



Initiative 1033

The basics on I-1033

Initiative 1033, co-sponsored by Tim Eyman, Mike Fagan and Jack Fagan, intends to limit growth in state revenues deposited in funds subject to the state expenditure limit, and limit growth in county and city revenues deposited into the county and city current expense funds. The cap on revenues would fluctuate annually based on any change in population and inflation (IPD). Any additional revenues collected above the cap would be placed in a "Lower Property Taxes Account" and used to reduce the jurisdiction's property tax levy.

The limit established by I-1033 would apply to city general fund revenues in 2010, with the limit set at 2009 revenues adjusted for inflation and population growth. Although the initiative states that voter-approved revenues would be exempt for the initiative's limitations, it also states that new voter-approved revenue is defined as the increase in revenue approved by the city's voters after the effective date. Since the November election is the last of 2009, any voter-approved tax increases passed in 2009 or before would likely be subject to the initiative and not excluded from the revenue limitations.

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) around March 27 of each year. As cities budget for the upcoming year the percent change in IPD and population used to determine the subsequent year's revenue cap would not be available. The change in IPD would become available in March (measuring the inflation growth/decline of the previous calendar year), and the change in population would become available with the release of OFM's population estimates in June/July.

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.

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 (1% or the rate of inflation, whichever is less). 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 current expense fund after January 2009 to another source of funding, or if it is transferred from the current expense fund to another fund or account, the limit would still apply to the aggregate of the current expense fund plus the shifted and/or transferred revenue for that year and all subsequent years. If a program or function is transferred into the current expense fund, the limit will be the aggregate of the current expense fund including the shifted revenue for that year and all subsequent years.

I-1033 expected to reduce city general fund revenues by \$2.1 billion within first six years

In early August the Office of Financial Management (OFM) released its economic impact statement on Initiative 1033. The estimated cumulative impact to state, county and city general fund revenues would be \$8.7 billion through 2015.

continued

OFM's impact statement estimated the fiscal impacts from 2010 through 2015 on:

- The state
- Urban counties
- Rural counties
- Cities in urban counties (109 cities/towns)
- Cities in rural counties (172 cities/towns)

For rural and urban cities, OFM estimated that I-1033 would reduce general fund revenues by an aggregate \$2.1 billion by 2015. State impacts are estimated to be \$5.9 billion during the same timeframe and county impacts are estimated at \$694 million.

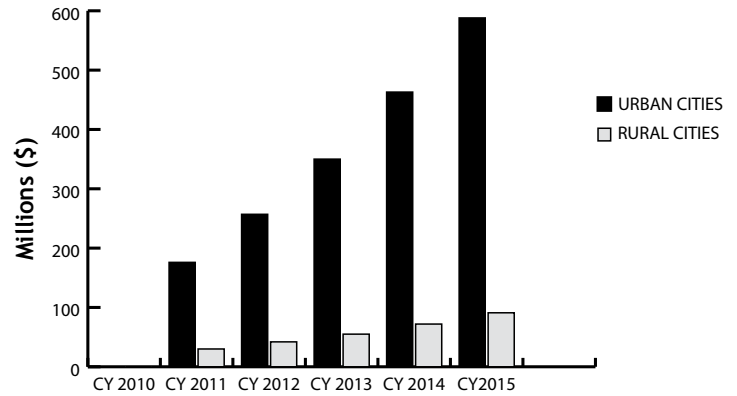
The revenue limit for 2010 will be calculated based on 2009 revenues, plus any change in population and inflation. The formula is assumed to be calculated as follows:

$$\text{CY 2009 GF Rev} \times (1 + 2009 \% \text{ Change Population}) \times (1 + 2009 \% \text{ Change Inflation})$$

Other assumptions OFM made in calculating the initiative's fiscal impact include:

- Calendar year 2010 general fund revenues that exceed the CY 2010 revenue limit will be transferred into the "Lower Property Tax Accounts" in CY 2011.
- Funds in the "Lower Property Tax Account" will reduce the levy approved in 2011 for collection in CY 2012.
- The initiative defines city/county general fund revenues as the aggregate of revenue from taxes, fees and other governmental charges. Therefore, the impact statement excludes the following general fund revenue sources:
 - 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

I-1033 estimated impact to cities' general fund



I-1033 sponsors' challenge to OFM fiscal impact assumptions

In early September I-1033 co-sponsors, Tim Eyman, Mike Fagan, and Jack Fagan, filed a law suit against the director of OFM and the Secretary of State challenging the assumptions outlined in OFM's fiscal impact statement which will appear in the general election voter's pamphlet. The co-sponsors challenged that OFM's impact statement was based on a series of assumptions which inaccurately describe the initiative.

The case was heard in Thurston County Superior Court on September 11, 2009 and the judge ruled that the burden of proof had not been met by the co-sponsors. As a result, OFM's fiscal note will be published in the general election voter's pamphlet as originally released in August. An excerpt of the court documents outlining the co-sponsors' arguments can be found on AWC's website.

The Attorney General's office (AG) represented the defendants, OFM and the Secretary of State. During testimony the AG noted that their office avoids interpreting initiatives before becoming law. In following this charge, they were consulted by OFM while the impact statement was being developed, and concluded that OFM's assumptions were "reasonable." This leaves the door open for another AG or court interpretation of the initiative should it become law.

continued



1076 Franklin St SE
 Olympia, WA 98501
www.awcnet.org

Impacts by jurisdiction

OFM did not estimate the impacts to individual jurisdictions due to data limitations. The variability of economic conditions affecting jurisdictional revenues and population growth (or decline) in each city is so great that city-specific forecasts were not possible.

Using the assumptions outlined in OFM's fiscal impact statement, AWC developed a spreadsheet that cities can use to estimate their individual jurisdiction's impacts. In building this spreadsheet, AWC worked with a group of finance directors to interpret the initiative language, make assumptions beyond what is outlined in the OFM fiscal impact model, and test the model. The impact model is intended to provide cities with an idea of the magnitude of change under the initiative, rather than a specific dollar amount.

City mayors, managers/administrators, and finance directors were notified of the spreadsheet in early September. **Once your city has estimated the impacts of I-1033, please forward that information to Alicia Seegers Martinelli at aliciam@awcnet.org to be included on our website.**

Cities should note that neither OFM nor AWC is a regulatory agency, and this impact model outlines assumptions for estimating fiscal impacts only. It does not serve as an implementation guide should the initiative pass. Other entities may have differing interpretations.

AWC's role

AWC will continue to provide its members educational materials. Please check our website for additional information about I-1033 at www.awcnet.org/initiatives. This website includes:

- A summary of I-1033
- The full initiative text
- News articles about city official responses to I-1033
- Links to the sponsors' website and the Vote No on I-1033 website
- Resources from the Public Disclosure Commission and Attorney General's Office about elected and appointed officials ballot measure campaign activities and use of public funds

For questions or more information

Jim Justin, Director of Federal & State Relations
jimj@awcnet.org
(360) 753-4137

Alicia Seegers-Martinelli, Research Coordinator
aliciam@awcnet.org
(360) 753-4137

•

The Association of Washington Cities provides information for educational purposes only. This is not intended to be an expression for or against a ballot measure. AWC will continue to provide information about the fiscal impacts of this initiative on cities. City officials may want to consult legal advice for specific impacts on your city.



1076 Franklin St SE
Olympia, WA 98501
www.awcnet.org