



# POLICY BRIEF

## **Citizens' Guide to Initiative 1033**

by Jason Mercier  
Director, WPC's Center for Government Reform

**September 2009**



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## Key Findings

- The state OFM estimates passage of I-1033 would result in approximately \$5.9 billion in state property tax rebates and \$2.8 billion in local property tax rebates going to citizens by 2015.
- State and local revenue available for spending increases would grow each year by an amount based on population growth plus inflation.
- I-1033 does not replace or amend the I-601 state spending limit but adds a new revenue limit requirement.
- Public officials could collect revenues above the I-1033 limit with voter approval.
- The initiative places no limit on how long a voter-approved exemption to I-1033 could be in place.
- I-1033 exempts transfers in and out of the state constitutional reserve account from the revenue limit.
- The lack of exemption for local reserve accounts would put pressure on local budgets during the down periods in the economic revenue cycle.
- The measure's revenue limits may lead elected officials routinely to seek voter approval to spend all the money that would be available under current tax rates.

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### Introduction

In November the people of Washington will vote on Initiative 1033. The measure is sponsored by Tim Eyman and would create a new revenue limit for the state, counties and cities with the goal of annually reducing property taxes. Eyman calls Initiative 1033 the "Lower Property Tax Act of 2009." Initiative 1033 is the latest in a series of initiatives considered by voters which seek to control the growth of state government, though it is the first to include local governments under its requirements, and it is the first to focus primarily on providing ongoing tax rebates to property owners.

According to the state's Office of Financial Management, passage of Initiative 1033 would result in approximately \$5.9 billion in state property tax rebates and \$2.8 billion in local property tax rebates going to citizens by 2015. At the same time state and local revenue available for spending increases would grow each year by an amount based on population growth plus inflation.

Eyman argues that Initiative 1033 attempts to close loopholes created by the legislature to an earlier voter approved initiative, Initiative 601. Enacted by voters in 1993, Initiative 601 sought to improve on the shortcomings of Initiative 62 adopted in 1979.

This study presents a brief description of the previous state revenue and spending limits, a similar law in Colorado, and of Initiative 1033.

Initiative 62 was filed as an initiative to the legislature but placed on the 1979 ballot when the legislature failed to take action.<sup>1</sup> The law created a state revenue limit that restricted the growth in state revenues to a calculation based on the three-year average increase in state personal income. The law did not apply to local governments and did not provide tax rebates to citizens for revenue collected in excess of the limit. No explicit reserve account was created, though one was implied because any revenue in excess of the limit was carried forward to be available for spending in the following year. The limit could be suspended for a limited period by the declaration of a state of emergency supported by a two-thirds vote of the legislature.

Voters enacted Initiative 601 in 1993.<sup>2</sup> The measure replaced Initiative

<sup>1</sup> "Initiative Measure 62, Shall state tax revenues be limited so that increases do not exceed the growth rate of total state personal income?" Voters Pamphlet for the General Election, November 6, 1979, pages 10, 11 and 20 at [www.secstate.wa.gov/library/docs/osos/voterspamphlet78\\_80/voterspamphlet\\_1979\\_2007\\_003165.pdf](http://www.secstate.wa.gov/library/docs/osos/voterspamphlet78_80/voterspamphlet_1979_2007_003165.pdf).

<sup>2</sup> "Citizens Guide to Initiative 960, The Taxpayer Protection Act - Part 2: Comparison of Initiative 601 and Initiative 960, Washington Policy Center at [www.washingtonpolicy.org/Centers/government/policynotes/07\\_mercier\\_i960part2.html](http://www.washingtonpolicy.org/Centers/government/policynotes/07_mercier_i960part2.html).

***I-1033 is the latest in a series of initiatives considered by voters which seek to control the growth of state government, though it is the first to include local governments under its requirements, and it is the first to focus primarily on providing ongoing tax rebates to property owners.***

62's revenue limit with a spending limit. The new law restricted the growth rate of state spending to a calculation based on the three-year average increase in population and inflation and also required a two-thirds vote of the legislature to increase taxes. Initiative 601 did not apply to local governments and did not provide tax rebates to citizens for revenue collected in excess of the limit. Instead a reserve account was created, with any revenues collected in excess of the limit mandatorily deposited in the account. The limit could be suspended for a limited period by a two-thirds vote of the legislature and voter approval, or the declaration of a state of emergency supported by a two-thirds vote of legislature.

The legislature has amended Initiative 601 twelve times since the measure became law. While some of these amendments were minor, the legislature has suspended the two-thirds vote requirement twice (2002 and 2005) and enacted major changes to the way the spending limit is calculated on four occasions (1998, 2000, 2005 and 2006). These changes resulted in the limit being calculated to allow a higher level of spending increase. (For additional information please see Washington Policy Center's *Citizens Guide to Initiative 960, The Taxpayer Protection Act - Part 2: Comparison of Initiative 601 and Initiative 960.*)

Colorado voters enacted Colorado's Taxpayer Bill of Rights, or TABOR, in 1992 as an amendment to the state constitution.<sup>3</sup> The law created a limit that restricts the growth in state and local revenues based on the one-year increase in population and inflation and required voter approval for any new or increased taxes. The law applies to all governments and most budget funds (excludes federal dollars and some others). Revenue collected in excess of the limit must be used to reduce the tax burden government places on citizens, unless voters have previously authorized a higher level of tax collection. There is no requirement for a reserve account to carry excess funds forward from one year to the next. The TABOR limit can be suspended by voters, or by a declaration of a state of emergency supported by a two-thirds vote of the legislature. In that case, the legislature's suspension of TABOR expires if it is not ratified by voters.

In 2005, Colorado voters approved suspending TABOR's required rebate of state, but not local, taxes until 2010. In 2008 voters defeated by a margin of 55% a proposal, Amendment 59, to repeal permanently TABOR's rebate of state taxes.<sup>4</sup> Prior to its temporary suspension at the state level, TABOR was successful in limiting the growth and cost of state government in Colorado, as voters intended when they enacted it.<sup>5</sup> Voters have approved local suspensions of TABOR's tax rebate provision 440 times since 1993.<sup>6</sup>

Initiative 1033 will appear on the ballot for the November 2009 election. It would create a new revenue limit for the state, counties and cities with the goal of providing annual property tax rebates. The measure does not replace or amend the Initiative 601 state spending limit, but adds a new revenue limit requirement as well. The growth rate of the proposed revenue limit is based on the one-year increase in population plus inflation. The law would create a mandatory property tax reduction account for state and local governments covered. Each year the property tax burden imposed by state and local officials would be reduced by a dollar amount equal to the amount of money they collected in excess of the revenue limit for the previous year if such funds exist.

<sup>3</sup> "The TABOR Limit," Article X, Section 20, Constitution of Colorado, see description at Statewide Budget Overview, Office of Planning and Budget, Chapter 9, June 4, 2009, at [www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1239161953604&ssbinary=true](http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1239161953604&ssbinary=true).

<sup>4</sup> "Official Publication of the Abstract of Votes Cast for the 2008 General Election," Colorado Secretary of State, page 146 at [www.elections.colorado.gov/WWW/default/2008\\_Abstract.pdf](http://www.elections.colorado.gov/WWW/default/2008_Abstract.pdf).

<sup>5</sup> "A Decade of TABOR, Ten Years After: Analysis of the Taxpayer's Bill of Rights," by Fred Holden, Independence Institute, Golden, Colorado, June 2003, p. 7 at [www.i2i.org](http://www.i2i.org).

<sup>6</sup> "Municipal Elections: Revenue and Spending Changes, 1993-2008 Ballots," Colorado Municipal League at [www.cml.org/pdf\\_files/election\\_revenue.doc](http://www.cml.org/pdf_files/election_revenue.doc).

Deposits into the state's constitutional rainy day account would be exempt from the revenue limit's calculation, as well as transfers from the account to the general fund, though no exemption is provided for local government rainy day accounts. The limit could be exceeded by any voter approved increase in revenue. The initiative places no limit on how long a voter-approved exemption to Initiative 1033 could be in place.

### Description of Initiative 1033

The intent section of Initiative 1033 explains what the measure is intended to accomplish. Following is a brief analysis of the main statements from the intent section.<sup>7</sup>

*Purpose: "This measure is intended to protect taxpayers by reducing our state's obscene and unsustainable property tax burden by controlling the growth of government to an affordable level."*

**Analysis:** Based on how Initiative 1033's limit would affect projected revenue increases, the measure should result in annual property tax rebates to property owners. Since Initiative 1033 would not repeal the revised Initiative 601 spending limit, the Initiative 1033 revenue limit would likely always be less than the Initiative 601 spending limit, meaning state spending increases would be restricted below the level normally allowed by the state's current spending limit. Local governments would be subject to the same revenue growth restrictions and property tax rebate requirements as the state. According to the Tax Foundation, Washington's state and local tax burden ranking is 35th highest in the nation though trending in the wrong direction.<sup>8</sup> Washington's state and local property tax burden ranking is 25th highest.<sup>9</sup> Though this is below the U.S. average it is among the highest for the Western states.

*Limit: "This measure would limit the growth of state, county, and city general fund revenue, not including new voter-approved revenue, to inflation and population growth."*

**Analysis:** Though similar to the original Initiative 601 growth factor of inflation and population growth, Initiative 1033 would use only one year's numbers versus the three-year rolling average used for Initiative 601. This means the growth factor under Initiative 1033 may be more volatile year-to-year than experienced under Initiative 601. Depending on population and inflation trends, property owners in some years may see significant property tax rebates, while at other times they may see little change in their property tax burden compared to the previous year.

*Exemption: "Voter-approved increases in revenue are exempt from this measure's revenue limit. This includes binding votes of the people and does not include a revenue increase approved by an advisory vote. The language of this act is clearly intended to ensure that voter approval of a property tax lid lift only exempts the additional increase in property tax revenue and not the base levy."*

**Analysis:** The text of Initiative 1033 defines voter-approved revenue as, "the increase in revenue approved by the state's voters at an election after the effective date of this act." Initiative 1033 is silent, however, on how long any

<sup>7</sup> Text of Initiative 1033, Washington Secretary of State at <http://www.secstate.wa.gov/elections/initiatives/text/i1033.pdf>

<sup>8</sup> "Washington's State and Local Tax Burden, 1977-2008," Tax Foundation at [www.taxfoundation.org/taxdata/show/486.html](http://www.taxfoundation.org/taxdata/show/486.html).

<sup>9</sup> "State and Local Property Tax Collections Per Household and Per Capita by State, Fiscal Year 2006," Tax Foundation at [www.taxfoundation.org/taxdata/show/251.html](http://www.taxfoundation.org/taxdata/show/251.html).

***OFM estimates passage of I-1033 would result in approximately \$5.9 billion in state property tax rebates and \$2.8 billion in local property tax rebates going to citizens by 2015. At the same time state and local revenue available for spending increases would grow each year by an amount based on population growth plus inflation.***

voter-approved exemption to the Initiative 1033 revenue limit would be in effect. It is unclear whether the exemption would apply only to the revenue raised in the year the vote occurred, or to all revenue raised as a result of that vote.

It is also unclear whether voter-approved revenue would only apply to increases in fees or tax rates, or to any dollar amount collected in excess of the Initiative 1033 limit.

*Excess revenue: "Excess revenue collected above these limits would be used to reduce property taxes."*

**Analysis:** The applicable section of Initiative 1033 for each level of government covered requires any tax money elected officials collect above the revenue limit to be deposited in a property tax relief account, and be used exclusively to reduce the next year's property tax burden.

*Rainy day accounts: "This measure exempts fund transfers in and out of the constitutionally required rainy day fund for the state. In regard to cities and counties, this measure makes no change to the ability of any city or county to use existing and future reserve funds to supplement their general fund revenue when revenue is below their revenue limit."*

**Analysis:** Initiative 601 required revenue in excess of the spending limit to be deposited into a rainy day account. A voter-approved constitutional amendment in 2007, SJR 8206, changed this requirement and created a new constitutionally-protected rainy day account. Although Initiative 1033 would exempt the transfers of funds in and out of the state constitutional reserve account from the limit's provisions, no exemption would be provided for transfers in or out of the reserve accounts of local governments. Instead local governments would be required to build reserve accounts within the funds available within the Initiative 1033 revenue limit, and any money spent out of local reserve accounts would count against the limit.

### Comparing Initiative 62, Initiative 601, Colorado's TABOR, and Initiative 1033

The following charts compare the provisions of Initiative 1033 with the three other measures discussed in this study.

#### Comparison of I-62 (as adopted in 1979) and I-1033

	I-62	I-1033
<b>Type of limit</b>	Revenue	Revenue
<b>Government covered by limit</b>	State	State and local (some exclusions)
<b>Funds covered by limit</b>	General fund	General fund
<b>Reserve account provision</b>	Not explicit but implied	Yes for state; no for local
<b>Revenues in excess of limit</b>	Carried forward to be used as revenue for next fiscal year	Used for property tax rebates
<b>Fiscal growth factor</b>	3-year rolling average of increase in personal income	1-year increase in population plus inflation
<b>Exemption to limit</b>	Declaration of an emergency ratified by 2/3 vote of legislature. Time period of exemption limited	Increase in revenue approved by voters. Time period of exemption appears open ended
<b>Type of law</b>	Statutory	Statutory

*I-1033 does not replace or amend the I-601 state spending limit passed by voters in 1993 and subsequently amended by lawmakers, but adds a new revenue limit requirement.*

### Comparison of I-601 (as adopted in 1993) and I-1033

	<b>I-601</b>	<b>I-1033</b>
<b>Type of limit</b>	Spending	Revenue
<b>Government covered by limit</b>	State	State and local (some exclusions)
<b>Funds covered by limit</b>	General fund	General fund
<b>Reserve account provision</b>	Yes	Yes for state; no for local
<b>Revenues in excess of limit</b>	Deposited in reserve account	Used for property tax rebates
<b>Fiscal growth factor</b>	3-year rolling average of increase in population plus inflation	1-year increase in population plus inflation
<b>Exemption to limit</b>	2/3 vote of legislature and voter approval; or declaration of an emergency ratified by 2/3 vote of legislature. Time period of exemption limited	Increase in revenue approved by voters. Time period of exemption appears open ended
<b>Type of law</b>	Statutory	Statutory

### Comparison of Colorado's TABOR (as adopted in 1992) and I-1033

	<b>Colorado TABOR</b>	<b>I-1033</b>
<b>Type of limit</b>	Revenue	Revenue
<b>Government covered by limit</b>	State and local	State and local (some exclusions)
<b>Funds covered by limit</b>	Most funds (excluding federal and some others)	General fund
<b>Reserve account provision</b>	No	Yes for state; no for local
<b>Revenues in excess of limit</b>	Refunded to taxpayers	Used for property tax rebates
<b>Fiscal growth factor</b>	1-year increase in population plus inflation.	1-year increase in population plus inflation.
<b>Exemption to limit</b>	Voter approval or declaration of an emergency ratified by 2/3 vote of legislature (sunsets unless ratified by voters).	Increase in revenue approved by voters. Time period of exemption appears open ended
<b>Type of law</b>	Constitutional	Statutory

*Public officials could collect revenues above the Initiative 1033 limit with voter approval. The initiative places no limit on how long a voter-approved exemption to I-1033 could be in place.*

### Office of Financial Management Analysis

As required by law (RCW 29A.72.025), the Office of Financial Management (OFM) has conducted a fiscal impact statement on Initiative-1033. According to OFM:

“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.”<sup>10</sup>

Below are tables showing the projected revenue growth and forecasted property tax rebates assumed by OFM if Initiative 1033 is enacted.

### State General Fund

Calendar Year	Revenues	Revenue under Limit	Revenue over Limit	Property Tax Rebate
2009	13,923,000,000	-	-	-
2010	14,938,000,000	14,136,000,000	676,000,000	-
2011	15,607,000,000	14,596,000,000	875,000,000	676,000,000
2012	16,355,000,000	15,092,000,000	1,125,000,000	875,000,000
2013	17,154,000,000	15,562,000,000	1,447,000,000	1,125,000,000
2014	17,998,000,000	16,043,000,000	1,803,000,000	1,447,000,000
2015	18,871,000,000	16,524,000,000	2,188,000,000	1,803,000,000
Total	114,846,000,000	91,953,000,000	8,114,000,000	5,926,000,000

### Rural Cities General Fund (172 cities)

Calendar Year	Revenues	Revenue under Limit	Revenue over Limit	Property Tax Rebate
2008	547,000,000	-	-	-
2009	535,000,000	-	-	-
2010	578,000,000	547,000,000	30,000,000	-
2011	607,000,000	566,000,000	42,000,000	30,000,000
2012	640,000,000	585,000,000	55,000,000	42,000,000
2013	675,000,000	603,000,000	72,000,000	55,000,000
2014	713,000,000	622,000,000	91,000,000	72,000,000
2015	752,000,000	640,000,000	111,000,000	91,000,000
Total	5,047,000,000	3,563,000,000	401,000,000	290,000,000

### Urban Cities General Fund (109 cities)

Calendar Year	Revenues	Revenue under Limit	Revenue over Limit	Property Tax Rebate
2008	2,812,000,000	-	-	-
2009	2,766,000,000	-	-	-
2010	3,001,000,000	2,826,000,000	176,000,000	-
2011	3,172,000,000	2,915,000,000	257,000,000	176,000,000
2012	3,362,000,000	3,012,000,000	350,000,000	257,000,000
2013	3,567,000,000	3,104,000,000	463,000,000	350,000,000
2014	3,785,000,000	3,197,000,000	588,000,000	463,000,000
2015	4,014,000,000	3,290,000,000	724,000,000	588,000,000
Total	26,479,000,000	18,334,000,000	2,558,000,000	1,834,000,000

*I-1033’s exemption for transfers in to and out of the state constitutional reserve account should allow lawmakers to build financial reserves and adjust to a slowing economy or a slowing in expected tax revenue growth. The lack of similar exemptions for local reserve accounts, however, would put pressure on local budgets during the down periods in the economic revenue cycle.*

<sup>10</sup> “Fiscal Impact Statement for Initiative 1033,” Office of Financial Management, August 10, 2009, at [www.ofm.wa.gov/initiatives/i-1033\\_fiscal\\_impact.pdf](http://www.ofm.wa.gov/initiatives/i-1033_fiscal_impact.pdf).

### Rural Counties General Fund (32 counties)

Calendar Year	Revenues	Revenue under Limit	Revenue over Limit	Property Tax Rebate
2008	501,000,000	-	-	-
2009	488,000,000	-	-	-
2010	525,000,000	501,000,000	24,000,000	-
2011	550,000,000	515,000,000	35,000,000	24,000,000
2012	578,000,000	532,000,000	46,000,000	35,000,000
2013	607,000,000	550,000,000	58,000,000	46,000,000
2014	639,000,000	567,000,000	72,000,000	58,000,000
2015	671,000,000	585,000,000	87,000,000	72,000,000
Total	4,559,000,000	3,250,000,000	322,000,000	235,000,000

### Urban Counties General Fund (7 counties)

Calendar Year	Revenues	Revenue under Limit	Revenue over Limit	Property Tax Rebate
2008	1,184,000,000	-	-	-
2009	1,149,000,000	-	-	-
2010	1,230,000,000	1,175,000,000	55,000,000	-
2011	1,283,000,000	1,213,000,000	70,000,000	55,000,000
2012	1,341,000,000	1,254,000,000	87,000,000	70,000,000
2013	1,404,000,000	1,293,000,000	111,000,000	87,000,000
2014	1,470,000,000	1,333,000,000	137,000,000	111,000,000
2015	1,538,000,000	1,373,000,000	165,000,000	137,000,000
Total	10,599,000,000	7,641,000,000	625,000,000	460,000,000

*Although state and local revenues are projected to grow under I-1033, the measure's revenue limits may lead elected officials routinely to seek voter approval to spend all the money that would be available under current tax rates.*

### Conclusion

The state Office of Financial Management estimates passage of Initiative 1033 would result in approximately \$5.9 billion in state property tax rebates and \$2.8 billion in local property tax rebates going to citizens by 2015. At the same time state and local revenue available for spending increases would grow each year by an amount based on population growth plus inflation. While still increasing, the rate of revenue growth would be less than what elected officials expect to receive under current tax collection projections.

Initiative 1033's exemption for transfers in to and out of the state constitutional reserve account should allow lawmakers to build financial reserves and adjust to a slowing economy or a slowing in expected tax revenue growth. The lack of similar exemptions for local reserve accounts, however, would put pressure on local budgets during the down periods in the economic revenue cycle.

Initiative 1033 would address this problem by allowing local officials to seek voter approval for additional revenue. This is similar to the mechanism used for Colorado's TABOR. As previously noted, the TABOR limit was temporarily suspended in 2005 at the state level, although permanent repeal was later rejected in 2008, and local voters have approved 440 temporary or permanent suspensions of TABOR since its enactment. State and local voters in Washington would have similar ability to vote for more revenue as needed. In addition, the Washington legislature would have the ability to change or repeal the Initiative 1033 law with a simple majority vote two years after the initiative had passed (a two-thirds vote is required for amending initiatives within two-years of passage).

Although state and local revenues are projected to grow under Initiative 1033, the measure's revenue limits may lead elected officials routinely to seek voter approval to spend all the money that would be available under current tax rates.

There is a history of Washington voters approving tax and spending restriction ballot measures: Initiative 62 in 1979, Initiative 601 in 1993, Referendum 49 in 1998, Initiative 695 in 1999, Initiative 747 in 2001, and Initiative 960 in 2007. Initiative 1033 shares similarities with these past efforts but is much broader in scope. The question for voters this November is whether the policy goal of annual property tax rebates outweighs the impact of restricting how much state and local officials can collect from citizens under existing tax rates without the need to seek explicit voter approval.

## About the Author

Jason Mercier is Director of the Center for Government Reform at Washington Policy Center. He serves on the Executive Committee of the American Legislative Exchange Council's Tax and Fiscal Policy Task Force and is a contributing editor of the Heartland Institute's Budget & Tax News. Jason is also a columnist for SeattlePostGlobe.org and serves as Treasurer on the board of the Washington Coalition for Open Government and was an advisor to the 2002 Washington State Tax Structure Committee. He received a B.A. in Political Science from Washington State University.



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