

## **SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET**

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ITEM NO: D-1  
DATE: October 8, 2009  
SUBJECT: Initiative 1033 Report  
CONTACT PERSON: Deborah Knight, City Administrator

**ISSUE:**

The issue before the council is to review and discuss Initiative 1033 the Tim Eyman-sponsored measure that would “limit growth of certain state, county and city revenues to annual inflation and population growth, not including voter-approved revenue increases. Revenue collected above the limit would reduce property tax levies.”

Opponents call 1033 the “Jobs Killing” Initiative because they allege it will cause thousands of public servants to be laid off from their jobs.

Voters will choose to approve or deny this initiative on Tuesday, Nov. 3rd.

**STAFF RECOMMENDATION:**

The city council may want to consider holding a public hearing and taking a collective vote to support or oppose Initiative 1033.

According to the Public Disclosure Commission, City Councils may collectively vote to support or oppose a ballot measure at a properly noticed public meeting, where supporters and opponents of the measure are given an equal opportunity to express views. The full text of Initiative 1033 and the Fiscal Impact Statement from the Office of Financial Management are provided in Attachment A as additional background information.

**SUMMARY:**

Initiative 1033, Concerning State, County and City Revenue is a state-wide measure that will be on the November 2009 ballot.

This initiative, co-sponsored by Tim Eyman, Jack Fagan, and Mike Fagan, would limit the growth of state, county and city general fund revenues received from taxes, fees, and other charges not expressly approved by the voters.

Initiative 1033 applies only to the state, counties and cities, and would not directly apply to ports, public utility districts, transit districts or other governmental entities.

Initiative 1033 would apply starting with general fund revenues received in 2010 with the limit set at the 2009 level.

The cap on revenues would fluctuate annually based on any change in population and inflation.

Any additional revenues collected above the cap would be placed in a “Lower Property Taxes Account” and used to reduce the property tax levy.

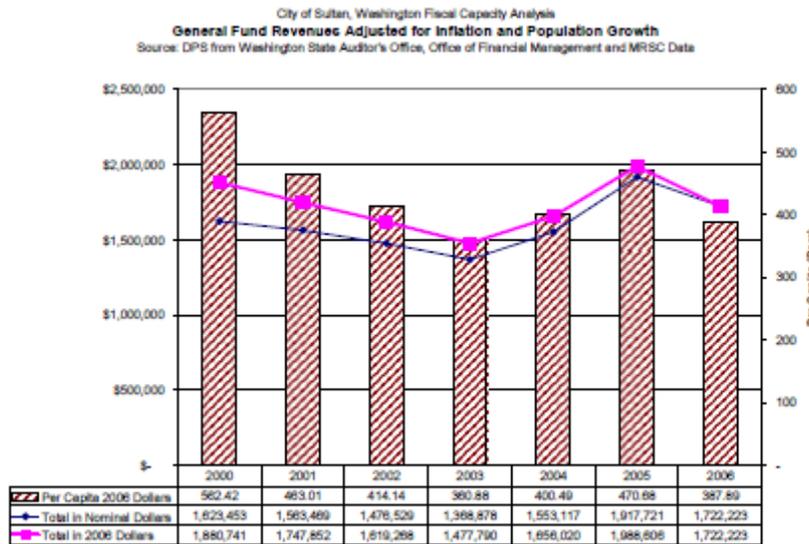
The initiative excludes new voter-approved revenue from the growth limit; however, this is defined as “the increase in revenue approved by the city’s voters at an election after the effective date of this act.” Since the November election is the last of 2009, any voter-approved tax increases passed in 2009 or earlier would likely be subject to this initiative and not excluded from the revenue limitations.

Potential Impacts on the City of Sultan

The limits established by I-1033 would apply to all city general fund revenues in 2010 with the limit set at 2009 revenues.

The 2009 general fund budget is approximately \$1,938,000 (including \$116,000 in police grants). Per capita, the city’s general fund budget has fallen from \$562 in 2000 to \$400 in 2009 a 28% decrease

**Figure 3- A Trends in General Fund Revenue Adjusted for Inflation and Growth**



City general fund revenues include property taxes (limited to 1% plus growth), sales taxes, utility taxes, building and land use permit fees, interest earned on city funds, and grants (grants are exempt from the I-1033 limits).

After reviewing the initiative and city sources of revenues, there are two concerns.

1. Variable revenues such as building permit revenues are used to provide services to customers when demand increases. In years when the city collects building permit revenues those revenues are used to process building permit applications. This ensures the fees paid to the city are used to serve the development community.

Under I-1033, if building permit revenues collected exceed the limit, the fees could not be used to serve customers instead the funds would be set aside in the "Lower Property Taxes Account".

The city has issued 13 single-family building permits in 2009 and collected approximately \$25,000 in fees. This will be the base for future revenues if I-1033 passes.

2. The city's comprehensive plan encourages a growth strategy of "retail before rooftops". The idea is that commercial and retail development will generate the sales tax revenues needed to serve new residential development.

Under Initiative 1033, new sales tax revenues above the established limit would be set aside to lower property taxes for residents already living in Sultan.

Sultan voters would need to approve an increase to property taxes to maintain levels of service rather than benefiting from sales tax revenues.

## DISCUSSION:

The "Voters Want More Choices" website argues "For" I-1033 with these arguments:

- In the state of Washington, "property taxes are completely out-of-control" with "huge levy increases, skyrocketing valuation increases, massive rate hikes. It's obscene and unsustainable. Struggling working families and fixed-income senior citizens are being taxed out of their homes."
- "We don't want Washington to be a state where only rich people can afford to buy and own a home."
- "Citizens desperately need property tax relief, especially during these tough economic times."
- "The overall tax burden imposed by state government, counties, and cities is growing exponentially."

- Currently, “there is no cap, no ceiling, no lid, no maximum, no limit on how much they can take from us. There’s simply no way that citizens can afford to have government continue to grow at an uncontrolled rate.”
- “The Lower Property Taxes Initiative I-1033 puts a reasonable cap on our overall tax burden, requiring excess tax revenues collected about the cap used to substantially reduce property tax bills.”

Arguments made “Against” I-1033 by its opponents include:

- The concern that it could reduce critical public services at the state and local levels.
- Arguing that the historical cost increase of public spending in areas such as health care and education has exceeded the consumer price index, opponents of I-1033 say that if I-1033 passes, spending in these areas will not be able to grow at the levels they have historically grown at.
- The belief that government services will be reduced each year from the previous year.
- It is problematic because “The initiative is designed to lock in all the budget cuts that state and municipal governments are currently making, thus potentially killing thousands of jobs in the years to come.”
- “[T]his initiative is exact opposite of real reform. Instead of fixing what’s broken, it would make all of our lives worse. Much worse. We need real tax reform that improves stability and fairness in our tax system”.
- “Property taxes already have strict limitations on growth and levels. The result of these has been particularly hard on local governments, who have limited ability to raise other taxes.”
- “Shifting from the property tax to other tax sources makes our tax system less stable because property taxes are one of the least volatile revenue sources we have.”
- “The reality is that the whole concept of contrived, artificial limits on revenue is completely unreasonable to begin with. In practice such limits have been utterly unworkable. Other states, like Colorado, have imposed them and seen their quality of life suffer drastically as a result.”

**FISCAL IMPACT:**

The Fiscal Impact Statement for Initiative 1033 from the Office of Financial Management indicates that “[t]he initiative would reduce state general fund revenues that support education; social, health and environmental services; and general government activities by an estimated \$5.9 billion by 2015.”

RECOMMENDED ACTION:

Hear the presentation, ask questions and consider holding a public hearing and taking a collective vote to support or oppose Initiative 1033.

ATTACHMENTS

A - Initiative 1033 and the Fiscal Impact Statement from the Office of Financial Management

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# 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:

(1) 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.

(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.

(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."

**NEW SECTION. 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.

--- **END** ---



STATE OF WASHINGTON

## OFFICE OF FINANCIAL MANAGEMENT

*Insurance Building, P.O. Box 43113 Olympia, Washington 98504- 3113 · (360) 902- 0555*

### **Fiscal Impact Statement for Initiative 1033**

As sent to the Office of the Secretary of State, August 10, 2009

#### **Fiscal Impact through Calendar Year 2015**

Initiative 1033 limits annual growth of state, city and county general fund revenue to the rate of inflation and population growth. General fund revenues exceeding this limit must be used to reduce the following year's state, city or county general fund property tax levy. The initiative reduces state general fund revenues that support education; social, health and environmental services; and general government activities by an estimated \$5.9 billion by 2015. The initiative also reduces general fund revenues that support public safety, infrastructure and general government activities by an estimated \$694 million for counties and \$2.1 billion for cities by 2015.

#### **General Assumptions**

- The initiative is set on a calendar year (CY) basis.
- CY 2010 revenue limit is calculated as follows:  
$$\text{CY 2009 General Fund Revenue} \times (1 + 2009 \% \text{ Change Population}) \times (1 + 2009 \% \text{ Change Inflation})$$
- CY 2010 general fund revenues that exceed the CY 2010 revenue limit will be transferred into new "Lower Property Tax Accounts" for the state, counties and cities. The first transfer(s) into the new accounts will occur in CY 2011.
- The first property tax levy to be reduced by the initiative is the 2011 levy, which is collected in CY 2012. Thus, funds will be transferred from the new "Lower Property Tax Accounts" into state, county and city general funds in CY 2012 to account for any reduction in 2011 levies.

#### **State Revenue Estimate – Assumptions**

- The initiative defines state general fund revenue as the aggregate of revenue from taxes, fees and other governmental charges received by state government that are deposited into any fund subject to the state's expenditure limit under RCW 43.135.025. For CY 2009 and CY 2010, state general fund revenues are General Fund – State revenue estimates from the June 2009 Washington State Economic and Revenue Forecast Council converted from a fiscal-year basis to a calendar-year basis.

- The following state revenue sources, totaling less than \$30 million annually, have been excluded from these estimates:
  - Sales and income from property.
  - Contributions and grants.
  - Grant and loan repayments.
  - Indirect and prior cost recoveries.
  - Unclaimed property.
  - Charges for publications and documents.
  - Interest and investment earnings.
- State general fund revenues for CYs 2011–15 are estimated to grow, on average, by the change in real per capita personal income plus change in inflation plus change in population, adjusted for revenue elasticity. This methodology is consistent with prior long-term revenue forecasts produced by the Office of Financial Management (OFM), and results in an average annual growth rate of 4.8 percent.
- State general fund revenues are reduced by the amount required to be transferred into the Budget Stabilization Account created under Article 7, Section 12, of the Washington State Constitution.
- The initiative defines inflation as the annual percentage change in the Implicit Price Deflator for Personal Consumption for the United States as published on or about March 27 each calendar year by the Bureau of Economic Analysis and reported by OFM. Inflation estimates for CY 2009 and CY 2011 are from the June 2009 Washington State Economic and Revenue Forecast. Inflation estimates for CYs 2012–15 are from the June 2009 IHS Global Insight forecast of the Implicit Price Deflator for the United States. The Washington State Economic and Revenue Forecast Council relies on IHS Global Insight models and data for the U.S. portion of the official state economic forecast.
- The initiative defines population growth as the percentage change in the statewide population based on the annual statewide population determinations reported by OFM during the prior calendar year and the current calendar year. Statewide population growth estimates are from OFM’s 30-Year Forecast of the State Population.

**Estimated STATE Cash Receipts:**

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund - State	0	(\$676,000,000)	(\$875,000,000)	(\$1,125,000,000)	(\$1,447,000,000)	(\$1,803,000,000)
Lower State Property Tax Account	0	\$676,000,000	\$875,000,000	\$1,125,000,000	\$1,447,000,000	\$1,803,000,000

**State Costs to Implement – Assumptions**

Less than \$50,000 will be incurred by OFM in CY 2009 and CY 2010 to set up, test and verify computer systems, and establish policies and practices to implement a state general fund revenue limit.

**County and City Revenue Estimate – Assumptions**

- The initiative applies to counties, first class cities, second class cities, code cities, towns and unclassified cities.

- To account for possible different patterns in population and revenue growth, counties and cities were analyzed using four groupings:
  1. Urban County – 7 counties
  2. Rural County – 32 counties
  3. Cities in Urban Counties – 109 cities and towns
  4. Cities in Rural Counties – 172 cities and towns

Urban counties are Clark, King, Kitsap, Pierce, Snohomish, Spokane and Thurston; all others are rural counties. Under RCW 82.14.370, rural counties are defined as a county with a population density of less than 100 persons per square mile or a county smaller than 225 square miles as determined and published each year by OFM for the period July 1 to June 30.

County and city general fund revenues are defined as the aggregate of revenue from taxes, fees and other governmental charges received by the county or city and deposited into the county current expense fund or city general fund, respectively. County and city revenues are estimated from 2007 financial information contained in the Local Government Financial Reporting System (LGFRS) of the Washington State Auditor’s Office. Only funds reported within LGFRS as general fund revenues are assumed to be deposited into the county current expense fund or city general fund, and therefore, are included in these estimates.

- The following county and city revenue sources have been excluded from these estimates:
  - Federal and state direct and indirect grants.
  - State shared taxes or revenues.
  - Charges for contracted services performed by counties or cities.
  - Charges for enterprise activities or charges that are not governmental in nature.
  - Inter-fund and inter-department charges.
  - Interest and investment earnings.
- County and city general fund revenue growth rates for CYs 2009–15 are related to the state’s revenue growth rate by estimating each grouping’s five-year historical rate of revenue growth in proportion to the state’s revenue growth rate of 4.8 percent.
- Inflation estimates for counties and cities are the same as used for the state.
- Population growth is defined as the percentage change in the countywide population for counties and the percentage change in citywide population in cities, as reported annually by OFM. County and city population growth is estimated from OFM’s 30-Year Forecast of the State Population, adjusted using OFM’s Washington State County Growth Management Population Projections: 2000-2030 and each grouping’s historic population growth rates.

**Estimated URBAN COUNTY Cash Receipts:**

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Urban Counties	0	(\$55,000,000)	(\$70,000,000)	(\$87,000,000)	(\$111,000,000)	(\$137,000,000)
Lower County Property Tax Accounts	0	\$55,000,000	\$70,000,000	\$87,000,000	\$111,000,000	\$137,000,000

Estimated RURAL COUNTY Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Rural Counties	0	(\$24,000,000)	(\$35,000,000)	(\$46,000,000)	(\$58,000,000)	(\$72,000,000)
Lower County Property Tax Accounts	0	\$24,000,000	\$35,000,000	\$46,000,000	\$58,000,000	\$72,000,000

Estimated CITIES IN URBAN COUNTIES Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Cities in Urban Counties	0	(\$176,000,000)	(\$257,000,000)	(\$350,000,000)	(\$463,000,000)	(\$588,000,000)
Lower City Property Tax Accounts	0	\$176,000,000	\$257,000,000	\$350,000,000	\$463,000,000	\$588,000,000

Estimated CITIES IN RURAL COUNTIES Cash Receipts:

FUND	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund – Cities in Rural Counties	0	(\$30,000,000)	(\$42,000,000)	(\$55,000,000)	(\$72,000,000)	(\$91,000,000)
Lower City Property Tax Accounts	0	\$30,000,000	\$42,000,000	\$55,000,000	\$72,000,000	\$91,000,000

**County and City Costs to Implement – Assumptions**

County and cities will incur indeterminate costs to implement the initiative during CY 2009 and CY 2010 to modify computer systems, establish policies and practices, train employees and respond to requests for public information. Costs will vary by jurisdiction and depend, in large part, on the jurisdiction’s ability to modify accounting systems to identify and track revenues subject to the general fund revenue limit.