

Initiative 747

Considering the fiscal implications of I-747 to Seattle City Government

This issue paper is provided by the City of Seattle Budget Office to inform the public of the potential impacts of Initiative 747 on the City of Seattle. The purpose is to offer factual information and not to support or oppose the initiative. Initiative 747 will be voted on by the electorate of Washington State in November 2001.

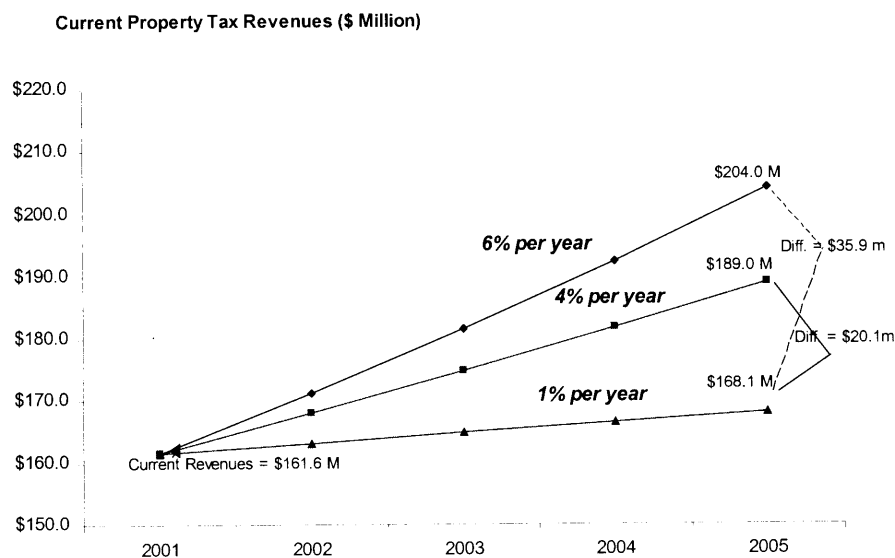
State law governs property taxation in Washington State and sets limits on the rate of growth and the tax rate. Currently, State law allows Seattle to increase its non-voted portion of property tax revenues by a maximum of 6% per year. The non-voted portion of City property taxes is approved directly by the City Council and excludes voter-approved levies such as the Families and Education Levy and the Housing Levy.

Initiative 747 (I-747) would change current law by limiting the growth in local government non-voted levies from the current 6% maximum to a maximum of 1%, except by approval through a public vote. The initiative does not affect the voter-approved levies and does not apply to property tax revenue from new construction.

Revenue Impact to Seattle

Property tax is a major revenue source for state and local governments. For the City of Seattle, it is the largest single source of revenues used for general purposes. The impact of reducing the growth limit would be significant in terms of annual City revenues because it would have a cumulative compounded effect on revenues over time. This effect is illustrated in the following chart that compares the revenues generated by different annual adjustments over the next four years. It shows how the gap among the different growth rates grows over time. This is because the overall property tax base from which the growth factor is applied would be substantially reduced by a lower growth rate.

Property Tax Growth Scenarios
Comparing different growth factors from 2001-2005



The table below translates the chart to specifically show how higher growth rates, up to 6%, compare to a 1% limit factor in terms of their impacts on annual revenues. In 2002, the first year that I-747 provisions would take effect, the difference is simply the percentage difference of the growth factors. However, due to base size differences, the disparity grows quickly over time.

**Initiative 747- Reduced Property Tax Revenues for the City of Seattle
Resulting from Changing Annual Growth Factor from 6% to 1%**

Alternative Growth Limit Compared to 1%	\$ Impact in 2002	\$ Impact in 2003	\$ Impact in 2004	\$ Impact in 2005	4 Year cumulative impact
6% per year vs. 1% per year	-\$8,079,000	-\$16,724,000	-\$25,969,000	-\$35,851,000	-\$86,623,000
5% per year vs. 1% per year	-\$6,463,000	-\$13,315,000	-\$20,574,000	-\$28,261,000	-\$68,613,000
4% per year vs. 1% per year	-\$4,848,000	-\$9,937,000	-\$15,280,000	-\$20,886,000	-\$50,951,000
3% per year vs. 1% per year	-\$3,232,000	-\$6,593,000	-\$10,087,000	-\$13,719,000	-\$33,631,000
2% per year vs. 1% per year	-\$1,616,000	-\$3,280,000	-\$4,994,000	-\$6,759,000	-\$16,649,000

Note: the table above assumes that new construction will increase property tax revenues by an additional 1.5% per year.

Budget Implications

Looking at 2002 - In order to put the short and long term impact in perspective, it may be helpful to look at the potential revenue reduction as part of the City's general fund budget, which in 2002, is projected at \$627 million. The passage of Initiative 747 in November 2001 would reduce the budget by \$8 million, constituting 4.7% of property tax revenues and slightly more than 1% of total General Fund revenues. (The General Fund provides support for basic City services including Fire, Police, Parks, Human Services and Transportation.)

Looking beyond 2002 - The compounding effects of I-747 limit can be seen by comparing annual revenues at some point in the future. For example, if property tax revenues were increased by 4% annually (the estimated inflationary cost for city services), the total increase after 10 years would be 48.0%, not including new construction. Property tax revenues would grow from the current \$161.6 million to \$239.0 million in 2011. If instead, property tax revenues were to increase at 1% per year the total increase over the same ten years would be 10.5%, and revenues would increase to \$178.5 million. Therefore, by restricting annual increases to 1%, revenues available to the General Fund in 2011 would be \$60.5 million lower (\$239.0m - \$178.5m) than an increase of 4% annually. Assuming that costs grow by 4% annually, then the differential would require relative reductions in expenditures or increases in other sources of revenue.