

## CITY COUNCIL STUDY SESSION ITEM

### **SUBJECT**

State Legislative Update

### **STAFF CONTACTS**

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### **POLICY ISSUES**

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

#### **ACTION**



#### **DIRECTION**



#### **INFORMATION ONLY**



No formal action is required; this is an informational briefing.

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

### **BACKGROUND/ANALYSIS**

#### **BACKGROUND**

##### **November Election Update**

There are eight seats up for election this November. Most notable among these is the open Senate seat in the 45<sup>th</sup> Legislative District which includes portions of Redmond, Kirkland, Woodinville, Sammamish, Duvall and a large swath of unincorporated King County. If the Democrat candidate, Manka Dhingra, wins this seat over the Republican candidate Jinyoung Lee Englund, the Democrats would have a majority in the state Senate. If this occurs, Democrats would control the House, the Senate and the Governor's Office. The August primary results favored Dhingra by 51.5% to 41.5%.

##### **Capital Budget Remains Stalled Due to Problems in Resolving Hirst Case Issues**

The stalemate on a compromise that would resolve issues related to the State Supreme Court decision in the *Hirst* decision and adopting the Capital Budget continues. Previously, a small group of legislators met to develop legislation addressing *Hirst* which requires jurisdictions to ensure water availability prior to issuing a building permit. Now, both parties are working on new proposals with the plan to convene to share their plans. Most recently, the Building Industry Association of Washington released an economic study that indicated that the *Hirst* decision has caused \$6.9 billion in lost economic activity, \$37 billion in lost property values, \$346 million property taxes shifted to other properties, and \$392.7 million annually in lost taxes to state and local governments. This new economic data may further encourage this small group of legislators to reach an agreement.

##### **State Supreme Court to Hear Arguments on McCleary K-12 Investments**

On October 24 the State Supreme Court will hear oral arguments on whether the State Legislature's investments in K-12 education this past legislative session satisfy the Court's order to fully fund K-12 education. It is unclear whether the Court will rule that the investments are sufficient. If insufficient, it is likely that 2018 Legislature will have to revisit the topic of K-12 education funding.

### **New State Economic and Revenue Forecast**

Last Wednesday, the State Economic and Revenue Forecast Council announced that higher-than-expected tax collections are projected to add more than \$530 million to the state's bottom line through 2021. With the latest forecast of additional revenue, the Legislature may revisit the recently passed state Operating Budget and use increased revenues to reduce the impact of the increase in the state's share of the property tax to fund K-12 education. As a result of the tax increase many property owners will see a property tax hike in 2018, with a reduction in property taxes in some areas in 2019. There is a chance that the Legislature will be called into a special session in late November to address this and other issues. Staff will provide information for Council on this issue as it becomes available.

### **Update on Initiatives**

The state Constitution allows for two types of initiative: initiatives to the people and Initiatives to the Legislature. Both types of initiatives require the signatures of roughly 260,000 registered voters. If an initiative to the people gathers the necessary number of signatures, it is placed on the next General Election ballot for citizens to vote on the proposed law. For the first time since 1983 there will be no statewide initiatives on the November 2017 ballot. Efforts are now underway to develop a carbon tax initiative for the November 2018 ballot that could be supported by the business community, tribes and environmental groups. The tax would fund water infrastructure needs such as water supply, flood mitigation, storm water, and culvert projects.

The second type of initiative, initiatives to the Legislature are considered the following year and the Legislature must take one of three actions: adopt the initiative as proposed; refuse to act on the initiative in which case it is placed on the next General Election ballot, or approve an alternative to the proposed initiative and place both options on the next General Election ballot. There are a number of Initiatives to the 2018 Legislature that are pending the collection of adequate signatures by the December 29 deadline. Notably, Tim Eyman is collecting signatures on an initiative that would cap the motor vehicle excise tax and car tab charges. If successful, this initiative would negatively impact Sound Transit revenues, and revenues from cities with transportation benefit districts.

### **2018 Supplemental Budget Development on the Horizon**

The 2018 legislative session is a "short", 60-day session and the Legislature will adopt supplemental operating and transportation budgets, and adopt capital budget. The Governor's Office will initiate the budget process by releasing his proposed version of these budgets in mid-December. State agencies will begin submitting budget requests to the Governor's Office for consideration in October.

### **Small Cell Network Facilities**

While the Legislature did not pass legislation preempting city authority to regulate and site small cell network facilities in 2017, ongoing discussions suggest the Legislature is likely to take up the issue again next session. In preparation, the Association of Washington Cities is developing an informational and educational effort to increase understanding and awareness of the issues around this topic. There is also work on going to draft legislative language that would retain local control and ensure public safety issues are appropriately addressed.

### **Liquor and Cannabis Board Proposed Home Grow Rules**

The Legislature charged the Liquor and Cannabis Board (LCB) with conducting a study of regulatory options for the legalization of marijuana plant possession and cultivation by recreational marijuana users. The LCB has adopted draft regulatory options and is seeking feedback on the draft options which include the following:

- The first option would authorize the LCB to issue permits for home grows of no more than four plants per household, and all plants would need to be traceable. The LCB and local authorities would jointly enforce compliance with these regulations.
- The second option would allow recreational home grows under a regulatory framework based on statewide standards set in statute, but authorized, controlled, and enforced by local jurisdictions.
- The third option would maintain the status quo--prohibiting recreational home grows, but continuing to allow them for medical use.

Cities have expressed concerns that options one and two would require cities to enforce standards set by the state with no funding for enforcement or implementation costs.

#### **Attorney General's Office Conducting Public Records Act Rulemaking**

After years of lobbying for reforms to the Public Records Act, the Legislature took action last session and passed House Bill 1594 and House Bill 1595. To implement these bills, the Attorney General's Office is currently conducting rulemaking. The current rule proposal closely tracks the reforms set forth in both bills, including allowing jurisdictions to charge for electronic records. Another new requirement is for jurisdictions with over \$100,000 annually in public records costs to report on response performance metrics. The Joint Legislative Audit and Review Committee (JLARC) has been tasked with developing the reporting process for the metrics that were included in HB 1594 and is putting together a work group of Public Records Officers to begin that work.

#### **Local Business and Occupation (B&O) Tax and Local Business Licensing Work Group**

House Bill 2005, sponsored by Representative. Kristine Lytton (D-Anacortes) directed two interim work group efforts related to the *apportionment* of the local share of B&O taxes, and local business licensing requirements.

First, the bill directs the Department of Revenue (DOR) to convene a task force on the apportionment of B&O taxes. Specifically, the task force is directed to prepare a report to the Legislature recommending changes to RCW 35.102.130 and related sections, as needed, to develop a method for assigning gross receipts to a local jurisdiction using a market-based model. The task force must focus on methods that rely on information typically available in commercial transaction receipts and captured by common business recordkeeping systems. The task force include three business representatives and three city representatives. The task force has met once, and reviewed a charter for its work. The Task force intends to use the next several meetings to review different types of market-based models used throughout the country. City representatives continue to stress that any changes to the current apportionment model must be revenue-neutral to cities. Recommendations are due October 31, 2018.

Second, the bill requires cities, working through the Association of Washington Cities to develop a model business license threshold by next summer for adoption by all cities that require a business license by January 2019. The AWC is taking the lead in developing a model license threshold, and convened a small work group of business license managers earlier this month. At this stage, the work group is researching current business thresholds and will reconvene in the fall to review that research.

#### **Department of Fish and Wildlife Culvert Study**

The 2017 Legislature directed the Department of Fish and Wildlife to conduct a study to identify city-owned fish passage barriers that share the same stream system as state-owned fish passage barriers. The study will identify, map, and provide a preliminary assessment of city-owned barriers that need correction. The study will also make recommendations on how to prioritize city-owned barriers in the

state's current six-year construction plan and how to incorporate city-owned barriers in future state construction plans. The Association of Washington Cities is coordinating with the Department of Fish and Wildlife to develop a work plan to include in its preliminary report to the Legislature by July 1, 2018.

### **Road Usage Charge Pilot Program**

In 2012, the Legislature directed the Transportation Commission, in conjunction with stakeholders (including a city representative), to conduct an assessment of the impacts of a road usage charge and determine if it is feasible. A road usage charge (RUC) is a per-mile charge for the use of the roads, as opposed to paying for roads through a per-gallon tax on gasoline. If implemented, it could replace the gas tax as the principle way of funding roads statewide. The theory behind this approach is as more fuel efficient and electric vehicles are used, revenues from the gas tax will continue to decline. The RUC is being viewed as a potential replacement of the gas tax as it would be paid by all vehicles using the roads as opposed to only those fueled by gasoline.

In 2016, under the direction of the Legislature, the Transportation Commission sought federal funding for a RUC pilot project. In mid-2016, the U.S. Department of Transportation awarded \$3.8 million in federal funds to Washington State for a 2,000-vehicle statewide, pilot test of a RUC system. Beginning in 2018, the Commission will start the pilot project in which 2,000 volunteers will pay a mock tax on the number of miles they drive on Washington state roads, rather than on the amount of gas they use. The pilot will last 12 months.

### **Washington State Department of Transportation Bid Environment Update**

The Washington State Department of Transportation (WSDOT) recently reported to the Joint Legislative Transportation Committee that many of the construction bids for "Connecting Washington" projects—part of the statewide transportation revenue package adopted by the Legislature in 2015—are coming in higher than anticipated. The Legislature will need to take this into consideration as it continues to implement the projects in the Connecting Washington package.

### **Affordable Housing Tools**

During the last legislative session, House Bill 1797, sponsored by Representative Joan McBride (D-Kirkland), would have provided tools that jurisdictions could choose to adopt to address affordable housing. The bill did not pass out of the House. However, Legislators are planning to try to advance the bill in the 2018 session. One of the tools in HB 1797 would have changed current law to allow the King County Council to enact the 1/10<sup>th</sup>-cent increase in the sales tax for affordable housing by councilmanic vote as opposed to a vote of the people of King County. Bellevue has been working with other interested cities to develop language to ensure that if King County is granted this authority, that there must be a plan in place describing specifics as to how and where the funds would be spent. Staff will provide information on this issue as discussions continue.

### **ALTERNATIVES**

NA

### **RECOMMENDATION**

NA

### **ATTACHMENTS**

NA