



City of Seattle

Mayor Jenny A. Durkan

April 17, 2018

Dear Councilmembers:

As we all know, our homelessness and affordability crisis demand our urgent action. We need accountable and effective solutions to help thousands of people experiencing homelessness and many more who suffer from housing insecurity. I am proud of the steps we have taken together to meet these challenges, but we all agree that more needs to be done.

The “Progressive Revenue Task Force” has proposed the largest Council-imposed tax increases in Seattle history to deal with these challenges – other than the income tax. The task force had a number of members that I regard very highly, and all gave their best input on how we could address the crisis. I also appreciate that their recommendations came in a relatively short period of time, with limited access to data, the law department, or the ability to receive public input. As Council deliberations are underway regarding these recommendations, several Councilmembers have asked for my views on the proposals. I understand there is a significant range of approaches under discussion, which is why I want to outline my principles as Council begins drafting legislation.

First, as I have reiterated since last year, Seattle must protect our small businesses when considering any new business taxes or regulations. Seattle small businesses are our largest employer; they provide economic opportunity and create the rich texture and character of our neighborhoods and city. With many small businesses facing a series of increased commercial rent, taxes, regulations and construction impacts, our City must ensure we’re protecting and reinvesting in the vibrant web of small businesses.

In addition, I believe it is imperative that any proposal has full accountability and transparency for our taxpayers from the initial spending proposal to oversight as the funds are delivered. These spending priorities must be in line with our regional implementation plan of One Table.

Finally, we need solutions that improve lives but do not harm our economy. All our businesses, arts and cultural organizations, and civic ventures rely on each other in an interdependent ecosystem. A large range of jobs – from our building trades, to restaurant workers, to nurses, teachers, manufacturing jobs and tech workers – have depended on the economic growth we have experienced. As we work to lift up those that have been left behind and make our City more affordable, we must be careful not to do harm. The size, scope, and impacts of any proposal must be gauged correctly.

It is critical that the Council includes these initiatives and priorities:

- 1. Protecting Our Vibrant Economy, Small Businesses, Non-Profits, and Community Service Organizations** – Any new tax should not harm the economy, the small businesses that employ most of our workers, or the non-profits that serve our community. Our neighborhood small businesses are our

largest employers with more than 200,000 employees. We also have some of the most highly regarded nonprofits in the nation working right here in the city – we must continue to support their work. Steps to protect our economy and small businesses should include:

- Rejecting the so-called “skin in the game” flat tax, which is an additional tax on top of recent increase in business and occupation tax rates, and the substantial increase in business license fees that was imposed in 2017. For firms with worldwide gross revenues of \$2 million or more, the cost of their annual business license increased from \$110 to as much as \$2,400. This recommendation undervalued the many ways small business owners already have “skin in the game” and have been directly impacted by affordability crisis;
- Craft exemptions for small businesses, which provide jobs that we cannot afford to lose but are already shouldering significant taxes and regulations. In total, we know that business activity provides approximately 56% of our total General Fund tax revenues;
- Craft appropriate exemptions for non-profits, member organizations, and health care providers;
- Eliminate the proposed blanket exemption for marijuana businesses, which could still qualify for the small business or health care provider exemption;
- Create new Seattle Investment Zones in our most underserved communities that are at high risk of displacement and need good paying jobs, then craft exemptions for businesses located in those zones; and
- Incentivize private investment in homelessness solutions and affordable housing, by creating a credit for private spending in these areas.

2. Help Workers and Build the Economy by Reinvesting in City Businesses – As we generate additional tax revenues from larger businesses, we should use the new revenues to provide tax relief to our small businesses, including our immigrant and minority businesses. It would help even the playing field to:

- Reinvest in Seattle’s small businesses by exempting small startups from the City B&O tax for up to three years;
- Reduce B&O taxes on businesses located in new Seattle Investment Zones (see above);
- Reduce costs on small businesses by offsetting other regulatory costs like business license fees;
- Create more support programs and resources for our small business; and
- Restore the life sciences research and development tax exemption for federal grants and subcontracts that the City allowed to expire in June of last year. Taxation of these funds puts many of Seattle’s research entities at a competitive disadvantage in seeking these federal resources.

3. Creating a Transparent Spending Plan Working Within A Regional Solution – As my Small Business Advisory Council emphasized, there must be an accountable and transparent spending plan, built around regional solutions. King County has the third largest homeless population in the United States. Seattle cannot go it alone, and we must work with our regional partners. Homelessness and affordability challenges do not respect any city boundary and cannot be solved just by Seattle. Not only will it not work, it unfairly shifts significant burdens to Seattle taxpayers. Through One Table, we are establishing a framework and implementation plan to address the root causes of homelessness in a comprehensive and regional manner, which we will announce in May. In considering the needed revenues as well as spending gaps, it’s critical that the City, County and our regional partners are aligned on any new significant investment that could be made in both housing and homelessness. Seattle’s investment plan should include:

- Investing in bridge housing and shelter options. As part of the legislation that passed Council in February, we have already begun our work to create additional shelter and housing options, but we need additional safe alternatives;
- Expanding outreach, including additional navigation teams, to those living unsheltered as well as those living in vehicles and RVs;
- Dedicating resources to meaningful and sustainable mental health and substance abuse treatment. Underfunding behavioral health has a significant, if not determinative impact on our homelessness crisis. This is an area where regional solutions and working in the One Table framework will be key;
- Providing dedicated funding for increased need of homeless services, public health, litter, trash and debris removal strategies to fill the gap. Last year, the City spent \$75 million, more than budgeted, providing a range of support services, operations of sanctioned encampments, and the ongoing costs of managing unsanctioned sites, including hauling garbage, human waste and used needles; and
- Directing resources to temporary affordable housing as well as permanent affordable housing. Before fully leveraging with Federal Low-Income Housing Tax Credits, the State Housing Trust Fund, and other contributions, the City of Seattle is expected to invest nearly \$70 million in 2018. Once fully leveraged from state, federal and private sources, this is expected to result in total spending of more than \$200 million; three times our original investment. However, these permanent affordable housing units will take years to come online, which is why the City must consider temporary affordable housing, such as modular homes.

4. Showing Progress and Ensuring Accountability – Unfortunately, many Seattle residents don't trust that the City is spending their dollars wisely at a time that taxpayers are already paying a significant amount to address this crisis. The City spent \$75 million in 2017 for homeless and related services. We also spend significant resources on indirect spending to deal with this crisis, including our first responders. In addition, less than two years ago, voters approved a \$290 million affordable housing levy. For every dollar the City spends on housing, purchasing power has historically been leveraged to nearly \$3 in other federal, state and private resources.


All new revenue should have a strong level of accountability and transparency to taxpayers, including:

- Independent oversight committee, similar to the Sweetened Beverage Tax Community Advisory Board. This board should include members appointed by the Mayor and the City Council. The board should represent a diverse group of stakeholders, but no entity or person receiving funding should be eligible to serve on the board;
- Require improved accountability provisions in all service provider contracts;
- Require retention of an economist to advise the City and the Advisory Board. This economist should be experienced in both housing markets and in the economic impacts of increased taxation on businesses to the economic, philanthropic and health of a community.
- Require the City to monitor and measure the impact of a new tax. We need to monitor the cumulative impact of Seattle's taxes and regulations to ensure that we are not pushing jobs out of our City or creating any unintended consequences. The City should measure the impacts through a race and social justice lens. In addition, a City economist should measure whether the new taxes lead to a drop in jobs or philanthropic contributions, that fuel everything from our arts organizations, to homelessness services and affordable housing; and

- Re-evaluate progress with an affirmative renewal. By creating a sunset provision, the City can hold itself accountable and measure the effectiveness and impact of this tax and allow for affirmative renewal – similar to the previous employee head tax.

In the upcoming weeks, I look forward to working closely with each of you as we aim to ensure any proposal meets a robust legal challenge and can be fully and effectively implemented to address the homelessness and affordability crisis.

Sincerely,



Jenny A. Durkan
Mayor of Seattle