



## 2025 Washington State Final Legislative Update Points Communities May 2, 2025

### General Background

The 2025 Washington State Legislative session came to a close on its scheduled Sine Die, April 27 at 6:31 pm. When interviewed on the final day of session, Lieutenant Governor Denny Heck (D) characterized this session as “grueling” and “brutal.” This was due in large part to the fact that legislators came into the 2025 Session facing a \$12-to-\$16 billion budget deficit over the next four years. The heavy weight of this challenging circumstance hung over nearly all legislative business conducted throughout the 105-day session.

During this final weekend of the 2025 Session, the main focus was on finalizing and adopting the 2025-27 biennium operating, transportation, and capital budgets. Due to the considerable challenges created by the major budget deficit projections, final budget talks came down-to-the-wire resulting in legislators working around the clock to wrap up on time.

The Governor has 20 days, not counting Sundays, from the adjournment of the legislative session to take action on bills. On the final evening of the legislative session, he indicated that he would review the budgets line-by-line to make his final decisions.

### Operating Budget

The \$77.9 billion [2025-27 biennium operating budget](#) was released on April 26 and adopted on April 27 using a conference committee process, as noted in this Senate Democrat [press release](#). As a reminder, no changes can be made to proposals agreed upon using a conference committee process. They are brought to the House and Senate floors for consideration, using a straight up or down vote.

During a press event announcing the conference committee agreed-upon operating budget proposal, budget leaders provided their caucus’ priorities for drafting the 2025-27 biennium operating budget. Senate Ways & Means Chair, Senator June Robinson (D-Everett), noted that supporting education and protecting essential services was a major priority for Senate Democrats coming into this session. House Appropriations Committee Chair, Representative Timm Ormsby (D-Spokane) shared that “food, shelter, and health” were the main priorities for House Democrats.

Overall, the adopted operating budget relies upon \$8.7 billion in new revenue over four years and includes \$3.1 billion in funding cuts during the 2025-27 biennium, as outlined in this *The Olympian* [article](#).

*Major highlights from the adopted operating budget are below:*

- K-12 education funding over four years including; \$750 million for special education, \$213 million for materials and supplies, and \$200 million for local effort assistance funding to support students in low-income school districts.
- Fully funds new collective bargaining agreements for state workers
- \$100 million for law enforcement grants over four years out of a dedicated account provided through [ESHB 2015](#)
- \$117 million for local housing programs
- Several fund transfers are relied upon including \$288 million from the Public Works Assistance Account
- No major Budget Stabilization Account (“rainy day fund”) transfers are relied upon
- Relies upon a 1.5% across-the-board reduction to higher education institutions
- Reduces Apple Care (Medicaid) adult dental reimbursement rates by removing a previously adopted 50% increase and includes more modest reductions for pediatric dental rate reimbursements (some groups of children are excluded from these rate reimbursement reductions)
- Relies upon Managed Care reductions of 1% starting January 1, 2026
- Delays planned expansions of the [Fair Start for Kids Act](#)
- Provides a Budget Stabilization Account ending fund balance of \$2.3 billion for the 2025-27 biennium and \$3.6 billion for the 2027-29 biennium

*Operating Budget Revenue Package*

The 2025-27 operating budget relies upon a revenue package that is projected to generate \$4.3 billion during the 2025-27 biennium and \$4.4 billion during the 2027-29 biennium.

- [ESSB 5813](#) modifies the capital gains tax. Among other things, this bill applies an additional 2.9% excise tax on individual's Washington capital gains exceeding \$1 million, increases the estate tax exclusion amount to \$3 million and provides an updated reference to the Consumer Price Index to allow for annual inflation adjustments, and increases the qualifying family-owned business interests deduction amount for the estate tax to \$3 million and provides annual inflation adjustments.
- [ESSB 5814](#) modifies the application and administration of certain excise taxes. ESSB 5814 extends retail sales and use tax to certain specified services (e.g. temporary staffing, advertising, security, and information technology), and makes certain products containing nicotine subject to the other tobacco products tax.
- [ESSB 5794](#) revises or repeals a wide variety of tax preferences.
- Nicknamed the, “Tesla tax bill,” [SHB 2077](#) imposes an excise tax on the banking and sale of surplus zero-emission vehicle credits by a manufacturer for each model year beginning with model year 2024 program implementation.

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- [ESHB 2081](#) modifies business and occupation tax surcharges, rates, and the advanced computing surcharge cap, clarifying the business and occupation tax deduction for certain investments, and creating a temporary business and occupation tax surcharge on large companies. Specifically, this bill does the following:
  - Increases the business and occupation (B&O) tax rate for manufacturing, retailing, and wholesaling to 0.5% beginning January 1, 2027.
  - Increases the B&O tax rate for multiple rate categories beginning January 1, 2027.
  - Increases the B&O tax rate for services and other activities for businesses with gross receipts over \$1 million beginning October 1, 2025.
  - Imposes a 0.5% B&O tax surcharge on taxpayers with Washington taxable income over \$250 million from January 1, 2026, through December 30, 2030. Increase the B&O surcharge on financial institutions to 1.5% beginning October 1, 2025.
  - Increases the B&O advanced computing surcharge to 7.5% and increases the annual cap to \$75 million beginning January 1, 2026.

### Transportation Budget

The \$15.5 billion [2025-27 biennium transportation budget](#) also was negotiated using a conference committee process.

*This budget is supported by the two new resources below.*

- [E2SB 5801](#) - includes a 6-cent-per gallon increase, starting July 1, in the state fuel tax (with an additional 2% increase annually), truck and passenger weight fees, the rental car tax, and the motor vehicle sales tax as well a new luxury tax on certain higher priced vehicles, as detailed in this *Seattle Times* [article](#). These new resources total more than \$3 billion over six years.
- [ESSB 5802](#) - creates a permanent dedication of 0.1% of the current 6.5% sales and use tax, providing additional resources of approximately \$300 million per year starting in Fiscal Year 2028.

The 2025-27 Transportation Budget provides \$15.5 billion in spending authority for the biennium and balances for four years. The budget assumes a combination of new funding sources and bonding of about \$3.3 billion.

The budget includes funding for the next phase of the expansion joint noise mitigation study, as well as direction to WSDOT to analyze options for SR 520 ramp tolling.

Budget highlights include the following:

- \$125 million for fish passage barrier removal in 2025-27 and a total of \$1.12 billion in new funding.
- Preservation is funded at the same level for the biennium, but there is an increase in funding of \$200 million for the 2027-29 biennium.
- \$49.7 million additional funding for local governments in 2025-27 and an additional increase of \$101 million in the 2027-29 biennium.

Additional details on the 2025-27 transportation budget are provided below.

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### Studies, Planning and Reporting

- \$100,000 for the JTC to continue its review of transit-oriented development conditions, include a review of HB 1491 and make recommendations on how HB 1491 may be best implemented by local governments. The report is due December 15, 2025.
- \$50,000 for the Department of Licensing to conduct a study on the feasibility of implementing a per mile fee program.
- Funding is provided for WSDOT to develop a strategic long-range tolling feasibility assessment that indicates the operational viability and revenue potential for possible future tolled facilities in the State. WSDOT must submit the assessment to the Legislature by October 1, 2026.
- WSDOT must continue coordinated planning work with the goal of maximizing system performance. The coordination must include the Interstate 5 corridor, existing rail infrastructure, future high-speed rail alignment and commercial aviation capacity.

### Directives and Demonstration Projects

- The Transportation Commission must develop a toll relief program based on income qualification. The Commission must provide annual updates on the program to the Legislature.
- The Legislature intends that tolling commence as soon as possible on the I-405 express lanes Renton to Bellevue Corridor.

### **Capital Budget**

The \$7.5 billion [2025-27 biennium capital budget compromise proposal](#) was the final budget to be released over the weekend. The 2025-27 biennium capital budget compromise proposal budget summary noted that “housing, education, natural resources, and other key areas” were the focus of this budget. The proposal, which was made public during the evening of April 26, was adopted by the House and Senate the following night, making it one of the last proposals adopted this session. A detailed list of projects funded in this budget can be accessed [here](#).

### *Major highlights from the adopted capital budget are below:*

- \$975 million for education (including \$202 million for small district and tribal compact schools, \$151 million for school seismic safety, and \$100 million for early learning facilities)
- \$827 million for natural resources
- \$782 million for housing and homelessness
- \$375 million from the Climate Commitment Account to support projects aligned with environmental and energy goals (including \$120 million for the Washington Wildlife & Recreation Program and \$171 million for water supply infrastructure)
- \$114 million for broadband spending to expand internet statewide

Approximately, \$349 million in bond capacity is reserved for the 2026 supplemental capital budget

### **Other Major Legislation Wrapped Up Over the Weekend**

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- **Rent Stabilization:** [EHB 1217](#) - caps annual rent increases at 7% plus inflation or 10%, whichever is less, as outlined in this *Washington State Standard* [article](#). This bill was passed using a conference committee.
- **Unemployment Benefits for Striking Workers:** [ESSB 5041](#) - allows individuals unemployed due to a labor strike to receive unemployment insurance benefits for up to six weeks, as noted in this *Washington State Standard* [article](#). This bill was passed using a conference committee.
- **Public Safety Funding:** [ESHB 2015](#) - creates a Local Law Enforcement Grant Program to be administered by the Criminal Justice Training Commission and authorizes a new local 0.1% sales and use tax for criminal justice purposes. This bill has been delivered to the governor.
- **Lot-Splitting:** [E2SHB 1096](#) Requires cities to establish a process for review and approval of an administrative lot split, which may be combined with concurrent review of a residential building permit for new single-family or middle housing. On April 27, the House concurred (94-4) with Senate amendments to this bill.

Below is a summary of other major items that the Legislature addressed during the last week of the legislative session.

### Transportation

On April 23, the Senate passed (35-13) [SHB 1958](#) relating to the Washington state and Oregon Interstate 5 bridge replacement toll bond authority. This bill allows for the issuance of up to \$2.5 billion of bonds for the design, right-of-way, and construction of the Interstate 5 Bridge Replacement Project. Additionally, it provides that bonds may be issued as either triple backed—meaning backed by tolls first, then the gas tax and vehicle fees, then the full faith and credit of the state; or as toll-only backed.

On April 22, the House concurred (67-30) with Senate amendments to [SHB 1774](#) regarding the leasing of unused highway land. This bill allows the Washington State Department of Transportation to take into account social, environmental, or economic benefits of a property lease as part of the required adequate consideration for the lease when the lessee will use the property for community purposes. Additionally, it defines "community purposes" as serving a housing, housing assistance, shelter program, park, enhanced public space, public recreation, salmon habitat restoration, or public transportation public benefit purpose.

On April 21, the House concurred (65-32) with Senate amendments to [ESHB 1837](#) establishing intercity passenger rail improvement priorities. Among other things, this bill establishes 2035 targets for the Department of Transportation's Amtrak Cascades service regarding improvements, connections, frequency, and reliability. It also instructs the Department of Transportation to prioritize targets as it conducts project development work.

[ESHB 1902](#) convenes a work group regarding the streamlining of permitting for transportation projects. On April 24, the House concurred (93-1) with Senate amendments to this bill.

### Housing & Homelessness

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On April 22, the House concurred (57-39) with Senate amendments to transit oriented development (TOD) legislation ([3SHB 1491](#)). In its final form, this bill has the five major components below.

- Requires cities planning under the Growth Management Act to allow new residential and mixed-use development within a station area at certain TOD densities.
- Establishes a new 20-year Multi-Family Property Tax Exemption (MFTE) Program for multifamily residential housing within a station area that meets TOD affordability requirements.
- Requires a local government to reduce certain impact fees by 50% if the project is within a station area and claiming the 20-year MFTE Program tied to the TOD affordability requirements.
- Requires the Department of Commerce develop model TOD ordinances and administer a grant program to assist cities in providing the infrastructure, planning, and staffing necessary to implement the TOD requirements.
- Requires Department of Transportation review certain surplus property and select up to three park and ride facilities to conduct a pilot program to encourage TOD development that meets density and affordability requirements

On April 21, the Senate unanimously concurred with House amendments to [ESB 5559](#), relating to streamlining the subdivision process inside urban growth areas.

The Senate unanimously concurred with House amendments to middle housing legislation ([ESB 5471](#)) on April 21. In its current form, this bill has four major parts as outlined below.

- Allows planning counties to authorize at least one middle housing unit on each parcel that permits single-family residences in urban growth areas and limited areas of more intensive rural development (LAMIRDs).
- Limits units to four residential units per lot in LAMIRDs and in designated urban growth areas.
- Prohibits standards for middle housing that are more restrictive than those required for detached single-family residences.
- Requires counties to apply the same development permit and environmental review processes that apply to single-family housing.
- Exempts adoption of related ordinances and regulations from administrative or judicial appeals and authorizes the Growth Management Hearings Board to hear petitions alleging noncompliance.

On April 19, the Senate passed (39-19) [SB 5647](#) providing a real estate excise tax (REET) exemption for the sale of qualified affordable housing to include any type of ownership housing provided by an affordable homeownership facilitator to low-income households. This bill is now in House Finance.

On April 19, the House unanimously concurred with Senate amendments to [SHB 1576](#), regarding historic landmarks. As passed, this bill prohibits cities from designating a property as a historic landmark outside of a historic district if the property is less than 40 years old or, if the designation would restrict the use of the property and the property is less than 125 years old, if the property owner has not given written consent to the designation.

### Looking ahead.



- **House Assembly Days: December 4 and December 5**
- **Senate Assembly Days: TBD (most likely will occur in November or December)**

### Bills of Interest

Bill #	Abbrev. Title	Title	Status	Sponsor
<a href="#">SHB 1061</a>	Residential parking	Providing additional parking flexibility in residential neighborhoods.	C 137 L 25	Low
<a href="#">E2SHB 1096</a>	Lot splitting	Increasing housing options through lot splitting.	Del to Gov	Barkis
<a href="#">E2SHB 1108</a>	Housing cost task force	Creating a task force on housing cost driver analysis.	Del to Gov	Klicker
<a href="#">ESHB 1135</a>	Local government planning	Ensuring that local government planning complies with the growth management act.	C 17 L 25	Duerr
<a href="#">2SHB 1183</a>	Building codes	Concerning building code and development regulation reform.	C 139 L 25	Duerr
<a href="#">SHB 1353</a>	ADU self-certification	Establishing a self-certification program for accessory dwelling unit project permit applications.	C 22 L 25	Ramel
<a href="#">3SHB 1491</a>	Transit-oriented housing dev	Promoting transit-oriented housing development.	Del to Gov	Reed
<a href="#">HB 1757</a>	Residential use/existing	Modifying regulations for existing buildings used for residential purposes.	Del to Gov	Walen
<a href="#">SHB 1791</a>	Local real estate excise tax	Increasing the flexibility of existing funding sources to fund public safety and other facilities by modifying the local real estate excise tax.	C 159 L 25	Paul
<a href="#">ESHB 2049</a> (SB 5812)	K-12 education funding	Investing in the state's paramount duty to fund K-12 education and build strong and safe communities.	Del to Gov	Bergquist
<a href="#">E2SSB 5148</a> (HB 1235)	GMA housing element	Ensuring compliance with the housing element requirements of the growth management act.	Del to Gov	Bateman
<a href="#">ESSB 5161</a> (SHB 1227)	Transportation budget	Addressing transportation fiscal matters.	Del to Gov	Liias
<a href="#">ESSB 5167</a> (SHB 1198)	Operating budget	Making 2025-2027 fiscal biennium operating appropriations and 2023-2025 fiscal biennium second supplemental operating appropriations.	Del to Gov	Robinson
<a href="#">ESSB 5184</a> (HB 1299)	Minimum parking requirements	Concerning minimum parking requirements.	Del to Gov	Bateman

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<b>Bill #</b>	<b>Abbrev. Title</b>	<b>Title</b>	<b>Status</b>	<b>Sponsor</b>
<a href="#"><u>ESB 5471</u></a> (HB 1840)	Middle housing	Authorizing middle housing in unincorporated growth areas and unincorporated urban growth areas, certain limited areas of more intensive rural development, and fully contained communities.	Del to Gov	Goehner
<a href="#"><u>SSB 5558</u></a>	Growth management plans	Concerning timelines for growth management comprehensive plan and development regulation updates.	C 148 L 25	Goehner
<a href="#"><u>ESB 5559</u></a>	UGA subdivision process	Streamlining the subdivision process inside urban growth areas.	Del to Gov	Lovelett
<a href="#"><u>ESB 5595</u></a> (HB 1772)	Shared streets	Establishing shared streets.	Del to Gov	Alvarado
<a href="#"><u>ESSB 5611</u></a>	Land use permitting workload	Streamlining and clarifying local governments' land use permitting workloads.	Del to Gov	Salomon
<a href="#"><u>ESSB 5801</u></a>	Transportation resources	Concerning transportation resources.	Del to Gov	Liias
<a href="#"><u>2SSB 5802</u></a>	Transportation funds	Rebalancing statutory fund transfers and revenue dedications for transportation.	Del to Gov	Liias