

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

State Legislative Update

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POLICY ISSUES

The State Legislature addresses a range of policy issues of interest to the City.

DIRECTION NEEDED FROM COUNCIL

☐ Action
☐ Discussion
☒ Information

Council may wish to provide direction to staff regarding particular legislative proposals.

BACKGROUND/ANALYSIS

Supplemental Budget Compromise

The regular session of the state Legislature ended without an agreement on the supplemental budget. The Governor immediately called the Legislature back into special session and a compromise budget was agreed to by both chambers on March 28. The special session ended the following day. The Legislature added approximately \$211 million to the two-year \$38.2 billion budget plan adopted last year without increasing taxes. Instead, it uses extra money in the state's general fund and other measures to pay for new priorities. The budget included funding to cover the costs associated with the 2015 wildfires and increases spending at the state's psychiatric hospitals. The final agreement did not include funding for teacher pay increases, but includes funding for a mentoring program for teachers and creates a task force to look at teacher compensation in the coming year.

Public Works Trust Fund Diversion

A significant disappointment in the compromise budget was legislative action impacting the Public Works Trust Fund, which essentially kills the fund. This is the fund that provides loans to local governments for infrastructure projects. For the past two biennia, the Legislature filled gaps in the state operating budget by "sweeping" funds from the Public Works Trust Fund and diverting tax revenues destined for the fund. This supplemental budget digs even deeper into the program by sweeping \$154 million in loan repayments expected to be paid by local governments in the 2017-2019 biennium for a total reduction of \$227 million.

NOTE: There is good news here. The Governor vetoed the additional sweeps of the Public Works Trust Fund in the 2017-2019 biennium.

Several proposals in the compromise budget addressed ("fixed") some concerns raised by cities, including Bellevue, in earlier proposals:

- **Municipal Research and Service Center (MRSC).** The Legislature heard from municipalities across the state about the value of this organization and the compromise budget provides full funding for its services without further diversions from local government liquor revenue.
- **Law Enforcement Training.** The compromise provides much needed funding for two additional basic law enforcement training classes in 2016 and does not increase the direct cost to cities sending cadets to the training academy.
- **Fire Insurance Premium Tax Distributions.** Forty-four cities share 25% of the state's tax on fire insurance premiums. The compromise budget proposal limited the amount a city could receive to \$2,000 per pre-LEOFF and LEOFF 1 retiree or the amount received in 2016, whichever was less. In addition, a city would only be eligible to receive a distribution if it is levying the 22.5 cents in property tax allowed under RCW 46.16.060 for the Firefighters' Pension Fund and could demonstrate the levy is not sufficient to meet the estimated demands on the fund or maintain the actuarial soundness of the fund. Bellevue does not levy the 22.5 cents property tax and would receive none of the tax distribution going forward—approximately \$206,000 per year.

NOTE: The good news here is that the Governor vetoed the section of the supplemental budget that included this change to the Fire Insurance Premium Tax distributions. Several cities, including Bellevue, launched a campaign to inform the Governor of the impact of this proposal on cities who are struggling to meet their obligations for the LEOFF 1 Pension Plan. Additionally, Representative Joan McBride and Representative Terry Nealey spearheaded an effort to get other legislators to support the cities' veto request. The effort was successful and these funds are secured for this budget. The bad news here is that there is likely to be another attempt to "sweep" these funds in 2017.

- **Merger of the LEOFF 1 Pension Plan with the Washington Teachers' Retirement System Plan 1 (TRS 1).** The compromise budget did not include a previously proposed merger of the LEOFF 1 and TRS 1 retirement systems. However, it directs the Select Committee on Pension Policy to study a merger of the two systems and update their 2011 merger study of the LEOFF 1 and LEOFF 2 retirement systems. This issue bears watching closely during the interim to ensure there are no unintended impacts on cities or retirees.

Supplemental Capital Budget

The supplemental capital budget was released on March 29 and included good news. Bellevue will receive \$1.4 million for a men's homeless shelter and Kirkland will receive \$350,000 for a women's homeless shelter. (Redmond runs the shelter for homeless youths and did not request funding in this budget.) All of our 41st and 48th District legislators supported the funding request, which was championed by Representative Joan McBride.

Supplemental Transportation Budget

As you will recall, the supplemental transportation budget was approved by both chambers and signed by the Governor. The \$8.6 billion budget, **HB 2524**, uses new federal funding and dividends from a stronger bond market to provide additional funding for maintenance and preservation, provides \$45 million from toll revenues to make changes to improve conditions on the I-405 express toll lanes, and includes \$5 million for salary increases for Washington State Patrol officers.

Education Funding

By the conclusion of the 2016 session, two significant education issues advanced:

- **SB 6195** established a task force to make recommendations to the Legislature on implementing basic education in response to the State Supreme Court's McCleary decision. This was the first bill signed into law by Governor Inslee this session. It will be important to monitor the work of this task force as it does its work during the interim.

Task Force members include: Senators Andy Billig, John Braun, Ann Rivers, Christine Rolfes, and Representatives Kristine Lytton, Chad Magendanz, Norma Smith, Pat Sullivan. The Governor's office will be represented by Matt Steuerwalt, Executive Director of Policy.

- **SB 6194** was passed to keep charter schools operating and to allow more schools to open in the future. The Governor allowed this bill to become law without his signature.

Next Steps

Staff is preparing a summary report on the 2016 session that will summarize key legislation and highlight the various issues we will be working on during the interim.

ALTERNATIVES

NA

RECOMMENDATION

NA

ATTACHMENT(S)

NA