

CITY COUNCIL AGENDA TOPIC

2026 State Legislative Session Wrap-Up

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

The Washington State Legislature adjourned on March 12, after passing the 2025-2027 supplemental budgets and many bills of interest to the City of Bellevue. This memo summarizes outcomes of the 2026 legislative session.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS

The 2026 Washington State Legislature adjourned on March 12, after adopting the 2025-2027 supplemental operating, capital, and transportation budgets. The Legislature considered thousands of bills and passed 267 during the 60-day short session. Major policy discussions included land use, affordable housing, taxation, human services, and responses to federal actions. Governor Bob Ferguson is currently taking action on bills, considering whether to veto, partially veto, or approve legislation and budgets approved by the Legislature. The final day for the Governor to take action is April 4.

This memo summarizes items related to Bellevue's *2026 State Legislative Agenda*.

2025-2027 Supplemental Operating, Capital, and Transportation Budget Summaries**Supplemental Operating Budget**

The 2026 Legislature entered session facing a multi-year challenge in balancing the Supplemental Operating Budget. The cost of providing state services and programs – many enacted in recent years – increased, while revenue collections slowed. With some exceptions, the Legislature was tasked with adopting modifications to the existing biennial budget (2025-2027) and developing a four-year budget through 2027-2029. The state's February revenue delivered modestly positive news as early proceeds from tax increases approved in 2025 began coming in higher than anticipated; however, state economists continue to highlight that the cost of K–12 education, health care, and long-term care are outpacing revenue growth.

The final 2025–2027 Supplemental Operating Budget relies on a combination of program reductions, account transfers, and new revenue from closing tax loopholes on data centers, prescription drug wholesalers, and insurers. The final version transfers \$880 million out of the Budget Stabilization Account, includes a \$375 million transfer from the Public Works Assistance Account (PWAA) to the general fund, and assumes \$2.23 billion in new revenue in the four-year outlook for the newly enacted

millionaire's tax. Notably, the budget assumes a repeal of the increase in estate taxes enacted during the 2025 Legislative Session. The Budget Stabilization Account is backfilled with excess funds from the Law Enforcement Officers' and Fire Fighters' (LEOFF) 1 retirement account.

Even with those changes, the 2027 fiscal year has an \$878 million shortfall that legislators will grapple with next session, pending future revenue forecast updates. If the millionaires tax (Senate Bill 6346) is overturned either through the courts or by voters, this shortfall becomes more significant.

The budget's largest expenditures address an increase in legal settlements, fund food assistance, and Medicaid in light of federal decisions, and allocate Climate Commitment Act funds to wildfire protection. The biggest cuts are to how daycares are reimbursed for providing childcare to low-income families and reducing the number of students who can participate in the transition to kindergarten. [Click here](#) to review the Supplemental Operating budget documents.

Supplemental Capital Budget

The 2025-27 Supplemental Capital Budget utilizes \$435 million in bonds and appropriates \$889.7 million in total funds, including cash, federal funds, and other revenue sources. The Supplemental Capital Budget provides investments in infrastructure that are relevant to local governments, including:

- \$200 million to housing and homelessness, including \$123 million for the Housing Trust Fund.
- \$375 million is allocated to the PWAA to backfill the transfer from the Account to the Operating Budget and continues to finance infrastructure projects for cities, counties, and special purpose districts.

[Click here](#) to review the Supplemental Capital budget documents.

Supplemental Transportation Budget

The 2026 Supplemental Transportation Budget largely maintains the status quo. Transportation budget writers debated whether to bond revenues enacted in 2025 to fund additional transportation projects, including maintenance and preservation. The Governor and the Senate both proposed significant bond packages, while the House proposed not issuing any new bonds. The final budget authorizes \$1.5 billion in new bonds, which will support \$200 million in highway maintenance, \$1.3 billion in highway preservation, and \$28 million in ferry preservation through the 2029–31 biennium. Notably, the budget did not fund any new projects. The budget totals \$16.6 billion—an increase of \$1.2 billion—with significant investments aimed at preserving and maintaining infrastructure.

[Click here](#) to review the Supplemental Transportation budget documents.

Policy Highlights

Millionaires Income Tax: After more than 24 hours of debate on the House floor, the Legislature approved [Senate Bill 6346](#), the millionaires tax, a 9.9% tax on income exceeding \$1 million sponsored by Senator Jamie Pedersen (D-Seattle). The final version of the bill includes a package of tax reductions and investments to make the tax code more progressive. These provisions include the repeal of last year's expanded sales tax on select services, an expansion of the Working Families Tax Credit to return more revenue to low income households, a commitment to provide free breakfast and lunch in K-12 schools, an expansion of the small business B&O tax credit, and new sales tax

exemptions for items such as diapers, hygiene products, and over the counter medications. To address concerns from cities and counties about lost local sales tax revenue tied to those exemptions, the bill includes legislative intent to set aside up to \$200 million for local government mitigation. The Governor has indicated that he plans to sign the bill into law. It is expected that critics of the new law will take two actions: 1) file a legal challenge arguing that the new tax is unconstitutional because income is property and the Constitution requires income to be taxed uniformly; and 2) collect signatures on an initiative to the people to repeal the measure.

Residential in Mixed-Use and Commercial Zones: [Senate Bill 6026](#), sponsored by Sen. Emily Alvarado (D-West Seattle), is Governor-request legislation that requires jurisdictions with a population of 30,000 or more to allow residential uses in commercial and mixed-use zones and limits a city's ability to require ground-floor commercial. Under the bill, a jurisdiction generally cannot impose ground-floor commercial requirements in more than 40% of the total acreage in areas zoned for commercial or mixed use with specified exceptions, including transit station areas, tax increment financing areas, areas with allowed heights over 85', and historic or business improvement areas. Further, jurisdictions may not impose such requirements on publicly subsidized affordable housing projects and must offer a variance process to reduce or waive ground-floor commercial requirements. Local governments have 18 months to comply and are not obligated to update growth and development assumptions.

STEP Housing Regulations: [House Bill 2266](#), sponsored by Rep. Strom Peterson (D-Edmonds), requires shelter, transitional housing, emergency housing, and permanent supportive housing (STEP housing) to be permitted in certain zones: transitional and permanent supportive housing in residential zones and zones that allow hotels, and requires indoor emergency shelters and emergency housing in hotel allowed zones and any additional zones needed to meet projected demand. In addition, the bill only allows cities and counties to require operating agreements in certain circumstances.

Religious Property Housing Density Bonus: [House Bill 1859](#), sponsored by Rep. Osman Salahuddin (D-Redmond), expands and standardizes density bonus requirements for affordable housing developments on properties owned or controlled by religious organizations. The bill reduces the requirement that 100% of units be affordable to low-income households by allowing projects to qualify if at least 50% of units are reserved for low-income households or at least 20% of units are reserved for very low-income households, clarifies income and affordability definitions, requires affordability requirements and other conditions to be maintained for at least 50 years even if the religious organization no longer owns the property, mandates that cities and counties develop implementing policies upon request from a religious organization, and clarifies that either the religious organization or an entity leasing the property for development is responsible for development-related fees and charges. The bill, which passed nearly unanimously out of the House and Senate, was signed by the Governor on March 9.

Local Government Revenue Tools: [House Bill 2442](#), sponsored by Rep. April Berg (D-Mill Creek), expands local tax authority and flexibility for cities and counties, including authorizing cities and counties to impose a .01 sales tax increase to fund housing, children, and family services; allowing real estate excise tax revenues to be spent on nuisance abatement; expanding uses of the local housing and related services sales tax; extending the maximum length of levy lid lifts; expanding allowable uses of the county rental car sales tax; allowing the creation of a fire district without having to reduce the

city's property tax levy; and authorizes a new county property tax levy for public health clinics.

Additionally, [Senate Bill 6027](#), sponsored by Sen. Alvarado (D-West Seattle), expands the uses of [House Bill 1590/House Bill 1406](#) funds so local jurisdictions have additional flexibility to support affordable and supportive housing.

Employer Shuttle Use of BAT Lanes: [House Bill 1980](#), sponsored by Rep. Janice Zahn (D-Bellevue), allows private employer transportation services to use certain business access and transit-only (BAT) lanes in counties with populations over 2,000,000 under a fee-for-use, two-year pilot permit system initiated before 2035, contingent on public transportation provider approval and performance standards to protect transit operations. The bill requires public transportation providers, in consultation with local authorities and representatives of one or more labor organizations representing transit employees, to establish operational performance measures for affected lanes, jointly prepare annual performance reports with labor input, and revoke permits if those standards are not met. Permit revenues will first cover local administrative costs with the remainder supplementing existing funding for transit-only lane maintenance and improvements.

Permit Review Streamlining: [House Bill 2418](#), sponsored by Rep. Davina Duerr (D-Bothell), standardizes and accelerates project permit review for residential housing in urban growth areas by vesting applications to the rules in effect at completeness, imposing coordinated timelines, and requiring fee refunds when deadlines are missed. The bill also mandates integrated permit processes by June 30, 2027, a single permit responsible official who must also coordinate State Environmental Policy Act review when the local government is the lead agency, and parallel timing and refund obligations for utilities and special purpose districts involved in permitting.

Condominium Liability Reform: [House Bill 2304](#), sponsored by Rep. Jamila Taylor (D-Federal Way), is a trailer bill to last session's [House Bill 1403](#) and seeks to reduce barriers to condominium construction by expanding the number of condominium buildings and the sizes of those buildings that are covered under the program. The was signed by the Governor on March 9.

Tax Increment Financing Revisions: [House Bill 2451](#), sponsored by Rep. Davina Duerr (D-Bothell), addresses special district concerns while maintaining and tightening the tax increment financing (TIF) tool. The bill is a result of a stakeholder workgroup convened by the Association of Washington Cities last year to discuss how TIF works, what the impacts are, and provide potential revisions to the tool. It makes multiple changes to local TIF rules to clarify project eligibility, require mitigation for affected taxing districts, restructure revenue apportionment, and limit the use of certain multifamily property tax exemptions in increment areas taking effect on or after June 2, 2026. The bill applies its changes prospectively, so existing increment areas are not modified. The House and Senate passed the bill with near-unanimous votes and delivered the bill to the Governor in the final week of session.

Electric Bicycle and Electric Motorcycle Regulation: [Senate Bill 6110](#), sponsored by Sen. Sharon Shewmake (D-Bellingham), narrows the definition of electric-assisted bicycles to exclude vehicles capable of exceeding 20 miles per hour on motor power alone and those designed to be easily modified to exceed existing motor power or speed limits, and direct the Department of Licensing to convene a work group to recommend a regulatory framework for electric motorcycles and similar vehicles by December 15, 2027.

Law Enforcement Facial Covering Restrictions: [Senate Bill 5855](#), sponsored by Sen. Javier Valdez

(D-Seattle), prohibits law enforcement officers from wearing facial coverings while interacting with the public in the performance of their duties, while allowing limited exceptions for officers working as undercover operatives.

Bills that failed to meet cutoff deadlines:

Homelessness Public Space Rights: [House Bill 2489](#), sponsored by Rep. Mia Gregerson (D-SeaTac), would have prohibited cities, code cities and counties from enforcing ordinances that criminalize or penalize life-sustaining activities in public spaces by people experiencing homelessness unless adequate alternative shelter space is available. While not adopted in 2026, the legislation is anticipated to return in some form for the 2027 legislative session.

Allowing RVs as ADUs: [House Bill 1443](#), sponsored by Rep. Mia Gregerson (D-SeaTac), would have required cities to consider "homes on wheels" (e.g. RVs, travel trailers, and tiny homes on wheels) as accessory dwelling units (ADUs) on residential lots under specific conditions. Originally a 2025 session proposal and returned for consideration during the 2026 session, the bill was not advanced due to the health and safety impacts of utilizing temporary sleeping vehicles for permanent housing solutions.

Affordable Housing Incentives: [House Bill 1717](#), sponsored by Rep. Mari Leavitt (D-University Place), would have created a voluntary local-option sales and use tax remittance program to lower affordable housing development costs, requiring long-term affordability commitments, reporting, and tax recapture if projects fail to maintain compliance. The proposal as originally introduced in 2025, would have allowed for both a local and state sales and use tax remittance program, but the state element was removed early in session due to the State's budget concerns. While narrowed in scope, other affordable housing tools were prioritized, and the bill did not receive a vote out of the Senate before the opposite house of origin cutoff.

Affordable Housing Permit Streamlining: [Senate Bill 5729](#), sponsored by Sen. Chris Gildon (R-Puyallup), sought to encourage construction of affordable housing by reducing permit fees. While a compromise was found to balance reducing permit costs while maintaining appropriate guardrails, the proposal did not receive a vote out of the House before the opposite house of origin cutoff.

POLICY & FISCAL IMPACTS

Policy Impact

City Council adopted its 2026 State Legislative Agenda on October 14, 2025.

Fiscal Impact

The fiscal impacts of bills passed during the 2026 Washington State Legislative Session are currently being determined.

OPTIONS

N/A

ATTACHMENTS

A. Bellevue 2026 State Legislative Agenda

B. Association of Washington Cities 2026 City Legislative Priorities

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N/A