



B R I E F L Y

Initiative 695 would require that tax or fee increases by any unit of state or local government receive voter approval. In this respect, the initiative goes beyond any tax and expenditure limitation in the country. Not all of the ramifications of this requirement are clear and litigation is likely. The requirement will increase the frequency of special elections, imposing new costs on government while restricting their ability to raise revenues. One probable outcome: a decline in user fees and a shift to general taxation.

Let's Vote on It

The language of Initiative 695 with respect to voter approval of tax and fee increases is deceptively simple — and remarkably sweeping in its implications.

The initiative states: “Any tax increase imposed by the state shall require voter approval.” It then defines its terms, unconventionally.

The state, according to I-695, “includes, but is not necessarily limited to, the state itself and all its departments and agencies, any city, county, special district, and other political subdivision or governmental instrumentality of or within the state.” Besides the more obvious units of government this language is generally interpreted to include water and fire districts, ports, and public utility districts.

By “tax,” the initiative includes “sales and use taxes, property taxes, business and occupation taxes, excise taxes, fuel taxes, impact fees, license fees, permit fees, and any monetary charge by government.” Virtually every financial charge by a government would appear to meet this definition, with the specific exceptions of higher education tuition and “civil and criminal fines and other charges collected in cases of restitution or violation of law and contract.”

A “tax increase” is defined to include “a new tax, a monetary increase in an existing tax, a tax rate increase, an expansion in the legal definition of a tax base, and an extension of an expiring tax.”

Grover Cleveland, an attorney with Foster Pepper and Shefelman PLLC, notes the problematical “monetary increase” phrase.

“Arguably, the provision simply applies to charges imposed on a per-unit basis,” Cleveland writes. “Nonetheless the language could be interpreted to prohibit governments from collecting more money from any taxes or fees (even without an increase in the rate) unless the jurisdiction received voter approval. The difficulty with such a prohibition is that the amount of money governments collect often relates to factors beyond their control. ... In a booming economy sales tax collections generally increase. I-695 could require governments to stop collecting sales taxes (or other revenue) once they have collected the amount they received in 1999 – unless they obtain voter approval.”

Colorado’s TABOR amendment. I-695 backers cite Colorado’s Taxpayers Bill of Rights (TABOR) amendment, adopted by Colorado voters in 1992, as evidence that the voter approval requirement is manageable. The TABOR amendment, however, does not apply to fees. The amendment states:

“... districts must have voter approval in advance for ... any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.”

When TABOR proponents previously attempted to pass the amendment in 1990, fees were included, and voters rejected the initiative.



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Taxes and fees in I-695. The scope of the voter approval requirement is unprecedented. By requiring that voters approve taxes *and fees*, I-695 violates traditional conservative fiscal principles and introduces a strange complexity to state and local finance. Conservatives have generally favored user fees. Initiative 695 makes it more difficult for government officials to impose them. Simply put, city and county councils are more apt to seek voter approval for a general tax increase than to attempt to manipulate the host of small fees currently used to support everything from bus service to library copy machines.

With respect to the complexity, for many fees the relevant voting population is not clear. Consider the breadth of the language. Among the “taxes” subject to voter approval are the following: public utility rates, greens fees at the municipal golf course, liquor prices, meals at the school cafeteria, lab fees at the community college, photocopying at the state library, bus and ferry fares, housing authority rents. Some of these services can be matched to a specific political jurisdiction for a vote; others cannot. Litigation may be required to sort it out.

According to Stan Finkelstein, executive director of the Association of Washington Cities, the city of Seattle has 70 pages of taxes, fees, and other charges, all of which would become subject to voter approval. The balancing act challenges public officials as much as it does taxpayers. While citizens may come to resent being “nickel-and-dimed” by government, user fees serve to match costs with benefits, rather than using general tax dollars to subsidize particular activities.

Bond ratings. The initiative is unlikely to affect bonds issued before November 2, 1999, according to Cleveland. He cautions, however, that governments will find it more difficult to issue new bonds. Investors want assurance that governments have the ability to raise rates to cover debt service. The I-695 voter approval requirements make it likely that jurisdictions will have to get voter approval “for each and every new bond issue unless current taxes and rates are sufficient to provide for the added debt service.”

Election costs. No one can predict with certainty how many elections will be held to seek voter approval of revenue increases, but without doubt there will be more elections. Special elections are not inexpensive. King County estimates such elections cost about \$800,000. In Tacoma, the cost of a special election is \$100,000. Statewide special elections run about \$4 million. The initiative does permit the legislature to impose emergency tax increases for up to 12 months with the approval of a two-thirds majority of each house.

**Focus on 695
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1. *Introduction & Growth of MVET*
2. *Surplus Won't Cover Shortfall*
3. *Not Much Discretion in the \$45 Billion Budget*
4. *MVET Off, Property Tax On & Other Tax Consequences*
5. *Let's Vote on It*
6. *City and County Impacts Vary Widely*
7. *Transit and Transportation Would Take Major Hit*
8. *Summing It Up*

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