

Assessing the Impact of the 1% Property Tax Limit

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Introduction

On November 6, 2001, the voters of Washington passed Initiative 747, which limited increases in regular property tax collections by the state and local governments to no more than 1% a year. The Initiative proved popular with voters, passing by a margin of 57.5%.¹

Opponents of Initiative 747 did not give up after the election. Political advocacy groups, including Citizens Action, Welfare Rights Organizing Coalition and 1000 Friends of Washington (now called FutureWise), joined by officials in Whitman County, sued voters in court in an effort to overturn the 1% limit.

They succeeded. On November 8, 2007, the state supreme court, in a 5-4 decision, struck down the 1% limit, on the technical grounds that six years earlier the underlying law had been changed by a lower court judge between the time the initiative was filed and when it appeared on the ballot.

The court's decision resulted in a public outcry. In response, state lawmakers convened in special session on November 29th and enacted the Initiative 747 1% limit exactly as voters had passed it six years before. The governor signed the bill the same day.² The result was to reinstate the law as if the court's decision had not happened.

The special session renewed the debate over the merits of the 1% limit as public policy. The purpose of this study is to examine these claims, assess whether local government spending has been rising, falling or stayed the same, and at what rates, over the period the 1% limit was in effect. It also examines claims made by Initiative 747 opponents to determine whether these predictions came true.

Claims made by tax limitation opponents

In 2001, tax limitation opponents made specific claims about what would happen if Initiative 747's 1% property tax limit were enacted. Today, opponents continue to argue that the

¹ "Initiative Measure No. 747," Initiatives to the People, 1914 through 2007, Initiatives and Elections, Office of the Secretary of State, at www.secstate.wa.gov/elections/initiatives/statistics_initiatives.aspx.

² House Bill 2416, "Reinstating the 1% property tax limit factor adopted by voters under Initiative 47," 2007 1st Special Session, Washington State Legislature, passed 86 to 8 in the House, and 39 to 9 in the Senate, November 29, 2007.

1% limit has starved local governments of needed revenue, and that vital public services have suffered as a result. They say the 1% limit means the spending power of local officials is being eroded away and "...that could cost lives."

Below are examples of claims made by tax limitation opponents, followed by an assessment of what has actually happened.

The 1% limit has resulted in "a funding crisis for local and state government and cuts to critical public services."³

"I-747 was actively harming the parks, schools, libraries, streets and other public investments required to manage growth successfully."⁴

I-747's cap is below inflation, "...guaranteeing long term erosion of the State's single largest source of education funding."⁵

"Under this initiative, our revenue simply cannot keep up with inflation and we are being forced to cut critical services."⁶

"...the initiative will badly erode local government services..." "Local fire, emergency services and public-library districts could be particularly hard hit because they rely so heavily on property taxes."⁷

"Over time...local government budgets would be devoured by inflation."⁸

"Firefighters and emergency services – these are the services that are most at risk."
"We're not saying the ambulance isn't going to show up. We're saying it might take longer, and that could cost lives."⁹

"They'll have to terminate firefighters. They'll have to move away from 24-hour coverage..."¹⁰

King County Libraries will be cut by 20%. "This is going to screw up the library for the rest of this generation."¹¹

"...important services like police, fire, transportation and human services are at stake."¹²

³ "Futurewise Challenge Defeats Eyman Initiative," press release, Futurewise, November 2007, at <http://www.futurewise.org/I-747>.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid, quoting Jerry Finch, Whitman County Commissioner.

⁷ Initiative 747: Revenge of tax crusaders," by Ralph Thomas, *The Seattle Times*, October 21, 2001. at www.archives.seattletimes.nwsourc.com/cgi-bin/texis.cgi/web/vortex/display?slug=tax21m&date=20011021&query=st

⁸ Ibid.

⁹ Ibid, quoting Christian Sinderman, spokesman, No on I-747 Committee.

¹⁰ Ibid, quoting Louise Miller, King County Council.

¹¹ Ibid, quoting Bill Ptacek, Director, King County Libraries.

Assessment of Claims

The 1% limit has been in place for six years, and none of the claims made by opponents have turned out to be true. No essential public services have been cut. On the contrary, in general spending on all public programs, not just essential ones, has increased at a rate well above population growth plus inflation.

Here are some examples. The 1% limit did not “screw up” the King County library system “for the rest of this generation.” The system’s spending in 2001 was \$64,670,590. In 2007 it was \$82,780,945, a 28% increase.¹³

In 2008, King County’s total tax collections will rise 8.2%, to 3.2 billion.¹⁴ The revenue boost comes after increases of 5.9% in 2007 and 4.5% in 2006. Snohomish County is increasing its total tax revenues in 2008 by 6.3%.¹⁵ All these tax increases are well above the rate of inflation.

There has been no “long term erosion” of education funding. Local education spending in 2001 was \$1,294,104,819. In 2006 it was \$1,641,595,786, a nearly 27% increase.¹⁶

State spending on public education rose from \$9.8 billion in 2001-03 to \$13.8 billion in 2007-09, a 40% increase.¹⁷ Spending on public education, at nearly \$10,000 per student annually, is at historic highs.¹⁸ By any reasonable measure, Washingtonians are providing school administrators with ample funding.

Contrary to the claim of Seattle’s City Council president, vital services in the state’s largest city are not “at stake.” Seattle’s total tax collections rose from \$659 million in 2002 to \$800 million in 2006, a 21% increase.¹⁹ Seattle’s current level of spending on police, fire, transportation and human services are all substantially higher than six years ago.²⁰ Even with the 1% limit in place, Seattle taxpayers are providing city officials with plenty of money.

Local Government Spending Trends

Slowing the rate of growth in the property tax burden has not meant that less money is available for government services. 1% limit is not a tax cut. It is a reduction in the rate in tax

¹² “Capping property-tax increases at 1 percent is a bad idea,” by Nick Licata, president, Seattle City Council, *The Seattle Times*, November 27, 2007.

¹³ “Annual Budget Presentations,” King County Library System, last updated December 27, 2007, at www.kcls.org/about/budget.

¹⁴ “Tax bill boost average 6.5% in county,” by Keith Ervin, *The Seattle Times*, February 1, 2008.

¹⁵ Ibid.

¹⁶ “School Appointment and Financial Services,” Office of the Superintendent of Public Instruction, January 2007, at www.k12.wa.us/safs/default.asp.

¹⁷ “A Citizens Guide to the Washington State Budget,” Senate Ways and Means Committee, January 2006, at www.leg.wa.gov/documents/Senate/SCS/WM/SWMwebsite/publications/2006/CGTBrevised.pdf.

¹⁸ “An Overview of Public School Funding in Washington,” by Liv Finne, Policy Brief, Washington Policy Center, August 2006, at www.washingtonpolicy.org/Education/PB_OverviewofPublicSchoolFunding.htm.

¹⁹ “Comprehensive Financial Reports,” Department of Executive Administration, City of Seattle, at www.seattle.gov/cafrs/default.htm.

²⁰ Ibid.

increase of one kind of tax, one levied on property, and on one particular type of property tax – the regular tax. In addition, there are five other types of property tax, as discussed below.

Also, it has often been shown that reducing the tax burden on citizens results in *more* revenue going to government officials, because lower tax rates spur growth in the economy. Historical examples include major tax cuts enacted by Congress under presidents John F. Kennedy, Ronald Reagan and George W. Bush. All these tax reduction bills were followed by large increases in revenue going to the federal government, with even faster increases in spending often resulting in deficits.²¹

This policy works. In 1997 the legislature enacted a permanent 4.7% reduction in the state property tax.²² In the years following property tax revenues, and revenues in general, collected by the state increased, while Washington citizens experienced a measure of real property tax relief.

To learn what impact the 1% limit has had on local government spending trends, Washington Policy Center conducted a survey of all 39 Washington counties. Following are the preliminary results. The findings are tentative because data for five counties (Garfield, Grays Harbor, Pacific, Skamania and Thurston) are incomplete.

Summary of Major findings

- In the 34 counties for which complete data is available, local officials saw rising levels of tax revenues and spending after the 1% limit was enacted.
- We found no examples of local officials cutting core public safety services after the 1% limit was enacted.
- There were no increased trends in crime, reductions in emergency medical services or other rising threats to public safety after the 1% limit passed.
- Typical increases in total county spending over the survey period (2001 through 2006) were in the range of 20 to 40%. The state's largest county, King, increased total spending by 48%. General inflation over the same period was 14%.

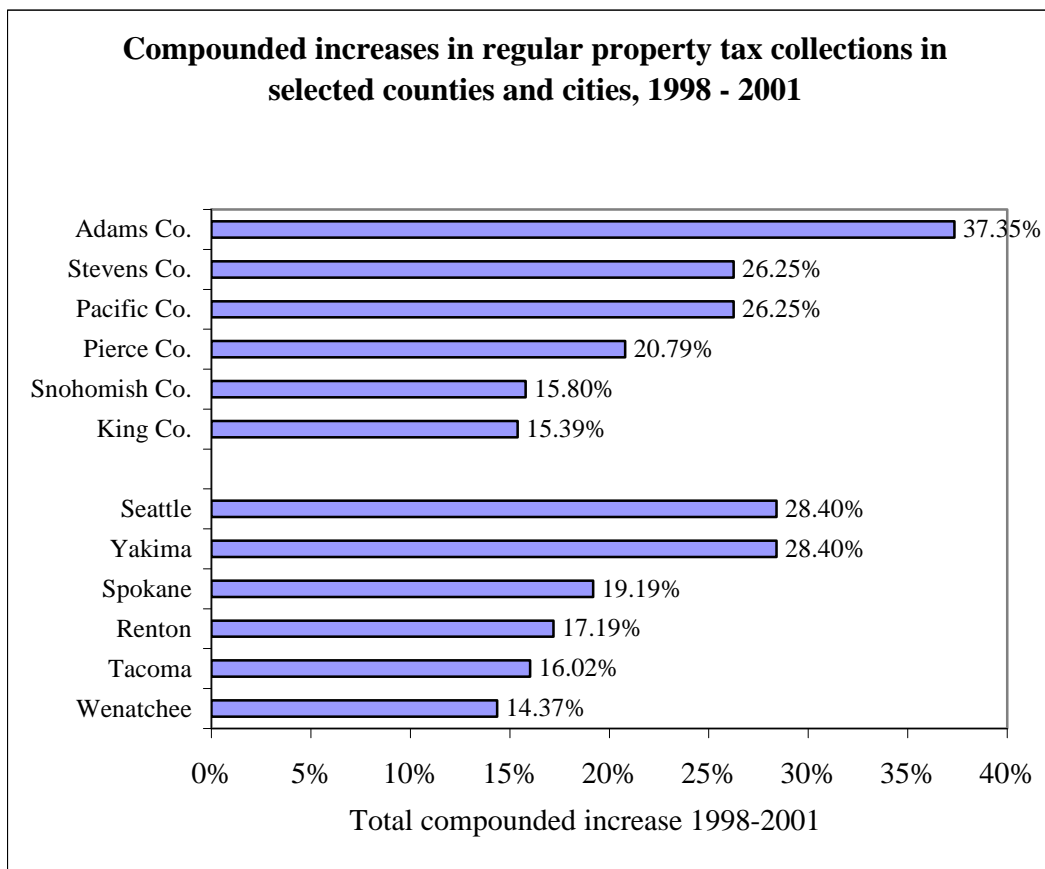
Property tax increase trends before the 1% limit

Before voter passage of the 1% limit, it was common for counties and cities to impose yearly increases in regular property tax collections of up to 6%, the maximum allowed by law. For example, Seattle officials routinely imposed a 6% increase in taxes collections on the property owners in the city, regardless of the state of the local economy or the housing market. Local officials commonly referred to this policy as "taking the 6%."

²¹ "Comparing the Kennedy, Reagan and Bush Tax Cuts," by William Allen, Fiscal Fact 15, The Tax Foundation, Washington, D.C., August 24, 2004, at www.taxfoundation.org/news/show/323.html.

²² See "Property Tax Relief: Is Referendum 47 Working?" by Paul Guppy, Washington Policy Center Policy Brief, July 1998, at www.washingtonpolicy.org.

Some local officials tapped banked taxing authority from past years to impose even higher increases in regular property tax collections. Over the years, the cumulative increase in the regular property tax could be significant. The following chart gives examples of compounded tax increases for certain counties and cities imposed by local officials between 1998 and 2001.²³



Six types of property tax not affected by the 1% limited

Cities and county officials collect money from six types of property tax, in addition to what they receive from the regular property tax. These additional sources are unaffected by the 1% limit. They are:

1. New construction;
2. Remodels and other improvements to property;
3. Increases in the value of state-assessed property;
4. Special levies approved by voters;
5. Banked taxing authority available from past years;
6. The Real Estate Excise Tax (REET) charged on the value of property when it is sold.²⁴

²³ For complete results for all counties and major cities see, "Hearing the Voters: Growing Compliance with Referendum 47 Tax Limitation," by Paul Guppy, Policy Brief, Washington Policy Center, August 2001, at www.washingtonpolicy.org/TaxLimitation/PBGuppyTaxLimitR472001.html.

²⁴ While some regard the REET as a sales tax rather than a property tax, the distinction is irrelevant for this discussion. The purpose here is to identify sources of additional tax revenue based on property.

In addition to these property taxes, local officials benefit from many other sources of tax revenue which are not affected by the 1% limit. More than 50 different kinds of taxes exist in Washington, although not all are charged by all local governments. Major taxes not based on property include sales taxes, the Business and Occupation tax and taxes on telephones, water, electricity and other utilities.²⁵ The amount of money local officials collect from these sources generally goes up every year.

Conclusion

Opponents of the 1% property tax limit said it would harm vital public services and that could cost lives. An objective assessment of actual trends in county spending shows this claim to be untrue.

Similar dire predictions were made about initiative 695, to reduce car tab taxes to \$30. Opponents said voter passage of the initiative would result in 1,000 police officers losing their jobs, 70,000 transportation jobs would be lost, child flu shots would be cut, school violence would increase, county health services would end, public bus service would be cut, and it would lead to a state income tax. None of these predictions turned out to be true.

The state and most local governments have more employees on their public payrolls today than when the 1% limit passed. State spending has increased 33% over four years, and more people work for the state than the in-state workforces of Boeing and Microsoft combined.

The same pattern has occurred with the 1% limit. Property owners around the state have seen a significant slowing in the rising tax burden, with no reduction in important public services

The 1% limit is successful public policy because total state and local revenues are constantly growing. Limiting the rate of increase in one source of revenue, the regular property tax, leaves ample increases in funding other public services.

The best way for lawmakers to provide homeowners with property tax relief is to cut the state property tax. Natural growth of the economic tax base, combined with revenue from other taxes, mean that local officials would continue to receive enough money to pay for needed public services.

²⁵ "Tax Reference Manual, Information on State and Local Taxes in Washington State, Washington Department of Revenue, January 2007.

Increases in Total Expenditures by County, 2001 and 2006

<u>County</u>	<u>2001</u>	<u>2006</u>	<u>% Change</u>
State Gov't.	\$53,463,000,000	\$65,628,000,000	+22%
Adams	\$18,809,328	\$24,734,212.00	+31.50%
Benton	\$56,365,375	\$87,548,287	+55.32%
Chelan	\$34,802,075.00	\$66,272,921.00	+90.43%
Clallam	\$34,635,656.00	\$48,180,708.00	+39.11%
Clark	\$300,320,356.00	\$428,912,626.00	+42.82%
Columbia	\$7,874,377	\$8,368,217	+6.27%
Cowlitz	\$75,140,253.07	\$109,599,651.96	+45.86%
Douglas	\$38,942,003.00	\$46,131,686.00	+18.46%
Ferry	\$11,814,528	\$15,600,427	+32.04%
Franklin	\$28,539,432	\$39,424,510	+38.14%
Grant	\$53,942,367.00	\$77,179,832.00	+43.08%
Island	\$52,163,017	\$62,856,203	+20.50%
Jefferson	\$27,651,525.00	\$40,897,065.00	+47.90%
King	\$1,002,187,489	\$1,489,376,000	+48.61%
Kitsap	\$208,766,749	\$5,015,223	+36.52%
Kittitas	\$31,209,754.00	\$37,908,666.00	+21.46%
Klickitat	\$21,645,544.00	\$26,334,260.00	+21.66%
Lewis	\$59,545,646	\$80,755,837	+35.62%
Lincoln	\$17,896,996	\$20,152,324	+12.60%
Mason	\$75,254,803	\$87,768,137	+16.63%
Okanogan	\$35,078,343	\$39,086,350	+11.43%
Pend Oreille	\$10,945,741	\$14,952,560	+36.61%
Pierce	\$598,041,058	\$697,161,597	+16.57%
San Juan	\$27,779,971	\$50,565,863	+82.02%
Skagit	\$90,353,557	\$125,638,726	+39.05%
Snohomish	\$467,853,837	\$656,755,770	+40.38%
Spokane	\$234,146,441.00	\$277,795,567.00	+18.64%
Stevens	\$27,975,417	\$45,195,330	+61.55%
Wahkiakum	\$10,162,556.00	\$14,941,320.00	+47.02%
Walla Walla	\$37,477,249	\$51,140,228	+36.46%
Whatcom	\$89,847,966.00	\$132,611,941.00	+47.60%
Whitman	\$24,865,021	\$28,130,864	+13.13%
Yakima	\$130,811,209	\$136,905,540	+4.66%

Paul Guppy is Vice President for Research at Washington Policy Center, a non-partisan public policy research organization in Seattle and Olympia. Nothing here should be construed as an attempt to aid or hinder the passage of any legislation before any legislative body. For more information contact WPC at 206-937-9691 or online at www.washingtonpolicy.org.