

THE CONVERSATION

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How cities can really find the money to help the homeless

May 17, 2018 2.05pm BST

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Seattle's city council has voted unanimously to levy a tax on big businesses, equivalent to US\$275 for each full-time worker, starting from 2019. The increased tax rate will apply to businesses earning more than £20m in gross annual revenue. It is forecast to raise roughly \$48m each year, which the city council intends to spend on affordable housing projects and services for the homeless.

Councillors have lauded the tax as a way to offset Washington state's "regressive" tax system, address homelessness and provide some affordable homes in city where the median house price has risen to US\$820,000. But many locals and activists were frustrated that the council did not bring in a higher charge of US\$500 per employee, which would have raised upwards of US\$75m.

As expected, the business community reacted by threatening to terminate key investment plans and look elsewhere for opportunities. When the US\$500 per employee levy was proposed, Amazon put its plans for expansion – which would add a further 7,000 people to its 45,000-strong workforce in the city – on hold. This is no small threat, at a time when the retail giant is considering 20 other American cities to host the company's second headquarters.

The vehement objections from both sides have caused something of a global stir over the tax, with some holding Seattle up as an example for other cities to follow. But these posturings mask the fact that Seattle City Council's tax on big businesses is not actually a particularly radical policy. A more cynical reading of this story is that the rationale behind the tax hike is entirely political, in a city where progressive policies win votes.

A better way

The reality is that the extra charge being imposing on companies such as Amazon will not directly fund homelessness programmes. As with other corporate taxes, revenues will be pooled with other

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receipts to fund an array of public services such as police, fire, roads and infrastructure.

But there are more effective market-based mechanisms than taxes if the aim is to fund affordable housing programmes (homelessness initiatives included). In America, corporate linkage fees are a popular way of ensuring that affordable housing is made available as a part of new developments or other for-profit ventures that are not necessarily property related.

Linkage fees work on the premise that certain business activity can have harmful social impacts, such as displacement or overcrowded schools. As such, if a business wants to undertake that activity, it should expect to pay a fee to offset the damage caused. These funds are then siphoned to a trust, typically dedicated to subsidising affordable housing projects.

“In-lieu-of” fees operate in a similar way to facilitate inclusive zoning – in other words, a mix of affordable and luxury housing. These fees require for-profit developers to set aside a certain proportion of units as affordable housing, or to pay the cash equivalent of such to the housing trust. A similar mechanism exists in the UK, in the form of **planning gain**.



Development doesn't have to be a daunting prospect. Shutterstock.

One benefit of funding public services with a fee – as opposed to a tax – is that there is clear legal precedent to do so, minimising the risk of a lawsuit against the city by a company with deep coffers and a strong vested interest. Fees also provide transparency and accountability, because there is a direct connection between the cost to society, and the amount which must be spent.

Taxes, by contrast, expose local governments to legal action. And there is less transparency about the way taxes are spent, with no legal requirement for a proportionate investment in affected areas. In practice, this means that badly affected areas can suffer neglect, if there's no political incentive for the council to spend there.

Facing the fallout

If Seattle City Council had opted to apply corporate linkage fees to non-real estate ventures, such as Amazon, the case would have become more interesting, because corporate linkage fees are premised on legally establishing a causal link, or “nexus”, between the business activity and the negative impact it has on society.

It is very easy to see the connection between a large residential development and its impact on the local school system, or a large retail development and rising land values. But it’s much more dubious to establish a nexus between the operations of a large employer, such as Amazon, and the gentrification which arises when a large, well-paid labour force is attracted to an area – even though councils have recognised that gentrification can entail rising land values, displacement and in its most extreme cases, homelessness.

Formally establishing such a connection would set a radical new precedent for local authorities around the world. But the legal quagmire involved in satisfying a nexus test in such cases would send most public officials running for the hills. Besides, there are other mechanisms available to planners and city managers to leverage resources to fund social initiatives, which are not so fraught with controversy.

Social impact bonds, benefit corporations, tax increment financing, and Business Improvement Districts (BIDs) are more palatable options, being more compatible with a free-market ideology. In fact, social impact bonds are a British invention, and BIDs are already being used in city centres across the UK, US and Canada, with some success. For example, in Scotland, Essential Edinburgh BID has established a partnership with local homelessness charity Cyrenians to support rough sleepers.

These planning innovations, as well as linkage or in-lieu-of fees, could be effectively used to fund homelessness programmes. These mechanisms provide a voluntary vehicle – not compulsory, as in a tax – to facilitate private investment in social good, while minimising the risk to local government. The alternative is simply to increase local corporation taxes and face the political fallout – as Seattle City Council has demonstrated.

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