

FISCAL YEAR 2019 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 2019 is \$2,982,012,583. In accordance with Proposition 111 guidelines, the Fiscal Year 2019 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 2019. The recommended Fiscal Year 2019 adjustment factor was calculated using the price factor based on the percent change in assessed valuation in new non-residential construction (11.45%) and the population factor based on the percent growth in the City's population (1.33%), resulting in an adjustment factor of 1.1293 (see page 2). The use of this adjustment factor results in a Tax Appropriations Limit for Fiscal Year 2019 of \$2,982,012,583, a 12.9% increase over the Fiscal Year 2018 Tax Appropriations Limit of \$2,640,584,949.

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 2019 Proposed Budget projects the tax appropriations subject to the Tax Appropriations Limit to be \$1.14 billion, as outlined in Page 4. The projected appropriations subject to the limit are estimated to be approximately \$1.88 billion below the recommended limit of \$2,982,012,583.

FY 2019 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 2019 adjustment are as follows:

Price Factors:

(A)	Percent growth in State per Capita Personal Income: (Source: Dept of Finance, California-Attachment 2A-2)	+3.67%
	Price Factor A	1.0367
(B)	Percent change in Assessed Valuation in new non-residential construction: (Source: San Diego County Assessor's Office-Attachment 2B)	+11.45%
	Price Factor B	1.1145

Population Factors:

(C)	Percent growth in County Population: (Source: Dept of Finance, California-Attachment 2A-3)	+0.95%
	Population Factor C	1.0095
(D)	Percent growth in City Population: (Source: Dept of Finance, California-Attachment 2A-3)	+1.33%
	Population Factor D	1.0133

Annual Adjustment Factors (rounded to 4 decimal places):

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

$$\begin{aligned}
 (A \times C) &= (1.0367) \times (1.0095) = 1.0465 \\
 (A \times D) &= (1.0367) \times (1.0133) = 1.0505 \\
 (B \times C) &= (1.1145) \times (1.0095) = 1.1251 \\
 (B \times D) &= (1.1145) \times (1.0133) = 1.1293
 \end{aligned}$$

The recommended limit was calculated using the adjustment factor “(B x D)”, resulting in a 12.9% increase over the Fiscal Year 2018 Annual Tax Appropriations Limit. Of the four adjustment factors listed above, the 1.1293 adjustment factor represents the largest allowable increase to the appropriation limit.

Calculation of the Fiscal Year 2019 Limit:

$$\begin{aligned}
 \text{Fiscal Year 2019 Limit} &= (\text{FY 2018 Limit}) \times (\text{Recommended Adjustment Factor}) \\
 &= (\$2,640,584,949) \times (1.1293) = \mathbf{\$2,982,012,583}
 \end{aligned}$$

FY 2019 ALTERNATIVE ADJUSTMENT FACTORS & CALCULATION OF TAX APPROPRIATIONS LIMIT

PRICE FACTOR (A)			
Percent growth in State Per Capita Personal Income (2018-2019) Price Factor = 3.67			
Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (A) = (3.67 + 100)/100 A = 1.0367			

PRICE FACTOR (B)			
	Total Assessed Valuation	Change in AV	New non-residential construction
2016	\$218,918,774,972		
2017	\$233,106,077,398	\$14,187,302,426	\$1,624,496,459
Price Factor = New non-residential construction/Change in AV *100 11.45 Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (B) = (11.45 + 100)/100 B = 1.1145			

POPULATION FACTOR (C)			
Percent growth in County Population = 0.95			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (C) = (0.95 + 100) / 100 C = 1.0095			

POPULATION FACTOR (D)			
Percent growth in City Population = 1.33			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (D) = (1.33 + 100) / 100 D = 1.0133			

ANNUAL ADJUSTMENT FACTORS			
(A x C) Income x Cnty Pop	(1.0367 x 1.0095)	1.0465	Low Value
(A x D) Income x City Pop	(1.0367 x 1.0133)	1.0505	
(B x C) Non-residential x Cnty Pop	(1.1145 x 1.0095)	1.1251	
(B x D) Non-residential x City Pop	(1.1145 x 1.0133)	1.1293	High Value

FY 2018 Tax Appropriations Limit	'1'	\$2,640,584,949
Annual Adjustment factor	'2'	1.1293
FY 2019 Tax Appropriations Limit	'1x2'	\$2,982,012,583

FY 2019 TAX APPROPRIATIONS SUBJECT TO THE TAX APPROPRIATIONS LIMIT

Appropriations Subject to the Tax Appropriations Limit *

Property Tax	\$	560,025,220
Property Tax (1)		13,768,168
Sales Tax		282,061,831
Safety Sales Tax		9,738,827
Transient Occupancy Tax (TOT)		245,067,511
Property Transfer Tax		11,009,669
Business Tax		13,486,297
Rental Unit Taxes		7,459,502
Interest Earnings		650,000

Total Unadjusted Appropriations subject to the Limit	[A]	\$	1,143,267,025
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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]	\$	-
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Qualified Capital Outlays

2012A Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds	12,561,050
2012B Fire and Life Safety Refunding Bonds	1,383,969
2013A General Fund CIP Bonds & 2003 Old Town Light Rail Extension Refunding	3,217,706
2013B 2003 Balboa Park/Mission Bay Park Refunding Bonds	737,000
2016 Ballpark Refunding Bonds (3)	9,293,350
2010A Master Refunding Bonds (4)	7,151,369
2012A Deferred CIP Lease Revenue Bonds	4,597,325
2015A&B General Fund CIP Bonds	6,900,125

Total Qualified Capital Outlays	[C]	\$	45,841,894
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Total Adjustment	[D = B+C]	\$	45,841,894
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Total Adjusted Appropriations Subject to the Limit	[E = A-D]	\$	1,097,425,131
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Calculation of the Tax Appropriations Limit and Difference between the Limit and Appropriations Subject to the Limit

Prior Year (FY 2018) Tax Appropriations Limit	[F]	\$	2,640,584,949
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Adjustment Factor	[G]		1.1293
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Tax Appropriations Limit for FY 2019	[H = F*G]	\$	2,982,012,583
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Projected appropriations are below the limit by:	[I = H-E]	\$	1,884,587,452
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(1) Ad Valorem Tax imposed for Zoological Exhibits.

(2) No Annual Debt Service for Voter Approved Debt in FY 2019.

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

(4) 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. The May Revision to the Fiscal Year 2019 Proposed Budget incorporates estimated reduction of debt service due to anticipated issuance of refunding bonds in the amount of \$850,000 for the 2009A Deferred CIP Bonds and \$250,000 for the 1996B Balboa Park/Mission Bay

* Source: FY 2019 Proposed Budget and FY 2019 May Revise Budget Memorandum.

**TEN-YEAR HISTORY OF PRICE AND POPULATION FACTORS &
TAX APPROPRIATIONS LIMITS ⁽¹⁾
FOR FISCAL YEARS 2010 TO 2019**

Fiscal Year	Price Adjustment	Population Adjustment	Total Adjustment	Appropriations Limit
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
2019	1.1145	X 1.0133	= 1.1293	\$2,982,012,583

(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.



May 2018

Dear Fiscal Officer:

Subject: Price Factor and Population Information

Appropriations Limit

California Revenue and Taxation Code section 2227 requires the Department of 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, 2018, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2018-19. 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 2018-19 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. California 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 section 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. California 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, 2018.**

Please Note: The 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 2018

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 2018-19 appropriation limit is:

Per Capita Personal Income

Fiscal Year (FY)	Percentage change over prior year
2018-19	3.67

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2018-19 appropriation limit.

2018-19:

Per Capita Cost of Living Change = 3.67 percent
 Population Change = 0.78 percent

Per Capita Cost of Living converted to a ratio: $\frac{3.67 + 100}{100} = 1.0367$

Population converted to a ratio: $\frac{0.78 + 100}{100} = 1.0078$

Calculation of factor for FY 2018-19: $1.0367 \times 1.0078 = 1.0448$

Fiscal Year 2018-19

Attachment B
Annual Percent Change in Population Minus Exclusions*
January 1, 2017 to January 1, 2018 and Total Population, January 1, 2018

County City	<u>Percent Change</u>	<u>--- Population Minus Exclusions ---</u>		<u>Total</u>
	2017-2018	1-1-17	1-1-18	1-1-2018
San Diego				
Carlsbad	1.27	113,179	114,622	114,622
Chula Vista	0.81	265,053	267,206	267,503
Coronado	0.51	17,087	17,174	21,683
Del Mar	0.89	4,284	4,322	4,322
El Cajon	0.27	105,276	105,557	105,557
Encinitas	0.85	62,625	63,158	63,158
Escondido	0.33	150,978	151,478	151,478
Imperial Beach	0.44	28,041	28,163	28,163
La Mesa	0.46	60,980	61,261	61,261
Lemon Grove	0.46	26,710	26,834	26,834
National City	1.61	56,404	57,311	62,257
Oceanside	0.39	176,666	177,362	177,362
Poway	0.44	49,986	50,207	50,207
San Diego	1.33	1,382,202	1,400,617	1,419,845
San Marcos	1.60	94,258	95,768	95,768
Santee	0.99	56,434	56,994	56,994
Solana Beach	0.56	13,860	13,938	13,938
Vista	0.44	102,933	103,381	103,381
Unincorporated	0.53	469,739	472,206	513,123
County Total	0.95	3,236,695	3,267,559	3,337,456

*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

$$= \frac{\text{New non-residential construction}^1}{\text{Change in assessed valuation (CY 2016 to CY 2017)}^2} \times 100$$

$$= \frac{\$1,624,496,459}{\$14,187,302,426} \times 100$$

$$= 0.1145 \times 100$$

$$= 11.45\%$$

¹ Source: San Diego County Assessor's Office

² Source: San Diego County Assessor's Office

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

Assessed Valuation for Calendar Year 2017 = \$233,106,077,398

Change in Assessed Valuation = Assessed Valuation for 2017 –
Assessed Valuation for 2016

= \$233,106,077,398 – \$218,918,774,972

= \$14,187,302,426