

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

State Legislative Update

STAFF CONTACT

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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

With the November 8 election just weeks away, most statewide office holders, all House members and half the members of the Senate standing for election, and control of both chambers possibly shifting, there is much at stake.

The state received a bit of good news from the Economic and Revenue Forecast Council last week in an updated revenue forecast for the state. While the forecast is similar to the June update, there was slightly stronger growth in personal income and employment. The Council estimated that state revenue has increased by \$334 million for the 2015-2016 biennium and increased by \$125 million for the 2017-2019 biennium.

Per state statute, the estimated expenditures in the forecast are to reflect the cost to continue current programs, growth in entitlement programs is estimated by using growth factors. Other changes that are required by law, including items with future implementation dates, are generally reflected separately in the forecast (e.g., the Opportunity Scholarship program or I-732). The statute specifically excludes any future costs related to policy items, collective bargaining agreements not approved by the Legislature, or salaries and benefits, unless required by statute. While the additional funding forecast in the latest outlook is good news, the Legislature still faces major hurdles to adequately fund K-12 education and other pressing funding issues.

Update on Interim Activities

The interim between the end of the 2016 session and the beginning of the 2017 session has been a busy time. Several bills passed during the 2016 legislative session established work groups/task forces charged with preparing recommendations on specific issues for consideration by the Legislature in 2017. Included below is a summary of key issues under study during the interim.

McCleary Update

On September 7, the Washington State Supreme Court convened to hear oral arguments on the order of contempt against the state for its failure to comply with the *McCleary* court decision, which mandated that

the State develop a plan to fully fund K-12 education by 2018. *McCleary* advocates argued that the state has not complied with the order of contempt and should continue to be fined \$100,000 for each day the state remains in noncompliance. The State argued that it has begun working on major issues, such as school staff compensation, and that it has developed the required plan and the contempt order should be lifted. The state cited that the Legislature had implemented several pieces of legislation that put it in compliance with the court's order—HB 2261 in 2009, HB 2776 in 2010, SSB 6552 in 2014, and most recently 2ESSB 6195 in 2016, which established the Education Funding Task Force.

The State noted that the newest component, staff compensation, would make up 80% of the total education budget. The *McCleary* advocates argued that because the state had not yet developed actual, tangible dollar amounts (or a funding model) for staff compensation, the state remains non-compliant with the mandate to develop a plan to fully fund K-12 education by 2018. *McCleary* advocates also argued that the state still failed to firmly identify the levy lid changes, fully develop an adequate prototypical school model, and continues to provide insufficient funding for materials, supplies and operating costs (MSOCs) and transportation. Additionally, the *McCleary* advocates argued that the state has failed to comply with the penalty under the current order of contempt because it has not set up an account to collect the \$100,000/day fine imposed by the Court since the mandate. Instead, the Office of Financial Management has been keeping track of the total accrued fine, which is now over \$39.1 million. The Supreme Court is expected to hand down a decision on whether or not to lift the order of contempt prior to the beginning of the 2017 legislative session.

Meanwhile, the Education Funding Task Force continues to meet. This month's task force meeting included the introduction of a third-party consultant hired by the Legislature to collect and analyze data specifically pertaining to school staff compensation in order to determine how much the Legislature will need to increase funding in order to appropriately compensate certified administrative staff, certified instructional staff and classified staff. The consultant, Third Sector Intelligence (3SI), presented a plan to analyze the collected data, which will include a review of the data collection process, supplemental pay analysis, comparable market rate salary analysis, local labor market adjustment and staff salary total cost. Since the end of the school year last June, compensation data from all three staffing levels has been collected and 3SI has confirmed that it is on track to produce an analysis and full report on this data on November 15 in compliance with the guidelines set forth by the task force.

State Budget Development

State agencies are submitting their budget proposals to the Governor's Office. Over the next couple months, the Governor's Office and the Office of Financial Management will be developing the Governor's proposed budgets, which will be released in mid-December. The Governor's budget is the starting point for funding discussions and decisions by the two chambers.

General Government

Department of Revenue (DOR) Task Force on Business Licenses & Local Business & Occupation Taxes

Per legislative direction, DOR convened a task force regarding business licensing and local B&O taxes. The task force has been meeting twice a month since May. Thus far, the task force has only discussed developing a recommendation around business licensing. The business community representatives on the task force support a mandate that all cities use the new state business licensing system - ATLAS. City representatives on the task force expressed strong opposition to any mandate. It is also unclear whether the ATLAS system will be ready and/or able to handle such a mandate. That said, the task force seems to

be coalescing around a recommendation that satisfies both city and business interests along the following lines:

- A single entry point that directs businesses to (1) the state's business license system (ATLAS), or (2) FileLocal, or (3) indicates that a business needs to go directly to a city for a license.
- State system and FileLocal interchange to create one interface for the business/taxpayer. For cities, like Bellevue, that impose a local B&O tax, the business license data is often intertwined with the local B&O tax information, therefore, keeping the business license within FileLocal is necessary to ensure tax compliance.
- The Association of Washington Cities (AWC) will work with the DOR to have more cities participate in the state system. There would also be a goal of having 90% of cities join the state system. The DOR would write a report to the Legislature outlining the timeline and funding needed to meet this goal.

The task force is also discussing business license nexus (i.e. how much business a taxpayer has to do within a jurisdiction before being required to get a business license). The task force has discussed various thresholds without reaching agreement on the issue.

Business Improvement Area Legislation

The City of Seattle has developed a legislative proposal to clarify the statutes authorizing jurisdictions to establish Business Improvement Areas (BIA). Bellevue is one of roughly a dozen cities that have established BIAs, and would benefit from the legislative proposal. BIAs are created in areas where businesses agree to a special assessment, to fund general economic development and neighborhood revitalization, including parking structures. Seattle's legislative proposal is largely clarifying in nature, and clarifies the eligible activities that the BIA can do.

Foreclosed Homes/Code Enforcement

In July, the Washington State Supreme Court ruled that banks do not have the authority to secure homes until the end of the foreclosure process. Previously, banks had the authority to secure homes once they were vacant, which allowed the bank to secure the home and maintain the "asset." Given this ruling, it is expected that legislation will be introduced in the 2017 session clarifying that a bank can secure a home once it is vacant. Many local jurisdictions have indicated a need for increased notification and code compliance around foreclosed homes; a legislative proposal would present an opportunity to advance that conversation.

Infrastructure

Washington Waters Steering Committee

During the interim, a stakeholder group has been meeting to discuss a large statewide water bond initiative. Last session, there were legislative proposals to impose a statewide per-parcel fee to fund flood mitigation, water supply/storage projects and stormwater projects. This legislation did not pass and the stakeholder group has agreed that any successful investment program would need to include additional projects to address water quality, culverts and other infrastructure needs. Proponents are working to have legislation ready for the 2017 session, which could possibly be the subject of a November 2017 ballot measure.

When water bond discussions surfaced several sessions ago, proponents were working to enact a statewide fee to fund projects such as a large water storage project in the Yakima area and a flood mitigation project along Interstate 5 in the Chehalis/Centralia area. At the time these proposals surfaced, Bellevue and many other jurisdictions opposed the legislation due in part because in King County all

property is already subject to a property tax to fund the King County Flood Control District. Bellevue staff is monitoring the activities of the stakeholder group and at this time would not recommend Council support for a proposal to impose a statewide fee/assessment. Staff will keep Council apprised of discussions on this issue as appropriate.

Department of Ecology Water Infrastructure Study Needs

Possibly unrelated to the item above, but simultaneously, the Department of Ecology announced this last week that it will be holding two public meetings, at the prompting of Senate Capital Budget writers Senator Jim Honeyford (R-Yakima) and Senator Karen Keiser (D-Des Moines) to understand the economic consequences of investing – and not investing – in water infrastructure and fisheries habitat across the state.

Housing & Human Services

Affordable Housing

There is growing pressure for the Legislature to make funding and policy changes to address the increasing need for affordable and low-barrier housing. At this time there are three legislative proposals that have emerged; more are anticipated to be developed between now and the beginning of the 2017 legislative session. Current proposals include the following:

Housing Trust Fund

This fund invests state money through a competitive process to build affordable housing for people earning zero to 80% of the local area median income. Housing advocates are requesting that the state invest \$200 million over the 2017-2019 biennium that would allow this program to build over 5,600 additional permanently affordable homes. The Housing Trust Fund was allocated a total of \$79 million over the 2015-2017 biennium.

Medicaid Waiver

The 1115 Medicaid Waiver gives states additional flexibility to design and improve their Medicaid programs, including the ability to fund housing services with Medicaid dollars. The state of Washington's Health Care Authority has requested a 1115 Medicaid waiver from the federal government. Last session there was language proposed that would have put limits and caps on the ability of the Health Care Authority to accept federal funds associated with the waiver which could jeopardize the ability of the state to access these additional federal funds. While that language was not adopted, there is concern that it will be introduced in the 2017 session.

Document Recording Fee

During the interim, many stakeholder groups are working to advance legislation in the 2017 session regarding the document recording fee. The document recording fee funds housing assistance programs, specifically for homelessness programs that help transition people off the streets. The fee is currently \$58, \$30 of which is scheduled to sunset in 2019. If the sunset provision is not removed during the 2017 session, the state Department of Commerce will not be able to enter into contracts with housing providers in 2018. There are ongoing discussions about removing the sunset, increasing the fee, changing how the fee is allocated, and altering the type of documents that the fee is imposed on, among others. While no specific legislation has been drafted at this time, staff is participating in these discussions as this fee has been an important and reliable source of funding for housing.

ALTERNATIVES

N/A

RECOMMENDATION

N/A

ATTACHMENT(S)

N/A