



THE CITY OF SAN DIEGO  
**MANAGER'S REPORT**

DATE ISSUED: June 22, 2005 REPORT NO. 05-148  
ATTENTION: Honorable Mayor and City Council  
Docket of June 27, 2005  
SUBJECT: Fiscal Year 2006 Tax Appropriation Limit (Gann Limit)

SUMMARY

Issue - Shall the City Council establish a tax appropriation limit of \$1,063,139,887 for Fiscal Year 2006?

Manager's Recommendation - Establish a tax appropriation limit of \$1,063,139,887 for Fiscal Year 2006.

Other Recommendations - None.

Fiscal Impact - Projected appropriations subject to the limit are estimated to be approximately \$416.2 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 appropriation 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 appropriation 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 appropriation 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 2006 limit has been calculated based on an adjustment of the Fiscal Year 2005 limit.

## DISCUSSION

Pursuant to Article XIII B of the California State Constitution, the appropriation limit for a fiscal year is the limit for the previous fiscal year adjusted for inflation, population growth, and changes to the financial responsibility of the entity for providing services in whole or in part, to or from that entity. The appropriation 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 appropriation limit for Fiscal Year 2006 is \$1,063,139,887. The Proposed Budget for Fiscal Year 2006 projects the tax appropriation subject to the limit to be \$646,957,619, which is \$416.2 million lower than the calculated limit. In calculating the tax appropriation subject to the limit, the annual lease payments paid on lease revenue bonds and certificates of participation issued for qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds \$100,000), and the debt service on voter approved bonds were deducted. The City's annual lease payments to be made in Fiscal Year 2006 on bonds issued for qualified capital outlays total approximately \$39.4 million and debt service payments on voter approved bonds total approximately \$2.8 million (see Attachment 6).

As stated earlier, and consistent with the methodology used in prior years, the Fiscal Year 2006 tax appropriation limit was calculated by adjusting the previous year's limit using one of the four alternative adjustment factors. The Fiscal Year 2006 adjustment factor was calculated using the price factor (13.54%) based on the percent change in assessed valuation of non-residential construction and the population factor (1.27%) based on the percent growth in the County's population, resulting in an adjustment factor of 14.98% (see Attachment 4). The use of this adjustment factor results in an appropriation limit for Fiscal Year 2006 of \$1,063,139,887, which is a 14.98% increase over \$924,630,272, the appropriation limit in Fiscal Year 2005.

The attached documentation outlines the computations used in determining the Fiscal Year 2006 tax appropriation limit. This information includes:

1. City of San Diego tax appropriation limits for Fiscal Years 2004 and 2005, and the proposed limit for Fiscal Year 2006.

2. Alternative adjustment factors for making annual adjustment to appropriation limit.
3. Recommended calculations of permitted growth for the City's tax appropriation limit in Fiscal Year 2006.
4. Ten-Year History of Tax Appropriation Limits for Fiscal Years 1997 to 2006 (Proposed).
5. Source data used to calculate alternative adjustment factors:
  - A. Price and Population data.
  - B. Assessed valuation attributable to new non-residential construction.
6. Qualified Capital Outlays and Voter Approved Debt not subject to the Tax Appropriation Limit.

Section 7910 of the Government Code provides the following time limits for challenges against Article XIII B tax appropriation 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 2006 tax appropriation limit (see Attachment 3). The use of these factors results in a Fiscal Year 2006 tax appropriation limit of \$1,063,139,887, approximately \$416.2 million above the projected tax 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 appropriation 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 2006 appropriation 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 appropriation limit. A lower appropriation limit would lower the base used for calculation of the limit in future years, which could lower the City's ability to appropriate its tax revenues.

Respectfully submitted,

---

Charles E. Mueller, Jr.  
Acting City Treasurer

---

Approved: Lisa Irvine  
Deputy City Manager

LI/CEM/jp

- Attachments:
1. Tax Appropriation Limit for Fiscal Years 2004 and 2005 and Proposed Limit for Fiscal Year 2006.
  2. Alternative Adjustment Factors.
  3. Recommended Calculation of Permitted Growth in Limit.
  4. Ten-Year History of Tax Appropriation Limit for Fiscal Years 1997 to 2006 (Proposed).
  5. Source Data Used to Calculate Fiscal Year 2006 Limit:
    - A. Price and Population data.
    - B. Assessed valuation attributable to new non-residential construction.
  6. Qualified Capital Outlays and Voter Approved Debt not subject to the Tax Appropriation Limit.