

Agenda Report

TO: CITY COUNCIL **DATE: JUNE 20, 2005**
FROM: CITY MANAGER
SUBJECT: ADOPTION OF APPROPRIATIONS LIMIT FOR FY 2006

RECOMMENDATION

It is recommended that the City Council adopt a resolution that:

1. Selects the California Per Capita Income and the population increase for the City of Pasadena as the indices to be used in calculating the Appropriations Limit for FY2006;
2. Establishes the Appropriations Limit for Fiscal Year 2006 at \$181,370,504; and
3. Establishes Appropriations Subject to the Limit for Fiscal Year 2006 at \$94,669,628.

BACKGROUND

Article XIII B of the Constitution of the State of California was enacted by a vote of the people as Proposition 4 (the Gann Initiative) in November 1979. This law limits the level of most appropriations from tax sources that the state and most local government entities are permitted to make in any given year. It also requires that each governmental unit annually calculate its Appropriations Limit and adopt it by resolution prior to the beginning of the fiscal year under consideration. In addition Government Code Section 7910 requires that 15 days prior to this meeting, documentation used in determination of the Appropriations Limit shall be made available to the public and this information was made available in this manner.

Proposition 4 became effective for Fiscal Year 1981, but the formula for calculating the Limit is based on actual appropriations during FY1978-79. This base is allowed to increase each year using the growth of population and inflation. Not all revenues are restricted by the Limit, only those which are considered to be "proceeds of taxes".

The Appropriations Limit of Proposition 4 had little impact in its early years due to the high rate of inflation which increased the Limit faster than actual revenues grew. The Limit became a front-page issue in 1987, when the State of California refunded \$1.1 billion to the taxpayers as a result of unexpectedly reaching its own Limit. The Limit became an even bigger issue when it surfaced as the major barrier to increasing the State's gas taxes in the late 1980's. In the City of Pasadena, for a number of years the Appropriations Limit was not a problem, but in 1991 it became apparent the limit would begin to restrict city appropriations in the near future.

In order to address the increasing number of complaints about the restrictions of Proposition 4, and to increase the accountability of local governments in adopting their Limits, the State Legislature put what became Proposition 111 on the ballot and the voters approved it in the June, 1990, election. Among other things, Proposition 111 provides new formulas, which should make the Appropriations Limit more responsive to local growth issues. It also requires a review of the calculations as part of the annual financial statement audit process.

Calculation of the Appropriations Limit

In previous years, the Limit was adjusted for inflation by using the lesser of the changes in the U.S. Consumer Price Index or the California Per Capita Index plus the percentage change in population of the city. That has now been changed to the percentage change in population plus either the California Per Capita Index or the change in the local (City) tax roll as a result of non-residential construction. However, there is no existing index by which to compute the latter. The Los Angeles County Auditor-Controller is working on this problem. When it becomes available, the City will be able to retroactively recompute its Limit using this method if it is advantageous.

Another change to the method of calculation was the option to use population growth figures of either the County or the City, not just the City's. This year the City's population growth factor is higher than the County's factor. The new law now requires that the resolution adopting the Limit state which indices were used in the computation. That is the reason for recommendation number 1.

Appropriations Subject to the Limit

After calculating the Appropriations Limit, the City is required to determine the total Appropriations Subject to the Limit. The purpose of this exercise is to ensure that the City is not adopting a budget where appropriations exceed the Limit. Government Code 7910 requires that the Appropriations Subject to the Limit be calculated and be published in the adopted budget. In order to comply with this requirement, it is necessary to compute the Appropriations Subject to

the Limit from the City Manager's Recommended Budget. Since the Appropriations Subject to the Limit are computed primarily from "proceeds of taxes", there shouldn't be a material change from the estimates contained in that document. If there are substantial changes, which result from the Council's modification of the recommended budget, the calculation will be updated and the result will be published in the Annual Operating Budget. This has no effect on the actual Appropriations Limit.

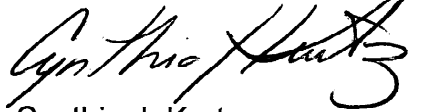
The City of Pasadena's Appropriations Limit and Appropriations Subject to the Limit were both calculated in accordance with guidelines issued by the League of California Cities, which were published shortly after passage of Proposition 111. Utilization of this approach facilitates the annual review requirement. The results of these calculations are:

Appropriations Limit for FY2006	\$181,370,504
Appropriations Subject to the Limit	<u>94,669,628</u>
Amount under Limit	\$ 86,700,876

FISCAL IMPACT

There is no fiscal impact associated with the above recommendations.

Respectfully Submitted,



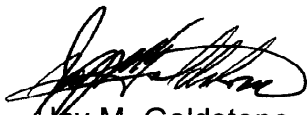
Cynthia J. Kurtz
City Manager

Prepared by:



Paula Hanson
Management Analyst V

Approved by:



Jay M. Goldstone
Director of Finance