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OFFICE OF THE CITY CLERK  
OAKLAND

2016 JUN -9 PM 6:30

# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Kirsten LaCasse  
Controller (Acting)

**SUBJECT:** Appropriations Limits for FY 2016-17

**DATE:** June 3, 2016

City Administrator Approval

Date:

6/9/16

## RECOMMENDATION

**Staff Recommends That The City Council Adopt A Resolution Establishing the City of Oakland's Appropriation Limit for Fiscal Year (FY) 2016-17 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 local agency for the prior calendar year." Section 7910 requires that "each year the governing

Item: \_\_\_\_\_  
City Council  
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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 2016-17, 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 2016-17.

2015-16 Appropriations Limit \$545,079,569

2016-17 Adjustment Factors

County of Alameda Population Change = 1.0106 (1.06%)  
California Per Capita Income Change = 1.0537 (5.37%)  
Combined Change =  $1.0106 \times 1.0537$  = 1.0649

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

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 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 \$475.30 million. The amount is derived from the City total revenue of \$585.88 million less \$110.58 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 Controllers Bureau coordinated with the City Administrator's Budget Office and the Office of the City Attorney in preparing 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) 2016-17 Pursuant to Article XIII B of the California Constitution.

For questions regarding this report, please contact Kirsten LaCasse, Controller (Interim), at (510) 238-6776.

Respectfully submitted,



KIRSTEN LACASSE  
Interim Controller, Controller's Bureau

Reviewed by:  
Lucius Hatcher, Jr., Asst. Controller (Acting)  
Finance Department – Controller  
Budget, Analysis & Operations

Prepared by:  
Michelle Soares, City Administrator Analyst  
Finance Department – Controller  
Budget, Analysis & Operations

Attachments (1):

Attachment A: ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION

**ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION**  
**FY 2016-17**

Revenue	Total	Proceeds of Taxes	Non Proceeds of Taxes
PROPERTY TAX	<b>\$272.51</b>	<b>\$272.51</b>	
STATE TAX			
Sales Tax	78.68	53.32	25.36
Prop 42	0.97		0.97
Gas Tax	7.39		7.39
<b>Subtotal, State Taxes</b>	<b>\$87.04</b>	<b>\$53.32</b>	<b>\$33.72</b>
LOCAL TAXES			
Business License Tax	72.24	72.24	
Utility Consumption Tax	50.50	50.50	
Real Estate Transfer Tax	69.85	69.85	
Transient Occupancy Tax	24.66	24.66	
Parking Tax	22.46	22.46	
Special Taxes	19.76	19.76	
<b>Subtotal, Local Taxes</b>	<b>\$259.47</b>	<b>\$259.47</b>	
LANDSCAPE & LIGHTING ASSESSMENT	19.30		19.30
OTHER LOCAL FEES	46.97		46.97
SERVICE CHARGES	177.18		177.18
GRANTS & SUBSIDIES	60.43		60.43
MISCELLANEOUS	113.63	0.58	113.05
FUND TRANSFERS	198.05		198.05
<b>SUBTOTAL REVENUES</b>	<b>\$1,234.59</b>	<b>\$585.88</b>	<b>\$648.71</b>
INTEREST (Prorated)	0.96		0.96
<b>TOTAL REVENUE</b>	<b>\$1,235.54</b>	<b>\$585.88</b>	<b>\$649.66</b>
EXEMPTIONS*		(110.58)	
APPROPRIATIONS SUBJECT TO LIMITATION		475.30	
APPROPRIATIONS LIMIT		580.46	
<b>OVER/(UNDER) LIMIT</b>		<b>(\$105.15)</b>	

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

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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 2016-17 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 2015-16, for fiscal year 2016-17; now therefore be it

**RESOLVED:** That the annual appropriations limit for the City of Oakland for FY 2016-17 is \$580,455,234 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, \_\_\_\_\_, 2016

**PASSED BY THE FOLLOWING VOTE:**

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

**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 2016-17**

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 2016-17, 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 2016-17.

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