

## 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.

#### **ACTION**

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#### **DIRECTION**

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#### **INFORMATION ONLY**

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No formal action is required; this is an informational briefing. Council may wish to provide direction to staff regarding particular legislative proposals.

### **BACKGROUND/ANALYSIS**

#### **Next Legislative Cutoffs Coming Up**

The Legislature is now meeting in committees, holding public hearings on bills that passed out of the opposite chamber (i.e. House committees are hearing Senate bills; Senate committees are hearing House bills). Bills from the opposite chamber need to pass out of the policy committees by **March 29**. If the opposite chamber makes any amendments to a bill, whether it is in committee or otherwise, the originating chamber will need to “concur” with those amendments. **April 4** is the last day for bills to pass out of the fiscal and transportation committees in the opposite house. **April 12** is the last day for bills to pass out of the opposite chamber. **April 23** is the last day of the regular legislative session.

#### **Revenue Forecast Estimates Exceed Expectations**

The State Legislature is past the halfway point of its 105-day regular session. The latest state revenue forecast was released March 16 by the State Revenue Forecast Council and the numbers show that the Legislature has a bit more money to work with as the Senate and House release their budgets. The Senate Majority Caucus released its budget last week and the House Democrats are expected to release their budget the week of March 27. The latest forecast found that the state’s revenue collections through the middle of 2019 are expected to increase by approximately \$571 million. This is about \$313 million more than originally forecast for the 2017-2019 biennium and about \$258 million more for the current two-year budget that runs through June.

The total projected state budget for 2017-2019 is estimated at \$41.6 billion. The final budget will have to satisfy the State Supreme Court which has said the state must have a plan to fully fund K-12 education as required the Court’s *McCleary* decision. The Court has held the state in contempt for lack of progress on K-12 education. There are differences of opinion in each chamber on how to address school funding. Democrats are seeking additional revenue and Republicans are saying no new taxes are needed.

### **Senate Majority Caucus Releases Proposed Budget**

The two-year budget proposal released last week by the Senate Majority Caucus totals \$43 billion and would add \$1.8 billion to K-12 education to address the *McCleary* decision. This additional funding for education would come from higher than projected revenue from existing taxes, cuts to some programs and transfers from other state revenue accounts. As part of its plan to put more funds into K-12 education, the Senate proposal would increase state property taxes by \$1.55 per \$1,000 of assessed value that would replace local school district levies that fund basic education. This proposed property tax increase would raise property taxes in some areas of the state with high assessed values (Seattle, Bellevue and other nearby areas) and lower property taxes in other areas. Some resistance to this proposed plan has been expressed by Democrats and others who say the property tax plan is unfair and some of the proposed cuts would hurt important state programs.

As you recall, Governor Inslee released his proposed budget in December. That budget was the starting point for the discussions on the state's biennial budget. The release of the Senate Majority Caucus budget is the next round of discussions. Once the House releases its budget, discussions regarding a compromise budget will begin in earnest.

For cities overall, the Senate proposal contains some good news and some bad news. Revenues that the state shares with local government remain largely intact, such as liquor tax/profits, marijuana revenue, as well as funding additional classes at the Basic Law Enforcement Academy without increasing the city's costs. The proposal includes a temporary suspension of the Department of Retirement Systems (DRS) 0.18% surcharge on employers through the biennium. In the short term, this reduction in the surcharge would provide savings to the City of approximately \$100,000 in the first year and approximately \$200,000 in the second year. However, the savings could be short-lived if DRS administrative expenses (that this surcharge helps pay) increase and the fee is adjusted upward in the next budget.

In the bad news for cities category there are several proposals that would result in unanticipated, unfunded mandates, includes the following:

- Shifting the state's 3.5% contribution to cities for Law Enforcement Officers and Fire Fighters Plan 2 (LEOFF 2) employees. This would result in a \$1.5 million annual unanticipated cost for Bellevue, or about \$3 million over the 2017-2019 biennium.
- Implementing a new monthly Public Employees Retirement System (PERS) surcharge on the employer's contributions to all active PERS members that would average about 0.5% through 2028, but would increase to 3.5% in 2028-2029 and increasing 1.48% in 2029-2030. The surcharge would be used to pay back the \$700 million that proposed budget plans to transfer to cover the PERS 1 unfunded liability as part of the 2017-2019 Senate budget. The impact to Bellevue is about \$300,000 that would begin in the 2018-2019 state fiscal year period.
- The Fire Insurance Premium tax would be eliminated and the impact to the City of Bellevue would be about \$230,000 per year. These funds are used to cover the City's obligations for LEOFF 1 medical expenses.

### **Senate Transportation Budget Released**

The Senate released its proposed 2017-2019 Transportation Budget. The proposed transportation budget appropriates \$8.4 billion, including re-appropriating \$470 million from the 2015-2017 budget.

In an effort to continue implementing the Connecting Washington (CWA) transportation package, the Senate proposes a pilot program to move funding forward. Under the proposed pilot program, projects generally retain current total funding and project aging assumptions as passed by the 2016 Legislature. For the 2017-2019 biennium, the WSDOT is given the authority, on a pilot basis, to advance a limited list of projects using CWA transportation package funding that would otherwise be re-appropriated. The goal is to allow \$470 million that was re-appropriated this last biennium to be “put to work” on projects. The language limits the advancement to projects identified specifically in the provisos. The WSDOT must provide notice to the state Office of Financial Management (OFM) and the Legislature 10 days prior advancing a project.

The proposal also makes a number of funding adjustments and reporting requirements for the I-405 Corridor. Notably, the Senate budget proposal includes proviso language that allows any savings from projects completed on the I-405 Corridor to be reinvested in other projects along the corridor, rather than transferring the funds into the Transportation Futures Account, as otherwise called for under the CWA transportation package. Of the savings generated from existing projects on the corridor, \$1.5 million is allocated solely for preliminary engineering to add capacity on I-405 between SR 522 and I-5. Additionally, \$2 million in toll revenue from the I-405 Express Toll Lanes will be used to complete the I-405 Northbound Hard Shoulder Running project from SR 527 to I-5.

As long as I-405 is tolled, the WSDOT shall provide quarterly reports to the Legislature on the I-405 express toll lane project performance measures as listed in RCW 47.56.880(4). These reports shall include:

- Information on travel times and travel time reliability (at a minimum, average, and 90th percentile travel times) maintained during peak and nonpeak periods in the express toll lanes and general purpose lanes for both the entire corridor and commonly made trips in the corridor including, but not limited to, northbound from Bellevue to Rose Hill, state route number 520 at NE 148th to I-405 at SR 522, Bellevue to Bothell (both NE 8th Street to state route number 522 and NE 8th Street to state route number 527), and a trip internal to the corridor (such as NE 85<sup>th</sup> Street to NE 160<sup>th</sup> Street) and similar southbound trips;
- A month-to-month comparison of travel times and travel time reliability for the entire corridor and commonly made trips in the corridor as specified in (a) of this subsection since implementation of the express toll lanes and, to the extent available, a comparison to the travel times and travel time reliability prior to implementation of the express toll lanes;
- Total express toll lane and total general purpose lane traffic volumes, as well as per lane traffic volumes for each type of lane (i) compared to total express toll lane and total general purpose lane traffic volumes, as well as per lane traffic volumes for each type of lane, on this segment of I-405 prior to implementation of the express toll lanes and (ii) compared to total express toll lane and total general purpose lane traffic volumes, as well as per lane traffic volumes for each type of lane, from month to month since implementation of the express toll lanes.

Member requests for funding additional transportation projects are not intended to be included in the initially proposed Transportation Budgets from either the House or Senate. The Transportation Committee chairs intend to add projects in at the final negotiating stage of the budget.

In addition to these project-based adjustments, the Senate proposes to make the following investments in grant programs that would benefit cities broadly:

- \$1.1 million would be appropriated to WSDOT to contract with WSAC to for collection of data related to reporting, culverts and road safety.
- \$23.2 million in federal and state funds would be appropriated to structurally deficient state owned bridges, including bridge deck repair, concrete bridge deck overlays, and bridge replacement.
- Transportation Improvement Board (TIB) funding--\$4 million would be provided for the Small City Preservation Program (SCPP) and City Hardship Assistance Program (CHAP). SCPP provides funding to cities with populations of less than 5,000 for chip seal, overlay of existing pavement, and maintenance of existing sidewalks. CHAP provides resurfacing assistance to offset costs of state route jurisdictional transfer. Approximately \$200 million would be provided to the Urban Arterial Program, Sidewalk Program, Small City Arterial Program, and Arterial Preservation Program. \$24 million is allocated to projects in the Connecting Washington investments.
- Freight Mobility Strategic Investment Board would be allocated \$31 million to fund projects selected by the FMSIB Board. Traditionally, the FMSIB call for projects takes places after funding has been allocated, as opposed to other grant programs that select projects in advance of an appropriation.
- \$19.15 million would be appropriated from state and federal sources for the Safe Route to School Project list.
- \$1.1 million would be allocated to the Utilities and Transportation Committee for correcting at-risk public railroad-highway grade crossings to improve public safety associated with the 2014 Oil by Rail Legislative Study.
- \$14.6 million would be allocated for the Complete Streets Program administered through the Transportation Improvement Board. The Complete Streets Award is flexible money given to any city or county in the state who has adopted complete streets ordinance and shows an ethic of planning and building streets that use context sensitive solutions to accommodate all users, including pedestrians, transit users, cyclists, and motorists.

### **Status of Key Pieces of Legislation**

#### **Business Licensing and Local Business and Occupations (B&O) Tax Bills**

House Bill 2005, sponsored by Representative Kris Lytton (D-Anacortes), and Senate Bill 5777, sponsored by Senator Sharon Brown (R-Kennewick), have had hearings in committee in the opposite chamber. The bills are slightly different from one another, with the Senate version being more beneficial for cities. Both bills require cities to adopt a uniform definition on the minimum amount

of activity a business would need to engage in before a business license is required; would establish a work group to discuss potential changes to the local B&O tax apportionment formula; and would require cities to join the state business licensing system, with some exceptions. The differences between the two bills are in these exceptions. The House version of the bill allows cities participating in FileLocal (including Bellevue) as of 2018 to opt out of the state business licensing system. The Senate version proposes allowing those cities participating as of 2020 to opt out. Finally, the Senate version directs the state Chief Information Officer to conduct a feasibility study on data sharing between FileLocal and the state business licensing system; the House version does not contain this language. Cities are working to advance the Senate version of the bill.

### **Siting of Small Cell Network Facilities**

Senate Bill 5711, sponsored by Senator Doug Ericksen (R-Ferndale), did not meet the latest cutoff deadline and is officially dead. However, the Governor has expressed a desire to engage in this policy discussion about this bill and how it relates to providing broadband access for rural areas. This bill could be resurrected as necessary to implement the budget. Bellevue has been working with a large consortium of cities and offered an amendment via Senator Reuven Carlyle (D-Seattle) that requires cities to adopt an ordinance outlining the siting of small cell facilities. Under the amendment, a city would have to adopt an ordinance by January 1, 2018 outlining where small cell facilities can be located and design review guidelines for the small cell facilities. This approach honors local control while providing greater predictability for the telecommunications industry. In initial conversations with the Governor, city representatives have communicated that the Carlyle Amendment reflects a compromise with cities, and there is not further compromise that can be reached.

### **Housing & Homelessness Funding and the Document Recording Fee**

There are several bills related to the document recording fee and homelessness services, funding of homelessness services and attempts to resolve underlying issues related to housing affordability and increasing housing prices. All bills related to the document recording fee have been designated as necessary to implement the budget and will likely be part of a broader negotiation process as the session continues.

### **Affordable Housing Local Options**

House Bill 1797, sponsored by Representative Joan McBride (D-Kirkland), would provide cities with funding tools for affordable housing. The bill allows existing real estate excise tax (REET) revenues to be used for affordable housing development through 2022. It would also allow cities to apply for a one-time remittance of 4.37% of the state sales and use tax on an affordable housing development, and would allow King County cities to impose the 1/10<sup>th</sup> of a cent local sales and use tax for affordable housing by councilmanic vote. Imposition of this tax is currently only allowed with voter approval. This bill previously contained the authority for cities to impose a third quarter-cent increase in the REET for affordable housing; however, that provision was removed by the House Committee on Community Development, Housing & Tribal Affairs. The bill is currently in the House Rules Committee, and is considered necessary to implement the budget.

### **ALTERNATIVES**

N/A

### **RECOMMENDATION**

N/A