

I-1033 Undermines Public Priorities

By Stacey Schultz and Jeff Chapman

Executive summary

Initiative 1033 would impose strict spending limits on state and local governments resulting in sharp reductions in public investments in education, community development, health care, and economic security. By restricting resources, I-1033 would dramatically weaken the state's ability to fund important public priorities and would diminish the quality of life for all Washingtonians.

I-1033 would:

- Sharply limit public investments over time.
- Lock in the current budget cuts and increase the deficit.
- Exacerbate the effects of economic downturns.
- Be fiscally irresponsible.

How I-1033 would work

I-1033 sets a cap on the amount of state, county, and city revenue that would be avail-

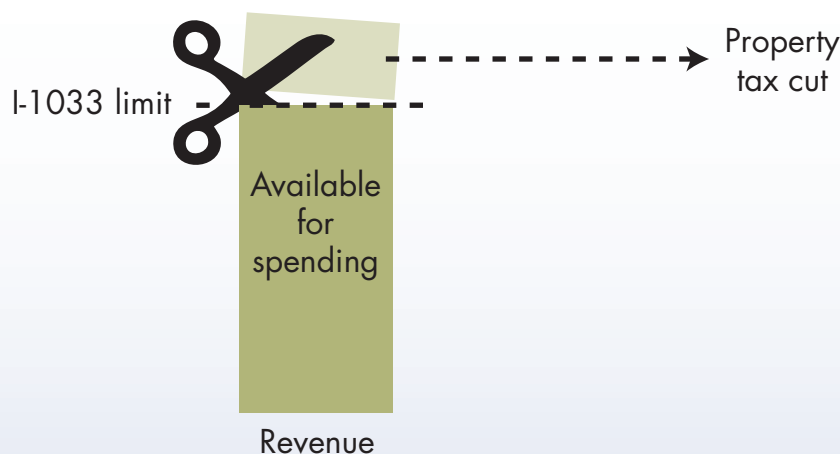
able for spending on public priorities (Figure 1). The cap would be adjusted every year based on the annual growth in inflation and population. Any revenue generated above the cap would be earmarked for a property tax reduction the following year. Voter-approved revenue increases would be exempt.

The formula

Annual adjustments to the spending limit would be based on a strict and deeply flawed formula (inflation plus the growth in population) that leaves no room for unanticipated costs, such as those that come with natural disasters, public health emergencies, or unfunded mandates.

The inflation side of the formula uses the change in the cost of consumer goods and services. However, state and local governments spend revenue on a very different assortment of goods and services than the typical consumer. The cost of government-procured goods and services typically rises

FIGURE 1: I-1033 would cap the amount of revenue available for spending



Source: BPC analysis

more quickly than the allowable amount under I-1033.

On the population side of the equation, I-1033 uses growth in Washington's overall population each year. But total population growth is a flawed measure because it fails to reflect rapidly growing segments of the population that are heavily dependent upon public services such as the increasing numbers of senior citizens.

Each year, the state estimates a maintenance budget—the cost of continuing our current commitments for services such as caring for seniors, educating students, providing public safety and so on. Comparing the maintenance budget cost increases for the 2009-11 biennium to the estimated I-1033 limit is illustrative of the inadequacy of the I-1033 formula (Figure 2).

The ratchet effect

The I-1033 limit becomes particularly problematic during economic downturns.

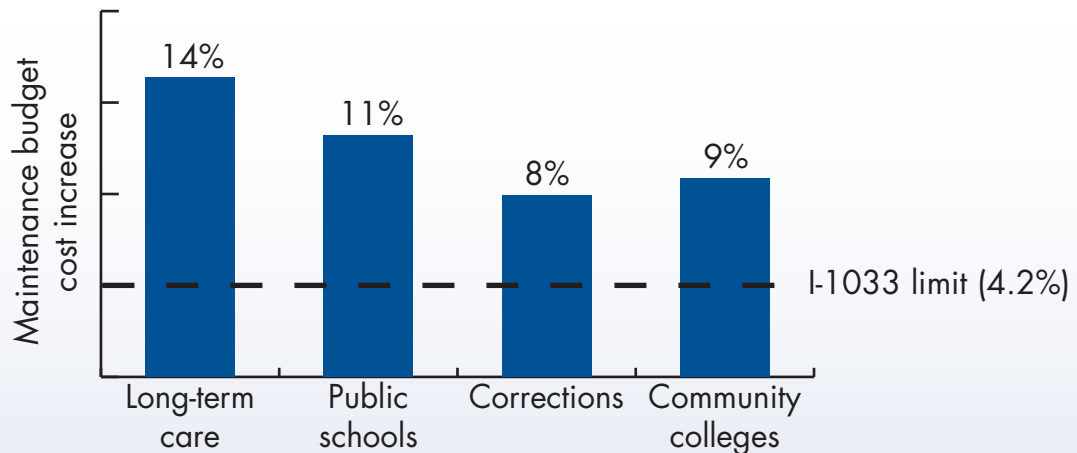
Washington's tax revenues rise and fall in tandem with the economy. In ordinary economic times, tax revenues in the present year are higher than revenues in previous years. When the economy falters, however, tax revenues can fall sharply as consumer spending declines and unemployment rises. The I-1033 limit applies to lesser of the previous year's limit and the previous year's actual revenue, so when revenue is low, the cap would automatically ratchet down. Even after the economy recovers, this 'ratchet effect' would continue holding down state and local spending capacity, making it impossible for services to return to their pre-recession levels without voter-approved tax increases, as illustrated in Figure 3 on page four.

Concerns about I-1033

I-1033 would lock in current budget cuts

Because of sharp declines in revenue, current state and local budgets include painful cuts in education, health, and other public priorities. Under I-1033, these low levels of public investment would become the starting

Figure 2: The I-1033 limit is well below the estimated costs of continuing current commitments (2009-11)



Source: BPC analysis of LEAP data

point for future spending limits. This means the state would be permanently locked into the budget cuts resulting from the current fiscal crisis.

I-1033 would increase the deficit

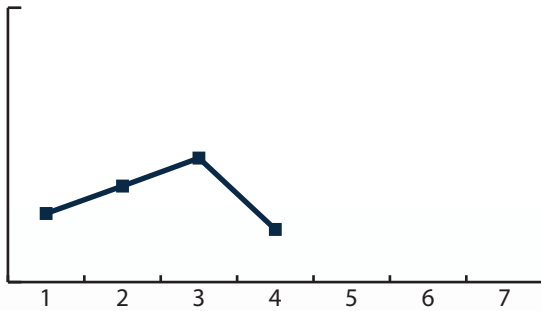
In addition, I-1033 would actually increase the state budget deficit by limiting the amount of revenue the state can spend once the economy bounces back. Budget deficit projections for the current biennium include an anticipated increase in revenue of \$1.04 billion in 2011 over 2010 levels.¹ Under the I-1033 limits, the state would only be able to spend \$471 million.² The other \$571 million would be required to go to a property tax cut in 2011-13. I-1033 would increase the current deficit by over half a billion dollars.

The impacts of I-1033 would be dramatic over time

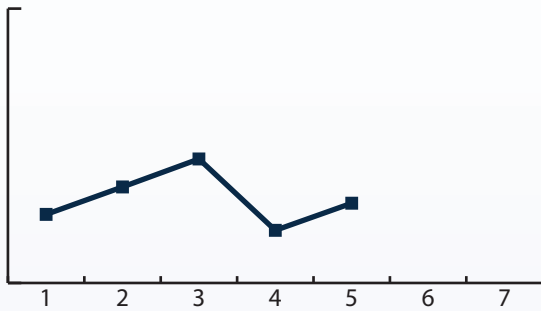
I-1033 would also dramatically diminish the size of the state general fund over time, harming our most essential public programs and services.

Figure 4 demonstrates what would have happened to the state general fund as a share of total personal income if I-1033 had been in place since 1995.³ (Economists measure the size of state budgets as a share of personal income because this provides insight on the share of total resources that are used for public investments.) Without I-1033, the share of personal income dedicated to state spending has declined from seven percent to 5.5 percent in 2011. But if I-1033 had been in place, the drop in resources would have been much steeper, down to four percent. This means the state would have had \$6 billion less to spend in the current biennium than it actually had. That amounts to the entire two-year budget for higher education, natural resources, public health, early learning, corrections, and the Basic Health Plan.

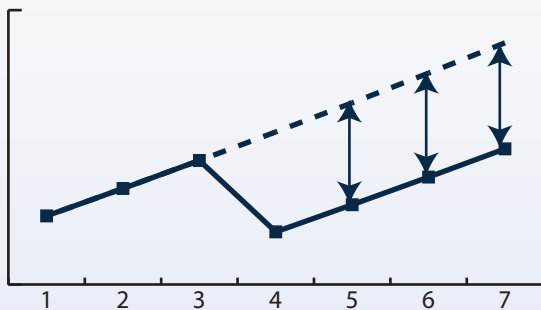
FIGURE 3: I-1033's Ratchet Effect



Consider a situation in which revenue grows with the I-1033 limit for three years. In the fourth year, revenue falls due to a recession.



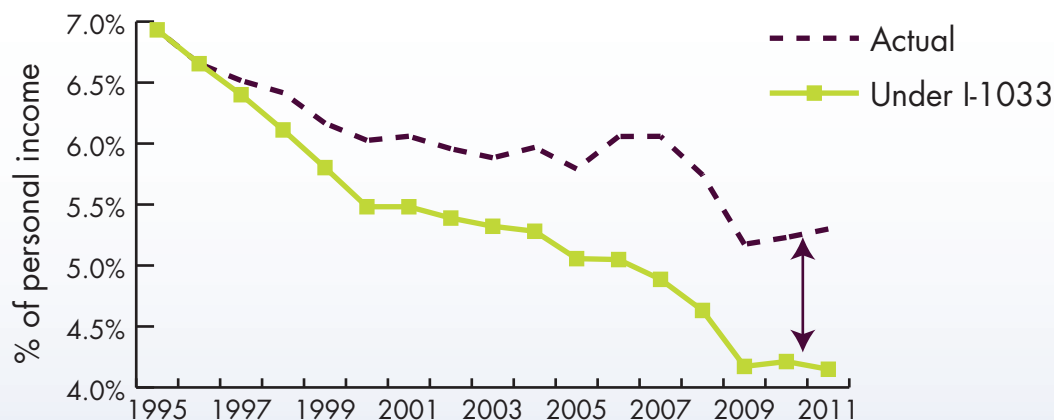
In the fifth year, the I-1033 limit is calculated based on the lower level.



The limit is permanently "ratcheted" down because of the recession. Future recessions will further widen the gap.

Source: BPC analysis

FIGURE 4: Revenue available for spending, actual and if I-1033 had been passed in 1995, as a share of personal income



Source: Budget & Policy Center analysis. Under I-1033 scenario, revenue grows at lesser of I-1033 limit or actual growth.

I-1033 would be fiscally irresponsible

One of the lessons of the last legislative session is that the state should have been building more robust rainy day funds before the economy weakened. I-1033 would not only diminish the day-to-day spending capacity of state and local governments, it would also inhibit their freedom to save for a rainy day. At the state level, I-1033 would exempt constitutionally-mandated deposits into the rainy day fund from the spending limit, but any additional deposits would not be exempt. At the city and county level, there does not appear to be any exception made for rainy day funds.

Conclusion

If passed, I-1033 will do lasting harm to the ability of state and local governments to invest in essential public priorities. The initiative would make permanent the spending cuts of the last legislative session and would seriously undermine the state's ability to recover from future economic recessions. State government must have the flexibility and resources to respond to public

emergencies as well as emerging priorities. Initiative I-1033 will do long term damage to public services and reduce the quality of life here in Washington State.

Endnotes

1. Economic and Revenue Forecast Council June 2009 forecast.
2. Inflation and revenue projections are from the Economic and Revenue Forecast Council. Population projections are from the Office of Financial Management.
3. Under I-1033 scenario, revenue is allowed to grow at lesser of I-1033 limit or actual growth.