

Skagit County Legislative Report
November 27, 2019

House and Senate Committee Assembly Days

Last week members of the House and Senate met in Olympia for a series of work sessions on implementation of legislation that passed during the 2019 session and an update on emerging issues. The report below covers several topics that were briefed during the work sessions and some corresponding bill drafts that are being circulated for feedback.

Operating and Capital Budget Overview

The State Economic Revenue & Forecast Council projects a \$299 million increase to the state's general fund revenue for the 2019-21 operating budget. There were 25 bills that passed the Legislature during the 2019 session that increased or decreased state revenues and are now in effect. Considering the November revenue forecast and recently implemented legislation, the current general fund balance is roughly \$1.3 billion. The 2019-21 capital budget left approximately \$74 million in general obligation bonding capacity for the 2020 supplemental capital budget. There is a high demand on this relatively small reserve, particularly from the Community and Technical College system as well as the K-12 system for seismic retrofits. The Governor will release his proposed supplemental operating, capital and transportation budgets in mid-December.

Transportation

Initiative-976

Current election results indicate that voters approved Initiative-976 53% to 47%. The measure:

- Limits motor vehicle license fees (car tab fees) to \$30 per year;
- Repeals or reduce certain motor vehicle weight fees;
- Repeals the authority for Transportation Benefit Districts (TBDs) to impose vehicle fees;
- Reduces electric vehicle fees to \$30 per year;
- Repeals the 0.3% tax on motor vehicle retail sales;
- Requires local motor vehicle excise taxes (MVETs) to be calculated using the Kelley Blue Book base value of the vehicle;
- Conditionally repeals the Sound Transit 0.8% MVET, and;
- Requires the retirement or refinancing of Sound Transit-related bonds.

These changes will result in a significant reduction in state and local transportation funding. The state estimates lost revenue of \$487 million in the 2019-21 biennium, \$680.5 million in the 2021-23 biennium, and \$764 million in the 2023-25 biennium.

Following the election results, Governor Jay Inslee issued a press release directing the Washington State Department of Transportation to delay work any future project phases until the Legislature reviews and approves projects currently scheduled to receive funding. For example, if a project is currently being designed, design work may continue, but the Department may not proceed forward with any future phases, including engineering, right-of-way acquisition, or construction even if funding for those phases is currently allocated. During

the 2020 legislative session, the Legislature will re-evaluate the projects scheduled to receive funding through the Connecting Washington Program in 2019-21 and assess which projects to delay or cut as part of developing its Supplemental Transportation Budget. WSDOT released the list of projects on “hold” on November 26th, along with statement from Secretary Millar explaining the department’s criteria for compiling the hold list. Jurisdictions with delayed local projects were contacted directly by WSDOT. The list and statement can be found [here](#).

The Department of Licensing has released initial guidance on the implementation of Initiative-976. The Department has indicated that most provisions of Initiative-976 go into effect on December 5th. If an individual’s vehicle registration expires on or before December 5th, the previous fee rates apply; delaying payment will not change the amount owed.

Meanwhile, the Association of Washington Cities, King County, the Washington State Transit Association, the City of Seattle and several other stakeholders have filed a lawsuit to seek an injunction and determine the constitutionality of Initiative-976. The lawsuit argues that the Initiative violates multiple provisions of the Washington State Constitution, including the single subject rule. Specifically, the lawsuit argues, that by violating the prohibition on single subject, Initiative-976 improperly attempted to win support by hiding unpopular provisions amongst more popular ones. On November 27th, the King County Superior Court judge overseeing the case ruled in favor of the injunction, temporarily halting the initiative’s impacts until the case plays out in court.

Local Option Transportation Revenue

To mitigate impacts of the vehicle license repeal and to increase funding options for local governments, there is an effort to advance a local option transportation revenue bill. The Association of WA Cities and Washington State Association of Counties are working closely with legislators on this proposal, which currently would allow cities and counties to impose a 5 cent gas tax and would allow stacking for a maximum local gas tax of 10 cents. Up to 2.5 cents could be imposed councilmanically and the cost of administration for the tax would be borne by the local government imposing the tax. The current proposal also includes changes to the existing sales tax authority for transportation benefit districts to extend the sales tax sunset from 10 years to 20 years, allow the sales tax to be imposed councilmanically, and increase the maximum sales tax rate from 0.02% to 0.04%. This legislation is still in development but will need to be finalized in the next few weeks.

Housing and Homelessness

Implementation of House Bill 1923 and Possible Sequel

During the 2019 session the Legislature adopted House Bill 1923 which provided financial incentive for cities to take actions that would increase housing density. Under the bill, cities with a population over 20,000 that are planning to take at least two actions to increase density are eligible to apply for a grant of up to \$100,000. The actions listed in the bill include cluster zoning, loosening regulations around ADUs, adopting planned actions, increasing density near light rails, adopting increases in categorical exemptions, adopting a form-based code, adopting a housing action plan, and more. The Department of Commerce reported that adopting a

housing action plan was the most popular option among cities that applied for funding. The department also reported that they received feedback from jurisdictions that requested the funding be eligible for more activities such as inclusionary zoning, parking ordinances, impact and utility connection fee changes, pre-approved ADU plans and permit counter materials. There is already an effort underway to pass a sequel to House Bill 1923. The current proposal would:

- Extend the timeline to utilize the SEPA and Growth Management Hearing Board appeal protections from 2021 to 2023;
- Establish minimum parking requirements for market rate housing units constructed after July 2019 and located within ¼ mile of a transit stop that receives service at least four times per hour for twelve or more hours per day to be no greater than one parking space per bedroom or .75 space per unit. A city would be able to require more parking if the jurisdiction has determined a particular housing unit to be in an area with lack of access to street parking capacity or other restrictions;
- Extend the SEPA safe harbor to preclude appeals of aesthetics if the project has undergone a design review;
- Allow for balancing of beneficial aspects of a proposal versus its adverse impacts, according to specific criteria;
- Direct the Department of Ecology to update the SEPA rules and remove parking as an element of the environment during an environmental impact statement and as a component of the environmental checklist under SEPA.

Implementation of House Bill 1406 and Recommended Tweaks

The Association of WA Cities provided an update to the Senate Housing Stability & Affordability Committee on implementation of House Bill 1406 which allows local jurisdictions to impose a credit against the state sales tax to fund affordable housing. The law allows cities and counties access to a .0073 credit against the state sales tax or .0146 if they have a qualifying local tax in place by July of 2020. In order to meet this deadline, cities and counties would have to place a qualifying local tax on a ballot during a low turnout election cycle and the timeline would not allow for a robust public process. For this reason, there is an effort to extend the timeline for local governments to adopt a qualifying local tax to November of 2021. Cities and counties would still be required to indicate their intent to adopt a qualifying local tax by passing a resolution by December 2019. Additional recommendations to tweak House Bill 1406 include: clarification on what constitutes a “new” unit, tying income requirements to the more common area median income (AMI) rather than the current language of “median income of the city or county imposing the tax,” and clarification on types of expenses covered under “operations and maintenance.”

Homeless Rights Update

House Bill 1591 was introduced during the 2019 session and would have created a civil cause of action, codifying rights of people experiencing homelessness. The bill did not pass, though the advocates of the bill have reached out to identify potential less-divisive alternatives to consider for the upcoming 2020 session. The goal of legislation would be to increase local community capacity to respond to challenges facing people experiencing homelessness with services and

supports rather than through the criminal justice system. The preliminary concept would provide stable funding for local government to create or expand services, to include: community service officers, community behavioral health workers, law enforcement assisted diversion, diversion centers modeled after the Snohomish County Diversion Center, or funding for long-term shelters and authorized encampments. Funding for the proposal could come from removal of the cap on the local share of liquor taxes, restoration of previously promised marijuana tax revenue, a new dedicated document recording fee or a direct appropriation from the state's general fund.

Multifamily Tax Exemption Review

The Joint Legislative Audit and Review Committee (JLARC) provided a report to the House Finance Committee on the performance of the multifamily housing property tax exemption. JLARC reported that developers have created housing using the Multifamily Housing Tax Exemption but that it is inconclusive whether this use represents a net increase in development. JLARC recommended that the Legislature direct cities to include an analysis of profitability to ensure the exemption targets developments that fulfill housing objectives and minimize unnecessary subsidization. JLARC also recommended that the Department of Commerce should report annually on city compliance, metrics in statute, and affordability measures. Lastly, JLARC recommends that the Department of Revenue report on which statutory ambiguities require legislative changes. Given this report, efforts to modify the MFTE program such as extending the 12 year exemption to 16 years, removing the population threshold, and extending the exemption to the unincorporated portion of the Urban Growth Area will likely also require incorporation of the JLARC recommendations.

State Shared Revenues

Marijuana Revenue

The November economic and revenue forecast for the state indicates that marijuana revenue is beginning to plateau. This information was presented to the House Finance Committee along with an overview of state revenues, which can be seen [here](#).

House Local Government Work Session on Unfunded Mandates

The House Local Government Committee hosted a work session on unfunded mandates during committee assembly, inviting speakers from AWC and WSAC to discuss revenue challenges associated with legislative mandates. Candice Bock from AWC discussed revenue shortages due to state mandates for infrastructure and transportation, employee costs, human services, public records disclosure, and indigent defense, while Jamie Bodden from WSAC discussed shortages for ballot drop boxes and other election costs, public health services, indigent defense, Involuntary Treatment Act hearing costs, and other public safety responsibilities. Committee members expressed commitment to avoiding additional unfunded mandates in forthcoming legislative sessions but did not discuss funding existing unfunded mandates. During the work session, committee chair Rep. Gerry Pollet (D- Seattle) explained he will be pushing removal of the 1 percent property tax cap this session. He will also bring forth a bill that will allow county auditors to pursue junior taxing districts out of compliance with state auditor standards. You may watch the work session [here](#).