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Sponsors: David Baum
Finance Director

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Staff Report Establishing the City's Appropriation Limit for Fiscal Year 2013-14

SUMMARY AND RECOMMENDATIONS

Staff recommends City Council approval of a resolution establishing the City's appropriation limit for fiscal year 2013-14. Staff has completed the calculations required for determining the City's appropriation limit for 2013-14, which is \$171,468,034. Budget appropriations that are subject to the 2013-14 limitation total \$70,778,848, which is \$100,689,186 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 XIII B 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 Gann'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. The following are the changes Proposition 111 made to the Gann Initiative.

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 2013-14 staff is using the California per capita income growth factor (1.0512) multiplied by the county population factor (1.0121) since the county's population factor is higher than the City of San Leandro's population factor ($1.0512 \times 1.0121 = 1.0639$). Similarly, the State's per capita income growth factor is higher than the City's non-residential assessed valuation factor. The non-residential assessed valuation factor includes a significant property adjustment of \$263.5 million for Kaiser Hospital since the hospital is exempt from property taxes.

The calculated 2012-13 Appropriation Limit of \$161,166,358 multiplied by the adjustment factor of 1.0639 produces the 2013-14 Appropriation Limit of \$171,468,034. A Resolution is attached which authorizes the new Appropriation Limit for next fiscal year and includes 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 fiscal year 2013-14 appropriation subject to the Gann Limit is \$70,778,848 and is significantly below the Appropriation Limit by over \$100 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 proposed fiscal year 2013-14 appropriation subject to limitation.

Attachments

- Attachment 1 - Gann Appropriation Limitation Calculation 2013-14

CONCLUSION

Staff recommends City Council approval of a resolution establishing the City's appropriation limit of \$171,468,034 for fiscal year 2013-14.

PREPARED BY: David Baum, Finance Director, Finance