



# Skagit County

## December Interim Report

December 6, 2022

### HIGHLIGHTS

- November state revenue forecasts higher than expected for both the current and following biennial budget cycles
- Transportation revenues declining
- Tax Structure Work Group advances policy discussions on property tax limit factor for local governments
- Supreme Court allows Department of Revenue to continue rulemaking on capital gains tax
- Legislative Committee Assembly Days—work sessions on transportation, housing, budget and finance, behavioral health, and more

## State Revenue Forecast Update

The Washington State Economic and Revenue Forecast Council released updated forecast estimates in November. State revenues are now projected to come in at approximately \$64 billion of the 2021-2023 biennium, about \$762 million higher than anticipated.

While the Council's September forecast included a decreased revenue projection for the 2023-2025 biennium, the new forecast now estimates state revenues to climb about \$681 million more than anticipated, for a total of \$66.2 billion. This represents an increase of 3.5% over the forecasted revenues for the current biennium.

The Council noted several contributing factors that informed the forecast, including an increase in personal income and employment in Washington. There were also some negative factors, including downward trends in residential construction and sales, especially in the Seattle area.

State lawmakers have expressed cautious optimism about the revenue projections as they prepare to get to work on the 2023-2025 biennial budget. Governor Inslee will initiate the state budget development process later this month with the release of his proposed operating, capital, and transportation budgets.

## Transportation Budget Update

In contrast to the increased revenue projections for the state operating budget, transportation revenues have declined following the passage of Move Ahead Washington. Since November, transportation revenue projections have decreased by \$114 million.

While Governor Inslee's proposed budget will not be released until the middle of December, some themes have emerged as to what the proposal will include. The Governor plans to spend Climate Commitment Act funding on burdened communities and tribal governments. His budget proposal will also address the ferry workforce and capital needs. Governor Inslee also has traffic safety as a top priority, as 2021 saw the highest number of fatalities in 10 years. Additionally, he will prioritize continuation of efforts to remove fish culverts.

While Climate Commitment Act funds are projected to be higher than anticipated, \$723 million has been dedicated for the 2023-25 transportation budget. The Legislature would need to dedicate more funding to transportation for the transportation budget to benefit from the increased Climate Commitment Act funds.

## Tax Structure Work Group

In 2017, the Legislature established the Tax Structure Work Group to identify options to make the Washington State tax code more fair, adequate, stable, and transparent. The Work Group is tasked with providing guidance to the Washington State Department of Revenue on final rate setting and any necessary fine tuning to approve a policy recommendation and legislation by the end of this year.

The Work Group's discussions have focused on three potential policy concepts: replacing the current Business and Occupation tax with a margin tax, amending the property tax limit factor (also known as the "one percent growth limit"), and a wealth tax. At their November meeting, the Work Group's discussions followed up on decisions made at their last convening, which included using the Internal Revenue Service's definition of cost of goods sold for a potential margins tax, and that there should be a minimum limit of zero percent on property tax growth.

The Work Group voted to advance discussions on the margin tax concept, with members highlighting the potential benefit for small businesses. Next, the members voted on whether the wealth tax policy option should advance, which was narrowly defeated. Finally, the Work Group addressed the property tax limit factor, and decided to only advance modeling for local governments. One reason given for moving forward with the local property tax only was that including state property tax revenues would prevent the proposal from being revenue neutral.

The next meeting of the Tax Structure Work Group is scheduled for December 13.

## Capital Gains Tax

In 2021, the Legislature approved a seven percent tax on most capital gains greater than \$250,000. The tax quickly faced two lawsuits, one filed by the Freedom Foundation and the other by former Attorney General Rob McKenna, which were consolidated. The Douglas County Superior Court ruled that the tax was in violation of the Washington State Constitution because it is structured more like an income tax than an excise tax.

Attorney General Bob Ferguson then appealed the ruling directly to the Washington State Supreme Court, which agreed to take on the case. The Supreme Court recently granted the motion for a “stay” of the Douglas County Superior Court ruling, allowing the Department of Revenue to continue its rule-making efforts in preparation for collecting the tax next year. The Supreme Court will begin hearing arguments on the case on January 26, 2023. If the tax is ruled unconstitutional, any payments made prior to the ruling would be refunded.

## Legislative Committee Assembly Days

Last week, House and Senate legislative committees convened for work sessions on key issues heading into the 2023 legislative session. Here is a summary of the emerging themes from those proceedings.

### Budget and Finance

The **House Capital Budget Committee** held a work session to receive an update from the Department of Commerce Broadband Office and briefings on behavioral health facilities and psychiatric hospital bed needs and challenges.

The Broadband Office outlined its goals set forth in state law on broadband access expansion and shared an update on the construction grants funded through federal dollars and state matching funds, totaling over \$181 million. Projects have been awarded in Skagit, Snohomish, Island, and Lewis Counties, among others. In round two of *American Rescue Plan* capital project funding, \$122.4 million will be available and applications are due in January 2023. There have been some changes to the grant making process for the second round, including changing the match waiver from the county debt ratio to ESD Distressed Area listing, and capping single project awards at \$12 million instead of \$25 million to ensure that grant dollars are spent on time. The Office is also working on implementing Broadband Equity, Access, and Deployment program projects funded by federal grants and state matching funds.

Office of Program Research staff shared that there are currently 747 funded beds at Western State Hospital and 367 funded beds at Eastern State Hospital. They provided an overview of the forensic and civil referral processes. They provided updates on future planned bed capacity, and listed several facilities where additional capacity will be available as well as the projected timeline for opening, available [here](#).

The **House Finance Committee** work session focused on the Tax Structure Workgroup’s efforts with the Department of Revenue and the November economic forecast. The Committee received a briefing on the three potential policy pathways

being discussed by the Tax Structure Work Group (as noted above), any of which may be introduced as legislative proposals during the 2023 session, including those that do not advance from the Work Group.

The **Senate Ways and Means Committee** received a briefing on the November economic forecast and reports on the work of the Legislative Task Force on Paid Family Medical Leave (PFML) Insurance Premiums and Long-term Services and Supports Trust Commission (WA Cares Fund). An actuarial report conducted for the PFML Task Force recommended that a three-month reserve be established. Legislation is expected to implement the recommendations of the Task Force, including a plan for achieving the three-month reserve, utilizing the \$350 million appropriated in the budget up to the fund's deficit, removing the solvency surcharge, and capping the rate at 1.2 percent.

Several recommendations were shared regarding the WA Cares Fund related to portability, supplemental private long-term care insurance, and recertification for those individuals granted an exemption from contributions for obtaining private long-term care insurance. Recommendations included allowing anyone with one year of qualifying coverage who leaves the state to elect portable benefits coverage by continuing their contributions under Normal Retirement Age, requiring all individuals who were exempted prior to November of 2021 to have maintained their private policy through present day to keep their exemption, requiring recertification for exemption every one-to-three years for up to 10 years, among others.

## Transportation

The **Senate Transportation Committee** received a briefing from the Department of Transportation about escalating project costs and contributing factors impacting the Department's ability to deliver projects on-time and within budget. Factors included inflation, construction industry workforce shortages, increasing costs of construction materials, and contractor competition from public agencies competing against each other for contracts. There will be further discussion about project budgets as part of the 2023-2025 budget process next session.

The Traffic Safety Commission reported on their work on the "Move Over, Slow Down" campaign to remind motorists to move over when a vehicle is pulled over to reduce traffic injuries and fatalities. The Commission also created an Automated Speed Enforcement Readiness Guide outlining where speed cameras can be used and best practices for community engagement, equity, and evaluation.

The Washington State Ferry System shared an update on ridership, workforce development, and efforts to restore services. This year's ridership is on a similar level to last year and has not yet returned to pre-pandemic levels. Several initiatives are underway to shore up the workforce so that services can be restored. Additionally, the first hybrid electric ferry will begin service in mid-2027 on the Mukilteo/Clinton route.

## Housing

The **House Housing, Human Services, and Veterans Committee** held a work session on recommendations from the Homeownership Disparities Work Group and a

report on the Guaranteed Basic Income feasibility study. Recommendations for improving rates of homeownership for Black, Indigenous, and People of Color (BIPOC) communities included increasing affordable homeownership supply and direct homeownership assistance, improving lending products, adjusting existing assistance programs, and a focus on sustaining homeownership. The Governor’s budget proposal will include \$50 million in the capital budget for manufactured housing and other housing for purchase, and \$25 million in the operating budget to help community-based organizations provide services to help households become homeownership-ready.

The Department of Social and Health Services led a feasibility study on Guaranteed Basic Income that was funded through a budget proviso in the current biennium. Recommendations included establishing a two-year pilot program with two populations—one for individuals experiencing poverty with no or low employment, and the other for low-income individuals who are employed but are experiencing a destabilizing circumstance, such as pregnancy or homelessness. Participants would receive a percentage of fair market rent as a guaranteed income amount. The Legislature will determine whether to establish and fund the program in the 2023 legislative session. The Committee also received a briefing on the pilot program implemented in Tacoma, known as “Growing Resilience in Tacoma” (GRIT).

The **House Local Government Committee** held a work session that included a review of housing-related legislation enacted in the last legislative cycle and briefings related to middle housing from Futurewise and the Association of Washington Cities. Futurewise provided a policy outline that included a recommendation for cities over 6,000 in population and all cities within a contiguous Urban Growth Area (UGA) of cities over 200,000 in population to allow a minimum of four housing units per lot in all residential zones, and a minimum of six units per lot in all residential zones within a half-mile of a major transit stop.

The Association of Washington Cities briefed the Committee on the work of the Housing Solutions Group, including goals, process, actions cities are already taking to increase housing creation, and the Group’s recommendations on a policy package. Notably, 151 cities currently allow middle housing in single-family zones, and 50 cities have upzoned 75 percent of the single-family land base. Policy recommendations included maximizing density around regional transit assets, using zoning to maximize utilization of community assets, regulatory streamlining, and funding for housing and infrastructure. The full presentation is available [here](#).

The **Senate Housing and Local Government Committee** convened a work session to hear about recent organizational changes at the Department of Commerce and to receive updates on various programs aimed at helping renters retain their housing. The Department of Commerce has reorganized to create two divisions—one for housing, which administers several grants and includes the homeownership unit and Office of Apple Health and Homes, and the other for community services.

A total of \$979 million was allocated for rental assistance across all programs, and \$609 million has been spent. The temporary program is winding down, and counties are transitioning to the permanent program. There is ongoing discussion on how much funding should be provided to support this program. There are also four landlord

mitigation programs and an increase in claims following the conclusion of the eviction moratoria. There will be a legislative proposal introduced next session to create a Homes Board to coordinate between jurisdictions. Additional anticipated policy proposals aimed at creating more housing include streamlining permitting processes, existing buildings, sustainable construction, transit community enhancement, and anti-displacement.

The Committee also received an update on the Eviction Resolution Pilot (ERP) Program from the Administrative Office of the Courts. Of the nearly 47,000 ERP cases, 42% were resolved, resolution was not applicable in 45% of cases, and 13% of cases were not resolved. The Attorney General's Office addressed the legal challenge of the constitutionality of the ERP program and stated that the court has yet to issue a ruling on summary judgment. If the court grants the summary judgment, then the decision is eligible for appeal.

Lastly, it was noted that, in the past year since the right-to-counsel program was established, more than 4,500 tenants have received legal representation. The majority have been able to stay in their homes.

## Planning and Land Use

The **House Local Government Committee** heard a presentation outlining recommendations from the Department of Commerce's Growth Management Act (GMA) Reform Task Force. There were 15 recommendations that received a consent from the Task Force, including integrating the planning of special purpose districts into the GMA, make permit data reporting easier and simpler so it can be readily collated by the Department of Commerce, modifying the Shoreline Management Act revision cycle from every eight to every 10 years, among others. The full slate of recommendations can be viewed [here](#).

The **Senate Agriculture, Water, Natural Resources, and Parks Committee** heard from the Commissioner of Public Lands, Hilary Franz, on the Department of Natural Resources' (DNR) efforts to pilot a carbon credit project on state managed trust lands. The Department is currently identifying potential project sites using a "high conservation value" framework which prioritizes forests that are carbon dense, have potential to generate revenue, and have ecological and cultural value. Project beneficiaries will receive predictable annual payouts over the 40-year lease rather than a one-time lump sum. The Commissioner also emphasized the need for additional tools for the Department to manage trust lands, including creating an endowment fund, a dedicated acquisition account, a beneficiary income stability account, and a rapid response fund. The Chair noted the Committee would hear more from DNR regarding the Forest Carbon Project throughout legislative session.

## Public Safety

The **Senate Law and Justice Committee** was briefed on a package of recommendations from the Substance Use and Recovery Services Advisory Committee (SURSAC) regarding controlled substances and substance use treatment in follow-up to the *Blake* decision that was issued in 2021. SURSAC's recommendations will likely be

introduced as legislation in the 2023 session. Among these suggestions is decriminalization of controlled substances and paraphernalia, with no civil penalties or fines. The Committee's work emphasizes diversion and referral options for eligible charges. The full package of recommendations can be viewed [here](#).