

FINAL BILL REPORT

I 601

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Limiting revenue growth.

By People of the State of Washington

Background: The growth of state revenue is limited under Initiative 62, which was adopted by the voters in 1979. Under this initiative, general state tax revenues cannot grow at a greater rate than the combined income of all the state's citizens. State revenues have not exceeded this limit since the Initiative was enacted.

Initiative 62 also prohibits the Legislature from requiring local governments to offer new or expanded services unless the costs are reimbursed by the state. Initiative 62 did not specify what counts as reimbursement. In 1990, the Legislature amended the initiative to count increased local revenue and state revenue-sharing payments as reimbursement.

Summary: Initiative 601 replaces the revenue limit in Initiative 62 with a general fund expenditure limit. The limit first applies to the fiscal year that begins July 1, 1995. Under the limit, expenditures cannot grow at a greater rate than the average of the sum of inflation and population change during the previous three fiscal years. The Office of Financial Management calculates the limit. The expenditure limit must be lowered if program costs or moneys are shifted out of the state general fund. The state treasurer may not issue or redeem warrants that would cause state general fund expenditures in excess of limit.

The expenditure limit may be exceeded, for natural disasters, upon declaration of an emergency for a period not to exceed 24 months by a law approved by a two-thirds vote of each house of the Legislature and signed by the governor. The expenditure limit may be exceeded for other purposes after a two-thirds vote of each house of the Legislature plus approval of voters at a November general election.

All revenue received in excess of the expenditure limit must be deposited in a newly-created emergency reserve fund. The Legislature can appropriate from the reserve fund by a two-thirds vote of each house, but only if expenditure limit is not exceeded as a result. If the emergency reserve fund exceeds 5% of the general fund balance, the excess is deposited in a newly-created education construction fund. The education construction fund may be appropriated for common school or higher education construction by a majority of each house of the Legislature. The education construction fund may be appropriated for any purpose by two-thirds vote of each house of the Legislature, plus approval of voters at the next general election.

No new taxes, increased taxes, or revenue-neutral tax shifts may be imposed before July 1, 1995, without approval of voters. After July 1, 1995, the Legislature can raise revenue up to the expenditure limit or enact revenue-neutral tax shifts only by a two-thirds vote of each house.

No fee may be increased by a percentage in excess of the fiscal growth factor without legislative approval.

The Legislature shall not impose new programs or increased levels of service for existing programs on local governments without full reimbursement by specific appropriation.

State and local governments are prohibited from imposing any tax on intangible property which is currently exempt from property tax, such as mortgages, notes, accounts, stocks, and bonds.

Effective: Effective July 1, 1995, except the voter-approval requirement for tax increases and the restriction on fee increases took effect December 2, 1993.