

**BUSINESS OF THE CITY COUNCIL  
YAKIMA, WASHINGTON  
AGENDA STATEMENT**

Item No. \_\_\_\_\_  
For Meeting Of: October 2, 2001

**ITEM TITLE:** Consideration of report and draft Fact Sheet regarding Initiative 747 - Property Taxes

**SUBMITTED BY:** City Management

**CONTACT PERSON/TELEPHONE:** Dick Zais, City Manager (#575-6040)  
Rita Anson, Finance Director (#575-6070)  
Ray Paoella, City Attorney (#575-6030)

**SUMMARY EXPLANATION:** On November 6, 2001, voters will be asked to vote on ballot measure Initiative 747 which places new limits on property tax increases. This is a state-wide measure, and if approved by the voters, would require state and local governments to limit property tax levy increases to 1% per year or the rate of inflation, whichever is less (inflation as defined by the Implicit Price Deflator). An increase greater than this limit would require approval by the majority of voters in an election.

City staff has prepared a Fact Sheet, as we have done for other ballot measures in the past, to assist voters in understanding what this measure would do, if enacted, and the impact it may have on the City of Yakima. Staff requests Council to:

- (a) Review and Approve (as is or with Council approved modifications) the enclosed Fact Sheet, and
- (b) Direct staff to include the approved Fact Sheet in the mailings to City Utility Customers, commencing as soon as practicable after Council approval and continuing until Election Day, November 6, 2001.

Continued:

Resolution _____ Ordinance _____ Other (Specify) X Report and Fact Sheet _____
Contract _____ Mail to (name and address): _____
Phone: _____
Funding Source _____
APPROVED FOR SUBMITTAL: _____ City Manager _____

**STAFF RECOMMENDATION:** (a) Approve staff report and Fact Sheet (as is or with Council approved modifications) and (b) direct staff to include Fact Sheet in the City's regular billings to utility customers.

**BOARD/COMMISSION RECOMMENDATION:**

**COUNCIL ACTION:**

## Overview of Initiative 747:

### If Initiative 747 ( I-747 ) Passes:

- Jurisdictions, like the City of Yakima, are currently limited to the lesser of 6% or the rate of inflation, per Referendum 47 passed by voters in 1997. Referendum 47 also requires jurisdictions to show “substantial need” and requires a super majority vote of the legislative body for increases above the rate of inflation. (The rate of inflation, in Referendum 47, is defined as the Implicit Price Deflator (IPD).)
- Additionally, by law, taxing jurisdictions, like the City of Yakima, may not impose property taxes greater than \$3.60 p/\$1000 of assessed value. Whether or not I-747 is passed, this maximum taxing lid will remain in affect.
- If I-747 passes, the legislative bodies of taxing districts with a population over 10,000, like the City of Yakima, will be limited to property tax levy increases of 1% or the rate of inflation, whichever is less.
  - The rate of inflation, as defined in I-747, is the Implicit Price Deflator (IPD). The IPD is a reflection of the change in personal consumption expenditures at the national level, as it relates to the Gross Domestic Product. The Consumer Price Index (CPI) is the common standard for measuring inflation in consumer goods, not the Implicit Price Deflator (IPD). Because of its significantly broader perspective, the rate of inflation measured by the Implicit Price Deflator (IPD) is nearly always lower than the inflation rate as measured by the regional Consumer Price Index (CPI). Thus, using the lower measure of the rate of inflation (IPD) will further erode the City’s ability to keep up with inflation and maintain services at their current levels.
- If I-747 passes, property taxes may be increased greater than 1% or the rate of inflation only with the approval of a majority of the voters in an election.
- All property tax districts would be affected by the limitation; this includes cities, towns, counties, the state, fire districts, public hospital districts, port districts and library districts.
- I-747 does not apply to special levies (such as voted debt)
- The effective date of the initiative is somewhat unclear as the initiative does not have a specific effective date. Therefore; if passed, the effective date would be 30 days after it is approved on Election Day, December 6, 2001. However; the initiative is assumed to apply to the 2002 levy, per the Association of Washington Cities, even though the 2002 levy must be set no later than November 15, 2001, which is less than 30 days after Election Day.
- I-747 is a state-wide initiative; therefore, the majority of the voters throughout the state, not within the City of Yakima, will decide the outcome of this ballot measure.

For more information on I-747, refer to the attached copies of information pamphlets received from the Association of Washington Cities.

Continued

## Initiative 747 Impact on City of Yakima

- The City of Yakima relies heavily on property tax revenues to provide essential General Government services; such as public safety (police, fire, criminal justice), libraries, parks and recreation, street maintenance and other business related functions (ex: accounting, purchasing, personnel, codes, planning, public records, legal).
  - Property tax revenues are allocated as follows:
    - 38% to support public safety and criminal justice activities
    - 26% to construct, repair and maintain streets
    - 15% to provide and maintain City Parks
    - 11% to support library services
    - 10% to provide essential City services such as legal, finance, codes, records, etc.
  - The following City Services receive more than 50% of their funding from property tax revenues:
    - 100% of the City's funding for library services
    - 75% of the City's funding for streets
    - 50% of the City's funding for Parks and Recreation
- Property taxes are one of the largest city revenue sources. The City of Yakima's General Government Funds derives approximately 27% of its operating revenues from property taxes.
- The 2001 rate of inflation (based on the Consumer Price Index for August) is 3.5%. Holding the increase in property taxes to a maximum of 1% will, over time, erode the City's ability to provide existing services. Additionally, all unfunded mandates from Federal, State and other authoritative entities will cause a further reduction to existing services as the City Council will have no means by which to pay for these mandated expenditures other than cutting existing budgets/services.
  - As a point of comparison, the Consumer Price Index (CPI) has grown by approximately 7% over the past 2 years, while the City's labor costs have increased approximately 4.5% over the same time period. Although the City made significant progress in containing labor costs, the City's revenues would not have kept up with the increase in costs if I-747 had been in affect, as tax revenues would be limited to a 2% levy increase over this two year period.
- The difference to the City of Yakima between the current 6% maximum property tax increase and the maximum under I-747 is approximately \$550,000 in 2002. The loss in yearly revenues to the City will increase annually as each year's loss is a reduction from the base on which the following year's assessment is determined. Thus, the impact on the City will increase each year.

Continued

**Impact of Initiative 747 on the City's 2002 Budget Proposal:**

- **If I-747 passes:** the City has prepared a budget which holds the property tax increase to the 1% limit, as defined in I-747. This will not allow the City to keep up with the rate of inflation; currently running at 3.5%; based on the Seattle-Tacoma - Bremerton Consumer Price Index for August 2001.
- **If I-747 fails:** the City has prepared a budget which holds property taxes within the current limits of 6% increase, not to exceed \$3.60 p/\$1000 of assessed value. This would allow the City to restore 4 police officer and 4 firefighter positions which the City was forced to cut when Initiative 695 (which significantly reduced City revenues) was passed by voters in 1999.

# I-747 FACT SHEET

## CITY OF YAKIMA PROPERTY TAX INFORMATION



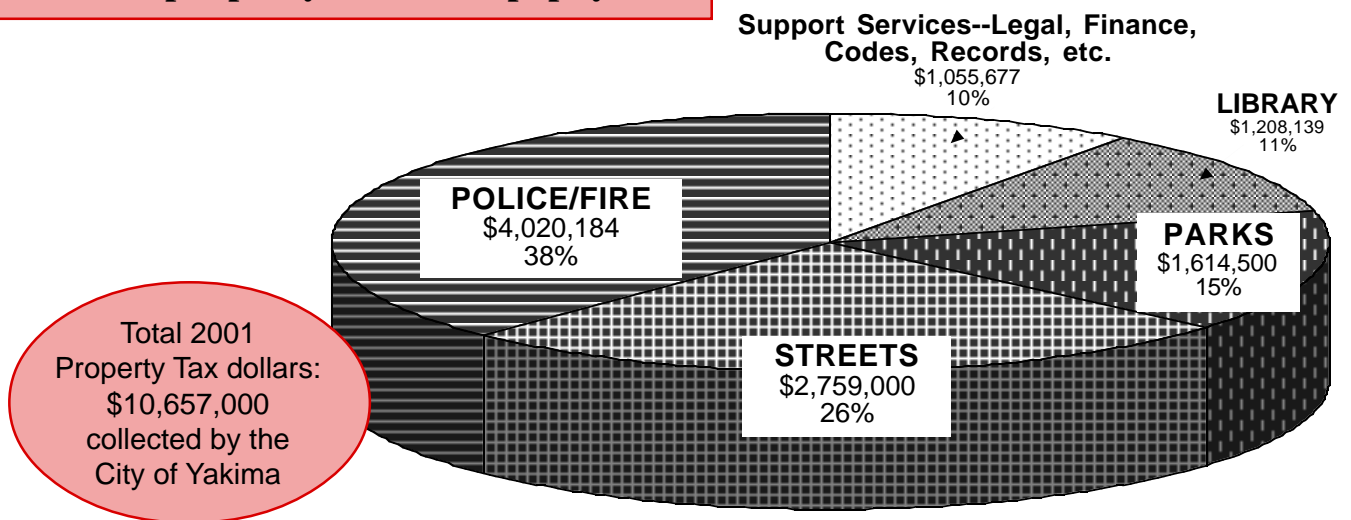
### What is State Initiative 747?

- This is a statewide initiative which repeals the annual 6% limit on property tax levies approved by voters in 1997.
- Establishes a new property tax levy limit of 1% **or** the rate of inflation, whichever is lower, as measured by the Implicit Price Deflator.
- Becomes effective 30 days after the election.
- Allows the limit to be exceeded if approved by a simple majority in an election.
- Does not apply to voter approved special levies.

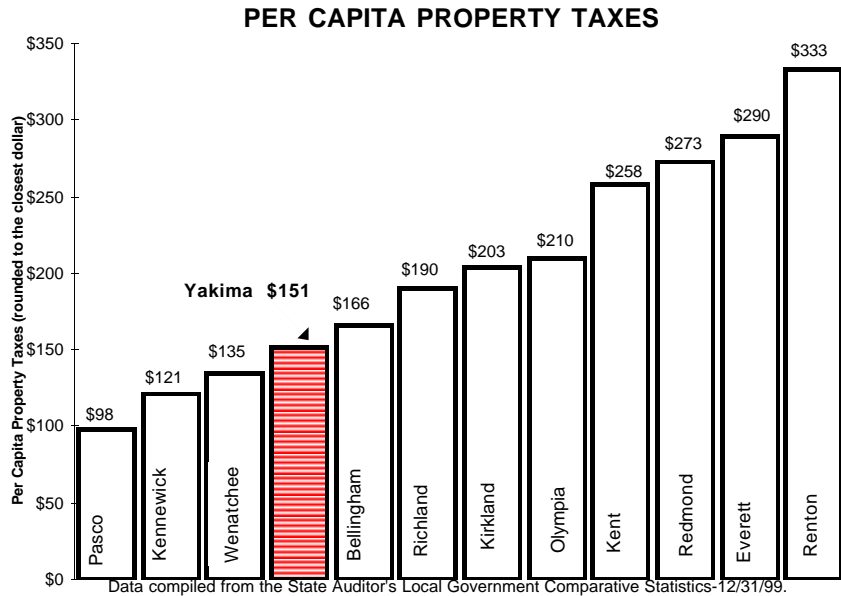
### How does it affect the City of Yakima?

- A 1% increase in property taxes generates \$110,000 annually. The Police and Fire budgets are increasing 4% (over \$700,000) from 2001 to 2002.
- If inflation is greater than 1%, the City would be required to reduce services. Fewer resources would not allow local government to keep up with increases in the cost of living or other mandated expenses.
- A reduction of the 6% property tax limit to 1% prevents the City Council from levying up to \$550,000 in additional resources which could help to restore Public Safety or other services eliminated by previous initiatives and local economic losses.
- The loss will create a permanent reduction in the levy base. In ten years the cumulative total loss would be nearly \$6 million.

### What do property taxes help pay for?



## How does Yakima compare?



The City of Yakima's per capita property tax is \$151 which is \$51 LESS than the average Washington city property tax of \$202. Yakima ranks 9th out of the 12 comparable cities in property tax revenues.

## Is I-747 constitutional if passed by the voters?

- This is unknown and may require a legal decision by the courts.

## If I-747 passes and is found constitutional by the courts how could it affect your City property taxes?

- The annual property tax levy limit would be reduced from 6% or \$660,000 to 1% or \$110,000.
- The \$550,000 difference represents approximately \$.17 (17 cents) per \$1,000 of assessed value.
- If your home is valued at:      The difference between the two property tax limits of 1% and 6% would be:
 

\$50,000	\$8.50 per year
\$75,000	\$12.75 per year
\$100,000	\$17 per year
\$130,000	\$22.10 per year

## Would the City's budget be affected?

- Yes. The City has reduced costs and prepared a 2002 budget if Initiative 747 passes and the property tax levy is limited to 1% – an increase of \$110,000.
- The City has also proposed for Council consideration an alternative 2002 budget if I-747 fails and the property tax levy is assessed at 6% under current law – an increase of \$660,000. This budget alternative proposes to restore 4 police officers and 4 firefighters eliminated as a result of prior initiatives.

**Note:** This information is prepared by the City of Yakima in response to questions and to provide facts about Initiative 747 and does not support or oppose the Initiative.

**PLEASE VOTE**