



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: Appropriations Limits for FY 2024-25

DATE: August 6, 2024

City Administrator Approval


Jestin Johnson (Aug 29, 2024 17:03 PDT)

Date: Aug 29, 2024

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Establishing An Appropriations Limit For Fiscal Year 2024-25 Pursuant To Article XIII B Of The California Constitution.

EXECUTIVE SUMMARY

[California Government Code section 7910\(a\)](#) requires the governing body of each local jurisdiction to establish, by resolution, its appropriations limit for the fiscal year pursuant to Article XIII B of the California Constitution. Approval of this proposed resolution will bring the City of Oakland (City) into compliance with [Government Code section 7910\(a\)](#).

A government entity cannot appropriate the proceeds of taxes it receives in excess of the appropriations limit during any fiscal year. The City's Appropriations Limit for Fiscal Year (FY) 2024-25 is \$1,129,162,217 inclusive of \$32,000,000 in state identified subventions. The FY 2024-25 Midcycle Adopted Budget appropriates \$898,212,712 in proceeds of taxes, which is \$230,949,505 under the appropriations limit.

BACKGROUND / LEGISLATIVE HISTORY

California Proposition 4 (November 1979) established Article XIII B of the California Constitution, which governs limitations on 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.

Article XIII B, Section 1 of the California Constitution 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, Article XIII B, Section 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 sections 7900-7914](#) contain specific directions 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 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.”

Section 4 of Article XIII B provides that the appropriations limit may be changed by the electors of the government entity for a term established by the electors but that shall not exceed four years from the vote of said electors. In March 2024, City of Oakland voters passed Measure D, which increased the City’s appropriations limit until March 5, 2028 to allow the City to continue to spend tax revenue from twelve (12) voter-approved local tax measures, including Measure M (The Emergency Medical Services Retention Act of 1997), Measure N (The Paramedic Services Act of 1997), Measure C (The Library Services Retention and Enhancement Act of 1994), Measure C (Transient Occupancy Tax - Hotel Tax), Measure Z (The 2014 Public Safety and Services Violence Prevention Act), Measure HH (Sugar Sweetened Beverage Distribution Tax), Measure D (The 2018 Oakland Public Library Preservation Act), Measure W (Oakland Vacant Property Tax Act), Measure Q (The 2020 Oakland Parks and Recreation Preservation, Litter Reduction, and Homelessness Support Act), Measure AA (The Children’s Initiative of 2018), Measure T (The Business Tax Ordinance of 2022), and Measure Y (The 2022 Oakland Zoo Animal Care, Education, and Improvement Ordinance). Election results were certified via [Resolution 90195 C.M.S.](#) and can also be found at <https://www.acgov.org/rovresults/251/>.

In the Budget Act of 2022, the California Legislature adopted changes to [Government Code Section 7903](#) to require city governments to include specified state subventions within the appropriations limits commencing with the fiscal year 2021-2022.

ANALYSIS AND POLICY ALTERNATIVES

Pursuant to Article XIII B, Section 10.5 of the California Constitution, 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 2024-25, 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 FY 2024-25.

The FY 2024-25 Appropriations Limit was calculated as follows:

FY 2023-24 Appropriations Limit \$810,109,612

FY 2024-25 Adjustment Factors

County of Alameda Population Change = -1.0054 (-0.54%)
California Per Capita Income Change = 1.0362 (3.62%)
Combined Change = (-1.0054) x 1.0362 = 1.0306

FY 2024-25 Appropriations Limit
(After Adjustment for Growth Factor of 1.0306) **\$834,898,966**

Appropriations Limit Override (Measure D): \$294,263,251

Emergency Medical Services (Measure M)	2,654,188
Paramedic Services (Measure N)	2,115,804
Library Services Retention & Enhancement (Measure C)	20,132,632
Transient Occupancy Tax - Hotel Tax (Measure C)	5,382,823
Public Safety and Violence Prevention Services (Measure Z)	21,615,790
Sugar Sweetened Beverages Distribution Tax (Measure HH)	6,896,218
Public Libraries Preservation (Measure D)	16,275,705
Vacant Property Tax (Measure W)	5,362,916
Parks & Recreation Preservation (Measure Q)	33,008,342
Children's Initiative of 2018 (Measure AA)	45,752,229
Business Tax Ordinance (Measure T)	120,056,728
Oakland Zoo Animal Care Ordinance (Measure Y)	15,009,876

TOTAL Appropriation Limitation with Override **\$1,129,162,217**

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 and include Measure B and BB sales tax and gas tax. In the Budget Act of 2022, the California Legislature adopted changes to [Government Code Section 7903](#) to require city governments to include specified state subventions within the appropriations limits commencing with the fiscal year 2021-2022 and are considered proceeds of taxes 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, fines and penalties, license and permit fees, service charges, rentals and concessions,

federal grants, internal service revenues, and other miscellaneous revenues. Exempt from the limitation are enterprise funds such as sewer service charges and golf course revenues, special benefit assessment districts such as the Landscape and Lighting Assessment District, and redevelopment agencies namely the Oakland Redevelopment Successor Agency reimbursements. Fund transfers are considered re-appropriations of revenue received in previous years; therefore, these funds were included in the calculation of appropriations subject to limitation in the year they were received and are not counted twice.

The City's Appropriations Limit for Fiscal Year (FY) 2024-25 is \$1,129,162,217 inclusive of \$32,000,000 in state identified subventions. The FY 2024-25 Midcycle Adopted Budget appropriates \$898,212,712 in proceeds of taxes, which is \$230,949,505 under the appropriations limit.

The adoption of this proposed resolution advances the citywide priority of a responsive, trustworthy government by adhering to California state law.

FISCAL IMPACT

Failure to adopt the proposed resolution establishing the FY 2024-25 Appropriations Limit puts the City in violation of the State Constitution which may legally impair the City's ability to appropriate the proceeds of taxes it collects. The City is required to adopt an appropriations limit each fiscal year and if this resolution is not adopted, the City's FY 2024-25 Midcycle Adopted Budget appropriates \$898,212,712 in proceeds of taxes which exceeds the current established appropriations limit by \$63,313,745.

PUBLIC OUTREACH / INTEREST

[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." In compliance with this requirement, the documentation was posted on the City's website 15 days prior to the meeting at which this resolution will be adopted.

COORDINATION

This report was prepared by the Finance Department and reviewed by the City Attorney's office.

SUSTAINABLE OPPORTUNITIES

Economic: There are no economic opportunities associated with this report.

Environmental: There are no environmental opportunities associated with this report.

Race & Equity: there are no race & equity opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Adopt A Resolution Establishing The Appropriations Limit For Fiscal Year 2024-25 Pursuant To Article XIIB Of The California Constitution.

For questions regarding this report, please contact Brittany Hines, Assistant to the Director at (510) 238-7078.

Respectfully submitted,



Erin Roseman (Aug 23, 2024 14:50 PDT)

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Finance Department

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