Council Meeting Date: September 28, 2009 **Agenda Item:** 8(a)

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Initiative 1033
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

Initiative 1033 (I-1033), Attachment A, was certified by the Washington State Secretary of State on July 15, 2009, to appear on the November 3, 2009, state-wide election ballot. This initiative limits the growth of city revenues deposited into the City's General Fund. It also limits the growth of state revenues deposited in funds subject to the state expenditure limit and limits the growth of county revenues deposited in the county's current expense fund (general fund). The limit in growth is adjusted based on annual growth in inflation and population and does not include new voter-approved revenue increases. Revenue collected above the cap would be used to reduce property taxes.

On Monday, September 21, the City Council had an opportunity to review the projected impacts that I-1033 would have on future City revenues and the impact that this would have on the City's ability to continue providing current service levels to the community. The City Council can consider whether they would like to adopt a resolution taking a position on I-1033 at tonight's meeting.

FINANCIAL IMPACT:

The Association of Washington Cities (AWC) has provided a template in which cities can use to determine the impact that the passage of I-1033 would have on their future general fund revenue collections. The following table summarizes the City's projected general fund revenues without I-1033 and with the passage of I-1033.

Year	General Fund Revenue Forecast w/out I-1033	General Fund Revenue Forecast with I-1033 Limits	Difference in Annual Projected Revenues	Projected General Fund Expenditures	Projected Budget Gap w/out I-1033	Projected Budget Gap with I-1033
CY 2009	30,563,419	30,563,419	-			
CY 2010	29,768,770	29,768,770	0	29,768,770	0	0
CY 2011	30,792,816	30,380,369	-412,446	31,976,590	(1,183,774)	(1,596,221)
CY 2012	31,898,278	31,065,447	-832,831	33,293,609	(1,395,331)	(2,228,162)
CY 2013	32,925,402	31,703,686	-1,221,716	34,495,463	(1,570,061)	(2,791,777)
CY 2014	33,478,549	32,355,039	-1,123,511	36,214,117	(2,735,568)	(3,859,078)
CY 2015	34,010,858	32,987,337	-1,023,521	37,657,054	(3,646,196)	(4,669,717)
Cumulative Difference			-4,614,025			

RECOMMENDATION

Staff has drafted Resolution No. 290 (Attachment D) that would oppose I-1033. Staff would recommend that the City Council adopt Resolution No. 290 as a result of the anticipated financial limitations that would be placed on the City and the resulting negative impact on the ability of the City to continue to deliver critical services to the Shoreline community if I-1033 is passed in the November election.

Approved By: City Manager ___ City Attorney ___

Attachment A – I-1033 Text
Attachment B - Article by Washington State Budget & Policy Center and the Colorado Fiscal Policy Institute
Attachment C – Article from Permanent Offense
Attachment D – Resolution No. 290

INTRODUCTION

Initiative 1033 (I-1033) was certified by the Washington State Secretary of State on July 15, 2009, to appear on the November 3, 2009, state-wide election ballot. This initiative limits the growth of city revenues deposited into the City's General Fund. The limit in growth is adjusted based on annual growth in inflation and population and does not include new voter-approved revenue increases. Revenue collected above the cap would be used to reduce property taxes.

BACKGROUND

The limit established by I-1033 would apply to the City's general fund revenues in 2010, with the limit set at 2009 revenues adjusted for inflation and population growth. The rate of inflation and population figures would be determined by the Office of Financial Management (OFM). Inflation is defined as OFM's report of the Bureau of Economic Analysis' calculation of the implicit price deflator (IPD) on March 27 of each year.

General fund revenue is defined as the aggregate of revenue from taxes, fees, and other governmental charges received by the City that is deposited in the current expense fund (general fund). This would include revenues such as sales taxes, development revenue, recreation fees, state-shared revenues such as liquor excise taxes, utility taxes, franchise fees and other utility contract payments.

As the City Council is aware the 2009 general fund revenues are projected to be $1.4 million less than the original 2009 budget as a result of the current recession. If I-1033 were to pass in November the 2010 revenues, along with future revenue collections, would be based on the lower 2009 base. Future revenue growth related to the recovery of the economy would be limited to the inflationary and population caps implemented with I-1033, resulting in what has been referred to as a "ratcheting down effect." This in effect would make it nearly impossible for services to return to pre-recession levels without voter-approved tax increases.

I-1033 would require a reduction in property taxes when general fund revenues exceed the revenue limit and makes no changes to the property tax levy limit originally established by Initiative 747 (I-747). I-747 limited annual property tax levy increases to the lower of 1% or the July IPD unless voters approved a larger increase. If voters approve a levy lid lift, the only portion of that revenue that would be exempt from the revenue limit would be the additional increase in property tax revenue and not the base levy.

If any City program or function is shifted from the general fund after January 2009 to another source of funding, or if it is transferred from the general fund to another fund or account, the limit would still apply to the aggregate of the general fund plus the shifted and/or transferred revenue for that year and all subsequent years. If a program or function is transferred into the general fund, the limit will be the aggregate of the general fund including the shifted revenue for that year and all subsequent years.

Since revenue growth would be limited, it would require a corresponding limitation in expenditure changes. This does not take into account changes that may be outside of the City's control, such as increases in jail rates charged by our jail providers, increases in the number of jail days that are used as a result of an increase in the number of prisoners housed, increases in gasoline prices, increases in the costs of materials and supplies required to be used to maintain the City's parks, or increases in participation levels in the City's recreation programs.

DISCUSSION

In the early 1990's the State of Colorado adopted a tax measure called TABOR that is similar to I-1033. Attachment B is an article produced by the Washington State Budget & Policy Center and the Colorado Fiscal Policy Institute that explains some of the long-term impacts that TABOR had on the state of Colorado and local governments.

Proponents of I-1033 believe that it would put a reasonable limit on the growth of government. Attachment C is taken from the Permanent Offense website which is supporting I-1033.

Projected Fiscal Impacts

The Association of Washington Cities (AWC) has provided a template in which cities can use to determine the impact that the passage of I-1033 would have on their future general fund revenue collections. In order to determine the impact, staff had to estimate the projected population growth and projected general fund revenue growth for the City. Staff used the assumptions that have been used in making the City's six-year financial projections. The following lists the projected population and general fund revenue growth used in our I-1033 analysis:

	Population Growth Estimate	**Forecasted Growth in GF Revenues (Without I-1033)**
CY 2010	0.25%	-2.60%
CY 2011	0.25%	3.44%
CY 2012	0.25%	3.59%
CY 2013	0.25%	3.22%
CY 2014	0.25%	1.68%
CY 2015	0.25%	1.59%

Since 2000 the City's population has grown by 1.9%, or an average of 0.17% annually.

Using the projected changes in population and revenue listed above, the following table summarizes the general fund revenue projections both without I-1033 and with the passage of I-1033.

Year	General Fund Revenue Forecast w/out I-1033	General Fund Revenue Forecast with I-1033 Limits	Difference in Annual Projected Revenues	Projected General Fund Expenditures	Projected Budget Gap w/out I-1033	Projected Budget Gap with I-1033
CY 2009	30,563,419	30,563,419	-			
CY 2010	29,768,770	29,768,770	0	29,768,770	0	0
CY 2011	30,792,816	30,380,369	-412,446	31,976,590	(1,183,774)	(1,596,221)
CY 2012	31,898,278	31,065,447	-832,831	33,293,609	(1,395,331)	(2,228,162)
CY 2013	32,925,402	31,703,686	-1,221,716	34,495,463	(1,570,061)	(2,791,777)
CY 2014	33,478,549	32,355,039	-1,123,511	36,214,117	(2,735,568)	(3,859,078)
CY 2015	34,010,858	32,987,337	-1,023,521	37,657,054	(3,646,196)	(4,669,717)
Cumulative Difference			-4,614,025			

The I-1033 limitations would slow the projected rate of growth of revenues over the next six years. Much of the projected revenue growth is a result of revenues increasing as the economy recovers from the current recession. In fact the general fund revenues forecasted without the impact of I-1033 would only return to pre-recessionary collections in 2012.

As the City Council is aware the City's long-term projections had projected budget gaps for 2010 and beyond. Those gaps would grow by an average of $1 million in each year for 2012 through 2015 under the revenue growth caps contained in I-1033.

The limitations placed by I-1033 would not allow the City the flexibility to repay the funds that we have used in the Revenue Stabilization Fund as a result of the current recession. As Council is aware the City has been very fiscally prudent, even during good economic times, and used revenues above those projected to help fund capital projects and to build an adequate balance in the City's Revenue Stabilization Fund to help maintain services during an economic downturn. The recession that started in 2008 and will continue to impact the City through 2010 is a good example of how these funds have allowed the City to continue to provide critical services to our community. I-1033 would make if very difficult to do this in the future.

A Retroactive Look

In order to get a better idea of the impact that I-1033 could have on the City's general fund revenue stream staff has tried to apply the AWC model retroactively starting with 2003. As you can see from the table on the next page, the effect would have reduced annual revenues in varying amounts based on the combination of population growth and inflationary changes measured by the Implicit Price Deflator (IPD). The reduction in revenue from one year actually goes into a fund to reduce property taxes the following year. In the table below the 2004 limitation of I-1033 would have required that we take $911,294 of revenue and put in an account to reduce the property tax levy for 2005. In 2005 this amount grows to $1,959,697 to off-set the 2006 property tax levy. In other words, the City would have had to either ask voters to approve a property tax levy to raise an additional $1.9 million for 2006 in order to provide the same services to the community that were provided or we would have had to reduce expenditures by $1.9 million, resulting in a lower level of service to the community. The City's revenue growth from 2004 to 2005 would have been limited to a 0.5% increase (the percentage change between $25,716,664 and $25,846,040). This would have been in at a time when the IPD was 2.54% and the Seattle CPI-U was 3.6%.

	2003	2004	2005	2006	2007	2008	2009
Actual General Fund Revenue	25,507,098	26,627,958	27,805,737	27,759,213	29,637,925	30,286,878	30,563,419
General Fund Revenue if I-1033 had been in effect	25,507,098	25,716,664	25,846,040	26,380,617	27,183,939	28,376,444	28,802,090
Difference	0	911,294	1,959,697	1,378,596	2,453,986	1,910,434	1,761,329
Actual Property Tax Levy	6,643,462	6,770,352	6,892,218	7,020,414	7,195,924	7,388,055	7,550,592
% Growth of Actual Property Tax Levy		1.9%	1.8%	1.9%	2.5%	2.7%	2.2%
Property Tax Levy if I-1033 had been in effect	6,643,462	6,770,352	5,980,925	5,101,024	5,854,357	5,064,399	5,824,221
Difference Between Actual and I-1033 Levy	0	0	911,294	1,919,390	1,341,567	2,323,656	1,726,371
Shoreline Population Growth	-1.00%	-1.84%	-0.46%	0.63%	1.15%	0.00%	1.65%
Implicit Price Deflator (2003 & 2004 July - other years March)	1.84%	2.39%	2.54%	2.40%	3.20%	1.50%	0.50%
Seattle April CPI-U	1.90%	1.00%	3.60%	3.00%	4.00%	3.40%	1.20%

Council Options

The Revised Code of Washington (RCW) 42.17.130 prohibits the use of City facilities to assist in the promotion of or opposition to any ballot proposition. However, RCW 42.17.130(1) allows the Council to adopt a Resolution in support of or opposition to a ballot proposition if certain mandatory procedural steps are taken, including providing notice that the Council will discuss taking a collective position regarding the ballot measure, and providing an opportunity for public comment prior to Council action.

The City Council is having a public hearing this evening to receive public comments on I-1033. Both proponents and opponents to I-1033 will be given an equal opportunity to express their views during this public hearing.

RECOMMENDATION

Staff has drafted Resolution No. 290 (Attachment D) that would oppose I-1033. Staff would recommend that the City Council adopt Resolution No. 290 as a result of the anticipated financial limitations that would be placed on the City and the resulting negative impact on the ability of the City to continue to deliver critical services to the Shoreline community if I-1033 is passed in the November election.

Attachment D

RESOLUTION NO. 290

A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON OPPOSING INITIATIVE 1033 ON THE NOVERMBER 3, 2009 GENERAL ELECTION BALLOT LIMITING STATE AND LOCAL GOVERNMENT REVENUES

WHEREAS, Initiative 1033 on the November ballot will limit growth in city revenues deposited into the city current expense fund above 2009 levels, adjusted only for growth in inflation and population or voter-approved revenue increases, with revenues above the limit reducing property tax levies; and

WHEREAS, the Department of Revenue has released a fiscal impact statement on I-1033 estimating the fiscal impact for Washington cities will be a reduction in general fund revenues by $2.1 billion between 2011 and 2015; and

WHEREAS, the City has conducted a public hearing on September 21, 2009 pursuant to RCW 42.17.130 allowing the Councilmembers and public an equal opportunity to express their views on this ballot proposition; and

WHEREAS, the City Council believes that many costs of government such as health care, labor and energy rise faster than inflation and much faster than the 1 percent cap on property taxes, creating a continuing imbalance between revenues and expenditures for the same government service that would be exacerbated by I -1033 and require expensive elections to remedy; and

WHEREAS using historically low 2009 revenues as a baseline to measure future revenue growth would not allow the City to replenish reserve fund drawdowns or return to pre-recession service levels without ballot measures approving use of revenue growth from sales tax and fees restored with an improving economy;

WHEREAS, the City Council believes that it is in the best interests of the residents and property owners within the City of Shoreline that I-1033 be defeated;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON AS FOLLOWS:

Section 1. The City Council of the City of Shoreline hereby expresses its opposition to Initiative 1033 and encourages rejection by the voters at the state general election to be held on November 3, 2009.

ADOPTED BY THE CITY COUNCIL ON September 21, 2008.

Cindy Ryu
Mayor

ATTEST:

Scott Passey
City Clerk

Attachment A

Initiative Measure No. 1033

Filed
JAN 09 2009
SECRETARY OF STATE

COMPLETE TEXT

AN ACT Relating to protecting taxpayers by limiting the tax burden on Washington's citizens; adding a new section to chapter 43.135 RCW; amending RCW 84.52.065; adding new sections to chapter 36.33 RCW; adding new sections to Title 35 RCW; adding new sections to Title 35A RCW; amending RCW 84.52.043; amending RCW 84.55.010; and creating new sections.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF WASHINGTON:

POLICIES AND PURPOSES

NEW SECTION. **Sec. 1.** This measure is intended to protect taxpayers by reducing our state's obscene and unsustainable property tax burden by controlling the growth of government to an affordable level. It is long overdue. This measure would limit the growth rate of state, county, and city general fund revenue, not including new voter-approved revenue, to inflation and population growth. Excess revenue collected above these limits would be used to reduce property taxes. This measure permits the growth of Washington's tax burden to increase at an affordable, sustainable rate, allows citizens to vote for higher taxes where they see a need, and uses excess revenues above this limit to reduce property taxes.

Intent of sections 2(7), 4(7), 6(7) and 8(7): Voter-approved increases in revenue are exempt from this measure's revenue limit. This includes binding votes of the people and does not include a revenue increase approved by an advisory vote. The language of this act is clearly intended to ensure that voter approval of a property tax levy lid lift only exempts the additional increase in property tax revenue and not the base levy.

Intent of sections 2(8), 4(8), 6(8) and 8(8): In order to ensure affordability, sustainability, and predictability of the people's tax burden, the rate of growth of general fund revenue, not including new voter-approved revenue, shall not exceed inflation and population growth. The general fund revenue limit for 2010 will be the revenue collected and received in 2009, adjusted for inflation for 2009 and population growth using determinations by the office of financial management in 2009 and 2010 (new voter-approved revenues are exempt). The general fund revenue limit in 2011 will be the general fund revenues received in 2010 that do not exceed the limit for 2010, adjusted for inflation and population growth using determinations by the office of financial management in 2010 and 2011 (new voter-approved revenues are exempt). The people want the revenue limit for any year to be the previous year's general fund revenue plus an adjustment for that year's inflation and population growth. This will ensure that the rate of growth of our tax burden does not exceed the taxpayers' ability to afford it.

Intent concerning inflation and population growth: This measure limits state, county, and city general fund revenue increases, not including new voter-approved increases, to inflation and population growth. The office of financial management reports the bureau of economic analysis' calculation for annual inflation on March 27 following each calendar year; this measure uses that calculation to define inflation. The office of financial management annually develops and tracks populations for the state, counties, and cities and generally reports its determinations each year on June 30. It is an extensive, detailed and long-standing demographic program. This measure defines population growth as the percentage change in population based on those determinations made in the current year and the previous year; this measure uses those calculations to define population growth.

Intent of section 11: Property tax increases are currently limited to one percent per year. This measure makes no change to the calculation of that limit. Instead, it requires a reduction in property taxes when general fund revenues exceed the revenue limit.

Intent related to reserve accounts: This measure exempts fund transfers in and out of the constitutionally required rainy day fund for the state. In regard to cities and counties, this measure makes no change to the ability of any city or county to use existing and future reserve funds to supplement their general fund revenue when revenue is below their revenue limit.

During these tough economic times, struggling working families and fixed-income senior citizens desperately need and deserve meaningful property tax relief. Property taxes have skyrocketed for decades and politicians have done nothing to address this very real problem. This measure also provides a much-needed economic stimulus to our state's struggling economy by keeping our tax burden at an affordable, sustainable level and by reducing our state's crushing property tax burden. So, this measure ensures meaningful tax relief, a big boost to our state's economy, and long-overdue reform of government. It is a smart, balanced, reasonable solution to our state's property tax problem.

LIMITING THE TAX BURDEN OF WASHINGTON'S CITIZENS BY LIMITING THE GROWTH OF STATE GOVERNMENT'S GENERAL FUND REVENUE, NOT INCLUDING NEW VOTER-APPROVED REVENUE, TO INFLATION AND POPULATION GROWTH. EXCESS REVENUE ABOVE THIS LIMIT WOULD BE USED TO REDUCE PROPERTY TAXES IMPOSED BY STATE GOVERNMENT

NEW SECTION. **Sec. 2.** A new section is added to chapter 43.135 RCW to read as follows:

(1) The growth rate of state government general fund revenue, not including new voter-approved revenue, must be limited to inflation and population growth. As provided in subsection (8) of this

section, any revenues received above this limit must be deposited into a new account hereby created called the "Lower State Property Taxes Account." All revenues received during a year which are deposited in this account must be used to reduce the subsequent year's state property tax levy as provided in section 3 of this act.

(2) For purposes of this section, "general fund revenue" means the aggregate of revenue from taxes, fees, and other governmental charges received by state government that are deposited in any fund subject to the state expenditure limit under RCW 43.135.025. "General fund revenue" does not include the funds required to be transferred into the fund created under Article 7, Section 12 of the state constitution and does not include funds transferred from that fund. "General fund revenue" does not include revenue received from the federal government.

(3) For the purposes of this section, "inflation" means the annual percentage change in the implicit price deflator for the United States as published on or about March 27 following each calendar year by the bureau of economic analysis and reported by the office of financial management.

(4) For purposes of this section, "population growth" means the percentage change in the statewide population based on the annual statewide population determinations reported by the office of financial management during the prior calendar year and the current calendar year.

(5) If the cost of any state program or function is shifted from the state general fund or any fund subject to the state expenditure limit under RCW 43.135.025, on or after January 1, 2009, to another source of funding, or if revenue is transferred from the state general fund or any fund subject to the state expenditure limit under RCW 43.135.025 to another fund or account, the limit required by this section shall apply to the aggregate of funds subject to the state expenditure limit under RCW 43.135.025, plus the shifted and/or transferred revenue for that year and all subsequent years.

(6) If the cost of any state program or function and the revenue to fund the program or function are shifted to the state general fund or any fund subject to the state expenditure limit under RCW

43.135.025, on or after January 1, 2009, the limit required by this section shall apply to the aggregate of funds subject to the state expenditure limit under RCW 43.135.025, including the shifted revenue for that year and all subsequent years.

(7) For the purposes of this section, "new voter-approved revenue" is defined as the increase in revenue approved by the state's voters at an election after the effective date of this act.

(8) The limit established in subsection (1) of this section must be implemented as follows:

(a) For the first calendar year beginning after the effective date of this act, the general fund revenue, not including new voter-approved revenue, received above the amount received in 2009 adjusted by any amount necessary to reflect inflation for the 2009 calendar year and population growth, must be deposited in the "Lower State Property Taxes Account."

(b) For subsequent years, the general fund revenue, not including new voter-approved revenue, received above the amount received in the immediately prior calendar year, less any deposits into the "Lower State Property Taxes Account," adjusted by any amount necessary to reflect inflation for the immediately prior calendar year and population growth, must be deposited in the "Lower State Property Taxes Account."

Sec. 3. RCW 84.52.065 and 1991 sp.s. c 31 s 16 are each amended to read as follows:

<u>(1)</u> Subject to the limitations in RCW 84.55.010, in each year the state shall levy for collection in the following year for the support of common schools of the state a tax of three dollars and sixty cents per thousand dollars of assessed value upon the assessed valuation of all taxable property within the state adjusted to the state equalized value in accordance with the indicated ratio fixed by the state department of revenue.

<u>(2) The state property tax levy must be reduced from the amount that could otherwise be levied under subsection (1) of this section by an amount equal to the gross deposits to the "Lower State Property Taxes Account" established in section 2 of this act from the previous year.</u>

(3) The balance of the "Lower State Property Taxes Account" must be transferred each year to the general fund to account for the reduction of the levy as provided in subsection (2) of this section.

(4) As used in this section, "the support of common schools" includes the payment of the principal and interest on bonds issued for capital construction projects for the common schools.

LIMITING THE TAX BURDEN OF WASHINGTON'S CITIZENS BY LIMITING THE GROWTH OF EACH COUNTY'S GENERAL FUND REVENUE, NOT INCLUDING NEW VOTER-APPROVED REVENUE, TO INFLATION AND POPULATION GROWTH. EXCESS REVENUE ABOVE THIS LIMIT WOULD BE USED TO REDUCE PROPERTY TAXES IMPOSED BY EACH COUNTY

NEW SECTION. **Sec. 4.** A new section is added to chapter 36.33 RCW to read as follows:

(1) The growth rate of each county government's general fund revenue, not including new voter-approved revenue, must be limited to inflation and population growth. As provided in subsection (8) of this section, each county must deposit revenues received above this limit in a new account created by the county called the "Lower County Property Taxes Account." All revenues received during a year which are deposited in this account must be used to reduce the subsequent year's county property tax levy by the amount of gross deposits in the account.

(2) For purposes of this section, "general fund revenue" means the aggregate of revenue from taxes, fees, and other governmental charges received by the county that are deposited in the county's current expense fund.

(3) For the purposes of this section, "inflation" means the annual percentage change in the implicit price deflator for the United States as published on or about March 27 following each calendar year by the bureau of economic analysis and reported by the office of financial management.

(4) For purposes of this section, "population growth" means the percentage change in the countywide population based on the annual countywide population determinations reported by the office of financial management during the prior calendar year and the current calendar year.

(5) If the cost of any county program or function is shifted from the county's current expense fund on or after January 1, 2009, to another source of funding, or if revenue is transferred from the county's current expense fund to another fund or account, the limit required by this section shall apply to the aggregate of the county's current expense fund plus the shifted and/or transferred revenue for that year and all subsequent years.

(6) If the cost of any county program or function and the revenue to fund the program or function are shifted to the county's current expense fund on or after January 1, 2009, the limit required by this section shall apply to the aggregate of the county general fund including the shifted revenue for that year and all subsequent years.

(7) For the purposes of this section, "new voter-approved revenue" is defined as the increase in revenue approved by the county's voters at an election after the effective date of this act.

(8) The limit established in subsection (1) of this section must be implemented as follows:

(a) For the first calendar year beginning after the effective date of this act, the general fund revenue, not including new voter-approved revenue, received above the amount received in 2009 adjusted by any amount necessary to reflect inflation for the 2009 calendar year and population growth, must be deposited in the "Lower County Property Taxes Account."

(b) For subsequent years, the general fund revenue, not including new voter-approved revenue, received above the amount received in the immediately prior calendar year, less any deposits into the "Lower County Property Taxes Account," adjusted by an amount necessary to reflect inflation for the immediately prior calendar year and population growth, must be deposited in the "Lower County Property Taxes Account."

NEW SECTION. **Sec. 5.** A new section is added to chapter 36.33 RCW to read as follows:

Any county's property tax levy shall be reduced from the amount that could otherwise be levied under RCW 84.52.043 of this section by an amount equal to the previous year's gross deposits to that county's "Lower County Property Taxes Account" established in section 4 of this act.

LIMITING THE TAX BURDEN OF WASHINGTON'S CITIZENS BY LIMITING THE GROWTH OF EACH CITY'S GENERAL FUND REVENUE, NOT INCLUDING NEW VOTER-APPROVED REVENUE, TO INFLATION AND POPULATION GROWTH. EXCESS REVENUE ABOVE THIS LIMIT WOULD BE USED TO REDUCE PROPERTY TAXES IMPOSED BY EACH CITY

NEW SECTION. **Sec. 6.** A new section is added to Title 35 RCW to read as follows:

(1) The growth rate of each city government's general fund revenue, not including new voter-approved revenue, must be limited to inflation and population growth. As provided in subsection (8) of this section, each city must deposit revenues received above this limit in a new account created by the city called the "Lower City Property Taxes Account." All revenues received during a year which are deposited in this account must be used to reduce the subsequent year's city property tax levy by the amount of gross deposits in the account.

(2) For purposes of this section, "general fund revenue" means the aggregate of revenue from taxes, fees, and other governmental charges received by the city that are deposited in the city's current expense fund.

(3) For the purposes of this section, "inflation" means the annual percentage change in the implicit price deflator for the United States as published on or about March 27 following each calendar year by the bureau of economic analysis and reported by the office of financial management.

(4) For purposes of this section, "population growth" means the percentage change in the city wide population based on the annual city wide population determinations reported by the office of financial management during the prior calendar year and the current calendar year.

(5) If the cost of any city program or function is shifted from the city's current expense fund on or after January 1, 2009, to another source of funding, or if revenue is transferred from the

city's current expense fund to another fund or account, the limit required by this section shall apply to the aggregate of the city's current expense fund plus the shifted and/or transferred revenue for that year and all subsequent years.

(6) If the cost of any city program or function and the revenue to fund the program or function are shifted to the city's current expense fund on or after January 1, 2009, the limit required by this section shall apply to the aggregate of the city's current expense fund including the shifted revenue for that year and all subsequent years.

(7) For the purposes of this section, "new voter-approved revenue" is defined as the increase in revenue approved by the city's voters at an election after the effective date of this act.

(8) The limit established in subsection (1) of this section must be implemented as follows:

(a) For the first calendar year beginning after the effective date of this act, the general fund revenue, not including new voter-approved revenue, received above the amount received in 2009 adjusted by an amount necessary to reflect inflation for the 2009 calendar year and population growth, must be deposited in the "Lower City Property Taxes Account."

(b) For subsequent years, the general fund revenue, not including new voter-approved revenue, received above the amount received in the immediately prior calendar year, less any deposits into the "Lower City Property Taxes Account," adjusted by an amount necessary to reflect inflation for the immediately prior calendar year and population growth, must be deposited in the "Lower City Property Taxes Account."

NEW SECTION. **Sec. 7.** A new section is added to Title 35 RCW to read as follows:

Any city's property tax levy must be reduced from the amount that could otherwise be levied under RCW 84.52.043 of this section by an amount equal to the gross deposits to that city's "Lower City Property Taxes Account" established in section 6 of this act from the previous year.

NEW SECTION. **Sec. 8.** A new section is added to Title 35A RCW to read as follows:

(1) The growth rate of each city government's general fund revenue, not including new voter-approved revenue, must be limited to inflation and population growth. As provided in subsection (8) of this section, each city must deposit revenues received above this limit in a new account created by the city called the "Lower City Property Taxes Account." All revenues received during a year which are deposited in this account must be used to reduce the subsequent year's city property tax levy by the amount of gross deposits in the account.

(2) For purposes of this section, "general fund revenue" means the aggregate of revenue from taxes, fees, and other governmental charges received by the city that are deposited in the city's current expense fund.

(3) For the purposes of this section, "inflation" means the annual percentage change in the implicit price deflator for the United States as published on or about March 27 following each calendar year by the bureau of economic analysis and reported by the office of financial management.

(4) For purposes of this section, "population growth" means the percentage change in the city wide population based on the annual city wide population determinations reported by the office of financial management during the prior calendar year and the current calendar year.

(5) If the cost of any city program or function is shifted from the city's current expense fund on or after January 1, 2009, to another source of funding, or if revenue is transferred from the city's current expense fund to another fund or account, the limit required by this section shall apply to the aggregate of the city's current expense fund plus the shifted and/or transferred revenue for that year and all subsequent years.

(6) If the cost of any city program or function and the revenue to fund the program or function are shifted to the city's current expense fund on or after January 1, 2009, the limit required by this

section shall apply to the aggregate of the city's current expense fund including the shifted revenue for that year and all subsequent years.

(7) For the purposes of this section, "new voter-approved revenue" is defined as the increase in revenue approved by the city's voters at an election after the effective date of this act.

(8) The limit established in subsection (1) of this section must be implemented as follows:

(a) For the first calendar year beginning after the effective date of this act, the general fund revenue, not including new voter-approved revenue, received above the amount received in 2009 adjusted by an amount necessary to reflect inflation for the 2009 calendar year and population growth, must be deposited in the "Lower City Property Taxes Account."

(b) For subsequent years, the general fund revenue, not including new voter-approved revenue, received above the amount received in the immediately prior calendar year, less any deposits into the "Lower City Property Taxes Account," adjusted by an amount necessary to reflect inflation for the immediately prior calendar year and population growth, must be deposited in the "Lower City Property Taxes Account."

<u>NEW SECTION.</u> **Sec. 9.** A new section is added to Title 35A RCW to read as follows:

Any city's property tax levy must be reduced from the amount that could otherwise be levied under RCW 84.52.043 of this section by an amount equal to the gross deposits to that city's "Lower City Property Taxes Account" established in section 8 of this act from the previous year.

Sec. 10. RCW 84.52.043 and 2005 c 122 s 3 are each amended to read as follows:

Within and subject to the limitations imposed by RCW 84.52.050 as amended, the regular ad valorem tax levies upon real and personal property by the taxing districts hereafter named shall be as follows:

(1) Levies of the senior taxing districts shall be as follows: (a) The levy by the state shall not exceed three dollars and sixty

cents per thousand dollars of assessed value adjusted to the state equalized value in accordance with the indicated ratio fixed by the state department of revenue to be used exclusively for the support of the common schools; (b) the levy by any county shall not exceed one dollar and eighty cents per thousand dollars of assessed value; (c) the levy by any road district shall not exceed two dollars and twenty-five cents per thousand dollars of assessed value; and (d) the levy by any city or town shall not exceed three dollars and thirty-seven and one-half cents per thousand dollars of assessed value. However any county is hereby authorized to increase its levy from one dollar and eighty cents to a rate not to exceed two dollars and forty-seven and one-half cents per thousand dollars of assessed value for general county purposes if the total levies for both the county and any road district within the county do not exceed four dollars and five cents per thousand dollars of assessed value, and no other taxing district has its levy reduced as a result of the increased county levy.

(2) The aggregate levies of junior taxing districts and senior taxing districts, other than the state, shall not exceed five dollars and ninety cents per thousand dollars of assessed valuation. The term "junior taxing districts" includes all taxing districts other than the state, counties, road districts, cities, towns, port districts, and public utility districts. The limitations provided in this subsection shall not apply to: (a) Levies at the rates provided by existing law by or for any port or public utility district; (b) excess property tax levies authorized in Article VII, section 2 of the state Constitution; (c) levies for acquiring conservation futures as authorized under RCW 84.34.230; (d) levies for emergency medical care or emergency medical services imposed under RCW 84.52.069; (e) levies to finance affordable housing for very low-income housing imposed under RCW 84.52.105; (f) the portions of levies by metropolitan park districts that are protected under RCW 84.52.120; (g) levies imposed by ferry districts under RCW 36.54.130; (h) levies for criminal justice purposes under RCW 84.52.135; and (i) the portions of levies by fire protection districts that are protected under RCW 84.52.125.

(3) The limitations in subsections (1) and (2) for the levies by the state, counties and cities must be further adjusted as provided in sections 2, 4, 6 and 8 of this act.

Sec. 11. RCW 84.55.010 and 2006 c 184 s 1 are each amended to read as follows:

Except as provided in this chapter, the levy for a taxing district in any year shall be set so that the regular property taxes payable in the following year shall not exceed the limit factor multiplied by the amount of regular property taxes lawfully levied for such district plus revenues deposited as provided in sections 2(7), 4(7), 6(7) and 8(7) of this act in the highest of the three most recent years in which such taxes were levied for such district plus an additional dollar amount calculated by multiplying the increase in assessed value in that district resulting from new construction, increases in assessed value due to construction of electric generation wind turbine facilities classified as personal property, improvements to property, and any increase in the assessed value of state-assessed property by the regular property tax levy rate of that district for the preceding year. The adjustments provided in sections 2, 4, 6, and 8 of this act provide a limitation on property tax levies which is in addition to the limit factor in this section.

CONSTRUCTION CLAUSE

NEW SECTION. **Sec. 12.** The provisions of this act are to be liberally construed to effectuate the intent, policies, and purposes of this act.

SEVERABILITY CLAUSE

NEW SECTION. **Sec. 13.** If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

MISCELLANEOUS

NEW SECTION. **Sec. 14.** Subheadings used in this act are not part of the law.

NEW SECTION. **Sec. 15.** This act shall be known and cited as the Lower Property Taxes Act of 2009.

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Attachment B

I-1033 Undermines Public Priorities

By Stacey Schultz and Jeff Chapman

Executive summary

Initiative 1033 would impose strict spending limits on state and local governments resulting in sharp reductions in public investments in education, community development, health care, and economic security. By restricting resources, I-1033 would dramatically weaken the state's ability to fund important public priorities and would diminish the quality of life for all Washingtonians.

I-1033 would:

- Sharply limit public investments over time.
- Lock in the current budget cuts and increase the deficit.
- Exacerbate the effects of economic downturns.
- Be fiscally irresponsible.

How I-1033 would work

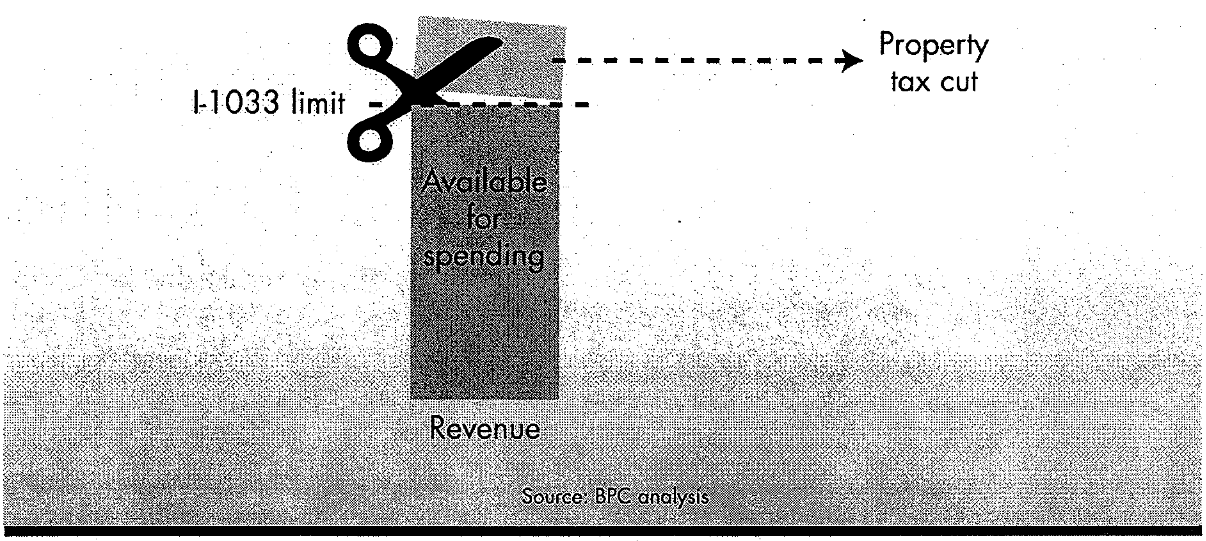
I-1033 sets a cap on the amount of state, county, and city revenue that would be available for spending on public priorities (Figure 1). The cap would be adjusted every year based on the annual growth in inflation and population. Any revenue generated above the cap would be earmarked for a property tax reduction the following year. Voter-approved revenue increases would be exempt.

The formula

Annual adjustments to the spending limit would be based on a strict and deeply flawed formula (inflation plus the growth in population) that leaves no room for unanticipated costs, such as those that come with natural disasters, public health emergencies, or unfunded mandates.

The inflation side of the formula uses the change in the cost of consumer goods and services. However, state and local governments spend revenue on a very different assortment of goods and services than the typical consumer. The cost of government-procured goods and services typically rises

FIGURE 1: I-1033 would cap the amount of revenue available for spending



more quickly than the allowable amount under I-1033.

On the population side of the equation, I-1033 uses growth in Washington's overall population each year. But total population growth is a flawed measure because it fails to reflect rapidly growing segments of the population that are heavily dependent upon public services such as the increasing numbers of senior citizens.

Each year, the state estimates a maintenance budget—the cost of continuing our current commitments for services such as caring for seniors, educating students, providing public safety and so on. Comparing the maintenance budget cost increases for the 2009-11 biennium to the estimated I-1033 limit is illustrative of the inadequacy of the I-1033 formula (Figure 2).

The ratchet effect

The I-1033 limit becomes particularly problematic during economic downturns.

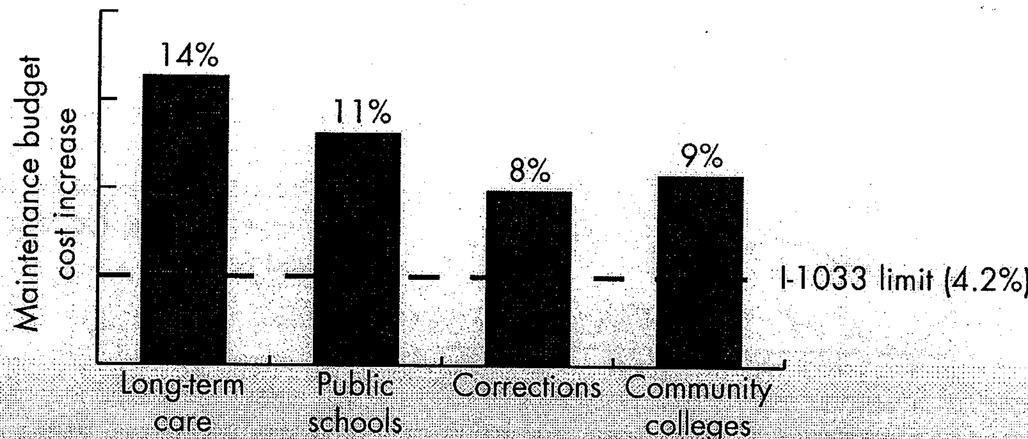
Washington's tax revenues rise and fall in tandem with the economy. In ordinary economic times, tax revenues in the present year are higher than revenues in previous years. When the economy falters, however, tax revenues can fall sharply as consumer spending declines and unemployment rises. The I-1033 limit applies to lesser of the previous year's limit and the previous year's actual revenue, so when revenue is low, the cap would automatically ratchet down. Even after the economy recovers, this 'ratchet effect' would continue holding down state and local spending capacity, making it impossible for services to return to their pre-recession levels without voter-approved tax increases, as illustrated in Figure 3 on page four.

Concerns about I-1033

I-1033 would lock in current budget cuts

Because of sharp declines in revenue, current state and local budgets include painful cuts in education, health, and other public priorities. Under I-1033, these low levels of public investment would become the starting

Figure 2: The I-1033 limit is well below the estimated costs of continuing current commitments (2009-11)



Source: BPC analysis of LEAP data

point for future spending limits. This means the state would be permanently locked into the budget cuts resulting from the current fiscal crisis.

I-1033 would increase the deficit

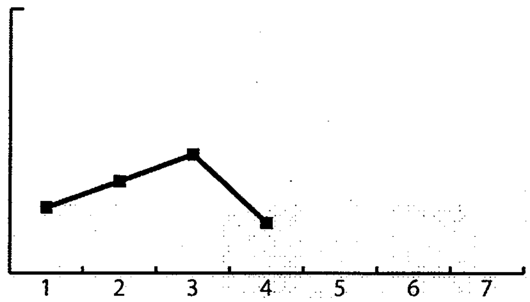
In addition, I-1033 would actually increase the state budget deficit by limiting the amount of revenue the state can spend once the economy bounces back. Budget deficit projections for the current biennium include an anticipated increase in revenue of $1.04 billion in 2011 over 2010 levels.[1] Under the I-1033 limits, the state would only be able to spend $471 million.[2] The other $571 million would be required to go to a property tax cut in 2011-13. I-1033 would increase the current deficit by over half a billion dollars.

The impacts of I-1033 would be dramatic over time

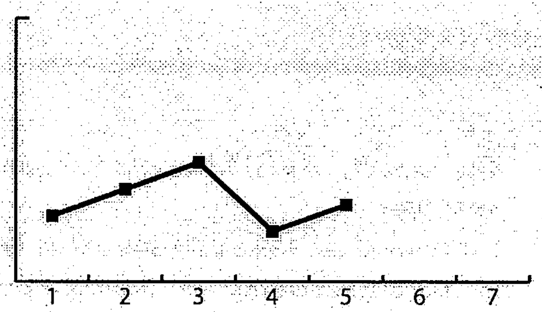
I-1033 would also dramatically diminish the size of the state general fund over time, harming our most essential public programs and services.

Figure 4 demonstrates what would have happened to the state general fund as a share of total personal income if I-1033 had been in place since 1995.[3] (Economists measure the size of state budgets as a share of personal income because this provides insight on the share of total resources that are used for public investments.) Without I-1033, the share of personal income dedicated to state spending has declined from seven percent to 5.5 percent in 2011. But if I-1033 had been in place, the drop in resources would have been much steeper, down to four percent. This means the state would have had $6 billion less to spend in the current biennium than it actually had. That amounts to the entire two-year budget for higher education, natural resources, public health, early learning, corrections, and the Basic Health Plan.

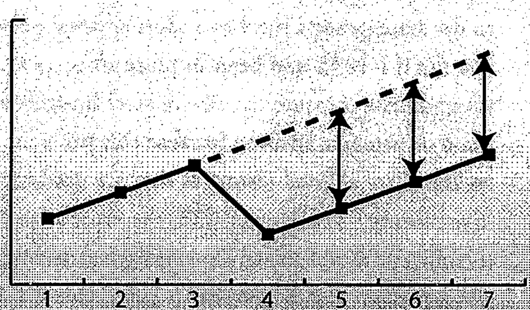
FIGURE 3: I-1033's Ratchet Effect



Consider a situation in which revenue grows with the I-1033 limit for three years. In the fourth year, revenue falls due to a recession.



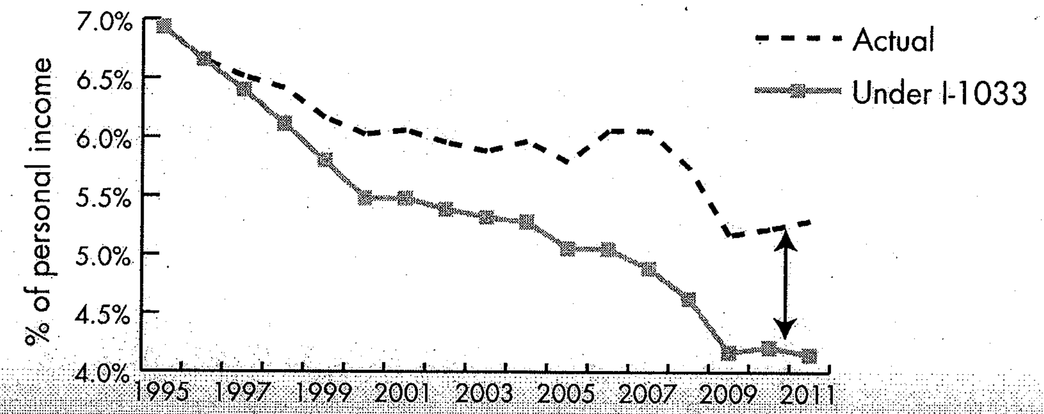
In the fifth year, the I-1033 limit is calculated based on the lower level.



The limit is permanently "ratcheted" down because of the recession. Future recessions will further widen the gap.

Source: BPC analysis

FIGURE 4: Revenue available for spending, actual and if I-1033 had been passed in 1995, as a share of personal income



Source: Budget & Policy Center analysis. Under I-1033 scenario, revenue grows at lesser of I-1033 limit or actual growth.

I-1033 would be fiscally irresponsible

One of the lessons of the last legislative session is that the state should have been building more robust rainy day funds before the economy weakened. I-1033 would not only diminish the day-to-day spending capacity of state and local governments, it would also inhibit their freedom to save for a rainy day. At the state level, I-1033 would exempt constitutionally-mandated deposits into the rainy day fund from the spending limit, but any additional deposits would not be exempt. At the city and county level, there does not appear to be any exception made for rainy day funds.

Conclusion

If passed, I-1033 will do lasting harm to the ability of state and local governments to invest in essential public priorities. The initiative would make permanent the spending cuts of the last legislative session and would seriously undermine the state's ability to recover from future economic recessions. State government must have the flexibility and resources to respond to public emergencies as well as emerging priorities. Initiative I-1033 will do long term damage to public services and reduce the quality of life here in Washington State.

Endnotes

1. Economic and Revenue Forecast Council June 2009 forecast.
2. Inflation and revenue projections are from the Economic and Revenue Foprecast Council. Population projections are from the Office of Financial Management.
3. Under I-1033 scenario, revenue is allowed to grow at lesser of I-1033 limit or actual growth.

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Congratulations - anything higher than 292,000 was needed, we turned in 315,444 signatures - YOU DID IT!

Initiative co-sponsors Tim Eyman, Jack Fagan, and Mike Fagan trekked to Olympia to turn-in petitions/signatures for their Lower Property Taxes Initiative I-1033 today (Thursday, July 2nd, 2009). Here's what we have to say about I-1033:

We want to start by thanking the 315,000 citizens who voluntarily signed Initiative 1033's petitions, as well as the thousands of volunteers throughout the state who made that possible.

Here's what we're debating with I-1033: how fast should the government grow and who should decide? I-1033 takes the position that the public sector should grow at the same rate as the private sector -- unless voters OK a bigger increase -- and it should be the citizens, and not the politicians, who decide.

I-1033 brings back successful policies passed by the voters previously. In 1993, during tough economic times, voters approved Initiative 601, which put reasonable limits on government's fiscal policies. I-601 established a sustainable rate for government to grow, saying it could grow at the inflation rate plus population growth with faster growth requiring voter approval.

Despite a multi-million-dollar opposition campaign, the voters passed I-601.

And I-601 worked very well for many years until the Legislature started putting loopholes in it. It started with the Republicans in 1998, and accelerated with the Democrats in 2000, 2001, 2002, 2005 and 2007. Those loopholes removed I-601's reasonable fiscal discipline and policies.

The result? Two major deficits — $3.2 billion in 2003 and $9 billion in 2009.

Those loopholes allowed them to take their budgets on a fiscal roller coaster, overextending themselves in good times — creating unsustainable budgets — which led to slashing during bad times. I-1033 gets us off that fiscal roller coaster by reestablishing I-601's same reasonable allowance for growth while permitting higher increases with voter approval.

I-601 worked, it can work again with the passage of I-1033.

*So what happens to excess tax revenues that government collects above I-1033's limit? After a fixed percentage of tax revenue is transferred into the constitutionally-protected rainy day fund, the remainder of excess tax revenues gets refunded back to taxpayers via lower property taxes. Struggling working families and fixed-income senior citizens desperately need relief from our state's crushing property tax burden. Washington shouldn't be a state where only rich people can afford a home. I-1033 provides needed, long-overdue property tax relief.***

Opponents want higher taxes and a state income tax. Opponents are against ANY limit on government's growth and against ANY restriction on government's power to take as much as they want from the taxpayers.

I-1033 provides fiscal discipline with flexibility: any revenue from any source deposited into general funds is limited except voter-approved revenues, rainy day funds, and federal funds for the state and except voter-approved revenues for counties & cities.

Putting a reasonable limit on the growth of government, like I-601 previously did, gives politicians the excuse to say 'no' to the special interest groups and encourages them to finally start prioritizing and reforming government.

Opponents have no alternative to I-1033 to lower property taxes. Opponents have no alternative to I-1033 to get government off the fiscal roller coaster. Opponents want us to trust the politicians, despite their insatiable appetite for higher taxes. Opponents ignore the 16 years of positive history with Initiative 601 in Washington state, preferring instead to talk about different tax limits in California, Colorado, and other states. Opponents are against I-1033 because it allows the people, and not the politicians, to decide how fast the government should grow and how big a tax burden we can afford.

Both Forbes magazine and the Tax Foundation rank Washington as the 8th highest taxed state in the nation. I-1033 keeps us from hitting #1.

Property taxes keep going higher and higher and government keeps getting bigger and bigger. The people are losing control. I-1033 allows the state, counties, and cities to grow, but at a rate that citizens can control and taxpayers can afford. I-1033 gets government off the fiscal roller coaster, allowing it to grow at a sustainable rate that doesn't outpace taxpayers' ability to afford it.

I-1033 is needed now more than ever.

We're very proud of our supporters and very hopeful that voters will support controlling the growth of government and lowering property taxes by approving Initiative 1033 in November. Thank you.

-- END --