

**FINANCE AND  
INFORMATION SERVICES**



**M E M O R A N D U M**

Date: October 13, 2009  
 To: Denis Law, Mayor  
 Jay Covington  
 From: Marty Wine  
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 Subject: Analysis of Impact of I-1033 should it become law

This memo will discuss the impact from 1033 on the city’s General fund revenues. For the analysis, we included all the general purpose taxes and fees but excluded any federal/state grants and shared revenues, contracted services, and rentals and interest incomes as defined in the Initiative.

The initiative limits the city’s general fund revenue growth to the combined rate of growth of population and inflation. Instead of comparing expected normal general growth rates and the projected inflation and population growth rates, which is very subjective, this analysis applies the I-1033 rules against historical revenue to see what would have been the impact if the initiative were effective in 2000. The result is quite significant and the difference grew quickly overtime.

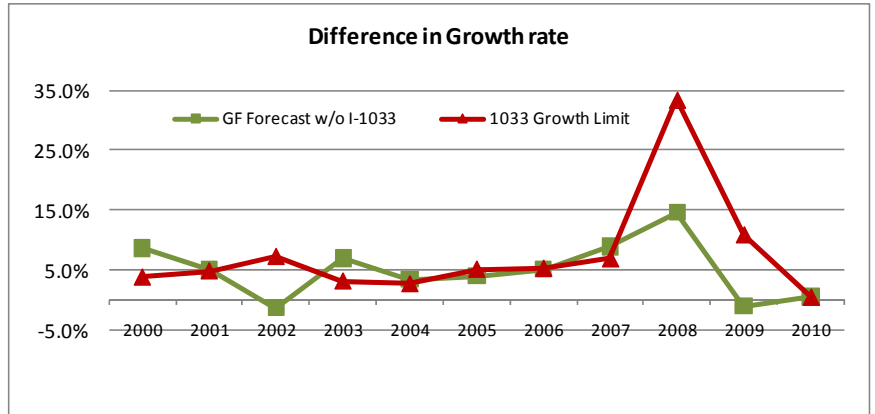
Using this approach, the difference in 2009, 10<sup>th</sup> year after the growth limit first put in place, the impact would have been \$9.5 million.

Period	Growth in GF Revenues*	GF Forecast w/o I-1033	Population Growth		1033 Growth Limit	I-1033 GF Net Revenue	GF Revenue Impact from I-1033 (G-J)	
			IPD	Estimate*				
Actual	2000	8.66%	58,828,836	1.42%	2.36%	3.81%	56,204,262	2,624,574
	2001	5.04%	61,794,300	2.61%	2.17%	4.84%	58,924,815	2,869,486
	2002	-1.29%	60,997,319	1.89%	5.28%	7.27%	58,164,842	2,832,477
	2003	6.96%	65,244,167	1.16%	1.97%	3.15%	59,997,986	5,246,182
	2004	3.46%	67,503,461	1.84%	0.84%	2.69%	61,613,914	5,889,547
	2005	3.95%	70,166,786	2.39%	2.67%	5.12%	64,044,869	6,121,917
	2006	5.07%	73,725,075	2.54%	2.67%	5.28%	67,292,705	6,432,371
	2007	8.92%	80,301,352	3.42%	3.31%	6.84%	71,896,985	8,404,367
	2008	14.55%	91,985,199	2.08%	30.67%	33.39%	82,357,996	9,627,202
	2009	-1.00%	91,065,347	4.53%	6.07%	10.87%	81,534,417	9,530,930
2010	0.50%	91,520,673	-0.85%	1.30%	0.44%	81,893,964	9,626,710	
Projected	2011	2.30%	93,625,649	1.80%	1.300%	3.12%	83,777,525	9,848,124
	2012	2.80%	96,247,167	1.80%	1.30%	3.12%	86,123,296	10,123,871
	2013	3.50%	99,615,818	1.80%	1.30%	3.12%	88,813,271	10,802,547
	2014	3.50%	103,102,371	1.80%	1.30%	3.12%	91,587,264	11,515,107
	2015	3.50%	106,710,954	1.80%	1.30%	3.12%	94,447,901	12,263,054
	2016	3.50%	110,445,838	1.80%	1.30%	3.12%	97,397,887	13,047,951
	2017	3.50%	114,311,442	1.80%	1.30%	3.12%	100,440,012	13,871,430
	2018	3.50%	118,312,343	1.80%	1.30%	3.12%	103,577,156	14,735,187

One of the reasons for the large difference is that when the population and inflation growth do not always coincide with the timing of revenue growth. When the limit is high and our revenue is allowed to grow, our revenue may not be performing at the same level as the limit which was the case in 2002 when population + inflation = 5.3%, but our revenue declined by 1.3%. Then when the city’s revenue rebounded in 2003, the growth limit was lower, so this growth cannot be fully realized due to the growth limit in place.

**IMPACT FROM ANNEXATION OR OTHER GROWTH:**

The chart compares the growth limit under I-1033 (in red) and the actual growth rate for General Fund revenues over the same period. This chart also suggests annexation or other population growth does not have a direct negative effect under I-1033. In fact if the city’s revenue growth can match the timing of annexation, the city could potentially capture some “excess” growth.



The fundamental issue lies in the limiting nature of the initiative, which would restrict the resource available for both existing population and any future population. It matters not if the city chose to grow or not. In order for resources to keep up with potential expenditure growth, it does matter whether the revenue growth coincides with the inflation and population growth.

The spike in 2008 growth limit reflects the annexation of Cascade/Benson community. In that year the population grew by 31%, and our revenue only grew by 15%. We expect the same will be true for potential future annexations. While Fairwood and West Hill annexations represent 30% and 20% population growth respectively, it is extremely unlikely that the city would experience similar spikes in revenue that could be captured. In other words, just because you have big population growth, you don’t necessarily have big correlating revenue gains.

For annexation, the city has some ability to manage the timing to match the effective date an annexation, the population count, and when new revenue is to occur. This is not true for general economic growth. They follow economic cycle and frequently occur before the change in price or inflation.

**CUMULATIVE IMPACT OF CITIZEN INITIATIVES OVER THE PAST 10 YEARS:**

It is also important to keep in mind that the effect of citizen initiatives have had an effect of nearly \$4 million a year in our general fund revenue capacity over the past 10 years. We know the 1% property tax growth limit caused a financial structural gap and makes it difficult to sustain our services. To quantify it, I-747 reduced our property tax by \$2.4 million a year had we been able to increase the

property tax by the rate of inflation. The difference would be \$8 million in 2009 if we compare the 1% growth and the 106% limit on property tax existed prior to I-747.

The city has been able to grow its economy to offset the lost revenues from citizen initiatives. But the severity of the recession makes even

our stellar economic development results insufficient to fill the structural gap. If the initiative 1033 were to pass, the ability for the city to manage its financial capacity through economic development would diminish further, but the no growth option would only accelerate the decline of city revenue and reduction of city services.

Initiative	Year Voted	Impact on General Fund in 2009	Cumulative Impact
I-695 Motor Vehicle Excise Tax <sup>1</sup>	1999	\$ 750,000	\$ 750,000
I-747 Property Tax Growth Limit <sup>2</sup>	2001	2,392,075	3,142,075
I-776 Local Option Vehicle License Fee <sup>1</sup>	2002	750,000	3,892,075
I-1033 Property Tax Reduction	2009	?	?
Note:			
1. Revenue loss for 2009 should the revenue remained in place			
2. I-747 revenue loss is calculated based on differences between CPI-W and 1% growth limit. If compares with 6% growth limit the difference in 2009 would have been over \$8 million.			