

DATE ISSUED: June 9, 2004

REPORT NO. 04-124

ATTENTION: Honorable Mayor and City Council  
Docket of June 14, 2004

SUBJECT: Fiscal Year 2005 Tax Appropriations Limit

#### SUMMARY

Issue - Shall the City Council establish a tax appropriations limit of \$924,630,272 for Fiscal Year 2005?

Manager's Recommendation - Establish a tax appropriations limit of \$924,630,272 for Fiscal Year 2005.

Other Recommendations - None.

Fiscal Impact - Projected appropriations subject to the limit are estimated to be approximately \$335.3 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 2005 limit has been calculated based on an adjustment of the Fiscal Year 2004 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 both 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 2005 is \$924,630,272. The Proposed Budget for Fiscal Year 2005 projects the tax appropriations subject to the limit to be \$582,976,271, \$335.3 million lower than the calculated limit. In calculating the tax appropriations subject to the limit, the annual debt service paid on bonds issued for qualified capital outlays and the debt service on voter approved bonds were deducted. The City's annual lease payments to be made in Fiscal Year 2005 on bonds issued for qualified capital outlays total approximately \$34.4 million and its debt service payments on voter approved bonds total approximately \$9.6 million.

As stated earlier, and consistent with the methodology used in prior years, the Fiscal Year 2005 tax appropriations limit was calculated by adjusting the previous year's limit using one of the four alternative adjustment factors. The Fiscal Year 2005 adjustment factor was calculated using the price factor (12.80%) based on the percent change in assessed valuation of non-residential construction and the population factor (1.16%) based on the percent growth in the County's population, resulting in an adjustment factor of 14.51% (see Attachment 4). The use of this adjustment factor results in an appropriations limit for Fiscal Year 2005 of approximately \$924.6 million, a 14.51% increase over \$807.5 million, the appropriations limit in Fiscal Year 2004.

The attached documentation outlines the computations used in determining the Fiscal Year 2005 tax appropriations limit. This information includes:

1. City of San Diego tax appropriations limits for Fiscal Years 2003 and 2004, and the proposed limit for Fiscal Year 2005.
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 2005.
4. History of tax appropriations limits for Fiscal Years 1981 through 2005 (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 County population growth as the adjustment factors to calculate the City's Fiscal Year 2005 tax appropriations limit (see Attachment 3). The use of these factors results in a Fiscal Year 2005 tax appropriations limit of \$924,630,272, approximately \$335.3 million above the projected revenues subject to the limit.

#### 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 County 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 2005 appropriations limit. As indicated in Attachment 2, each of these three alternative options would result in a lower annual adjustment factor and therefore a lower tax appropriations limit.

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 2003 and 2004 and Proposed Limit for Fiscal Year 2005.](#)
  2. [Alternative Adjustment Factors.](#)
  3. [Recommended Calculation of Permitted Growth in Limit.](#)
  4. [Ten-Year History of Tax Appropriations Limits for Fiscal Years 1995 to 2005 \(Proposed\).](#)
  5. [Source Data Used to Calculate Fiscal Year 2005 Limit:](#)
    - A. [Price and Population data.](#)
    - B. [Assessed valuation attributable to new non-residential construction.](#)