



# Skagit County Interim Report

October 19, 2022

## HIGHLIGHTS

- State revenue forecast increased for current biennium but revised downward for 2023-2025
- State agency budget decision package released
- Tax Structure Workgroup identifies set of policies for further exploration
- Legislative committees discuss building code updates, Growth Management Act, recycling, housing and homelessness funding, and more
- Substance Use Recovery Services Advisory Committee discusses approaches to controlled substances
- Task Force on Water Resource Mitigation working toward final report
- Recreation and Conservation Office releases Local Parks project rankings

## State Revenue Forecast Update

Estimates released by the Washington State Economic and Revenue Forecast Council show an increase in revenue collections of about \$43 million for the 2021-2023 budget cycle. The estimated increase represents a 0.07 percent increase over the previous forecast. General Fund revenues are now projected at \$63.2 billion for the current biennium.

However, the Council also projected a decrease in revenue of about \$495 million for the 2023-2025 biennium, about 0.7 percent below the previous forecast in June. While lower, this amount of revenue available for the 2023-25 budget is still higher than the adopted 2021-23 budget.

The next quarterly revenue forecast is scheduled for November 18. Governor Inslee will submit his 2023-2025 budget proposals to the Legislature in December.

## Governor's Budget Development Package

The Governor will initiate the state budget development process in late December with the release of his proposed operating, capital, and transportation budgets. State agencies submit budget proposals to his office for potential inclusion on his budget proposals. The following summary details the list of items included in the package of state agency requests most pertinent to local governments.

## Environment and Natural Resources

### *Department of Commerce*

- Funding to conduct a stakeholder process to understand community needs and concerns in siting clean energy projects in rural communities
- Energy audit incentive to allow local governments to access to Clean Building incentive funding
- Grant funding and technical assistance for local governments to implement salmon recovery planning into comprehensive plans, develop monitoring and adaptive management practices to improve critical areas protection, improve code enforcement activity for activities harming salmon habitat, and expand the Building Green Cities program statewide

### *Department of Ecology*

- Funding for a statewide compost emissions study to support waste reduction goals established in [HB 1799](#) (2021)
- Funding to support legislation establishing a permanent fund source for statewide drought planning and preparation
- Funding to develop a statewide preferred river migration zone mapping plan for salmon and to provide technical assistance to local and Tribal governments looking to implement Ecology's mapping approach. This work follows up on direction to Ecology from the 2022 legislative session addressing riparian protection and restoration
- Funding to co-develop a clean fuel market platform with the State of California for Washington's reporting platform under the Clean Fuel Standard
- Funding to hire 15 staff to reduce the municipal wastewater permitting backlog

### *Department of Natural Resources*

- Funding for Forest Practices Adaptive Management Program, as requested by the Forest Practices Board
- Authorization and funding request for the agency, in collaboration with local governments, to remove "aquatic derelict structures," such as tire piles and derelict pilings
- Funding for continued implementation and pass-through dispersal of wildfire resilience and preparedness funding as authorized in [HB 1168](#) (2021)
- Funding to analyze modeling and inventory for the sustainable harvest calculation
- Funding to implement recommendations and pilot projects from the Trust Land Transfer Workgroup

## Growth Management Act/Planning

### *Department of Commerce*

- Funding to provide technical assistance and grants to local governments to incorporate climate mitigation and resilience planning into comprehensive plans. This will allow communities outside of the Puget Sound Region to access grant funds for the next round of update cycles

- Continued funding for local government housing planning assistance, expanded to the next comprehensive plan update cycle. Focus areas include transit-oriented development, middle housing, lowest-income housing, and auditing the multi-family tax exemption (MFTE) program
- Continued funding for the [emergency shelter grant program](#) (established in 2020) and continuation and expansion of diversion pilot program (established in 2021)

## Public Safety

### *Criminal Justice Training Commission*

- Request for three additional Basic Law Enforcement Academy (BLEA) classes for the 2023-25 biennium
- Funding for a statewide Use-of-Force instructor and coordinator

## Behavioral Health and Human Services

### *Department of Health*

- Increased funding for Foundational Public Health Services

## Economic Development

### *Department of Commerce*

- Establishing the Innovation Acceleration Cluster Program as a statutory program and other business competitiveness investments. IACP includes aerospace innovation as a cluster sector

## Ferries

- Funding to support multiple workforce training and expansion initiatives for Washington State Ferries

## Tax Structure Work Group

In 2017, the Legislature established the Tax Structure Work Group to identify options to make the Washington State tax code more fair, adequate, stable, and transparent. The Work Group is tasked with providing guidance to the Washington State Department of Revenue on final rate setting and any necessary fine tuning to approve a policy recommendation and legislation by the end of this year.

At their September meeting, the Work Group discussed guidance to the Department of Revenue on policy proposal development. The Work Group's dialogue focused on three potential policy pathways for further discourse and modeling by the Department of Revenue:

- **Margins tax that could replace the current Business and Occupation tax:** Businesses would be taxed on their margin, which is generally calculated as gross receipts minus compensation paid and cost of goods sold. Importantly, the Department of Revenue's current modeling focuses solely on the State's B&O

tax; it does not contemplate replacement of the B&O tax at the local level. The Work Group discussed how paid compensation and cost of goods sold should be defined. Most members indicated that the deduction for compensation paid should be based on W-2 wages rather than creating a state-specific definition, and that the per-employee compensation deduction be capped at a certain amount. The Work Group indicated that the margins tax policy should not cap the deduction at a certain percentage of compensation costs. It was also decided that the Internal Revenue Service definition of costs of goods sold should be used rather than creating a state-specific definition.

- **Wealth tax that could pay for the Working Family Tax Credit Expansion and/or the Primary Residence Property Tax Exemption/Renters Credit:** The Working Families' Tax Credit is for families with low to moderate income and is based in part on the federal Earned Income Tax Credit. The first payments will be made in spring of 2023 for tax year 2022. The Department of Revenue has identified three options it could administer and model for the 2023 legislative session, including increasing the flat payment amount, extending eligibility to those 18 years of age and older (the current age range is 25-65), and the "married filing separately" filing status. The Primary Residence Property Tax Exemption would provide a property tax exemption from the state school levy for the first \$250,000 of assessed value on a principal place of residence. This proposal could also include a renters' refund program in which renters would apply to the state and include documentation. The Work Group decided that the property tax exemption should include only primary residences rather than all residences, and that the Department of Revenue should proceed to model the renters' credit, which would be administered at the state level.
- **Property Tax Limit Factor:** State law currently limits levy increases to the levy growth limits, often referred to as the "101 percent levy limit" or the "1 percent growth limit." The Department of Revenue has modeled changing the limit factor for the state levy to 100 percent plus the change in state population and inflation. If population decreases, then the population change is set to zero when calculating the limit factor. Most Work Group members indicated that there should be a minimum limit of zero percent on growth, and that growth should be capped when calculating the limit factor. A majority also decided that there should be a maximum limit on the property tax.

## Legislative Committee Updates

### House Local Government Committee

On September 20, the House Local Government Committee convened for an update on the Growth Management Act Task Force's work and discuss local government resource needs for planning under the Growth Management Act (GMA).

The GMA Task Force is working through several topics, including adaptive planning, refining the definitions of middle housing, major arterials, and transit stops, tax

incentives for housing development and annexations, and integrating planning with infrastructure needs and coordination with special purpose districts. There was also discussion on drafting GMA goal language on equity and environmental justice.

A panel of county and city planners presented to the Committee on local governments' resource needs for implementing GMA goals. They shared that additional funding is needed from the Department of Commerce, as well as additional assistance in the form of guidebooks, model policies and codes, among others.

The GMA Task Force is targeting a timeframe between October and November to finalize its recommendations to the Legislature.

### **House Environment and Energy Committee**

On September 26, the House Environment and Energy Committee held a work session to discuss fossil fuel use in buildings and efforts to improve product lifecycle management and increase recycling.

Governor's Office staff presented an overview of the building decarbonization incentives in the recently enacted federal *Inflation Reduction Act*. A representative from the Washington State Building Code Council reviewed recent changes in the commercial and residential building codes approved in April, including requiring heat pumps in new commercial buildings. [The Council could also vote to require heat pumps in residential homes in November 2022.](#) The Housing Development Consortium for Seattle-King County shared perspective on the nexus of the co-occurring affordable housing, equity, and climate crises and expressed support for more funding and incentives for compliance with energy codes, especially for existing affordable multi-family housing buildings.

A representative from the non-profit organization, RMI, shared that buildings are a major source of emissions, but Washington is a leader in energy-efficient building codes. Sustainable Connections staff presented survey data from their survey of small and medium enterprises on barriers to undertaking energy-efficiency projects. Challenges noted in the presentation included a lack of resources and no incentives available from their local utilities for switching from gas heating to an electric heat pump.

The Committee then received briefings from Department of Ecology staff with updates on the latex paint recycling program and the new post-consumer recycled content program. Final comments for the rulemaking process are due by November 1 of this year. Staff noted some challenges that will need to be addressed legislatively, including the definition of "producer," equitable distribution of fees, and adjustment to the "de minimus" threshold as it currently very narrow.

The next presenters shared details from the producer responsibility law in the State of Colorado and discussed the current state of recycling in Washington State.

Staff from the Association of Washington Cities shared that only 58 percent of Washington cities have curbside recycling service, and as the costs of recycling operations increase, that burden falls on the ratepayers and not the producers. Staff from Seattle Public Utilities presented a brief overview of producer responsibility as a

policy solution, which has been implemented in Canada and Europe over the last 20 years.

### **House Appropriations Committee**

On October 6, the House Appropriations Committee held a work session for updates on housing, homelessness, utility, business, and food assistance funding. Department of Commerce staff presented status updates on various programs. Notably, 57% of federal rent assistance funding has been spent to date, and the rental assistance program will close by June of 2023. Also expiring in 2023 is the one-time shelter bed funding that has facilitated 2,000 beds throughout the state. In state fiscal year 2023, the state is providing gap funding for operations and maintenance of over six thousand permanent supportive housing units in 13 counties.

Utilities are disbursing assistance funds through the end of this year to address customer arrearages utilizing \$99 million available from the Department of Commerce. Emergency Energy Assistance funds appropriated for state fiscal year 2021 have been fully expended. An additional \$2.9 million for water and sewer assistance became available for fiscal year 2023.

The launch of Apple Health and Homes includes a new supportive housing benefit through partnership with the Health Care Authority and Department of Social and Health Services. With an operating budget of \$8.7 million, the program helps individuals with behavioral health, daily assistance, and chronic health condition needs.

The right-of-way initiative to address homelessness on state highways is funded through a \$45 million budget proviso, and includes partnership between the Department of Commerce, Department of Transportation, State Patrol, local governments, and non-profit organizations. Staff noted that, out of 98 individuals residing in the right-of-way in Thurston and King Counties, 77 moved into housing.

### **House Finance Committee**

On October 12, the House Finance Committee held a work session on tax policy, focused on economic wellbeing and household financial stability. The Committee received briefings from staff and experts on guaranteed income policy and disparities in homeownership.

Staff from the Department of Social and Health Services presented a summary of findings and recommendations from the universal basic income pilot program feasibility study, which was funded through a budget proviso in the current biennium. The briefing discussed how a basic income program fits into Governor Inslee's Poverty Reduction Plan and help address the "benefit cliff" effect in which low-income households lose access to assistance programs as their circumstances improve.

The feasibility study's recommendations include a targeted basic income approach that would provide a cash payment distributed to a targeted group of individuals or households that is recurring, unconditional, and unrestricted. Such a pilot program would last for two years and would target nine priority populations in destabilizing transitions or circumstances. Participants would receive a percentage of fair market rent

(FMR) as a guaranteed income amount. The study includes estimates for 75, 100, and 120 percent of FMR based on county location. The briefing concluded with various cost estimates for each FMR percentage category with sample sizes ranging from 5,000 to 10,000 participants.

Next, Department of Commerce staff presented an update on the work of the 32-member diverse workgroup that examined homeownership disparities for BIPOC communities. Information shared in the presentation included statistics on the decline of Black homeownership since the year 2000 and that racial disparity in homeownership stays consistent across every income band. Barriers that prevent people from purchasing homes are interconnected and complex, including the lack of available homes, high price-to-income ratios, difficulty qualifying for traditional loans, and limited public assistance.

The workgroup recommends increasing supply of affordable homes and direct homeownership assistance, improving lending products, adjusting existing assistance programs, and focusing on sustaining homeownership. Staff shared efforts currently underway to address disparities in homeownership, including a new unit in the Department focused on homeownership, a funding decision package submitted to the governor, middle housing planning grants, and Community Reinvestment Act planning.

## **Blake Decision—Substance Use Recovery Services Advisory Committee**

It is anticipated that there will be many policy proposals coming forward in the 2023 legislative session that follow up on the *Blake* decision, and [SB 5476](#) which was enacted during the 2021 legislative session. SB 5476 made possession of controlled substance a misdemeanor and requires two attempts at diversion referrals to behavioral health services prior to arrest. The bill also required the Health Care Authority to establish the Substance Use Recovery Services Advisory Committee to develop a substance use recovery services plan. The Committee's final report is due on December 1, 2022.

The Washington State Substance Use Recovery Services Advisory Committee has heard from subject matter experts to inform criminal legal response, if any, to possession of controlled substances. Based on Committee discussions, it seems likely that the Committee will recommend decriminalizing possession of controlled substances, coupled with increased treatment and other policy changes. The Committee heard from American Civil Liberties Union of Washington, which shared the perspective that a public health response would have better outcomes than a punitive system. In their view, possession of controlled substances should not be a criminal offense or a civil infraction, but that individuals found in possession of controlled substances should be offered low-barrier treatment options, and that safe supply alternatives should be considered. They also stated that, until the State fully invests in public health alternatives, success will be elusive regardless of the legal status of possession.

The Committee also received presentations from LEAD, the nation's first pre-booking diversion initiative and subject matter experts who shared information on safe supply and consumption. The briefings highlighted initiatives in Canada and noted the rapidly increasing occurrence of fentanyl overdose deaths in Washington state and how a safe supply model could address the volatile drug supply issue. An overview of the State of Oregon's 2020 ballot measure that decriminalized personal possession of controlled substances and allocated cannabis tax revenue to grants for drug treatment centers. Under Oregon's program, over 16,000 residents were able to get into treatment within six months.

## Recreation and Conservation Office Rankings Released

The Washington Wildlife Recreation Program provides funding for a broad range of land protection and outdoor recreation, including local parks. Technical review of project applications in the Local Parks category took place in June, followed by evaluation in August. The preliminary ranked lists have been released, and the Board will vote to approve the lists in the final week of October. The lists will then be submitted to the Governor.

The full list of projects is available [here](#).