

DATE ISSUED: June 11, 2003

REPORT NO. 03-122

ATTENTION: Honorable Mayor and City Council  
Docket of June 17, 2003

SUBJECT: Fiscal Year 2004 Tax Appropriations Limit

### SUMMARY

Issue - Shall the City Council establish a tax appropriations limit of \$807,466,834 for Fiscal Year 2004?

Manager's Recommendation - Establish a tax appropriations limit of \$807,466,834 for Fiscal Year 2004.

Other Recommendations - None.

Fiscal Impact - Projected appropriations subject to the limit are estimated to be approximately \$243.1 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. Consistent with this methodology, the proposed Fiscal Year 2004 limit has been calculated based on an adjustment of the Fiscal Year 2003 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. The proposed appropriations limit for Fiscal Year 2004 is \$807,466,834. The Proposed Budget for Fiscal Year 2004 projects the tax appropriations subject to the limit to be approximately \$564,402,529, \$243.1 million lower than the calculated limit. In calculating the tax appropriations subject to the limit, the City has deducted annual debt service paid on bonds issued for qualified capital outlays from its appropriations subject to the limit totaling approximately \$30.8 million and its debt service on voter approved bonds totaling approximately \$14 million.

The tax appropriations were lower than the limit by \$127.8 million in Fiscal Year 2003 compared to \$243.1 million in Fiscal Year 2004. This is due to a substantial increase in the price factor (discussed below) used to calculate the tax appropriations limit combined with only a modest increase in the appropriations subject to the limit in Fiscal Year 2004.

As with Fiscal Year 2003, the price factor used by the City in the Fiscal Year 2004 calculations was the percent change in assessed valuation for new non-residential construction. The increase in the assessed valuation of new non-residential construction from \$918.9 million in 2001 to \$1,365.8 million in 2002 resulted in a substantial change in the price factor for Fiscal Year 2004. This combined with the population factor increased the appropriations limit from \$684 million in Fiscal Year 2003 to approximately \$807 million in Fiscal Year 2004.

The attached documentation outlines the computations used in determining the Fiscal Year 2004 tax appropriations limit. This information includes:

1. City of San Diego tax appropriations limits for Fiscal Years 2002 and 2003, and the proposed limit for Fiscal Year 2004.

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 2004.
4. History of tax appropriations limits for Fiscal Years 1981 through 2004 (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 Citywide population growth as the adjustment factors to calculate the City's Fiscal Year 2004 tax appropriations limit (see Attachment 3). The use of these factors would result in a Fiscal Year 2004 tax appropriations limit of \$807,466,834, approximately \$243.1 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 the percent change in Assessed Valuation due to new non-residential construction and Citywide 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 2004 appropriations limit. As indicated in Attachment 2, each of these three alternative options would result in a lower annual adjustment factor.

Respectfully submitted,

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Mary E. Vattimo  
City Treasurer

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Approved: Patricia T. Frazier  
Deputy City Manager

FRAZIER/MEV/LK/JP

Attachments:

1. [Tax Appropriations Limits for Fiscal Years 2002 and 2003 and Proposed Limit for Fiscal Year 2004.](#)
2. [Alternative Adjustment Factors.](#)
3. [Recommended Calculation of Permitted Growth in Limit.](#)
4. [History of Tax Appropriations Limits for Fiscal Years 1981 to 2004 \(Proposed\).](#)
5. [Source Data Used to Calculate Fiscal Year 2004 Limit:](#)
  - A. [Price and Population data.](#)
  - B. [Assessed valuation attributable to new non-residential construction.](#)