



**DATE:** May 21, 2019

**TO:** Mayor and City Council

**FROM:** Director of Finance

**SUBJECT:** Gann Appropriation Limit for FY 2020

### **RECOMMENDATION**

That City Council adopts the attached resolution establishing an appropriations limit for Fiscal Year 2020, including the revised resolution establishing an appropriations limit for Fiscal Year 2018 and Fiscal Year 2019.

### **SUMMARY**

Each fiscal year, the City is required to calculate and establish its appropriations limit. The Gann Limit for FY 2020 is calculated at \$329,169,966, and the appropriations subject to the limit total \$133,271,670.

### **BACKGROUND**

State Proposition 4, commonly known as the Gann Initiative, was approved by California voters in November 1979. Proposition 4 created Article XIII B of the State Constitution, which places limits on the amount of revenue that can be spent by government agencies. This is referred to as the Gann Appropriation Limit (Gann Limit).

A subsequent related State Initiative, Proposition 111, was approved by the voters in June 1990 and provided new adjustment formulas to make the Gann Limit more responsive to local growth issues and to address concerns regarding the accountability of local governments in adopting their limits. Prior to each fiscal year, city councils must adopt by resolution the Gann Appropriation Limit for the city for the upcoming year. In addition, cities are required to conduct a review of their limits during annual financial audits.

The appropriations limitation imposed by Propositions 4 and 111 creates a restriction on the amount of revenue that can be appropriated in any fiscal year. The limit is based on actual appropriations during the 1978-79 fiscal year and is increased each year using population and inflation growth factors. Only revenues that are classified as "proceeds of taxes" are subject to the limit. The use of "non-tax proceeds" (user fees, rental income, franchise fees, Gas Tax revenue, etc) is not restricted.

## **DISCUSSION**

During any fiscal year, a city may not appropriate any proceeds of taxes it receives in excess of its established limit. Excess funds received in any year may be carried into the subsequent year for use if the city is below its limit for that year. Any excess funds remaining after the second year would be required to be returned to local taxpayers by reducing tax rates or fees. As an alternative, a majority of the voters may approve an "override" to increase the city's appropriations limit.

Senate Bill 1352 requires that 1) the governing body of each local jurisdiction shall, by a legislative action, establish its appropriations limit at a regularly scheduled or special meeting and that the documentation used in the determination of the appropriations limit shall be made available to the public fifteen days before that meeting. Government Code Section 7910 requires that the City adopt its appropriations limit prior to the beginning of each fiscal year.

The Finance Department of the City of Hayward compiles the data and makes calculations incident to the determination of the XIII B appropriations limit. The amount of the Fiscal Year 2020 appropriations limit and the documentation substantiating this determination are available for review by the public in the Office of the City Clerk.

In addition to the adoption of the FY 2020 appropriations limit, corrections were made to the appropriations limits for FY 2018 and FY 2019. The calculations performed during the two prior fiscal years reflected an incorrect per capita income rate. During the annual audit testing performed by Maze & Associates, the independent auditor reviewed the Gann Limit (appropriations limit) calculations and found an error in the calculation percentage used for the state per capita income percent change. The auditors recommended that staff revise the calculation and update the resolution for the FY 2018 and FY 2019 Gann Limit.

In adjusting for the correct per capita income percent change, the appropriations limit for FY 2018 is \$300,941,937, and \$314,607,193 for FY 2019. By including these corrections to the appropriations limits for these prior fiscal years, the City will remain in compliance with the Gann Limit requirement. The City did not exceed its Gann Limit in either year with the original or with the corrected limit.

The resolution establishes the appropriations limit FY 2020 to be \$329,169,966 and reestablishes corrected appropriations limits for FY 2018 and FY 2019.

## **FISCAL IMPACT**

There are no present fiscal impacts related to establishing the limit for FY 2020. The amount of appropriations subject to the limit is the budgeted proceeds of taxes (e.g., all taxes levied; transfers from an enterprise fund to the extent those transfers exceed the cost of providing the services; discretionary state subventions; interest earned from the investment of proceeds of taxes, etc.), and the total of these budgeted revenues cannot exceed the total appropriations limit.

The City's actual appropriations in each fiscal year have been significantly below the limit, as they will be for FY 2020. The table below summarizes the limit for FY 2020 and the preceding five years.

	<b>Appropriations Limit</b>	<b>Appropriations Subject to Limit</b>
<b>FY 2015</b>	256,614,221	87,400,385
<b>FY 2016</b>	269,880,304	103,998,849
<b>FY 2017</b>	287,387,229	107,969,124
<b>FY 2018*</b>	300,941,937	108,609,975
<b>FY 2019*</b>	314,607,193	121,761,732
<b>FY 2020</b>	329,169,966	133,271,670

*\*Amount reflects correct Gann Limit.*

## **STRATEGIC INITIATIVES**

This is a routine operational item and does not relate to one of the Council Strategic Initiatives.

## **NEXT STEPS**

Following adoption of the resolution, the City will be in compliance with State law requiring the establishment of a Gann Limit.

*Prepared by:* Nicole Gonzales, Budget Officer

*Recommended by:* Dustin Claussen, Director of Finance

*Approved by:*



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Kelly McAdoo, City Manager