

000171

REQUEST FOR COUNCIL ACTION
CITY OF SAN DIEGO

1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE ONLY)

202
6/14

TO:
City Attorney

2. FROM (ORIGINATING DEPARTMENT):
Financial Management- Department of Finance

3. DATE:
05/14/2007

4. SUBJECT:
Fiscal Year 2008 Tax Appropriations Limit (Gann Limit)

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)
Irina Kumits/235-5714 MS 8A

6. SECONDARY CONTACT (NAME, PHONE & MAIL STA.)
Adrian Zolla/533-4055 MS 8A

7. CHECK BOX IF REPORT TO
COUNCIL IS ATTACHED

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND				
DEPT.				
ORGANIZATION				
OBJECT ACCOUNT				
JOB ORDER				
C.I.P. NUMBER				
AMOUNT				

9. ADDITIONAL INFORMATION / ESTIMATED COST:
See Attached

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT (MARY LEWIS)	<i>Mary Lewis</i>	5/28/07	8	ORIGINATING DEPT (MARY LEWIS)	<i>Mary Lewis</i>	5/30/07
2	EAS	<i>Kenneth Seasley</i>	5/23/07	9			
3	EOCP	<i>Cy</i>	5/24/07	10			
4	LIAISON OFFICE	<i>cy</i>	5/25/07	11			
5	AUDITOR	<i>[Signature]</i>	5/23/07	DOCKET COORD: <i>[Signature]</i>		COUNCIL LIAISON: <i>[Signature]</i>	
6	CFO (JAY M. GOLDSTONE)	<i>[Signature]</i>	5/29/07	COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input type="checkbox"/> ADOPTION <input checked="" type="checkbox"/>			
7	CITY ATTORNEY (MARK D. BLAKE)	<i>[Signature]</i>	5/28/07	COUNCIL DATE: 6/11/07			

11. PREPARATION OF: RESOLUTION(S) ORDINANCE(S) AGREEMENT(S) DEED(S)

Resolution approving the establishment of the Fiscal Year 2008 Tax Appropriation Limit (Gann Limit) in the amount of \$1,264,717,843.

11A. STAFF RECOMMENDATIONS:

Establish a Tax Appropriations Limit of \$1,264,717,843 for Fiscal Year 2008.

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): ALL

COMMUNITY AREA(S): N/A

ENVIRONMENTAL IMPACT: THIS ACTIVITY IS NOT A "PROJECT" AND IS THEREFORE NOT SUBJECT TO CEQA PURSUANT TO STATE CEQA GUIDELINES SECTION 05060 (C) (3).

HOUSING IMPACT: N/A

OTHER ISSUES: N/A

000173

EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE ISSUED: _____ REPORT NO: _____
ATTENTION: Council President and City Council
ORIGINATING DEPARTMENT: Financial Management - Department of Finance
SUBJECT: FY 2008 Tax Appropriations Limit (Gann Limit)
COUNCIL DISTRICT(S): All
CONTACT/PHONE NUMBER: Adrian Zolla/533-4055

REQUESTED ACTION: Establish a Tax Appropriations Limit (Gann Limit) of \$1,264,717,843 (or \$1.26 billion) for Fiscal Year 2008.

STAFF RECOMMENDATION: Establish the Tax Appropriations Limit of \$1.26 billion for Fiscal Year 2008 as required by the Gann Initiative.

EXECUTIVE SUMMARY:

In November 1979, California voters approved Proposition 4 (the Gann Initiative) and added Article XIII B to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIII B. This legislation required the governing body of each local jurisdiction in California to establish a Tax Appropriations Limit on or before June 30 of each year for the following fiscal year. The Tax Appropriations Limit is based on actual appropriations during the State of California Fiscal Year 1978-79, and adjusted each year using population and inflation adjustment factors.

On June 5, 1990, California voters approved Proposition 111, amending Article XIII B. Proposition 111 allowed local jurisdictions to choose among measures of inflation and population growth to compute the adjustment factor. The measures for inflation (price factors) include growth in the California per capita income or growth in the non-residential assessed valuation due to construction within a city; measures for population growth include population growth within the county or city. Attachment 1 presents a 10 year history of the adjustment factors and tax appropriation limits for the City of San Diego.

The proposed Tax Appropriations Limit for Fiscal Year 2008 is \$1.26 billion. In accordance with Proposition 111 guidelines, the Fiscal Year 2008 Tax Appropriations Limit was calculated by adjusting the prior year's tax appropriations limit using one of the adjustment factors. See Attachment 2 for alternative adjustment factors applicable to Fiscal Year 2008. The recommended Fiscal Year 2008 adjustment factor was calculated using the price factor based on the percent change in assessed valuation of new non-residential construction within the City (8.20%) and the population factor based on the percent growth in the County's population (1.22%), resulting in an adjustment factor of 9.52% (see Attachment 2). The use of this adjustment factor results in a Tax Appropriations Limit for Fiscal Year 2008 of \$1.26 billion, a 9.52% increase over the Fiscal Year 2007 Tax Appropriations Limit of \$1.15 billion.

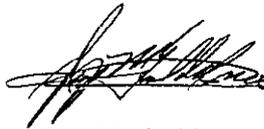
The Tax Appropriations Limit does not apply to all City revenues, or all General Fund revenues, but only to proceeds of taxes including property tax, sales tax, transient occupancy tax, motor vehicle license fees, and other local taxes, less the amount paid in debt service on both voter-approved debt and qualified capital outlays¹. Other revenues, including fees, licenses and permits, rents and concessions, and inter-fund transfers are not subject to the limit. The Proposed Budget for Fiscal Year 2008 as well as an item to be included in the Mayor's May Budget Revision projects the tax appropriations subject to the limit to be \$811,846,618. See Attachment 3 for details on the Fiscal Year 2008 appropriations subject to the limit. The projected appropriations subject to the limit are estimated to be approximately \$452.9 million below the recommended limit².

FISCAL CONSIDERATION(S): The City Council has the option to select one of the other three adjustment factors allowed under Proposition 111 to establish the Fiscal Year 2008 Tax Appropriations Limit. As shown in Attachment 2, each of these three alternative options would result in a lower annual adjustment factor and therefore a lower Tax Appropriations Limit. A lower appropriations limit would lower the base used for calculation of the limit in future years, which could lower the City's ability to appropriate tax revenues.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: Since the inception of the Gann Initiative in 1979, the City Council has adopted a Tax Appropriations Limit annually.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: In accordance with California Law, Division 9 of the Government Code, supporting documents for the tax appropriations limit is made available to the public, at the Office of the City Clerk, 15 days prior to City Council adoption of the limit.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Not adopting the FY 2008 Tax Appropriations Limit on or before June 30, 2007 will be a violation of California Law, Division 9 of the Government Code.



Jay M. Goldstone
Chief Financial Officer

¹ A fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds \$100,000.

² Changes to the FY 2008 Proposed Budget will not impact the action of establishing the tax appropriations limit, which is calculated using adjustment factors and the prior year's limit. If changes to the budget lead to an increase in appropriations subject to the limit, the gap between the appropriations subject to the limit and the limit will change. As noted above the projected appropriations subject to the limit are well below the recommended FY 2008 Tax Appropriations Limit.

**TEN-YEAR HISTORY OF PRICE AND POPULATION FACTORS &
TAX APPROPRIATIONS LIMITS ⁽¹⁾
FOR FISCAL YEARS 1999 to 2008**

Fiscal Year	Price Adjustment	Population Adjustment	Total Adjustment	Appropriations Limit
1999	4.67%	1.46%	6.20%	\$539,035,663
2000	4.15%	2.56%	6.82%	\$512,052,218 ⁽²⁾
2001	4.91%	2.15%	7.17%	\$548,766,362 ⁽²⁾
2002	7.82%	1.96%	9.93%	\$603,258,862
2003	11.38%	1.80%	13.38%	\$684,004,095
2004	16.05%	1.72%	18.05%	\$807,466,834
2005	12.80%	1.52%	14.51%	\$924,630,272
2006	13.54%	1.27%	14.98%	\$1,063,139,887
2007	7.61%	0.94%	8.62%	\$1,154,782,545
2008	8.20%	1.22%	9.52%	\$1,264,717,843

- (1) In 1980, the State Legislature added Division 9 to Title I of the Government Code to implement Article XIII B. This legislation required the governing body of each local jurisdiction in California to establish a tax appropriations limit on or before June 30 of each year for the following fiscal year, pursuant to which the City of San Diego has been establishing this limit since 1981.
- (2) In November 1994, Proposition E was approved authorizing an increase of \$50 million in the City's Tax Appropriation Limit for Fiscal Year 1996 and authorizing adjustments to this increased limit for the subsequent three fiscal years through Fiscal Year 1999. The Fiscal Year 2000 Tax Appropriation Limit fell due to the expiration of this four-year \$50 million increase in the Tax Appropriation Limit resulting from Proposition E.

ALTERNATIVE ADJUSTMENT FACTORS

Under Proposition 111, there are two options available for each of the major adjustment factors. The values of these factors for the purpose of calculating the Fiscal Year 2008 adjustment are as follows:

Price Factor:

- | | | |
|-----|---|--------|
| (A) | Percent growth in State per Capita Personal Income:
(Source: Dept of Finance, California-Attachment 2A-2) | +4.42% |
| (B) | Percent change in Assessed Valuation due to new non-residential construction:
(Source: San Diego County Assessor's Office-Attachment 2B) | +8.20% |

Population Factor:

- | | | |
|-----|---|--------|
| (C) | Percent growth in County Population:
(Source: Dept of Finance, California-Attachment 2A-3) | +1.22% |
| (D) | Percent growth in City Population:
(Source: Same as 'C' above) | +0.95% |

Annual Adjustment Factors:

Based upon the actual data, the four alternative adjustment factors are as follows:

$$(A \times C) = (1.0442) \times (1.0122) = 1.0569$$

$$(A \times D) = (1.0442) \times (1.0095) = 1.0541$$

$$(B \times C) = (1.0820) \times (1.0122) = 1.0952$$

$$(B \times D) = (1.0820) \times (1.0095) = 1.0923$$

The recommended limit was calculated using the adjustment factor "(B x C)", resulting in a 9.52% increase to the limit. Of the 4 adjustment factors above, 9.52% represents the largest allowable increase to the adjustment factor.

Calculation of the Fiscal Year 08 Limit:

$$\begin{aligned} \text{Fiscal Year 2008 Limit} &= (\text{FY 2007 Limit}) \times (\text{Recommended Adjustment Factor}) \\ &= (\$1,154,782,545) \times (1.0952) = \mathbf{\$1,264,717,843} \end{aligned}$$



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

May 2007

Dear Fiscal Officer:

Subject: Price and Population Information

Appropriations Limit

The California Revenue and Taxation Code, Section 2227, mandates the Department of Finance (Finance) to transmit an estimate of the percentage change in population to local governments. Each local jurisdiction must use their percentage change in population factor for January 1, 2007, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2007-08. Enclosure I provide the change in California's per capita personal income and an example for utilizing the price factor and population percentage change factor to calculate the 2007-08 appropriations limit. Enclosure II provides city and unincorporated county population percentage changes, and Enclosure IIA provides county and incorporated areas population percentage changes. The population percentage change data excludes federal and state institutionalized populations and military populations, as noted.

Population Percent Change for Special Districts

Some special districts must establish an annual appropriations limit. Consult the Revenue and Taxation Code, Section 2228 for further information regarding the appropriation limit. You can access the Code from the following website: "<http://www.leginfo.ca.gov/calaw.html>" check: "Revenue and Taxation Code" and enter 2228 for the search term to learn more about the various population change factors available to special districts to calculate their appropriations limit. Article XIII B, Section 9, of the State Constitution exempts certain special districts from the appropriations limit calculation mandate. Consult the following website: "http://www.leginfo.ca.gov/const/article_13B" for additional information. Special districts required by law to calculate their appropriations limit must present the calculation as part of their annual audit. Any questions special districts have on this issue should be referred to their respective county for clarification, or to their legal representation, or to the law itself. No State agency reviews the local appropriations limits.

Population Certification

The population certification program applies only to cities and counties. Revenue and Taxation Code Section 11005.6 mandates Finance to automatically certify any population estimate that exceeds the current certified population with the State Controller's Office. **Finance will certify the higher estimate to the State Controller by June 1, 2007.**

Please Note: City population estimates are controlled to independently calculated county population estimates which are subject to revisions. Prior year's city population estimates may also be revised as a result.

If you have any questions regarding this data, please contact the Demographic Research Unit at (916) 323-4086.

MICHAEL C. GENEST
Director
By:

VINCENT P. BROWN
Chief Deputy Director

Enclosure

May 2007

Enclosure I

- A. **Price Factor:** Article XIII B specifies that local jurisdictions select their cost-of-living factor to compute their appropriation limit by a vote of their governing body. The cost-of-living factor provided here is per capita personal income. If the percentage change in per capita personal income is selected, the percentage change to be used in setting the 2007-2008 appropriation limit is:

Per Capita Personal Income

Fiscal Year (FY)	Percentage change over prior year
2007-2008	4.42

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2007-2008 appropriation limit.

2007-2008:

Per Capita Cost of Living Change = 4.42 percent
Population Change = 1.20 percent

Per Capita Cost of Living converted to a ratio: $\frac{4.42 + 100}{100} = 1.0442$

Population converted to a ratio: $\frac{1.20 + 100}{100} = 1.0120$

Calculation of factor for FY 2007-2008:

$$1.0442 \times 1.0120 = 1.0567$$

Enclosure II
Annual Percent Change in Population Minus Exclusions (*)
January 1, 2006 to January 1, 2007 and Total Population, January 1, 2007

County City	<u>Percent Change</u>	<u>Population Minus Exclusions</u>		<u>Total</u>
	2006-2007	1-1-06	1-1-07	1-1-2007
San Diego				
Carlsbad	2.73	98,641	101,337	101,337
Chula Vista	1.87	223,533	227,723	227,723
Coronado	0.33	18,032	18,091	22,957
Del Mar	0.51	4,525	4,548	4,548
El Cajon	0.37	96,900	97,255	97,255
Encinitas	0.67	62,836	63,259	63,259
Escondido	0.69	140,816	141,788	141,788
Imperial Beach	0.50	27,572	27,709	27,709
La Mesa	0.84	55,779	56,250	56,250
Lemon Grove	0.32	25,371	25,451	25,451
National City	0.82	52,894	53,328	61,115
Oceanside	0.95	174,986	176,644	176,644
Poway	0.52	50,567	50,830	50,830
San Diego	0.95	1,292,248	1,304,485	1,316,837
San Marcos	3.99	76,752	79,812	79,812
Santee	0.79	54,727	55,158	55,158
Solana Beach	0.65	13,331	13,418	13,418
Vista	0.52	94,473	94,962	94,962
Unincorporated	2.00	428,547	437,132	481,216
County Total	1.22	2,992,530	3,029,180	3,098,269

(*) Exclusions include residents on federal military installations and group quarters' residents in state mental institutions, and state and federal correctional institutions.

**ASSESSED VALUATION ATTRIBUTABLE TO
NEW NON-RESIDENTIAL CONSTRUCTION**

Percentage of Assessed Valuation due to new non-residential construction within the City

$$= \frac{\text{New non-residential construction}^1}{\text{Change in assessed valuation (CY 2005 to CY 2006)}^2} \times 100$$

$$= \frac{\$ 1,341,572,505}{\$16,354,881,534} \times 100$$

$$= 0.0820 \times 100$$

$$= 8.20\%$$

¹ Source: San Diego County Assessor's Office

² Source: San Diego County Assessor's Office

Assessed Valuation for Calendar Year 2006 = \$153,983,951,876

Assessed Valuation for Calendar Year 2005 = \$137,629,070,342

Change in Assessed Valuation = Assessed Valuation for 2006 - Assessed Valuation for 2005

= \$153,983,951,876 - \$137,629,070,342

= \$16,354,881,534

FY 2008 TAX APPROPRIATIONS SUBJECT TO THE GANN LIMIT

FY 2008

Appropriations Subject to the Gann Limit *

Property Tax		\$385,688,853
Property Tax (1) (2)		10,808,799
Sales Tax		239,485,958
Safety Sales Tax		8,401,528
Transient Occupancy Tax (TOT)		159,184,101
TOT General Fund		83,382,148
TOT Special Revenue Fund		75,801,953
Property Transfer Tax		7,570,860
Business Tax		19,958,041
Vehicle License Fee (3)		7,938,333
Interest Earnings		8,358,122
Total Unadjusted Appropriations subject to the Limit	[A]	\$847,394,595

Adjustment for appropriations not subject to the Gann Limit *

<u>Annual Debt Service for Voter Approved Debt (G.O. Bonds)</u>		
1991 Public Safety Communication Bonds (2)		2,328,948
1994 Open Space Bonds		437,025
Total Annual Debt Service for Voter Approved Debt	[B]	\$2,765,973
<u>Qualified Capital Outlays</u>		
1994 City/MTDB Authority Refunding-Bayside Trolley Extension		2,922,533
1996A Balboa Park/Mission Bay Park Certificates of Participation		3,528,679
1996B Balboa Park/Mission Bay Park Refunding Certificates of Participation		882,865
1998 Convention Center Expansion Lease Revenue Bonds (4)		9,199,125
2002B Fire and Life Safety Facilities Project Phase I		1,621,208
2003 City/MTDB Refunding Bonds – Old Town Light Rail Transit Extension		1,157,349
2003 Balboa Park/Mission Bay Park Refunding Certificates of Participation		2,155,689
2007A Ballpark Refunding Bonds		11,314,556
Total Qualified Capital Outlays	[C]	\$32,782,004
Total Adjustment	[D = B+C]	\$35,547,977
Total Adjusted Appropriations subject to the limit	[E = A-D]	\$811,846,618

Calculation of the Gann Limit and the Gap

Prior Year (FY 2007) Gann Limit	[F]	\$1,154,782,545
Adjustment Factor	[G]	1.0952
Gann Limit for FY 2008	[H = F*G]	\$1,264,717,843
Projected appropriations are below the limit by:	[I = H-E]	\$452,871,225

- (1) Ad Valorem Tax imposed for Zoological Exhibits (\$8,423,463) & annual debt service for the Public Safety Bonds (\$2,385,336).
- (2) The annual debt service for the Public Safety bonds is not subject to the limit as it is a voter approved debt.
- (3) Revenues from the Motor Vehicle License Fees are revenues from the State and are subject to the limit.
- (4) \$4.5 million, the annual amount paid by the Port Authority, has been deducted from the total debt service

* Source: FY 2008 Proposed Budget and May Revise Budget Memo

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN DIEGO APPROVING THE ESTABLISHMENT OF FISCAL YEAR 2008 TAX APPROPRIATION LIMIT IN THE AMOUNT OF \$1,264,717,843.

WHEREAS, in November 1979, the California voters approved a constitutional amendment [Proposition 4, the Gann Initiative] which added article XIII B to the California Constitution; and

WHEREAS, in 1980, the State Legislature added Division 9 to Title 1 of the California Government Code [commencing with section 7900] to implement article XIII B; and

WHEREAS, said California Government Code sections require the governing body of each local jurisdiction in California to establish, by resolution, the tax appropriations limit for the following fiscal year predicated upon the appropriations limit for the prior fiscal year multiplied by a determinable factor; and

WHEREAS, on June 16, 2006, the City Council adopted Resolution No. R-301524 to establish the FY 2007 limit at \$1,154,782,545; and

WHEREAS, section 7910 of the California Government Code requires that the documentation used to determine the City's tax appropriations limit be made available to the public fifteen days prior to the Council meeting at which the tax appropriations limit resolution is to be considered; NOW, THEREFORE,

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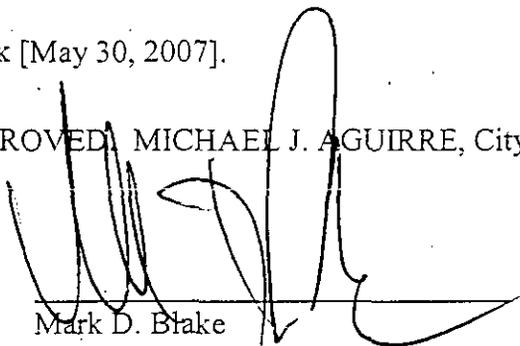
BE IT RESOLVED, by the Council of the City of San Diego, that pursuant to the authority of California Government Code, Division 9, Title 1 [sections 7900 *et seq.*] there is hereby established the following tax appropriations limit for the City of San Diego:

Established for Fiscal Year 2008 \$1,264,717,843

BE IT FURTHER RESOLVED, that the Council hereby certifies that, pursuant to the requirements of section 7910 of the California Government Code, the documentation upon which the tax appropriations limit herein established has been determined, which is attached hereto as Exhibit A, has been made available for public information and review at the office of the City Clerk [May 30, 2007].

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By


Mark D. Blake
Chief Deputy City Attorney

MDB:le
05/24/07
Or.Dept:FIN
R-2007-1167

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I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor