

Progressive Revenue Task Force Proposals

1. Overview

The Progressive Revenue Task Force finds a severe need for deeply affordable housing, shelter, and services to address the homelessness crisis in Seattle.

We find that to adequately meet this need would require new public funding on a grand scale – many hundreds of millions of dollars per year for at least the next ten years. (For example, see Appendix A for a very rough calculation of the costs of closing the low-income housing gap.) Some of this amount can and should be located by making cuts to public spending that is no longer needed or is counter-productive, particularly but not exclusively in the criminal justice sector. While we support identifying such cuts in the 2018-2019 biennial budget, however, the bulk of funding to close the gap will require new revenue.

While it is necessary to push continually for increased state and federal investment in affordable housing and homeless shelter and services, recent history does not support high expectations.

We look forward to seeing what proposals emerge from the regional “One Table” discussions now underway. However, the scale of the crisis is such that even in a best-case scenario much will be left undone.

According to the Institute on Taxation and Economic Policy, Washington State’s tax system is the most regressive in the country, with households in the lowest 20% income bracket paying 16.8% of their income in state and local taxes while households in the top 1% pay only 2.4%. Although Washington is an extremely high-tax state for lower-income residents, overall it is a relatively low-tax state; according to the Department of Revenue, in 2013 Washington ranked 41st among the 50 states for state and local taxes as a percentage of Gross Domestic Product.

We therefore believe that the City of Seattle should pass legislation this year to generate \$150 million per year in new progressive revenue, including an Employee Hours Tax.

2. Employee Hours Tax

Due to the magnitude of the need for deeply affordable housing, shelter and services to respond adequately to the homelessness crisis, we recommend that the City Council pass an Employee Hours Tax (EHT) to generate revenue at the top end of the “between \$25 million and \$75 million” range specified in Resolution 31782, i.e. \$75 million per year.

We also recommend that the City Council consider a variation of the EHT with the tax calculated as a percentage of a business’s total payroll, rather than a flat amount per FTE employee. We suspect that this approach will tend to lessen the relative impact of the tax on low-margin sectors and make it more progressive; see Appendix B for an illustration of this approach. A hybrid approach could also be considered, described in Appendix C.

We recommend that an EHT be passed “early enough to ensure that such taxes can be imposed as of January 1, 2019,” as stated in Resolution 31782.

3. Other Progressive Revenue Options

We recommend that the City aggressively study the progressive revenue ideas summarized in Appendix D, with the goal of assessing their relative viability and passing legislation by the end of 2018 to generate at least an additional \$75 million. Together with a \$75 million EHT, this would yield a total of \$150 million per year in new progressive revenue. We also recommend that the City lobby the state legislature for more progressive revenue options.

4. Emphasize Housing

Given the severe shortage of deeply affordable housing and the bottleneck that already exists in the transition from shelter to housing, we recommend that an emphasis be placed on housing in the dedication of revenue from the EHT. Specifically, we suggest a rough 80-20 split between funding for housing and funding for shelter and services. With a \$75 million EHT, this would mean \$60M per year for housing and \$15M for shelter and services.

In addition to building new housing, we recommend that a range of approaches be considered to more quickly adapt existing housing stock for long-term use by people exiting homelessness. These could include Keys to Home type programs, Master Leasing, long-term vouchers/deep rental subsidies, and other strategies in King County’s Veterans and Human Services Levy Vulnerable Populations Housing Strategy. However, it must be borne in mind that a housing shortage also exists at the 30%-60% AMI range, so relying too much on such approaches will have harmful ripple effects on lower-income individuals and families. There is simply no substitute for building many thousands of units of new deeply affordable housing.

Resolution 31782 requires that this Task Force attend in particular to those who face highest barriers to housing, due to criminal history, active substance use or other behavioral health issues. This focus dovetails with the findings of the 2016 Poppe Report that Seattle’s homelessness policy should focus on those who have faced the greatest barriers to exiting homelessness. Despite its formal commitment to lowering barriers, to housing, the Coordinated Entry For All (CEA) system has not opened a road to housing for most of those with criminal history and/or active substance use now living unsheltered, as they have not been accorded sufficiently high priority in the CEA screening process to qualify for the barrier-removing assistance the CEA system offers. This population is thus stranded outside for a protracted period, generating neighborhood pressure for an expensive, counter-productive justice system and law enforcement response, because no alternative plan appears to be forthcoming.

This entrenched problem leads us to recommend that \$10 million annually be used to augment the Veterans, Seniors & Human Services Levy Vulnerable Populations Housing Strategy, which was thoughtfully designed to address the actual needs of this population, but lacks sufficient resources to reach more than a few hundred people without an infusion of greater resources.

5. A Spectrum of Needs

In considering the dedication of funding from an EHT, we recommend that the City give deep thought to the wide spectrum of needs and situations of people experiencing homelessness, recognizing that what works for one person may not work for another.

For example, it has not been proven that people who do well in transitional housing will succeed in rapid re-housing, especially in a high-cost housing market.

We also believe that a wide range of shelter options is needed to accommodate people's varying situations and needs in the most cost-effective manner, including: navigation centers, enhanced shelters, tiny house villages, low-cost overnight shelters operated in partnership with faith communities, and a variety of low-barrier shelters.

Crucially, the differing populations served by these various options also tend to have differing barriers to finding housing; performance measures should not incentivize "creaming" or "recycling" and should also acknowledge that in the context of a severe housing and shelter shortage, providing shelter, safety and community is by itself a positive outcome.

6. Vehicle Residents

Over 40% of Seattle's homeless population lives in vehicles. We believe the City must recognize that until there is housing, for many people living in their vehicle is a safer and all-around better option than staying in a shelter. Therefore, the City's goal should be to make it safer for people to live in vehicles while providing a road to housing. Currently people living in vehicles are highly vulnerable to ticketing and towing, and the Seattle Police Department is under community pressure to take that kind of enforcement action. People living in vehicles need safe places to park on or off-street, help with trash management, services such as hygiene centers, and assistance in finding permanent housing.

7. Restore Funding to Essential Programs

We are deeply concerned that, regardless of the merits of the programs and approaches selected for funding, the Homeless Investments RFP also resulted in discontinuing funding for transitional housing programs, hundreds of shelter beds, and services including hygiene centers, without any plan for the people who rely on these programs. We recommend that investments in new strategies not be made at the expense of existing strategies until there is no more need for them; and that ongoing funding be restored to the programs that were defunded.

8. Other Services

Other services that have a significant overlap with the homelessness crisis but address needs other than housing and shelter were also underfunded in the 2018 City budget. We recognize that other strategies – particularly strategies that allow alternative responses to incarceration and punishment for law violations that flow from extreme poverty and/or behavioral health

issues – are a high priority in order to ensure successful outcomes for those dealing with homelessness. Any period of incarceration interrupts Medicaid eligibility, and incarceration of over 90 days eliminates homeless housing priority for an individual; there are many other adverse impacts of stigmatizing, punitive responses to behavior that stems from unmet basic human needs.

Several community-based alternatives to prosecution and incarceration were proposed for funding with widespread support in 2018. These include:

- Felony youth and young adult diversion capacity through a community consortium headed up by Community Passageways, with the cooperation of the King County Prosecutor. This program would provide services for a population of young people many of whom are experiencing episodic homelessness; and
- Citywide expansion of the Law Enforcement Assisted Diversion (LEAD) program, which allows law enforcement to connect individuals who could otherwise be jailed and prosecuted for offenses related to poverty and behavioral health needs, to community-based case management. LEAD, an evidence-based intervention that reduces recidivism and system costs, and improves individual well-being, presently is offered only to a fraction of those who could benefit from this approach.

Additionally, while the 2018 budget provided single-year funding for a demonstration safe consumption site, sustaining that project and responding to multi-site need will require an expanded investment. Once proof of concept is established, it will be important to plan how safe consumption features can be built in to human services facilities citywide in a way that distributes the benefits of this approach and reduces the cost compared to a stand-alone facility.

These are necessary features of a service landscape for the population that is presently homeless and/or at high risk of becoming homeless.

By investing in such strategies, and making an intentional commitment to only use incarceration and prosecution when there is an evidence-based case that those are more effective responses to problematic behavior than community-based alternatives, we can reduce the cost of the City's criminal justice infrastructure, and thus add to the pool of funds available to support services and housing. Because diversion has to occur to bring such cost savings about, however, new progressive revenue should support these approaches, and they are needed even if political leaders choose not to make justice system reductions.

9. Properly Pricing the Actual Costs of Providing Services

A plan to invest new progressive revenue must make provision for adequate wages in the homelessness services and related contract human services sector, to recruit and retain the skilled workforce to do this crucial work. This sector is presently gravely under-funded, with the result that committed workers themselves can't afford to live in Seattle, don't stay long, have many opportunities to move to better compensated positions in other fields, and often are paid half or less than those who oversee their contracts in city and county government.

Underpaying workers in this sector, and counting on their sense of mission to keep them in the field, is no longer viable. Underpayment has long resulted in gross understatement of the real cost of work in this sector.

We propose a wage analysis in this sector that takes into consideration the difficulty and challenge of the work, wages paid in the Seattle Human Services Department and the King County Department of Community and Human Services, and recruitment and retention challenges in the main City contractors. As a placeholder, we suggest estimating 20% wage increases for clinical, case management and outreach workers in City contract agencies in homeless services and related services.

Further, it makes little sense to embark on a progressive revenue stream to support human services, and then extract those revenues from already underfunded human services programs. Programs in this area should be exempt from the tax strategy adopted, or such programs should be “held harmless” by grossing up contracts to compensate for any increased tax burden they face under this revenue strategy.

Appendix A: Closing the Low-Income Housing Gap

1. How many new homes are needed to fill the need?

[Housing gap data from HDC](#) (cited on page 2 of Resolution 31782):

Seattle	0-30% AMI		30%-50% AMI		50%-80% AMI	
	2016	2030	2016	2030	2016	2030
Total	17,161	27,481	2,341	12,661	Met	7,125

From [Resolution 31782](#):

WHEREAS, the City's Housing Affordability and Livability Agenda is projected to create approximately 6,000 new housing units affordable to households with between zero to 30 percent AMI over the next ten years, which will still leave a severe shortage of housing for low-income residents who are either currently unhoused or at risk of becoming unhoused.

The 6,000 figure comes from the top of Page 14 in the [HALA recommendations](#). Some of these projected units will be funded by the Housing Levy, some from other sources. Unfortunately, some of these units may be in danger due to anticipated federal and state funding that isn't all materializing.

Even if all 6,000 units are created, Seattle needs 21K+ additional units in the next 10-12 years to close the gap for the 0-30% income range. To keep it simple, let's say 20K units in 10 years.

2. How much will this cost?

The City can leverage state and federal funding, but still Seattle must pitch in ~\$160K/unit. (This is a low estimate, since for Permanent Supportive Housing units Seattle would have to cover the entire cost of \$312,000 per unit.) That means we need a total of **\$3.2 Billion**, or **\$320 Million per year for 10 years**. That's just for capital costs, not counting ongoing costs including the costs of operating Permanent Supportive Housing, which some portion of this housing will need to be. This investment could be achieved by bonding against a revenue stream somewhat smaller than \$320M/year.

Some portion of the 0-30% AMI population may be best-served by permanent rental subsidies or vouchers that can be used in the private market, which involve fewer up-front costs than the construction of new publicly-funded housing. However, it should be kept in mind that there is also a housing gap of over 5,000 units over the next ten years for households in the 30%-80% AMI range, so that subsidizing rents for the poorest households is likely to exacerbate the housing shortage for those only slightly better off.

Appendix B – Hours v. Payroll Tax Comparison

Calculating the amount of an Employer Tax as a percentage of total payroll, rather than a flat amount per FTE employee, could make this tax more progressive. The chart below is intended as a conceptual example, not reflecting actual average pay in various sectors.

	“Restaurant Chain”	“Construction Firm”	“Law Firm”	“Tech Company”	Total Annual Revenue*
	\$40,000 average annual pay, 100 FTE	\$60,000 average annual pay, 100 FTE	\$80,000 average annual pay, 100 FTE	\$100,000 average annual pay, 100 FTE	
\$300 per FTE employee	\$30,000 annual tax = \$0.156/hour	\$30,000 annual tax = \$0.156/hour	\$30,000 annual tax = \$0.156/hour	\$30,000 annual tax = \$0.156/hour	~\$75 million
0.5% of total payroll	\$20,000 annual tax = \$0.104/hour	\$30,000 annual tax = \$0.156/hour	\$40,000 annual tax = \$0.208/hour	\$50,000 annual tax = \$0.260/hour	~\$75 million

* Assuming [\\$60K average annual pay in Seattle](#); \$5 million gross receipts exemption cut-off; and correctness of EHT revenue estimates given to the Progressive Revenue Task Force by Central Staff.

Appendix C - Hybrid Employer Tax Model

There are tradeoffs between basing a tax on number of FTEs (or employee hours), or on total payroll. A hybrid model may be a good compromise. For example:

- Employers can choose to pay either \$400 per FTE or 0.5% of total payroll.
- A law firm with 100 employees that pays \$400 per FTE owes \$40,000. Suppose this law firm’s average salary is \$80K. Their total payroll is \$8M, and 0.5% of \$8M is also \$40,000.
- So, for businesses with average pay \$80K and above, it would make sense to choose the first option.
- A grocery store with 100 employees also owes \$40,000 if they choose the first option. But suppose their average annual employee pay is only \$40K. Their total payroll is \$4M, and 0.5% of \$4M is only \$20,000.
- For businesses that employ lower-wage workers, it would generally make sense to choose the second option.

How much revenue would this raise? With a \$5M exemption threshold, if everyone chose the first option, it would generate around \$100M/year. If every worker in Seattle was paid minimum wage (~30K/year) and every employer chose the second option, it would generate around the same amount as a \$150/FTE flat rate, i.e. \$37.5M/year. The actual figure would be somewhere between those two boundaries, likely toward the middle. So, this hybrid approach could bring in around \$75M/year.

	\$X per FTE	0.Y percent of total payroll	Hybrid: Employer’s choice
Fairness / Progressivity	Low-margin, high-revenue sectors are hit hardest, particularly when they are labor-intensive (high ratio of employees to revenue).	To the extent that low-margin sectors, such as food and retail, tend to employ lower-wage workers, this approach is more equitable. Businesses with high-paid employees, such as law firms and tech companies, would pay relatively more.	In terms of targeting those businesses most able to contribute, this approach falls somewhere in the middle of the other two, again assuming that low-margin sectors tend to be those with lower-wage workers.
Employer Administration	Relatively simple.	Employers may not want to disclose their total payroll, and for businesses with operations extending beyond Seattle it may be difficult to calculate.	Employers can choose whether it’s worth it to them to calculate and disclose their payroll in order to pay a lower amount.

Appendix D: Progressive Tax Options

Local Estate Tax: Washington State levies a [progressive estate tax](#). Seattle should consider a local progressive estate tax, which could simply increase the existing state tax by some percentage such as 50%.

Taxes on exceptionally high compensation: In 2016 [Portland introduced a “Pay Ratio Surtax”](#) on public companies whose CEO-to-worker pay ratio exceeds 100-to-1. Seattle should consider a similar tax or fee. Seattle should also consider an excise tax on institutions (private, public, non-profit) for compensation in excess of a certain threshold to any individual employees. For example, how about the salary of the POTUS: \$400,000. The tax could be calculated as a percentage of any compensation in excess of that threshold, or it could be a flat fee per employee so compensated.

Raise the REET: On top of their Real Estate Transfer Tax, [New York City levies an additional “Mansion Tax”](#) of 1% on sales of residential property of \$1 million or more. Seattle should lobby the state legislature for new Real Estate Excise Tax authority, for example an additional 0.25% to 1.00%, with the option to apply this selectively to “luxury” (e.g. over \$1 million) or second home purchases. Seattle should also consider whether it is possible without new authority to apply a fee, rather than a tax, to property transfers over an amount such as \$1 million.

Other Progressive Property-Related Taxes: Seattle should consider ways to tax the following, lobbying the state legislature for new authority as needed:

- Speculative real estate investment activity
- Vacant or unoccupied properties
- Second homes

Ideas for Changes and Additions

In **Overview** section:

- Repeat some of the language from the WHEREAS clauses in Resolution 31782, to emphasize continuity with the mandate of the Task Force.
- Emphasize Seattle's rapid economic growth and prosperity and its role in rising housing insecurity and homelessness.
- Add a definition of a progressive tax.

In **Employee Hours Tax** section:

- Some agreement in tax caucus that "everyone should contribute something" – e.g. businesses of all sizes should pay at least a small fee like \$100/year to have 'skin in the game'. This could possibly be an addition to the business license fee.
- Some push for marijuana industry exemption.

In **Emphasize Housing** section:

- Add more detail about bonding and emphasize that a large chunk of revenue should be bonded against so that a LOT of housing can be built up-front and as quickly as possible.
- Acknowledge the need for ongoing revenue to support the operations side of permanent supportive housing. (Should we recommend some amount or % for this purpose?)

In **Spectrum of Needs** section:

- Define "creaming" and "recycling" since these are not commonly understood terms.
- Add concrete examples to illustrate the spectrum of needs, for example: families with children, couples, people with pets, people who are working full-time but can't find housing, chronically homeless v. newly homeless, active drug users, people trying to stay sober, people with PTSD, etc.
- Add specific language on using a race equity lens, and emphasis on programs that serve communities of color and people at different intersections of identities.

In **Progressive Tax Options** appendix:

- Suggestion to add that Seattle should lobby in Olympia to raise the cap on the B&O tax and to add flexibility or options for how to structure an EHT to make it more progressive.

Add a new section, something like:

Partnerships with faith communities: Many faith communities throughout Seattle devote space, money, labor and other resources to help their homeless neighbors and to address the homelessness crisis. The City should recognize and leverage these contributions and be more deliberate in its relationships with faith communities. The City could provide small grants to assist their work and/or establish ways of better communicating and coordinating with faith communities that are doing this work.

Add a new appendix that illustrates concretely what could be done with a revenue stream of \$150 million per year or \$75 million per year. How many units of housing could be built and how fast? How much PSH supported? How many new shelter beds of various kinds? Etc.