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## **Fitch: Seattle's Head Tax Unlikely to Affect Credit.**

Fitch Ratings-San Francisco-18 May 2018: The city of Seattle, WA's employee tax announced yesterday on select large companies will not materially affect the city's 'AAA' rating and Stable Outlook, according to Fitch Ratings.

This week, Seattle's city council unanimously adopted a measure to impose a \$275 per employee tax on companies that gross over \$20 million annually. The ordinance is expected to be signed by the mayor and will go into effect Jan. 1, 2019 and expire Dec. 31, 2023. The city estimates it will generate roughly \$47 million per year to address homelessness and housing affordability issues though its ultimate use will be determined along with the 2019 budget.

The estimated increase to revenues totals about 3.4% of 2017 revenues and is expected to increase at roughly the pace of employment (about 3% in recent years). Fitch views the city's revenue growth prospects as very strong, and as such, this change does not affect that assessment.

Fitch expects any impact to the city's strong economic growth as a result of the new tax to be limited, given the relatively modest amount of the tax and other considerations related to corporate locations. Seattle is attractive to employers because of the pool of qualified employees in the city and broader region. The city's proportion of working age population is 9% higher than the county and 17% higher than the nation, and the proportion with a bachelor or advanced degree is 23% higher than the county and twice as high as the nation. The city is also the cultural center of a large metropolitan region with many public amenities including sports, entertainment, transit, and nearby airport, and seaport facilities. The unemployment rate in the city has been below 4% since 2015 and trends below the county rate and the national rate.

The city's revenue framework and overall credit quality could be affected longer term if the tax increase leads corporations to decide to move out of or not to locate in the city. However, any impact would be felt marginally over many years and would thus be difficult to distinguish from other rationales for corporate decisions.

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