

File No. 190282

Committee Item No. 3

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date April 3, 2019

Board of Supervisors Meeting

Date _____

Cmte Board

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OTHER (Use back side if additional space is needed)

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Completed by: Linda Wong

Date March 28, 2019

Completed by: Linda Wong

Date _____

1 [California Constitution Appropriations Limit - FY2018-2019 - \$4,443,944,710]

2
3 **Resolution establishing the appropriations limit of \$4,443,944,710 for FY2018-2019,**
4 **pursuant to California Constitution, Article XIII B.**

5
6 WHEREAS, Article XIII B of the California Constitution provides that the annual
7 appropriations of the City and County of San Francisco which are subject to said Article may
8 not exceed the Appropriations Limit for the prior year, with adjustments as provided in said
9 Article XIII B; and

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

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

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

1 WHEREAS, The change in California per-capita personal income in fiscal year 2017-
2 2018 was 3.67%, while the percentage change in the local assessment roll from 2017 due to
3 the addition of local non-residential new construction was 13.5844%; and

4 WHEREAS, The percentage change in population during calendar year 2017 for the City
5 and County of San Francisco according to the California Department of Finance was 1.14%;
6 and

7 WHEREAS, Article XIII B, Section 4 of the California Constitution authorizes voters to
8 approve an increase in the Appropriations Limit for up to four years; and

9 WHEREAS, Voters approved two measures, the Soda and Sugary Sweetened
10 Beverages Tax (Proposition V-November 2016) and the increase in the Real Estate Transfer
11 Tax (Proposition W-November 2016), that increased the Appropriations Limit by the aggregate
12 sum collected by the levy of these taxes; and

13 WHEREAS, The aggregate sum collected by the levy of these taxes through fiscal year
14 2018-2019 is projected to be \$99,984,425; and

15 WHEREAS, Article XIII B, Sections 8(h) and 10.5 of the California Constitution establish
16 that the Base Appropriations Limit for a local government is equal to the appropriations subject
17 to limitation in fiscal year 1986-1987; and

18 WHEREAS, For fiscal years 2014-2015 through 2017-2018, the percentage change in
19 the local assessment roll from the prior year due to the addition of local non-residential new
20 construction was not calculated in a manner consistent with "Article XIII B California Constitution
21 Appropriation Limit Procedure Guidelines for California Counties" prepared by the County
22 Accounting Standards and Procedures; and

23 WHEREAS, When the percentage change in the local assessment roll due to the addition
24 of non-residential construction is calculated according to the guidelines, the Base
25 Appropriations Limit for fiscal year 2017-2018 is \$3,781,327,469; and

1 WHEREAS, The resulting calculation establishing the City and County of San
2 Francisco's fiscal year 2018-2019 Appropriations Limit is:

3 $\$3,781,327,469 \times 1.0114 \times 1.135844 + \$99,984,425 = \$4,443,944,710$; and

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

6 WHEREAS, The documentation used to determine the Appropriations Limit for the City
7 and County of San Francisco for FY2018-2019 was available for public inspection in the Office
8 of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly scheduled
9 meeting; now, therefore, be it

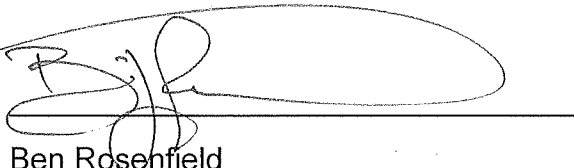
10 RESOLVED, That the City and County of San Francisco elects to use the percentage
11 change in the local assessment roll from 2017 due to the addition of local non-residential new
12 construction and elects to use the percent change in population within its jurisdiction from the

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1 previous year for the purpose of computation of its Appropriations Limit pursuant to Article XIII
2 B of the California Constitution for FY 2018-2019; and, be it

3
4 FURTHER RESOLVED, That the net appropriations limit for FY 2018-2019 is
5 established at \$4,443,944,710.

6
7 Recommended:

A handwritten signature in black ink, appearing to read 'Ben Rosenfield', is written over a solid horizontal line. The signature is stylized and cursive.

8 Ben Rosenfield

9 Controller

<p>Item 3 File 19-0282</p>	<p>Department: Controller's Office (Controller)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would establish the City's FY 2018-19 appropriations limit at \$4,443,944,710, as calculated by the Controller. The appropriations limit for FY 2018-19 is based on the amount of the FY 2018-19 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction). <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The California Constitution places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living. There are two definitions that local governments may use to calculate the cost of living adjustment: (1) the change in California per capita personal income, or (2) the change in the local assessment roll due to the addition of non-residential new construction. • In almost every year, the Controller has used the change in California per capita personal income as its cost of living factor. However, the Controller has now updated its calculation of the assessment roll factor for FY 2014-15 through FY 2018-19 to accurately reflect the guidelines in "Article XIII B California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee. In four of the five years, the revised assessment roll factor exceeded the change in California per capita personal income. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • The appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded \$658,913,427 from the City's total FY 2018-19 tax proceeds of \$4,843,619,161, resulting in net tax proceeds subject to the appropriations limit of \$4,184,705,735. • The City's FY 2018-19 appropriation limit, as calculated by the Controller, is \$4,443,944,710. The FY 2018-19 net tax proceeds of \$4,184,705,735 are \$259,238,975 less than the FY 2018-19 appropriation limit of \$4,443,944,710. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • For the FY 2018-19 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction to calculate the cost of living adjustment. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit would have been calculated at \$4,064,775,777. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • Approve the proposed resolution. 	

MANDATE STATEMENT

California Constitution Article XIII B states that each local government must set an annual appropriations limit as calculated using the preceding year's appropriations limit adjusted for (1) the change in population and (2) the change in the cost of living.

BACKGROUND

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) places annual limits on the appropriations of tax proceeds made by the State, school districts, and local governments in California. The annual appropriations limit is based on the appropriations limit for the preceding fiscal year and adjusted for (1) the change in population, and (2) the change in the cost of living.

Per Article XIII B Section 9 and California Government Code Section 7901, the appropriations limit does not apply to any tax proceeds appropriated for (a) debt service, (b) federal mandates for Social Security and Medicare, (c) qualified capital outlays, and (d) other federal mandates.

California Government Code Section 7901(b) defines the change in population 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 2017, San Francisco's population growth was 1.14 percent.

California Constitution Article XIII B Section 8(e)2 allows the local government to use one of the two following definitions to calculate the cost of living adjustment:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.67 percent in FY 2017-18, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to non-residential new construction, estimated to be 13.58 percent in FY 2017-18.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2018-19 appropriations limit at \$4,443,944,710, as calculated by the Controller. The appropriations limit for FY 2018-19 is based on the amount of the FY 2018-19 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in the local assessment roll due to the addition of non-residential new construction).

FISCAL IMPACT**Updated Adjustments to the Appropriation Limit**

Cost of living 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. According to the Controller's Office, the City is allowed to choose whichever percentage change is higher. In almost every year, the Controller has used the change in California per capita personal income as its cost of living factor. However, the Controller has now updated its calculation of the assessment roll factor.

For FY 2014-15 through FY 2018-19, the Controller calculated the assessment roll factor to accurately reflect the guidelines in "Article XIIB California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee. In four of the five years, the revised assessment roll factor exceeded the change in California per capita personal income. Table 1 below summarizes the revised limits (before voter-approved overrides):

Table 1: Revised Appropriation Limits, FY 2014-15 through FY 2018-19¹

Fiscal Year	Previous Limit	Revised Limit
2014-15	\$2,917,987,003	\$3,061,397,457
2015-16	3,066,413,447	3,242,369,265
2016-17	3,265,329,234	3,452,699,230
2017-18	3,422,386,737	3,781,327,469
2018-19	-	4,343,960,284

According to Mr. Michael Mitton at the Controller's Office, the appropriation limits were revised beginning from FY 2014-15 because it was difficult to access data prior to this year as a result of data limitations.

Fiscal Impact

As mentioned above, the appropriations limit does not apply to tax proceeds appropriated for: (a) debt service, (b) federal mandates for Social Security and Medicare, and (c) qualified capital outlays. Consequently, the Controller excluded \$658,913,427 from the City's total FY 2018-19 tax proceeds of \$4,843,619,161, as shown in Table 2 below, resulting in net tax proceeds subject to the appropriations limit of \$4,184,705,735.

¹ These amounts do not include voter-approved overrides.

Table 2: Estimated Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2018-19 Estimated Total Tax Proceeds*	\$4,843,619,161
Exclusions	
(a) Debt Service	(313,939,630)
(b) Federal Mandate for Social Security/Medicare	(106,252,273)
(c) Qualified Capital Outlays	(238,721,524)
Subtotal Exclusions	(658,913,427)
FY 2018-19 Net Tax Proceeds Subject to Appropriations Limit	\$4,184,705,735

*Includes property taxes, business taxes, other local taxes, interest, and state grants.

Section 4 of Article XIII B provides that the appropriations limit may be changed by the voters for up to four years. In November 2016, the voters approved two measures, the Soda and Sugary Sweetened Beverages Tax (Proposition V) and the Real Estate Transfer Tax (Proposition W) that increased the appropriations limit by the aggregate sum collected from these taxes. The Controller found that the adjustment was equal to \$99,984,425. The temporary increase in the appropriations limit will be in effect through FY 2019-20, after which the limit will return to what it would have been absent the temporary increase.

In June 2018, voters approved the Commercial Rent tax for Childcare and Early Education (Proposition C) and a City parcel tax for the benefit of the San Francisco Unified School District (Proposition G). Both measures included temporary overrides to raise the appropriations limit. However, both measures are currently in litigation and consequently, the City is not recognizing any revenue².

As shown on Table 3 below, the City's FY 2018-19 appropriation limit, as calculated by the Controller, is \$4,443,944,710. The FY 2018-19 net tax proceeds of \$4,184,705,735 are \$259,238,975 less than the FY 2018-19 appropriation limit of \$4,443,944,710.

² The cannabis business tax increase (Proposition D) passed in November 2018 will be included as a voter override beginning in FY 2019-20. The Our City, Our Home tax for homelessness services (Proposition C) also passed in November 2018 and is currently in litigation.

Table 3: Proposed FY 2018-19 Appropriations Limit

FY 2017-18 Appropriations Limit ^a	\$3,781,327,469
Adjustment Factors ^b	
Increase in Population	1.14%
Roll Growth Due to New Nonresidential Construction	<u>13.58%</u>
Subtotal	\$4,343,960,284
Voter approved limit changes	99,984,425
FY 2018-19 Appropriations Limit ^a	\$4,443,944,710

Source: Controller’s Office

^a This is the readjusted appropriations limit based on a recalculation of the base year FY 1986-87 to include health and dental benefits.

^b The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2018-19 appropriations limit based on the increase in the City’s population and the increase in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction as follows: \$3,781,327,469 x 1.0114 x 1.1358. This added to the voter approved limit changes of \$99,984,425 equals \$4,443,944,710. (Note that calculations are estimates because of rounding numbers).

POLICY CONSIDERATION

As noted above, the Controller has discretion to calculate the cost of living adjustment factor using one of two following definitions:

Definition 1: The percentage change in California per-capita personal income from the preceding year, estimated to be 3.67 percent in FY 2017-18, or

Definition 2: The percentage change for the local jurisdiction in the assessment roll from the preceding year due to local non-residential new construction, estimated to be 13.58 percent in FY 2017-18.

Table 4 below shows the FY 2018-19 appropriations limit using both definitions.

Table 4: FY 2018-19 Appropriations Limit by Definition

	<u>Definition 1</u>	<u>Definition 2</u>
	Per-Capita Personal Income	Local Assessment Roll from Non- Residential New Construction
FY 2017-18 Appropriations Limit	\$3,781,327,469	\$3,781,327,469
Adjustment Factors		
Increase in Population	1.14%	1.14%
Increase in Per-Capita Personal Income	3.67%	-
Increase in Local Assessment Roll	-	13.58%
Subtotal	\$3,964,791,352	\$4,343,960,284
Voter Approved	99,984,425	99,984,425
FY 2018-19 Appropriations Limit	\$4,064,775,777	\$4,443,944,710

For the FY 2018-19 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction to calculate the cost of living adjustment, consequently calculating the appropriations limit at \$4,443,944,710, as shown in Table 4 above. Had the Controller elected to use the percentage change in per-capita personal income from the preceding year, the appropriations limit, as shown in Table 4 above, would have been calculated at \$4,064,775,777, which is (a) \$379,168,933 less than the proposed appropriations limit of \$4,443,944,710 and (b) \$119,929,958 more than the Controller’s estimate of net tax proceeds subject to the appropriations limit of \$4,184,705,735, as shown in Table 2 above.

RECOMMENDATION

Approve the proposed resolution.

California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2018-19 Final Budget
 Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit

Fiscal Year 2018-19

Proceeds of Taxes

	General Fund	Other Governmental Funds	Total
Property Tax	\$ 1,728,000,000	\$ 441,893,436	\$ 2,169,893,436
Excess ERAF	414,726,809	-	414,726,809
Business Tax	1,003,280,000	2,100,000	1,005,380,000
Other Local Taxes	1,171,310,000	16,020,000	1,187,330,000
Interest	60,710,000	448,916	61,158,916
State Subventions	3,790,000	1,340,000	5,130,000
Total Proceeds of Tax	\$ 4,381,816,809	\$ 461,802,352	\$ 4,843,619,161

Excludable Appropriations

FICA Expenditures	\$ 106,252,273
Qualified Capital Outlays	238,721,524
Debt Service	313,939,630
Total Excludable Appropriations	\$ 658,913,427

Net Proceeds of Taxes:	\$ 4,184,705,735
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Appropriations Limit Calculation

Base Limit for FY 2017-18		3,781,327,469
Population Adjustment	1.140%	
Cost of Living Adjustment	13.584%	
<i>Total Adjustment</i>	<i>14.87924%</i>	
Base Limit for FY 2018-19		4,343,960,284
Temporary Voter Approved Overrides		99,984,425
Appropriations Limit for FY 2018-19		\$ 4,443,944,710

FY 2018-19 Appropriations Under (Over) Statutory Limit	\$ 259,238,975
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California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2018-19 Final Budget
 Exhibit B - Appropriations Limit Calculation

Cost of Living Factor: Use the maximum of CA Per-Capital Personal Income Change, or the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction.

CA Per-Capita Personal Income change ¹	3.67%
Roll Growth Due to New Nonresidential Construction ²	13.58%
Cost of Living Change	13.58%

Population Factor: Use the maximum of either CCSF population growth, or the population growth of 9 bay area counties, as defined by DOF.

County of San Francisco ¹	1.14%
CCSF and Surrounding Counties ¹	0.75%
Population Percentage Change	1.14%

Calculation of Appropriations Limit: Inflate the prior year Base Gann Limit (i.e., before voter overrides) by the Cost of Living and Population factors above.

Base Appropriations Limit FY 2017-18	3,781,327,469
<u>Cost of Living Growth Factor</u>	1.1358
<u>Population Growth Factor</u>	1.0114
Base Appropriations Limit FY 2018-19	4,343,960,284
 Voter approved Limit changes:	 99,984,425
Appropriations Limit FY 2018-19	\$4,443,944,710

'(1) These are provided by the State Department of Finance. They are mailed to our office every May, but if they don't find their way into the folder, you can download them here "<http://www.dof.ca.gov/Forecasting/Demographics/Estimates/>"

We can choose either the population growth of CCSF, or CCSF + the surrounding counties, which DOF has defined in its letter to us as San Francisco, Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Santa Cruz, Solano, and Sonoma.

(2) Assessment data provided by SF Assessor's Office



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

March 5, 2019

Mayor London Breed
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 2018-19

Dear Mayor Breed 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 2018-19. We estimate City and County appropriations are approximately \$259 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 that 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 cost of living.

Our computation of proceeds of taxes is in accordance with California Government Code Section 7900 and conforms to "Article XIII B California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee (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 the cost of living as determined by 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, between January 1, 2017 and January 1, 2018, San Francisco City and County population growth was 1.14%. This growth factor is being used in the calculation. Cost of living 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 change in per capita income for fiscal year 2017-18 is 3.67%, while the local assessment growth in 2017 due to non-residential new construction is 13.58%. The fiscal year 2018-19 increase in local assessment growth is used in the appropriations limit calculation (See Exhibit B).

Adjustments to Proceeds of Taxes

There are certain appropriations that are excluded from proceeds of taxes, as allowed by Article XIII B. The following exclusions are factored into our calculation of Net Proceeds of Taxes:

- (1) \$314.0 million is excluded as bonded indebtedness (Article XIII B, Section 9(a));
- (2) \$106.3 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIII B, Section 9(b)); and,
- (3) \$238.7 million is excluded under the determination of "qualified capital outlay" (Article XIII B Section 9(e)).

Adjustments to the Appropriation Limit

Article XIII B allows voters to approve an increase to the appropriations limit for up to four years. In November 2016, voters approved two measures, the Soda and Sugary Sweetened Beverages Tax and the increase in the Real Estate Transfer Tax, that increased the appropriations limit by the aggregate sum collected by the levy of these taxes. This adjustment raises the 2018-19 appropriations limit by \$100.0 million.

In June 2018, voters approved the Commercial Rent tax for Housing and Homelessness Services and a City parcel tax for the benefit of the San Francisco Unified School District. Both measures included temporary overrides to raise the appropriations limit. However, both measures are currently in litigation and consequently, the City is not recognizing any revenue.

Cost of living 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 ("assessment roll factor"). In almost every year, the City has used the change in California per capita personal income as its cost of living factor. The City has updated its calculation of the assessment roll factor.

3 | FY 2018-19 Appropriation Limit

For FY 2014-15 through FY 2018-19, the City calculated the assessment roll factor according to the guidelines in "Article XIII B California Constitution Appropriation Limit Procedure Guidelines for California Counties" prepared by the County Accounting Standards and Procedures Committee. In four of the five years, the revised assessment roll factor exceeded the change in California per capita personal income. Using the revised assessment roll factor in these four years raises the appropriations limit by \$762.7 million. The revised limits (before voter-approved overrides) are summarized as follows:

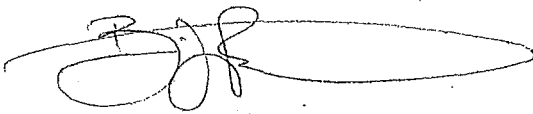
Fiscal Year	Previous Limit	Revised Limit
2014-15	2,917,987,003	3,061,397,457
2015-16	3,066,413,447	3,242,369,265
2016-17	3,265,329,234	3,452,699,230
2017-18	3,422,386,737	3,781,327,469
2018-19	-	4,343,960,284

City and County Appropriations are under the Limit

The appropriation limit for FY 2018-19 is \$4,443,944,710. We estimate that appropriations subject to limitation will be \$4,184,705,735. Thus, the Controller projects that the City and County will be \$259,238,975 below its limit in the current fiscal year.

It is the Controller's responsibility to monitor this appropriation limit each year for compliance. If the sum of adjusted appropriations for two consecutive fiscal years exceeds the sum of the appropriation limits for those two fiscal years, the excess must be returned to the taxpayers in the two subsequent fiscal years.

Sincerely,



Ben Rosenfield
Controller

Attachments

cc: Kelly Kirkpatrick, Mayor's Budget Director
Dennis Herrera, City Attorney
Buck Delventhal, Deputy City Attorney
Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst

