

INITIATIVE 1033

Impact of Initiative 1033 on Federal
Way Finances

What is Initiative-1033

- This measure would limit growth in state revenues deposited in funds subject to the state expenditures limit, and limit growth in county and city revenues deposited into the county and city general fund. The limit would be adjusted on annual growth by inflation and population.

State Estimate of Impact

- The Office of Financial Management estimates that by 2015 I-1033 will reduce general fund revenues by:
 - State: \$5.9B
 - Counties: \$694M
 - Cities: \$2.1B

Federal Way Impact

- Impact management of economic cycles
- Reduce general fund revenues
- Limit ability to make public improvements
- Limit ability to deal with unanticipated costs, such as emergencies and emerging issues or opportunities
- Increase margin between revenues and costs

The Way it Works

- Revenue Limit is based on previous year's general fund revenues, adjusted for inflation and population growth:

Current Year General Fund Revenues x
(1+2009% Change in Inflation) +
(1+2009% Change in Inflation)

Fiscal Impact

- No impact in 2010. We are not forecasting revenue growth in 2010.
- I-1033 would impact City General Fund Revenues beginning 2011. Impacting the increase in Utility Tax transfers from Capital to Operation to cover Revenue Shortfall.

Estimated 2011 Fiscal Impact

- 2011 General Fund Revenues are expected to grow \$1.7M

Revenue growth reflects reallocation of capital dollars to operations to cover revenue shortfall (Over \$1M is reallocating capital. \$600K of the Utility Tax transfer is for Police).

Estimated 2011 Fiscal Impact

- Of the \$1.7M Available:
 - Revenue below the limit is available for spending: \$969,385
 - Revenue above the limit is put in an account to cut property taxes in the following year: \$826,632
 - Operating expenditures is expected to grow by \$3M, \$2M of which is Public Safety including restoring \$500,000 of cuts. Without restoration will continue to freeze vacant police positions.

Estimated 2011 Fiscal Impact

- I-1033 would increase the projected operating deficit of \$692,000 in 2011 by \$827,000 for a total of \$1.5M.

Estimated Long-term Impact

- 2011: Excess General Fund of \$827,000
- 2012: Excess General Fund of \$492,000
- 2013: Excess General Fund of \$853,000
- 2014: Excess General Fund of \$102,000
- 2015: Excess General Fund of \$1.3M
- All excess is not available for General Fund operations

Long-term Fiscal Impact

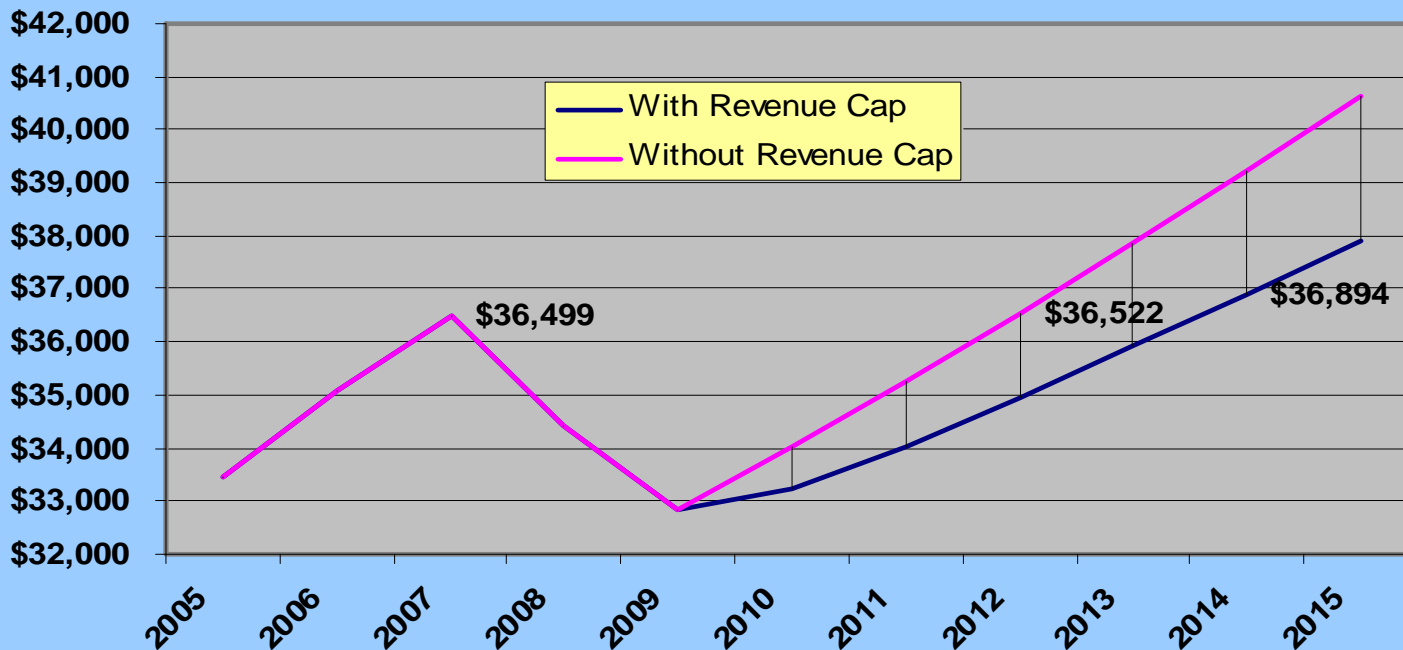
- I-1033 would reduce General Fund Revenues available to spend on operations by \$3.6M through 2015
- I-1033 would slow revenue recovery. With revenue cap it will take until 2014 for revenues to recover to 2007 levels
 - Delay Restoring Annual Street Resurfacing Program
 - Delay Implementing Park's Capital Improvement Plan

Cyclical Implications

- During a recession when revenue drops, the following year's limit is based on the lower number and the city would permanently lose spending capacity.

Cyclical Implications

The limit is permanently "racheted" down because of the recession. It will take longer to recover revenue loss and restore services. Other and/or subsequent cycles will further widen gap.



Inflation Index

- I-1033 Implicit Price Deflator versus Consumer Price Index
- Over a 28 year period the annual rate of change
 - IPD: 3.07%
 - CPI: 3.63%
- This difference would increase the margin between revenues and costs

Summary

- Limit revenue recovery due to economic cycles
- Cap will further reduce general fund revenues
- Make permanent the temporary transfer of Utility Taxes
- Limit the ability to deal with unanticipated costs and respond to emerging issues and opportunities
- Increase margin between revenues and costs