



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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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.