

State Legislative Session

Budget Update: Focus on Revenue Tools & Taxes

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March 25, 2025



Direction

- Consider directing staff to articulate the City's position on proposed revenue strategies in the Legislature through a variety of means



Agenda

- Proposed budget highlights
 - House
 - Senate
- Early analysis of potential impacts
 - Bellevue at large
 - Bellevue-specific
- Guidelines on budget and revenue
- Recommendation to council



City of Bellevue 2025 State Legislative Agenda

Bellevue welcomes the world. Our diversity is our strength.
We embrace the future while respecting our past.

Key Legislative Priorities

Bellevue Grand Connection – Downtown Integration Project
Bellevue requests \$900,000 from the Capital Budget for construction.

This project would improve the safety and accessibility of the public gathering space at Bellevue's City Hall Plaza for more than 40,000 people each day. When the Bellevue Grand Connection I-405 Crossing is complete, it will connect light rail to Eastrail and the bicycle and pedestrian network throughout East King County. Capitalizing on the regional investment of Sound Transit's 2 Line, this project is critical in preparing for the arrival of the Grand Connection I-405 Crossing, future bus rapid transit lines, and new public facilities near City Hall.

Bellevue Grand Connection – I-405 Crossing: Downtown to Eastrail
Bellevue requests the Legislature's partnership if a transportation funding package is developed in 2025.

This project will improve access to the second-largest regional jobs center in the Puget Sound by constructing a pedestrian and bicyclist bridge over I-405. The crossing over I-405 will connect more than half a million people via a 120-mile regional trail network, including Eastrail and the Mountains-to-Sound Greenway. It will improve pedestrian and bicyclist safety, create new opportunities for community gathering and recreation, and drive redevelopment in the fast-growing Wilburton neighborhood, spurring transit-oriented housing.



Rendering of the Bellevue Grand Connection crossing I-405

INVESTMENT RETURN

 Over \$3.2 Billion in private investment in Bellevue along light rail	 Over 12 Percent of Washington's exports originate from the Eastside	 Over 1.9 Million overnight visitors came to Bellevue year-to-date, creating \$1.498B in regional	 Over 12,000 total housing units in development pipeline
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2025 Session Budget Deliberations



- Budget shortfall
 - Operating
 - Transportation
- Governor's reductions
- Revenue proposals



House Proposed Budget Highlights

– focusing on revenue tools & taxes

- An additional 1% B&O tax surcharge on taxable income over \$250 million (HB 2045)
- Financial Intangibles Tax of \$8 on every \$1,000 value on investment assets (HB 2056)
 - The first \$50 million in assessed value is exempt.
- Allowing Property Tax Levies to grow to fund education and public safety, up to 3% (HB 2049)
 - Allows for increases based on inflation and population changes, not to exceed 3 percent.

Overall revenue generation: \$14.8 billion over 4 years



Senate Proposed Budget Highlights

– focusing on revenue tools & taxes

- Employer Payroll Tax of 5% on payroll expenses exceeding the Social Security threshold of \$176,100 (SB 5796)
- Financial Intangibles Tax of \$10 on every \$1,000 value on investment assets (SB 5797)
 - For taxpayers with more than \$50 million in assets; entire value taxed
- Allowing Property Tax Levies to grow by population + inflation (SB 5798)
- Repeal of 20 tax exemptions where the public policy objective was not met (SB 5794)
- Reducing the state sales tax from 6.5% to 6% (SB 5795)

Overall revenue generation: \$17.0 billion over 4 years

Property Tax Cap

2025 Legislative Agenda

Bellevue supports revising the one percent cap on annual property tax levy growth with a limit that allows cities to respond to local needs.

House Bill 2049

- Population changes, inflation adjustment
- Education finance measures
- Capped at 3% year-over-year

Senate Bill 5798

- Population growth plus inflation
- Schools, cities counties, special purpose district
- Declares a need for public safety funding



March 3, 2025

Members of the Washington State Legislature:

We write to urge you to pass legislation to revise the arbitrary 1% local property tax cap that has been in place for more than 20 years—over a generation. The current cap is lower than both inflation and population growth, and cities are left struggling to keep up with rising costs of providing basic community services like police, fire, parks, and streets.

We ask you to support a modest increase that ties the cap more closely to population growth and inflation, up to 3%. This reasonable change is more reflective of the last decade's average yearly 3% inflation rate and 1.5% yearly population growth.

We understand the reluctance to act on taxes; however, our communities need more flexibility in local funding options to keep up with the rising costs for services. Lifting this cap modestly would provide a crucial, optional tool that empowers city elected leaders to make decisions close to home on behalf of their residents, when and how they need it.

Without a change, local governments cannot sustain public safety and other basic services to keep up with our residents' needs. In fact, in 2001 cities had 1 employee to serve every 80 city residents; and in 2023, cities had 1 employee to serve every 108 city residents.

For too long, local governments have patched together band-aid solutions to manage the structural funding deficit while being called on to do more with less—but we're at a tipping point.

Allowing local elected officials to raise their property tax revenues by up to 3% per year puts the decision-making power back into our communities. Local elected officials have a high rate of trust among their constituents, and they are immediately accountable to the voters. Legislative action on this issue in 2025 is not an automatic tax increase. Instead, it allows for thoughtful local debate and discussion about what will work best for each city.

Now is the time for this change. Cities must continue to provide these important community services and cannot wait another 20 years to shift the burden onto the next generation.

Please use this legislative session to pass a modest increase to this restriction on our cities.

Sincerely,

Troy Linnell, Mayor, Algona
David M. White, Councilmember, Algona
Don Vanney, Mayor, Arlington
Cheryl Rakes, Deputy Mayor, Auburn
Kate Baldwin, Councilmember, Auburn
Nancy Backus, Mayor, Auburn
Lynne Robinson, Mayor, Bellevue
Mayor Kim Lund, Mayor, Bellingham

Adolfo Bailon, City Manager, Burien
Alex Andrade, Councilmember, Burien
Hugo Garcia, Councilmember, Burien
David Olson, Mayor, Cathlamet
Cathleen Koch, City Administrator, Connell
Linda Springer, Mayor, Cosmopolis
Regan Boll, City Manager, Covington
Traci Buxton, Mayor, Des Moines



Early Analysis of Potential Impacts

Bellevue-specific

- **SB 5796:** Employer Payroll Tax of 5% on payroll expenses exceeding the Social Security threshold (\$176,100), applied to businesses with \$7 million or more in payroll expenses
 - The City, as an employer with a total payroll exceeding \$7 million, likely would be subject to this payroll tax
 - The City would need to pay the State tax for employees exceeding the SSA threshold, which are roughly 150-175 employees
 - Preliminary estimates are a cost to City of Bellevue of \$153K annually
- **HB 2049 / SB 5798:** Allowing Property Tax Levies to grow by population + inflation
 - Would allow cities to better keep pace with the needs associated with growth
- **SB 5795:** Reducing the state sales tax to 6% (from 6.5%)
 - Could have the impact of reducing some goods or materials the City purchases

Early Analysis of Potential Impacts

Bellevue at Large

SB 5796 (Payroll):

- Similar to Seattle's "JumpStart" with a full credit for businesses already paying that tax.
- Generally, credit for "for any eligible city payroll expense tax paid by the employer;" indirectly incentivizes cities to implement their own versions.
- Payroll tax is generally more stable than sales tax; however, possible resulting economic slowdown and/or layoffs could result.
- Potential relocation or slower growth of major employers would impact projected revenue across several City revenue streams.

HB 2045 (B&O):

- Impact on businesses, particularly technology companies, financial firms and other very large companies.
- Decreases large business growth and diminishes the competitive advantages of businesses locating in Washington.
- B&O taxes are more reliable than sales taxes, but dependent businesses gross receipts and square footage.
- Of the 400 impacted businesses, Bellevue is likely disproportionately represented. This bill risks Bellevue's competitiveness with peer markets
- Revenue supports public safety, education, social services but may negatively impact B&O taxes if private companies relocate.



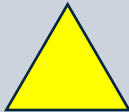




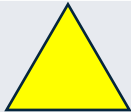








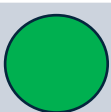



Guidelines on Budgets and Revenue

As presented on March 18, 2025




- Demonstrate fiscal responsibility to support economic prosperity
- Maintain long-term competitiveness, foster innovation, growth
- Attract talent to state and local communities
- Are derived from less volatile or economically sensitive sources
- Promote fair competition among businesses without disproportionate impact on size or industry
- Ensure jurisdictions and taxpayers can plan for their futures



Revenue Proposal Evaluation (Preliminary Snapshot)

Guideline	HB 2045 B&O	SB 5796 Payroll	5798 / 2049 Prop Tax Cap
Fiscal Responsibility, Economic Prosperity			
Competitiveness, Growth, Innovation			
Attract Talent (city, state)			
Less Volatile & Sensitive Sources			
Fair Competition (size, industry)			
Plan for Future (city, taxpayers)			

Key:

-  Aligned
-  Mixed Alignment
-  Not Aligned



Recommendation to Council

Informed by the Guidelines from March 18 as well as the adopted 2025 State Legislative Agenda, staff would recommend Council consider directing staff to articulate the City's position, emphasizing the following points:

- We believe that SB 5796 and HB 2045 may discourage larger companies from expanding their presence in Bellevue and in Washington more broadly and could lead them to focus growth in or fully relocate to other states.
- While the payroll tax is more stable than other sources, such as the sales tax, the possible resulting economic slowdown and/or layoffs could impact the stability of this as a future revenue source.

Recommendation to Council (cont.)

- SB 5796 and HB 2045 could have the unintended effect of displacing good family-wage jobs in our community that help move families and individuals up ladders of economic opportunity.
- Our City is proud to be a home for innovation and economic growth for all types of businesses and entrepreneurs, and these proposals will threaten those opportunities.
- SB 5796 and HB 2045 will have a focused impact on Bellevue's employment base and would give Washington a competitive disadvantage in the market.
- Request state lawmakers look harder at alternative options to solve state budget challenges, and set down these proposed options.



Direction

- Consider directing staff to articulate the City's position on proposed revenue strategies in the Legislature through a variety of means

