

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102 (415) 552-9292
FAX (415) 252-0461

February 12, 2021

TO: Budget and Appropriations Committee

FROM: Budget and Legislative Analyst



SUBJECT: February 17, 2021 Budget and Appropriations Committee Meeting

TABLE OF CONTENTS

Item	File	Page
4	21-0071 California Constitution Appropriations Limit - FY2020-2021 - \$8,364,999,808	1

Item 4 File 21-0071	Department: Controller's Office (Controller)
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution would establish the City's FY 2020-21 appropriations limit at \$8,364,999,808, as calculated by the Controller. The appropriations limit for FY 2020-21 is based on the amount of the FY 2019-20 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. The City is allowed to choose whichever percentage change is higher. In FY 2019-20, the growth in personal income was 3.73 percent and the roll growth due to new nonresidential construction was 28.95 percent. Consequently, the Controller's Office is using the non-residential construction for the cost-of-living factor to calculate the appropriations limit. <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 \$542,702,098 from the City's total FY 2020-21 tax proceeds of \$5,140,654,409, resulting in net tax proceeds subject to the appropriations limit of \$4,597,952,311. • The City's FY 2020-21 appropriation limit, as calculated by the Controller, is \$8,364,999,808. The FY 2020-21 net tax proceeds of \$4,597,952,311 are \$3,767,047,497 less than the FY 2020-21 appropriation limit of \$8,364,999,808. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • For the FY 2020-21 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at \$8,364,999,808. 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 \$6,995,536,062. <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

Proposition 4, known as the Gann Initiative and approved by California voters in November 1979, 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 2019, San Francisco's population growth was 0.76 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 3.73 percent in FY 2019-20, 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 28.95 percent in FY 2019-20.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2020-21 appropriations limit at \$8,364,999,808, as calculated by the Controller. The appropriations limit for FY 2020-21 is based on the amount of the FY 2019-20 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

Cost of Living Factor

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 Mr. Michael Mitton, Principal Analyst at the Controller’s Office, the City can choose whichever percentage change is higher.

As previously mentioned, in FY 2019-20, the growth in personal income was 3.73 percent and the roll growth due to new nonresidential construction was 28.95 percent. Consequently, the Controller’s Office is using the non-residential construction for the cost-of-living factor to calculate the appropriations limit.

Fiscal Impact

As previously mentioned, 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 \$542,702,098 from the City’s total FY 2020-21 tax proceeds of \$5,140,654,409, as shown in Table 1 below, resulting in net tax proceeds subject to the appropriations limit of \$4,597,952,311.

Table 1: Estimated Tax Proceeds Subject to the Proposed Appropriations Limit

FY 2020-21 Estimated Total Tax Proceeds*	\$5,140,654,409
Exclusions	
(a) Debt Service	(277,168,684)
(b) Federal Mandate for Social Security/Medicare	(107,503,080)
(c) Qualified Capital Outlays	(158,030,334)
Subtotal Exclusions	(542,702,098)
FY 2020-21 Net Tax Proceeds Subject to Appropriations Limit	\$4,597,952,311

*Includes property taxes, business taxes, excess Education Revenue Augmentation Fund revenues, other local taxes, and interest

Article XIII B allows voters to approve an increase to the appropriations limit for up to four years. In the past four years, voters approved seven measures: the Tax on Cannabis Businesses (Proposition D in November 2018), the Homeless Gross Receipts Tax (Proposition C in November 2018), the Traffic Congestion Mitigation Tax (Proposition D in November 2019), the Parcel Tax for San Francisco Unified School District (Proposition J in November 2020), the Real Estate Transfer Tax (Proposition I in November 2020), the Executive Compensation Tax (Proposition L in November 2020), and the Business Tax Overhaul (Proposition F in November 2020). This adjustment raises the FY 2020-21 appropriations limit by \$1,362,924,073.

In June 2018, voters approved a City parcel tax for the benefit of the San Francisco Unified School District and the Early Care and Education Commercial Rents Tax. These measures include temporary overrides to raise the appropriations limit. However, these measures are currently in

litigation and the City has not yet recognized any revenue from these measures. The override cannot extend further than four years after the date measure was approved by voters regardless of when these revenues are recognized.

As shown in Table 2 below, the City’s FY 2020-21 appropriation limit, as calculated by the Controller, is \$8,364,999,808. The FY 2020-21 net tax proceeds of \$4,597,952,311 shown in Table 1 above are \$3,767,047,497 less than the FY 2020-21 appropriation limit of \$8,364,999,808.

Table 2: Proposed FY 2020-21 Appropriations Limit

FY 2019-20 Appropriations Limit	\$5,389,113,105
Adjustment Factors ^a	
Increase in Population	0.76%
Roll Growth Due to New Nonresidential Construction	<u>28.95%</u>
Subtotal	\$7,002,075,735
Voter approved limit changes	\$1,362,924,073
FY 2020-21 Appropriations Limit ^a	\$8,364,999,808

Source: Controller’s Office

^a The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2020-21 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: \$5,389,113,105 x 1.0076 x 1.2895 = \$7,002,075,735. This added to the voter approved limit changes of \$1,362,924,073 equals \$8,364,999,808. (Note that calculations are not exact but estimates because of rounding numbers).

POLICY CONSIDERATION

As previously mentioned, 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 3.73 percent in FY 2019-20, 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 28.95 percent in FY 2019-20.

Table 3 below shows the FY 2020-21 appropriations limit using both definitions.

Table 3: FY 2020-21 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 2019-20 Appropriations Limit	\$5,389,113,105	\$5,389,113,105
Adjustment Factors		
Increase in Population	0.76%	0.76%
Increase in Per-Capita Personal Income	3.73%	-
Increase in Local Assessment Roll	-	28.95%
Subtotal	\$5,632,611,989	\$7,002,075,735
Voter Approved	\$1,362,924,073	\$1,362,924,073
FY 2020-21 Appropriations Limit	\$6,995,536,062	\$8,364,999,808

For the FY 2020-21 appropriations limit, the Controller elected to use the percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction to calculate the cost-of-living adjustment, consequently calculating the appropriations limit at \$8,364,999,808, as shown in Table 2 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 3 above, would have been calculated at \$6,995,536,062, which is (a) \$1,369,463,746 less than the proposed appropriations limit of \$8,364,999,808 and (b) \$2,397,583,751 more than the Controller's estimate of net tax proceeds subject to the appropriations limit of \$4,597,952,311, as shown in Table 1 above.

RECOMMENDATION

Approve the proposed resolution.