



# AGENDA REPORT

**TO:** Stephen Falk  
City Administrator, Interim

**FROM:** Erin Roseman  
Director of Finance

**SUBJECT:** Appropriations Limits for FY 2023-24

**DATE:** May 15, 2023

City Administrator Approval 

Date: Jun 1, 2023

## **RECOMMENDATION**

**Staff Recommends That The City Council Adopt A Resolution Establishing An Appropriations Limit For Fiscal Year 2023-24 Pursuant To Article XIII B Of The California Constitution.**

## **EXECUTIVE SUMMARY**

[California Government Code section 7910\(a\)](#) requires the governing body of each local jurisdictions to establish, by resolution, its appropriations limit for the fiscal year pursuant to Article XIII B of the California Constitution. Approval of this 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) 2023-24 is \$889,392,842 inclusive of \$3,910,000 in state identified subventions. The FY 2023-24 Proposed Budget appropriates \$889,392,842 million in proceeds of taxes, which is at the maximum 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 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 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.”

In March 2020, City of Oakland voters passed Measure S, which increased the City’s appropriations limit until March 3, 2024 to allow the City to continue to spend tax revenue from voter-approved tax measures, including Measure M (The Emergency Medical Services Retention Act of 1997), Measure N (The Paramedic Services Act of 1997), Measure Q (The Library Services Retention and Enhancement Act of 2004), 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), and Measure W (Oakland Vacant Property Tax Act).

In the Budget Act of 2022, changes were made to Government Code 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 2023-24, 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 2023-24.

FY 2022-23 Appropriations Limit \$779,326,226

FY 2023-24 Adjustment Factors

County of Alameda Population Change = -1.0047 (0.47%)  
California Per Capita Income Change = 1.0444 (4.44%)  
Combined Change = (-1.0047) x 1.0444 = 1.0395

**FY 2023-24 Appropriations Limit  
(After Adjustment for Growth Factor of 1.0688) \$810,109,612**

Appropriations Limit Override (Measure S Restorations): \$79,283,230

Emergency Medical Services (Measure M)	2,578,140
Paramedic Services (Measure N)	2,053,220
Library Services (Library Measure Q)	20,324,834
Hotel Tax (Measure C)	6,131,594
Public Safety and Violence Prevention Services (Measure Z)	20,617,924
Sugar Sweetened Beverages (Measure HH)	6,882,703
Public Libraries Preservation (Measure D)	15,345,586
Vacant Properties (Measure W)	5,349,229

**TOTAL FY 2023-24 Appropriation Limitation \$889,392,842**

Not all City appropriations are subject to the limitation of Article XIIIB. 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 XIIIB), 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 XIIIB is \$889.39 million, which is inclusive of \$3.91 million in state identified subventions. This amount is derived by taking the City's total proceeds of taxes of \$1,020.93 million less \$131.54 million of property tax revenue appropriated to service voter-approved debt which is exempted from the appropriations limit.

This will advance the citywide priority of a ***responsive, trustworthy government***.

### **FISCAL IMPACT**

Failure to pass an appropriations limit would put the City in violation of the State Constitution this may legally impair the City's ability to appropriate the proceeds of taxes it collects.

### **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:*** No direct economic opportunities have been identified.

***Environmental:*** No direct environmental opportunities have been identified.

***Race & Equity:*** No direct equity opportunities have been identified.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Adopt A Resolution Establishing The Appropriations Limit For Fiscal Year 2023-24 Pursuant To Article XIII B Of The California Constitution.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator at (510) 238-6119.

Respectfully submitted,



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