

DATE ISSUED: June 19, 2002

REPORT NO. 02-143

ATTENTION: Honorable Mayor and City Council
Docket of June 24, 2002

SUBJECT: Fiscal Year 2003 Tax Appropriations Limit

SUMMARY

Issue - Shall the City Council establish a tax appropriations limit of \$684,004,095 for Fiscal Year 2003?

Manager's Recommendation - Establish a tax appropriations limit of \$684,004,095 for Fiscal Year 2003.

Other Recommendations - None.

Fiscal Impact - Projected appropriations subject to the limit are estimated to be approximately \$127.8 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 2003 limit has been calculated based solely on an adjustment of the Fiscal Year 2002 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 and qualified capital outlays. 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 2003 Budget, projected appropriations subject to the limit are under the proposed limit of \$684,004,095 by approximately \$127.8 million. The gap between the proposed appropriations limit and projected appropriations subject to the limit is approximately \$84 million greater than the gap for Fiscal Year 2002.

The increase in the gap is primarily due to changes in the method for calculating the tax appropriations limit and the appropriations subject to the limit. First, the method for calculating one of the four alternative factors used to adjust the tax appropriation limit has been revised. The language of Proposition 111 is imprecise in describing the method for calculating the percent change in assessed valuation due to new non-residential construction. In the absence of clear direction, the City has previously used a conservative approach to calculate this adjustment factor. In recent years, a consensus has developed among California jurisdictions for calculating this factor. In calculating its tax appropriations limit for Fiscal Year 2003, the City has revised its methodology to comply with this consensus, and this new method has allowed the City to increase its tax appropriations limit. The City's revised method for calculating the percent change in assessed valuation due to new non-residential construction is shared by the County of San Diego and consistent with guidelines published by the California League of Cities.

Second, Proposition 111 added qualified capital outlays to the list of expenditures which are not subject to the tax appropriation limit. This provision allows the City to exclude annual debt service paid on bonds issued for qualified capital outlays from its appropriations subject to the limit. In prior years, the City has not used this exclusion in calculating its appropriations subject to the limit. In Fiscal Year 2003, the City has deducted approximately \$21.6 million from its appropriations subject to the limit under this exemption.

For Fiscal Year 2003, as in prior years, the City has deducted its debt service on voter approved bonds from its appropriations subject to the limit. In Fiscal Year 2003, the City has deducted approximately \$14.3 million from its appropriations subject to the limit under this exemption.

The attached documentation outlines the computations used in determining the Fiscal Year 2003 tax appropriations limit. This information includes:

1. City of San Diego tax appropriations limits for Fiscal Years 2001 and 2002, and the proposed limit for Fiscal Year 2003.
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 2003.

4. History of tax appropriations limits for Fiscal Years 1979 through 2003 (Proposed).
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 the percent change in assessed valuation due to new non-residential construction and Countywide population growth as the adjustment factors to calculate the City's Fiscal Year 2003 tax appropriations limit (see Attachment 3). The use of these factors would result in a Fiscal Year 2003 tax appropriations limit of \$684,004,095 approximately \$127.8 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 2003 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

Approved: Patricia T. Frazier.....

City Treasurer

Deputy City Manager.....

FRAZIER/MEV/LK/PGA

Note: Attachment 5A and 5B are 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 2001 and 2002 and Proposed Limit for Fiscal Year 2003](#)
 2. [Alternative Adjustment Factors](#)
 3. [Recommended Calculation of Permitted Growth in Limit](#)
 4. [History of Tax Appropriations Limits for Fiscal Years 1979 to 2003 \(Proposed\)](#)
 5. Source Data Used to Calculate Fiscal Year 2003 Limit:
 - A. Price and Population data
 - B. Assessed valuation attributable to new non-residential construction