

CITY COUNCIL AGENDA TOPIC

2025 State Legislative Session Kick-off

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EXECUTIVE SUMMARY**INFORMATION
ONLY**

Staff will present a preview of the 2025 State Legislative Session, which begins January 13 in Olympia, including both key policy areas and budget issues, as well as ways the City will interact with the Legislature during the session.

RECOMMENDATION

N/A

BACKGROUND/ANALYSIS**Kick-off of the 2025 State Legislative Session**

The 2025 legislative session begins January 13. This is the first year of the two-year biennium and will last for 105 days ("long session"), ending April 27. One of the primary tasks of legislators during a long session is to adopt the State's biennial budgets for 2025-27: Operating, Capital, and Transportation. The Legislature will also consider hundreds of bills that will be introduced throughout the legislative session.

In November 2024, Democrats captured nine executive state office positions and flipped two previous Republican seats in the Legislature. In 2025, Democrats will remain in the majority of the House and the Senate:

- Senate: 30 Democrats and 19 Republicans
- House: 59 Democrats and 39 Republicans.

This means Democrats will have a 60 percent majority of each chamber, allowing them to approve bonds and transfers from the budget stabilization account without support from Republicans.

Although the state's political landscape remains relatively the same, the Legislature saw high turnover this year following retirements and lawmakers moving to different elected or appointed positions. When the 2025 session begins, there will be at least 31 people in new seats. Notably for Bellevue, Senator Patty Kuderer (D) is resigning from her 48th Legislative District Senate seat to be sworn in as the State's Insurance Commissioner. The King County Council has appointed Representative Vandana Slatter to the 48th Legislative District Senate seat where she will serve for the remainder of the year. Her vacant seat in the House of Representatives will be filled by Redmond City Councilmember Osman Salahuddin. Representative Tana Senn in the 41st Legislative District announced that Governor-Elect Ferguson has selected her to serve as the Director of the State Department of Children, Youth, and

Families, which is prompting her to resign from her House seat. The King County Council plans to make an appointment for that seat in the coming weeks.

Governor Inslee's 2025-2027 Biennial Budget Proposals

On December 17, outgoing Governor Inslee released his final budget proposals for the 2025-27 biennium. Once the legislative session convenes, each Legislative chamber will hold a public hearing on this proposal and will work to develop their own respective proposals on how to balance the state's budgets. Governor-elect Ferguson plans to share his top budget priorities in the coming weeks.

The Governor's proposed 2025-27 Operating Budget funds all state agency operations, the K-12 education system, and the higher education system. This budget is predominantly funded with four key taxes – retail sales, business and occupation, property, and real estate excise. It has been reported that this budget is facing a budget deficit of \$10 - \$12 billion. The Governor makes \$2 billion in budget reductions, raises \$6 billion through new taxes to balance this budget, and transfers funds from accounts in the capital budget to balance this budget.

The proposed 2025-27 Capital Budget appropriates \$9.1 billion, of which approximately \$5 billion is funded with new bonds. As has been Governor Inslee's past practice, his proposed capital budget allocates funding to very few community projects; he has left that process to the Legislature.

The proposed 2025-27 Transportation Budget faces a \$200 million shortfall this biennium, and long-term imbalances. The Governor revised the 16-year spending plan within the budget.

In response to the significant budget shortfall, the Governor's proposal includes sweeping \$100 million from the Public Works Assistance Account and reinstating the requirement that local governments pay for 25 percent of training new police officers. He also made recommendations to combine the funding of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Plan 1 and Plan 2 pension plans and postpone several program enhancements, such as the Fair Start for Kids Act.

Of significance to Bellevue, the Governor's proposed budget includes an additional \$94.1 million for four time-sensitive projects already in construction along the I-405/SR 167 corridor, including:

- \$45 million for the Renton to Bellevue Widening and Express Toll Lanes current project.
- \$47 million for Brickyard to State Route (SR) 527 Improvements.
- \$1 million for the NE 85th Street In-line Station.
- \$1.1 million for the SR 167 Corridor Improvements Project.

There are two primary sources of new revenue in the Governor's proposed budget. The first is a one percent wealth tax on worldwide wealth over \$100 million. This tax is expected to affect 3,400 individuals in the state and generate an estimated \$3.4 billion. The other primary source of revenue is a change to the Business & Occupation tax (B&O tax). Businesses making over \$1 million in a year in the "service and other activities" category would see a 20 percent increase in their B&O tax. This would last from October 2025 until December 2026. Starting in January 2027, all B&O tax rates would increase 10 percent. Small businesses are not expected to see an increase since they qualify for a small business

tax credit. The change to B&O taxes is estimated to generate \$2.6 billion.

In advance of releasing his proposed budgets, Governor Inslee announced a spending freeze for state government agencies effective December 2, 2024. The freeze is for nonessential hiring, service contracts, purchasing certain goods and equipment, and travel.

Likely Hot Topics in the 2025 Session

As noted above, Washington operates on a two-year budget. The current budget ends June 30 and it is balanced. However, the next two biennial budgets (four-years total) are not balanced with an operating budget deficit between \$10 and \$12 billion over the four-year outlook period. This deficit is due to the recent revenue forecasts that were adjusted down and the increase in caseloads and the cost to maintain existing programs. Transportation budget revenue projections have also trended down for several forecasts. By law, the state's budget must be balanced over the next four years.

In advance of the session starting on January 13, the House of Representatives convened December 10-11 and the Senate convened December 12-13 for Committee Assembly Days. During Committee Assembly Days, legislators meet in their respective committees in Olympia to hold work sessions on topics likely to be discussed during the 2025 legislative session. In addition to topics discussed at Committee Assembly Days, the following issues could impact the upcoming session.

Tax & Revenue Proposals

Washington lawmakers are preparing for the upcoming legislative session with a focus on addressing the \$10 - \$12 billion budget shortfall over the next four years. Democratic leaders are considering new taxes on the wealthy and corporations but plan to first explore potential budget savings. While new revenue may be necessary to sustain and expand key programs, Republicans argue that the issue lies in overspending and advocate for budget cuts or delays rather than new taxes.

The media reported on a series of forthcoming tax and revenue proposals that Senate Democrats are planning to introduce this session, including:

- *Removing the Cap on Employer Payroll Taxes:* A proposal to apply payroll taxes for Social Security and the Paid Family & Medical Leave program to salaries above \$168,000. This tax would apply to companies with payrolls of \$8 million or more in Washington, raising funds for education and other services. An alternative version would remove the \$8 million payroll threshold, applying the tax to all businesses.
- *B&O Surcharge on the Largest Corporations:* A proposed one percent surcharge on businesses with Washington taxable income exceeding \$500 million, excluding large financial institutions. An alternative version would apply the surcharge to all taxable income of these companies.
- *Capital Assets Ownership Tax (Wealth Tax):* A proposal that would impose a one percent property tax on financial intangible assets exceeding \$50 million based on the value of the assets on December 8, 2024. Governor Inslee called for a similar tax on wealth above \$100 million.
- *Property Tax Levy Lid Lift:* This would increase the regular property tax levy growth limit for both state and local tax districts by revising the definition of "inflation" and "limit factor" increasing it

from one percent to three percent.

- *Make the Rental of Storage Units a Retail Transaction*: Defines the rental of self-service storage units as a retail transaction, taxable under the retailing B&O tax classification and the retail sales tax which would generate state and local tax revenue.

To view the revenue policy document developed by Senate Democrats, click [here](#).

Transportation Funding Challenges

As in previous years, the transportation budget continues to face significant challenges. During the 2024 session, the Legislature balanced the transportation budget for the current biennium (2023-25) and the next biennium (2025-27). Since then, several challenges have surfaced. Transportation revenues have dropped due to an increase in fuel-efficient vehicle use, escalating project costs and project challenges, and increasing costs with the fish passage barrier correction program. The transportation revenue forecast has decreased by \$185 million (2.6 percent) for the 2023-25 biennium and \$353 million (4.8 percent) for the 2025-27 biennium compared to February 2024 projections.

The Washington State Department of Transportation has indicated that several projects, including those along the Interstate 405/State Route 167 corridor, will cost more than the amount appropriated in the 2023-25 biennial budget and the associated multi-year transportation plan. These projects include:

- I-405/Renton to Bellevue Widening and Express Toll Lanes
- I-405/Brickyard to SR 527 Improvements
- I-405/NE 85th Street Interchange and In-line Station

The I-405 projects are currently under construction and are critical to the delivery of Sound Transit's Stride bus rapid transit (BRT) on I-405 from Burien to Lynnwood. Due to escalating costs, \$93 million is needed to finish these projects to allow all lanes to operate with greater speed and reliability. Bellevue is working with other I-405 and State Route 167 stakeholders to jointly advocate for filling the \$93 million funding gap and allocating \$3.6 million for State Route 167 needs.

In addition to the tax and revenue proposals above, legislators are expected to consider a variety of alternative revenue sources to make up for the forecasted declines, such as a statewide road usage charge, a retail delivery fee, or redirecting vehicle sales tax revenues from the operating budget to the transportation budget.

State Oversight of Land Use & Zoning

In a continuation of previous sessions, legislative proposals are anticipated related to local government compliance with the Growth Management Act, comprehensive planning, and siting of shelters and supportive housing (STEP housing).

Since 2017, the state has passed at least 15 laws related to how cities plan for and accommodate housing that is affordable to residents of all income levels. Cities have been hard at work incorporating those changes into their local comprehensive plans and land use regulations, and over time these efforts will provide for significantly increased housing capacity in communities across the state.

Recently passed laws greatly influenced the analysis and policy direction in the City's 2024 Comprehensive Plan update.

However, legislators in both parties know that work on housing supply is not finished and more must be done. Proposed legislation that would increase housing supply by making it easier to build rental and ownership housing are expected, including lot splitting and mandated parking requirements. Additionally, a proposal would require cities to allow for more housing to be built near transit, with a set percentage of the new housing required to be affordable to moderate and lower-income households. Given the budget constraints this biennium, it is anticipated that more land use and zoning bills may advance in the absence of state funding for programs and grants.

City of Bellevue Adopted 2025 State Legislative Agenda

On October 22, 2024, the Bellevue City Council adopted the [2025 State Legislative Agenda](#). The agenda's *Key Legislative Priorities* highlights the items of utmost importance to the City of Bellevue in the 2025 state legislative session. In general, these items are either exclusively or largely Bellevue-led and Bellevue-focused and highlight the areas of greatest value at this time.

In the 2025 session, those priority issues and projects are:

- Bellevue Grand Connection:
 - Downtown Integration Project
 - I-405 Crossing – Downtown to Eastrail Project
- SR 520/124th Avenue NE Interchange Project to improve safety and access
- I-405/SR 167 Corridor projects included in the I-405 Master Plan
- Partnership to address the affordable housing crisis, including flexible funding options
- Digital permitting improvements to [MyBuildingPermit.com](#)

The agenda's *State Policy Statement* covers a broad set of issues and gives the City the flexibility and charge to weigh in on issues, funds, and bills that may arise during the legislative session. Many of the items captured in this section are led by other parties or coalitions. Bellevue intends to weigh in as necessary and strategic to advocate for the City's interests, direct or indirect.

New for 2025, the *State Policy Statement* categories align with the Council's Strategic Target Areas:

- High Performance Government, including fiscal sustainability
- Vibrant Economy, including economic and workforce development
- Safe & Efficient Transportation
- High Quality Built & Natural Environment, including land use and environmental stewardship
- Community Safety & Health, including first responders, law enforcement, justice, and utilities
- Thriving People & Communities, including behavioral health and access to housing

Association of Washington Cities Legislative Priorities

The Association of Washington Cities (AWC) Board of Directors approved the *2025 City Legislative Priorities* on September 19, 2024. The AWC Legislative Priorities Committee helped to develop the

Association's 2025 legislative priorities; Councilmember Nieuwenhuis represents Bellevue on the committee. The AWC priorities for 2025 are:

- *Fiscal Sustainability*: revise the property tax cap and tie it to inflation and population growth factors
- *Public Safety*: fund and expand of officer training, fund public safety needs, increase programs to reduce juvenile crime, wellness and injury prevention program
- *Behavioral Health Treatment Capacity*: co-responder program funding, increases to behavioral health workforce and training, investment in community behavior health treatment, mental health support for students
- *Infrastructure Investment*: local infrastructure investment for expansion and operations/maintenance of aging systems, support sustainable transportation revenue with funding for local jurisdictions, develop new fiscal tools to support housing development, expand ability/flexibility to use real estate excise tax to support affordable housing
- *Housing Supply*: dedicate current and new funding options to address needs across the housing continuum

Engagement & Next Steps

In anticipation of the session, staff have continued to position Bellevue's priority issues for success and to prepare for the upcoming session, despite the budget challenges. Some of those recent and upcoming actions include:

- A Legislative Reception at Bellevue City Hall with 41st and 48th District lawmakers to brief them on the legislative agenda.
- Meetings with AWC and other cities, as well as other stakeholders, on key emerging issues.
- Identify key dates in the upcoming session when Bellevue will plan to be in Olympia.
- Governor's State of the State, provided by outgoing Governor Jay Inslee, on January 14.
- Incoming Governor Bob Fergusons Inaugural address followed by the Governor's Inaugural Ball on January 15.
- AWC will host the Mayors Exchange in Olympia on January 24.
- AWC City Action Days are scheduled for February 19-20.
- Final day of the 2025 Regular Legislative Session is April 27.

POLICY & FISCAL IMPACTS

Policy Impact

The work of the Washington State Legislature will have myriad impacts on the City, and it is important that the City weigh in appropriately on bills throughout the course of the session. The adopted state legislative agenda outlines the City's chief policy objectives.

Fiscal Impact

The budgets developed at the state level are of critical importance to the City, as many important programs either directly within the City's scope or of benefit to or impact upon our residents, employees, businesses, and visitors. The Legislature's ability to impact or modify authorized city revenue tools and revenue streams is also of direct and essential interest to Bellevue.

OPTIONS

N/A

ATTACHMENTS

A. City of Bellevue 2025 State Legislative Agenda

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N/A