

FISCAL YEAR 2017 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 2017 is \$2,305,382,355. In accordance with Proposition 111 guidelines, the Fiscal Year 2017 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 2017. The recommended Fiscal Year 2017 adjustment factor was calculated using the price factor based on the percent change in assessed valuation in new non-residential construction (8.66%) and the population factor based on the percent growth in the City's population (0.94%), resulting in an adjustment factor of 1.0968 (see page 2). The use of this adjustment factor results in a Tax Appropriations Limit for Fiscal Year 2017 of \$2,305,382,355, a 9.7% increase over the Fiscal Year 2016 Tax Appropriations Limit of \$2,101,916,808.

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 2017 Proposed Budget projects the tax appropriations subject to the Tax Appropriations Limit to be \$991.0 million, as outlined in Page 4. The projected appropriations subject to the limit are estimated to be approximately \$1.3 billion below the recommended limit of \$2,305,382,355.

FY 2017 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 2017 adjustment are as follows:

Price Factors:

(A)	Percent growth in State per Capita Personal Income: (Source: Dept of Finance, California-Attachment 2A-2)	+5.37%
	Price Factor A	1.0537
(B)	Percent change in Assessed Valuation in new non-residential construction: (Source: San Diego County Assessor's Office-Attachment 2B)	+8.66%
	Price Factor B	1.0866

Population Factors:

(C)	Percent growth in County Population: (Source: Dept of Finance, California-Attachment 2A-3)	+0.78%
	Population Factor C	1.0078
(D)	Percent growth in City Population: (Source: Dept of Finance, California-Attachment 2A-3)	+0.94 %
	Population Factor D	1.0094

Annual Adjustment Factors (rounded to 4 decimal places):

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

$$\begin{aligned} (A \times C) &= (1.0537) \times (1.0078) = 1.0619 \\ (A \times D) &= (1.0537) \times (1.0094) = 1.0636 \\ (B \times C) &= (1.0866) \times (1.0078) = 1.0951 \\ (B \times D) &= (1.0866) \times (1.0094) = 1.0968 \end{aligned}$$

The recommended limit was calculated using the adjustment factor “(B x D)”, resulting in a 9.7% increase over the Fiscal Year 2016 Annual Tax Appropriations Limit. Of the four adjustment factors listed above, the 1.0968 adjustment factor represents the largest allowable increase to the appropriation limit.

Calculation of the Fiscal Year 2017 Limit:

$$\begin{aligned} \text{Fiscal Year 2017 Limit} &= (\text{FY 2016 Limit}) \times (\text{Recommended Adjustment Factor}) \\ &= (\$2,101,916,808) \times (1.0968) = \mathbf{\$2,305,382,355} \end{aligned}$$

FY 2016 ALTERNATIVE ADJUSTMENT FACTORS & CALCULATION OF TAX APPROPRIATIONS LIMIT

PRICE FACTOR (A)			
Percent growth in State Per Capita Personal Income (2016-2017) Price Factor = 5.37			
Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (A) = (5.37 + 100)/100 A = 1.0537			

PRICE FACTOR (B)			
	Total Assessed Valuation	Change in AV	New non-residential construction
2014	\$194,385,175,886		
2015	\$206,479,690,226	\$12,094,514,340	\$1,047,876,452
Price Factor = New non-residential construction/Change in AV *100 8.66 Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (B) = (8.66 + 100)/100 B = 1.0866			

POPULATION FACTOR (C)			
Percent growth in County Population = 0.78			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (C) = (0.78 + 100) / 100 C = 1.0078			

POPULATION FACTOR (D)			
Percent growth in City Population = 0.94			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (D) = (0.94 + 100) /100 D = 1.0094			

ANNUAL ADJUSTMENT FACTORS			
(A x C) Income x Cnty Pop	1.0619	Low Value	
(A x D) Income x City Pop	1.0636		
(B x C) Non-residential x Cnty Pop	1.0951		
(B x D) Non-residential x City Pop	1.0968	High Value	

FY 2016 Tax Appropriations Limit	'1'	\$2,101,916,808
Annual Adjustment factor	'2'	1.0968
FY 2017 Tax Appropriations Limit	'1x2'	\$2,305,382,355

FY 2017 TAX APPROPRIATIONS SUBJECT TO THE TAX APPROPRIATIONS LIMIT

Appropriations Subject to the Tax Appropriations Limit *			
Property Tax	\$		501,965,689
Property Tax (1)			12,581,204
Sales Tax			272,798,685
Safety Sales Tax			9,166,621
Transient Occupancy Tax (TOT)			216,347,429
Property Transfer Tax			9,570,508
Business Tax			7,577,368
Rental Unit Taxes			7,271,794
Interest Earnings			588,851
Total Unadjusted Appropriations subject to the Limit	[A]	\$	1,037,868,149
Adjustment for appropriations not subject to the Tax Appropriations Limit *			
<u>Annual Debt Service for Voter Approved Debt (G.O. Bonds)</u>			
Total Annual Debt Service for Voter Approved Debt (2)	[B]	\$	-
<u>Qualified Capital Outlays</u>			
2012A Convention Center Expansion Financing Authority Lease Revenue Refunding Bonds			12,560,450
2012B Fire and Life Safety Refunding Bonds			1,383,569
2013A General Fund CIP Bonds & 2003 Old Town Light Rail Extension Refunding			3,214,831
2013B 2003 Balboa Park/Mission Bay Park Refunding Bonds			737,950
2007A Ballpark Refunding Bonds (3)(4)			9,287,704
2010A Master Refunding Bonds (5)			8,241,288
2012A Deferred CIP Lease Revenue Bonds			4,591,625
2015A&B General Fund CIP Bonds			6,899,750
Total Qualified Capital Outlays	[C]	\$	46,917,167
Total Adjustment	[D = B+C]	\$	46,917,167
Total Adjusted Appropriations Subject to the Limit	[E = A-D]	\$	990,950,982
Calculation of the Tax Appropriations Limit and Difference between the Limit and Appropriations Subject to the Lim			
Prior Year (FY 2016) Tax Appropriations Limit	[F]	\$	2,101,916,808
Adjustment Factor	[G]		1.0968
Tax Appropriations Limit for FY 2017	[H = F*G]	\$	2,305,382,355
Projected appropriations are below the limit by:	[I = H-E]	\$	1,314,431,373

(1) Ad Valorem Tax imposed for Zoological Exhibits.

(2) No Annual Debt Service for Voter Approved Debt in FY 2017.

(3) As a result of the dissolution of the Redevelopment Agency, the 2007A Ballpark Refunding Bonds debt service payment will be paid from Transient Occupancy Tax revenue.

(4) Incorporates the April 2016 Ballpark Refunding (Series 2016).

(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 \$12,989,413 (FY 2017 Proposed Budget, Volume I: Budget Overview and Schedules, Debt Obligations section, page 122) and includes \$4,748,125 for Qualcomm Stadium capital outlay debt payment.

* Source: FY 2017 Proposed Budget and FY 2017 May Revise Budget Memorandum.

**TEN-YEAR HISTORY OF PRICE AND POPULATION FACTORS &
TAX APPROPRIATIONS LIMITS ⁽¹⁾
FOR FISCAL YEARS 2008 TO 2017**

Fiscal Year	Price Adjustment	Population Adjustment	Total Adjustment	Appropriations Limit ⁽²⁾
2008	1.0519	X 1.0122	= 1.0647	\$1,051,667,005
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

(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 2016

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, 2016, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2016-17. 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 2016-17 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, 2016.**

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 COSTA
Chief Deputy Director

Attachment

May 2016

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 2016-17 appropriation limit is:

Per Capita Personal Income

Fiscal Year (FY)	Percentage change over prior year
2016-17	5.37

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2016-17 appropriation limit.

2016-17:

Per Capita Cost of Living Change = 5.37 percent
 Population Change = 0.90 percent

Per Capita Cost of Living converted to a ratio: $\frac{5.37 + 100}{100} = 1.0537$

Population converted to a ratio: $\frac{0.90 + 100}{100} = 1.0090$

Calculation of factor for FY 2016-17:

$$1.0537 \times 1.0090 = 1.0632$$

Fiscal Year 2016-17

Attachment B
Annual Percent Change in Population Minus Exclusions*
January 1, 2015 to January 1, 2016 and Total Population, January 1, 2016

<u>County</u> <u>City</u>	<u>Percent Change</u> <u>2015-2016</u>	<u>--- Population Minus Exclusions ---</u>		<u>Total</u>
		<u>1-1-15</u>	<u>1-1-16</u>	<u>Population</u> <u>1-1-2016</u>
San Diego				
Carlsbad	0.89	111,939	112,930	112,930
Chula Vista	0.66	263,046	264,772	265,070
Coronado	0.60	16,947	17,049	25,230
Del Mar	0.40	4,257	4,274	4,274
El Cajon	0.43	101,899	102,337	102,337
Encinitas	0.74	61,473	61,928	61,928
Escondido	0.52	149,973	150,760	150,760
Imperial Beach	0.53	27,290	27,434	27,434
La Mesa	1.05	59,357	59,982	59,982
Lemon Grove	0.62	26,446	26,611	26,611
National City	0.88	55,334	55,822	60,768
Oceanside	0.59	174,923	175,948	175,948
Poway	0.50	49,854	50,103	50,103
San Diego	0.94	1,361,475	1,374,324	1,391,676
San Marcos	1.32	92,076	93,295	93,295
Santee	0.18	56,653	56,757	56,757
Solana Beach	0.57	13,417	13,494	13,494
Vista	1.36	97,566	98,896	98,896
Unincorporated	0.46	466,111	468,253	511,119
County Total	0.78	3,190,036	3,214,969	3,288,612

*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

$$= \frac{\text{New non-residential construction}^1}{\text{Change in assessed valuation (CY 2014 to CY 2015)}^2} \times 100$$

$$= \frac{\$1,047,876,452}{\$12,094,514,340} \times 100$$

$$= 0.0866 \times 100$$

$$= 8.66\%$$

¹ Source: San Diego County Assessor's Office

² Source: San Diego County Assessor's Office

Assessed Valuation for Calendar Year 2014 = \$194,385,175,886

Assessed Valuation for Calendar Year 2013 = \$206,479,690,226

Change in Assessed Valuation = Assessed Valuation for 2014 –
Assessed Valuation for 2013

= \$204,479,690,226 - \$194,385,175,886

= \$12,094,514,340