ATTACHMENT A

City of Bellevue | City Manager's Office

DATE: July 14, 2026

SUBJECT: State Legislative Update, June 2026

This month's activity encompassed a wide array of action including mounting state and local fiscal pressures, transportation revenue replacement options, liability reform discussions, and early 2027 policy development on city finance, infrastructure, annexation, and environmental stewardship.

Efforts to Repeal the Millionaire's Tax: Let's Go Washington, the committee founded by Brian Heywood, has submitted more than 500,000 signatures for Initiative 26-645 to appear on the November ballot, far exceeding the required 300,000 signatures due by July 2. The group first sought to overturn the law by referendum, but as it contains a necessity clause shielding revenue measures from referendum, the Secretary of State rejected the filing, and on May 4, the Washington Supreme Court upheld the decision.

The Initiative proposes to repeal Senate Bill 6346, the millionaire's tax enacted during the recent legislative session. As a reminder, the bill most notably imposes a flat 9.9% tax on annual taxable income that exceeds $1 million in addition to adding sales tax exemptions on a variety of essential goods and raising the B&O tax break for small businesses. The new tax takes effect January 1, 2028, with the first payments due in 2029. The state's four-year budget outlook assumes roughly $3 billion in new revenue annually beginning in 2029. The Department of Revenue estimates about 21,000 filers would be subject to it.

Separately, the constitutional challenge led by the Citizen Action Defense Fund under the 1933 Culliton precedent remains pending, with a Supreme Court ruling not anticipated before early-2027.

For cities, the stakes extend beyond the tax itself. The new law pairs the new tax with new tax reductions that reduce local sales tax collections beginning in 2029. The legislature acknowledged this in Section 1(12) of the bill by stating its intent to create a City and County Fiscal Health Account to offset a portion of local revenue loss. The 2027–29 budget outlook includes a $200 million placeholder for this purpose, though it remains a statement of intent rather than an enacted, ongoing appropriation.

If the initiative to the people passes, the income tax will be repealed but the new sales tax exemptions will remain. If the court overturns the law, both the income tax and sales tax exemptions will be repealed.

Governor's Office Signals a Difficult 2027–29 Budget: On June 6, the Office of Financial Management (OFM) issued the 2027–29 operating, transportation, and capital budget instructions for state agencies, warning agency leaders to prepare for what is likely to be the most challenging budget the state has faced in recent memory. The memo cautioned that the coming biennium will bring "significant budget shortfalls" in both the operating and transportation budgets, and that this year's revenue forecasts are unlikely to provide enough to maintain current program levels, let alone fund new commitments. Agencies have been directed to avoid requesting new programs and to identify spending-reduction options for submission to OFM this fall.

Governor Bob Ferguson reinforced this message on June 25, telling reporters his forthcoming budget will not propose new taxes. It will instead rely on cuts to close the gap and protect Washington's AAA bond rating that requires spending to match revenue, a top priority. He has signaled intentions to approach the process differently this cycle, engaging agencies and legislators earlier than has historically been the case.

June Economic & Revenue Forecast: The Economic and Revenue Forecast Council's (ERFC) June 26 forecast reflects a weaker economy than from February. The weaker economy lowered projected collections (sales, use, and B&O taxes) by $361 million in 2025–27 and $554 million in 2027–29, and real estate excise tax (REET) came in $29 million under February's projection. Those declines were outweighed by higher-than-forecasted collections from capital gains taxes, leaving General Fund revenue at $70 billion for 2025–27 (down $384 million from February) and $76 billion for 2027–29 (up $2 billion). Without capital gains revenues, General Fund revenue would have fallen in both biennia.

The ERFC also released its June transportation revenue forecast, and the trend continues downward. Projected transportation revenue for the current 2025–27 biennium is about $36 million (0.4%) below the February forecast, and the 2027–29 biennium is down $130 million (1.2%), for a combined decline of roughly $166 million through 2029. Measured against the June 2025 forecast, the baseline that incorporated the 2025 transportation revenue increases, collections are down $2.9 billion (6%) across the full 10-year horizon. The ERFC attributed the decline largely to continually falling gas tax collections despite recent gas tax rate increases and indexing future rate increases to inflation.

Road Usage Charge & Highway Use Fee Proposals*:* The state funds most highway maintenance, preservation, and improvements through the gas tax, but that revenue is shrinking as vehicles become more fuel-efficient and electric vehicle adoption rises. The state already charges EV and hybrid fees, but it does not otherwise recover the declining fuel-tax revenue from increasingly efficient gas-powered vehicles, leaving a widening structural gap between transportation revenue and obligations.

Lawmakers are weighing two replacement models adopted by other states:

- a road usage charge (RUC): bills drivers by miles traveled rather than gallons burned and can substitute the gas tax
- a highway use fee (HUF): a charge tied to a vehicle's fuel efficiency that supplements the gas tax for high-mpg vehicles.

At the Association of Washington City's (AWC) Annual Conference in June, House Transportation Committee Chair Jake Fey convened a discussion to gather feedback on which direction to pursue. A background one-pager prepared by the nonpartisan Office of Program Research (OPR) framed the trade-offs between the two approaches.

For cities, the central question is not which mechanism the state chooses but whether it preserves local revenue sharing. As of July 1, the state gas tax is 56.5 cents per gallon; of that, cities directly receive 3.11 cents per gallon plus a flat amount set each biennium and distributed on a per-capita basis. How a replacement is structured determines whether that local share survives: the 2025 RUC proposal would have followed existing gas-tax distribution law, preserving the city share, while the HUF proposal would have deposited revenue into the Motor Vehicle Fund with distribution effects tied to changes in EV and hybrid fees. As the Legislature develops a 2027 proposal, protecting and modernizing the local distribution will be a key advocacy point for cities.

***Tort Study Committee Begins Work**:* Compounding the budget pressure, rising tort claims have become one of the fastest-growing strains on state finances. A mid-June memo from OFM authorized the state's self-insurance fund to run $1.7 billion in the red through next June. This is up from a $1 billion shortfall projected a year earlier.

An operating budget proviso directed the Office of Administrative Hearings (OAH) to convene the Tort Study Committee to develop recommended changes to how claims arising from tortious conduct by the state and its officers, employees, and volunteers are adjudicated. Recommendations are due November 1. The committee is staffed by OAH and includes state risk managers (Corrections, OFM, and Enterprise Services), the Attorney General's torts litigation chief, plaintiff and defense side attorneys, and representatives from the Washington State Association of Counties and the Washington Schools Risk Management Pool. Following an initial meeting on June 3, the committee held its first substantive working session on June 24, with additional meetings scheduled every other week into the fall.

At the June 24 meeting, members' opening perspectives highlighted notably different interpretations of the underlying issue. Risk managers generally characterized the problem as the Washington law's status as an outlier among states, pointing to its waiver of immunity, absence of damage caps and use of joint and several liability. In contrast, victim advocates and attorneys emphasized concerns around insufficient accountability, ineffective prevention policies and systems that perpetuate harm and trauma. The lack of a shared understanding of the problem underscores the complexity of the task facing the group.

***AWC Legislative Priorities Committee**:* The AWC Legislative Priorities Committee met for the second of four meetings at the AWC Conference June 25. The Committee's discussion centered on cities' fiscal stability. Cities of all sizes described mounting strain, projected shortfalls, rising healthcare and utility costs, slowing housing construction, and softening sales tax and permit-fee revenue, alongside a recurring frustration that the state keeps adding mandates while limiting the tools to pay for them.

The Committee discussed a potential multi-faceted plan to advance budget stability:

1. A study of long-term updates to the state's local tax structure to improve sustainability and reduce regressivity.
2. Beginning in 2029, fully and permanently funding the local government fiscal health account tied to Senate Bill 6346 (currently only a $200 million placeholder rather than an ongoing appropriation).
3. Revising existing revenue tools to meet near-term needs.

The Committee will meet again on July 22 and September 9 to develop recommendations to submit to the AWC Board.

Joint Transportation Committee Discusses Sidewalk Funding and City Transportation Needs: The Joint Transportation Committee (JTC) convened during the AWC Annual Conference in June to review transportation policy issues likely to shape 2027 legislative discussions, including sidewalk funding and city transportation needs. A recurring theme was that cities and state agencies face growing infrastructure demands while existing revenue tools and grant programs are not keeping pace.

A JTC sidewalk funding study found that Washington's 24,200 miles of sidewalks include major gaps with current grant funding insufficient to address them, especially given ADA retrofit costs and legal constraints. The study recommends advancing modified Transportation Benefit District (TBD) and REET options, while considering sidewalk utility authority for jurisdictions willing to accept legal risk.

A related city transportation needs update, due in October, estimates that cities face $4.25 billion in annual needs but spend about $1.89 billion, leaving a $2.37 billion annual gap. Recommendations include prioritizing preservation, increasing grant funding, creating a permanent federal fund exchange, streamlining review processes and identifying a replacement for declining fuel tax revenue.

Washington Supreme Court: Proposed Pretrial Release (Bail) Rules: A proposed amendment to the criminal rules governing pretrial release is pending before the Washington Supreme Court. It was submitted by the King County Department of Public Defense, the Washington State Office of Public Defense, the Washington Defender Association, and the Snohomish County Office of Public Defense; the public comment period closed April 30.

As proposed, the amendments would replace the current "likely failure to appear" standard with a "high likelihood of willful flight from prosecution" standard; require at least one missed appearance before bail could be set under that prong; cap bond and warrant amounts at $200 for most misdemeanors (excluding domestic violence and DUI) where a willful-flight finding is made; and create a strong presumption allowing a defendant to deposit up to 10% of the amount with the court clerk.

On June 15, a majority of the Court's Rules Committee voted to recommend that the full Supreme Court hold a public hearing on the proposed amendments this fall. That recommendation will be forwarded to the Court for consideration at its July 1 en banc administrative conference, which is not open to the public. No rule changes have been adopted; the proposal remains under consideration, and any adopted amendments would typically take effect September 1. Because the proposal would cap misdemeanor bail and reshape warrant standards, it would directly affect municipal courts, city prosecutors, and local law enforcement operations.

Washington's Water Future: The Washington State Department of Ecology continues to advance Washington's Water Future, a statewide initiative directed by Governor Ferguson to develop long-term strategies for addressing Washington's growing water supply challenges. Several regional roundtables with invited stakeholders have taken place, with additional meetings and public input sessions scheduled throughout July and August. These discussions are bringing together Tribal governments, local governments, utilities, agriculture, industry, environmental organizations and community groups to identify regional priorities and potential policy solutions. Ecology intends to use the feedback from these conversations to develop recommendations for consideration during the 2027 legislative session. No specific proposal has emerged as of this writing.

Department of Housing Task Force: The governor's task force to establish a Department of Housing under Executive Order 25-12 is continuing their work to develop recommendations for a new cabinet-level housing agency focused on expanding housing supply, better aligning state housing programs and addressing housing needs across Washington. At the June 10 meeting of the task force, the group agreed to move forward with the new agency operating in a "lead organization" model. Subcommittees for Organization & Mapping and Budget, Operations & Legal are continuing to meet to develop recommendations for consideration by the full task force, which has until November 15 to submit formal recommendations to the governor. The task force's next meeting is scheduled for July 8 with more information on the Department of Housing Task Force webpage.

July Look Ahead

- Department of Housing Task Force Meeting (Zoom, 9:00 a.m.) on July 8
- Primary Ballots are mailed on July 17
- AWC Legislative Priorities Committee meeting on July 22
- August Primary on August 4
- Agency Due Date to Submit Budget Requests to OFM on September 14
- General Election on November 3