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OFFICE OF THE CITY CLERK
OAKLAND

2017 JUN 22 PM 2:04

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: Appropriations Limits for FY 2017-18

DATE: June 3, 2017

City Administrator Approval

Date:

6/22/17

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Establishing the City of Oakland's Appropriation Limit for Fiscal Year (FY) 2017-18 Pursuant to Article XIII B of the California Constitution.

EXECUTIVE SUMMARY

Approving the proposed resolution will bring the City into compliance with California Government Code Title 1 (General), Division 9 (Expenditure Limitations), Section 7910(a).

BACKGROUND / LEGISLATIVE HISTORY

California Proposition 4 (November 1979) created Article XIII B of the California Constitution, which addresses Limitation of Government Appropriations. Effective July 1, 1980, it created an upper limit on the annual amount of funds that can be appropriated by the State and local governments. The appropriations limit is sometimes referred to as the "Gann limit," after Paul Gann, one of the proposition's authors.

Section 13B.1 states that the annual appropriations limit of "...each local government shall not exceed the appropriations limit of the entity of government for the prior year adjusted for the change in the cost of living and the change in population..." further, section 13B.1.5 states that "the annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit." Many local government appropriations are subject to the limit, although there are exemptions, including appropriations related to capital outlay, debt service, and State subventions.

California Government Code Title 1 (General), Division 9 (Expenditure Limitations), Sections 7900-7914 contain some specific direction regarding the implementation of Article XIII B and the calculation of the appropriations limit. Section 7909 requires that "no later than May 1 of each year, the Department of Finance shall notify each local agency of the change in the cost of living or change in California per capita personal income, whichever is less, and population for each

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local agency for the prior calendar year." Section 7910 requires that "each year the governing body of each local jurisdiction shall, by resolution, establish its appropriations limit and make other necessary determinations for the following fiscal year pursuant to Article XIII B of the California Constitution at a regularly scheduled meeting or noticed special meeting."

ANALYSIS AND POLICY ALTERNATIVES

Under Section 10.5 of Article XIII B, for fiscal years beginning on or after July 1, 1990, the Appropriations Limit is required to be calculated based on the limit for fiscal year 1986-87, adjusted for the inflation and population factors. Each year, the limit is recalculated by multiplying the previous year's limit by adjustment factors for population growth and inflation. Proposition 111, passed in June 1990, gave cities the option of using their own growth or the growth of the entire county in which the city is located as the population adjustment factor. Cities were also given the option of using the increase in California Per Capita Income or the increase in the assessed valuation of non-residential property in the City as the inflation adjustment factor. Cities have the option each year of deciding which factor to use. For 2017-18, Oakland is using the population growth of the County of Alameda and the increase in California Per Capita Income. These adjustment factors must be applied to retroactively recalculate the appropriations limit for 1987-88 (i.e. the base year) and each year thereafter in order to arrive at the limit for 2017-18.

2016-17 Appropriations Limit $\qquad\qquad\qquad$ \$580,455,234

2017-18 Adjustment Factors

County of Alameda Population Change = 1.0099 (0.99%)
California Per Capita Income Change = 1.0369 (3.69%)
Combined Change = 1.0099×1.0369 = 1.0472

2017-18 Appropriations Limit $\qquad\qquad\qquad$ \$607,852,721

Not all City appropriations are subject to the limitation of Article XIII B. The intent of Proposition 4 was to restrict only the appropriation of "proceeds of taxes." Determining which appropriations are subject to the limit requires classifying each funding source as either proceeds of taxes or non-proceeds of taxes. Property tax and local taxes are subject to limitation. State taxes that are sub vented to the City count against the City's limit if their use is unrestricted, as in the case of sales tax and motor vehicle in lieu. State subventions—taxes/fees levied by the state and distributed to cities—that are restricted in use are applied against the State's limit rather than the City's, so they are considered non-proceeds of taxes for the City's calculation. This includes Measure B sales tax, gas tax, and state grants and state-mandated cost subventions included in the Grants and Subsidies category. Interest income is prorated so that the interest earned on tax revenue is included as proceeds of taxes.

Most of the City's other revenue sources are classified as non-proceeds of taxes: franchise fees, Landscape and Lighting Assessments (special benefit assessment districts are excluded from the limitation), fines and penalties, license and permit fees, service charges, rentals and

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concessions, federal grants, Oakland Redevelopment Successor Agency reimbursements (redevelopment agencies are exempt from Article XIII B), internal service revenues, and other miscellaneous revenues. Enterprise funds – sewer service charges and golf course revenues – are also exempt from the limitation. Fund transfers are re-appropriations of revenue received in previous years; these funds were included in the calculation of appropriations subject to limitation in the year they were received and are not counted twice.

The total city appropriations subject to limitation per Article XIII B is \$526.65 million. The amount is derived from the City total revenue of \$671.56 million less \$144.92 million of property tax revenue appropriated to service voter-approved debt which is exempted from the appropriations limit. **Attachment A** provides the breakdown of the City's appropriations that are subject to limitation.

FISCAL IMPACT

There is no fiscal impact for this item.

PUBLIC OUTREACH / INTEREST

No public outreach is required for this item apart from the regular noticing requirements.

California Government Code Title 1 (General), Division 9 (Expenditure Limitations), Section 7910(a) states that "Each year the governing body of each local jurisdiction shall, by resolution, establish its appropriations limit and make other necessary determinations for the following fiscal year pursuant to Article XIII B of the California Constitution at a regularly scheduled meeting or noticed special meeting. Fifteen days prior to the meeting documentation used in the determination of the appropriations limit and other necessary determinations shall be available to the public."

COORDINATION

The Finance Department's Budget Bureau prepared this report.

OPPORTUNITIES

Economic: No direct economic opportunities have been identified.

Environmental: No direct environmental opportunities have been identified.

Social Equity: No direct social equity opportunities have been identified.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That the City Council Adopt A Resolution Establishing the City of Oakland's Appropriation Limit for Fiscal Year (FY) 2017-18 Pursuant to Article XIII B of the California Constitution.

For questions regarding this report, please contact Sarah Schlenk, Budget Director at (510) 238-3982.

Respectfully submitted,



KATANO KASAINÉ
Director of Finance

Reviewed by:
Sarah Schlenk, Budget Administrator
Budget Bureau

Prepared by:
Michelle Soares, City Administrator Analyst
Budget Bureau

Attachments (1):

Attachment A: ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION

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ARTICLE XIII B APPROPRIATIONS LIMIT
Fiscal Year 2017-18

Article XIII B of the California Constitution was created by the passage of Proposition 4 in November 1979, and establishes a limit on the amount of tax revenue which can be appropriated by government jurisdictions. This limit is popularly known as the Gann Limit. Each year, the limit is recalculated by multiplying the previous year's limit by adjustment factors for population growth and inflation. Proposition 111, passed in June 1990, gave cities the option of using their own growth or the growth of the entire county in which the city is located as the population adjustment factor. Cities were also given the option of using the increase in California Per Capita Income or the increase in the assessed valuation of non-residential property in the City as the inflation adjustment factor. Cities have the option each year of deciding which factor to use. For 2017-18, Oakland is using the population growth of the County of Alameda and the increase in California Per Capita Income. These adjustment factors must be applied to retroactively recalculate the appropriations limit for 1987-88 (i.e. the base year) and each year thereafter in order to arrive at the limit for 2017-18.

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2017-18 Adjustment Factors

County of Alameda Population Change	=	1.0099 (0.99%)
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Combined Change = 1.0106 x 1.0537	=	1.0472

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ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION
FY 2017-18

Revenue	Total	Proceeds of Taxes	Non Proceeds of Taxes
PROPERTY TAX	\$331.22	\$331.22	
STATE TAX			
Sales Tax	81.96	56.00	25.96
Prop 42	1.69		1.69
Gas Tax	9.57		9.57
Subtotal, State Taxes	\$93.22	\$56.00	\$37.22
LOCAL TAXES			
Business License Tax	79.58	79.58	
Utility Consumption Tax	50.70	50.70	
Real Estate Transfer Tax	75.82	75.82	
Transient Occupancy Tax	28.83	28.83	
Parking Tax	21.52	21.52	
Sugar Sweetened Beverage Tax	5.90	5.90	
Special Taxes	19.25	19.25	
Subtotal, Local Taxes	\$281.60	\$281.60	
LANDSCAPE & LIGHTING ASSESSMENT	19.16		19.16
INFRASTRUCTURE BOND	82.98		82.98
OTHER LOCAL FEES	51.64		51.64
SERVICE CHARGES	197.35		197.35
GRANTS & SUBSIDIES	63.95		63.95
MISCELLANEOUS	118.04	2.01	116.03
FUND TRANSFERS	166.34		166.34
SUBTOTAL REVENUES	\$1,322.51	\$670.82	\$651.69
INTEREST (Prorated)	0.80	0.74	0.06
TOTAL REVENUE	\$1,323.31	\$671.56	\$651.75
EXEMPTIONS*		(144.92)	
APPROPRIATIONS SUBJECT TO LIMITATION		526.65	
APPROPRIATIONS LIMIT		607.85	
OVER/(UNDER) LIMIT		(\$81.21)	

* Property tax revenue appropriated to service voter-approved debt is exempted.

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DRAFT

CITY ATTORNEY

OAKLAND CITY COUNCIL

Resolution No. _____ C.M.S.

RESOLUTION ESTABLISHING AN APPROPRIATIONS LIMIT FOR FISCAL YEAR 2017-18 PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION

WHEREAS, Article XIII B of the California Constitution (Limitation of Government Appropriations) was passed by the California electorate on November 6, 1979, and became effective on July 1, 1980; and

WHEREAS, the Chapter 1205, Statute of 1980, Section 7900 of the Government Code, formally implements methods for governmental entities to establish and define annual appropriations limits, based on annual appropriations for the prior fiscal year, which is fiscal year 2016-17, for fiscal year 2017-18; now therefore be it

RESOLVED: That the annual appropriations limit for the City of Oakland for FY 2017-18 is \$607,852,721 as reflected in Exhibit A; and be it

FURTHER RESOLVED: That the growth factors used to calculate the limit are the county population change and the increase in the California per capita income.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 2017

PASSED BY THE FOLLOWING VOTE:

AYES--- BROOKS, CAMPBELL WASHINGTON, GALLO, GIBSON MCELHANEY, GUILLEN, KALB, KAPLAN, AND COUNCIL PRESIDENT REID

NOES---

ABSENT---

ABSTENTION---

ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council of
the City of Oakland, California

ARTICLE XIII B APPROPRIATIONS LIMIT
Fiscal Year 2017-18

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