

Yesterday, the Legislature passed the 2-year Operating budget yesterday and sent it to the Governor for signature. It was signed into law at 11:00 p.m. , which avoided the partial government shutdown. The Legislature also passed the McCleary reform and funding bill (HB 2242), along with a number of other trailer bills that had been agreed to in the overall package.

Unfortunately, they were unable to come to agreement on the policy bill that was holding up the two-year Capital budget (relating to the *Hirst* decision, SB 5239). They came very close to agreement on that issue, and tried to wrap up everything last night, but were unable to get everything lined up. So after working until nearly 4:00 a.m. this morning, the bodies adjourned for the day. It is expected they will continue negotiating those two matters, and come back for final passage. They have until 7/20 to wrap up before this third special session is complete.

Before they adjourned they did pass a reappropriation capital budget. This acts as a continuing resolution of existing funding, and ensures that the roughly 800 jobs tied to existing capital projects will not be temporarily laid off.

Final Budget Update

After 175 days of activity, the Legislature has been working at a feverish pace in order to pass the 2017-19 Operating budget before the end of the fiscal year on June 30. A deal in principle was announced by Governor Inslee on 6/28, leaving two days to finalize all of the pieces of the agreement and pass the budget by midnight in order to avoid a partial government shutdown.

The two-year Capital budget, however, was not negotiated because it had been tied to a policy bill relating to water rights, called the *Hirst* decision. It is anticipated that those discussions may continue, in an effort to resolve the *Hirst* ruling, and then negotiate the Capital budget for passage.

Below is a summary of the negotiated package.

High Level Summary

- Spending--\$43.7 B;
- Increase over 2015-17 Biennium--\$5.2 B;
- Increased funding for McCleary by 7.3 B over 4 years; this is in addition to the \$4 Billion funded previously for McCleary;
- \$618 M for collective bargaining agreements;
- Additional net revenue increase from passage of 2 bills (summarized below) (\$2.1 B);
- The final budget leaves \$985 M in the unrestricted ending fund balance;
- Assumes passage of [SB 5975](#), Paid Family Leave;

McCleary Reform Package

After many years of incrementally addressing the *McCleary* court decision relating to the state's constitutional obligation to fund basic education, the time had come this year to fully address the decision this year. The [final package](#)—which will be phased in beginning with the 2018-19 school year and funds a total of \$7.3 billion over four years, \$6 billion compensation related—includes the following:

Funding

- Retains the prototypical school formula;
- An increase by \$.81 per thousand to the statewide property tax levy (a \$2.70 flat rate per \$1,000 assessed value), while maintaining local levies (renamed “enrichment levies”) at a maximum of

\$1.50 per thousand of assessed value of property in the school district, or a \$2500 per pupil limit. The state property tax rate is for four years, after which the state property tax will revert to the current one percent revenue lid;

- Limits the use of enrichment levies to activities that are outside of basic education;
- Increases funding for specific basic education programs, including CTE and skills center class sizes, Learning Assistance Program (LAP), high poverty schools, highly capable, and special education programs.

Teacher Salaries

- A new salary system which applies to basic education (districts may adjust salaries for supplemental contracts) and provides a state allocation for salaries based on a statewide average which is adjusted for regional differences;
- Adds requirements of per-pupil reporting, and accounting of revenues to be published by the legislature and OSPI;

Health Benefits

- Creates the School Employees Benefits Board (SEBB) within the Health Care Authority to develop school employee benefit plans, authorize premium contributions, and determine eligibility criteria and enrollment policies.
- Health benefits are removed from local bargaining, and beginning January 2020, must be conducted between the Governor and a coalition of bargaining representatives.
- \$1.2 M to update training for peace officers on the use of lethal force and to create a leadership development program

Revenue Increases

The final budget assumes tax increases of \$2.1 B:

- Property tax swap for *McCleary* plan (Generates \$1.6 B);
- Tax preferences (generates \$456M):
 - Market Place Fairness (remote sales tax);
 - Applies a use tax to fuels manufactured for own use;
 - Eliminate sales tax exemption on bottled water;

Tax Incentives

The final package also included 13 changes to tax incentives in [SB 5977](#) (\$15.7M revenue decrease):

- Reduces the general manufacturing B&O tax rate and the processing for hire rate from 0.484 percent to 0.2904 percent over four years beginning in 2019;
- Creates a B&O tax exemption for wholesale sales of agricultural crop protection products, seed, and fertilizer under certain conditions;
- Extends the expiration of date of a preferential B&O tax rate for solar energy and silicon manufacturing from 2017 to 2027;
- Extends tax preferences that support the solar silicon manufacturing industry from 2018 to 2028;

- Exempts from sales and use taxes all charges for construction related to the conversion of a coal-fired electric generation facility into a natural gas-fired electric generation facility or biomass energy facility;
- Establishes a public utility tax and B&O tax credit for a utility that sells gas, natural gas, or electricity to a silicon smelter;
- Makes the provision of a pilot program that provides a tax deferral on construction and expenditure costs of up to two new manufacturing facilities an annual provision;
- Extends the sales/use tax deferral date for historical auto museum projects;
- Exempts lands removed from the open space program or the designated forestland program due to a natural disaster from payment of compensating taxes;
- Extends the motion picture and film industries tax credit an additional ten years;
- Exempts martial arts from retail sales tax and makes the activity subject to service and other B&O tax;
- Increases the tax credit limit for the Washington Main Street program;
- Creates a leasehold excise tax credit for certain major universities and provides a leasehold excise tax exemption for certain leasehold interests in facilities owned or used by community colleges or technical colleges.