

DATE ISSUED: June 13, 2001

REPORT NO. 01-121

ATTENTION: Honorable Mayor and City Council
Docket of June 19, 2001

SUBJECT: Fiscal Year 2002 Tax Appropriations Limit

SUMMARY

Issue - Shall the City Council establish a tax appropriations limit of \$603,258,862 for Fiscal Year 2002?

Manager's Recommendation - Establish a tax appropriations limit of \$603,258,862 for Fiscal Year 2002.

Other Recommendations - None.

Fiscal Impact - Projected appropriations subject to the limit are estimated to be approximately \$44 million below the calculated limit.

BACKGROUND

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.

On June 5, 1990, California voters approved Proposition 111, amending Article XIII B. On November 8, 1994, San Diego voters approved Proposition E, authorizing a four year waiver for the period Fiscal Year 1996 through Fiscal Year 1999. Under the Proposition E waiver, the tax appropriations limits for Fiscal Years 1996 through 1999 were increased by \$50 million over what they would have been based solely on the approved annual adjustments over the Proposition 111 base year amount. With the expiration of the four year waiver period, beginning in Fiscal Year 2000, the tax appropriations limit has been calculated by adjusting the previous year's limit using one of the four alternative adjustment factors under the Proposition 111 guidelines. Therefore, the proposed Fiscal Year 2002 limit has been calculated based solely on an adjustment of the Fiscal Year 2001 limit.

DISCUSSION

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 voter approved debt. Other revenues, including fees, licenses and permits, rents and concessions, and inter-fund transfers are not subject to the limit. Based on the revenue estimates contained in the Proposed Fiscal Year 2002 Budget, projected appropriations subject to the limit are under the proposed limit of \$603,258,862 by approximately \$44 million. This gap is approximately \$6 million greater than the gap for Fiscal Year 2001.

The attached documentation outlines the computations used in determining the Fiscal Year 2002 tax appropriations limit. This information includes:

1. City of San Diego tax appropriations limits for Fiscal Years 2000 and 2001, and the proposed limit for Fiscal Year 2002.
2. Alternative adjustment factors for making annual adjustment to appropriations limit.
3. Recommended calculations of permitted growth for the City's tax appropriations limit in Fiscal Year 2002.
4. History of tax appropriations limits for Fiscal Years 1979 through 2001.
5. Source data used to calculate alternative adjustment factors:
 - A. Price and population data.
 - B. Assessed valuation attributable to new non-residential construction.

Section 7910 of the Government Code provides the following time limits for challenges against Article XIII B tax appropriations limits adopted by the City:

FOR THE 1981-1982 FISCAL YEAR AND EACH FISCAL YEAR THEREAFTER, ANY JUDICIAL ACTION OR PROCEEDING TO ATTACK, REVIEW, SET ASIDE, VOID, OR ANNUL THE ACTION OF THE GOVERNING BODY TAKEN PURSUANT TO THIS SECTION SHALL BE COMMENCED WITHIN 45 DAYS OF THE EFFECTIVE DATE OF THE RESOLUTION.

CONCLUSION

It is recommended that the City Council approve the use of California Per Capita Personal Income and Countywide population growth as the adjustment factors to calculate the City's

Fiscal Year 2002 tax appropriations limit (see Attachment 3). The use of these factors would result in a Fiscal Year 2002 tax appropriations limit of \$603,258,862, approximately \$44 million above the projected revenues subject to the limit (see Attachment 4).

ALTERNATIVE

Under Division 9, Title I of the California Government Code, the City Council is required to establish an Article XIII B tax appropriations limit for the City of San Diego. Under Proposition 111, the Council may select from four alternative adjustment factors in setting the limit. The recommended limit was based on growth in California Per Capita Personal Income and Countywide population growth. The City Council has the option of selecting one of the other three adjustment factors provided in Attachment 2 to establish the Fiscal Year 2002 appropriations limit. As indicated in Attachment 2, each of these three alternative options would result in a lower annual adjustment factor.

Respectfully submitted,

Mary E. Vattimo
City Treasurer

Approved: Patricia T. Frazier.....
Deputy City Manager.....

FRAZIER/MV/MCC/PGA

Note: Attachment 5 is not available in electronic format. A copy is available for review in the Office of the City Clerk.

- Attachments:
1. Tax Appropriations Limits for Fiscal Years 2000 and 2001 and Proposed Limit for Fiscal Year 2002
 2. Alternative Adjustment Factors
 3. Recommended Calculation of Permitted Growth in Limit
 4. History of Tax Appropriations Limits for Fiscal Years 1979 to 2001
 5. Source Data Used to Calculate Fiscal Year 2002 Limit:
 - A. Price and population data
 - B. Assessed valuation attributable to new non-residential construction