

## POLICY NOTE

# 2019 legislative wrap-up: Who was in charge, what passed, and what didn't

by Paul Guppy, Vice President for Research

May 2019

### Key Findings

1. Lawmakers increased spending by \$8 billion, to \$52.4 billion, an increase of over 17%, the largest single-budget spending increase in 25 years.
2. Due to the good economy, officials expected enough revenue to fund state programs. Even so, they added some \$2.5 billion in permanent new taxes.
3. Lawmakers added another \$4.4 billion to schools, bringing the education spending to \$27.2 billion. Public schools now get about \$16,000 per student, more than most private schools receive.
4. Lawmakers broke a 2017 promise not to raise local education taxes, so local levies across the state will likely increase next year.
5. Lawmakers also imposed a statewide ban to block charter school families from sharing in local education funding.
6. In major victories for the public interest, lawmakers defeated a proposed capital gains income tax and a costly carbon tax on daily energy use.
7. Lawmakers also defeated a measure to ban private health insurance and place all residents into a mandatory government health program.

### Introduction

The Washington State Legislature convened on January 14th and ended its 2019 session at 11:59 p.m. on Sunday, April 28th, just in time to meet its scheduled closing for the planned 105-day session. In doing so, lawmakers avoided the embarrassment of the 2017 session, when the normal 105-day session lasted 192 days, and almost led to a shut-down of state government.

### Majority control in Olympia

As a result of the 2018 election, Democrats gained a clear majority in both houses of the Legislature. Democrats hold a majority in the Senate of 27 to 22, and a majority in the House of 57 to 41.<sup>1</sup> In addition, under Governor Jay Inslee, Democrats currently hold the Washington governorship, as they have for 34 years, the longest of any state.

Washington is one of 14 trifecta states for Democrats, holding both houses of the Legislature and the governor's office. Nationally, Republicans hold 22 trifecta states, and 14 states have divided government.

### What passed

Here is a summary of major legislation that passed in Olympia during the 2019 legislative session.

Record increase in spending. Lawmakers increased spending in the general budget by \$8 billion, to \$52.4 billion for the 2019-21 budget period, a boost of 17.5%. This includes spending all of the \$1.9 billion left over from the last budget and is the largest single-budget spending increase in 25 years.

Increase in education spending. As part of the rise in overall spending, lawmakers again added large increases in spending for schools. Lawmakers added over \$4.4 billion more for the second time in four years, boosting public school spending from \$18.2 billion to \$27.2 billion. Washington now spends an average of \$16,000 per student, more money than most private schools get.

Several new taxes imposed. Due to the good economy and low unemployment, state officials expected a revenue increase of some \$4.5

<sup>1</sup> Senate minority count includes one Democratic senator who caucuses with Republicans.

billion, without raising taxes. Still, lawmakers imposed \$2.5 billion over four years in new taxes on the people of Washington. The new taxes are permanent.

Higher local school levies. Lawmakers decided to break a promise they made in 2017 not to increase local school taxes, after having raised the state property tax for schools an average of 17%. Instead they passed a law in 2019 that keeps the increase in state taxes and allows some \$2.8 billion in additional taxes at the local level. Lawmakers retained a provision, however, that bars charter school families from sharing in any increase in local school funding.

Higher tax on home sales. Lawmakers increased the Real Estate Excise Tax (REET) by \$245 million, adding a new burden that makes most housing less affordable and will heavily impact business owners. Starting in January the state REET tax will increase from a flat 1.28% to as high as 3%, depending on the value of the home. Homes under \$500,000 will be taxed at 1.1%.

New tax on professional service workers. Lawmakers expanded the B&O tax on workers who provide certain professional services, increasing costs to independent business owners. Targeted businesses include broadcasting, technology, wholesalers and financial services.

Changing court rulings to favor the state. Lawmakers also shifted the burden of proof if the tax law they wrote is unclear. In the past, courts ruled that any uncertainty about whether a person or business owes a tax should favor the taxpayer. Now when these cases come up, lawmakers have instructed the courts to rule in favor of the state.

New tax on banks – In the closing hours of the final Sunday session, lawmakers passed a new tax on out-of-state banks of \$133 million. The cost will likely be passed on to Washington state customers. The bank tax also likely violates the interstate commerce clause of the U.S. Constitution. Lawmakers could not get a legal analysis of the bill before the final vote, however, because the attorney general's office was closed for the weekend.

New sales tax on out-of-state residents. Lawmakers repealed the long-standing sales tax exemption that out-of-state residents receive when shopping in Washington state. Now these residents will only get a tax rebate if they apply for one later. The repeal and loss of business will particularly harm people living in communities near the Idaho and Oregon borders.

New tax on oil products. Lawmakers imposed a new per-barrel tax on refined oil products. The new tax will increase the cost of gas by about two cents a gallon, on top of the 67 cents-per-gallon tax that people already pay.

New tax on workers. Lawmakers imposed a new payroll tax of .56% for mandatory participation in the state's long-term care entitlement program. This is added on top of the approximately 8% in payroll taxes workers already pay. Also, if workers retire out of state, they lose all benefits and payments they made under the program.

Effort to destroy Snake River dams. Lawmakers funded a study of the destruction of four dams on the Snake River, a long-term goal of urban-based

environmental activists. If the dams are torn down, Washington residents would lose about 8% of the state's electrical generating capacity and the public benefit of low-cost water transportation.

I-405 tolls and 30-year bond debt. Lawmakers expanded and made permanent the tolls they impose on Interstate 405, State Route 167 and State Route 509. They re-directed the revenue to pay principle, fees and interest on 30 years of bond debt. They also cancelled traffic-flow standards for these routes, because state officials will now profit from increased congestion in the general travel lanes.

Government-sponsored racial discrimination. On the last day of the session, lawmakers passed Initiative 1000, to repeal the Washington Civil Rights Act of 1998 and sanction state-based racial, ethnic and gender discrimination in public hiring, contracting and public education.<sup>2</sup> The measure may be the subject of a citizen repeal referendum on the November 2019 ballot.

State presidential primary. Lawmakers passed a measure to move Washington's presidential primary from May to the second Tuesday in March, which is March 10 in 2020. In the past Democrats had ignored the primary results, but say they will now use the primary to award party delegates to their national convention.

Permanent daylight savings time. Lawmakers passed a bill to adopt daylight savings time year-round in Washington state. The change would shift one hour of daylight from morning to evening during the winter months. The state measure must be approved by Congress to take effect. Voters in California passed a similar measure, which also needs Congressional approval.

Favoring unions. The U.S. Supreme Court recently upheld the right of workers to stop paying union dues and still keep their jobs. Lawmakers in Olympia passed a bill that bars workers from suing a union for the wrongful collection of dues or fees. The measure also allows unions to take dues based on recorded voice permission and without an end date but requires a worker to apply in writing to stop dues payments.

Electric car subsidy for the rich. Lawmakers enacted a generous exemption of no sales tax on \$25,000 of value per vehicle for people who buy electric cars. Research of vehicle sales shows that most of the subsidy would go to residents living in wealthy neighborhoods.

## **What did not pass**

Here is a summary of major legislation that did not pass during the 2019 legislative session.

Capital gains income tax. A measure to impose an income tax on capital gains earnings failed to get a vote in either the House or Senate, despite strong backing from Governor Inslee. Research showed the measure was illegal under the state constitution and would likely have been struck down by the courts.

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<sup>2</sup> The Washington Civil Right Act was passed by state voters in November 1998 by a margin of 58% to 42%. It provides that public officials... "shall not discriminate, or grant preferential treatment to, any individual or group on the basis of race, sex, color, ethnicity or national origin in the operation of public employment, contracting or education."

Imposing a Low Carbon Fuel Standard. A proposal by Governor Inslee to impose a Low Carbon Fuel Standard (LCFS) on gas sold in the state passed in the House but failed to get a vote in the Senate. The measure would have added about 17 cents to the cost of a gallon of gas, in addition to 67 cents per gallon in current taxes.

Carbon tax. A proposal to impose a carbon tax on all energy use in the state failed to get a vote in either the House or Senate. The measure would have cost a typical working family household about \$200 a year. The failed bill was similar to another carbon tax proposal, Initiative 1631, that voters rejected by a wide margin last year.<sup>3</sup>

A state-run bank. A proposal to create a socialized, state-run bank failed to get a vote in either the House or the Senate. If passed the measure would have allowed state officials to compete against their own citizens in the state's financial markets.

Ban on private health insurance. A measure to study imposing a single-payer, Canadian-style health care system failed in the Legislature. If adopted, a socialized single-payer system would have banned Washington residents from accessing private health coverage or paying doctors privately within the health care system. Lawmakers did, however, add a public option to the state's subsidized health care exchange.

Death penalty repeal. A measure to repeal the state's death penalty statute failed. In practical terms, Governor Inslee had already announced that he had suspended all death penalty cases.

Sales tax cut. A bill to reduce the state sales tax by a half percentage point, from 6.5% to 6.0%, failed to pass. Estimates show Washington residents would have saved about \$1.3 billion over two years, while normal economic growth would still have produced large revenue increases for the state.<sup>4</sup>

End funding inequality in education. A proposal to end funding discrimination against charter school families failed to pass. Currently, state officials deny charter school families access to education funding approved by local voters. If passed, the measure would have allowed charter school children to participate on an equal basis as students in other public schools.

## **Conclusion**

Overall the 2019 legislative session resulted in lawmakers imposing a heavier tax burden on the people of Washington, a large permanent increase in state spending, an expansion of the public debt burden, and targeted legislation that benefits public-sector unions.

At the same time, Washington residents saw a number of policy victories, primarily in the legislature's failure to impose a capital gains income tax, to impose news taxes on energy use, to create a state-run bank, or to ban the sale of private

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3 Washington state ballot Initiative 1631, "Carbon Emissions Fee and Revenue Allocation Initiative," rejected by a popular vote of 56.5% to 43.4%, November 6, 2018.

4 S.B. 5610, "Reducing the state sales and use tax," introduced January 24, 2019.



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health insurance. In a further victory, lawmakers authorized the use of remote testimony, so citizens could present their views in public hearings without having to travel to Olympia.

Some actions, like a repeal referendum on the legislature's last-minute passage of Initiative 1000, may appear before voters on the November ballot. In most policy areas, however, people will have to convey their concerns to their elected representatives to bring about positive change, especially as lawmakers re-connect with constituents in preparation for the next scheduled meeting of the Legislature in January 2020.

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*Published by*  
Washington Policy Center  
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