



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:

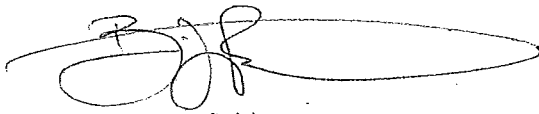
Fiscal Year	Previous Limit	Revised Limit
2014-15	2,917,987,003	3,061,397,457
2015-16	3,066,413,447	3,242,369,265
2016-17	3,265,329,234	3,452,699,230
2017-18	3,422,386,737	3,781,327,469
2018-19	-	4,343,960,284

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