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Indexes:

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Staff Report for a City of San Leandro City Council Resolution Establishing the City's Appropriation Limit for Fiscal Year 2019-20

SUMMARY AND RECOMMENDATIONS

Staff recommends the City of San Leandro City Council approve the resolution establishing the City's appropriation limit for Fiscal Year (FY) 2019-20. Staff has completed the calculations required for determining the City's appropriation limit for FY 2019-20, which is \$248,119,855. Budget appropriations that are subject to the FY 2019-20 limitation total \$110,338,856 which is \$137,780,999 below the limit.

BACKGROUND

On November 6, 1979, California voters passed Proposition 4. Statutes clarifying certain provisions of the proposition are now codified in article XIIB of the California Constitution. This Article is commonly known as the "Gann Initiative." The Initiative established constitutional spending limits allowable for California governmental agencies based on the Consumer Price Index and population growth. Concurrent with Proposition 4, the Revenue and Taxation Code, Section 7910, requires each local governmental unit to establish its appropriations limit by the beginning of each fiscal year.

Due to the Gann Initiative's constraint on State and local governments to respond effectively to the demands of rapid growth around California, a legislative-business-labor coalition drafted and supported Proposition 111, which was adopted June 5, 1990. Proposition 111 makes crucial adjustments to the Gann Initiative, by allowing it the flexibility to operate in a growing economy, while retaining its purpose in placing a limit on government spending.

Prior law required spending limits to be tied to the Consumer Price Index or California Per Capita Personal Income growth factor, whichever was lower. The new provisions allow an agency to select

the California Per Capita Personal Income growth factor or the Non-residential Property Assessed Valuation growth factor, whichever is higher. Cities may choose to use the percentage rate of change in population within the City or county, whichever is higher.

ANALYSIS

The Appropriation Limit for prior fiscal years was predominantly based on the county population factor multiplied by the assessed valuation change factor. After the passage of Proposition 111, cities are able to use the higher of the population factors (City or County) and the higher of the California per capita personal income factor or the Non-residential Property Assessed Valuation growth factor. This amended approach has been applied to Fiscal Years 1990-91 through 2010-11 to recalculate the ending limits. The revised calculations will continue to be applied in subsequent years.

For fiscal year 2019-20 staff is using the County Population Growth factor of 0.75% (1.0075) multiplied by the Non-Residential New Construction Assessed Value Income factor 7.78% (1.0778) since the county's population factor is higher than the City of San Leandro's population factor of 0.30%. Similarly, the City's non-residential new construction growth factor of 7.78% is higher than the State of California per capita income factor of 3.85%.

The calculated 2018-19 Appropriation Limit of \$228,495,132 multiplied by the adjustment factor of 1.0859 produces the 2019-20 Appropriation Limit of \$248,119,855.

A Resolution is attached which authorizes the new Appropriation Limit for this upcoming fiscal year and includes the Attachment 1 Calculation. The actual budget subject to the limitation excludes self-supporting funds, capital improvement funds, capital outlay grant funds and specific exclusions such as the Gas Tax Fund.

The City's Fiscal Year 2019-20 appropriation subject to the Gann Limit is \$110,338,856 and is significantly below the Appropriation Limit of \$248,119,855 by over \$137 million.

Current City Council Policy

The Council adopts the appropriation limit during the budget adoption process.

Fiscal Impact

None. Impacts the City only if the appropriation limit is exceeded by the proposed fiscal year 2019-20 appropriation subject to limitation.

CONCLUSION

Staff recommends City Council approval of a resolution establishing the City's appropriation limit of \$248,119,855 for fiscal year 2019-20.

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