



# Legislative Bulletin

April 3, 2017

## Hot topics!

### House operating budget passes

House passes their operating budget. Negotiations with Senate will begin.

### AWC hot sheet

View our hot sheet to see what policy bills and budget items we support and oppose.

### Senate passes capital budget

The Senate passes a very good capital budget for cities.

## From the Director

### Spring into action

With three weeks left before this session is scheduled to conclude, legislators are now focused on resolving budget and policy differences. Get a snapshot of what's going on in both chambers, find out what's at stake, and learn what you can do to help.

## Things you can do

### Calculate the impact to your city of Senate's proposed LEOFF 2 contribution rates

The Senate's budget proposal cuts the state's contribution to the LEOFF 2 pension system for cities, counties, and other employers. Currently, pension contributions are split among the employee (50 percent), the employer (30 percent), and the state (20 percent). The Senate budget proposal would eliminate the state's 20 percent share and increase the employer's share to 50 percent. The new, proposed rate structure is in the table below. These rates exclude the employer administrative expense of .0018 percent.

## Media time

### Take action

Budget negotiations between the House and Senate are happening right now. Cities count on state-shared revenues, and during budget negotiations, cities are vulnerable to falling off legislators' radar. Hear from AWC Government Relations Director, Dave Williams, to learn what you can do.

## What you need to know

### Budget & finance

Business license bills amended. One of these proposals is likely to pass.

Property tax and flexibility bills move out of committee.

### Economic development

Bill authorizes local governments to establish creative districts

### Marijuana

60% reduction in shared marijuana mitigation revenue in House budget.

Liquor and Cannabis Board requests comment on agency compliance with local zoning rules.

### Open government

Public records bills still moving in the Senate.

### Personnel

Bill uses rainy day fund to buy down PERS 1 liability.

House budget provides funds for paid family leave policy.

### Public safety & criminal justice

Increased BLEA funding provided in the House budget.

### Transportation

The house rolls out their transportation budget.

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# From the Legislative Director

## Spring into action!

With three weeks left before this session is scheduled to conclude, legislators are now focused on resolving budget and policy differences between House Majority Democrats and Senate Majority Republicans. With over 2800 bills introduced, so far only a handful have been acted upon and signed in to law. It is during these next few weeks when decision time looms and deals, trade-offs, and bill “hostage taking” gets serious.

For cities, all of AWC’s priorities are yet to be resolved.

Both majorities have passed their proposed 2017-19 biennial budgets on strictly party-line votes, 25-24 in the Senate and 50-48 in the House. Both budgets currently contain all but a few key-shared revenues with cities, but there are some significant differences. How each budget addresses support for various programs and initiatives of interest to cities also differs, such as funding critical human services.

On the policy front, we are encouraged by movement towards updating our public records statutes, but still see no clear path to agreement on some key water resource and housing affordability issues. It’s likely that agreement on some of these issues hinges on resolution of other unrelated ones, such as the budget.

During this critical time, much of the negotiating and deal-making goes on out of public view. And what appears as good shared revenues can disappear and shift to other uses, or a bill once thought “dead” and problematic, can resurface. This is why we urge you to connect now with your legislators to thank and remind them what you need, and why.

### Here is what you can do:

#### 1. Learn what's at stake

View our hot sheet to see what budget items and policy bills we support and oppose.

#### 2. Find out what cuts to revenues and programs in the state budget would mean for your city

Information about shared revenues your city is estimated to receive 2017-19 is available here (select your city in the drop-down arrow box).

#### 3. Make the call – the timing could not be better

Choose issues important to your city and set aside 15 minutes to call your legislators this week, even if you have previously done so.

#### 4. Follow impacts on your community as legislators aim to adjourn April 23

With so much at stake, remember to check AWC's Bulletin every Monday and CityVoice e-newsletter every Wednesday for critical updates as session nears adjournment – or heads to a special session.

### More information

Click here to see a side-by-side comparison of the Governor, Senate, and House proposed budgets.

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## **Session snapshot 83 days into a 105-day session – How many bills introduced and acted upon so far?**

- As of the end of March, 98 House members have introduced a total of 1515 separate bills and 49 Senate members introduced a total of 1320.
- The House has passed 376 of their member's bills and the Senate 297 of their member's bills.
- The House has passed 28 of the Senate's bills and the Senate five of the House's bills.
- Three policy bills have passed both chambers, two of which have been signed into law and one awaits the Governor's signature.

## **Budget & finance**

### **Business license bills amended**

EHB 2005 moved out of the Senate Ways & Means Committee last week with another amendment to change the timeline to phase in cities partnering with the business licensing system from 10 years to five years, if funding is appropriated.

ESSB 5777 passed out of the House Finance Committee with an amendment to make it similar to the Senate Commerce & Labor Committee's previous amendments to EHB 2005. The only difference in the bills is the timeline to phase in cities partnering with the business license system, which this version changed from five years to 10 years. The amendment also:

- Changed the hardship exemption for cities required to join the business licensing system from a more flexible hardship exemption to one allowing up to a three-year delay for city based on fiscal or technical hardship; and
- Eliminated the option for cities to leave the business licensing system based on a fiscal or technical hardship.

With the exception of the timeline for implementation, the provisions of both bills are identical at this point. Both bills:

- Require cities to participate in the state's Business Licensing Service (BLS) for licensing;
- Extend the exemption through 2020 to provide cities an option for to choose FileLocal as an alternative for business licensing;
- Require cities to develop and implement a model licensing ordinance that includes a minimum threshold; and
- Create a work group on apportionment of service income under RCW 35.102.130 staffed by the Department of Revenue.

AWC believes one of the bills will pass in the next few weeks with a final compromise that streamlines the license process for businesses.

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## **Property tax and flexibility bills move out of committee**

AWC priority bill HB 1764, would change the annual property tax limit from one percent to a limit linked to inflation and population growth. The bill moved out of the House Finance Committee on Thursday, March 30. We expect this issue will be linked to end-of-session budget discussions.

SHB 2006 moved out of the Senate Local Government Committee with an amendment eliminating the provision removing the non-supplanting provisions in voter-approved multi-year property tax levy lid lifts. The remaining provisions of the bill allow additional counties with more than 90,000 population the authority to impose the voter-approved county criminal justice levy and remove non-supplanting restrictions from the mental health sales tax.

## **House passes their operating budget – Negotiations with Senate will begin**

The House budget was released and passed on a partisan vote last week. Negotiations will now begin between the House and Senate to reconcile differences in their approaches. Key provisions impacting cities are summarized here. The Senate-passed budget spends \$43 billion and includes revenues to support it, while the House-passed budget spends \$44.7 billion and includes new revenues, primarily reflected in HB 2186, which will be considered by the House Finance Committee this week (see article in Budget & Finance).

### **Key impacts in the House budget:**

- Both the House and Senate passed budgets fully fund critical and long-standing shared revenues, including liquor profits and taxes, municipal criminal justice assistance, and local government assistance. However, these revenues will remain at risk as budget negotiations continue. Information about shared revenues your city is estimated to receive 2017-19 is available here (select your city in the drop-down arrow box).
- The budget maintains funding for the 20 percent state share of LEOFF 2 pension contributions dedicated to helping pay a portion of police and fire personnel pension costs, unlike the Senate budget proposal eliminating it. Elimination of this long-standing commitment to share the funding of these pension costs would shift \$70 million in additional costs to cities.
- Both the House and Senate budgets include some funding for Public Works Trust Fund loans for the first time in four years by retaining some of the loan repayments in the fund. Both budgets continue to sweep tax revenue streams.
- The House budget originally proposed eliminating the expected increase in local governments' share of marijuana revenues— providing \$12 million. However, full funding of \$30 million was restored in an amendment, as long as the state receives an additional \$18 million in marijuana tax revenues compared to the March 2017 revenue forecast.
- The budget funds streamlined sales tax (SST) mitigation for 2017-19 but signals elimination of those funds for impacted warehousing cities beginning in 2019 based on implementation of new requirements for sales tax collection by internet retailers.

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- The budget funds and does not place new eligibility requirements on Fire Insurance Premium Tax distributions to 44 cities to assist with pre-LEOFF and LEOFF 1 firefighter retirement and medical costs.
- The budget provides more funding for housing and homelessness, including funding for the housing and essential needs (HEN) program reduced in the Senate budget, funding for implementation of the Sec. 1115 Medicaid waiver, and additional TANF funding.
- The budget provides full funding for the Municipal Research and Services Center (MRSC), and does not include the requirement in the Senate budget for Commerce to submit an alternative funding plan by October 2018 or else funding is reduced.

Reconciling key differences on school funding approaches, funding collective bargaining agreements for state employees, and revenue options will need to occur before the Legislature can pass a budget for 2017-19 and adjourn for the year.

## House revenue proposal scheduled for hearing

In the House Democrats' 2017-19 state operating budget proposal released on March 27, the \$44.6 billion proposal relies on approximately \$1.5 billion in new revenue to help address the McCleary funding decision and fund other program needs. The revenue proposal also introduces a number of changes to the rates of existing taxes with an intent of making Washington's tax system less regressive.

HB 2186 is set for hearing in the House Finance Committee on Monday, April 3 at 8 am. AWC is organizing a panel of city officials to testify on a number of the provisions affecting cities.

### Revenue proposals

The bill contains the following revenue items:

#### 1. Marketplace Fairness

- Establishes new requirements for collection of sales tax by out-of-state retailers.
- This has been a long-standing AWC federal priority and several states have enacted or are considering similar state legislation.
- Legal challenges on this issue are moving through the courts in cases from South Dakota and Alabama and eventually expected to be taken up by the Supreme Court to reconsider whether the 1992 decision prohibiting sales taxes on out-of-state retailers would still be a burden on interstate commerce, particularly due to the dramatic increase in internet sales.

#### 2. State B&O tax changes

- Increases the rate of tax by 20% for businesses with more than \$500,000 revenues.
- Provides new exemptions for small businesses with less than \$250,000 revenues and a new deduction for businesses with revenues of \$250,000 to \$500,000.
- Eliminates the preferential B&O tax rate for prescription drug resellers, international investment firms, and royalty income.

#### 3. Sales & use tax changes

- Eliminates of the sales tax exemption on bottled water.
- Replaces the nonresident sales tax exemption with a refund process for the state portion of the sales tax.

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#### **4. State REET change to graduated rate based on property sales value**

- Reduces the rate for property sales less than \$250,000 from 1.28% to 0.75%.
- Keeps the current rate for sales from \$250,000 to \$1 million at 1.28%.
- Increases the rate for sales \$1 to 5 million to 2% and more than \$5 million to 2.5%.
- Does not impact the rates or base of the local REET.

#### **5. Capital gains tax**

- Imposes a 7% capital gains tax. Exempts the first \$25,000 (individuals)/\$50,000 (joint filers), as well as the sale of most primary residences, retirement accounts, and certain agricultural sales.

#### ***Other provisions***

- Requires local governments that issue building permits to submit subcontractor information to the Department of Revenue to help the department verify that taxes have been paid.

More details and revenue estimates will be available as the House considers the proposal.

After the House Finance Committee hearing, we do not expect further action on this bill from the full House until agreements are reached between the House and Senate negotiators.

## **Economic Development**

### **Bill authorizes local governments to establish creative districts**

HB 1183 would grant the Washington State Arts Commission the authority to certify creative districts designated by local governments or tribes as areas that promote “cultural facilities, creative industries, or arts-related business.”

Total appropriations for the program may not exceed \$150,000 in the 2017-2019 biennium and \$235,000 in the 2019-2021 biennium. From within these amounts the Art Commission must issue grants totaling at least \$45,000 to state-certified districts each fiscal year.

Requirements that must be met in order to be eligible for creative district designation include geographically contiguous sites, areas where there are concentrations of artistic or cultural activity, and an area that is distinguished by physical, artistic, or cultural resources that play a vital role in the quality and life of a community, including its economic and cultural development.

HB 1183 had a public hearing in the Senate Ways & Means Committee on March 29 and was passed unanimously the same day.

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# Infrastructure

## Senate passes very good capital budget for cities

After several years of challenging capital budgets, we are encouraged by the capital budget that passed the Senate unanimously on Thursday March 30.

Highlights include:

- \$97 million for a Public Works Trust Fund loan list. This would be the first funded list in the last four years, and only the third in nine years.
- \$60 million for stormwater projects. We are awaiting final confirmation but it appears that this would be enough to restore all delayed stormwater projects from previous budget plus a small new grant round.
- \$20 million for the list of projects created by the Fish Barrier Removal Board, on which AWC serves. It is exciting to see this investment into smarter and more strategic investments into local and private culvert replacements.
- \$99 million for low-income housing including \$85 million for the Housing Trust Fund.
- \$35 million for the Centennial Clean Water Account including sewer grants for communities in economic hardship. \$35 million is enough to meet the need of just the first year of the biennium. AWC is working to increase this funding level in the final budget negotiations to provide capacity for the full biennium.

# Marijuana

## Sixty percent reduction in shared marijuana mitigation revenue in House budget

The House budget proposal included a reduction in the marijuana excise tax distributions to local governments. The reduction from \$15 million per year to \$6 million per year would be a 60 percent cut in expected revenue and an overall decrease in funding of \$18 million for the biennium.

Rep. Tana Senn (D-Mercer Island) successfully amended the budget proposal to restore the lost revenue with the caveat that the state's overall revenue forecast had to go up by \$18 million and then the \$18 million in marijuana revenue distributions would be restored.

AWC is continuing to working with Rep. Senn and others to ensure that the marijuana mitigation revenue sharing is fully restored.

Now is the time to let your legislators know that this is an important part of the city-state partnership and they need to support the full distribution of \$15 million per year.

The House proposal does not change the distribution model, which provides funds to a broad group of jurisdictions under a complex distribution formula:

- 30 percent of the distribution will go to local jurisdictions with a marijuana retailer located within their boundaries based on the proportionate share of retail marijuana sales generated in the jurisdiction.
- 70 percent of the distribution will go to locals on a per capita basis with 60% going to counties and 40% going to cities. (Jurisdictions with prohibitions on marijuana businesses will not receive any funding.)

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## Liquor and Cannabis Board requests comment on agency compliance with local zoning rules

The LCB has requested comment on a petition by Kittitas County requesting a declaratory ruling on the issue of if the LCB must comply with local zoning requirements and only issue marijuana licenses when the application and location are congruent with local zoning. The entire notice can be found [here](#).

## Open Government

### Public records bills still moving in the Senate

AWC's priority public records bills, HB 1594 and HB 1595, passed another milestone last week. Both bills were voted out of the Senate State Government Committee unanimously. The bills were amended with input from stakeholders. AWC supports the amended versions. We would like to thank the committee chair, Sen. Mark Miloscia (R-Federal Way) for his work on the amendments.

HB 1594 has a fiscal impact and was heard in the Senate Ways & Means Committee on Friday. It must be voted on by April 4 to keep moving. HB 1595 has been referred to Rules and needs further action to move it to a vote by the full Senate.

Thanks for all of the support from cities. Now is a good time to remind your Senator about the importance of these bills and ask for their support.

## Personnel

### Calculate the impact of Senate's proposed LEOFF 2 contribution rates

The Senate's budget proposal cuts the state's contribution to the LEOFF 2 pension system for cities, counties, and other employers. Currently, pension contributions are split among the employee (50 percent), the employer (30 percent), and the state (20 percent). The Senate budget proposal would eliminate the state's 20 percent share and increase the employer's share to 50 percent. The new, proposed rate structure is in the table below. These rates exclude the employer administrative expense of .0018 percent.

	FY 2016	FY 2017	Senate budget proposal FY 2017-19
Employee	8.41%	8.75%	8.75%
Employer	5.05%	5.25%	8.75%
State	3.36%	3.50%	0%

### House budget provides funds for paid family leave policy

The House budget proposal funds \$82 million in start-up costs for the Family and Medical Leave Insurance policy (HB 1116). If the enacted, the state program would provide leave benefits for individuals on leave for a family member's or an individual's serious health condition. It would also provide 26 weeks of leave for birth of a child. The program would be funded through an assessment on employee wages, and up to half of the premium could be deducted from employee pay. AWC is continuing to monitor the progression of this proposal.

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## Bill uses rainy day fund to buy down PERS 1 liability

The PERS 1 pension plan has an unfunded liability (underfunded actuarially accrued liability or UAAL) of about \$5 billion. That means that its assets are not sufficient to cover all of its liabilities in the long-term. To address this underfunding, employers have been paying surcharge on top of their regular contribution rates to boost funding levels. The employer surcharge is in effect until 2030 when the unfunded liability is expected to be eliminated. Employees do not pay the surcharge.

SB 5900 would use \$700 million from the rainy day fund (Budget Stabilization Account) to immediately reduce the PERS 1 plan's underfunded liability. The bill then requires that \$700 million is paid back to the State General Fund with 7.7% interest (this is the current assumed rate of return for pension fund investments) by continuing the employer surcharge at current levels through 2027. Then, for FY 2030, employers would see a reduction in the surcharge providing them some funding relief.

The Senate proposed budget assumes that this proposal will provide \$56 million in revenue to the General Fund in 2018.

For city employers who pay and would continue to pay the same current PERS 1 UAAL surcharge rate, the bill creates no additional fiscal impact in the near term and, in FY 2030, provides some fiscal benefit.

Fiscal Year	Employer Surcharge Rate*	Projected Surcharge Rate after \$700 million	Difference to be used to repay \$700 million
2018	5.03%	4.63%	.40%
2019	5.03%	4.43%	.65%
2020	4.82%	4.17%	.65%
2021	4.82%	4.17%	.65%
2022	3.86%	3.50%	.36%
2023	3.86%	3.50%	.36%
2024	3.50%	3.50%	0%
2025	3.50%	3.50%	0%
2026	3.50%	3.50%	0%
2027	3.50%	3.50%	0%
2028	3.50%	3.47%	.03%
2029	3.50%	0%	3.50%
2030	1.48%	0%	.74%

\*Employers would continue to pay this surcharge rate under SB 5900

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# Public safety & criminal justice

## Increased BLEA funding provided in the House budget

The House proposed budget includes vital increased funding for the Basic Law Enforcement Academy. The budget provides an increase of \$1.3 million per year in FY 2018 and 2019 to provide six additional classes a year, on top of the current ten class schedule. The House also includes an increase in supplemental budget (FY 2017) funding to provide additional classes in the current biennium. AWC is working to get full funding for eight additional classes per year.

## Transportation

### House rolls out their transportation budget

On March 27, the House Transportation Committee released its 2017-2019 transportation budget. The budget contains no big surprises, and includes an \$8.1 billion spending plan, a decrease of \$495 million from the 2016 enacted supplemental budget. Some of the notable changes include:

- An increase of \$9.5 million to accommodate hard shoulder running on I-405 northbound between SR 527 and I-5.
- An advancement of \$15 million of funds for the I-90 project from Hyak to Easton to reflect accelerated project delivery.
- A reduction in spending authority for the Washington State Patrol (WSP) of \$8.4 million, in part due to unfilled trooper positions.
- A delay in scheduled improvements at the Mukilteo ferry terminal of \$16.3 million.
- Extraordinary costs, relating to greater-than-usual snow and ice removal, of \$5 million.
- An earlier-than-expected completion of the updated Department of Licensing vehicle licensing system, combined with the opportunity to advance the project to update the drivers' licensing system, for a net savings of \$700,000.

Of noteworthy interest to cities is a \$250,000 appropriation to the Department of Fish and Wildlife from the statewide fuel tax fund for cities. This set-aside is part of a larger sum of money cities receive to conduct studies. Under this provision the Department of Fish and Wildlife will work with cities to identify city-owned fish passage barriers that share the same stream systems as state-owned fish passage barriers and identify, map, and provide an assessment of city-owned barriers that need corrections.

In addition, the House budget asks the Department of Transportation to continue the work of the Joint Transportation Committee (JTC) road-rail study. In 2016, the JTC was asked to identify prominent road-rail conflicts and recommend a corridor-based prioritization process for addressing the impacts of increased rail traffic. Out of this work the JTC created a large database listing more than 300 prominent road-rail crossings. It also drafted a report with a number of recommendations on next steps to take. Among these are calls for a permanent "home" for the database within an agency/organization that can manage and update it. The House budget proposes the Department of Transportation take on this responsibility.

On Wednesday, March 29, the Committee took executive action on the bill with few amendments. Now the House and Senate will conference on their budgets, with the goal of reaching compromise over their differences in the coming weeks.

AWC will provide updates as they become available.

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## **AWC Legislative Contacts**

During the legislative session, AWC's lobbyists often are unable to return your phone calls immediately. If you have a legislative or specific issue question, please request AWC's analyst staff, or send them an email.

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