Washington State SCS Senate Committee SERVICES

Revised September 21, 2009

SUMMARY OF INITIATIVE 1033

Concerning State, County and City Revenue.

This summary has been prepared in response to specific questions about the provisions and effects of Initiative 1033 and is provided for legislative purposes only; it is ***not*** *provided as an expression for or against the ballot measure. Please remember that it is inappropriate to use public resources to support or oppose a ballot measure. Please refer to the 2008-09 Legislative Ethics Manual or contact Senate Counsel for further guidance on when and how comment on ballot measures is appropriate.*

BRIEF SUMMARY

Initiative 1033 (I-1033) limits the use of state, county, and city general fund revenues which exceed two growth factors: inflation and population growth. Revenues collected from taxes, fees, and other governmental charges in excess of these growth factors must be deposited into separate accounts to reduce state, county and city regular property tax levies.

BACKGROUND

Property Tax System

All real and personal property in Washington State is subject to property tax, unless a specific exemption is provided by law.

All property, except new construction, is assessed and taxed on its value as of January 1 of the assessment year and is listed on the tax rolls. Taxes due in any particular year are based upon the assessed value from the preceding year. This two-year process follows this basic timeline:

The 2-year Property Tax Cycle, Year One: The Assessment Year				
January	**May**	**Fall**	**November**	**December**
All property assessed as of January 1 of this year for property tax payable next year.	By the end of May, county assessors complete assessments and list property values on the tax rolls.	Taxing districts file budget requests with county legislative authorities from early fall to the end of November.	By November 30, county legislative authorities must certify the levy (or budget) amounts.	In December, the assessors of each county calculate the levy rates and apply levy limits.

The 2-year Property Tax Cycle, Year Two: The Collection Year			
January	**February**	**April**	**October**
By January 15, county assessors deliver the tax roll to county treasurers who collect taxes (assessed during the prior year) during this second year of the cycle.	Approximately mid-February, county treasurers send out property tax bills.	The property tax for the prior year's assessments is due on April 30, but if 1/2 is paid by this date, the second 1/2 may be paid later.	The second 1/2 of property tax is due.

<u>Tax Rate and Levy Limits on Regular Property Taxes</u>
In Washington, there are three general limits on increases to property taxes.

The first and second limits constrain the rate of the tax. Article VII, § 2 of the state constitution limits tax rates to 1 percent of a property's true and fair value, or $10 per $1,000 of assessed value. Taxes imposed under this limit are called "regular" levies, while those above the limit are "excess" levies. In order for taxing districts to stay below the constitutional tax rate limit, the Legislature adopted a second type of limit on increases to property tax rates: specific limits on the rate each taxing district can levy. The state levy rate is limited to $3.60 per $1,000 of assessed value. Further, there is an overall rate limit of $5.90 per $1,000 for the sum of local taxing districts' rates.

In addition to the tax rate limitations, there is a third type of limit: capping increases in a district's regular property tax levy. This limits the growth of the levy, which is the total amount of tax revenue, or highest lawful levy, which a taxing district can collect. Levy limits do not, in general, apply to new value placed on tax rolls attributable to new construction or to improvements to existing property.

The current levy limit for regular property tax levies of taxing districts with a population under 10,000 is 1 percent and taxing districts with a population over 10,000 is the lesser of inflation or 1 percent.

SUMMARY OF INITIATIVE 1033

<u>Growth Rate Limits on the State General Fund – Excess to Reduce State Property Tax Levy</u>
The "Lower Property Taxes Act of 2009" limits the growth rate of state government general fund revenue to inflation and population growth. Any revenues received above these growth limits must be deposited into the Lower State Property Taxes Account. Revenues received during a year must be used to reduce the subsequent year's state property tax levy.

"New voter-approved revenue," defined as "the increase in revenue approved by the state's voters at an election after the effective date" of I-1033, is excluded from the calculation of the growth of state general fund revenues. The initiative's intent section states that voter-approved increases include binding votes of the people of the state and do not include revenue increases approved by an advisory vote.

"General fund revenue" is defined as the aggregate revenue from taxes, fees, and other governmental charges received by state government that is deposited in any fund subject to the state expenditure limit. General fund revenue excludes transfers from the Budget Stabilization Account, as well as revenue received from the federal government.

If the cost of any state program or function is shifted from the general fund (GF-S) or any fund subject to the state expenditure limit on or after January 1, 2009, to another source of funding, or if revenue is transferred from the GF-S or any fund subject to the state expenditure limit to another fund or account, the limit must apply to the aggregate of funds subject to the state expenditure limit, plus the shifted and/or transferred revenue for that year and all subsequent years.

If the cost of any state program or function and the revenue to fund the program or function are shifted to the GF-S or any fund subject to the state expenditure limit on or after January 1, 2009, the limit must apply to the aggregate of funds subject to the state expenditure limit, including the shifted revenue for that year and all subsequent years.

"Inflation" is defined as the annual percentage change in the implicit price deflator (IPD) 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 (OFM).

"Population growth" is defined 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.

General fund revenue received above the two growth factors (inflation and population growth) must be deposited into a new account. For the first calendar year beginning after the effective date of this act, 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 [2010 limit = 2009GF-S×(1+IPD)×(1+population)], must be deposited in the "Lower State Property Taxes Account" (LSPTA). For subsequent years, general fund revenue received above the amount in the prior year, excluding new voter-approved revenue and less any deposits into the LSPTA, adjusted by the two growth factors, must be deposited into the LSPTA.

All revenues received during a year which are deposited in the LSPTA must be used to reduce the subsequent year's state property tax levy. The first possible reduction in the state property tax from I-1033 is the 2011 regular state levy, which is collected in 2012. The state property tax levy must be reduced by an amount equal to the gross deposits into the LSPTA from the previous year. The balance of the LSPTA must be transferred each year to the GF-S to account for the reduction of the state property tax levy.

Growth Rate Limits on Counties' General Fund – Excess to Reduce County Property Tax Levy

The growth rate of each county government's general fund revenue is limited to inflation and population growth. Any revenues received above these growth limits must be deposited into the Lower County Property Taxes Account. Revenues received during a year must be used to reduce the subsequent year's county property tax levy.

The following definitions are similar to those for the provisions relating to state funds and revenues:

- "General fund revenue" is defined as the aggregate revenue from taxes, fees, and other governmental charges received by the county that is deposited in the county's current expense fund.
- "Inflation" is defined as the annual percentage change in the IPD for the United States as published on or about March 27 following each calendar year by the Bureau of Economic Analysis and reported by OFM.
- "Population growth" is defined as the percentage change in the countywide population based on the annual countywide population determinations reported by OFM during the prior calendar year and the current calendar year.
- "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 I-1033.

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 must 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.

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 must apply to the aggregate of the county general fund including the shifted revenue for that year and all subsequent years.

The limit must be implemented as follows: For the first calendar year 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." For subsequent years, the general fund revenue received above the amount in the prior year, excluding new voter-approved revenue and less any deposits into the Lower County Property Taxes Account, adjusted by the two growth factors, must be deposited into the Lower County Property Taxes Account.

Any county's property tax levy must be reduced by an amount equal to the previous year's gross deposits to the LCPTA. The first possible reductions in county property taxes from I-1033 are the 2011 regular county levies, which are collected in 2012.

Growth Rate Limits on Cities' General Fund – Excess to Reduce City Property Tax Levy

The growth rate of each city government's general fund revenue is limited to inflation and population growth. Any revenues received above these growth limits must be deposited into the Lower City Property Taxes Account. Revenues received during a year must be used to reduce the subsequent year's city property tax levy.

The following definitions are similar to those for the provisions relating to state and county funds and revenues:

- "General fund revenue" is defined as the aggregate revenue from taxes, fees, and other governmental charges received by the city that is deposited in the city's current expense fund.
- "Inflation" is defined as the annual percentage change in the IPD for the United States as published on or about March 27 following each calendar year by the Bureau of Economic Analysis and reported by OFM.
- "Population growth" is defined as the percentage change in the city wide population based on the annual city wide population determinations reported by OFM during the prior calendar year and the current calendar year.
- "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 I-1033.

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 must 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.

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 must apply to the aggregate of the city general fund including the shifted revenue for that year and all subsequent years.

The limit must be implemented as follows: For the first calendar year 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 City Property Taxes Account." For subsequent years, the general fund revenue received above the amount in the prior year, excluding new voter-approved revenue and less any deposits into the Lower City Property Taxes Account, adjusted by the two growth factors, must be deposited into the Lower City Property Taxes Account.

Any city's property tax levy must be reduced by an amount equal to the previous year's gross deposits to the Lower City Property Taxes Account. The first possible reductions in city property taxes from I-1033 are the 2011 regular city levies, which are collected in 2012.

Regular Property Tax Levies

The rate limits for the state, counties, and cities must be further adjusted by the amount deposited into the new lower property tax accounts.

The levy limit is set so that the regular property taxes cannot exceed the limit factor in current law (1 percent, in general) multiplied by the amount of regular property taxes lawfully levied for such district plus new voter-approved revenue. The adjustments in this act provide a limitation on property tax levies which is in addition to the levy limit in current law.

Fiscal Impact

A fiscal impact statement, prepared by the OFM, must describe any projected increase or decrease in revenues, costs, expenditures, or indebtedness that the state or local governments will experience if a ballot measure were approved by state voters (RCW 29A.72.025). Fiscal impact statements must be available on the Secretary of State's web site and included in the state voters' pamphlet.

The OFM has prepared a fiscal impact statement for I-1033 with estimates for the six-year period from calendar year (CY) 2010 through CY 2015, assuming general fund revenue growth as an average, as follows:

CY 2010: No impact to state, county, or city general funds.

Impacts to State Accounts (Cash Basis)

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

Impacts to Urban County Accounts (Cash Basis)

FUND	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund (County)	($55,000,000)	($70,000,000)	($87,000,000)	($111,000,000)	($137,000,000)
Lower County Taxes Account	$55,000,000	$70,000,000	$87,000,000	$111,000,000	$137,000,000

Impacts to Rural County Accounts (Cash Basis)

FUND	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund (County)	($24,000,000)	($35,000,000)	($46,000,000)	($58,000,000)	($72,000,000)
Lower County Taxes Account	$24,000,000	$35,000,000	$46,000,000	$58,000,000	$72,000,000

Impacts to Urban City Accounts (Cash Basis)

FUND	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund (City)	($176,000,000)	($257,000,000)	($350,000,000)	($463,000,000)	($588,000,000)
Lower City Taxes Account	$176,000,000	$257,000,000	$350,000,000	$463,000,000	$588,000,000

Impacts to Rural City Accounts (Cash Basis)

FUND	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
General Fund (City)	($30,000,000)	($42,000,000)	($55,000,000)	($72,000,000)	($91,000,000)
Lower City Taxes Account	$30,000,000	$42,000,000	$55,000,000	$72,000,000	$91,000,000

Assumptions

The OFM fiscal impact statement was prepared using the same procedures and six-year forecast process used in the preparation of fiscal notes (fiscal impact of proposed legislation, RCW 43.132.020).

For state revenues, the I-1033 fiscal impact statement six-year forecast uses the forecast revenue estimates by the Washington State Economic and Revenue Forecast Council (estimates from June 2009 converted from a fiscal-year basis to CY basis). State general fund revenues for CY2010-2015 are estimated to grow, on average, by an annual growth rate of 4.8 percent.

For the purpose of the fiscal impact statement, counties and cities were divided into general categories of county-urban, county-rural, city-urban, city-rural, based on the definition of "rural county" in RCW 82.14.370. The county and city general fund revenue growth rates, for the six-year period of the fiscal impact statement, are related to the state's revenue growth rate by estimating the grouping's five-year historical rate of revenue growth in proportion to the state's revenue growth rate of 4.8 percent.

Considerations

The fiscal impact statement provides estimates for a six-year period, based on average revenue growth. However, with the cyclical nature of revenue collections, much different results may occur. For example, it is possible that in a calendar year where revenue growth falls below the two growth factors of I-1033, no deposits would be made to the Lower State Property Tax, Lower County Property Tax, and Lower City Property Tax accounts; thus, in the subsequent year, there would be no property tax reductions and taxpayers would pay the entire state, county, and city regular levies which were assessed.

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 deposited into the county current expense fund or city general fund. I-1033 does not define "other governmental charges," so there are potential uncertainties about revenues received in county current expense funds or city general funds which flow from other sources of income than taxes, fees, or other governmental charges.

Initiative 601 (I-601), adopted by the voters in 1993, established a GF-S expenditure limit. The state expenditure limit for any fiscal year is the previous year’s limit increased by a “fiscal growth factor." The current "fiscal growth factor" is the average growth in state personal income over the prior ten years. Transfers of money or program costs also affect the expenditure limit. For example, if moneys are transferred from the GF-S to another fund, the expenditure limit is lowered to reflect the shift. Thus, any transfer from the GF-S to the LSPTA as required by I-1033 would lower the expenditure limit.

For further information on the assumptions and/or to see the entire text, refer to the OFM I-1033 fiscal impact statement at the following link: http://ofm.wa.gov/initiatives/i-1033_fiscal_impact.pdf.

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This summary should not be considered legislative history for purposes of interpreting I-1033. Provisions of I-1033 are subject to different interpretations; this summary constitutes an initial analysis which is subject to revision.