

## 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**

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#### **DIRECTION**

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#### **INFORMATION ONLY**

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

### **BACKGROUND/ANALYSIS**

With the November 8 election just weeks away, all state House members and half of the members of the state Senate standing for election, and control of both chambers possibly shifting, there is much at stake. Several races are too close to call, making it challenging to predict whether control of either chamber will change. However, there are a few impacts that are known today and summarized below.

***Post-Election Appointments:*** In a number of races, sitting members of the Legislature are running for a local, statewide, or congressional position. If successful in winning the new positions, the legislative seat will be vacant and will need to be filled through an appointment process. Under the appointment process, precinct committee officers for the party holding the seat before the election will forward three recommendations to the county council, and the county council makes the appointment to the legislative seat. If the county council cannot reach agreement on an appointment, the Governor makes the appointment. Because these appointments are from the same party that currently holds the seat, these appointments will not influence the control of either chamber. Below are some of the possible appointments that may follow the upcoming election:

- Senator Cyrus Habib (48<sup>th</sup> District, Bellevue) is running for Lieutenant Governor. If he wins election, there will be an appointment process to fill his seat. Traditionally, when there is an open Senate seat, the sitting House members in that district are contenders for the appointment. The House members in the 48<sup>th</sup> District are Representative Joan McBride and Representative Patty Kuderer. If either of them is appointed, an appointment process for the vacant House seat would follow.
- Senator Pramila Jayapal (37<sup>th</sup> District, Seattle) and Representative Brady Walkinshaw (43<sup>rd</sup> District, Seattle) are running for the 7<sup>th</sup> Congressional District. The 37<sup>th</sup> District House members who would possibly be contenders for the Senate seat are Representative Sharon

Tomiko Santos and Representative Eric Pettigrew. If either is appointed, an appointment process for the vacant House seat would follow.

- Senator Mark Miloscia (30<sup>th</sup> District, Federal Way) is running for State Auditor against Pierce County Executive Pat McCarthy. If Senator Miloscia wins the seat, an appointment process for his Senate seat will follow. The 30<sup>th</sup> District House members, Representative Linda Kochmar and Representative Teri Hickel, both of whom were losing to Democrat challengers in the primary, could be contenders for appointment to the Senate regardless of whether they win their House seats on November 8.
- Senator Pam Roach (31<sup>st</sup> District, Sumner) is running for a seat on the Pierce County Council. If successful, it is unclear whether she will simultaneously serve both positions. A recent Pierce County Charter amendment limits county officials from serving both offices, but the charter amendment is not effective during the 2017 legislative session. If she wins the county council seat and decides to vacate her Senate seat, an appointment process in the 31<sup>st</sup> District would follow. Representative Drew Stokesbary is the House member; the other House seat is open and will be decided on November 8.

***Changes in Committee Chairs:*** Following the November 8 election, each party caucus in each chamber will convene a “Committee on Committees” to determine the number and type of legislative committees, which legislators serve on which committees, and select the chair and/or ranking member on each committee. Traditionally the Committee on Committees meet during the Legislative Committee Days in late November or early December. Committee chairs tend to remain the same year-to-year. However, given the many changes in the Legislature, there are a few committees that will have new chairs, and we are beginning to hear speculation on who could serve in these key legislative positions:

- Senator Linda Evans Parlette (12<sup>th</sup> District, Chelan) chairs the Senate Majority Coalition Caucus (MCC)/Republican Caucus. She is not seeking re-election. There is speculation that Senator Randi Becker (2<sup>nd</sup> District, Eatonville), current Chair of the Senate Healthcare Committee, will be the new MCC Chair, prompting the naming of a new Chair for the Senate Healthcare Committee.
- Representative Chris Hurst (31<sup>st</sup> District, Bonney Lake) chairs the House Committee on Commerce and Gaming. He is not seeking re-election. This committee handles all liquor and marijuana legislation and there is speculation that Representative Sharon Wylie (49<sup>th</sup> District, Vancouver) has a strong interest in chairing the committee.
- Senator Jim Hargrove (24<sup>th</sup> District, Hoquiam), is the lead Senate Democrat on the Senate Ways and Means Committee. He is not seeking re-election which leaves this key budget writing position open. There is speculation that Senator Andy Billig (3<sup>rd</sup> District, Spokane), and Senator Kevin Ranker (40<sup>th</sup> District, Orcas Island) are interested in this position.

### ***McCleary Update***

On October 7, the Washington State Supreme Court maintained its order of contempt against the state, continued the \$100,000/day fine that was imposed in 2015, and reinforced that the Legislature needs to develop a complete model to completely fund K-12 education by September 2018. Notably, the September 2018 deadline gives the Legislature both the 2017 and 2018

legislative sessions to develop a complete funding model that addresses the school districts' over reliance on local levies to fund basic education, make changes to the staff compensation formula, and identify funding to implement changes.

Meanwhile, the Education Funding Task Force, established by the 2016 Legislature, continues to meet and develop recommendations for the 2017 session. The Task Force met most recently on October 11 and presented potential solutions to address school districts' reliance on local maintenance and operating levies – commonly referred to as the “levy swap.” Task Force staff presented different “levy swap proposals.” The three proposals include the following:

- **Taxpayer/Property Tax Bill Neutral:** The state property tax would increase, and local maintenance and operating levies would be reduced by the amount of the new increase in the state property tax. This results in some school districts receiving an increase in funding, and some a decrease. Additionally, taxpayers would see either no change or an increase in their property tax bills.
- **School District Revenue Neutral:** The state would raise revenue in a manner other than a state property tax increase (e.g. capital gains tax, carbon tax, etc.). The new revenue would be allocated to school districts. Local maintenance and operating levies would be reduced in each district by the amount of the new state revenue allocated to that school district. For school districts that currently have maintenance and operating levies, revenues for the district remain the same. For school districts without local levies, revenues for the district would increase. In school districts that currently have maintenance and operating levies, the taxpayer's property tax bill decreases, but all taxpayers would see an increase in taxes depending on the mechanism for new revenue selected.
- **Local Maintenance and Operating Levies Limited:** Local maintenance and operating levies are reduced to a flat rate per \$1,000 of assessed value (AV), (e.g. \$1.00 per \$1,000 of AV) or a specific funding amount per pupil (e.g., \$1,000 per pupil). This would result in a reduction in school district revenue, but would increase the percentage of state funding allocated to school districts.

The Task Force is working on determining the impact of each policy proposal on each school district and will be providing this analysis in the coming months. However, Task Force staff noted that each proposal would have variable impacts from district to district, making a “one size fits all” approach difficult in achieving universal positive impacts on school revenue. At this time, all of these proposals are highly theoretical. The goal that the Task Force has identified is to find a policy that universally increases school revenue and either decreases or maintains the impact on property owners.

On the school staff compensation issue, the Task Force has engaged a consultant to collect and analyze data specifically pertaining to school staff compensation in cooperation with the Office of the Superintendent of Public Instruction (OSPI) 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. At the October 11 Task Force meeting, the consultant, Third Sector Intelligence (3SI), presented a plan to analyze the data collected, 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.

The next meeting of the Education Funding Task Force has not been set.

### **State Budget Development**

State agencies have submitted their budget proposals to the Governor's Office. Over the next few weeks, 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 state revenue forecast anticipates a \$41.2 billion Operating Budget for the 2017-2019 biennium.

### ***Department of Revenue Task Force on Business Licenses and Local Business and Occupation Taxes***

Per legislative direction, the Department of Revenue (DOR) convened a Task Force regarding business licensing and the collection and administration of local Business and Occupation (B&O) taxes. The Task Force was the result of legislation introduced in the 2016 session that proposed changes that could have negatively impacted revenue from cities that impose a local B&O tax. The legislation was modified to establish a task force to develop options for centralizing and simplifying administration of city business licensing and collection of the local B&O tax.

By way of background, the issue of simplifying/streamlining the collection of the local B&O tax has been the subject of legislation over many years. Several of the bills have proposed that the state take over the entire administration of business licensing and local B&O tax collection. Cities have opposed these bills due to the potential to lose millions of dollars annually. In addition to lost revenue under state administration, city interests in maintaining control over business licensing and local B&O tax collection include: maintaining local control and flexibility over how these systems are designed and administered; revenue neutrality for cities; no increase in administrative costs and real benefits for the businesses who are the end users of these systems. In an effort to address the issues raised by these legislative proposals, four of the state's largest cities—Bellevue, Seattle, Tacoma and Everett—entered into a partnership several years ago to create and launch an on-line portal where businesses can get local licenses and pay local B&O taxes all in one place. These four cities represent 90% of local B&O taxes collected. ***FileLocal***, the on-line portal has successfully launched in three of the four cities and is expected to expand to additional cities next year.

The Task Force established by the 2016 Legislature has been meeting since May but has not yet made *formal* recommendations; rather, it has discussed concepts around business licensing where there is conceptual agreement among Task Force members in the following areas:

- To better streamline the business license filing process for taxpayers, the Task Force recommends that there be a primary entry point for businesses to get their license from the state's business license system (ATLAS). However, cities would not be required to use ATLAS – cities could continue to use FileLocal (the multi-city business licensing/B&O local tax portal designed and implemented by the cities of Seattle, Bellevue, Tacoma and Everett), or their own local mechanism for business license filing.

- To increase the number of cities using ATLAS, the Association of Washington Cities (AWC) would partner with the DOR to communicate the benefits of ATLAS. To effectively add more cities to the ATLAS system, the DOR would use 2017 to onboard cities. Using this experience, the DOR would determine a reasonable rate under which additional cities can be added to ATLAS (e.g. two cities per month). The DOR would then provide a report to the Legislature by October 31, 2017, with an action plan identifying various rates at which cities can be on-boarded and the funding required to achieve this within five year. The Task Force would likely propose that the Legislature appropriate funds from the Master Licensing Services Account to cover the cost of adding cities which would be included in the DOR's action plan. Funds would be used for increased staffing for ATLAS programming; providing training or technical support to municipal staff, grants for onboarding cities, temporary staff support, computer hardware, and related activities. When the DOR has exhausted the list of cities wanting to partner/join ATLAS or by January 1, 2023, whichever is sooner, the DOR shall submit a report to the Legislature describing its efforts to onboard cities, identifying cities that have and have not joined ATLAS, and describing any identified barriers.
- The Task Force recommends that the DOR establish an advisory committee with local jurisdiction partners to provide input on the ATLAS system regarding service level agreements/expectations, partner portal changes, and administration of partner change priorities.
- The Task Force recommends that FileLocal cities (including Bellevue) can continue using FileLocal for business licensing. The DOR will work in conjunction with FileLocal representatives and evaluate the cost and feasibility of creating a seamless interchange between ATLAS and FileLocal to make the process invisible and easy for businesses using the two systems.

In addition to the proposals around business licensing, the Task Force has preliminarily reviewed a proposal regarding business “nexus” (the amount of activity a business must conduct with a jurisdiction before it has to obtain a business license). City representatives on the Task Force proposed drafting a model definition on engaging in business (nexus) that includes an exemption for de minimis business activity.

Additionally, the Task Force is considering a proposal that establishes a separate work group to look at clarifying/improving the “apportionment” formula in a manner that will not reduce local revenue. Apportionment is the manner in which local business revenue is split among the jurisdictions in which the business is providing services or selling goods. Apportionment and allocation of tax revenue are serious issues for cities as small changes could result in revenue shifts that could harm city revenue.

The Task Force will submit a preliminary report during Senate and House Committee Days in late November or early December. A final report is required by January 1, 2017. Legislators are watching the work of the Task Force closely and it is likely that legislation on this topic will be introduced in the 2017 legislative session.

## **ALTERNATIVES**

**NA**

**RECOMMENDATION**  
NA

**ATTACHMENT**  
NA