

File No. 210071

Committee Item No. 4

Board Item No. 19

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Appropriations Committee

Date February 17, 2021

Board of Supervisors Meeting

Date February 23, 2021

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
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| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
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| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
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Completed by: Linda Wong Date February 12, 2021

Completed by: Linda Wong Date February 18, 2021

1 [California Constitution Appropriations Limit - FY2020-2021 - \$8,364,999,808]

2

3 **Resolution establishing the appropriations limit of \$8,364,999,808 for Fiscal Year (FY)**
4 **2020-2021, 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,
8 may not exceed the Appropriations Limit for the prior year, with adjustments as provided in
9 said 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
15 cost of living, as defined in paragraph (2) of subdivision (e) of Section 8 of Article XIII
16 B of the California Constitution, and the change in population of the local jurisdiction
17 for the calendar year preceding the beginning of the fiscal year for which the
18 appropriations limit is to be determined, and adjusted for other changes required or
19 permitted by Article XIII 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-
22 capita personal income from the preceding year, or the use of the percentage change in the
23 local assessment roll from the preceding year for the jurisdiction due to the addition of local
24 non-residential new construction; and

25

1 WHEREAS, The change in California per-capita personal income in fiscal year 2019-
2 20 was 3.73%, while the percentage change in the local assessment roll in 2019 due to the
3 addition of local non-residential new construction was 28.95%; and

4 WHEREAS, The percentage change in population during calendar year 2019 for the
5 City and County of San Francisco according to the California Department of Finance was
6 0.76%; 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 seven measures, the Tax on Cannabis Businesses
10 (Proposition D-November 2018), the Homeless Gross Receipts Tax (Proposition C-
11 November 2018), the Traffic Congestion Mitigation Tax (Proposition D-November 2019), the
12 Parcel Tax for San Francisco Unified School District (Proposition J-November 2020), the
13 Real Estate Transfer Tax (Proposition I-November 2020), the Executive Compensation Tax
14 (Proposition L-November 2020), and the Business Tax Overhaul (Proposition F-November
15 2020), that increased the Appropriations Limit by the aggregate sum collected by the levy of
16 these taxes; and

17 WHEREAS, The aggregate sum collected by the levy of these taxes through fiscal
18 year 2020-21 is projected to be \$1,362,924,073; and

19 WHEREAS, Article XIII B, Sections 8(h) and 10.5 of the California Constitution
20 establish that the Base Appropriations Limit for a local government is equal to the
21 appropriations subject to limitation in fiscal year 1986-87; and

22 WHEREAS, The Base Appropriations Limit for fiscal year 2019-20 is \$5,389,113,105;
23 and

24
25

1 WHEREAS, The resulting calculation establishing the City and County of San
2 Francisco's fiscal year 2020-21 Appropriations Limit is:

3 $\$5,389,113,105 \times 1.0076 \times 1.2895 + \$1,362,924,073 = \$8,364,999,808$; 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
7 City and County of San Francisco for FY2020-2021 was available for public inspection in
8 the Office of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly
9 scheduled 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 2019 due to the addition of local non-residential
12 new construction and the percent change in population within its jurisdiction from the
13 previous year for the purpose of computation of its Appropriations Limit pursuant to Article
14 XIII B of the California Constitution for FY 2020-2021; and, be it

15 FURTHER RESOLVED, That the net appropriations limit for FY 2020-2021 is
16 established at \$8,364,999,808.

17

18 Recommended:



19 Ben Rosenfield

20 Controller

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California Constitution Article XIII B Appropriations Limit
 Fiscal Year 2020-21 Final Budget
 Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit

Fiscal Year 2020-21

Proceeds of Taxes

	General Fund	Other Governmental Funds	Total
Property Tax	\$ 1,832,600,000	\$ 601,289,881	\$ 2,433,889,881
Excess ERAF	187,000,000	-	187,000,000
Business Tax	826,400,000	971,910,125	1,798,310,125
Other Local Taxes	657,990,000	40,920,000	698,910,000
Interest	16,963,610	450,793	17,414,403
State Subventions	3,790,000	1,340,000	5,130,000
Total Proceeds of Tax	\$ 3,524,743,610	\$ 1,615,910,799	\$ 5,140,654,409

Excludable Appropriations

FICA Expenditures	\$ 107,503,080
Qualified Capital Outlays	158,030,334
Debt Service	277,168,684
Total Excludable Appropriations	\$ 542,702,099

Net Proceeds of Taxes:	\$ 4,597,952,311
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Appropriations Limit Calculation

Base Limit for FY 2019-20		5,389,113,105
Population Adjustment	0.76%	
Cost of Living Adjustment	28.95%	
<i>Total Adjustment</i>	<i>29.93%</i>	
Base Limit for FY 2020-21		7,002,075,735
Temporary Voter Approved Overrides		1,362,924,073
Appropriations Limit for FY 2020-21		\$ 8,364,999,808

FY 2020-21 Appropriations Under (Over) Statutory Limit	\$ 3,767,047,497
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California Constitution Article XIII B Appropriations Limit
 Fiscal Year 2020-21 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	3.73%
Roll Growth Due to New Nonresidential Construction	28.95%
Cost of Living Change	28.95%

Population Factor: Use the maximum of either CCSF population growth, or the population growth of the 9 bay area counties if it exceeds the Roll Growth cost of living factor.

County of San Francisco	0.76%
CCSF and Surrounding Counties	0.20%
Population Percentage Change	0.76%

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 2019-20	5,389,113,105
Cost of Living Growth Factor	1.28950
Population Growth Factor	1.00760
Base Appropriations Limit FY 2020-21	7,002,075,735
Voter approved Limit changes:	1,362,924,073
Appropriations Limit FY 2020-21	\$8,364,999,808

<p>Item 4 File 21-0071</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 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: $\$5,389,113,105 \times 1.0076 \times 1.2895 = \$7,002,075,735$. 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.



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

January 15, 2021

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 2020-21

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 appropriations limit for FY 2020-21. We estimate City and County appropriations are approximately \$3,767 million below the state-mandated appropriations 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 appropriations 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 Appropriations 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 appropriations limit based upon two factors: population growth and the cost of living as determined by California Government Code. Population growth is determined using the change in San Francisco City and County population. According to the California Department of Finance, between January 1, 2019 and January 1, 2020, San Francisco City and County population growth was 0.76%. This growth factor is used in the calculation. Cost of living is determined 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 2019-20 is 3.73%, while the local assessment growth in 2019 due to non-residential new construction is 28.95%. The fiscal year 2020-21 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) \$277.2 million is excluded as bonded indebtedness (Article XIII B, Section 9(a));
- (2) \$107.5 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIII B, Section 9(b)); and,
- (3) \$158.0 million is excluded under the determination of "qualified capital outlay" (Article XIII B Section 9(e)).

Adjustments to the Appropriations Limit

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-November 2018), the Homeless Gross Receipts Tax (Proposition C-November 2018), the Traffic Congestion Mitigation Tax (Proposition D-November 2019), the Parcel Tax for San Francisco Unified School District (Proposition J-November 2020), the Real Estate Transfer Tax (Proposition I-November 2020), the Executive Compensation Tax (Proposition L-November 2020), and the Business Tax Overhaul (Proposition F-November 2020). This adjustment raises the FY 2020-21 appropriations limit by \$1,362.9 million.

In June 2018, voters approved a City parcel 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.

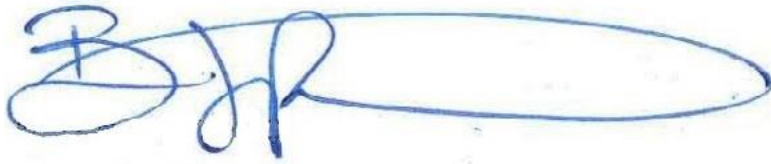
3 | FY 2020-21 Appropriations limit

City and County Appropriations are under the Limit

The appropriations limit for FY 2020-21 is \$8,364,999,808. We estimate that appropriations subject to limitation will be \$4,597,952,311. Thus, the Controller projects that the City and County will be \$3,767,047,497 below its limit in the current fiscal year.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'B. Rosenfield', with a long horizontal flourish extending to the right.

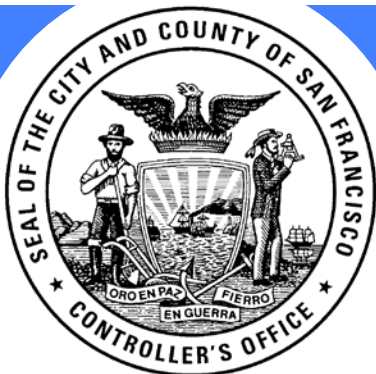
Ben Rosenfield
Controller

Attachments

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

FY 2020-21 City and County of San Francisco Appropriations Limit

Budget and Finance Committee
February 17, 2021



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Budget and Analysis Division

Background

California Propositions 4 (1979) and 98 (1988) amended the California Constitution to create the “Gann Limit,” a limit on appropriations from tax proceeds.

- Certain appropriations are *not* subject to the Gann Limit, including qualified capital outlays, voter-approved debt, and federal mandates.
- The Gann Limit for the current fiscal year starts with the appropriations subject to limitation in the base year (1986-87) and inflates that amount each year by the percentage increases in population and cost of living.
- If a government exceeds the Gann Limit on average over two consecutive fiscal years, it is required to return the excess to taxpayers, usually by reducing taxes.

Factors in the Annual Limit Increase

- The Gann Limit is increased each year by population growth and a cost-of-living factor, which is either the growth in California per capita personal income, or the percentage increase in the assessment rolls in the City due to new construction.
- In 2019, population growth in the City was 0.76%
- The growth in California per capita personal income was 3.73% and the percentage increase in the assessment rolls due to new construction was 28.95%. The City can choose the greater of these two factors.
- The total percentage increase in the Gann Limit for this year is 29.93%

Temporary, Voter-Approved Increases

- With voter approval, the Gann Limit can be increased for up to four years.
- In the past four years, voters approved seven tax increases that included the increase: Tax on Cannabis Businesses, Homeless Gross Receipts Tax, Traffic Congestion Mitigation Tax, Parcel Tax for SFUSD, Real Estate Transfer Tax, Executive Compensation Tax, and the Business Tax Overhaul.
- These voter approvals raise the FY 2020-21 Gann Limit by \$1,362,924,073
- Two measures passed in June 2018, the parcel tax for the benefit of SFUSD and the Early Care and Education Commercial Rents Tax, included Gann Limit overrides. Due to pending litigation, the City is not yet recognizing revenue from these measures. The temporary increases still expire in June 2022.

Fiscal Year 2020-21 Appropriations Limit

- FY 2019-20 Limit: \$5,389,113,105
- 2019 San Francisco Population Increase: 0.76%
- 2019 Increase in Cost of Living: 28.95%
- Temporary Voter Approved Increase: \$1,362,924,073
- FY 2020-21 Limit: \$8,364,999,808

Appropriations Subject to Limit

FY 2020-21 Estimated Total Tax Proceeds:	\$ 5,140,654,409
Less Appropriations Excluded from the Limit:	
Voter-Approved Debt:	-\$ 277,168,684
Qualified Capital Outlay:	-\$ 158,030,334
Federal Mandates (FICA / ADA Compliance) :	<u>-\$ 107,503,080</u>
<i>Net Tax Proceeds:</i>	<i>\$ 4,597,952,311</i>
<hr/>	
FY 2020-21 Appropriations Limit:	\$ 8,354,999,808
Net Tax Proceeds:	<u>-\$ 4,597,952,311</u>
Amount Below Limit:	\$ 3,767,047,497

From: [jeff.lucas](#)
To: [Wong, Linda \(BOS\)](#)
Subject: Resolution establishing the appropriations limit of \$8,364,999,808
Date: Wednesday, February 17, 2021 6:11:32 PM

This message is from outside the City email system. Do not open links or attachments from untrusted sources.

I am commenting on the Resolution establishing the appropriations limit of \$8,364,999,808 that is before the Budget and Appropriations Committee.

The Resolution contains errors. I reached out to the Office of the Controller and the Office of the Assessor via e-mail, detailing a significant error, but have not yet heard back about what I see. I believe the Office of the Controller and the Office of the Assessor can and should be able to resolve my observations and request.

The significant error: the number used to calculate one of the cost of living factors is wrong.

The Resolution uses the number 28.95% for the change in cost of living. I know the Bay Area is expensive and costs rise, but 28.95% struck me as rather high. To better understand the number, I examined it.

What I found is that 28.95% is not the change in cost of living. That is, the Resolution relies on the wrong number and appears to have relied on the wrong number since 2019.

Additionally, I noticed a discrepancy in the language used in the Resolution. The Whereas clause on page 2, line 2, uses language inconsistent with both the State Constitution referenced on page 1 of the Resolution and with the Resolved clause on page 3, line 11.

Specifically, the Whereas clause uses "... percentage change in the local assessment roll **IN** 2019 ..." (emphasis added)

The State Constitution clause and the Resolved clause both use "... percentage change in the local assessment roll **FROM** 2019 ..." (emphasis added)

I estimate that the cost of living to be used in this part of the complicated calculation is about 2.1%. To get your attention, this one-year difference between the 28.95% in the Resolution and my claimed calculation results in about a \$1.4 billion difference to the appropriations limit. That is, the Resolution greatly overstates this year's appropriations limit.

Additionally, it appears the wrong number was used in calculating the limit in each of the last two years. The annual Resolution, starting in 2019 relied on "new guidance".

My research indicates that the language relevant to this computation has not changed since it was added to the State Constitution in 1990. I believe the "new guidance" that started in 2019 is the source of the error in determining the cost of living and the subsequent computations. I can find no record that anyone has publicly questioned the significant change in methodology that took place in 2019 until now.

A brief summary of the key idea I shared with the Office of the Controller and the Office of the Assessor

The three key numbers to understand, simplified and rounded for clarity: (These numbers were provided in documents I received from the Office of the Controller last Thursday, and I do not question these values; I question how they are used.)

- 1) Prior year total assessed value was \$280 billion;
- 2) Current year total assessed value was \$300 billion;

3) non-residential new construction during the year was \$6 billion.

Only 1) and 3) are needed to determine the percentage change in the local assessment roll from 2019 due to non-residential new construction which is \$6 billion / \$280 billion or about 2.1%. The resolution relies on all three numbers to compute the percentage of the change in the base due to non-residential new construction is \$6 billion / (\$300 billion - \$280 billion) or about 28.95% using more precise values. 28.95% is not a percentage change but is instead a percentage of the change. 28.95% represents the wrong number to be used.

We should have the appropriations limit Resolution updated to use consistent language and use the correct cost of living.

Respectfully submitted,

Jeff Lucas

Resident of District 7