proscribes limited ways that the City can spend Real Estate Excise Tax and Commercial Parking Tax revenues. The City can advocate for a change in these restrictions. However, the City cannot legally spend State-restricted revenues for other purposes unless the State acts to change or remove the spending restriction.

Voters have approved ballot measures authorizing property taxes for multiple purposes (*e.g.*, Library, Housing, Parks, Transportation) that include limitations on how the City may use those taxes. Generally, those ballot measures provide some opportunities for elected officials to make changes to the planned expenditures among categories or across projects to acknowledge the need for limited flexibility. However, elected officials are required to use the property taxes for the general purpose that voters intended. That is, transportation levies must be used for transportation rather than building affordable housing or paying firefighter salaries.

In the 2023 Adopted Budget, nearly four-fifths of the City's General Fund comes from a combination of property taxes, sales and use taxes, Business and Occupation taxes, utility taxes, and a transfer from the Payroll Expense Tax fund. The balance comes from a range of smaller miscellaneous fees, traffic fines, etc. collected by the City.

Structural economic or legal constraints, over which the City has no control, have also led to limited (below inflation) growth or steady decline in some City revenues. For example, State law limits the growth in property taxes from one year to the next to 1% plus the value of new construction. In

years with low new construction activity or high inflationary effects on City costs, this growth limit prevents property tax revenues from keeping pace with the costs of basic service. More acutely, tax revenues from several other taxes are declining due to changing consumer preferences and economic change. For example, Cable and Telephone utility taxes are declining as consumers “cut the cord” for television and land line telephone services. Similarly, on-street parking fees and Commercial Parking Tax revenues declined precipitously during the COVID pandemic.

General Fund expenses are projected to increase by a cumulative total of \$544 million from 2022 to 2026, with the majority going to employee salary and benefit costs.

- 85% of projected expense growth is due to anticipated labor agreements.
- 4% of growth is related to Human Service Provider contract inflation which is set by ordinance.
- The remainder of the projected growth includes items such as the Seattle Police Department’s recruitment and retention plan, replenishing the Emergency Reserve Fund which was used during the pandemic, and internal service costs for areas such as employee healthcare, facilities and fleet maintenance, and information technology.

IV. Additional Actions

The Workgroup understands that City leadership (Executive, Legislative, and Cabinet Member teams) is exploring consolidations and cuts to respond to the expense side of the ledger. That work has been underway for several months and will continue over the coming year as the Mayor and City Council work towards their legal responsibility to adopt a balanced biennial budget for the 2025-2026 cycle.

The Workgroup was formed for the express purpose of providing feedback about potential new revenue options. However, this is just one of several potential strategies for addressing the projected gap between General Fund revenues and General Fund expenditures:

- *New Revenues.* The City could increase overall municipal revenue either through new taxes or changes to existing taxes (higher rates, broader applicability, etc.). This approach could stand on its own; or it could be coupled with a reduction in another more regressive tax.
- *Spending Reductions.* The City could reduce General Fund spending for City services.
- *Re-Purpose Other Revenues and Reduce Spending Accordingly.* Where allowed by constitutional and State law restrictions, the City could reduce other spending for City services and shift those revenues to the General Fund. This would still require spending cuts because we would be eliminating the funding for the area the money was supporting.
- *Grow the City’s Tax Base.* The City could take actions that could potentially generate net new municipal revenue by spurring additional economic activity.

V. Evaluation Criteria

The Workgroup evaluated potential ideas for generating new revenue using multiple criteria. For each potential new revenue idea, the Workgroup assessed the criteria described in Table 3: Evaluation Criteria.

The Workgroup developed, applied, and considered the evaluation criteria in the context of a total of 63 ideas for potential new revenues. The Workgroup used a holistic approach and professional judgment (rather than a mathematical formula) to arrive at a prioritized list of ideas.

Table 3: Evaluation Criteria

Evaluation Criteria	Key Question
State Authority	Can the City proceed without further State action?
Requires a Vote	Is a ballot measure required?
Gross Revenue Potential	How much new tax revenue will the idea generate?
Progressivity & Racial Equity Impact	Does the tax burden increase with income? Will Black, Indigenous, and People of Color be disproportionately impacted?
Economic Impact	What are the effects on overall economic activity and employer sustainability and growth?
Timing Considerations	How soon could the tax be implemented?
Feasibility	How does the tax measure up against a range of other considerations (legal, political, administrative)?

VI. Findings

Through its General Fund, the City provides critical services to residents, businesses, and visitors. Based on current projections of revenue and spending, the City’s General Fund faces a funding gap beginning in 2025 and continuing for the foreseeable future. The Workgroup focused on revenue strategies while acknowledging that there are several potential strategies to address that projected gap including new revenues, spending reductions, and other changes to increase flexibility.

A. Revenue options for further evaluation

The Workgroup explicitly acknowledges that more work is needed before implementing any new revenue ideas to determine: the appropriate tax rates, which individuals and businesses would be expected to pay the tax, what exemptions (if any) would apply, and other considerations, including potential unintended consequences.

The City was not able to provide detailed legal analysis because the Workgroup is not covered by the City’s attorney-client relationship with the City Attorney’s Office. The Workgroup acknowledges that the City will need to consider legal risks and considerations that the Workgroup could not and did not review. Resolving any lawsuit would likely affect the timeframe in which revenues could be collected.

After considering a comprehensive list of 63 different revenue ideas, the Workgroup created a short list of ideas based on the evaluation criteria.

1. *Changes to the JumpStart Payroll Expense Tax.*

- The City can make changes to the JumpStart Payroll Expense Tax without voter approval and without any further State authorization.
- The City could further evaluate the following approaches to increase JumpStart Payroll Expense Tax revenues: increase the tax rates for those who already pay the tax, increase the number of businesses required to pay the tax (*i.e.*, lower the total payroll threshold), increase the number of employees for whom businesses must pay the tax (*i.e.*, lower the salary threshold), or make other policy changes.
- The Workgroup assumed the City would use any such additional JumpStart Payroll Expense Tax revenues to support General Fund purposes. This would require a change in current spending restrictions.
- Because the existing JumpStart Payroll Expense Tax was first collected in 2021 during the pandemic, there is relatively little track record to draw upon. Moreover, the City is obligated to maintain confidentiality of tax payments for individual taxpayers. However, roughly 80 percent of the City's JumpStart Payroll Expense Tax is paid by fewer than a dozen businesses, mostly in the technology sector. The relatively small taxpayer base has resulted in volatility in the amount of revenue collected from year to year.
- The Workgroup determined that the existing JumpStart Payroll Expense Tax and changes under consideration were extremely progressive, unlikely to have a disproportionate impact on Black, Indigenous and People of Color (BIPOC) communities, and likely to have only limited impacts on either overall economic activity or small businesses.
- Depending on the approach and magnitude of the increase, the Workgroup cautions that expanding this tax could influence decisions by large employers about whether to locate or expand their business operations within the City or to locate in nearby municipalities.
- The range of potential policy choices is sufficiently broad that it is not possible to provide a firm revenue estimate. However, given that the existing tax generates on the order of \$250 million annually, the Workgroup is confident that there are policy choices that would generate substantial new revenues.
- This option is technically implementable in the near term.

2. *City-level Capital Gains Tax*

- The City would not need voter approval for a Capital Gains Tax, and it may be able to do so without any further State authorization.
- The City could evaluate a new local tax on long-term capital gains above a certain threshold. The City could model its local version on the State's Capital Gains Tax which recently withstood a review by the Supreme Court.⁷
- The Workgroup determined that the State Capital Gains Tax and a potential new City version are extremely progressive, unlikely to have a disproportionate impact on BIPOC

⁷ <https://www.courts.wa.gov/opinions/pdf/1007698.pdf>

communities, and likely to have only limited impacts on either overall economic activity or small businesses.

- The Workgroup cautioned that more work is needed to understand whether a City-level Capital Gains Tax could lead to out-migration, which could have secondary impacts on other revenues and property values.
- The amount of new City revenues will depend on the rate imposed and other policy choices. However, the City Budget Office estimates that a City-level 1% Capital Gains Tax could generate between \$25 million and \$30 million annually. Though given the role of stock and bond sales in capital gains, and the small number of potential taxpayers, future revenue volatility should be expected, both above and below that range. Finally, the potential for taxpayer avoidance and the resulting impact on revenues, through relocation or tax planning, while impossible to estimate, should be considered in understanding this estimate.
- This option is technically implementable in the near term.

3. *High CEO Pay Ratio Tax*

- This tax could be implemented as a surcharge to the existing JumpStart Payroll Expense Tax would require additional work to determine tax structure and administrative mechanisms, but it would not require additional State approvals prior to implementation.
- The Workgroup considered a local tax on businesses that have a high ratio of (a) Chief Executive Officer (CEO) pay to (b) median worker compensation.
- The gross revenue would depend on the approach used. San Francisco's high-ratio CEO tax (a surcharge on San Francisco's corporate income tax) is on all companies regardless of where the CEO is located and was expected to bring in between \$60 million and \$140 million annually. Portland's high-ratio CEO tax is on publicly traded companies with CEOs located in the city and has generated about \$4 million annually.
The High CEO Pay Ratio tax is progressive in that only businesses with significant CEO compensation are taxed. Businesses may pass some costs to consumers and workers, making the tax less progressive.

4. *Vacancy Tax*

- The City could evaluate a tax on vacant units, residential and/or commercial, within the City of Seattle.
- Such a tax likely could be imposed without requiring a ballot measure.
- A vacancy tax could generate between \$5 million and \$20 million annually, depending on definitions, rules, and tax rate.
- The intent of this tax would be to provide a disincentive for property owners to leave habitable properties vacant, thereby increasing the supply of housing in the city and reducing rents.
- The tax could encourage speculative owners to rent vacant properties or sell properties to avoid remitting the tax. The Workgroup expects the tax would therefore encourage more people to live in Seattle, bringing economic activity.
- More work would be needed to evaluate implementation strategies that adhere to the State Constitutional requirements for property taxes uniformity.

5. *Progressive Real Estate Excise Tax*

- The Workgroup evaluated an additional tax increment on sales of property over a certain price.
- The tax would require State action granting the City additional authority to implement. This could be done for select cities or counties with a declared homelessness emergency rather than for all municipalities statewide.
- The tax would be progressive if imposed only on high-value properties.
- The gross revenue potential would be between \$7 million and \$14 million annually, assuming a tax on properties valued higher than \$5 million.

6. *Estate Tax*

- An estate tax is levied on the estate (not the beneficiary like an inheritance tax) based on total assets after allowable expenses and debts have been paid. WA State's estate tax uses a graduated rate schedule ranging from 10 to 20 percent.
- The most straightforward approach would be for the City to impose an increment onto the State structure. State authorization may be required before the City could implement such a tax.
- The City estimates that an estate tax could generate between \$5 million and \$10 million annually based on scaled 2021 statewide revenues by City's share of statewide IRS Capital Gain tax payments (as a proxy for City's share of state-wide taxable wealth). This estimate assumes the City would use the State's tiered/progressive structure, as well its \$250K exemption and would apply a 10% surcharge on Seattle estates.
- This approach taxing generational wealth would be very progressive.
- The Workgroup determined that there would likely be minimal economic impacts, but it is possible that taxpayers could take actions to avoid paying the tax.

7. *Inheritance Tax*

- An inheritance tax is similar to an estate tax except that taxes are paid by the beneficiary of a bequest (not the estate) as it is valued at the time of death.
- No U.S. cities currently impose an inheritance tax. The Workgroup considered modeling the City-level tax on state inheritance taxes (IA, KY, NE, NJ and PA). Washington State had such a tax until it was repealed by voter initiative in 1981 and replaced with an estate tax. State laws vary based on the amount exempt from taxation and the beneficiary relationships (e.g., spouse, child, sibling) that are exempt.
- The revenue generated from an inheritance tax is dependent upon many factors; and the City would be required to stand up a new, complex and costly administrative approach to track and enforce the tax since this tax is not currently imposed in Washington State.
- The tax would likely require either new State authority, a vote of the people, or both.
- This approach taxing generational wealth would be very progressive.
- Like an estate tax, there would likely be minimal economic impacts; but taxpayers may take actions to avoid paying the tax.

8. *Congestion Tax*

- The Workgroup considered tolling heavily congested roads and corridors in the city to reduce congestion and pollution (66% of our emissions come from road transportation).
- Tolls on local roads are explicitly authorized by State law for Transportation Benefit Districts, such as the one that exists in Seattle. However, revenues generated from such tolls must be used for transportation purposes.
- Consistent with State law, congestion fees would require State approval if they affect any State highway.
- A phase 1 study evaluating congestion fees in 2019 found that higher income people are more likely to drive in Seattle, though the study could not determine the magnitude of the impact on lower income drivers. Variable pricing and targeted exemptions would help make it more progressive.
- It is unclear how much net revenue (after paying for the costs of collecting the tolls) would be generated. The approach is administratively challenging. The technical infrastructure could take years to establish.

9. *Income Tax*

- The Washington State Supreme Court has confirmed that municipalities are able to impose a flat income tax of up to one percent of total income. However, municipalities are not able to impose a progressive income tax (one with a rate that increases with total income).
- A one percent flat income tax could generate approximately \$670 million annually.
- This form of flat income tax would be more progressive if the City either imposed some form of rebate, rolled back/eliminated a regressive tax in conjunction with imposing the new flat income tax, or included spending targeted to address the needs of lower-income households.
- The Workgroup cautioned that more work is needed to understand whether a municipal-level income tax could lead to out-migration, which could have secondary impacts on other revenues and property values.
- Neither the City nor the State currently has an administrative system in place to collect an income tax; and setting up such a system would likely take several years.
- Further work is needed to determine whether State authorization is needed before the City could implement such a tax.

B. Input on approach for identifying spending reductions

The Workgroup was not asked to evaluate spending reductions – neither how much to cut nor for what purposes.

The Workgroup understands that more than half of the General Fund expenditures are related to staffing, and cuts to General Fund expenditures could entail both undesirable impacts to City employees and reductions in City services.

C. Other considerations

1. The City should lobby for changes in State law that provide for additional flexibility and more progressive municipal revenue options.
2. The City should remain vigilant about avoiding unintended consequences that municipal tax policies may have on business location, growth, and potential relocation to other jurisdictions.
3. The City should develop evaluation tools to quantify the real and anticipated impacts of new and existing taxes on BIPOC communities.

VII. Appendices:

- A. Workgroup members
- B. Ground Rules
- C. Materials reviewed by Workgroup

Appendix A: Members of the Revenue Stabilization Workgroup

Co-Chairs*:

- **Teresa Mosqueda** - Seattle City Councilmember, Budget Chair, At-large/Position 8
- **Tiffany Washington** - Deputy Mayor, Seattle Mayor's Office

Workgroup Members:

- **Alisha Gregory-Davis** – Coalition of City Unions Representative
- **Andrew Guillen** – Chief Public Affairs Officer, Seattle Indian Health Board
- **Darrell Powell** – Managing Director, Pinnacle Financial Services, PLLC
- **David Frockt** – former Washington State Senator, 46th Legislative District
- **Hyeok Kim** – Principal, Insa Consulting; former Deputy Mayor of Seattle
- **Joe Fugere** – Founder, Tutta Bella
- **Katie Garrow** – Executive Secretary-Treasurer, MLK Labor, AFL-CIO
- **Katie Wilson** – General Secretary, Transit Riders Union
- **Lindsey Grad** – Legislative Director, SEIU Healthcare 1199NW
- **Louise Chernin** – former Executive Director, Greater Seattle Business Association
- **Misha Werschkul** – Executive Director, Washington State Budget & Policy Center
- **Patience Malaba** – Executive Director, Housing Development Consortium
- **Rachel Smith** – President and CEO, Seattle Metropolitan Chamber of Commerce

* Deputy Mayor Monisha Harrell co-chaired from Oct '22 through July '23

Participating City Staff and Researchers:

- Julie Dingley – Director, City Budget Office
- Dan Eder – Policy Director, Mayor's Office
- Dave Hennes – Economics & Revenue Team Manager, City Budget Office
- Tom Mikesell – Policy Analyst, City Council Central Staff
- Aly Pennucci – Deputy Director, City Council Central Staff
- Alexandra Zhang – Economist, City Budget Office

Appendix B: Ground Rules

- Assume positive intent
- Respect differing perspectives
- Speak up; we negotiate in the room
- Honesty/Transparency
- Focus on our common goal

Appendix C: Materials reviewed by Workgroup

1. Transit Riders Union's Revenue Options Report:
https://transitriders.org/wp-content/uploads/2023/08/TRU_Revenue_Options_Report_080123.pdf
2. Seattle Metropolitan Chamber of Commerce – Presentation:
https://www.seattlechamber.com/clientuploads/Documents/Advocacy%20Documents/2023-08_Demystifying_the_City_Budget.pdf?t=1690928620
3. Institute for Taxation and Economic Policy:
<https://itep.org/taxes-and-racial-equity/>