

Sound Cities Association Legislative Report

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March 31, 2019

Overview of 2019-21 Budget Proposals:

The State House of Representatives and the State Senate have each released budget proposals for 2019-2021 operating, capital, and transportation budgets. The House of Representatives passed their operating and transportation budgets, while the Senate is still in the process of moving the various proposals through relevant committees.

Once the House and Senate have each finalized their respective budget proposals, the two chambers will begin negotiating with one another to reconcile differences and develop final operating, capital and transportation budgets. Generally, if funding is included in both budgets, it is highly likely that it will be included in the final budget that is negotiated and agreed to by both chambers. If funding is included in one chamber's budget proposal, but not the other, it's less certain. In that case, whether funding will be included in the final budget will be determined through budget negotiations in the coming weeks. Much of the final budget negotiations occur behind closed doors, with relatively little public process and are often challenging to influence.

Operating Budget Proposals: The State Legislature will have approximately \$52 billion in revenue for the next biennial operating budget. This is, approximately, a 20% increase from the 2017-19 operating budget of \$43.7 billion. The House and Senate differ significantly on the spending levels proposed in their budgets. While the House makes \$2.3 billion in new expenditures, the Senate adds \$1.6 billion.

To support the proposed higher level of spending, the House proposes to raise nearly \$1 billion in new revenue by enacting a capital gains tax; adopting a graduated rather than fixed Real Estate Excise Tax rate; removing preferential business and occupation tax rates for bullion dealers, travel agents and tour operators, and replacing the out-of-state sales tax exemption with a mechanism allowing for refunds. Additionally, the House proposes increasing the B&O tax rate for certain business categories and dedicating the revenue to higher education. The House also proposes to transfer about \$200 million from other sources into the state general fund, including transfers from the Public Works Assistance Account.

The Senate proposes to raise \$518 million in new revenue by adopting a graduated rather than fixed Real Estate Excise Tax rate, removing the B&O tax preference for prescription drug sellers, replacing the out-of-state sales tax exemption with a mechanism allowing for refunds, and imposing an insurance premium surcharge for wildfire prevention and suppression. The Senate does not rely significantly on fund transfers. Both budgets leave over \$2 billion in fund balances and reserves.

Separate from the Senate's budget proposal, the Senate proposes to impose a capital gains tax to provide a tax break to low-income families. Rather than directing the estimated \$780 million in revenue into the state general fund, a new working families tax credit for low income families is created, along with a small business tax cut, seniors property tax reduction, and elimination of sales taxes on feminine hygiene products, diapers, over the counter medication, and mobility equipment. These policies are encompassed in SB 5961.

Capital Budget Proposals: The House and Senate also diverge in their proposals to the 2019-21 capital budget. The House capital budget proposal invests \$4.6 billion while the Senate proposal spends \$5 billion. The House proposal retains about \$200 million in bond capacity for the 2020 supplemental capital budget, while the Senate proposal retains \$121 million. Both the House and Senate make similar investments in come key areas, allocating over \$1 billion for public school construction; in excess of \$900 million for higher education facilities; and over \$150 million for the Housing Trust Fund.

Differences can be found in areas such as behavioral health facilities where the Senate invests \$199 million compared to the House investment of \$117 million, and the Washington Wildlife and Recreation Program where the Senate proposes to spend \$90 million and the House proposes to spend \$80 million. The Senate proposes to allocate \$150 million for local and community projects awarded through competitive programs and direct legislative grants while the House proposes \$136 million.

Transportation Budget Proposals: Unlike operating budget revenues, transportation revenues are projected to only increase by 1% in 2019-21. Overall spending levels are similar between the House and Senate proposals, with the House spending \$10 billion and the Senate appropriating \$9.8 billion. However, the budget proposals are significantly different in the fact that the House budget includes appropriations for \$75 million in new transportation projects across the state, primarily by making reductions to state agency budgets. The Senate Transportation Chair indicated that one of the reasons that the Senate proposed budget did not fund additional projects was in the event that I-976 passed in November, thereby negatively impacting state transportation revenues.

Committee Cutoff Deadlines Looming:

While the Legislature begins budget deliberations, they will continue considering legislation. The Legislature is currently meeting in committees, holding public hearings and voting on bills that passed the opposite chamber. Bills need to advance out of policy committees prior to April 3, and fiscal committees prior to April 9, unless they have been designated “necessary to implement the budget.” After April 9, they will spend the remainder of session on the floor voting on bills. Session is scheduled to end on Sunday, April 28th.

Legislative Priorities

Affordable Housing and Homelessness

Work Session on *Martin v. Boise*: The House Civil Rights & Judiciary Committee is scheduled to have a work session on *Martin v. Boise*: Responding to Homelessness in light of the 9th Circuit’s Decision on Tuesday, April 2 at 11:00am. This work session is in lieu of the passage of legislation that died earlier this session – House Bill 1591, sponsored by Representative Mia Gregerson (D-SeaTac) – which would have established a right to be homeless. Representatives from the Association of Washington Cities, the Washington State Association of Sheriffs and Police Chiefs, and the Governor’s Office are presenting at the work session.

Housing Trust Fund: The House has proposed allocating \$150 million to affordable housing through the Housing Trust Fund, while the Senate has proposed allocating \$175 million. Both proposals are higher than the \$140 million allocation that the Governor proposed. Out of this funding, the Senate proposes to spend \$18 million on 12 specific projects, and the House proposes to spend \$41 million on 11 specific projects. The remainder of the funds are dedicated to competitive grants and loans. However, The House and Senate differ in how they allocate the funding into various “buckets” of competitive funds. The House divides the remaining \$109 million as follows:

- \$30 million is for housing projects that provide supportive housing and case-management services for persons with chronic mental illness;
- \$10 million is for competitively awarded housing preservation grants;
- \$69 million for competitive housing projects
 - 10% for projects benefitting veterans
 - 10% for projects benefitting homeownership
 - 5% for projects benefitting persons with developmental disabilities; and
 - The remaining amounts for projects that benefit low-income populations in need of housing.

The Senate proposes spending \$157 million as follows:

- \$35 million for supportive housing and case management services to persons with behavioral health or chronic mental illness;
- \$10 million for housing that serves people with developmental disabilities;
- \$10 million for housing that serves people who are employed as farmworkers;
- \$12.5 million is provided as a state match on private contributions that fund the production and preservation of affordable housing;
- \$20 million for competitive grants for high quality affordable housing that will move people from homelessness into secure housing and that are less than \$125,000 per unit; and
- \$69.5 million is remaining for competitive housing projects, without any percentage breakdown.

Affordable Housing Funding: The House operating budget proposal assumes the passage of House Bill 1406, sponsored by Rep. June Robinson (D-Everett), which provides local governments with a .02 credit against the state sales tax for the construction of affordable housing. A credit against the state sales tax is not an increase in the state sales tax, rather it directs state sales tax revenue to the local level. The impact to the state operating budget is approximately \$70 million/biennium.

The Senate Operating Budget does not account for the passage of House Bill 1406. Instead, the Senate assumes passage of Senate Bill 5366, sponsored by Senator Keith Wagoner (R-Sedro Woolley) and Senate Bill 5363, sponsored by Senator Guy Palumbo (D-Maltby), which collectively expand the use of the multi-family housing property tax exemption to all cities and towns, and allows cities to extend the multi-family housing property tax exemption for affordable units an additional twelve years. The impact to the state budget to these two bills is indeterminate, but likely much less than House Bill 1406.

House Bill 1406 passed out of the Senate Housing Stability and Affordability Committee on March 25, and is scheduled for a public hearing in the Senate Ways & Means Committee on April 3. Meanwhile, Senate Bill 5366 and Senate Bill 5363 have been referred to the House Housing, Community Development, and Veterans Committee, but have not been scheduled for a public hearing, and the Committee is not planning to meet in advance of the April 1st deadline.

Homelessness: Generally, the House allocates more funding to address homelessness. However, the House and Senate both make significant investments, each taking a slightly different approach.

Both the House and Senate propose funding the Housing and Essential Needs (HEN) program, with the House proposing \$12.7 million more than the Senate. The House allocates \$38.5 million for permanent supportive housing and temporary rental assistance for families, and an additional \$34.3 million for permanent supportive housing for vulnerable adults. The Senate allocates \$3.9 million to permanent supportive housing for vulnerable adults, but then allocates \$43.7 million for a Consolidated Homeless Grant Program, of which \$9.2 million is allocated for permanent supportive housing for 200 families each year that are chronically homeless and where at least one member of the family has a disability.

Trueblood: Both the House and Senate proposal making significant investments to respond to the *Trueblood* settlement that calls for increased investments into the state's behavioral health system. proposes a series of investments to comply with the *Trueblood* settlement and invest in behavioral health. Funding is allocated by both chambers to transition to a community-based system, to increase the number of competency restoration beds that exist at eastern and western state hospitals, increasing the number of competency evaluators, and providing funding through WASPC for mental health field response teams. This includes phasing in funding for community beds which can provide long-term commitment services traditionally provided at state hospitals. Patients in current patients in the state hospitals will be placed into yet-to-be-constructed community-based behavioral health facilities, but also into adult family homes, enhanced service facilities, and other existing community-oriented facilities. To help with this transition, funding is provided for eight Program of Assertive Community Treatment (PACT) teams statewide. In addition, funding is provided for wraparound services for adults discharging or being diverted from the state psychiatric hospitals into assisted living and other community placements. The Department of Commerce is tasked with developing a model ordinance for cities and counties to utilize in siting community based behavioral health facilities. Commerce is directed to hire a behavioral health facilities siting administrator to coordinate development of effective behavioral health housing options and provide technical assistance in siting of behavioral health treatment facilities statewide to aide in the governor's plan to discharge individuals from the state psychiatric hospitals into community settings. The administrator is directed to work closely with the local government legislative authorities, planning departments, behavioral health providers, health care authority, department of social and health services, and other entities to facilitate linkages among disparate behavioral health community bed capacity-building efforts.

The House Capital Budget proposes \$117 million to increase community-based behavioral health bed capacity to house individuals currently at Western and Eastern State Hospitals. Of this funding, \$40 million is allocated to the Department of Commerce for a competitive grant program; and \$73.6 million is set aside for community-based projects for a variety of behavioral health services. Additionally, \$203.1 million is allocated to construct two civil bed facilities, and to construct two new forensic wings at Western State Hospital.

The Senate Capital Budget also proposes to construct two forensic wings at Western State Hospital, but otherwise diverges from the House proposal, allocating \$75 million to Behavioral Health Capacity Grants (similar to the \$73.6 million the House includes above), and \$41.5 million for 12 specific behavioral health projects.

The House and Senate have more similarities in their proposed Operating Budget. Both the House (\$65.6 million) and Senate (\$58 million) propose increasing funding to community long-term inpatient beds. Both the House (\$27.5 million) and Senate (25.9 million) allocate funding to community treatment services. The House and Senate diverge where the House allocates \$45 million for behavioral health grants, and the Senate allocates \$22.7 million for enhanced discharged placements.

Transportation & Infrastructure

The House and Senate proposed transportation budgets maintain funding to grant programs that benefit cities, such as the Transportation Improvement Board (approx. \$250 million), the Freight Mobility Strategic Investment Board (approx. \$42 million), Safe Routes to Schools (approx. \$29 million), and Bicycle and Pedestrian Safety Grants (approx. \$25.1 million). Additionally, the following city programs are allocated funds:

- \$3 million is provide to the Transportation Improvement Board to increase the capacity of the Relight Washington program to provide assistance to small cities regarding low-energy street light retrofits.

- \$350,000 is provided to the Department of Fish and Wildlife to contract with the Association of Washington Cities to inventory and assess fish passage barrier associated with city roads located in the U.S. v. Washington case area.
- \$350,000 is provided for the Puget Sound Regional Council to perform a study on passenger-only ferry service in the 12-county Puget Sound region.

Culvert Funding: While not an SCA priority, there has been particular attention paid to culvert funding. The House proposes to spend \$214 million on state-owned fish passage barrier removal, and \$25 million for local grants through the Fish Barrier Removal Board. The Senate proposals to spend \$274 million on state-owned fish passage barrier removal through a watershed approach. The Senate also invests \$30.5 million through the Fish Barrier Removal Board, of which \$28.8 million is designated for specific projects.

Tools for Cities

As has historically been the case, the House and Senate budget proposals present a “mixed” bag for cities:

- The House proposes to continue **streamlined sales tax mitigation payments** to cities for an additional 10 years through the provisions of House Bill 1948. The Senate provides a significantly reduced level of mitigation payments for SST cities for only one biennium.
- The **marijuana excise tax** distributions for cities and counties was scheduled to increase from \$30 million statewide to \$40 million statewide. Both the House and Senate propose delaying this increase.
- On the **Public Works Assistance Account**, the Senate allocates \$212 million into the account, while the House sweeps \$160 million leaving only \$80 million available for competitive grant and loan applications.
- The **Basic Law Enforcement Academy** is fully funded in both the House and Senate budget proposals to provide nine additional BLEA classes each fiscal year, increasing the number of classes from 10 to 19, providing training for 270 additional trainees annually. (state pays 75% of the cost of a class; city pays 25%). The Criminal Justice Training Committee must schedule funded classes to minimize wait times and may not run a class of fewer than 30 students. The House proposals includes an additional \$460,000 to reimburse cities that have 10 or fewer full-time commissioned patrol officers for the cost of temporary replacement of each officer who is enrolled in the academy.
- The House and Senate propose to fully fund the **Municipal Research Services Center**.

Maintaining Local Control:

Accessory Dwelling Units: Senate Bill 5812, sponsored by Senator Guy Palumbo (D-Maltby), as originally drafted would have preempted city authority to regulate accessory dwelling units (ADUs). The bill passed the Senate with an amendment that exempts any city with an ordinance as of the effective date of the bill (July 2019) from the requirements of the bill.

Immediately prior the public hearing on the bill in the House Local Government Committee this past week, Representative Strom Peterson introduced a striking amendment that is very concerning to cities. The amendment would limit the grandfather clause to cities that have adopted an ordinance on or after January 1, 2016, and would only grandfather an ordinance if it resulted in an increase in the

number of ADU's in the jurisdiction. The striker would also remove the State Environmental Protection Act (SEPA) review exemption for updating the ordinance.

Several groups testified on the bill and a few touched on the introduced amendment. The Association of Washington Cities (AWC) shared the negative effects that the striker would have on cities and shared their support for the version of the bill that passed off the Senate floor. Conversations with Representative Strom Peterson continue to occur. The committee plans to vote on the bill on Tuesday, April 2 at 10:00am. It's likely that a further revised amendment will be released prior to the committee voting on the bill.

Minimum Density Requirements: House Bill 1923, sponsored by Representative Joe Fitzgibbon (D-Burien), would have required cities to select off a menu of options to increase density and increase housing affordability in their community. If a city doesn't select off the menu of options, the city is then required to update the housing element of their comprehensive plan and comply with new criteria provided for in the bill. If a city does neither, they are then ineligible for a series of grant programs (very similar to how a city would be treated if found noncompliant with the GMA). However, the bill was amended on the House Floor to make all of the provisions of the bill optional – rather than requiring cities to take action, it states that cities are *encouraged* to take action and passed, 66 - 30. The bill had a hearing in the Senate Housing Stability & Affordability Committee on Wednesday, March 27 and several groups testified on the bill. Futurewise and the Building Industry Association of Washington shared with the committee that they would prefer the requirement language rather than making it optional for cities. AWC shared that they would most likely be opposed to a mandatory approach since the menu is currently condensed to twelve options. Representative Joe Fitzgibbon stated during his testimony that he is open to adding more options to the menu and understands that this bill is still in the works. The bill is scheduled to be voted out of committee on Monday, April 1 at 1:30pm. It's likely that a revised version of the bill will be drafted prior to the bill being voted out of committee.