



# AGENDA REPORT

**TO:** Edward D. Reiskin  
City Administrator

**FROM:** Adam Benson  
Director of Finance

**SUBJECT:** Appropriations Limits for FY 2020-21

**DATE:** June 3, 2020

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City Administrator Approval

Date: June 10, 2020

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## **RECOMMENDATION**

**Staff Recommends That The City Council Adopt A Resolution Establishing An Appropriations Limit For Fiscal Year 2020-21 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) 2020-21 is \$756.73 million. The FY 2020-21 Proposed Budget appropriates \$657.01 million in proceeds of taxes, which is \$108.72 million less than 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.

City Council  
June 16, 2020

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 (Emergency Medical Services), Measure N (Paramedic Services), Measure Q (Library Services), Measure C (Hotel Tax), Measure Z (Public Safety and Violence Prevention Services), Measure HH (Sugar Sweetened Beverages), Measure D (Public Libraries Preservation), Measure W (Vacant Properties), as well as other taxes received by the City such as, Property Tax, State Tax, Business License Tax, Utility Consumption Tax, Real Estate Transfer Tax, Transient Occupancy Tax, and the Parking Tax. Election results can be found at <https://votersedge.org/ca/en/election/2020-03-03/alameda-county/city-of-oakland/measure/measure-s>

**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 2019-20, 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 2020-21.

2019-20 Appropriations Limit \$664,870,535

2020-21 Adjustment Factors

County of Alameda Population Change = 1.0037 (0.37%)  
California Per Capita Income Change = 1.0373 (3.73%)  
Combined Change = 1.0037 x 1.0373 = 1.0411

2020-21 Appropriations Limit \$692,196,713

In March 2020, City of Oakland voters passed Measure S, which increased the City's appropriations limit to allow the City to continue to spend tax revenue from voter-approved tax measures.

FY 2020-21 Appropriations Limit (After Adjustment for Growth Factor of 1.0411)	\$692,196,713
ADD BACK:	
Emergency Medical Services	2,394,093
Paramedic Services	1,853,726
Library Services	17,506,963
Hotel Tax	4,338,582
Public Safety and Violence Prevention Services	18,000,000
Sugar Sweetened Beverages	9,200,000
Public Libraries Preservation	13,243,470
Vacant Properties	7,000,000
TOTAL Gann Appropriation Limitation	\$ 765,733,547

The GANN Limit override to raise the spending limit for the special taxes are required to be renewed by voters every four years. The date the next GANN Limit override is to be submitted to voters is March 2024.

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 XIIB is \$657.11 million, which is \$108.72 million less than the Appropriation Limit. This amount is derived by taking the City's total proceeds of taxes of \$811.45 million less \$154.44 million of property tax revenue appropriated to service voter-approved debt which is exempted from the appropriations limit.

### **FISCAL IMPACT**

There is no fiscal impact associated with this report.

### **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.

### **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.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends That The City Council Adopt A Resolution Establishing An Appropriations Limit For Fiscal Year 2020-21 Pursuant To Article XIII B Of The California Constitution.

For questions regarding this report, please contact Adam Benson, Budget Administrator at (510) 238-2026.

Respectfully submitted,



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ADAM BENSON  
Director of Finance

Prepared by:  
Michelle R. Soares,  
Budget & Management Analyst

**ARTICLE XIII B APPROPRIATIONS LIMIT  
Fiscal Year 2020-21**

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 2020-21 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 2020-21

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 local tax measures, including Measure M (Emergency Medical Services), Measure N (Paramedic Services), Measure Q (Library Services), Measure C (Hotel Tax), Measure Z (Public Safety and Violence Prevention Services), Measure HH (Sugar Sweetened Beverages), Measure D (Public Libraries Preservation), and Measure W (Vacant Properties).

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**ARTICLE XIII B - APPROPRIATIONS SUBJECT TO LIMITATION**  
**FY 2020-21**

Revenue	Total	Proceeds of Taxes	Non Proceeds of Taxes
PROPERTY TAX	<b>\$398.36</b>	<b>\$398.36</b>	
STATE TAX			
Sales Tax	78.35	52.55	25.80
Gas Tax	17.40		17.40
<b>Subtotal, State Taxes</b>	<b>\$95.75</b>	<b>\$52.55</b>	<b>\$43.20</b>
LOCAL TAXES			
Business License Tax	88.00	88.00	
Utility Consumption Tax	52.00	52.00	
Real Estate Transfer Tax	89.06	89.06	
Transient Occupancy Tax	20.25	20.25	
Parking Tax	17.25	17.25	
Sugar Sweetened Beverage Tax	9.20	9.20	
Special Taxes	84.30	84.30	
<b>Subtotal, Local Taxes</b>	<b>\$360.05</b>	<b>\$360.05</b>	
LANDSCAPE & LIGHTING ASSESSMENT	19.16		19.16
INFRASTRUCTURE BOND	81.30		81.30
OTHER LOCAL FEES	41.64		41.64
SERVICE CHARGES	230.47		230.47
GRANTS & SUBSIDIES	76.37		76.37
MISCELLANEOUS	134.69		134.69
FUND TRANSFERS	212.91		212.91
<b>SUBTOTAL REVENUES</b>	<b>\$1,650.70</b>	<b>\$810.97</b>	<b>\$839.74</b>
INTEREST (Prorated)	0.59	0.48	0.10
<b>TOTAL REVENUE</b>	<b>\$1,651.29</b>	<b>\$811.45</b>	<b>\$839.84</b>
EXEMPTIONS*		(154.44)	
APPROPRIATIONS SUBJECT TO LIMITATION		657.01	
APPROPRIATIONS LIMIT		765.73	
<b>OVER/(UNDER) LIMIT</b>		<b>(\$108.72)</b>	

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



  
City Attorney's Office

## OAKLAND CITY COUNCIL

RESOLUTION NO. \_\_\_\_\_ C.M.S.

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### RESOLUTION ESTABLISHING AN APPROPRIATIONS LIMIT FOR FISCAL YEAR 2020-21 PURSUANT TO ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION

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

**WHEREAS**, Article XIII B establishes a limit on the amount of tax revenue local governments can appropriate in any fiscal year and requires that local governments calculate appropriations limits annually; and

**WHEREAS**, Title 1, Division 9 (commencing with Section 7900) of the California Government Code implements Article XIII B and provides the method for calculating annual appropriations limits based on appropriations limit for the prior fiscal year; and

**WHEREAS**, on March 3, 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 (Emergency Medical Services), Measure N (Paramedic Services), Measure Q (Library Services), Measure C (Hotel Tax), Measure Z (Public Safety and Violence Prevention Services), Measure HH (Sugar Sweetened Beverages), Measure D (Public Libraries Preservation), and Measure W (Vacant Properties); now, therefore be it

**RESOLVED:** That the Fiscal Year 2020-21 appropriations limit for the City of Oakland is \$765,733,547 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.

2943135v1

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - FORTUNATO BAS, GALLO, GIBSON MCELHANEY, KALB, REID, TAYLOR, THAO AND  
PRESIDENT KAPLAN

NOES -

ABSENT -

ABSTENTION -

ATTEST: \_\_\_\_\_  
ASHA REED  
Acting City Clerk and Clerk of the Council  
of the City of Oakland, California