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TO: Mayor Robinson and City Councilmembers
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SUBJECT: State Legislative Update

October State Legislative Summary

November 8 Election Results Formative

Each position in the State House of Representatives and half the positions in the State Senate are up for election. The top two candidates that received votes in the Primary will be seeking election to [new district boundaries](#). Democrats currently hold the majority in the House of Representatives (57-41) and in the Senate (28-20; plus one Democratic Senator who aligns with Republicans). The outcome of the November 8 elections will determine whether the political makeup of each chamber changes. It is anticipated that Democrats will retain the majority in both chambers.

Reorganization & Committee Days

Following the November 8 elections, each caucus will conduct a “reorganization” process where they determine what the policy and fiscal committees are, identify which legislators will serve leadership roles, select committee chairs, and otherwise assign legislators to committees. Committees will meet November 30-December 2 for “Committee Days” where legislators will hold work sessions on topics that will likely be discussed during the 2023 legislative session. Starting December 1, legislators can begin prefiling legislation for 2023.

State Revenue Forecast Update

Estimates released by the Washington State Economic and Revenue Forecast Council show an increase in revenue collections of about \$43 million for the 2021-2023 budget cycle. The estimated increase represents a 0.07 percent increase over the previous forecast. General Fund revenues are now projected at \$63.2 billion for the current biennium.

The Council also projected a decrease in revenue of about \$495 million for the 2023-2025 biennium, about 0.7 percent below the previous forecast in June. While lower, this amount of revenue available for the 2023-25 budget is still higher than the adopted 2021-23 budget. The next quarterly revenue forecast is scheduled for November 18. Governor Inslee will submit his 2023-25 budget proposals to the Legislature in December. The Legislature will hold public hearings on his budget proposals during the early weeks of the legislative session as part of their budget process.

Governor’s Press Announcement on Housing and Homelessness

On November 2, Governor Jay Inslee held a press conference regarding housing and homelessness. The governor highlighted some of the recent efforts of state agencies to remove homeless encampments from state rights-of-way and provide individuals who were living in the right-of-way with housing alternatives. He indicated continued support for rapid acquisition housing and long-term housing solutions as part of his forthcoming budget proposals. Rep.



Nicole Macri (D-Seattle) also spoke at the press conference in favor of continuing this approach. The right-of-way initiative to address homelessness on state highways is funded through a \$45 million budget proviso, and includes partnership between the Department of Commerce, Department of Transportation, State Patrol, local governments, and non-profit organizations.

Long term, the governor indicated that there is a housing shortage in Washington State and that to address that shortage, he looks forward to working with the legislature to also expand middle housing and market rate housing – specifically mentioning zoning regulations as being an unnecessarily restrictive. The governor plans to present proposals increasing density near transit areas, providing a Real Estate Excise Tax (REET) exemption when properties are sold to first-time homebuyers, and expediting permitting of housing at the local level.

AWC Housing Solutions Workgroup

This interim, the Association of Washington Cities convened a Housing Solutions Workgroup to develop a set of proactive housing solutions to help address the pressing need for more affordable and available housing in our communities. This group of city elected officials and staff are working through a facilitated process to develop policy proposals to present to the legislature.

The Workgroup is discussing several policy concepts, including a requirement to allow middle housing on a certain percentage of land currently zoned as single-family, requiring a certain number of housing units to be allowed on every lot, and tiered middle housing requirements based on transit proximity. Members are exploring the benefits and drawbacks of these and other ideas.

The Workgroup is hoping to make recommendations on a 2023 legislative proposal in mid-November.

Senate Housing and Local Government Committee Work Session

On October 19, the Senate Housing and Local Government Committee held a work session on local permitting challenges, middle housing and accessory dwelling unit zoning policy proposals, and housing benefit districts.

On local permitting challenges, the Committee heard presentations from the Municipal Research Services Center, the City of Auburn and the Washington State Association of Counties, all sharing the common themes of an increasing need for permitting resources, state regulations contributing to permitting complexity, and increased liability for jurisdictions if permitting errors are made.

On middle housing/accessory dwelling unit zoning policy proposals, Senate Committee Services staff provided an overview of legislation considered during the 2022 legislative session. The Committee also heard from Opticos Design and the Urban Institute on middle housing policies advanced in other states, with pointed recommendations to reduce or eliminate parking requirements, allow up to eight units under the residential building code, minimize condominium liability, and put a cap on building size rather than the number of units allowed per lot. The cities of Kirkland and Walla Walla also presented to the Committee on actions each city has taken locally to increase density. Kirkland highlighted that the city has authorized middle housing in all



single-family districts and focused local regulation on the building envelope rather than the number of units.

Tax Structure Work Group

In 2017, the legislature established the Tax Structure Work Group to identify options to make the Washington State tax code more fair, adequate, stable, and transparent. The Work Group is tasked with providing guidance to the Washington State Department of Revenue on final rate setting and any necessary fine tuning to approve a policy recommendation and legislation by the end of this year.

At their September meeting, the Work Group discussed guidance to the Department of Revenue on policy proposal development. The Work Group's dialogue focused on three potential policy pathways for further discourse and modeling by the Department of Revenue:

- **Margins tax that could replace the current Business and Occupation tax:** Businesses would be taxed on their margin, which is generally calculated as gross receipts minus compensation paid and cost of goods sold. Importantly, the Department of Revenue's current modeling focuses solely on the State's B&O tax; it does not contemplate replacement of the B&O tax at the local level. The Work Group discussed how paid compensation and cost of goods sold should be defined. Most members indicated that the deduction for compensation paid should be based on W-2 wages rather than creating a state-specific definition, and that the per-employee compensation deduction be capped at a certain amount. The Work Group indicated that the margins tax policy should not cap the deduction at a certain percentage of compensation costs. It was also decided that the Internal Revenue Service definition of costs of goods sold should be used rather than creating a state-specific definition.
- **Wealth tax that could pay for the Working Family Tax Credit Expansion and/or the Primary Residence Property Tax Exemption/Renters Credit:** The Working Families' Tax Credit is for families with low-to-moderate income and is based in part on the federal Earned Income Tax Credit. The first payments will be made in spring of 2023 for tax year 2022. The Department of Revenue has identified three options it could administer and model for the 2023 legislative session, including increasing the flat payment amount, extending eligibility to those 18 years of age and older (the current age range is 25-65), and the "married filing separately" filing status.
- **The Primary Residence Property Tax Exemption:** This proposal would provide a property tax exemption from the state school levy for the first \$250,000 of assessed value on a principal place of residence. This proposal could also include a renters' refund program in which renters would apply to the state and include documentation. The Work Group decided that the property tax exemption should include only primary residences rather than all residences, and that the Department of Revenue should proceed to model the renters' credit, which would be administered at the state level.



- **Property Tax Limit Factor:** State law currently limits levy increases to the levy growth limits, often referred to as the “101 percent levy limit” or the “1 percent growth limit.” The Department of Revenue has modeled changing the limit factor for the state levy to 100 percent plus the change in state population and inflation. If population decreases, then the population change is set to zero when calculating the limit factor. Most Work Group members indicated that there should be a minimum limit of zero percent on growth, and that growth should be capped when calculating the limit factor. A majority also decided that there should be a maximum limit on the property tax.

Substance Use Recovery Services Advisory Committee

It is anticipated that there will be many policy proposals coming forward in the 2023 legislative session that follow up on the [Blake](#) decision, and [SB 5476](#) which was enacted during the 2021 legislative session. SB 5476 approved a temporary policy making the possession of controlled substance a misdemeanor and requiring two attempts at diversion referrals to behavioral health services prior to arrest. This temporary policy ends July 2023. The legislature also directed the Health Care Authority to establish the Substance Use Recovery Services Advisory (SURSA) Committee to develop a substance use recovery services plan, and to provide a recommendation to the 2023 legislature on a permanent policy on the possession of controlled substances.

The SURSA Committee voted in September to recommend decriminalizing possession of controlled substances, coupled with increased treatment and other policy changes. The Committee's final report is due on December 1, 2022. Sen. Manka Dhingra (D-Redmond) has indicated that she intends to introduce legislation capturing the SURSA recommendations.

Additionally, Sen. Mark Mullet (D-Issaquah) has indicated that he intends to introduce legislation that, broadly speaking, allows officers to take a custodial action when an individual is in possession of controlled substances with a requirement that they be diverted to treatment prior to being prosecuted. In addition to these two proposals, it is likely there will be several variations proposed regarding the permanent policy in response to *Blake*.

House Committee Work Session: Planning for Growth Management Act Planning

On September 20, the House Local Government Committee convened for an update on the Growth Management Act Task Force's work and discuss local government resource needs for planning under the Growth Management Act (GMA).

The GMA Task Force is working through several topics, including adaptive planning, refining the definitions of middle housing, major arterials, and transit stops, tax incentives for housing development and annexations, and integrating planning with infrastructure needs and coordination with special purpose districts. There was also discussion on drafting GMA goal language on equity and environmental justice.

A panel of county and city planners presented to the Committee on local governments' resource needs for implementing GMA goals. They shared that additional funding is needed from the Department of Commerce, as well as additional assistance in the form of guidebooks, model policies and codes, among others.



House Committee Work Session: Environment

On September 26, the House Environment and Energy Committee held a work session to discuss fossil fuel use in buildings and efforts to improve product lifecycle management and increase recycling.

Governor's Office staff presented an overview of the building decarbonization incentives in the recently enacted federal *Inflation Reduction Act*. A representative from the Washington State Building Code Council reviewed recent changes in the commercial and residential building codes approved in April, including requiring heat pumps in new commercial buildings. The Council could also vote to require heat pumps in residential homes in November 2022. The Housing Development Consortium for Seattle-King County shared perspective on the nexus of the co-occurring affordable housing, equity, and climate crises and expressed support for more funding and incentives for compliance with energy codes, especially for existing affordable multi-family housing buildings.

A representative from the non-profit organization, RMI, shared that buildings are a major source of emissions, but Washington is a leader in energy-efficient building codes. Sustainable Connections staff presented survey data from their survey of small and medium enterprises on barriers to undertaking energy-efficiency projects. Challenges noted in the presentation included a lack of resources and no incentives available from their local utilities for switching from gas heating to an electric heat pump.

The Committee then received briefings from Department of Ecology staff with updates on the latex paint recycling program and the new post-consumer recycled content program. Final comments for the rulemaking process were due November 1. Staff noted some challenges that will need to be addressed legislatively, including the definition of "producer," equitable distribution of fees, and adjustment to the "de minimus" threshold as it currently very narrow.

The next presenters shared details from the producer responsibility law in the State of Colorado and discussed the current state of recycling in Washington State.

Staff from the Association of Washington Cities shared that only 58 percent of Washington cities have curbside recycling service, and as the costs of recycling operations increase, that burden falls on the ratepayers and not the producers. Staff from Seattle Public Utilities presented a brief overview of producer responsibility as a policy solution, which has been implemented in Canada and Europe over the last 20 years.

Upcoming Legislative Activity

The Legislature is holding several meetings in the coming months that the City's government relations team will be attending:

- **November 14 House Environment & Energy Committee:** The Committee will hold a work session on climate policy implementation and air quality monitoring.
- **November 15 Joint Transportation Committee:** The Committee will meet in Renton to discuss a study encouraging high mileage drivers to buy electric vehicles, a study on frequent transit service, and county transportation challenges and successes.
- **November 30-December 2:** Legislative Committee Days