

FISCAL YEAR 2018 TAX APPROPRIATIONS LIMIT

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Executive Summary

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 (also referred to as the GANN Limit) on or before June 30 of each year for the following fiscal year. The Tax Appropriations Limit is based on actual appropriations during the State of California Fiscal Year 1978-79 and adjusted each year using population and inflation adjustment factors.

On June 5, 1990, California voters approved Proposition 111, amending Article XIII B. Proposition 111 allows local jurisdictions to choose among measures of inflation and population growth to compute the adjustment factor. The measures for inflation (price factors) include growth in California per capita income or growth in the City's gross assessed valuation due to new non-residential construction; while measures for population growth include population growth within the county or city.

The proposed Tax Appropriations Limit for Fiscal Year 2018 is \$ 2,640,584,949. In accordance with Proposition 111 guidelines, the Fiscal Year 2018 Tax Appropriations Limit was calculated by adjusting the prior year's Tax Appropriations Limit using one of the adjustment factors. See Page 2 for alternative adjustment factors applicable to Fiscal Year 2018. The recommended Fiscal Year 2018 adjustment factor was calculated using the price factor based on the percent change in assessed valuation in new non-residential construction (13.27%) and the population factor based on the percent growth in the City's population (1.12%), resulting in an adjustment factor of 1.1454 (see page 2). The use of this adjustment factor results in a Tax Appropriations Limit for Fiscal Year 2018 of \$ 2,640,584,949, a 14.5% increase over the Fiscal Year 2017 Tax Appropriations Limit of \$ \$2,305,382,355.

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, and other local taxes, less the amount paid in debt service on both voter approved debt and 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). Other revenues, including fees, licenses and permits, rents and concessions, and inter-fund transfers are not subject to the limit. The Fiscal Year 2018 Proposed Budget projects the tax appropriations subject to the Tax Appropriations Limit to be \$1.0 billion, as outlined in Page 4. The projected appropriations subject to the limit are estimated to be approximately \$1.6 billion below the recommended limit of \$ \$2,640,584,949.

FY 2018 ALTERNATIVE ADJUSTMENT FACTORS & CALCULATION OF TAX APPROPRIATIONS LIMIT

Under Proposition 111, there are two options available for each of the major adjustment factors. The values of these factors for the purpose of calculating the Fiscal Year 2018 adjustment are as follows:

Price Factors:

(A)	Percent growth in State per Capita Personal Income: (Source: Dept of Finance, California-Attachment 2A-2)	+3.69%
	Price Factor A	1.0369
(B)	Percent change in Assessed Valuation in new non-residential construction: (Source: San Diego County Assessor's Office-Attachment 2B)	+13.27%
	Price Factor B	1.1327

Population Factors:

(C)	Percent growth in County Population: (Source: Dept of Finance, California-Attachment 2A-3)	+0.92%
	Population Factor C	1.0092
(D)	Percent growth in City Population: (Source: Dept of Finance, California-Attachment 2A-3)	+1.12%
	Population Factor D	1.0112

Annual Adjustment Factors (rounded to 4 decimal places):

Based upon the actual data, the four alternative adjustment factors are as follows:

$$\begin{aligned} (A \times C) &= (1.0369) \times (1.0092) = 1.0464 \\ (A \times D) &= (1.0369) \times (1.0112) = 1.0485 \\ (B \times C) &= (1.1327) \times (1.0092) = 1.1431 \\ (B \times D) &= (1.1327) \times (1.0112) = 1.1454 \end{aligned}$$

The recommended limit was calculated using the adjustment factor “(B x D)”, resulting in a 14.6% increase over the Fiscal Year 2017 Annual Tax Appropriations Limit. Of the four adjustment factors listed above, the 1.1454 adjustment factor represents the largest allowable increase to the appropriation limit.

Calculation of the Fiscal Year 2018 Limit:

$$\begin{aligned} \text{Fiscal Year 2018 Limit} &= (\text{FY 2017 Limit}) \times (\text{Recommended Adjustment Factor}) \\ &= (\$2,305,382,355) \times (1.1454) = \mathbf{\$2,640,584,949} \end{aligned}$$

FY 2018 ALTERNATIVE ADJUSTMENT FACTORS & CALCULATION OF TAX APPROPRIATIONS LIMIT

PRICE FACTOR (A)			
Percent growth in State Per Capita Personal Income (2017-2018) Price Factor = 3.69			
Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (A) = (3.69 + 100)/100 A = 1.0369			

PRICE FACTOR (B)			
	Total Assessed Valuation	Change in AV	New non-residential construction
2015	\$206,479,690,226		
2016	\$218,918,774,972	\$12,439,084,746	\$1,650,131,758
Price Factor = New non-residential construction/Change in AV *100 13.27 Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (B) = (13.27 + 100)/100 B = 1.1327			

POPULATION FACTOR (C)			
Percent growth in County Population = 0.92			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (C) = (0.92 + 100) / 100 C = 1.0092			

POPULATION FACTOR (D)			
Percent growth in City Population = 1.12			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (D) = (1.12 + 100) / 100 D = 1.0112			

ANNUAL ADJUSTMENT FACTORS			
(A x C) Income x Cnty Pop	1.0464	Low Value	
(A x D) Income x City Pop	1.0485		
(B x C) Non-residential x Cnty Pop	1.1431		
(B x D) Non-residential x City Pop	1.1454	High Value	

FY 2017 Tax Appropriations Limit	'1'	\$2,305,382,355
Annual Adjustment factor	'2'	1.1454
FY 2018 Tax Appropriations Limit	'1x2'	\$2,640,584,949

FY 2018 TAX APPROPRIATIONS SUBJECT TO THE TAX APPROPRIATIONS LIMIT

Appropriations Subject to the Tax Appropriations Limit *

Property Tax	\$	532,921,329
Property Tax (1)		13,187,804
Sales Tax		275,307,632
Safety Sales Tax		9,203,815
Transient Occupancy Tax (TOT)		231,140,560
Property Transfer Tax		10,068,772
Business Tax		7,501,297
Rental Unit Taxes		7,459,502
Interest Earnings		671,348
Cannabis Tax		2,379,578
Total Unadjusted Appropriations subject to the Limit	[A] \$	1,089,841,637

Adjustment for appropriations not subject to the Tax Appropriations Limit *

Annual Debt Service for Voter Approved Debt (G.O. Bonds)

Total Annual Debt Service for Voter Approved Debt (2) [B] \$ -

Qualified Capital Outlays

2012A Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds	12,556,450
2012B Fire and Life Safety Refunding Bonds	1,382,969
2013A General Fund CIP Bonds & 2003 Old Town Light Rail Extension Refunding	3,211,456
2013B 2003 Balboa Park/Mission Bay Park Refunding Bonds	739,375
2016 Ballpark Refunding Bonds (3)	9,288,975
2010A Master Refunding Bonds (4)	8,248,307
2012A Deferred CIP Lease Revenue Bonds	4,590,875
2015A&B General Fund CIP Bonds	6,899,625

Total Qualified Capital Outlays [C] \$ 46,918,032

Total Adjustment [D = B+C] \$ 46,918,032

Total Adjusted Appropriations Subject to the Limit [E = A-D] \$ 1,042,923,605

Calculation of the Tax Appropriations Limit and Difference between the Limit and Appropriations Subject to the Limit

Prior Year (FY 2017) Tax Appropriations Limit [F] \$ 2,305,382,355

Adjustment Factor [G] 1.1454

Tax Appropriations Limit for FY 2018 [H = F*G] \$ 2,640,584,949

Projected appropriations are below the limit by: [I = H-E] \$ 1,597,661,344

(1) Ad Valorem Tax imposed for Zoological Exhibits.

(2) No Annual Debt Service for Voter Approved Debt in FY 2018.

(3) As a result of the dissolution of the Redevelopment Agency, the 2016 Ballpark Refunding Bonds debt service payment will be paid from Transient Occupancy Tax revenue.

(5) The 2010A Master Refunding Bonds refunded the 2009A Deferred CIP Bonds, the 1996B Balboa Park/Mission Bay Park Refunding COPs and the 1996A Qualcomm Stadium Bonds. Payment listed as \$13,003,797 (FY 2018 Proposed Budget, Volume I: Budget Overview and Schedules, Debt Obligations section, page 122) and includes \$4,755,491 for Qualcomm Stadium capital outlay debt payment.

* Source: FY 2018 Proposed Budget and FY 2018 May Revise Budget Memorandum.

**TEN-YEAR HISTORY OF PRICE AND POPULATION FACTORS &
TAX APPROPRIATIONS LIMITS ⁽¹⁾
FOR FISCAL YEARS 2009 TO 2018**

Fiscal Year	Price Adjustment	Population Adjustment	Total Adjustment	Appropriations Limit ⁽²⁾
2009	1.1083	X 1.0134	= 1.1232	\$1,181,182,812
2010	1.1606	X 1.0154	= 1.1785	\$1,392,023,944
2011	0.9746	X 1.0141	= 0.9883	\$1,375,737,264
2012	1.0251	X 1.0077	= 1.0330	\$1,421,136,594
2013	1.1336	X 1.0091	= 1.1439	\$1,625,638,150
2014	1.0512	X 1.0083	= 1.0599	\$1,723,013,875
2015	1.1056	X 1.0129	= 1.1199	\$1,929,603,239
2016	1.0720	X 1.0161	= 1.0893	\$2,101,916,808
2017	1.0866	X 1.0094	= 1.0968	\$2,305,382,355
2018	1.1327	X 1.0112	= 1.1454	\$2,640,584,949

(1) In 1980, the State Legislature added Division 9 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, pursuant to which the City of San Diego has been establishing this limit since 1981.

(2) Beginning in Fiscal Year 2009, the calculation to determine the Gann Limit is based on the City's new non-residential assessed valuation data. From Fiscal Year 2004 through 2008, the County's data was used. This change does not affect the City's compliance with the Tax Appropriations Limit in prior years. This table shows the corrected price adjustments and appropriations limits based on City data. Appropriation limits shown for 2007 - 2008 are corrected amounts based on City data.



DEPARTMENT OF
FINANCE
OFFICE OF THE DIRECTOR

EDMUND G. BROWN JR. ■ GOVERNOR
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

May 2017

Dear Fiscal Officer:

Subject: Price Factor and Population Information

Appropriations Limit

The California Revenue and Taxation Code, section 2227, requires the Department of Finance (Finance) to transmit an estimate of the percentage change in population to local governments. Each local jurisdiction must use their percentage change in population factor for January 1, 2017, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2017-18. Attachment A provides the change in California's per capita personal income and an example for utilizing the price factor and population percentage change factor to calculate the 2017-18 appropriations limit. Attachment B provides the city and unincorporated county population percentage change. Attachment C provides the population percentage change for counties and their summed incorporated areas. The population percentage change data excludes federal and state institutionalized populations and military populations.

Population Percent Change for Special Districts

Some special districts must establish an annual appropriations limit. The Revenue and Taxation Code, section 2228 provides additional information regarding the appropriations limit. Article XIII B, section 9(C) of the California Constitution exempts certain special districts from the appropriations limit calculation mandate. The Code and the California Constitution can be accessed at the following website: <http://leginfo.legislature.ca.gov/faces/codes.xhtml>.

Special districts required by law to calculate their appropriations limit must present the calculation as part of their annual audit. Any questions special districts have on this requirement should be directed to their county, district legal counsel, or the law itself. No state agency reviews the local appropriations limits.

Population Certification

The population certification program applies only to cities and counties. Revenue and Taxation Code section 11005.6 mandates Finance to automatically certify any population estimate that exceeds the current certified population with the State Controller's Office. **Finance will certify the higher estimate to the State Controller by June 1, 2017.**

Please Note: Prior year's city population estimates may be revised.

If you have any questions regarding this data, please contact the Demographic Research Unit at (916) 323-4086.

MICHAEL COHEN
Director
By:

AMY M. COSTA
Chief Deputy Director

Attachment

May 2017

Attachment A

- A. **Price Factor:** Article XIII B specifies that local jurisdictions select their cost of living factor to compute their appropriation limit by a vote of their governing body. The cost of living factor provided here is per capita personal income. If the percentage change in per capita personal income is selected, the percentage change to be used in setting the fiscal year 2017-18 appropriation limit is:

Per Capita Personal Income

Fiscal Year (FY)	Percentage change over prior year
2017-18	3.69

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2017-18 appropriation limit.

2017-18:

Per Capita Cost of Living Change = 3.69 percent
 Population Change = 0.85 percent

Per Capita Cost of Living converted to a ratio: $\frac{3.69 + 100}{100} = 1.0369$

Population converted to a ratio: $\frac{0.85 + 100}{100} = 1.0085$

Calculation of factor for FY 2017-18: $1.0369 \times 1.0085 = 1.0457$

Fiscal Year 2017-18

Attachment B
Annual Percent Change in Population Minus Exclusions*
January 1, 2016 to January 1, 2017 and Total Population, January 1, 2017

<u>County</u> <u>City</u>	<u>Percent Change</u> <u>2016-2017</u>	<u>--- Population Minus Exclusions ---</u>		<u>Total</u>
		<u>1-1-16</u>	<u>1-1-17</u>	<u>Population</u> <u>1-1-2017</u>
San Diego				
Carlsbad	0.76	112,866	113,725	113,725
Chula Vista	1.14	264,607	267,613	267,917
Coronado	-3.78	17,790	17,118	24,543
Del Mar	0.56	4,273	4,297	4,297
El Cajon	0.51	102,277	102,803	102,803
Encinitas	0.64	61,893	62,288	62,288
Escondido	0.55	150,669	151,492	151,492
Imperial Beach	0.34	27,417	27,510	27,510
La Mesa	0.56	59,949	60,286	60,286
Lemon Grove	0.76	26,594	26,795	26,795
National City	0.85	55,788	56,264	61,210
Oceanside	0.35	175,842	176,461	176,461
Poway	0.36	50,074	50,253	50,253
San Diego	1.12	1,373,156	1,388,596	1,406,318
San Marcos	0.86	93,242	94,042	94,042
Santee	0.66	56,725	57,100	57,100
Solana Beach	0.30	13,487	13,527	13,527
Vista	2.99	98,838	101,797	101,797
Unincorporated	0.64	468,416	471,411	513,828
County Total	0.92	3,213,903	3,243,378	3,316,192

*Exclusions include residents on federal military installations and group quarters residents in state mental institutions, state and federal correctional institutions and veteran homes.

**ASSESSED VALUATION ATTRIBUTABLE TO
NEW NON-RESIDENTIAL CONSTRUCTION**

Percent change in Assessed Valuation in
new non-residential construction within the City

$$= \frac{\text{New non-residential construction}^1}{\text{Change in assessed valuation (CY 2015 to CY 2016)}^2} \times 100$$

$$= \frac{\$1,650,131,758}{\$12,439,084,746} \times 100$$

$$= 0.1327 \times 100$$

$$= 13.27\%$$

¹ Source: San Diego County Assessor's Office

² Source: San Diego County Assessor's Office

Assessed Valuation for Calendar Year 2015 = \$206,479,690,226

Assessed Valuation for Calendar Year 2016 = \$218,918,774,972

Change in Assessed Valuation = Assessed Valuation for 2016 –
Assessed Valuation for 2015

= \$206,479,690,226 – \$218,918,774,972

= \$12,439,084,746