



2017 WASHINGTON STATE LEGISLATIVE REPORT

OVERVIEW

Washington Legislature Holds Record Setting Session

The Washington State Legislature held its regular 105-day session in January that ended up being the longest in state's history going into three extra sessions and lasting 192 days. Narrow majorities and different political parties in control of the House and Senate led to major disagreements on key issues including balancing the state budget, responding to the McCleary court decision to adequately fund and provide for K-12 education and addressing the recent Hirst court decision on water rights. Lawmakers introduced 2,236 bills in Washington resulting in 370 new laws. The most significant new law affecting employers is the paid family leave legislation that was agreed to by business groups and republican legislators to head off a more aggressive initiative to the people by organized labor and democrat legislators. The shipping industry was successful in stopping the Department of Fish and Wildlife proposed \$125 per vessel fee increase to fund the aquatic invasive species program while other bills focused on the Puget Sound region pilotage fees, pilot diversity and oil transport. Proposed taxes on vessels and efforts to increase oil transportation regulations are expected to continue in 2018.

BUDGET & TAXES

Compromise Budget Deal Reached in Third Special Session

The legislature ultimately agreed on and the Governor signed a \$43.7 billion compromise budget, SSB 5883, that covers the 2017 supplemental and the 2017-19 biennial budget. The final budget spends \$2 billion more than the previous biennium and includes additional revenues of \$2.1 billion from the passage of HB 2242 for basic education funding (\$1.6 billion increase), HB 2163 to raise revenue (\$431.8 million increase) and SB 5977 relating to tax preferences (\$15.6 million decrease). The budget also transfers \$463 million from the Budget Stabilization Account and \$254 million from the Public Works Assistance Account. Increased spending primarily goes to K-12. Detailed documents are at <http://leap.leg.wa.gov>.

Revenue Package Passed as Part of Budget Deal

The primary revenue bill, SHB 2163 provides a \$456.4 million revenue increase to support the budget (\$1.3 billion over four years). Under the legislation, internet marketplace facilitators and remote sellers are required to collect and remit sales taxes on their remote sales from out of state and pay business and occupation (B&O) taxes. In addition, the bottled water sales tax exemption was repealed and a use tax will apply to fuels manufactured for own use. Tax proposals from earlier in the session would have eliminated the nonresident sales tax exemption, which was unaffected in the final revenue package. SHB 2163 was part of the negotiated budget deal, was signed into law and became effective July 7.

Capital Budget Tied to Water Rights Legislation

The Legislature adjourned the third special session without the adoption of a capital budget or legislation, SB 5239, to address the water decision from the Hirst Supreme Court decision last fall. The bill would allow local government to once again rely on Department of Ecology rules for water and building permits. Hirst negotiations fell apart after the Governor and House Democrats proposed a twenty-four-month temporary fix instead of a permanent solution that the Senate and House Republicans demanded. Failure to adopt a Hirst solution puts rural construction and housing projects in jeopardy. The lack of a capital budget is even more devastating to economic development around the state. For Clark County, that means the WSU Vancouver life sciences building and the Clark College Boschma Farms Campus will not proceed in this construction season. Ongoing discussions are occurring but an agreed to resolution is unlikely for Hirst.

Property Tax Change as Part of K-12 Compromise

As part of the budget compromise, lawmakers agreed to legislation, HB 2242, to address the McCleary court decision on K-12 funding. The measure provides \$1.6 billion in new revenue increase while addressing the over-reliance for local funds and providing tax relief in some areas of the state. A [detailed analysis](#) of the property tax bill is available to help determine tax adjustments by school district. The state property tax is changed to a flat rate of \$2.70 per \$1,000 of assessed value. The \$2.70 rate will stay in place for four years, after which, the state property tax will revert to the current one percent revenue lid. Seniors who qualify for the senior citizen's exemption program are exempt from the increase in the state property tax. On average, state property tax increases are 81-cents per \$1,000 assessed value while 73% of state taxpayers will see net property tax reduction under the agreement.

ECONOMIC DEVELOPMENT

Governor Vetoes B&O Tax Reduction for Manufacturers

As part of the budget negotiations, the Legislature passed SSB 5977 to improve various tax incentives. Unfortunately, Governor Inslee vetoed Part II that would have lowered the business and occupation tax rate on manufacturers from 0.484 percent to 0.2904 percent – the same rate applied to aerospace. He also vetoed Part VI, the sales and use tax 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. While the Governor vetoed certain tax incentives, he signed the revenue bill, SHB 2163, that provides a \$1.3 billion revenue increase to the state general fund over four years.

Jobs Bill Passes for Freight Rail Dependent Uses

Governor Inslee signed into law the growth management freight rail legislation, SB 5517. This came after the veto of a more comprehensive version, HB 1504, that passed the Legislature earlier in session. The enacted bill allows Clark and Okanogan County to develop rules for industrial use on resource land adjacent to shortline railroads. For Clark County, at least 2000 new jobs are expected when the bill is fully implemented. The law became effective October 19.

Tourism Legislation Passes and Funded in Budget

Business and community leaders in Southwest Washington asked lawmakers to make a statewide tourism marketing program a priority and funding was provided in the final budget deal. Washington is the only state without a statewide tourism marketing program and our border communities need SSB 5251 to effectively compete with our neighboring states. The budget includes \$500,000 for to implement SSB 5251, legislation that allows a percentage of retail sales tax collected on lodging, car rentals, and restaurants to be used for tourism marketing.

EDUCATION & WORKFORCE TRAINING

Basic Education Funding Plan Approved by Legislature

As part of the budget compromise, lawmakers agreed to legislation to address the McCleary court decision on K-12 funding, the cause of major budget disagreements and extended legislative sessions. HB 2242 provides \$1.6 billion revenue increase for (\$6.6 billion four-year) education funding that primarily goes to reduced class sizes for K-3 and cost of living adjustments for teachers. The new law became effective October 19.

New Laws on Education and Workforce Training Legislation

The highly successful customized workforce training program is made permanent on July 23 when the new law went into effect. SB 5713 creates the skilled worker outreach, recruitment, and training program to enhance training programs in high-demand fields.

ENVIRONMENT

Aquatic Invasive Species Legislation Becomes Law – No Ship Tax

The Legislature passed and the Governor signed into law, SB 5303, the aquatic invasive species legislation. The new law establishes an AIS permitting requirements for small vessels and

aquatic conveyances. A person must obtain an AIS prevention permit before placing or operating a seaplane or vessel that is registered out of state in Washington waters. The bill also applies if commercially transporting certain seaplanes or vessels into or through the state. An AIS prevention permit is \$20 and is valid for one year. Funds must be deposited in the AIS management account. The original bill included a \$125 per vessel ballast water fee on ships over 300 gross tons that would have increased costs to the industry by \$918,000.

Regulatory Improvement Legislation Effective July 23

Several bills to improve the regulatory climate passed the Legislature and were signed into law by the Governor. HB 1120 requires agencies to mitigate costs on rules affecting small businesses, HB 1010 directs the Department of Ecology to post on its website interagency agreements with other government agencies, and HB 1086 promotes the completion of environmental impact statements within two years. In addition, HB 1352 passed, to help small business owners have a greater understanding of their compliance obligations and provide greater transparency on the rules and laws facing small business owners. Other legislation that will help employers include HB 1296 to combine the annual reports and surveys into a single document for tax reporting. These new laws will help improve the regulatory climate and ease the burdens facing employers for reporting and regulatory compliance.

Taxes on Oil and Hazardous Substances Fails to Pass Legislature

The House of Representatives introduced several bills that would increase taxes for oil and other hazardous substances. HB 1210 would raise the barrel tax from \$.04 to \$.065 on petroleum products, HB 1663 would impose a surtax on the first possession of hazardous substances on top of the existing 0.7 percent tax with a cap of \$160 million in combined collections and HB 2182 would establish a tiered tax on hazardous substances. 2SHB 1611 was the primary vehicle passed by the House to address oil transportation safety to require tug escorts in the Puget Sound. A stable funding source of revenue is needed for brownfield clean-ups to reclaim contaminated land for development however there remains opposition to the bills from various groups due to a lack of safeguards and assurances that funding won't get diverted from the dedicated cleanup accounts as it has been in the past. These measures failed to pass in the republican controlled Senate and are expected to get raised again in the 2018 session.

Carbon Tax Headed to Initiative in 2018

Carbon tax legislation was a central part of initial budgets offered by Governor Inslee and the House Democrat majority. Various bills were introduced to establish a carbon tax ranging from \$15-\$25 per metric ton, however HB 1646 became the primary proposal to establish a \$15 per metric ton tax on carbon emissions and provide investment in forest, water and clean energy programs. The bill exempted maritime from the carbon tax for vessels when bringing fuel to Washington that is stored in a fuel tank for use as fuel, when exporting outside of Washington and if an international consortium has not adopted a greenhouse gas emissions reduction plan by December 31, 2021. The legislation failed to get traction however supporters of a carbon tax have promised an initiative on the 2018 ballot. The last carbon tax initiative, I-732 from 2016,

failed to pass largely because the environmental community was split with some favoring a cap and trade system instead of a carbon tax. This year, the environmental community has unified their position and are expected to fund the campaign.

LABOR

Paid Family Leave Bill Becomes Law

SB 5975 to provide 12-18 weeks of paid leave supported by employee and employer premiums was signed into law by Governor Inslee making Washington the fifth state with a paid leave program. The bill establishes employee and employer premium taxes of 0.4 percent of wages beginning on January 1, 2019. Eligibility requires 820 hours of work to become a qualifying employee for up to 12 weeks of leave for birth, child placement or serious health condition of the employee or family member. The law is effective October 19.

Pilotage Study Passes After Bill Fails

The Washington State Joint Transportation Committee (JTC) was authorized to conduct a review of pilotage best practices by the Legislature in the 2017 transportation budget after ESSB 5819 failed to pass the House. ESSB 5819 would have required the pilotage commissioners to deposit \$1 million annually from the Puget Sound pilotage district tariffs to pay for increased self-insurance premiums resulting from a \$6 million discrimination lawsuit. The bill also prevented an increase to the tariffs until 2023. The House disagreed with the Senate approach and instead of passing the legislation, lawmakers agreed to a review of pilotage tariffs and fees, recruitment and training and diversity initiatives. To date, there is a recognition in the study that the Columbia River and Columbia River Bar Pilots are regulated by the State of Oregon. A diversity committee has been formed under the Board of Pilotage Commission, meanwhile, the top ranked trainee for 2016 that will complete training in 2018, is female.

TRANSPORTATION & INFRASTRUCTURE

I-5 Columbia River Bridge Legislation

SB 5806 creates a “joint legislative action committee”, with Oregon and Washington membership, who will work with both states' departments of transportation and transportation commissions and stakeholders to begin a process toward project development for a new I-5 bridge. The Committee has not started up, and is not required to meet until December. WSDOT is working on the inventory report on the old project work as directed by the bill. Washington has made appointments to the work group that include four republicans and four democrats from the Senate and House of Representatives. Legislators in Washington are reaching out to their Oregon counterparts to encourage their participation; however, it is unclear how Oregon lawmakers will respond to the formation of an I-5 bridge work group.

Small Vessel Exemptions and Impoundment Legislation Become Law

The Governor signed SSB 5262 to exempt small vessels from the pilotage act if the Puget Sound pilotage board finds that a small passenger vessel that is not more than one thousand three hundred gross tons, does not exceed two hundred feet in overall length, is manned by United States-licensed deck and engine officers appropriate to the size of the vessel with merchant mariner credentials issued by the United States coast guard or Canadian deck and engine officers with Canadian-issued certificates of competency appropriate to the size of the vessel, and is operated exclusively in the waters of the Puget Sound pilotage district and lower British Columbia; or is a yacht that is not more than one thousand three hundred gross tons and does not exceed two hundred feet in overall length, Governor Inslee also signed SHB 1605 to allow small vessel impoundment by a police officer for reckless behavior.

Washington Passes Legislation for REAL ID Compliance

ESB 5008 became law as lawmakers were faced with a deadline by the federal government to become compliant with the REAL ID Act. The bill requires the department of licensing to mark a driver's license or identicard beginning July 1, 2018, A driver's license that is marked pursuant to the REAL ID Act requirements may not be used as evidence of an individual's citizenship or immigration status for any purpose. The fee for an identicard is \$78.



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