

General Session Update

The Legislature has officially wrapped up its 60-day 2018 session. Overall, the pace this session was fast with over 3,600 bills introduced during this biennium to date. However, the legislature stuck to its plan of adjourning within the allotted 60 days after passing a biennial and supplemental capital budget, in addition to supplemental transportation and operating budget.

The Democrats set their agendas early and passed of many of their priority items:

- Passing the biennial Capital budget—the Capital budget failed to pass last year because it got tied to a controversial water rights case (*Hirst*). The Legislature came to an agreement on the *Hirst decision* and was able to pass the 2017-19 capital budget in the second week of the session;
- Hirst—in addition to the Capital budget, the members came to agreement on the controversial *Hirst* bill (SB 6091) in the second week of session. Passage of this freed up the capital budget.
- The Voting Rights Act—the Legislature passed the Washington voting rights act of 2018 (SB 6002);
- Gun regulations, including banning the use of bump stocks—the Legislature passed a bill banning the use of bump stocks (SB 5992) which has now been signed into law by the Governor. Additionally, the Legislature made changes to concealed pistol license eligibility requirements, including adding extreme risk, sexual assault, or stalking protection orders.
- Equal pay—the Legislature passed a proposal to address workplace practices relating to pay equity (HB 1506).

Ultimately, while the pace was frenzied this year with a significant number of bills under consideration, there were also many successful outcomes this session:

- No major tax increases including capital gains, graduated REET, carbon tax or elimination of tax preferences.
- Successfully advocated for the funding of I-1401 implementation.
- Successfully advocated for de-escalate solution.

Taxes & Budget Issues

The House and Senate Democrats released the their 2018 Supplemental [Operating Budget](#) Conference Report on 3/7. The final budget was not a bipartisan budget, and ultimately passed the legislature along party lines.

Here is a reminder of the major spending changes to 2017-19 budget:

- \$44.434 Billion in expenditures;
- \$19.8 M from a budget stabilization account (BSA) transfer to fund fire suppression costs (requires 3/5 vote);
- \$.30 reduction in state property taxes in calendar year 2019 (see ESSB 6614 description below);
- Diverts \$700 M from the BSA by redirecting \$945 M in property tax revenue to the Education Legacy Account. (see ESSB 6614 description below);
- Does not assume tax increases;
- The projected ending fund balance at the end of 2017-19 is \$1.2 B and \$2.4 B in total reserves.

And is a [summary](#) of some of the major spending items:

K-12 Education

- \$775.8M (\$970M four-year) to fully fund the *McCleary* Court decision for teacher salaries for the 2018-2019 school year;
- \$26.9M (\$97.2M four-year) for K-12 Special Education programs (the factor is adjusted from .9309 to .9609);
- \$4.4 M (\$16.3 M four-year) for adjustments to regionalization for salary allocations;
- (\$27 M) savings (\$102.9 M savings four-year) for delaying the implementation of professional learning days;

Higher Education

- \$4.3 M for the WA Opportunity Scholarship;
- \$3 M (\$9M four-year) for computer science enrollments at the UW;
- \$18.5 M (\$116 M four-year) to phase in elimination of the State Need Grant wait list;

Human Services

- \$9M (\$27.2M four-year) for a 6.8% increase in grant standards for TANF, state food assistance and refugee cash assistance programs;
- \$11M (\$33M four-year) assumed passage of HB 2437 authorizing a credit against state sales tax for affordable, supportive housing;
- \$1 M (\$3.3M four-year) assumed passage of HB 2444 providing a real estate excise tax exemption for qualified low-income housing development transfers.

Public employee

- \$10.9 M (\$26.0 M four-year) for plan 1 retirement increase of 1.5%;
- \$1.3 M (\$14.5 M four-year) for a Consumer Directed Employer to become the legal employer of home health workers (passage of SB 6199);
- \$46 M (\$46 M four-year) for hospital compliance and operations as required by CMS;
- \$48 M (\$72.7 M four-year) to address operational costs for federal compliance at Western State Hospital;

Health Care

- \$15M (\$44.1M four-year) for opioid abuse treatment and prevention programs;

Department of Natural Resources

- \$380K for fire suppression and \$1.69M fire response capability;
- \$500K for forest health;
- (\$6M) savings for forest land management;
- \$125K for marbled murrelet alternatives and reports;

Other Spending Changes

- Restores \$10 M sweep of Department of Financial Institutions accounts;
- \$300 K (\$900 K four-year) Global Wildlife funding;
- (\$11 M) revenue decrease (\$33 M four-year) for ESHB 2437 which authorizes a local sales tax credit against the state tax for affordable housing;
- \$500 K is provided for implementation of Engrossed Second Substitute Senate Bill 5935 (broadband & telecomm service) which, among other provisions, creates the Office on Broadband Access. (Broadband Access Account State)

Major funding legislation:

Property Tax Reduction/Budget Stabilization Account

ESSB 6614—the Legislature will provide a \$.30 reduction in state property taxes in calendar year 2019 resulting in a reduction of \$206 M in 2017-2019 and \$184 M in the 2019- 2021 biennium. This is based on the passage of ESSB 6614 which also redirects \$935 M of state property taxes collected in fiscal year 2019 to the education legacy trust account. This results in a \$700 M reduction of the required transfer of extraordinary revenue to the Budget Stabilization Account; The Republicans have argued that is a violation of the constitution. The Constitution requires a 3/5 vote to spend revenue from the Budget Stabilization Account.

Carbon Emission Taxes

After a lot of negotiations and pressure this session, the carbon tax proposal ultimately did not have the votes to pass this session. An amended version of the carbon tax legislation (SB 6203) had passed out of Senate Ways and Means Committee on a party-line vote on 2/22 but it was soon became clear that there were not enough votes in the Senate.

The proposal continued to evolve over the session as negotiations continued. The initial tax rate was set at \$12/ton and is capped at \$30/ton. It increased oversight and accountability by adding performance-based criteria for grants and an audit of the overall program every two years by a Joint Committee on Climate Programs Oversight. Under the last public proposal, all revenues collected would go to a Carbon Pollution Account distributed as follows, with the initial \$100 million per year transferred to the Multi Modal Transportation Account.

Of the remaining funds:

- 50% to energy transformation
- 20% to water and natural resources resilience
- 15% to transition assistance
- 15% to rural economic development

Advocates have now filed an initiative the people.

Capital gains

The House's original operating budget proposal included the assumption of passage of the capital gains proposal (HB 2967). The bill was overall revenue neutral but would have imposed a seven-percent capital gains tax on the sale or exchange of long-term capital assets or other capital gains realized by a taxpayer. Simultaneously, the proposal would use these capital gains revenues to reduce the property tax liabilities.

The bill passed out of the Finance Committee on a party line vote on 2/19 and was referred to the Rules Committee but never moved any further. It soon became clear that there were not the votes in the Senate for any capital gains taxes this year.

Manufacturing B&O rate

Legislation was introduced this session to phase in a lower business and occupation (B&O) tax for manufacturers from the current .484% to .2904%. The Senate bill (SB 6542) and the House bill (HB 2393) still were never heard, but remained a priority for many including the Republican caucus. Similar legislation was part of the budget compromise last year, but it was vetoed by Governor Inslee.

Meanwhile, a narrower proposal to provide a preferential B&O tax rate beginning in 2020 for eligible manufacturers in rural counties (HB 2992) passed out of the Finance Committee on 2/19. Under the bill, the B&O rate is phased down until it hits 0.2904% where it would remain after 2023. Eligible areas are defined as a county or equivalent with a population density of less than 100 persons per square mile or smaller than 225 square miles. The proposal would have also extended the expiration date of the timber and wood products preferential B&O rate through 2029. The bill was referred to the Rules committee but never moved any further.

Policy Bills Update

Noncompete agreements

None of the bills related to noncompetition agreements, including Rep. Stanford's bill (HB 2903) and the two Senate bills (SB 6522 and SB 6526) – passed their houses of origin, so died for the session. The labor and business stakeholders had negotiated an agreement, but many House Republicans continued to have concerns, primarily with the income threshold, which was set at 1.75 times the average weekly wage (which equated to annual compensation of approximately \$103,000). This issue will likely come up again next year.

Housing

Local sales tax for affordable or supportive housing

HB 2437 would have allowed county legislative authorities to implement a local sales tax to fund affordable or supportive housing at a rate not to exceed .03-percent. If the county does not impose the tax, a city may implement the tax. The tax was credited against the state sales tax collected in the jurisdiction. The proposal passed the House, but ultimately was not brought up for a floor vote in the Senate. The bill is dead for this year.

Environment

Clean energy

A proposal to extend the requirement to pursue all available energy conservation that is cost-effective, reliable and feasible under the Energy Independence Act to small utilities, and adds additional renewable resources targets (HB 2995) was pushed until the very end of session. Ultimately, the utilities were opposed (raising concerns of huge costs to implement the bill) and the advocates were not successful in coming up with a compromise in time. The bill was announced to be dead on 3/8.