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FISCAL YEAR 2015 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 2015 is \$1,929,603,239. In accordance with Proposition 111 guidelines, the Fiscal Year 2015 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 2015. The recommended Fiscal Year 2015 adjustment factor was calculated using the price factor based on the percent change in assessed valuation in new non-residential construction (10.56%) and the population factor based on the percent growth in the City's population (1.29%), resulting in an adjustment factor of 1.1199 (see page 2). The use of this adjustment factor results in a Tax Appropriations Limit for Fiscal Year 2015 of \$1,929,603,239, a 12.0% increase over the Fiscal Year 2014 Tax Appropriations Limit of \$1,723,013,875.

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 (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 2015 Proposed Budget projects the tax appropriations subject to the Tax Appropriations Limit to be \$879.0 million, as outlined in Page 4. The projected appropriations subject to the limit are estimated to be approximately \$1.1 billion below the recommended limit of \$1,929,603,239.

FY 2015 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 2015 adjustment are as follows:

Price Factors:

(A)	Percent growth in State per Capita Personal Income: (Source: Dept of Finance, California-Attachment 2A-2)	-0.23%
	Price Factor A	0.9977
(B)	Percent change in Assessed Valuation in new non-residential construction: (Source: San Diego County Assessor's Office-Attachment 2B)	+10.56%
	Price Factor B	1.1056

Population Factors:

(C)	Percent growth in County Population: (Source: Dept of Finance, California-Attachment 2A-3)	+1.23%
	Population Factor C	1.0123
(D)	Percent growth in City Population: (Source: Dept of Finance, California-Attachment 2A-3)	+1.29%
	Population Factor D	1.0129

Annual Adjustment Factors:

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

$$(A \times C) = (0.9977) \times (1.0123) = 1.0100$$

$$(A \times D) = (0.9977) \times (1.0129) = 1.0106$$

$$(B \times C) = (1.1056) \times (1.0123) = 1.1192$$

$$(B \times D) = (1.1056) \times (1.0129) = 1.1199 \text{ (rounded to 4 decimal places)}$$

The recommended limit was calculated using the adjustment factor “(B x D)”, resulting in a 12.0% increase over the Fiscal Year 2014 Annual Tax Appropriations Limit. Of the four adjustment factors listed above, the 1.1199 adjustment factor represents the largest allowable increase to the appropriation limit.

Calculation of the Fiscal Year 2015 Limit:

$$\begin{aligned} \text{Fiscal Year 2015 Limit} &= (\text{FY 2014 Limit}) \times (\text{Recommended Adjustment Factor}) \\ &= (\$1,723,013,875) \times (1.1199) = \mathbf{\$1,929,603,239} \end{aligned}$$

FY 2015 ALTERNATIVE ADJUSTMENT FACTORS & CALCULATION OF TAX APPROPRIATIONS LIMIT

PRICE FACTOR (A)			
Percent growth in State Per Capita Personal Income (2014-2015) Price Factor = -0.23			
Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (A) = (C5+ 100)/100 A = 0.9977			

PRICE FACTOR (B)			
	Total Assessed Valuation	Change in AV	New non-residential construction
2012	\$175,548,518,369		
2013	\$182,988,596,153	\$7,440,077,784	\$785,438,232
Price Factor = New non-residential construction/Change in AV *100 10.56 Price Factor converted to ADJUSTMENT Factor = (price factor + 100)/100 Adjustment Factor (B) = (C18+ 100)/100 B = 1.1056			

POPULATION FACTOR (C)			
Percent growth in County Population = 1.23			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (C) = (C27+ 100) / 100 C = 1.0123			

POPULATION FACTOR (D)			
Percent growth in City Population = 1.29			
Population Factor converted to ADJUSTMENT Factor = (population factor + 100)/100 Adjustment Factor (D) = (C35 + 100) /100 D = 1.0129			

ANNUAL ADJUSTMENT FACTORS			
(A x C) Income x Cnty Pop	1.0100	Low Value	
(A x D) Income x City Pop	1.0106		
(B x C) Non-residential x Cnty Pop	1.1192		
(B x D) Non-residential x City Pop	1.1199	High Value	

FY 2014 Tax Appropriations Limit	'1'	\$1,723,013,875
Annual Adjustment factor	'2'	1.1199
FY 2015 Tax Appropriations Limit	'1x2'	\$1,929,603,239

FY 2015 TAX APPROPRIATIONS SUBJECT TO THE TAX APPROPRIATIONS LIMIT

Appropriations Subject to the Tax Appropriations Limit *

Property Tax	\$	445,428,080
Property Tax (1)		10,746,000
Sales Tax		257,106,087
Safety Sales Tax		8,654,510
Transient Occupancy Tax (TOT)		176,270,736
Property Transfer Tax		9,176,035
Business Tax		7,477,368
Rental Unit Taxes		7,271,794
Interest Earnings		1,414,251
Total Unadjusted Appropriations subject to the Limit	[A] \$	923,544,861

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 (3)		12,560,650
2002B Fire and Life Safety Refunding Bonds		1,379,719
2013A General Fund CIP Bonds & 2003 Old Town Light Rail Extension Refunding		3,211,506
2013B 2003 Balboa Park/Mission Bay Park Refunding Bonds		745,275
2007A Ballpark Refunding Bonds (4)		11,315,250
2010A Master Refunding Bonds (5)		8,243,319
2012A Deferred CIP Lease Revenue Bonds		4,590,325
2014A General Fund CIP Bonds		2,500,000
Total Qualified Capital Outlays	[C] \$	44,546,044
Total Adjustment	[D = B+C] \$	44,546,044
Total Adjusted Appropriations subject to the Limit	[E = A-D] \$	878,998,817

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

Prior Year (FY 2014) Tax Appropriations Limit	[F] \$	1,723,013,875
Adjustment Factor	[G]	1.1199
Tax Appropriations Limit for FY 2015	[H = F*G] \$	1,929,603,239
Projected appropriations are below the limit by:	[I = H-E] \$	1,050,604,421

(1) Ad Valorem Tax imposed for Zoological Exhibits (\$10,746,000).

(2) No Annual Debt Service for Voter Approved Debt in FY 2015.

(3) The last \$4.5 million payment from the Port to support the debt service will be made on June 30, 2014. The City will make the entire payment beginning in FY 2015.

(4) 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.

(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 \$12,993,625 (FY 2015 Proposed Budget, Volume I: Budget Overview and Schedules, Debt Obligations section, page 122) and includes \$4,750,306 for Qualcomm Stadium capital outlay debt payment.

* Source: FY 2015 Proposed Budget, FY 2015 May Revise Budget Memorandum, and IBA Recommended Revisions to the Mayor's FY 2015 Budget.

**TEN-YEAR HISTORY OF PRICE AND POPULATION FACTORS &
TAX APPROPRIATIONS LIMITS ⁽¹⁾
FOR FISCAL YEARS 2006 to 2015**

Fiscal Year	Price Adjustment	Population Adjustment	Total Adjustment	Appropriations Limit ⁽²⁾
2006	1.0837	X	1.0127 = 1.0975	\$937,726,649
2007	1.0435	X	1.0094 = 1.0533	\$987,756,891
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

- (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 2006 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 2006 – 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 2014

Dear Fiscal Officer:

Subject: Price and Population Information

Appropriations Limit

The California Revenue and Taxation Code, section 2227, mandates 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, 2014, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2014-15. 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 2014-15 appropriations limit. Attachment B provides city and unincorporated county population percentage change. Attachment C provides 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. Consult the Revenue and Taxation Code section 2228 for further information regarding the appropriations limit. Article XIII B, section 9(C), of the State 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 issue should be referred to their respective county for clarification, or to their legal representation, or to 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, 2014.**

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:

KEELY M. BOSLER
Chief Deputy Director

Attachment

May 2014

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 2014-15 appropriation limit is:

Per Capita Personal Income

Fiscal Year (FY)	Percentage change over prior year
2014-15	-0.23

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2014-15 appropriation limit.

2014-15:

Per Capita Cost of Living Change = -0.23 percent
 Population Change = 0.95 percent

Per Capita Cost of Living converted to a ratio: $\frac{-0.23 + 100}{100} = 0.9977$

Population converted to a ratio: $\frac{0.95 + 100}{100} = 1.0095$

Calculation of factor for FY 2014-15:

$$0.9977 \times 1.0095 = 1.0072$$

Fiscal Year 2014-15

Attachment B
Annual Percent Change in Population Minus Exclusions*
January 1, 2013 to January 1, 2014 and Total Population, January 1, 2014

County City	<u>Percent Change</u>	<u>Population Minus Exclusions</u>		<u>Total Population</u>
	2013-2014	1-1-13	1-1-14	1-1-2014
San Diego				
Carlsbad	1.63	108,401	110,169	110,169
Chula Vista	1.66	251,674	255,841	256,139
Coronado	0.73	16,468	16,588	23,419
Del Mar	0.69	4,205	4,234	4,234
El Cajon	0.65	100,602	101,256	101,256
Encinitas	1.05	60,568	61,204	61,204
Escondido	0.68	146,115	147,102	147,102
Imperial Beach	0.54	26,533	26,675	26,675
La Mesa	0.76	58,328	58,769	58,769
Lemon Grove	1.32	25,590	25,928	25,928
National City	0.86	53,969	54,435	59,381
Oceanside	0.94	169,593	171,183	171,183
Poway	0.72	48,628	48,979	48,979
San Diego	1.29	1,309,688	1,326,543	1,345,895
San Marcos	3.46	87,165	90,179	90,179
Santee	1.26	55,110	55,806	55,806
Solana Beach	0.72	13,006	13,099	13,099
Vista	0.76	95,398	96,122	96,122
Unincorporated	1.04	452,066	456,785	498,823
County Total	1.23	3,083,107	3,120,897	3,194,362

*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

$$\begin{aligned}
 &= \frac{\text{New non-residential construction}^1}{\text{Change in assessed valuation (CY 2012 to CY 2013)}^2} \times 100 \\
 &= \frac{\$785,438,232}{\$7,440,077,784} \times 100 \\
 &= 0.1056 \times 100 \\
 &= 10.56\%
 \end{aligned}$$

¹ Source: San Diego County Assessor's Office

² Source: San Diego County Assessor's Office

Assessed Valuation for Calendar Year 2012 = \$175,548,518,369

Assessed Valuation for Calendar Year 2013 = \$182,988,596,153

Change in Assessed Valuation = Assessed Valuation for 2013 - Assessed Valuation for 2012

= \$182,988,596,153 - \$175,548,518,369

= \$7,440,077,784