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Staff Report Establishing the City’s Appropriation Limit for Fiscal Year 2018-19

SUMMARY AND RECOMMENDATIONS

Staff recommends City Council approval of a resolution establishing the City’s appropriation limit for fiscal year 2018-19. Staff has completed the calculations required for determining the City’s appropriation limit for 2018-19, which is \$228,495,132. Budget appropriations that are subject to the 2018-19 limitation total \$105,653,459 which is \$122,841,673 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.

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 2018-19 staff is using the County Population Growth factor of 0.84% multiplied by the California per Capita Income factor 3.67% since the county's population factor is higher than the City of San Leandro's population factor of 0.45%. Similarly, the State of California per capita income factor of 3.67% is higher than the City's non-residential new construction growth factor of 2.46%.

The calculated 2017-18 Appropriation Limit of \$218,570,233 multiplied by the adjustment factor of 1.0454 produces the 2018-19 Appropriation Limit of \$228,495,132. A Resolution is attached which authorizes the new Appropriation Limit for next 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 fiscal year 2018-19 appropriation subject to the Gann Limit is \$105,653,459 and is significantly below the Appropriation Limit by over \$122 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 2018-19 appropriation subject to limitation.

CONCLUSION

Staff recommends City Council approval of a resolution establishing the City's appropriation limit of \$228,495,132 for fiscal year 2018-19.

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