WASHINGTON RESEARCH COUNCIL

SPECIAL REPORT

October 4, 1993

Takin' It to the Limit:

An Assessment of Initiatives 601 and 602

Second Edition

Initiatives 601 and 602, designed to limit, respectively, state expenditures and revenues, have stirred controversy over the impacts they would have on state finances.

In this Special Report, the Research Council outlines the provisions of the two initiatives, highlights key differences and makes estimates of the limits they would place on state budget growth.

I-601 and I-602 are part of a renewed movement in the U.S. toward legal constraints on state taxing and spending. Voters in five states approved measures in 1992 to establish tax and expenditure limitations (TELs) or require extraordinary actions to raise taxes.

Overview

It is unclear how effective TELs have been in restraining growth in spending and taxes. Washington's present revenue limitation, Initiative 62, has never been effective because of the economic conditions prevailing at the time it was enacted.

While I-601 and I-602 share a number of purposes, there are also major differences between them that have significant implications for their impacts. Chief among these are the tax rollback provision in I-602 and the requirement of voter approval for some tax increases in I-601.

The I-601 limit, were it effective in 1993-95, would have capped general fund-state spending at $15.8 billion. The limit for the 1995-97, when the I-601 cap first becomes effective, is estimated at $17.4 billion.

Calculating the I-602 limit is more difficult because it covers a broad new category of revenues. We estimate that I-602 would limit these revenues annually to 9.3 percent of state personal income. For 1993-95, that share amounts to about $21.5 billion, which puts the limit about $160 million below currently projected collections after the rollback.

Because of questions of interpretation and likely revisions of economic data, any estimates of the I-601 and I-602 limits must be considered preliminary.

I. Initiatives 601 and 602 in Perspective

The dramatic rise in state spending over the last decade and the major increase in taxes, fees and tuition enacted by the Washington Legislature during the last session have provoked vigorous campaigns to place new legal constraints on the growth of government. Initiatives 601 and 602 have stirred controversy over their intent, their effectiveness, and their potential impacts on state programs and services.

In an effort to increase public understanding of these measures, the Research Council released in June a Special Report, *Takin' It to the Limit*, that explained the provisions of Initiatives 601 and 602 and attempted to make the most reasonable estimates attainable at that time of the fiscal impacts they would have should they become law. That report has been widely circulated as one of the few independent sources of reliable information on the two initiatives.

In this second edition, we present revised estimates of the limits that would be placed on state expenditures and revenues, respectively, by Initiatives 601 and 602, incorporating data that was unavailable to us at the time of the original report. We also extend our discussion to policy implications of the initiatives that were largely left unexplored in the June publication.

Questions of interpretation and the absence of final revenue and economic data continue to make any such estimates preliminary ones. Neither this analysis nor any others can provide a definitive determination of the spending and revenue caps that would be created by I-601 and 602.

Neither is it our purpose to judge the merits of either initiative. In *Washington State Fiscal Trends, 1981-83 — 1991-93*, published in March 1993, the Research Council recommended adoption by the state of Washington of an effective and properly designed constitutional tax or expenditure limitation (TEL). Combined with a strengthened budget reserve fund, such a measure, we said, would "reduce the amount of revenue that could be spent in periods of strong [economic] growth and make it available as a cushion against slower growth in weaker years."

As a matter of policy, the Research Council does not, however, endorse or oppose ballot initiatives, and takes no position on the specific tax and expenditure limitation initiatives that will be on the November ballot.

Washington's TEL: Initiative 62

In all the furor over Initiatives 601 and 602, many are unaware that Washington state already has a tax and expenditure limitation, approved by the voters as Initiative 62 in 1979. Intended to limit the tax revenues available to state government to growth in the economy, Initiative 62 instead became a case study in what can go wrong with the best-intended legal controls on state finances.

Initiative 62 (RCW 43.135.010) specified that overall revenue from state taxes could not exceed the base year's receipts multiplied by the average of personal income growth for the three previous calendar years. In this regard, Washington's revenue limit is not unlike those of a number of other states, including Hawaii, Oregon and South Carolina, which attempt to confine the growth of government to a contemporary measure of growth in the economy.

While the theory may have been sound, Initiative 62 has been a failure in practice. The initiative's limit has yet to be reached, even in years of exceptional growth in tax revenues, such as FY 1989 (11%) and FY 1990 (15%).

In its January 1989 report, *A Financial Plan for Washington*, the Governor's Committee on Washington's Financial Future offered two reasons for the ineffectiveness of Initiative 62. First, it said, state tax revenues, adjusted for rate and base changes, tend to grow more slowly over the long term than the state's economy (a proposition not clearly supported by its data). The low "elasticity" it found in the revenue system suggested to the Committee that tax revenues were unlikely to be affected by a limit tied to personal income growth.[1]

The Washington Research Council reported in *Understanding Washington's Taxes*, published about the same time, that state tax revenues grew at about 90 percent of personal income over the period 1976-87, a finding not far different from that of the Committee. The Research Council noted, however, that that period included the most severe economic downturn in the state since the Great Depression, and so probably did not represent the kind of "normal" experience from which one could easily draw lessons about the tax system.[2] Nor, we would add, about the usefulness of revenue limits of this kind.

Initiative 62, adopted in 1979, is a case study in what can go wrong with the best-intended controls on state finances.

There are two other problems with this explanation for the ineffectiveness of Initiative 62. First, elasticity measures are based on hypothetical revenues that assume constant rates and bases; the Initiative 62 limit is, of course, applied to actual revenues, which reflect any tax changes that might have been made by the legislature. Second, even if it can be established that Washington's tax revenues tend to grow more slowly than the economy over the long term, this would not exclude the possibility that tax collections may so exceed personal income over a short term as to trigger the revenue limit. Indeed, according to revenue department data, growth in state taxes, expressed in terms of constant rate and base, exceeded personal income growth in six of the last nine calendar years, including three consecutive years (1988-90) when it ran well ahead.

The fatal flaw in Washington's TEL is instead the second factor mentioned by the Governor's Committee: the initiative's effective date. A year of extraordinarily high economic and revenue growth, 1979, was specified as the base year from which limits for the following years would be made. The limit for each subsequent year was to be calculated not off actual collections but off the hypothetical limit for the previous year. Because the economic conditions that happened to prevail at the time caused the initial limit to be set very high, it became all but impossible, whatever the performance of the state's revenue system, to hit the I-62 limit. "The public perception is that the Legislature has somehow evaded the intent of the voters when, in fact, Initiative 62 has turned out to be ineffective in light of the state's tax system and economy," the Governor's Committee said.[3]

The Committee's conclusion was not that state's TEL should be abandoned, but that it should be improved. It recommended that Initiative 62 be replaced with a new, constitutional limit in which tax revenues that could be appropriated in future biennia would not be allowed to exceed the share of personal income they held in 1987-89, based on an index of the biennialized average growth rate of personal income over the most recent five-year period. (This is similar to the approach taken by Initiative 602). Revenues collected in excess of the limit would be placed in a contingency fund. The legislature would, by a majority vote, be allowed to raise revenues up to the limit when estimated biennial collections fell 5 percent or more below the level forecast when the budget was adopted. A 60 percent vote would be needed to raise revenues up to or above the limit in all other circumstances.[4] While acknowledging that similar controls in other states had seldom been triggered, the Committee maintained that "the existence of a TEL is likely to influence state budget makers and agency heads to act cautiously so as to avoid reaching the revenue or expenditure limit. . . The Committee believes that a stronger revenue limit, combined with a more productive revenue system, will have a real impact on the level of state taxes and expenditures."[5]

The Committee's recommendation for a revamped state TEL was obscured by its proposals for sweeping changes in the state's tax. The issue lay dormant until the budget crisis of the last two years and the tax increase enacted this spring revived calls for new statutory constraints on taxes and spending.

State TELs: What's Old is New Again

In launching Initiatives 601 and 602, Washington is following a trend in the nation. Twenty-three states currently have some form of tax or expenditure limitation in place. (Two apply only to the governor's recommended budget, and are not binding on the adopted budget.) Of those currently in effect, 15, including Washington's Initiative 62, were adopted in a surge of TEL activity between 1978 and 1981, during what's generally thought of as the last major tax revolt in the states. *(See Figure 1)*. There was relatively little action on TELs during the prosperous '80s, when the greatest fiscal problem for many states was how to dispose of large budget surpluses.

But as we are painfully aware, state budget deficits are back in the '90s, and with them a revival of interest in tax and spending limitations. States from one coast to the other which had spent lavishly during the boom times of the 1980s found themselves unable to support greatly increased levels of services when the economy cooled at the end of the decade and revenue growth fell off precipitously. Faced with large budget shortfalls, states enacted tax and fee increases totaling $10.3 billion in FY 1991 and $15 billion in FY 1992 (compared to an average $2.0 billion per year during the previous six years.)[6]

The new wave of state TELs in the first part of the '90s can be said to have two purposes: (1) end the boom-and-bust budgeting syndrome to which many states, including Washington, fell prey in the preceding years by limiting annual spending increases and ensuring an adequate level of reserves, and (2) avoid another round of tax increases of the kind that had recently seen in so many states.

Connecticut, close on the heels of the enactment of an intensely unpopular personal income tax in 1991, approved a constitutional amendment the next year limiting growth in most state spending to the higher of the average of inflation and personal income growth over the previous three years. Colorado voters approved a citizen initiative tying both state and local government spending to a measure of population growth and inflation, while requiring voter approval of tax increases, the same year. Rhode Island adopted its own version of the "Delaware Plan," which limits appropriations to 98 percent of estimated revenues and requires a supermajority for tax increases, in 1992 as well. Iowa, Florida and Michigan have all given serious attention to tax and expenditure limitations in the last year and a half.

Supermajority requirements for tax increases are also gaining momentum in the states. Arizona became the eighth state to require some form of supermajority vote for tax increases with the overwhelming approval of Proposition 108 in 1992. Earlier that year, Oklahoma voters passed an initiative requiring a three-fourths legislative vote or a majority vote of the people before a tax increase can take effect.[7] A measure requiring popular approval of tax increases also seems headed to the ballot in Oregon.

Figure 1

State Tax and Expenditure Limitations

State	Year Enacted	Limit Type	Limit Base	Provisions to Exceed Limit
Alaska	1982	S,E	Population + inflation	Voter approval
Arizona	1978	C,E	Personal income	2/3 of each house
California	1979	C,E	Population + inflation	Majority of each house
Colorado	1992	C,E	Population + inflation	Voter approval
Connecticut	1992	C,E	Higher of inflation or PI	3/5 of each house
Delaware	1979	S,E	98% of GF revenues	3/5 vote of each house
Hawaii	1978	C,E	Personal income	2/3 vote of each house
Idaho	1980	S,E	Personal income	2/3 vote of each house
Louisiana	1979	S,R	Personal income	Majority of each house
Massachusetts	1986	S,R	Wage and salary income	Majority of each house
Michigan	1978	C,R	Personal income	2/3 vote of each house
Missouri	1980	C,E&R	Personal income	2/3 vote of each house
Montana	1981	S,E	Personal income	2/3 vote of each house
Nevada	1979	S,E	Population + inflation	Limit not binding
New Mexico	1987	S, E	Wage and salary income	Limit not binding
Oklahoma	1985	C,R	12% growth - inflation	None
Oregon	1979	S,E	Personal income	Majority of each house
Rhode Island	1992	C,E	98% of GF revenues	Majority of each house
South Carolina	1980	S,E	Personal income	2/3 vote of each house
Tennessee	1978	C,E	Personal income	Majority of each house
Texas	1978	C,E	Personal income	Majority of each house
Utah	1987	S,E	Personal Income	2/3 vote or voter approval
Washington	**1979**	**S,R**	**Personal income**	**2/3 vote of each house**

S = Statutory C = Constitutional E = Expenditure R = Revenue

Sources: ACIR, *Significant Features of Fiscal Federalism, 1992*; Minnesota Taxpayers Association, *Fiscal Focus, Jan-March 1993,* and state sources.

Do TELS Work?

The question of whether tax and expenditure limitations "work" is one that is much debated, and to which there is no clear answer. Part of the trouble is that it is not clear what the criteria for success are. Do TELs have to be reached in order for them to work? Or does their mere presence, as the Governor's Committee on Washington's Financial Future suggested in 1989, have a disciplinary effect on state spending practices, encouraging greater efforts toward efficiency and productivity, and keeping government to lower growth than would otherwise have been the case?

The statistical evidence for the effectiveness of tax and expenditure limitations is at best mixed. The Governor's Committee cited a study by the Advisory Commission on Intergovernmental Relations showing that states with TELs tended to have lower taxes in relation to personal income than those states without them to support its argument for a new, revamped revenue limit. A 1988 study by Marcia Howard of the National Association of State Budget Officers, however, found that TEL states did not have significantly lower revenues or expenditures than states without tax or expenditure limitations. "The overall condition of state economies and structure of state tax systems, in combination with the sensitivity of policy-makers to anti-tax sentiment," Howard concluded, "have done more to limit state spending than have imposed restrictions."[8]

A more recent study by the Minnesota Taxpayers Association finds that while TEL states tend to be low-tax states, they were also low-tax states before their limits were enacted, casting doubt on the impact of their limits on their tax and spending practices.[9]

Dale Bails of Memphis State University tested the argument for TELs in another way, measuring growth in state taxes and other revenues in 19 states both before and after they adopted their respective limits. "The preponderance of the evidence," he reported, "suggests that existing state tax and expenditure limitations are relatively ineffective in constraining either growth in spending or the proportion of income paid in taxes." Bails attributed most of the relative ineffectiveness he'd found not to any inherent flaws in the concept of tax and expenditure limitations, but to a lack of stringency in the design of specific state TELs and to the economic conditions during most of the period the limits he studied were in place.[10]

Barry Poulson of the University of Colorado made an analysis similar to that of Bails, with somewhat different results. Poulson found that tax and expenditure limitations tend to have a significant impact on state fiscal practices in the first years after they're enacted, but that this effect tends to diminish over time, as government officials, often acting in cooperation with interest groups, find ways to circumvent them. Nevertheless, he said that the most important conclusion of his study "is that TELs can significantly reduce the growth of state government taxes and spending."[11]

It is very difficult to prove or disprove statistically the effectiveness of tax and expenditure limitations.

How to sort out the conflicting claims for TELs? What becomes evident from a review of the literature is that it is very difficult to either prove or disprove the effectiveness of tax and expenditure limitations through statistical approaches. To the extent that growth in spending or revenues is, indeed, slower after enactment of a TEL, how much of that is due to the limit, and how much to other factors? To the extent that they are not, how much of that is due to flaws in the design of TELs that are susceptible to remedy, or to trends in a state's economy?

According to economist Ronald Faas of Washington State University, generalizations from the performance of other state TELs ultimately provide little guidance as to whether any proposed tax and expenditure limit will be effective. "Only by examining the specific components of existing and proposed limitations," Faas says, "can meaningful predictions of performance be made."[12] For present purposes it suffices to say that the extent to which a proposed TEL will "work" depends most on (1) what its purposes are conceived to be, (2) its specific design, (3) state economic conditions, and (4) the presence or absence of the political will to implement it in accordance with its intent.

The importance of the last factor cannot be overstated. There is enough experience by now with tax and expenditure limitations that we should be able to come to a reasonable determination of the features that a good state TEL should have. But the perfect, foolproof tax and expenditure limitation has yet to be written, and probably never can be. As Larry McCarthy, President of the California Taxpayers Association, observed at a September Research Council symposium on TELs, "There are always loopholes that create opportunities for creative public administrators to find ways around limits."

II. Comparing Initiatives 601 and 602

As shown in Figure 3, Initiatives 601 and 602 share a number of features. Each attempts to limit the growth of the state budget — variously defined — to some statistical economic indicator, and specifies the circumstances under which the limit may be exceeded. By requiring that the state abide by annual limits on revenues or expenditures, each effectively requires a return to annual budgeting. Each requires extraordinary actions to raise taxes and other forms of revenue. Each would establish new budget reserve funds, whose uses would be much more restricted than those of the state's present Budget Stabilization Account (or "rainy day fund.") Each also seeks to strengthen existing state law to prevent shifting of programs or responsibilities to local governments.

Beyond those general features, which are common to many state TELs, substantial differences exist between Initiatives 601 and 602 that have significant implications for the state should either — or both — be enacted into law. These differences are highlighted below.

What is limited?

First and most obviously, Initiative 601 seeks to limit state expenditures, while Initiative 602 would limit certain state revenues. As indicated in Figure 1, expenditure limits are far more typical than revenue limits. Of the 23 state TELs in place in 1993,17 apply to expenditures, and only five to revenue. (Missouri's TEL applies to both.)

In important regards, however, this is a distinction without a difference. Revenue limitations such as Initiative 62 and Initiative 602 are effectively spending limits as well in that they restrict the amount of revenue that is available for appropriation. Any revenues generated by the state's economy that exceed the limit must be placed in some form of emergency or reserve fund, and may not be appropriated under ordinary circumstances. The choice between expenditure and revenue limits thus is really a matter of deciding which achieves the goal of limiting spending more effectively.

While expenditure limits are much more common, some believe that limiting revenues is preferable, because it avoids the problem of determining which kinds of expenditures should be included under the limit, and which should not. State expenditure limitations often exclude spending for such purposes as debt service, capital programs, federal mandates and even local aid from their coverage. It was for this reason that the Governor's Committee on Washington's Financial Future recommended a revenue limitation instead. "The Committee opted for a revenue limitation for reasons of simplicity," its report stated. "All that is required is a definition of those tax revenues to be covered under the limitation. Under an expenditure limit, a variety of potential exemptions would arguably be required due to the varying nature of expenditures, e.g., the constitutional requirement to fund basic education."[13]

Initiative 601 attempts to solve the coverage problem by confining its limitation to expenditures from the state's general fund, excluding federal funds. These expenditures make up what is known as the general fund-state. This fund accounts for just 57 percent of all state expenditures, but is supported by about 87 percent of all state tax revenues. To minimize the risk of avoidance of the limit by shifting spending out of the general fund, Initiative 601 stipulates that the limit is to be adjusted if the cost of any state program or function is shifted from the general fund-state after Jan. 1, 1993 to other sources of funding, or if moneys are transferred from the general fund-state to other funds or accounts of the state.

As illustrated by Initiative 602, however, revenue limits do not necessarily offer the "simplicity" presumed by the Governor's Committee in 1989. Indeed, the problem of defining the coverage of revenue limitations may be even greater than it is for expenditure limits. Arguments can and are made for excluding such special or earmarked revenues as trust funds, bond funds and transportation funds from these limits.[14]

The authors of Initiative 602 chose to cover a relatively broad range of revenues, going well beyond the tax revenues covered by Initiative 62 to bring in a long list of fees and other charges as well. According to the language of the initiative, the "state revenue collections" to be limited extend to "all moneys received, collected or owed from each and every source. . ., whether or not such funds are otherwise subject to legislative appropriation, including funds maintained or deposited outside the state treasury." Special revenue funds supported by earmarked taxes and revenues, enterprise funds (such as the State Convention and Trade Center Fund), tuition accounts, and various other dedicated revenues fall under this language.

The revenues subject to the Initiative 602 limit are then further defined by exclusion. *(See Figure 3)*. Some of the major exclusions are federal funds, the state's dedicated highway fund, "permanent and irreducible funds" of the state such as the Common School Fund, specific industrial insurance funds administered by the state Department of Labor and Industries, and money received from the sale of bonds or the investment of state funds. Because of the exclusion of the constitutionally protected highway fund, revenues from the motor fuel tax and motor vehicle registration fees would not be covered by the I-602 limit.

Figure 2

Revenues Excluded from I-602

(1) Money received as a gift, grant, donation, aid or assistance, when the terms or conditions of those gifts, grants or etc. require their disbursement for other than the general purposes of the state.

(2) Federal grants or other assistance.

(3) Money derived from the investment of funds under the authority of the state investment board.

(4) Money received from peformance bonds and deposits.

(5) Money paid into or received from certain industrial insurance funds.

(6) Money paid into or received from trust funds created before Dec. 31, 1992.

(7) Money paid into or received from "permanent and irreducible" funds created before Dec. 31, 1992.

(8) Money received from the sale of bonds or "other evidences of indebtedness."

(9) Money paid into or deposited to funds or accounts created before Dec. 31, 1992 "for disbursement to political subdivisions of the state."

(10) Money received under Article 2, Sec. 40 of the state constitution (i.e., the state highway fund).

(11) Money paid into or received from the revenue reserve fund to be created under this initiative.

(12) Money paid into or received from the general obligation debt reduction account to be created under this initiative.

Limitation Measures

A second, readily apparent difference between the two initiatives is in their respective limitation "triggers." Initiative 601 limits the growth of spending to the combination of inflation and population growth, while Initiative 602 pegs its revenue limit to personal income growth.

As Figure 1 shows, personal income has been a more frequent measure of allow-

Figure 3

Comparing Initiatives 601 and 602

Feature	Initiative 601	Initiative 602
What is limited?	Annual general fund-state expenditures, adjusted for any shifts that may be made of the costs of state programs or functions to other funds or sources of funding.	Annual "state revenue collections," as defined by the initiative. Includes "all moneys received, collected or owed from each and every source," including funds not appropriated by the legislature and funds maintained outside the treasury. Excludes several specific kinds of revenues, including moneys paid into the state's highway fund, certain industrial insurance funds, and trust funds and "permanent and irreducible funds of the state" created before Dec. 31, 1992.
Limitation	An annual "fiscal growth factor," defined as the average of the sum of the percentage change in inflation and population for each of the previous three fiscal years.	An annual "limitation factor," defined as the percentage share of total state revenue collections of total state personal income for the fiscal years 1988 through 1992.
Disposition of funds over the limit	General fund-state revenues in excess of the expenditure limit are deposited in a new emergency reserve fund. Money may only be appropriated from the fund with a vote of 2/3 of each house of the legislature. Any balance in the fund in excess of 5 percent of biennial general fund-state revenues is transferred to a new education construction fund. A 2/3 vote of each house and a vote of the people are required to appropriate money from this fund for any purposes other than school or higher education construction.	State revenue collections in excess of the revenue limit are deposited in a new revenue reserve fund. The state treasurer is required to transfer to the general fund from the revenue reserve fund an amount sufficient to make up any difference between the revenue collection limit and estimated collections. The balance in the revenue reserve fund is limited to 2 percent of the preceding fiscal year's revenue collection limit. Any revenues in the fund in excess of this amount are transferred to a new fund to reduce general obligation debt.
Requirements to raise taxes	Until July 1, 1995, all actions to raise existing taxes, impose new taxes, or make revenue-neutral tax shifts require approval by a majority of voters at a November general election. After July 1, 1995, any actions by the legislature to raise state revenues or effect revenue-neutral tax shifts that do not result in exceeding the state expenditure limit require a 2/3 vote of each house. Any actions that result in expenditures in excess of the limit require approval by a vote of the people at a November general election. Additional taxes may be imposed under a declaration of emergency only if the revenues deposited in the education construction fund have been exhausted. Taxes may then be increased only until 30 days following the next general election, unless the voters approve an extension at that general election.	Taxes and other revenue measures may be increased with a 60 percent vote of each house of the legislature to make up any difference that may exist, after transfer of the balance in the revenue reserve fund, between estimated revenues and the revenue collection limit. These revenue increases automatically sunset after 24 months. Actions to increase revenues that will cause the revenue collection limit to be exceeded require a declaration of emergency by the governor and a 3/4 vote of each house. These increases automatically sunset after 24 months, or after expiration of the declaration of emergency, whichever comes first.

Feature	Initiative 601	Initiative 602
Requirements to increase fees	Effective immediately, no fee may be increased in any fiscal year by a percentage in excess of the "fiscal growth factor" for that year without prior approval by the legislature.	No separate provision. Fees are included in the definition of "revenue measures," and are subject to the same restrictions on increases as are taxes.
Provisions to exceed limit	Requires a declaration of emergency by the governor, which may not exceed 24 months, and a 2/3 vote of each house of the legislature. Emergencies are limited to "natural disasters that require immediate government action."	Requires a declaration of emergency by the governor, which may not exceed 24 months, and a 3/4 vote of each house of the legislature.
Tax and fee rollback	None.	Upon voter approval of this initiative, all legislative actions that have the result of increasing state revenues over those that would have been obtained under existing law as of Dec. 31, 1992 are repealed. Upon repeal, all taxes, fees and other revenue measures revert to those in effect on Dec. 31, 1992.
Intangibles taxes	Prohibits the state or local governments from imposing any taxes on intangible property, which includes stocks, bonds, and other property in money or credit.	No provision.
Cost-shifting to local governments	The state may not impose responsibility for new programs or increased levels of service under existing programs on any political subdivisions unless the subdivision is fully reimbursed by specific appropriations for the new costs.	The state must reimburse political subdivisions for any new programs or increased levels of service that may result from actions of the legislature.
Effective dates	The limitation on fee increases is effective on passage. The prohibition on any tax changes without a vote of the people is effective on passage, but sunsets on July 1, 1995. All other provisions, including the spending limit, are effective July 1, 1995.	Effective on passage. (The state constitution makes initiatives effective 30 days after the election date.) The state revenue collection limit is thus effective for fiscal 1994.

able growth under state TELs than inflation and population. It is noteworthy, however, that the four states that use inflation and population in limitation formulas are all in the West, where population growth has been more of a budget concern than in other parts of the country.

It may be argued that this is yet another distinction without a difference, in that inflation and population increases are major determinants of growth in personal income. These two factors alone, however, do not account for variations in worker productivity, components of population change, or real wage and salary gains that may cause personal income growth to differ considerably from what would be produced by the mere combination of inflation and population.

The choice of the one or other measure also suggests (whether intentionally or not) a somewhat different philosophy behind each initiative. In limiting spending to inflation and population growth, Initiative 601 seeks to confine the growth of government to the estimated "normal" increase in its costs. In tying its limit to personal income growth, on the other hand, Initiative 602 implies that government should not be allowed to grow beyond a measure of the economy's ability to support it.

The choice of economic indicator against which to measure budget growth is not a matter of indifference. The total growth in a state's population, for example, may not tell you very much about the service demands generated by the specific *kinds* of population growth experienced. As we are seeing now in Washington, rapid growth in the age 5-17 population cohort helps drive up school expenditures, growth in the number of young males means higher prisons costs, and growth in the number of elderly means generates health care costs. California is struggling to meet demands for social services produced at least in part by a tide of immigration to the state by economically and socially disadvantaged persons.

Even personal income has its critics as a limitation factor. Massachusetts opted to limit spending to growth in salaries and wages rather than total personal income when it constructed its TEL in 1986. New Mexico did the same in 1987. Economist Robert Tannenwald of the Federal Reserve Bank of Boston argues that personal income minus transfer payments provides a still better measure of a state economy's fiscal capacity.[15]

The solution to the revenue rollback problem is as much a matter of political as of fiscal calculus.

Ultimately, the precise manner in which Initiatives 601 and 602 apply these indices to state expenditures and revenues is more important to estimating their impacts than which indice they've chosen. We examine how this data is used to calculate the 601 and 602 limits in a section to follow.

Rolling Back the '93 Session

A third and perhaps the most contentious point of difference between the two initiatives is the stances they take on the revenue increases adopted by the legislature in the 1993 session.

Immediately on passage of Initiative 602, all state taxes, fees and other in-state sources of revenue would revert to those that were in place on Dec. 31, 1992. This provision effectively repeals the large package of tax, fee, and tuition increases that was adopted by the legislature in special session this year. These include the increases in business and occupation tax rates, the new sales taxes on personal services, new insurance prepayments taxes, the increased tobacco products, alcoholic beverages and hospital taxes earmarked to the new state health care program, tuition increases in higher education, and a host of new or increased fees. No part of the revenue package would appear to be exempt from the repeal requirement.

According to an analysis by the state Office of Financial Management, of an estimated $1.2 billion in new revenues raised by actions of the 1993 Legislature, a total of $996 million would be eliminated by the initiative. Those revenues collected between the July 1, 1993 commencement of the biennium and the Dec. 2, 1993 effective date of the initiative would be retained. Of the total $996 million in new taxes and fees that would be cut, approximately $570 million are from the general fund-state, while $426 million are earmarked to other funds and accounts.[16] The potential revenue loss represents about 3.5 percent of the $16.2 billion general fund-state budget, and a little more than 3 percent of the state's total $29.8 billion operating budget.

Initiative 601 contains no provisions with regard to the 1993 revenue package, and would have no direct effect on those tax and fee increases.

A great deal of controversy has swirled around the potential impact of Initiative 602's revenue rollback provision. Opponents of I-602 warn of devastating cutbacks in state programs and services, often to the extent of specifying the dollar amounts that would be cut from the budgets of particular agencies or institutions. Proponents brand such statements scare tactics, and insist that the gap that would be opened in the 1993-95 budget by the passage of I-602 can surely be closed by reforming state government and eliminating wasteful spending.

The arguments on both sides may be overstated. The mix of actions that would be taken to close the gap is ultimately a matter for the legislature to decide according to its own best judgment and sense of priorities. It can, indeed, employ the formulaic approach that has been outlined in some executive and legislative reports, applying percentage spending cuts across most state agencies. It can also, however, give closer consideration than it has to date of such policy changes as bringing employee benefit packages more in line with those in the private sector, reforming welfare programs and privatizing selected state services. The solution to the revenue rollback problem is, in other words, as much a matter of political as of fiscal calculus.

Figure 4

Estimating the I-601 Limit

Base Year

	Inflation	Pop.	Totals
1987	3.27%	1.45%	4.73%
1988	4.29%	1.98%	6.28%
1989	4.71%	2.41%	7.11%

FY 90 expenditures	$5,922.8 million
FY 91 growth factor	6.04%
Increase	**$357.7**
FY 91 expenditure limit	***$6,280.5***

* I-601 leaves some uncertainty as to which three years are to be used to make the base year calculation. An alternative interpretation would use fiscal years 1988, 1989 and 1990.

Calculating the Expenditure Limit

Fiscal Growth Factor

- ✓ Find the annual change in the implicit price deflator and the state population for the three years prior to the new fiscal year expenditure limit in question.
- ✓ Add the annual percent growth of the IPD and population for each of the three years.
- ✓ Add the totals of the three years together, then calculate the average.

Calculating FY 92's Expenditure Limit

	Inflation	Population	Totals
1989	4.71%	2.41%	7.11%
1990	4.78%	2.93%	7.71%
1991	5.36%	2.75%	8.11%
			22.93%

22.93% / 3 = 7.64%

Increase

- ✓ Multiply the current expenditure limit by the growth factor.

FY 91 $6,280.5 million

$6,280.5 x 7.64% = **$480.0 million increase**

New Expenditure Limit

- ✓ Add the increase to the current fiscal year's expenditure limit to calculate the next fiscal year's expenditure limit.

$6,280.5 million + $480.0 million = $6,760.5 million

$6,760.5 million expenditure limit for FY 92

Annual Percent Change

Fiscal Year	Inflation	Population
1987	3.27%	1.45%
1988	4.29%	1.98%
1989	4.71%	2.41%
1990	4.78%	2.93%
1991	5.36%	2.75%
1992	3.39%	2.33%
1993	2.79%	2.53%
1994	2.79%	1.68%
1995	2.80%	1.81%
1996	3.05%	1.71%

1993-95

FY 93 expenditure limit	$7,245.8 million
FY 94 growth factor	x 6.38%
increase	**$462.5 million**
FY 94 expenditure limit	***$7,708.3 million***
FY 94 expenditure limit	$7,708.3 million
FY 95 growth factor	x 5.17 %
increase	**$398.5 million**
FY 95 expenditure limit	***$8,106.8 million***
Biennium limit	$15,815.1 million
Adopted Budget for 1993-95	$16,161.7 million

1995-97

FY 95 expenditure limit	$8,106.8 million
FY 96 growth factor	x 4.80 %
increase	**$388.9 million**
FY 96 expenditure limit	***$8,495.6 million***
FY 96 expenditure limit	$8,495.6 million
FY 97 growth factor	x 4.61 %
increase	**$391.6 million**
FY 97 expenditure limit	***$8,887.2 million***
Biennium limit	$17,382.8 million

* Each year's limit would be adjusted for shifting after Jan. 1, 1993 of program costs and other moneys from the general-fund state to other funds and accounts.

Figure 5 Estimating the I-602 Limit

Revenue Limitation Factor

✓ Calculate total personal income for fiscal years 1988, 1989, 1990, 1991 and 1992, as reported in the most recent official *Economic and Revenue Forecast* prepared by the Office of the Forecast Council.

Fiscal Year	Personal Income (millions)
1988	$73,538
1989	79,825
1990	87,991
1991	95,035
1992	101,340
Total	**$437,729 million**

✓ Calculate total state revenue collections as defined by Initiative 602 for fiscal years 1988, 1989, 1990, 1991 and 1992.

Fiscal Year	State Revenue (millions)
1988	$6,650
1989	7,286
1990	8,386
1991	8,896
1992	9,414
Total	**$40,631 million**

✓ Calculate the limitation factor by dividing total state revenues from FY 88 through FY 92 by total personal income for the same set of years.

$$\frac{\$40,631}{\$437,729} = 9.3\%$$

Limitation Factor = 9.3 %

Calculating Revenue Limits
FY 94 and FY 95

✓ Multiply the personal income by the limitation factor to calculate new limit.

FY 94

Projected FY 94 PI	$113,849.0 million
	x 9.3 %
FY 94 limit	**$10,567.8 million**

* The initiative specifies that the FY 94 revenue limit will use the personal income figure as reported in the Nov. 1992 *Economic and Revenue Forecast*.

FY 95

Projected FY 95 PI	$117,841.0 million
	x 9.3%
FY 95 limit	**$10,938.33 million**

1993-95 biennium total $21,506.1 million

* The initiative provides that revenue limits for fiscal years after FY 94 will use personal income figures as reported in the November *Economic and Revenue Forecast* of the preceding year.

The legislature would also have the option to enact new revenue legislation up to the determined I-602 limit (assuming the specified supermajority vote could be obtained), and to utilize at least some of whatever amount of budget reserves might be available at the time.[17]

Legislative leaders and executive officials are also, however, correct in maintaining that their discretion in determining how and where to reduce the budget is limited in significant ways. K-12 education expenditures make up 28 percent of the state's total operating budget, and about 96 percent of that is insulated from cuts by what courts have determined to be constitutional protections for Basic Education. Federal mandates, especially in social services and environmental protection, also limit the legislature's ability to reshape the budget. Absent major policy reforms, certain areas of the budget, such as higher education, are indeed more vulnerable to program reductions than others. Certain new programs funded by earmarked revenue increases that would be eliminated by Initiative 602, including expansion of Basic Health and worker retraining in community and technical colleges, are exposed to immediate risk.

Power to the People

Both Initiative 601 and Initiative 602 would make Washington the 9th state to require more than a majority vote of the legislature to raise taxes and other revenues. The theory behind such requirements is that the effects of tax increases are so profound, and the political dynamics tending toward higher government spending so powerful, that raising taxes should be made more difficult than other, more ordinary actions of the legislature. The argument is much the same as for TELs generally: supermajorities provide taxpayers with some measure of protection against the array of interest groups making constant demands on government for more and more spending to meet a potentially unlimited number of "needs."

Opponents argue that supermajority requirements give too much power to legislative minorities, lead to wasteful legislative logrolling, and simply make it too difficult for the branch of government that is supposed to control the purse strings to carry out its responsibilities.

Initiative 602 erects considerable hurdles to tax increases, requiring a 60 percent vote of each house to increase any "revenue measures" (which are defined very broadly) within its revenue limit, and a 75 percent vote to raise them above it. The supermajority requirement for increases above the limit appear to be more stringent than those of any other state TEL.

Initiative 601 goes a step further, vesting much authority to raise taxes (though not other kinds of revenue) directly in the citizenry. From the date of passage of I-601 until July 1, 1995, any measures not only to raise taxes but to make "revenue-neutral tax shifts" would require approval by the voters at a November general election. This would thus force to the ballot any ostensibly revenue-neutral "tax reform" efforts that might be launched next year. Beginning July 1, 1995, tax increases or shifts under the limit could be achieved only with a two-thirds vote of the legislature, while tax changes that would push spending over the limit would require a vote of the people.

On enactment of Initiative 601, Washington would join Colorado, Missouri and Oklahoma as the only states to require a popular vote to raise state taxes in at least some circumstances. (Missouri's 1980 Hancock Amendment applies to both state and local taxes.) While popular votes on local taxes are quite common, experience with such requirements for state taxes is thus far too limited for us to be able to judge their effects.[18]

It is also important to note that both I-601 and I-602 require reauthorization of tax increases after a period of time in at least some circumstances. *(See Figure 3.)*

III. ESTIMATING THE LIMITS

In the following, we attempt to arrive at estimates of the limits that would be imposed on state expenditures and revenues by Initiatives 601 and 602. These revised estimates incorporate revenue, expenditure and economic data that have become available since publication of our original June report. In each case, they represent the most current data available as of the date of this report was published. We would emphasize, however, that estimates of the I-601 and 602 limits from any source are subject to significant change on the basis of differences in interpretations of the initiatives and changes in key economic indicators, and so remain preliminary.

Initiative 601

Figure 4 illustrates how general fund-state expenditures would be limited by Initiative 601 in the 1995-97 biennium. We do not carry our projections out beyond FY 1997 because the margin of error for the forecast economic data used in the limitation formula, which is already considerable, seems unacceptably high after that time.

General fund-state expenditures in fiscal 1990 are chosen as the base from which to estimate a spending cap which first becomes effective in fiscal 1996. According to Section 2 of the initiative, an initial calculation is made by adding a "fiscal growth factor," defined as "the average of the sum of inflation and population change for each of the prior three fiscal years," to the base FY 1990 figure. This produces a hypothetical limit for FY 1991. From here the limits for future years are calculated according to the same formula, moving forward to FY 1996. The initiative instructs the state Office of Financial Management to adjust the preceding year's limit each November and calculate the next two years' limits on the basis of the most recent fiscal growth factor data.

This section presents an immediate problem of interpretation which gives rise to alternative estimates of the I-601 limit. A narrow reading of the language in Sec. 2(4) dictates that the "three prior years" for which the inflation and population indices are to be taken are the three years prior to FY 1990, that is, FY 1989, 1988 and 1987. Considered biennially for purposes of comparison, the subsequent calculations result in a hypothetical spending limit of $15.8 billion for 1993-95, about $347 million less than the $16.2 billion budget enacted by the 1993 legislature. The projected cap for the biennium in which the initiative is first effective, 1995-97, is $17.4 billion. This limit, if implemented, would allow general fund-state spending growth of about $1.2 billion, or 7.6 percent, in the next biennium (assuming no supplemental changes in the 1993-95 budget.) This is, by coincidence, about the same rate of growth as is budgeted for the current biennium.

An alternative interpretation would read the ambiguous language in Sec. 2 to mean that the "three prior years" from which the data is drawn for the key initial calculation are the three years prior to fiscal 1991; that is, FY 1990, 1989 and 1988. We find this interpretation plausible, but less consistent with the specific language of the initiative. The alternative calculation produces somewhat higher limits of about $16.0 billion in 1993-95 (about $198 million less than adopted), and $17.5 billion in 1995-97. Under this reading of Initiative 601, general fund-state spending would be permitted to rise by $1.3 billion, or 8.5 percent, in the next biennium.

The final step for state fiscal officials would be to adjust the limit produced by the I-601 formula downward to reflect the shifting after Jan. 1, 1993 of program costs or moneys from the general fund-state to other funds and accounts. Legislature budget summaries show more than $500 million shifted from the general fund-state to other funds and accounts in the 1993-95 biennium. It has not yet been determined which of these fund shifts would fall within the language of I-601, and what impact they would have on the final calculation of the limit.

Because each year's I-601 limit is calculated off the preceding year's limit (rather than off actual expenditures), the choice of fiscal 1990 as the base year for the calculation is critical to the outcome. A later base year would produce quite a different result. Our calculations also assume that the base figure for FY 1990 is adjusted for the shifting of tuition-supported higher education expenditures out of the general fund in 1992 and for other budget formatting changes that took place after 1990. The use of an unadjusted figure for FY 1990 will produce a higher spending limit for 1995-97.

General fund-state revenues collected in excess of the I-601 expenditure limit would go into an emergency reserve fund, from which money could be appropriated with a two-thirds vote of each house of the legislature, so long as it did not cause the limit to be exceeded. The fund would be capped at 5 percent of forecast revenues. Any balance in excess of that level would be transferred to a new fund to be used exclusively for common school or higher education construction, unless otherwise approved by a two-thirds vote of the legislature or a vote of the people.

The effect of I-602 is to approximate a maximum effective tax rate for the state.

Initiative 602

Once critical assumptions are made, calculating the Initiative 601 limit is a relatively simple manner. Initiative 602, because it departs from the established budgeting system and creates new requirements for the accounting of revenues, presents greater challenges.

The first and most difficult step is to identify and estimate the broad new category of revenues that would be limited by the initiative. Because the "state revenue collections" covered by the initiative are essentially defined by exclusion, and brought together in no single current accounting system, estimating the I-602 revenues has been a complex problem for state fiscal agencies. In this report, revised estimates of "state revenue collections" by the Office of Financial Management are used in place of earlier estimates developed by the Research Council in June. The new estimates include the non-budgeted revenues maintained outside the state Treasury that we noted were not available for the earlier edition of our report. Even the current OFM estimates, however, must be considered preliminary.

The I-602 revenues, once reported by the Office of Forecast Council, are then limited to a share of state personal income which is termed the "limitation factor." This factor is defined in the initiative as "the percentage created by dividing the sum of total state revenue collections for fiscal years 1988 through 1992 by the sum of total state personal income" for the same years. The limitation factor, representing the share the I-602 revenues claimed of total personal income over this period of years, is estimated at 9.28 percent. *(See Figure 5.)*

Unlike TELs in some other states, in which revenues are limited to a rolling average of personal income growth intended to reflect recent state economic activity, Initiative 602 would set a fixed limit based on economic and revenue experience in fiscal 1988-92, a period of generally strong economic growth in Washington state. The effect is to approximate a maximum effective tax rate for the state. The assumption seems to be that because state revenues generally rose rapidly relative to personal income during this base period, a limit constructed in this manner would allow enough future growth in revenues to support needed public services, but prevent state government from claiming any larger share of the economy than it did then.

Unlike Initiative 601, the I-602 limit would take effect immediately upon passage in fiscal 1994. As seen in Figure 5, applying the limitation factor of 9.3 percent to the most recent revenue forecast limits the revenue available for expenditure in the present biennium to $10.6 billion in FY 1994 and $10.9 billion in FY 1995, for a 1993-95 biennial total of $21.5 billion. In July, OFM estimated "state revenue collections" in the biennium, after the $996 rollback of new revenue required by I-602, at $21.3 billion. That figure would leave collections about $160 million under the cap, permitting the legislature, with a 60 percent majority, to raise taxes or other revenues up to that amount.[19] Actions to raise revenues over the limit would require a declaration of emergency and a 75 percent vote.

The lack of official forecasts of personal income for fiscal 1996 and 1997 makes it unwise to venture estimates of the Initiative 602 limit for the 1995-97 biennium.

Absent legislative actions to exceed it, any moneys generated by state taxes and fees in excess of the I-602 limits would be deposited in a "revenue reserve fund," capped at 2.5 percent of the previous year's limit. Any amount of revenues in excess of this level would be deposited in a new fund to reduce general obligation debt.

Initiative 602 poses some practical difficulties to understanding its impact that are not present with I-601. Because "state revenue collections" is a new revenue category devised by the initiative, estimates such as we have made above bear no comparison with any historical data. They therefore tell us little about the "real world" effect the initiative would have on the state budget as it is currently understood.

One way to think about the potential impact of Initiative 602 is to translate its revenue limit into terms of our present general fund. The share of estimated I-602 revenue collections represented by forecast general fund-state revenues in the 1993-95 biennium is 72.1 percent.[20] Applying this percentage to the estimated I-602 limit of $21.5 billion suggests a hypothetical general fund-state limit of $15.5 billion, or about $650 million less than the $16.2 billion currently budgeted. (This is, ironically, close to the amount of this year's general tax package.)

Calculating an effective general fund-state limit is, however, an artificial exercise, because the general fund as we know it is likely to be made obsolete by Initiative 602. The new revenue limit would create strong incentives for legislators to pull programs and activities now funded with dedicated revenues outside the general fund (such as tuition-supported higher education programs, the new health care reform program and various natural resources activities) back into a new, much larger general fund. In so doing, they would reduce the risk that growth in non-general fund revenues would cause total I-602 revenues to push up against the limit, thus jeopardizing the legislature's ability to support programs that have traditionally been supported through the general fund. The challenge for the legislature, in any case, would be to arrange priorities between the present general fund and other funds and accounts of the state so as to avoid appropriating more than the $21.5 billion in estimated revenues they would be limited to by Initiative 602.

While we have presented our estimates here in familiar biennial terms for purposes of easier understanding, it is important to remember expenditure and revenue limits would be established by Initiatives 601 and 602 not for biennia, but for each individual fiscal year. Both the executive and legislative branches would have to budget within these fiscal year limits. Thus, while not explicitly requiring a return to annual budgets in place of the current biennial format, the initiatives would provide strong encouragement for the state to move in that direction.

The general fund as we know it is likely to be made obsolete by Initiative 602.

Reconciling the Initiatives

We would not want to end this discussion without again drawing attention to the limitations on any estimates of the I-601 and I-602 limits at this time. First, the economic data used in the respective limitations formulas will be revised, perhaps substantially, before the limits would have to be calculated. This is especially pertinent to Initiative 601, whose first effective expenditure limit would not have to be determined until 1995. As we have seen in preparing these reports, even relatively small changes in the data can produce significant changes in the limits.

Second, eventual official interpretations of each may differ from those we have made for the purposes of these estimates. It is not unlikely that both Initiative 601 and Initiative 602, should they emerge successful from the polls, would pass from the hands of the voters to the embrace of the judicial system, where the only truly definitive assessments of the their impacts might be made.

Further questions will arise should both win voter approval. Can Initiatives 601 and 602, which differ in so many ways, coexist? One of the tasks for legal and judicial authorities may be to resolve what appear to be conflicts between specific provisions of the two limitation measures. Among these are:

- Disposition of funds over the limits: The two initiatives create different reserve funds with different purposes and different requirements for withdrawals from them. If revenues were collected in excess of both the I-601 spending limit and the I-602 revenue limit — which is not at all inconceivable — it is unclear where those moneys would be deposited, and how they could be used.
- Requirements to raise taxes and other revenues: Initiative 601 requires a vote of the people for any tax increase or revenue-neutral tax change through the end of fiscal 1995. After that date, it requires a two-thirds vote of the legislature for increases within the limit, and a vote of the people for increases over it. Initiative 602 requires a 60 percent vote of the legislature to increase most kinds of revenue within its limit, and 75 percent over it. Would one set of requirements prevail over the other, or could all apply in combination?

The legislature would have a limited ability to resolve apparent conflicts like these or to make other changes in the initiatives after they passed. Under Article II., Sec. 1(c) of the state constitution, any law adopted by voter initiative may be amended or repealed by the legislature within two years of its enactment only with a two-thirds vote of all members elected to each house. While such a supermajority vote might be obtained for technical, "cleanup" amendments, it seems unlikely that this requirement could be met for changes that might appear more substantive.

A Closing Note

In a few weeks, the voters will determine the fate of Initiatives 601 and 602. We hope that the foregoing analysis has contributed to informed judgment. But we realize that as voters go to the polls, some questions remain unanswered, and probably unanswerable.

As we've seen from the experiences in other states, when it comes to tax and expenditure limitations, the devil truly is in the details. And our situation, with two measures on the ballot, is doubly complex.

The most critical questions are also the most difficult to answer: Would either (or both) initiatives contribute to improved fiscal policy, more efficient government or more effective programs? Conversely, would their passage damage public services, hobble the legislature or thwart efforts to improve state government?

There can be no definitive responses. Initiatives 601 and 602 are neither silver bullet nor meat axe. As we have observed before, passage of either initiative will make it more difficult for the legislature in future years to raise taxes and increase spending. How the legislature might respond to the challenges posed by the limitations remains a significant source of the uncertainty surrounding the present debate. Further, the two initiatives adopt quite different approaches to limiting legislative discretion.

Budgeting — the allocation of limited resources to meet virtually unlimited demands — remains essentially a legislative and a political exercise. In assessing the initiatives, voters must ask themselves whether they believe the process will be improved or impaired by the passage of either or both of these initiatives. How they affect the legislative process will ultimately be of more concern than the mechanical calculations of the limits themselves.

Larry McCarthy of CalTax points out that "the most effective tax and expenditure limitations are never going to be a substitute for responsible actions by the legislature."

Nor, we would add, do they substitute for vigilant citizen involvement in government, which is a precondition for responsible legislation. Neither passage nor defeat of Initiatives 601 and 602 changes that fundamental political reality.

Report prepared by John S. Archer, Richard S. Davis and Kim L. Gorsuch.

Endnotes

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13. Governor's Committee, p. 5-11.
14. Connecticut Public Expenditure Council, *Tax and Spending Limitations for Connecticut*, p. 18.
15. Robert Tannenwald, "Constructing a Tax or Expenditure Limitation," in CPEC, *Tax and Spending Limitations for Connecticut*, p. 13.
16. Washington State Office of Financial Management, Budget Division, *Initiative Measures 601 and 602: Overview of Provisions and Fiscal Impacts*, p. 13. These estimates are based on initial forecasts of the revenue impacts of 1993 tax and other revenue increases, and are likely to be revised on the basis of collections experience.
17. General fund-state budget reserves as of the September 1993 state revenue forecast totalled $154.9 million in estimated ending balance and $125.0 million in the Budget Stabilization Account.
18. According to a report by the Heartland Institute, between 1981 and 1992 personal income in Missouri grew 1.76 percent per year faster than it would have if the Hancock Amendment had not been in place. How much of this is attributable to the effects of the amendment on state taxes only is unclear. Thomas L. Wyrick, "The Hancock Amendment and Economic Growth in Missouri," *Heartland Policy Study No. 49*, June 1992.
19. OFM estimated on the basis of June economic and revenue forecast data that Initiative 602 would leave collections $283 million below the limit in the biennium after the rollback. The WRC estimate employs September forecast personal income data. There is as yet no information on the change in the revenue rollback estimate that might be made by the September revenue forecast revision, but the effect is likely to be slight.
20. Data compiled by OFM indicate that the general fund-state share of estimated I-602 state revenue collections has declined almost steadily from 79.4 percent in FY 88 to an estimated 72.5 percent in FY 95. This reflects in part a trend toward greater earmarking of state revenues.

A Note on Data

Washington population: Office of Financial Management, *1992 Population Trends for Washington State*, and revised, unpublished OFM forecast data.

Inflation: Implicit price deflator (IPD), as reported by state Economic and Revenue Forecast Council, Sept. 1993. 1996 IPD change as forecast by Office of the President, Council of Economic Advisors, Sept. 1993.

Personal Income: As reported by Economic and Revenue Forecast Council, Sept. 1993.

State Revenue Collections (I-602): As estimated and reported by Office of Financial Management, State Accounting and Fiscal Services.

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