



AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Donna Hom
Budget Director

SUBJECT: Appropriations Limits for FY 2013-14 **DATE:** June 20, 2013

City Administrator Approval *Deanna Santana* Date *6/20/13*

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Approve a resolution establishing the City of Oakland's appropriation limit for fiscal year (FY) 2013-14 pursuant to Article XIII B of the California Constitution.

OUTCOME

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

Item: _____
City Council
June 27, 2013

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 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

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 2013-14, 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 2013-14.

2012-13 Appropriations Limit \$481,045,783

2013-14 Adjustment Factors

County of Alameda Population Change	= 1.0121 (1.21%)
California Per Capita Income Change	= 1.0512 (5.12%)
Combined Change = 1.0121×1.0512	= 1.0639

2013-14 Appropriations Limit \$511,784,608

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 subvented 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 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 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.

Attachment A provides you the breakdown of the City's appropriations that are subject to limitation.

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 City Administrator's Budget Office coordinated with the Office of the Controller and the Office of the City Attorney in preparing this report.

COST SUMMARY/IMPLICATIONS

There are no cost implications of this item.

SUSTAINABLE 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.

Respectfully submitted,

Donna Hom
Budget Director

Reviewed by:
Kirsten LaCasse, Assistant Controller
Controller's Office - Budget, Analysis & Operations

Prepared by:
Michelle Soares, Assistant Budget Analyst
Controller's Office - Budget, Analysis & Operations

Attachments

Attachment A: ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION

Item: _____
City Council
June 27, 2013

ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION
FY 2013-14

Revenue	Total	Proceeds of Taxes	Non Proceeds of Taxes
PROPERTY TAX	\$216.07	\$216.07	
STATE TAX			
Sales Tax	57.96	52.40	5.56
Prop 42	4.82		4.82
Gas Tax	6.64		6.64
Subtotal, State Taxes	\$69.43	\$52.40	\$17.02
LOCAL TAXES			
Business License Tax	58.49	58.49	
Utility Consumption Tax	50.59	50.59	
Real Estate Transfer Tax	39.45	39.45	
Transient Occupancy Tax	14.97	14.97	
Parking Tax	15.64	15.64	
Special Taxes	19.54	19.54	
Subtotal, Local Taxes	\$198.68	\$198.68	
LANDSCAPE & LIGHTING ASSESSMENT	18.97		18.97
OTHER LOCAL FEES	42.63		42.63
SERVICE CHARGES	149.25		149.25
GRANTS & SUBSIDIES	59.31		59.31
MISCELLANEOUS	89.01	0.14	88.87
FUND TRANSFERS	208.44		208.44
SUBTOTAL REVENUES	\$1,051.79	\$467.29	\$584.49
INTEREST (Prorated)	0.90		0.90
TOTAL REVENUE	\$1,052.69	\$467.29	\$585.40
EXEMPTIONS*		(90.97)	
APPROPRIATIONS SUBJECT TO LIMITATION		376.32	
APPROPRIATIONS LIMIT		511.78	
OVER/(UNDER) LIMIT		(\$135.47)	

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

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2013 JUN 20 PM 1:23

APPROVED AS TO FORM AND LEGALITY

DRAFT

CITY ATTORNEY

OAKLAND CITY COUNCIL

Resolution No. _____ C.M.S.

RESOLUTION ESTABLISHING AN APPROPRIATIONS LIMIT FOR FISCAL YEAR 2013-2014 PURSUANT TO ARTICLE XIIB OF THE CALIFORNIA CONSTITUTION

WHEREAS, Article XIIB 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 2012-13, for fiscal year 2013-14; now therefore be it

RESOLVED: That the annual appropriations limit for the City of Oakland for FY 2013-14 is \$511,784,608, 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, _____, 2013

PASSED BY THE FOLLOWING VOTE:

AYES--- BROOKS, GALLO, KALB, KAPLAN, MCELHANEY, REID, SCHAAF, AND PRESIDENT KERNIGHAN

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 2013-14

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 2013-14, 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 2013-14.

2012-13 Appropriations Limit	\$481,045,783
------------------------------	---------------

2013-14 Adjustment Factors

County of Alameda Population Change =	1.0121 (1.21%)
California Per Capita Income Change =	1.0512 (5.12%)
Combined Change = 1.0121×1.0512	= 1.0639

2013-14 Appropriations Limit	\$511,784,608
------------------------------	---------------

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 subvented 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 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 concessions, federal grants, Oakland Redevelopment 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.

ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION

FY 2013-14

Revenue	Total	Proceeds of Taxes	Non Proceeds of Taxes
PROPERTY TAX	\$216.07	\$216.07	
STATE TAX			
Sales Tax	57.96	52.40	5.56
Prop 42	4.82		4.82
Gas Tax	6.64		6.64
Subtotal, State Taxes	\$69.43	\$52.40	\$17.02
LOCAL TAXES			
Business License Tax	58.49	58.49	
Utility Consumption Tax	50.59	50.59	
Real Estate Transfer Tax	39.45	39.45	
Transient Occupancy Tax	14.97	14.97	
Parking Tax	15.64	15.64	
Special Taxes	19.54	19.54	
Subtotal, Local Taxes	\$198.68	\$198.68	
LANDSCAPE & LIGHTING ASSESSMENT	18.97		18.97
OTHER LOCAL FEES	42.63		42.63
SERVICE CHARGES	149.25		149.25
GRANTS & SUBSIDIES	59.31		59.31
MISCELLANEOUS	89.01	0.14	88.87
FUND TRANSFERS	208.44		208.44
SUBTOTAL REVENUES	\$1,051.79	\$467.29	\$584.49
INTEREST (Prorated)	0.90		0.90
TOTAL REVENUE	\$1,052.69	\$467.29	\$585.40
EXEMPTIONS*		(90.97)	
APPROPRIATIONS SUBJECT TO LIMITATION		376.32	
APPROPRIATIONS LIMIT		511.78	
OVER/(UNDER) LIMIT		(\$135.47)	

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