



City of Bellevue

City Manager's Office

DATE: October 8, 2024

SUBJECT: State Legislative Update, September 2024

Overview

With a month to go until general Election Day, campaigning is at its peak and ballots will be mailed by October 18 for the November 5 election.

Meanwhile, both the state House of Representatives and the Senate continue to hold committee working sessions on various topics, as state agencies begin submitting their requests for the 2025-27 biennial budget.

September highlights include:

State Budget Development Continues: In advance of convening the 2025 Legislative Session in January, Governor Jay Inslee will develop his final budget proposal. The Governor's Office initiates the state budget development process with the release of proposed operating, capital, and transportation budgets in December. The Legislature then considers these proposals as they begin budget deliberations in January.

As part of the Governor's budget development process, each state agency submits their budgetary needs and priorities to the Office of Financial Management (OFM) for consideration. As previously reported, OFM requested that state agencies focus their funding requests on continuing programs and refrain from expanding or creating new ones.

State agencies began submitting their requests for the 2025-27 biennial budget to OFM with the following highlights:

- Increase funding for the **Connecting Housing to Infrastructure Program (CHIP)** to help local governments fund infrastructure to support housing development (\$100 million): The CHIP program was established in 2021 and was directed \$55.5 million in the 2023-25 biennial budget. According to the Department of Commerce (DOC), projects CHIP was unable to fund during past two biennia would have increased housing supply by approximately 6,000 additional units
- Increase funding for the **Housing Trust Fund (HTF)** (\$1.2 billion): The 2023-25 biennial budget included \$400 million for HTF. According to the Department of Commerce, the increase funding level would develop and preserve approximately 15,500 subsidized housing units as part of achieving the states 1.1 million new affordable housing unit target published by DOC in 2023, as required by House Bill 1220 passed in 2021.
- Additional funding for **basic education** needs: According to the Office of Superintendent of Public Instruction (OSPI), from 2017-2019, nearly 50 percent of the state budget was directed toward education. By the 2023-2025 budget cycle, that share had dropped to 44 percent. The OSPI has requested an additional \$2.9 billion for public schools in the next biennial budget. This funding would support funding special education, retaining classified staff, and covering inflationary costs for materials and supplies.

Access all [state agency requests documents](#) on the OFM website.

State Revenue Updates: The Washington State Economic and Revenue Forecast Council released their September [revenue update](#) which showed revenue collected to be 2.7 percent higher than originally expected in June. While this increase reverses a shortfall from the August revenue update, it is roughly \$525 million below what is needed to pay for new spending in the current fiscal year.

Additionally, Washington's latest carbon auction raised \$237.2 million, bringing the state's cap-and-invest revenue up to \$561.7 million. Even with one quarterly auction left this year, auction prices will not raise as much revenue as in 2023. Lower fuel prices and uncertainty regarding Initiative 2117 (see below) could be potential reasons for the decrease.

Initiatives: Four Initiatives will appear on the November ballot: [Initiative 2109](#), repealing the capital gains tax; [Initiative 2117](#), prohibiting carbon tax credit trading and repealing provisions of the 2021 Washington Climate Commitment Act; [Initiative 2124](#), allowing all employees to opt out of paying and receiving long-term care insurance; and, [Initiative 2066](#), which requires Puget Sound Energy (PSE) to engage in a multi-year planning process to reduce its use of natural gas to serve customers and comply with the State's Clean Energy Transformation Act.

OFM has developed a detailed fiscal impact memo for each of the initiatives, reviewable [here](#). Below are highlights of the fiscal implications to each of the four initiatives:

Initiative 2109 (Capital Gains Tax): If approved by voters, OFM projects an estimated state revenue loss of \$2.2 billion over five state fiscal years (2025-2029). This revenue loss would primarily affect the Education Legacy Trust Account, which supports K-12 education, higher education, and early learning and childcare programs. The total net savings for administrative expenses across two state agencies are estimated at \$10.1 million over five state fiscal years. The initiative is not expected to have any impact on local government revenue.

Initiative 2117 (Climate Commitment Act): If approved by voters, OFM projects the state revenue impact to be \$758 million in fiscal year 2025 and \$850 million in fiscal year 2026. It is assumed that existing revenue would be spent through the end of the current state fiscal year or until it is exhausted, but a net total of approximately \$2.6 billion of spending authority in fiscal years 2025-2029 would no longer be available. Thirty-seven state agencies have spending authority from Climate Commitment Act funds in the current biennium for programs, projects, and as grants for local governments, community groups, school districts and Tribes. The revenue source that pays for these programs would be eliminated. The initiative is expected to have impact on local governments, including Bellevue.

Initiative 2124 (Long-Term Care Insurance): If approved by voters, OFM projects there will be additional expenses to the state due to administrative costs. Estimated expenses for the first three state fiscal years combined are in the range of \$12.6 million to \$31.2 million. There is an assumed decrease in state revenues due to workers opting out of the program and no longer paying premiums. It is unknown how many current and future workers will choose to continue to participate in the program. Therefore, the total impacts to revenue and program costs, including the amount for paying future benefits, are indeterminate. An analysis by the Office of the State Actuary indicates that, if rates of non-participation are high enough, the Long-Term Services and Supports Trust Account

could become insolvent as early as state fiscal year 2027. There are no known local government fiscal impacts.

Initiative 2066 (Natural Gas): If approved by voters, OFM projects a net increase in state costs of \$29,100 over five state fiscal years. 108 of the largest cities and counties in the state would need to reassess some Growth Management Act planning work, but the total costs associated are indeterminate.

Association of Washington Cities Legislative Agenda Finalized: On September 19, The Association of Washington Cities (AWC) Board of Directors adopted their [2025 Legislative Agenda](#). The final priority issues include:

1. Fiscal Sustainability
2. Public Safety
3. Infrastructure Investment
4. Increasing Housing Supply
5. Increase Behavioral Health Treatment Capacity Statewide

A few changes were made by the Board. The Board moved *Increasing Housing Supply* up as a priority issue and moved a few support items related to housing under this priority. They also moved support for behavioral health workforce under the *Increase Behavioral Health Treatment Capacity Statewide* priority. Lastly, they moved the support item to reduce gun violence to the *Public Safety* priority.

Legislative Committee Work Sessions:

Senate Transportation Committee: On September 17, the Senate Transportation Committee met in Bremerton and received updates regarding structural funding challenges facing the transportation budget. This included updates on the state's maintenance and preservation status and needs, as well as updates on ferries, ports, counties, cities and transit status and needs. According to the AWC presentation, more than 50 percent of cities are experiencing a decline in fuel tax revenues. The last time the state increased the share of gas tax revenue was in 2005. Sixty nine percent of local transportation systems are funded through the general fund (2020 data). This, coupled with the structural deficit in city general funds stemming from property tax cap restrictions and increased costs of current city services, creates an even further financial challenge for communities throughout the state. Click [here](#) to view the committee materials and [here](#) to watch the meeting on TVW.

Senate Law & Justice: On September 19, the Senate Law & Justice Committee met in Anacortes and received a Criminal Justice Training Commission (CJTC) update. The CJTC is tasked with training all fully commissioned law enforcement officers in the state. Due to the increase in legislative programs awarded over the last five years, CJTC has tripled its staff and continues to grow. There are three new Regional Training Academies (RTAs) that were funded in 2023. This has provided an opportunity for aspiring officers to take more localized training, rather than spend over four months in Burien for Basic Training. Before the RTAs were open, the wait time for a newly hired officer to get into academy was close to a year. Now, officers are mandated to attend academy within the first six months of being hired. Click [here](#) to view the committee meeting materials and [here](#) to watch the committee on TVW.

House Civil Rights & Judiciary: On September 24, the House Civil Rights & Judiciary Committee held a work session which included a discussion on the proposed changes to the Public Defense Standards. Much of the meeting was on the proposed changes to the public defense

requirements that are under consideration with the Washington Supreme Court, and how they will impact local jurisdictions. The AWC and the Washington Association of Counties (WSAC) spoke on the challenges local governments will face if these new rules go into place. Both the AWC and WSAC spoke on the extreme budgetary strain that could be placed on local governments without state support and that many local programs would be cut from local budgets to meet the costs of the proposal. The WSAC shared their plan to introduce a bill in the upcoming session that would have the state fund 50 percent of local public defense under the current public defense standards, and 100 percent going forward if the new public defense standards are approved by the Supreme Court. Their proposed legislation would also increase the timeline for local jurisdictions to implement the changes. Additionally, the AWC and WSAC highlighted that there are not enough attorneys in many communities to meet the required number of public defenders in the proposed standards. The Public Defense Office (PDO) gave a presentation on the same issue. The PDO acknowledged the concerns that cities and counties have, which is why they would like to partner with local jurisdictions and implement a jurisdiction-specific approach for the proposed public defense standards. Click [here](#) to view the committee meeting materials and [here](#) to watch the meeting on TVW. The AWC and WSAC also presented their concerns with the proposed standards in front of the Supreme Court on September 25. Click [here](#) to watch the hearing on TVW.

Reducing Recidivism: On September 16, Governor Inslee signed an [executive order](#) updating Washington's reentry efforts and formalizing Washington state's commitment to [Reentry 2030](#), a national initiative to reduce recidivism by removing barriers for individuals leaving prison. The executive order makes Washington the sixth state to join Reentry 2030 and involves nine state agencies in a collaborative effort to improve conditions for successful reentry after imprisonment. Click [here](#) to watch the signing ceremony on TVW.

State Labor Negotiations: The Washington Federation of State Employees (WFSE), which represents 50,000 state employees, walked off the job for one-hour in September to protest state proposals during the current labor contract negotiations. The WFSE believes that the current wage proposals do not account for inflation and will not help retention or recruitment for state jobs. The 2025-2027 labor contracts must be approved by October 1, but it is unclear what will happen if no agreement is made by the deadline.

Labor & Industries Workers' Compensation: On September 17, the Department of Labor & Industries (L&I) released proposed workers' compensation rates for 2025. The department is proposing a 3.8 percent increase in the average hourly rate employers and workers pay for workers' compensation insurance next year. According to L&I, the proposed rate increases are largely due to wage inflation and increased medical costs. The 2025 average rate increase would have been 5.5 percent had the department not used \$64 million in reserves to buy down the rate. Some [individual job classes](#) important to cities will see higher rate increases than the average, especially for first responders. Public hearings are scheduled for October 28 and 29 to take input on the rate proposal before a final decision is made. Written comments on the proposed rates can be sent to L&I by October 30. Click [here](#) for more information.