

March 27, 2018

TO: Councilmember Lorena Gonzalez, Co-Chair  
Councilmember Lisa Herbold, Co-Chair  
Progressive Revenue Task Force

FROM: Councilmember Debora Juarez

Copy to: Seattle City Councilmembers

RE: Report of the Progressive Revenue Task Force on Housing and Homelessness - March 9, 2018

Thank you for your work co-chairing the Progressive Revenue Task Force (PRTF) over the last two months to look at funding options for providing services to relieve homelessness and provide housing. As you know, I too am concerned about the growing income inequity in our city which has contributed to a lack of affordable housing and increases in poverty and homelessness.

It cannot be ignored that Seattle is a prosperous city, but not for all. Income inequality is at an all-time high and we are experiencing a crisis: we can't shelter thousands of our most vulnerable residents. We know the state tax system is unfair; we need fairer tax options. We need an honest discussion about taxes, policy and governance. Seattle, having supported the minimum wage and paid sick and family leave, has the ability to care for its most vulnerable residents. The question is how. We need information to make sound judgements based on facts and reason. Without these, we leave such a tax vulnerable to all manner of attack. Therefore, we must find the right balance between our values and pragmatism.

I appreciate receiving a copy of the final report of the PRTF on Housing and Homelessness (March 9, 2018) following the conclusion of the task force work. I recognize the task force had a severely limited time frame to complete its work and that there are questions that still need to be answered before legislation can be drafted.

In the spirit of contributing to the upcoming discussion on the task force recommendations, I would like to submit to you my questions regarding both technical and policy aspects of the report. I was pleased to have the opportunity to review the report at length and hope that my questions can be addressed.

## I. Overview

In the Overview Section of the report (page 1), six points are listed as being reached by a broad consensus of the task force. The first is 1. *“There is an urgent need for fiscal discipline”*. Number 5 is *“Resolving homelessness in Seattle cannot be accomplished, even applying fiscal discipline, without substantial new revenue”*.

- I agree that fiscal discipline is indeed an important value and I would like to know more specifically what factors were used by the task force to define fiscal discipline and what factors were used to determine that it is currently inadequate.

Are there any specific departments or city services the Council Co-Chairs would suggest be examined? There is also a statement following the key points on page 1 which implies that to fund homelessness services, cuts will need to be made to *“public spending outside of the homelessness services sector that is “no longer needed or is counter-productive, particularly but not exclusively in criminal justice” that “will require the political courage to end programs and spending that have constituencies that will mobilize to retain them”*.

- Which services are these statements referring to explicitly?
- Are the Council Co-Chairs interested in replacing some criminal justice funding with funding for safe consumption site(s) or Law-Enforcement Assisted Diversion (LEAD) or for other shelter services?
- Are there services the Council Co-Chairs feel are counter-productive or no longer needed?
- Will review of these potential cuts be part of the upcoming legislative review process?

This leads to larger policy questions concerning balancing priorities.

- Will any upcoming legislation come with a recommendation on what criteria should be used to determine which specific services would be funded with EHT? For example, what would the criteria be for specific services such as LEAD and safe consumption sites? Would they need to show results in fewer people living unhoused and unsheltered?

The task force presents a concern expressed by Steve Walker, Director of Seattle’s Office of Housing that the corporate tax reduction (40% decrease) passed by Congress in December 2017 may result in reduced participation in the tax credit program. And, that as a result, in Seattle there may be *“approximately 125 less affordable homes being built, or at least one building . . .”* (page 2).

- I would like to clarify whether the task force considers it a fact that lowering the federal corporate tax will reduce incentives for purchase of low-income tax credits or whether it is a concern of the task force. Would it be possible to verify this assumption?

The task force recommends the city create a new task force in *“5,7, or 10 years”* (page 2).

- What is the distinction between 5 years vs. 7 years vs. 10 years? Will this recommendation, with rational for timelines be included in any upcoming legislation?

## II. Revenue Generation

Page 3, paragraph 6 toward the bottom the task force says, “*we agree about the limited exemption structure*”.

- Is it possible to clarify what this “*limited exemption structure*” is?

### Principles

#### **a. Progressivity or Equity.**

Page 4 paragraph 2 – the task force introduces a sentence with “Collaterally, obviously” to describe low-income people’s interest in access to jobs. Please explain this assumption further as it relates to jobs here in Seattle.

Page 4, paragraph 5 – the task force advises the city council that it “*may be impossible to structure the EHT to avoid all disproportionate impacts, but this is not a reason to delay or fail to act*”

- A process that carefully reviews potential impacts before implementation seems like a good way to ensure that a structure is created that will last. Alternatively, a rush toward a single end goal may in fact create a weak result.
- Is it the intention of either of the Councilmember Co-Chairs to use an RSJI analysis in developing the EHT legislation? Would the task force support this body of work or consider it a “delay or fail[ure] to act”

#### **b. Fairness and Consistency of Exemptions:** (paragraph 7)

The report states “*Exemptions should not be created because of the political clout or influence of a particular business or sector.*”

- Do the Council Co-Chairs intend to apply this equally to the programs the task force is recommending for funding and businesses it recommends for exemption?
- Alternatively, I would recommend developing criteria for funding and exemptions.

Three programs are recommended for funding in this report including *Law Enforcement Assisted Diversion (LEAD)*, *Safe Consumption sites* and *Community Passageways*.

- Do the Council Co-Chairs intend to have named programs in the spending plan? Will these programs be in the upcoming legislation?

Page 4 paragraph 7 the task force proposes to exempt many but not all non-profits from paying the EHT especially those that “*provide housing, shelter, and services to low-income and homeless populations*”.

- This recommendation suggests a need for criteria to determine which non-profits would qualify for exemption. Will any upcoming legislation contain such criteria?

Page 5 – Variable #4 states in parentheses “*(many non-profit organizations would thus be wholly or nearly held harmless under the EHT)*”

- In addition to organizations which “*provide housing, shelter, and services to low-income and homeless populations*” what other organizations specifically are the Council Co-Chairs considering to be “held harmless” by these recommendations?

**Section c. Racial Equity and Social Justice:**

On page 5 - The task force calls for preventing disproportionate impact on minority-owned businesses and employers. Section d. calls for small businesses to pay into the EHT.

- Is there potential that these two goals may work against each other?

**Variables (1-5)**

Variable #5 (page 6) – The task force recommends a “*skin in the game*” alternative tax rate of \$395 per year to be paid by employers under the gross revenue threshold.

- What is the basis for \$395? Earlier drafts indicated \$200? What were the criteria used to derive these numbers? How will this be administered?
- Would this be considered a flat tax? Would a flat tax fit the definition of progressive revenue?

On page 6 – The task force recommends that businesses eligible for “title 6 exemption above” should pay a \$395 per year tax rate. The title 6 referenced says “*any title 6 business subject to 280e of the internal revenue code*” should be subject to special exemptions or reductions.

- It would be helpful to have this more fully defined and include the specific IRS language defining the 280e category included here.
- According to Title 26, Internal Revenue Code Page 678, Section 280e reads as follows:

**§ 280E. Expenditures in connection with the illegal sale of drugs**

No deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

(Added Pub. L. 97–248, title III, § 351(a), Sept. 3, 1982, 96 Stat. 640.)

- Could the Co-Chairs clarify if the intent here is to exempt pot shops from paying the tax?
- Does this exemption also reflect a preference and/or bias by members of the task force over other businesses because of their association with the pot shop industry?

**Section 2. Other Progressive Revenue Options: (page 6)**

The task force recommends lobbying the state for more progressive revenue options in mid-2018.

- What is the rationale for specifically mid-2018? Will the Council Co-Chairs be requesting an update its legislative agenda before July?

### III. Revenue Dedication

#### 1. Emphasize Housing

Paragraph 4 (page 7), the task force refers to “*Keys to Home*” type programs, *Master Leasing, long-term vouchers/deep rental subsidies and other strategies in the King County’s Veterans and Human Services Levy Vulnerable Populations Housing Strategy*”. Without much background information on what these programs are and what effect they might have if funded by EHT, it is hard to evaluate this recommendation. More information needed.

Paragraph 6 (page 7): The task force recommends “*that \$10 million annually be used to augment the Veterans, Seniors & Human Services Levy Vulnerable Populations Housing Strategy*”. It also recommends “*Rather than turning over City funds to a County-administered program, we suggest that the city borrow the VSHSL Vulnerable Populations housing investment strategy and apply it to different buildings/housing stock identified in consultation with the City of Seattle homeless services contractors*”.

- Will any upcoming legislation contemplate funding partnerships with King County programs? Do the Council Co-Chairs anticipate borrowing this strategy? If the recommendation is to borrow the strategy, please provide further detail about how that strategy would benefit the City of Seattle when applied to different housing stock.

#### 2. A Spectrum of Needs

On page 8 – The task force recommends that “*care must be taken to ensure that performance measures such as “exits from homelessness” not incentivize providers to concentrate only on those who have fewest barriers to housing*” and goes on to state “*These “false positive” data points create only the illusion of progress*”.

- Will the Council Co-Chairs be evaluating the potential of using a different measure of success for the programs funded by the EHT, other than exits from homelessness? Will the Council Co-Chairs recommend using a different measure of success than housing attainment/stability currently being used by HSD for housing stability and homelessness related programs?

#### 5. Maintain current programs meeting survival and other basic needs (page 9)

The task force recommends funding to maintain programs slated for closures due to lack of city funding in the 2018 budget.

- How much will it cost to cover this proposed expense?

## 6. Other Services (page 9)

The task force recommends that the Employer Hours Tax (EHT) be used for services that “*have a significant overlap with the homelessness crisis, but address needs other than housing and shelter*” specifically services that were “*also underfunded in the 2018 budget*”. The task force goes on to recommend funding for three specific programs including Community Passageways, Law Enforcement Diversion (LEAD) and safe consumption sites. The task force is urgently advising the council to vote for a \$75 million tax increase and recommending another \$75 million in new taxes which together will not cover the low-income housing gap as defined by the task force to be a \$340 million annual gap (Appendix A).

- Why are three programs explicitly given preference in this report?
- Are these three programs shown preference because particular task force members are more closely associated with these programs than other programs of similar merit?
- Was any consideration given to more “upstream” or “opportunity based” community and education programs that include:
  1. Increased educational opportunities
  2. Pre-K: early investments in Seattle’s children, youth and families
  3. K-12: closing the achievement and opportunity gaps faced by students of color, low-income and other marginalized communities
  4. After school programs
  5. 13<sup>th</sup> year and 14<sup>th</sup> promise year/free college education in Seattle
- Given this gap (Appendix A), will the Council Co-Chairs be recommending that EHT fund services that do not provide housing or shelter?
- Will this recommendation to fund programs “that overlap” show measurable results for low income and homeless populations? Or will these programs serve a different target population regardless of income or housing status?
- In the interest of transparency, should any of the task force members acknowledge a bias in recommending funding for a particular organization in which they are employed and/or manage provider contracts for the City of Seattle?

The task force recommends funding “*strategies that allow alternative responses to incarceration and punishment for law violations that flow from extreme poverty and/or behavioral health issues*” because they “*are a high priority in order to ensure successful outcomes for those dealing with homelessness*”.

- All three programs recommended are intervention programs focused on drugs and crime. As stated, there are no programs that are upstream or opportunity-based. Such programs include educational opportunities, pre-K, K-12, after-school educational programming and the Seattle Promise proposal for free college. People of color and disadvantaged communities deserve more programs than just those focused on drugs and crime. Educational opportunities are vital to prevent poverty and homelessness.

Would the Council Co-chairs prefer to focus on crisis intervention rather than preventative or proactive interventions? Would the Council Co-Chairs prefer to specifically and exclusively focus on housing and shelter interventions?

## **7. Properly Pricing the Actual Costs of Providing Services (page 10)**

The task force recommends a 15-20% wage increase for workers providing services under city contracts.

- Can the Council Co-Chairs please provide a legal review of what mechanism the city would use to ensure its ability to provide a reliable and consistently applied increase for workers providing homeless services?
- The task force also mentioned raising the wages of professionals providing “related services.” Will any proposed legislation contain a clear definition of which professionals and/or organizations are targeted for this funding?

The task force recommends holding human service providers “*harmless by grossing up contracts to compensate for any increased tax burden they face under this revenue strategy*”.

- Could the Council Co-Chairs please provide a more detailed explanation of what the task force means by “grossing up contracts”?
- If City revenues would be needed to hold these providers harmless why wouldn’t we consider simply exempting these providers? What would be the added administrative cost to collecting the fees from organizations and then “returning” the funds?

The task force recommends exempting “already underfunded human services programs”.

- Would this exemption be restricted only to programs providing services to people experiencing homelessness or to organizations providing related services? Or to organizations providing human services in general? How do we determine what is categorized as “underfunded” consistently across different types of providers?

## **Appendix: B1 PRFT Employer Tax Recommendations**

The 2<sup>nd</sup> sentence refers readers to “Appendix B for more detail on the assumptions involved in these calculations.” There is no Appendix B in the report – only an Appendix B1 and an Appendix B2. Please clarify.

## **Appendix: E Illustrative Example of Potential Fund Allocation**

There are 4 tables in Appendix E. The first table is regarding the proposal for 80% of the fund allocation to Affordable Housing Inventory and Access. Tables 2,3 and 4 are regarding the 20% fund allocation for shelter and services.

- Can the task force advise on why the 20% funding allocation recommendation is divided between 3 separate tables and what the distinction is between them? Because the pages are not numbered on the appendices, it is difficult to determine the correct order.