File No. 121086 Committee Item No. 6
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee **Date** 12/05/2012

Board of Supervisors Meeting **Date** _____

Cmte	Board	
☐	☐	Motion
☒	☐	Resolution
☐	☐	Ordinance
☐	☐	Legislative Digest
☒	☐	Budget and Legislative Analyst Report
☐	☐	Legislative Analyst Report
☐	☐	Youth Commission Report
☐	☐	Introduction Form (for hearings)
☒	☐	Department/Agency Cover Letter and/or Report
☐	☐	MOU
☐	☐	Grant Information Form
☐	☐	Grant Budget
☐	☐	Subcontract Budget
☐	☐	Contract/Agreement
☐	☐	Form 126 – Ethics Commission
☐	☐	Award Letter
☐	☐	Application
☐	☐	Public Correspondence

OTHER **(Use back side if additional space is needed)**

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Completed by: Victor Young **Date** November 30, 2012
Completed by: Victor Young **Date** _____

FILE NO. 121086 RESOLUTION NO.

[California Constitution Appropriations Limit for FY2012-2013]

Resolution establishing the appropriations limit for FY2012-2013 pursuant to California Constitution Article XIII B.

WHEREAS, Article XIII B of the California Constitution provides that the annual appropriations of the City and County of San Francisco which are subject to said Article may not exceed the Appropriations Limit for the prior year, with adjustments as provided in said Article XIII B; and

WHEREAS, The California Government Code, Section 7901, defines the terms, and Section 7902(b) sets forth the equations to be used to determine the City and County of San Francisco's annual Appropriations Limit, according to the following formula:

(b)"...the appropriations limit of the state and each local jurisdiction shall equal the appropriations limit for the prior fiscal year multiplied by the product of the change in cost of living, as defined in paragraph (2) of subdivision (e) of Section 8 of Article XIII B of the California Constitution, and the change in population of the local jurisdiction for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined, and adjusted for other changes required or permitted by Article XIII B of the California Constitution;" and

WHEREAS, Article XIII B, Section 8(e)(2) of the California Constitution authorizes for the calculation of the cost of living, the use of either the percentage change in California per-capita personal income from the preceding year, or the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local non-residential new construction; and

WHEREAS, The change in California per-capita personal income from fiscal year 2011-12 is 3.77%, while the percentage change in the local assessment roll from 2011 due to the addition of local non-residential new construction was 0.40%; and

WHEREAS, The percentage change in population during calendar year 2011 for the City and County of San Francisco according to the State Department of Finance was 0.47%; and

WHEREAS, The resulting calculation establishing the City and County of San Francisco's fiscal year 2012-13 Appropriations Limit is:

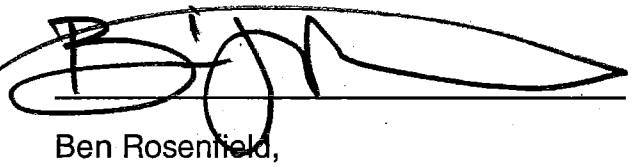
$2,527,091,225 X 1.0377 X 1.0047 = $2,634,687,668; and

WHEREAS, This matter has been considered at a regularly scheduled meeting of the Board of Supervisors for the City and County of San Francisco; and

WHEREAS, The documentation used to determine the Appropriations Limit for the City and County of San Francisco for FY2012-2013 was available for public inspection in the Office of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly scheduled meeting; now, therefore, be it

RESOLVED, That the City and County of San Francisco elects to use the change in California per-capita personal income from fiscal year 2011-12 and elects to use the annual percent change in population as measured by the San Francisco City and County population growth from the previous year for the purpose of computation of its Appropriations Limit pursuant to Article XIII B of the California Constitution for FY 2012-2013; and, be it

FURTHER RESOLVED, That the net appropriations limit for FY 2012-2013 is established at $2,634,687,668.

Recommended: 

Ben Rosenfield,

Controller

Item 6 File 12-1086	Department: Controller

EXECUTIVE SUMMARY

Legislative Objectives

- Resolution establishing the City and County's Appropriations Limit for FY 2012-13 pursuant to Article XIII B of the California Constitution.

Key Points

- The proposed resolution would establish the City's Appropriations Limit in FY 2012-13 at $2,634,687,668 pursuant to Article XIII B of the California Constitution.
- California Government Code Sections 7901 and 7902(b) define the terms and the calculation to be used in setting the Appropriations Limit, respectively.
- According to Article XIII B, the Appropriations Limit does not apply to any tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health.
- For FY 2012-13, based on the Controller's calculation, the City's net tax proceeds subject to the FY 2012-13 Appropriations Limit is $2,466,068,485 or $168,619,183 less than the City's Appropriations Limit of $2,634,687,668 as calculated by the Controller.

Policy Consideration

- In calculating the cost of living adjustment to the Appropriations Limit, the Controller can use either (a) the percentage change in California per-capita income from the preceding year or (b) the percentage change in the local assessment roll from the preceding year due to the change in local non-residential new construction. In using the change in California per-capita income, the City's Appropriations Limit is calculated at $2,634,687,668. Instead, if the change in non-residential new construction assessment is used, the City's Appropriation Limit is calculated as $2,549,124,428, or $85,563,240 less than the proposed Appropriations Limit of $2,634,687,668 based on the percentage change in California per-capita income from the preceding year. Using either cost of living adjustment, the City's FY 2012-13 net tax proceeds of $2,466,068,485 is below the FY 2012-13 Appropriations Limit.

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

On November 6, 1979, California voters approved Proposition 4, known as the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B (later amended by State Proposition 111, as approved by the voters in June of 1990) limits the annual growth in appropriations from the proceeds of Property Taxes to the percentage change in the cost of living and the percentage change in population. According to Article XIII B, the Appropriations Limit does not apply to any Property Tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs administered by the Department of Public Health.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's Appropriations Limit in FY 2012-13 at $2,634,687,668 as calculated by the Controller, pursuant to Article XIII B of the California Constitution. The City's Appropriations Limit for FY 2012-13 is based on the amount of the FY 2011-12 Appropriations Limit multiplied by a cost of living adjustment and a population adjustment (defined below).

Table 1 below shows how the City's FY 2012-13 Appropriations Limit of $2,634,687,668 was calculated by the Controller's Office.

Table 1: Proposed Appropriations Limit

FY 2011-12 Appropriations Limit	**$2,527,091,225**
Adjusted by:	
Increase in Cost of Living	3.77%
Increase in Population	.47%
FY 2012-13 Appropriations Limit	**$2,634,687,668***

*$2,527,091,225 x 1.0377 x 1.0047 equals $2,634,687,668.

California Government Code Sections 7901 and 7902(b) define the terms and the calculation to be used in setting the Appropriations Limit, respectively.

The change in population is defined in California Government Code Section 7901(b) as the population growth for the calendar year preceding the beginning of the fiscal year for which the appropriations limit is to be determined. According to the California Department of Finance, in calendar year 2011, San Francisco's population growth was 0.47 percent.

The cost of living is defined by California Government Code Section 7902(b) as either (a) the percentage change in California per-capita income from the preceding year or (b) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local non-residential new construction. The Controller's Office, at their discretion, used the increase in California per-capita income from FY 2011-12, or 3.77 percent, as the cost of living adjustment.

FISCAL IMPACTS

The City's FY 2012-13 total tax proceeds, as determined by the Controller, are $2,703,064,723. As shown in Table 1 above, the proposed resolution would establish the City's Appropriations Limit in FY 2012-13 at $2,634,687,668, as calculated by the Controller, pursuant to Article XIII B to the California Constitution. According to Article XIII B, the City's Appropriations Limit does not apply to tax proceeds appropriated due to (a) voter approved indebtedness, (b) federally mandated services, (c) qualified capital outlays, and (d) various hazardous waste programs in the Department of Public Health. As a result of these exclusions, as shown in Table 2 below, $236,996,238 is excluded from the City's total FY 2012-13 tax proceeds of $2,703,064,723. Based on the Controller's calculations, an estimated total of $2,466,068,485 is the City's net tax proceeds that would be subject to the City's FY 2012-13 Appropriations Limit.

Table 2: Tax Proceeds Subject to the Proposed Appropriations Limit

Total FY 2012-13 Tax Proceeds	$2,703,064,723
Exclusions	
Voter Approved Indebtedness	(171,601,000)
Federally Mandated Services	(59,595,647)
Qualified Capital Outlays	(2,546,908)
Hazardous Waste Program	(3,252,683)
Subtotal Excluded	**($236,996,238)**
FY 2012-13 Net Tax Proceeds Subject to Appropriations Limit	**$2,466,068,485**

Therefore, the City's FY 2012-13 net tax proceeds of $2,466,068,485, as shown in Table 2 above, are $168,619,183 less than the City's FY 2012-13 Appropriations Limit of $2,634,687,668, shown in Table 1 above.

In accordance with the Administrative Provisions of the Annual Appropriations Ordinance, any FY 2012-13 tax proceeds in excess of current estimates must be appropriated to the City's General Fund General Reserve, which is used as a revenue source (a) to fund supplemental appropriations during the current fiscal year, and (b) to fund the City's budget for the next fiscal year.

POLICY CONSIDERATION

As noted above, to calculate the cost of living adjustment to the City's Appropriations Limit, the Controller has the discretion to use either (a) the percentage change in California per-capita income from the preceding year, or (b) the percentage change in the local assessment roll from the preceding year due to the addition of local non-residential new construction. By using the change in California per-capita income, this results in a cost of living adjustment of 3.77 percent, thereby resulting in the City's Appropriations Limit being calculated at $2,634,687,668. If the alternative cost of living adjustment, the change in non-residential new construction assessments is used, which is .40 percent, instead of the 3.77 percent, the City's Appropriations Limit would be calculated at $2,549,124,428 ($2,527,091,225 x 1.0047 x 1.0040) or $85,563,240 less than the proposed Appropriations Limit of $2,634,687,668. Under either cost

of living adjustment, the FY 2012-13 net tax proceeds of $2,466,068,485, as shown in Table 2 above, would be less than the City's FY 2012-13 Appropriations Limit.

RECOMMENDATION

Approve the proposed resolution.

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 5, 2012

Angela Calvillo
Clerk of the Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2012 NOV -5 PM 4:27
AK

RE: Legislation to Establish the Appropriation Limit for Fiscal Year 2012-13, Pursuant to California Constitution Article XIIIB.

Dear Ms. Calvillo:

Enclosed is the above referenced resolution to set the City and County's appropriation limit for fiscal year 2012-13, as required by Government Code Section 7910. The necessary supporting documentation prepared by the Controller's Office is also enclosed.

This information must be posted and available for public inspection for fifteen days prior to a public hearing. Our working papers are available upon request at Controller's Office, Room 316.

Please contact Leo Levenson at (415) 554-4809 if you have any further questions regarding this matter.

Sincerely,

Ben Rosenfield
Controller

Enclosures
1) California Spending Limit Resolution
2) Transmittal to Mayor and Board of Supervisors
3) Supporting Documents - Exhibits

121086

CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 5, 2012

Mayor Edwin M. Lee
City and County of San Francisco
City Hall, Room 200
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Appropriations Limit for Fiscal Year 2012-13

Dear Mayor Lee and Board Members:

In accordance with Article XIII B of the State Constitution, attached is the resolution establishing the City and County's annual appropriation limit for fiscal year 2012-13. We estimate City and County appropriations are approximately $168.6 million below the state-mandated appropriation limit.

Background

Article XIII B of the State Constitution provides that annual appropriations of the City and County of San Francisco, which are funded from "Proceeds of Taxes," may not exceed the City and County's appropriation limit. This limit is equal to the prior year's limit adjusted for changes in population and inflation.

Our computation of proceeds of taxes is in accordance with California Government Code Section 7900, and conforms to the "Proposition 4, Article XIII B, California Constitution, Procedural Guidelines" prepared by the County Accounting Standards and Procedures Committee of the State Controller's Office (See Exhibit A).

Annual Appropriations Limit Adjustments

Each year the City and County of San Francisco adjusts its appropriation limit based upon two factors: population growth and inflation as determined by the California Government Code. Population growth is determined by using the change in San Francisco City and County population. According to the California Department of Finance, in calendar year 2011, the San Francisco City and County population growth was 0.47%. This growth factor is being used in the calculation. Inflation is determined by using either the change in California per capita personal income or the increase in the local assessment roll due to the addition of non-residential new construction. The fiscal year 2012-13 change in per capita income was 3.77%,

while the local assessment growth due to non-residential new construction was 0.40%. The fiscal year 2012-13 change in per capita income is used in the calculation (See Exhibit B).

Adjustments to Proceeds of Taxes

There are a series of downward adjustments to proceeds of taxes allowed by Article XIII B. The following exclusions are factored into our calculation of Net Proceeds of Taxes:

(1) $171.6 million is excluded as voter-approved bonded indebtedness (Article XIIIB, Section 9(a));
(2) $59.6 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIIIB, Section 9(b));
(3) $2.5 million is excluded under the determination of "qualified capital outlay" (Article XIIIB Section 9(e)); and,
(4) $3.3 million is excluded for the hazardous waste program (Governmental Code Section 7901(i)(2)).

City and County Appropriations are well under the Limit

Our appropriation limit for FY 2012-13 is $2,634,687,668. We estimate that our appropriations subject to limitation will be $2,466,068,486. Thus, the Controller projects that the City and County will be $168,619,182 below its limit in the current fiscal year.

It is the Controller's responsibility to monitor this appropriation limit each year for compliance. When the fiscal year in question has been audited, we will compare the actual appropriations to the budgeted appropriations and the actual mandate costs to the estimates. If the total adjusted appropriations funded from proceeds of taxes exceed the statutory limit, such excess must be returned to the taxpayers within two years.

Sincerely,

Ben Rosenfield
Controller

Attachments

cc: Kate Howard, Mayor's Budget Office
Dennis Herrerra, City Attorney
Buck Delventhal, Deputy City Attorney
Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst

California Constitution Article XIIIB Appropriation Limit
Fiscal Year 2012-13 Final Budget
Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	MUNICIPAL TRANSPORTATION FUND	TOTAL
Property Taxes	1,078,083,389	290,097,000	-	1,368,180,389
Business Taxes	452,805,800	1,000,000	-	453,805,800
Other Local Taxes	733,295,100	56,385,500	-	789,680,600
Interest (1)	5,023,879	773,813	-	5,797,692
Rents & Concessions (1)	1,455,928	76,314	-	1,532,242
Grants - State (2) (3) (4)	82,806,000	1,262,000	-	84,068,000
TOTAL PROCEEDS OF TAXES	$2,353,470,096	$349,594,627	$0	$2,703,064,723
LESS:				
Voted approved indebtedness funded from proceeds of tax (Article XIIIB Section 9(a) exclusion)				(171,601,000)
Federal Mandate for Social Security/Medicare (Article XIIIB Section 9(b) exclusion)				(59,595,647)
Qualified Capital Outlay (Article XIIIB Section 9(d) exclusion)				(2,546,908)
Hazardous Waste (Government Code Section 7901(i)(2)exclusion)				(3,252,683)
NET PROCEEDS OF TAXES				$2,466,068,486
Adjusted Appropriations Limit 2012-13 - Exhibit B				2,634,687,668
Less: Estimated Appropriations from Proceeds of Taxes				(2,466,068,486)
FY 2011-12 Appropriations Under (Over) Statutory Limit				$168,619,182

(1) Prorated allocation based upon breakdown of proceeds of tax to non-proceeds of tax.
(2) Excludes motor vehicle fuel and weight fees (Article XIIIB Section 9(e)).
(3) Excludes funds from California Children and Families First Act of 1998 (Article XIIIB Sections 12).
(4) Excludes federal and state tobacco taxes (Article XIIIB Sections 13).

California Constitution Article XIIIB Appropriation Limit
Fiscal Year 2012-13 Final Budget
Exhibit B - Calculation

Fiscal Year 2012-13:			
CA Per-Capita Personal Income change			3.77%
Population percentage change - County of San Francisco (1)			0.47%
CA Per-Capita Personal Income Change converted to ratio	$\frac{3.77+100}{100}$	=	1.03770
Population Change converted to ratio	$\frac{0.47+100}{100}$	=	1.00470
Calculation of Appropriations Limit:			
Ratio Change	1.0377 x 1.0047	=	1.042577
Appropriations Limit FY 2011-12			$2,527,091,225
X Ratio Change			1.042577
Appropriations Limit FY 2012-13			$2,634,687,668

(1) Per Capita Personal Income and Population Percentage Changes provided by the California Department of Finance.

Assessor Recorder
FY 2012-2013 Gann Limit
August 15, 2011
(Unaudited)

	2011-12	2010-11	FY 11-12 vs FY 10-11 Change
Basis of Levy (with SBE Roll)	159,303,239,998	158,521,517,382	781,722,616
Less: Roll Increase Due to			
Non-residential New construction	$ (634,125,910)	$ (362,060,645)	-272,065,265
In-Progress Assessment	$ (1,319,476,830)	$ (679,497,205)	-639,979,625
Adjusted Basis of Levy	157,349,637,258	157,479,959,532	-130,322,274

% Change due to Non-Residential NC

Source: MIS Report

	New Construction divided by Prior Year Basis of Levy
Addition of Non-Residential New Construction Growth Factor	0.40%

Reference Section

CA Constitution Artivle XIII B Section 8, e-2

(e) (1) "Change in the cost of living" for the State, a school district, or a community college district means the percentage change in California per capita personal income from the preceding year.

(2) "Change in the cost of living" for an entity of local government, other than a school district or a community college district, shall be either (A) the percentage change in California per **capita personal income from the preceding year, or (B) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction. Each entity of local government shall select its** change in the cost of living pursuant to this paragraph annually by a recorded vote of the entity's governing body.