

The fact that Washington's 2021 legislative session was unprecedented has been said many times, but the significance of that cannot be understated based on the logistical and policy challenges lawmakers faced stemming from the COVID-19 pandemic. The shift to a fully virtual session went better than expected, which played host to empowered legislative majorities that took on more pieces of important policy than in a traditional year. Issues including pandemic recovery, climate change, diversity, equity, and inclusion, police reform, tax policy shifts, and a new two-year budget were the clear priorities, although there were significant disagreements on how or whether to address those items.

While there were fewer bills passed than in any long session since 1985 due to the remote nature which slowed certain processes down, the legislation that did pass was more substantive and potentially impactful than in some years. This also led to a more partisan feeling at the Capitol than in other years.

A fully remote environment fundamentally changed longstanding processes and heavily impacted communication among stakeholders that usually occurs when the Legislature gathers in person. But the virtual environment also presented opportunities to increase access and transparency to the legislative process, by allowing a record number of people to engage. More meetings were available on TVW, the state's version of C-SPAN, for the public to access online from anywhere. Credit union advocates found new ways to engage in the process and remain as close to legislators as ever before by adapting to what was hopefully the first and only online session in our state's history.

Ultimately, the session ended on time in the allotted 105 days. While the new budget went into effect on July 1, most policy bills without an emergency clause took effect on July 25th. Legislators will convene next in January of 2022 for a short 60-day session.

Your NWCUA team greatly appreciates the incredible work that all credit union advocates did to engage in the process in a number of ways, which directly and positively impacted the 2021 agenda.

If you have any questions, please do not hesitate to contact Joe Adamack by emailing jadamack@nwcua.org or by calling 253-709-7921.

Additionally, please find the NWCUA Compliance Bulletin [here](#) that provides an analysis of the bills which credit unions should be aware of.

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2021 LEGISLATIVE AGENDA

Washington credit unions entered the 2021 legislative session with three key priorities:

1

Protect the credit union structure, powers, and associated tax status

Result – Success. With lawmakers originally anticipating a multi-billion-dollar budget shortfall heading into session and increased attacks and messaging from banking representatives about the credit union tax exemption, it was critically important to ensure Washington's strong charter remained intact. While lawmakers ended up with ample tax revenues to fund priorities, the existence of multiple pieces of pro-credit union legislation and the presence of other legislation opposed by banks ensured lawmakers were hearing from banks about the credit union tax status and charter. NWCUA and Washington advocates had strong stories and data to counter the bank opposition, including economic and community impact information which supported maintaining credit unions' structure, powers, and tax status.

2

Allow credit unions to accept unlimited public funds statewide.

Result - Success: Senate Bill 5106, allowing approved credit unions to accept unlimited public deposits, passed both chambers with broad bipartisan support by a 40-7 margin in the Senate and 68-30 in the House of Representatives. This success was the direct result of engagement and advocacy by credit union representatives as well as coalition-building that pulled in support from people or organizations representing county treasurers, cities, counties, school district finance officials, public ports, and other municipal entities.

3

Modernize the Washington Credit Union Act to address future opportunities and current challenges.

Result - Incomplete: Work remains in order to pass House Bill 1165, modernizing the Washington State Credit Union Act, which removes the fixed asset occupancy requirement, modernizes the definition of small credit union for the purpose of regulatory relief, allows credit unions to provide some limited basic services to non-members, and allows credit unions to make a direct equity investment in a non-CUSO entity that provides services to the credit union or its members.

After passing the House committee unanimously and receiving a 93-2 vote by the full chamber, the Senate Financial Institutions Committee Chair convened stakeholders to further discuss the equity investment provision due to strong opposition from the banking industry. Despite the banking lobby not articulating a specific policy concern that led to their opposition (banks having these powers and more already) we agreed to work through the language with stakeholders convened by the Department of Financial Institutions during the interim ahead of the 2022 session. While the rest of the bill remained under consideration by the full Senate, it ultimately was held up along with other bills by procedural delay tactics on the deadline to move bills off the floor and did not advance. This ultimately allows the previously removed equity investment component back into the bill and sets us up nicely for passage in 2022

BUDGET MATTERS

Crafting and approving a state operating budget is the most important work the Legislature does each year, with the 2021 session requiring the development of a new two-year budget that funds state government from July 1, 2021, through June 30, 2023. While original forecasts immediately following the arrival of COVID-19 saw lawmakers staring down a \$9 billion shortfall, by the time the Q1 2021 revenue forecast came through, the state's Chief Economist projected that anticipated revenues would actually outpace pre-pandemic expectations, which already accounted for significant growth. While it may have seemed optimistic at the time, monthly collection reports continued to exceed projections and support those figures, which bodes well for future economic growth.

Those revenues, some tax and fee increases, and utilization of the state's rainy-day fund, led to the passage of a \$59 billion two-year operating budget, more than 12% higher than the 2019-21 state budget. While recent forecasts and the state estimates project a balanced budget plan for years to come, there are also some areas of concern, including items that were funded by one-time federal dollars that will eventually need to be paid for with state funds.

The most significant change in tax policy came as lawmakers narrowly approved a 7% state tax on the sale or exchange of long-term capital assets if the profit exceeds \$250,000 in the calendar year. The tax includes stocks, business interests, and other tangible assets, but exempts real estate, retirement accounts, and other certain gains. Two lawsuits have already been filed challenging the constitutionality of the tax, which will likely keep it in court for the foreseeable future.

POLICY MATTERS

Some of the most significant policy discussions outside the credit union agenda included bills that did not pass and will require continued credit union advocacy in coming years. A few highlights include:

- Data privacy legislation, which failed to advance for the third consecutive year with the main challenge coming down to a disagreement over who should have the legal authority to enforce the law.
- Pandemic impacts threatened some funding for the Foreclosure Fairness Act program, as fees are generated from financial institutions that exceed a certain threshold of foreclosure activity. However, due to the federally mandated forbearance programs and foreclosure moratoriums, the large banks that pay the overwhelming majority of the fees could have ended up exempt under the previous structure. Lawmakers worked to address the transition period by using 2019 data for determining fee exemptions in 2021 and 2022, and also modified the overall fee structure in hopes of stabilizing funding for years to come. Based on our analysis, the change in exemption threshold should not negatively impact any credit unions and may actually provide a greater buffer.
- Lawmakers again introduced legislation to repeal a tax exemption for interest on the investments or loans secured by first mortgages for banks operating in fewer than ten states, which was valued at \$287 million in the 2021-23 budget cycle with the funds slated to support affordable housing. The legislation did not advance out of the Senate policy committee, but when coupled with the ongoing lawsuit from bankers over a previous increase in taxes on large banks currently under review by the State Supreme Court, banking representatives strongly opposed the legislation and attempted, unsuccessfully, to bring credit unions into the tax conversation.
- Lawmakers also worked unsuccessfully to pass a proposal to create a state public financial cooperative. This legislation is different than previous discussions around creating a state bank, as the bill would have allowed, but not required, local municipalities to pool excess funds and issue bonds to pay for local infrastructure projects. However, structured funds would have remained deposited in existing public depositories as the fund would not carry federal insurance.
- Funding was protected for the state's Financial Education Public Private Partnership, in which many credit unions and NWCUA participate. FEPPP actually saw costs reduced last year since teacher trainings were moved online and therefore had travel, stipend, and facility costs largely go away in 2020. However, while FEPPP will continue to integrate online tools to increase access, moving forward, in-person work will resume, and the budget allocation remained.
- The Department of Financial Institutions was successful in securing approval to hire a Diversity, Equity, and Inclusion Staff Coordinator who will work with regulated entities to share information and resources and will deploy grants to help increase financial education in underserved communities.

VIRTUAL CREDIT UNION DAY AT THE CAPITOL A SUCCESS

Due to the pandemic and the virtual legislative session, the annual Credit Union Day at the Capitol also moved into a remote format. Even without the opportunity to visit the Capitol in person, credit union advocates made their presence known with more than 200 people attending the online meetings and engaging with their local elected officials.

Credit Union Day at the Capitol will return to Olympia as an in-person event on February 10, 2022. Please mark your calendars and plan to bring your team members to ensure a strong showing and the occasion to highlight how your credit union is supporting the needs of your members and communities.

POLITICAL SHIFTS AHEAD

The Washington State Redistricting Commission convenes every ten years following the decennial census to redraw and rebalance the state's 49 legislative and 10 congressional districts. Washington's process ensures bipartisan input and consensus on the boundaries that impact the next decade of political and community representation in state and federal government. The commission is made up of four appointees, one from each legislative caucus, and requires a majority of the members approve new boundaries.

Ten years ago, when the commission last met, it worked to ensure roughly 137,000 residents were in each district so that each district had equal representation. Since then, Washington's population has increased by ~1 million people, with much of the growth coming in larger urban centers. As a result, the new ideal district population will be ~156,000 people. To address the current range of 142,000 to 193,000 in individual legislative districts requires significant updates to equalize statewide. The commission is doing this work now, and the resulting boundary changes may lead to some districts becoming more conservative, others more liberal, and even some incumbent legislators redistricted out of their current seats.

2021 LEGISLATIVE SESSION BY THE NUMBERS:

1,488

*bills
introduced*

341

*bills
passed*

105

*meetings with
legislators*

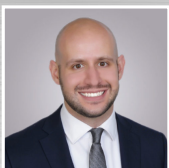
9

*credit unions representatives
testified in public hearings*

67,728

*people signed into register their position on a bill in committee
(up from 18,742 the previous long session).*

Thank you, advocates, for your work to advance credit union priority legislation. We appreciate the work of credit union professionals who are currently engaged in the Governmental Affairs Committee process to help determine the policy advancement agenda for the 2022 session and beyond.



Joe Adamack

VP, Legislative Affairs for Washington

Direct: 253.709.7921

jadamack@nwcua.org