

PB 09-01
August 10, 2009

BRIEFLY

Seattle's business taxes are significantly higher than those in nearby suburban jurisdictions, and these suburban jurisdictions have been adding jobs while employment in Seattle has stagnated.

Taxes matter when businesses decide where to locate. This is particularly true for decisions about where to locate within a metro area, where the competing locations all have access to the same pool of labor.

This Brief updates our December 2007 Brief: *Seattle's Business Taxes Are a Competitiveness Issue*.

SEATTLE'S LOST DECADE: THE CITY HAD FEWER PRIVATE JOBS IN 2008 THAN IN 2000

Employment in Seattle never fully recovered from the dot-com bust. In March 2008, at the peak of the last expansion, the city had 7,900 fewer private sector jobs than it had in March 2000. Nearby cities did considerably better over the same period: Bellevue added 19,200 private jobs; Redmond added 16,000; Issaquah, 4,000; and Bothell, 3,400.

Even as Seattle's employment stagnated, the population of the city has continued to grow. New residents are drawn to the city by its attractiveness as a place to live. Many of these new residents, however, commute to suburban jobs. It is important not to let Seattle's residential renaissance deflect attention from the challenges it faces as a working city.

Location is a choice, and increasingly businesses are choosing suburban locations over Seattle. This presents a long-run fiscal challenge for Seattle city government, which gets 54 percent of its general tax revenue from taxes paid by businesses. As population expands, the demand for public services expands proportionally. If employment is not also expanding, city revenues will lag behind.

The temptation is always to make up the shortfall by boosting taxes on business, but this is counterproductive. The research is clear: taxes matter to businesses when they choose where to locate within a metropolitan area. Seattle's business taxes are already significantly higher than those in the suburban jurisdictions. In 2007, the city collected \$485 in business taxes and fees per private sector employee, which was nearly twice the amount collected in Bellevue and more than five times the amount in Redmond. The tax gap is even larger today because of the \$25 per head annual tax that the city began collecting from businesses in 2008.

To reverse the trend in jobs, Seattle must become more competitive within the region. If this does not happen, the alternatives are either fewer public services or higher taxes on residents.

WHILE SEATTLE HAS ADDED 39,000 RESIDENTS SINCE 2000

The 1910 census counted more than 247,000 residents in Seattle; fully five out of six people living in King County were Seattle citizens. From 1910 to 1960, the city added 320,000 residents (some of this growth came through annexation). King County population outside the city limits grew even more rapidly, however. The growth outside of the city was encouraged by the increasing ownership of automobiles and the construction of roadways (notably the first Lake Washington floating bridge) that made it possible to commute from suburban homes to jobs in the city.

In the 1960's, the city entered a period of decline, as the pace of suburbanization accelerated with the construction of Interstate 5 and the second floating bridge. From 1960 to 1980, Seattle's population fell by more than

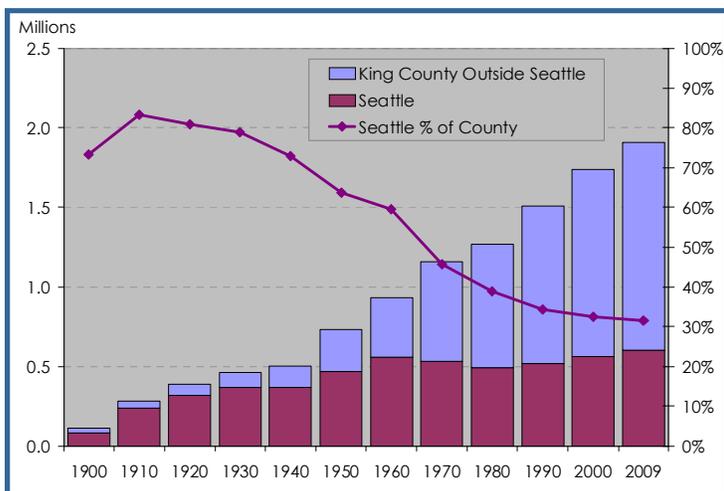


Chart 1: Seattle and King County Populations

63,000, from 557,087 to 493,846. Over the same period the number of King County residents outside of the city more than doubled, from 377,927 to 776,052. Seattle’s share of county population fell from 59.6 percent to 38.9 percent.

Following 1980, Seattle again began to grow, and by the 2000 census its population exceeded the 1960 peak. Demographers with the state Office of Financial Management estimate that the city added nearly 39,000 residents from 2000 to 2009.

The share of King County residents living in the city has continued to fall, however, and is now below 32 percent.

EMPLOYMENT HAS MOVED TO THE SUBURBS

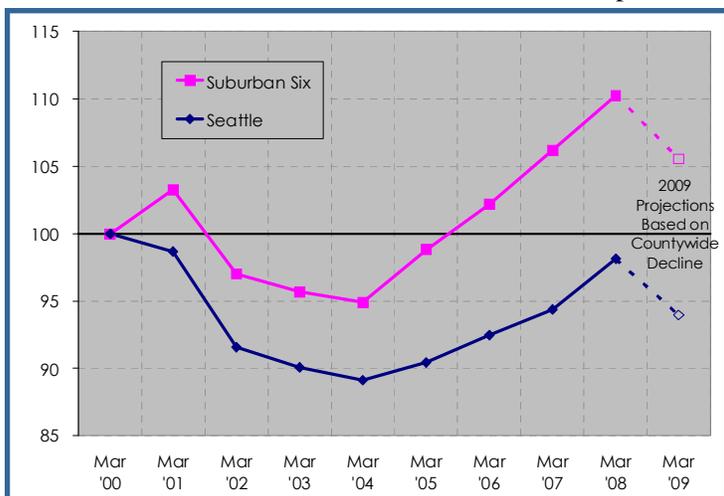
One might expect that Seattle’s recent population growth would be accompanied by growth in employment in the city. However, as Seattle’s population grows, increasing numbers of city residents choose to commute to suburban jobs. In March 2008 Seattle had nearly 7,900 fewer private sector jobs than it had in March 2000. In contrast, over the same period, the area of King County outside of Seattle added more than 34,000 private sector jobs.

Most of this growth occurred in six key suburban cities—Bothell, Kirkland, Redmond, Bellevue, Issaquah and Renton—that form a crescent to the east of Lake Washington. These six cities, which we dub the Suburban Six, sit in the same labor market as Seattle and are strong competitors to Seattle for firms wishing to tap this pool of labor.

Chart 2 graphs indexes of private employment in the month of March for Seattle and the Suburban Six from 2000 to 2008. In each case, March 2000 employment is indexed as 100. Table 1 on page 3 presents the underlying employment data, which come from the Puget Sound Regional Council. For more on the derivation of these data, see the sidebar on page 3.

Between March 1995 and March 2000, private sector job growth in Seattle (76,849) slightly exceeded job growth in the Suburban Six. Since 2000, the pattern has been very different.

Chart 2: March Covered Employment Private Industries, 2000 = 100



The bursting of the dot-com bubble and the collapse of demand for commercial airplanes following the 9/11 terror attack combined to make the Seattle area the epicenter of the 2001 recession. On a percentage basis, job losses were greater here than in most other parts of the country. The loss of private jobs was particularly large in the city of Seattle, and it has yet to fully recover the private sector employment it lost during the recession.

Monthly employment data from the state Employment Security Department (ESD) indicate that for King County as a whole the dot-com recession began in January 2001. Countywide employment was a bit higher in March 2001 than in March 2000. For Seattle, however, March employment was lower in 2001 than in 2000.

For both Seattle and the Suburban Six, 2004 marked the bottom of the cycle in employment. The percentage loss in private employment from 2000 to 2004 was greater for Seattle than for the Suburban Six (10.8 percent

About the Employment and Wage Data

Neither the U.S Bureau of Labor Statistics nor the state Department of Employment Security (ESD), which are the primary sources of data on employment in the state, track employment on the city level.

The city-level employment and wage data we use in this brief are provided by the Puget Sound Regional Council (PSRC). The PSRC is a regional planning agency whose members include counties, cities, towns and Indian tribes in King, Kitsap, Pierce and Snohomish counties .

The ESD provides PSRC with individual firm records from the Quarterly Census of Employment and Wages (QCEW) for the first quarter of each year. PSRC staff then determine a specific geographic location for each job enumerated in the QCEW. The PSRC has published job counts based on this methodology by city and by census tract for March of the years 1995 and 2000 to 2008.

The QCEW is based upon administrative records from the state's unemployment insurance system and encompasses all jobs covered by unemployment insurance. The PSRC employment counts therefore exclude self-employed workers, proprietors, chief executive officers and other non-insured workers. Typically, covered employment has represented 85 to 90 percent of total employment.

Data Suppression

To protect confidential employer information, where aggregate employment values represent fewer than three reporting firms in an industry or geographical area, or when a single employer accounts for more than 80 percent of jobs, PSRC withholds the value. An additional suppression is made in any industrial category or geography with a single suppressed value, to prevent disclosure through subtraction from reported values from grand totals.

For more information see the PSRC website:

http://www.psrc.org/data/econ/employment_est.htm

versus 5.1 percent). From 2004 to 2008 employment growth was much stronger for the Suburban Six than for Seattle (16.2 percent versus 10.1 percent). For the Suburban Six, private employment was 10.3 percent higher in March 2008 than it had been in March 2000; for Seattle, it was 1.9 percent lower.

In both Seattle and the Suburban Six, private employment has declined sharply since March 2008. The PSRC will not release March 2009 employment estimates until next spring, so we cannot yet precisely quantify these declines. To give a sense of the impact of the current recession, we show on Chart 2 projected employment for March 2009 assuming that employment in both Seattle and the Suburban Six drop by 4.3 percent from March 2008 to March 2009, which is the amount by which ESD estimates countywide private employment fell.

Chart 3 shows the changes in the number of jobs by industry. (Because the PSRC has suppressed some job totals to protect confidentiality, we cannot allocate to specific industries 326 of the suburban jobs added between 2000 and 2008.)

From March 2000 to March 2008, Seattle added 2,530 *construction and natural resources* jobs (construction mostly), while the Suburban Six added a few less, 2,489. Construction employment peaked relatively late in Seattle: between March 2007 and March 2008 the city added 3,309 construction jobs, while the rest of King County lost 431. Construction employment, has fallen significantly since March 2008.

The Suburban Six dropped 12,623 *manufacturing* jobs from March 2000 to March 2008, and Seattle dropped 5,756. In both cases there were very large drops from 2000 to 2004 (16,556 and 8,660, respectively), followed by partial recoveries from 2004 to 2008 (3,933 and 2,904). Boeing—which cut 24,700 jobs statewide in the earlier period and added 21,300 jobs in the latter period—accounts for much of the recent expansion in Seattle and Suburban Six manufacturing employment.

Table 1: March Covered Employment Private Industries

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2000 to 2008
Seattle	346,212	423,061	417,434	387,408	381,034	377,182	382,592	391,305	399,293	415,165	-1.9%
King Ex Seattle	459,918	580,683	590,000	555,152	542,895	546,699	558,241	581,999	603,261	614,826	5.9%
Bellevue	87,682	111,170	112,656	103,046	103,912	101,865	105,387	111,070	116,495	120,338	8.2%
Bothell *	13,499	18,676	19,396	18,656	17,558	17,825	19,918	21,220	22,389	22,101	18.3%
Issaquah	8,133	13,834	14,680	14,787	15,008	15,404	16,293	17,322	17,803	17,805	28.7%
Kirkland	24,872	30,041	29,731	27,330	26,285	26,851	27,226	27,519	27,524	27,707	-7.8%
Redmond	45,751	71,341	77,241	75,459	76,180	77,413	79,759	79,636	83,594	87,336	22.4%
Renton	37,976	48,885	49,863	45,934	42,305	39,624	41,886	43,671	44,274	48,817	-0.1%
Suburban Six Total	217,914	293,947	303,566	285,212	281,248	278,981	290,469	300,438	312,079	324,104	10.3%
King County	806,130	1,003,744	1,007,434	942,560	923,929	923,881	940,833	973,304	1,002,554	1,029,991	2.6%

Source: Puget Sound Regional Council

*Employment for Bothell includes both King and Snohomish Counties

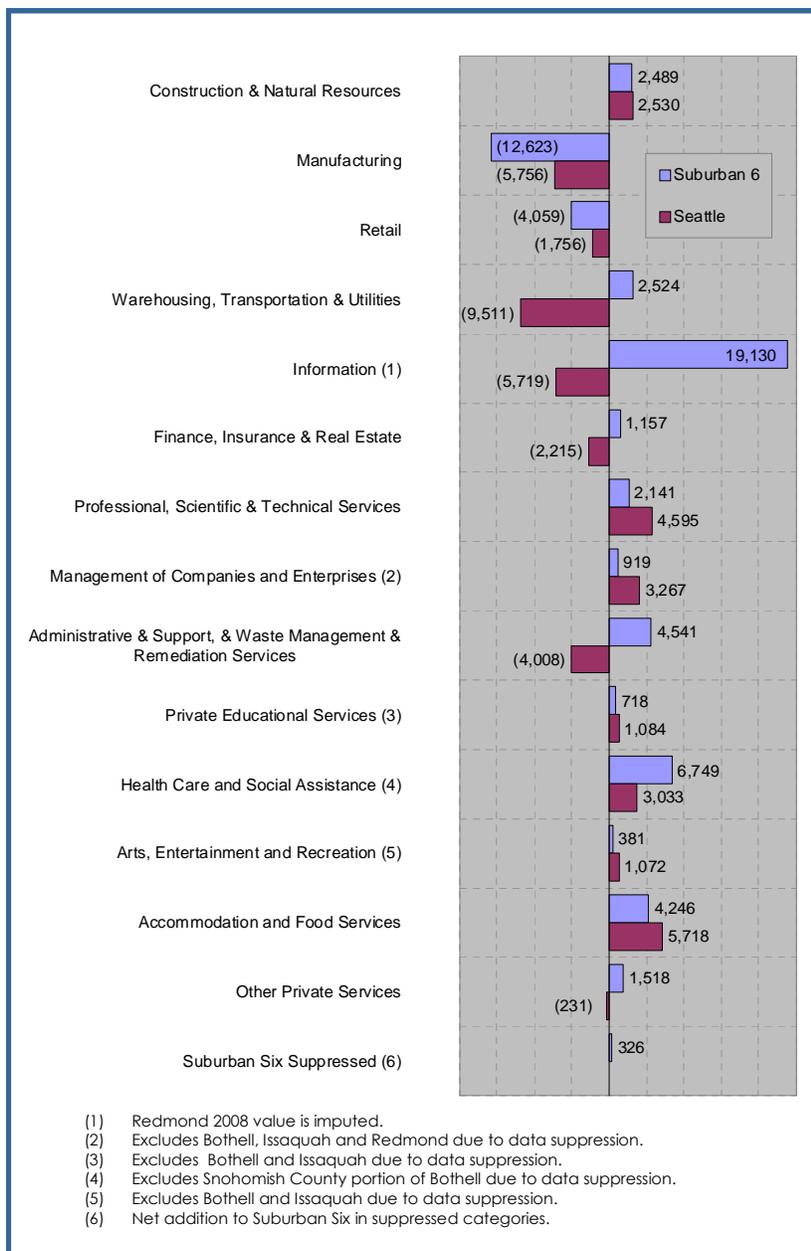


Chart 3: Change in Employment from March 2000 to March 2008

For Seattle, the *accommodation and food services* category added the largest number of jobs, 5,718, between March 2000 and March 2008. This is a sign of the consumption orientation of Seattle’s growth. Accommodation and food services ranked only fourth in growth for the Suburban Six. Similarly, Seattle added 1,072 jobs in the arts, entertainment and recreation category, while the Suburban Six added 381 of these jobs.

For Seattle, the category with the largest drop in employment from March 2000 to March 2008 was *warehousing, transportation and utilities*, which was down 9,511. The Suburban Six added 2,524 of these jobs.

THE AVERAGE WAGE IS LOWER IN SEATTLE

It is not just that employment in these suburban cities is growing faster than employment in Seattle: Jobs in these cities on average pay more than jobs in Seattle. Table 3 shows average wage rates by sector for 2006 for Seattle and the six suburban cities, as calculated by the PSRC. (The wages

Between March 2000 and March 2008, Seattle lost 1,756 *retail* jobs, while the Suburban Six lost 4,059. Employment growth at Amazon.com boosted Seattle’s retail job totals.

Between March 2000 and March 2008, Seattle lost 5,719 *information* jobs, while the Suburban Six added 19,130. Seattle lost 7,920 of these jobs 2000–04, and gained back 1,812 in 2004–08. The Suburban Six added information jobs during both periods, largely due to Microsoft’s presence in Redmond.

Over the full period, Seattle lost 2,215 *finance, insurance and real estate* jobs, while the Suburban Six added 1,157. For both Seattle and the suburbs, real estate appears to have been stronger than finance and insurance. Subsequent to March 2008, the failure of Washington Mutual has cost Seattle a significant number of finance jobs.

Professional, scientific and technical services was the second largest growth sector for Seattle, with 4,595 jobs added between March 2000 and March 2008. The Suburban Six added 2,141 of these jobs. Subsectors in the professional, scientific and technical services sector include: legal services; architectural and engineering service; specialized design services; computer systems design services; management, scientific and technical consulting services; scientific research and development services; and advertising and public relations services.

	<i>Const/Res</i>	<i>FIRE</i>	<i>Mftg</i>	<i>Retail</i>	<i>Services</i>	<i>WTU</i>	<i>Total</i>
Seattle	\$ 58,600	\$ 81,800	\$ 69,500	\$ 38,200	\$ 48,500	\$ 62,300	\$ 54,400
Bellevue	\$ 61,500	\$ 70,300	\$ 83,000	\$ 35,200	\$ 55,600	\$ 79,600	\$ 58,600
Bothell	\$ 46,000	\$ 39,800	\$ 76,100	\$ 28,600	\$ 58,000	\$ 76,000	\$ 57,400
Issaquah	\$ 47,600	\$ 54,600	\$ 77,900	\$ 30,400	\$ 55,100	\$ 71,600	\$ 53,500
Kirkland	\$ 58,500	\$ 66,600	\$ 63,700	\$ 34,900	\$ 64,100	\$ 85,300	\$ 60,900
Redmond	\$ 50,200	\$ 54,400	\$ 66,500	\$ 35,600	\$ 107,400	\$ 66,400	\$ 92,400
Renton	\$ 48,500	\$ 40,500	\$ 93,100	\$ 38,400	\$ 40,200	\$ 50,700	\$ 60,600

Table 2: Average Annual Wage by Sector in 2006

for Bothell are the average of the wages calculated by PSRC for the King County and Snohomish County portions of that city.) The average wage for Seattle was \$54,400. This was the second lowest among the seven cities, beating only Issaquah. The city with the highest average wage (\$92,400) was Redmond, where Microsoft pushed up the average wage. Kirkland (\$60,900) ranked second.

The Seattle sector with the highest average wage was FIRE (finance, insurance and real estate), where the average was \$81,800, which ranked first among the seven cities. Bellevue (\$70,300) ranked second.

Seattle had the third lowest average wage in manufacturing, \$69,500, ahead of Kirkland and Redmond. Renton, where Boeing assembles the 737, had the highest average manufacturing wage, \$93,100, followed by Bellevue.

Seattle also had the second lowest average services wage, \$48,500, in this case ahead of only Renton. Redmond had by far the highest average services wage, \$107,400. Again this is the impact of Microsoft. (Many of the best jobs in the 'new economy' are in the service sector.) Kirkland had the second highest average services wage (\$64,100) followed by Bellevue (\$55,600).

SEATTLE IS BECOMING A PLACE TO LIVE RATHER THAN WORK

The prosperity of a regional economy is ultimately grounded in the productivity of its businesses. In the past, easy access to ports and rail yards was the key to manufacturing productivity, and dense cities formed around these transportation nodes. The truck and containerization have changed this. Most large-scale manufacturers have fled from central cities to the suburbs and beyond where low cost land and freedom from congestion make manufacturing more productive.

For businesses in knowledge-based industrial sectors such as information, finance, and business and professional services, the key to productivity is access to a highly educated, diversely skilled labor force. Central cities remain productive locations for firms in these sectors. However, certain suburban locations are equally attractive. Economists Edward Glaeser, Jed Kolko and Albert Saiz put it this way:

In the productive sector, it is clear that the advantages the cities once had from reducing transport costs for manufactured goods are no longer important. But the urban advantage in saving transport costs for people and ideas still matters. Indeed, the cost of moving people will probably continue to rise . . . because increases in the cost of time will probably go up more quickly than improvements in people-moving transport technologies. However, it is not obvious

Table 3: Proportion of Age 25+ Population Holding a Bachelor's Degree

Seattle	52.5
King County	43.7
King Ex Seattle	39.4
Bellevue	58.9
Issaquah	54.0
Kirkland	51.3
Mercer Island	74.3
Redmond	56.8
Sammamish	68.3
Washington State	30.0

that these person-transporting advantages of cities need the denser, older cities to function well. Indeed, a large edge city [Bellevue or Redmond, for example] appears to provide its residents with a large labor market where they can change employers easily without changing residences. (Glaeser et al., 2001, p. 33)

As Seattle's population grows, increasing numbers people are choosing to live in or near to the downtown core, both in new high-rise residential towers and in residential conversions of older office buildings. At the same time, more and more residents are commuting from the city to jobs in the suburbs. Glaeser and colleagues see this pattern in a number of economically successful U.S. metropolitan areas and ascribe it to the increasing attractiveness of central cities as places to live. Densely populated urban areas provide the customer base to support a variety of specialized stores, restaurants and entertainment venues, and this richer mix of consumption opportunities in turn draws highly educated residents, which benefits the economy.

Young single people, in particular, are attracted to living in central cities because urban densities offer opportunities for social interaction that are not available in the suburbs:

The low transport costs created by urban density may facilitate enjoyable social contact. . . . One area where this appears to be particularly important is the location decisions of young single people, who live disproportionately in the densest urban areas. A natural explanation of this phenomenon is the crowding makes meeting other single people easier and facilitates the operation of the marriage market. (Glaeser et al., 2001, p. 32)

But high density also has its drawbacks, and many people prefer to live in lower density suburbs. This is particularly the case for families with children:

Of course, big cities can also create less desirable social contacts. Parents may wish to isolate their children from some peers, which will be harder in a city. . . . [Families] may live disproportionately in suburbs so that they can consume more land. (Glaeser et al., 2001, p. 32)

This pattern is evident in the Seattle metro area. Seattle has a very high proportion of residents between the ages of 18 and 35 and the second lowest proportion of residents under age 18 among major U.S. cities. The suburbs surrounding Seattle have a correspondingly low proportion of young adults and high proportion of families with children. (WRC 2001; Population Connection 2004).

The high proportion of twenty- and thirty-year-old residents makes Seattle the U.S.'s most highly educated major city, with 52.5 percent of the population age 25 and older holding a bachelor's degree. But the city is not the only place in the region where educated people congregate. The suburbs directly east of Seattle have levels of educational attainment that are even higher than the city's. (See Table 3.)

The highly educated pool of labor living to the east and west of Lake Washington is one of the great strengths of the metro area's economy. The challenge for Seattle is that businesses can tap this labor pool equally well from Seattle or suburban locations.

TAX RATES ON BUSINESS ARE LOWER IN THE SUBURBS

Taxes matter when businesses decide where to locate. This is particularly true for decisions about where to locate within a metro area, where the competing locations all have access to the same pool of labor (Mark, McGuire and Papke 2000; Wasylenko 1997).

Table 4 compares tax rates in Seattle with the rates in six nearby cities: Bellevue, Bothell, Issaquah, Kirkland, Redmond and Renton.

Major business taxes. Three distinct types of business tax are used across the seven cities: the gross receipts tax, the square-footage tax and the head tax. Seattle is the only city with all three.

Seattle, Bellevue and Issaquah impose gross receipts (business and occupation) taxes. In Seattle, the tax applies at the rate of 0.215 percent of gross receipts in the retail, wholesale, manufacturing, extracting, printing and publishing sectors and 0.415 percent of gross receipts in the services and other sectors. In Bellevue, the rate is 0.1496 percent. In Issaquah, the rates are 0.10 percent on services and real estate, and 0.08 percent on other businesses.

Bellevue imposes a square-footage tax at the rate of 89.08 cents per square foot, per year. This tax targets activities that are not taxed under Bellevue's B&O tax. In 2007, the Seattle City Council approved square-footage

Table 4: Tax Rate Comparison

	Seattle	Bellevue	Bothell	Issaquah	Kirkland	Redmond	Renton
Business Taxes							
Business and Occupation Tax (Percent of Gross Revenue)	0.215, 0.415	0.1496	-	0.08, 0.10	-	-	-
Square Footage Tax (Annual per Taxable Square Foot)	\$1.56, \$0.52	0.8908	-	-	-	-	-
Head Tax (Annual per Employee)	\$25	-	-	-	-	\$90	\$55
Utility Taxes (Percent of Gross Revenue)							
Electricity	6	5	6	6	6	6	6
Telephone	6	6	6	6	6	6	6
Natural Gas	6	5	6	6	6	6	6
Cable	10	4.8*	6*	6*	6	-	6
Water	19.87/15.54	5	5	-	10.5	-	6
Sewer	12	5	5	-	10.5	-	6
Drainage	11.5	5	-	-	7.5	-	6
Solid Waste	11.5	4.5	5	6	10.5	6	6
Property Tax Payable in 2009 (Per \$1,000 Assessed Value)							
City Property Tax	2.58	0.93	1.27	1.13	1.14	1.35	2.37
Total Property Tax: High	10.14	9.22	9.25	9.01	7.90	8.10	10.86
Low	7.97	6.90	7.99	8.94	7.43	7.33	9.79
*Utility tax payment is reduced from the indicated rate by a credit for cable franchise fee paid to city.							

tax, which was collected for the first time in 2008. This new tax targets business activities that escape taxation as the result of state-mandated reforms to Seattle’s B&O tax (WRC 2008). The rates are \$1.56 per square foot, per year for office, retail or production space and 52 cents per square foot, per year for space with other usages.

Redmond imposes an employee head tax at the rate of \$90 for a full time, full year employee. Renton imposes such a tax at the rate of \$55 for a full-time, full-year employee. These are the major business taxes for the two cities. On July 1, 2007, Seattle began to collect a head tax of \$25 per full-year, full-time employee, as part of the “Bridging the Gap” transportation-funding program. Mayor Greg Nickels and City Council members Richard Conlin and Tim Burgess recently proposed that Seattle’s head tax be eliminated.

Table 5 provides a comparison of revenue from business taxes across the cities in 2007.

LGFRS

The tax, license and permit revenue data presented in Table 5 were drawn from the Local Government Financial Reporting System (LGFRS), which is maintained by the State Auditor’s Office. Revenue and expenditure data for virtually all Washington State counties, cities, ports and transit districts are available through the LGFRS, beginning with the year 1998. The most recent year for which data have been posted is 2007.

More information is available at the LGFRS website, <http://www.sao.wa.gov/applications/lgfrs/>

The first line of the table shows the estimated April 1, 2007 population for each of the cities; the second line shows March 2007 covered employment in private sector jobs; and the third line shows the ratio of private jobs to population. With 0.68 private jobs per resident, Seattle ranked sixth among the seven cities and well behind Redmond, which hosted 1.65 private sector jobs per resident.

The fourth and fifth rows of Table 4 show the amounts that the seven cities received in 2007 under two categories of revenue: *business taxes* and *business licenses and permits* as reported in the Local Government Financial Reporting System (LGFRS, see the sidebar to the left). Seattle is the leading city, by far, in both cases, as would be expected given its large employment base.

To put these revenues in scale, we divide business tax revenue by the number of private sector employees in the sixth row and divide business license and permit revenue by private sector employees in the seventh row. The difference between a tax and a license or permit fee is at times purely semantic (and, in fact, the LGFRS categorizes part of Redmond’s and all of Renton’s head taxes as license fees). Because of this, it makes sense to combine business taxes with business license and permit fees. We have done so and divided the sum by the number of private sector employees. The result is shown in the eighth row.

Table 5: 2007 Revenue from Business Taxes, Licenses and Permits

Seattle collected \$484 in business taxes and fees per private sector em-

	Seattle	Bellevue	Bothell	Issaquah	Kirkland	Redmond	Renton
Population	586,200	118,100	32,400	24,710	47,890	50,680	60,290
Private Employment	399,292	116,496	22,388	17,803	27,525	83,594	44,274
Private Employment ÷ Population	0.68	0.99	0.69	0.72	0.57	1.65	0.73
Business Taxes (\$ millions)	175.04	30.41	-	2.24	0.98	4.18	-
Business Licenses & Permits (\$ millions)	18.15	0.14	0.26	0.53	1.47	3.61	3.49
Taxes ÷ Private Employment (\$)	438.37	261.01	-	125.83	35.65	49.98	-
Licenses & Permits ÷ Private Employment (\$)	45.45	1.23	11.63	29.79	53.42	43.17	78.80
Taxes, Licenses and Permits ÷ Private Employment (\$)	483.82	262.24	11.63	155.62	89.07	93.14	78.80
Taxes, Licenses and Permits ÷ Population (\$)	329.56	258.67	8.04	112.12	51.19	153.63	57.87
Utility Taxes (\$ millions)	180.51	22.77	7.42	3.66	9.62	12.04	10.71
Taxes ÷ Population (\$)	307.94	192.76	228.89	148.04	200.94	237.61	177.60

ployee in 2007 (the \$25 head tax did not begin until 2008). This is nearly twice the \$262 in business license and permit fees that Bellevue, the second highest tax and fee city, collected.

Utility Taxes. State law caps utility tax rates on electricity, gas and telephones at 6 percent, unless local voters have explicitly approved a higher rate. With the exception of Bellevue, all seven cities are at the 6 percent cap for these utility services. Bellevue taxes telephones at 6 percent, and electricity and gas at 5 percent. For other utilities, Seattle’s rates range from 10 percent (cable TV) to 15.54 percent (water). Other cities charge lower rates, typically 6 percent.

Table 5 also shows 2007 revenues from utility taxes. The amount that Seattle raises per capita, nearly \$308, is 25 percent greater than the per-capita amount raised by the second highest city, Redmond.

We estimate that businesses pay nearly one-half of Seattle’s utility taxes.

Property Taxes. The City of Seattle’s property tax rate ranked highest among the seven cities in 2009 (\$2.58 per \$1,000 of assessed valuation). In terms of the overall property tax rate, however, the city ranked somewhat lower. The reason for this difference in ranking is the low property tax rate for schools in Seattle, due to the city’s relative dearth of families with school-aged children. (The unattractiveness of the city to families with children largely outweighs whatever business-location advantage the city gains from low school property taxes.) Overall property tax rates vary from place to place within each city, depending on the specific taxing districts each property is in. The table shows the high and low rates applying in each city. The typical overall rate in Seattle is \$7.97.

We estimate that businesses pay 30 percent of Seattle’s property taxes.

BUSINESSES PAY 54 PERCENT OF SEATTLE’S TAXES

Historically, the City has been able to exploit its position as the region’s primary job center to fund the majority of city services through taxes on businesses. But as competition from suburban job centers increases, the city’s ability to sustain this subsidization will be challenged.

Chart 3: Who Paid General Subfund Taxes in 2006

In 2000, according to the decennial federal census, Seattle’s population of 563,376 was 9.6 percent of the state total. The census found that the average income of city residents was higher than the statewide average, so that the city had 12.6 percent of statewide income. In March of 2008, the most recent month for which data is available, 17.0 percent of the state’s jobs were in Seattle.

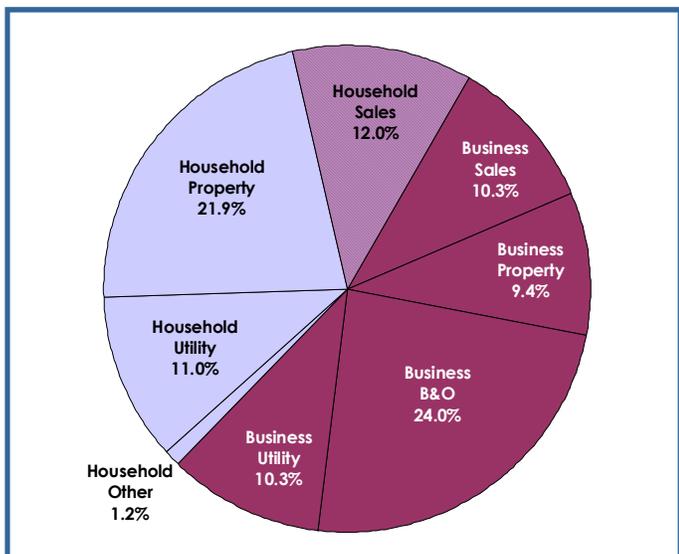


Chart 3 shows the distribution of taxes used to fund general city services. In 2006, taxes provided \$683.8 million in General Subfund and Charter revenues. Nearly all of this came from four taxes, the property tax, the business & occupation tax, the sales tax and utility taxes. (We lump the leasehold excise tax with the property tax and the use tax on brokered natural gas with the natural gas utility tax.) Of the total, we calculate that 54 percent is collected from businesses.

In contrast, the state Department of Revenue estimates that businesses pay 45 percent of the corresponding state

taxes (B&O, sales, utility and property). The higher business share of city taxes relative to state taxes reflects Seattle's greater reliance on the B&O and the concentration of business in the city.

In addition to the 54 percent of city taxes that are paid by businesses, an additional 12 percent of city tax revenues come from personal sales taxes that are collected through retail businesses located in the city.

SUMMARY

Seattle's population has grown by 39,000 since 2000. Over the same period the city has lost jobs.

Seattle faces strong competition from six suburban cities east of Lake Washington. During the 2000 to 2004 contraction Seattle lost more private sector jobs than the Suburban Six lost. During the 2004 to 2008 expansion, the Suburban Six added more jobs than Seattle did. As a result, the number of private sector jobs in Seattle in 2008 was 1.9 percent below the 2000 number. For the Suburban Six, in contrast, private employment was 10.3 percent greater in 2008 than in 2000.

Jobs in these cities pay more, on average, than jobs in Seattle. The average private sector wage in Seattle in 2006 was \$54,400. Among the six suburban cities, only Issaquah was lower.

Seattle gets 54 percent of its general tax revenue from taxes on business. As population growth drives up the demand for services, the failure of employment to grow will strain city finances.

Businesses face higher rates of taxation in the city than in the suburbs. To reverse the trend in jobs, Seattle must become more competitive within the region. If this does not happen, the alternatives are either fewer public services or higher taxes on residents.

REFERENCES

- Glaeser, Edward L., Jed Kolko, and Albert Saiz. 2001. "Consumer City." *Journal of Economic Geography* 1. 27–50.
- Mark, Stephen T., Therese J. McGuire, and Leslie E. Papke. 2000. "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Metropolitan Area." *National Tax Journal* LIII (1).
- Population Connection. 2004. Kids Friendly Cities: Report Card 2004. <http://www.kidfriendlycities.org/2004/>
- Washington Research Council (WRC). 2002. "Front Lawns or Balconies? Trends in WA Housing." PB 02-12. September.
- . 2007a. "Recent Fiscal Trends for the City of Seattle." PB 07-13. October.
- . 2007b. "Seattle's Business Taxes are a Competitiveness Issue." PB 07-16. December.
- Wasylenko, Michael. 1997. "Taxation and Economic Development: The State of the Economic Literature," *New England Economic Review*, March/April.