

File No. 111111

Committee Item No. 2

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget and Finance Committee

Date: November 16, 2011

Board of Supervisors Meeting

Date _____

Cmte Board

- | | | |
|-------------------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Motion |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Resolution |
| <input type="checkbox"/> | <input type="checkbox"/> | Ordinance |
| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Budget & Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Ethics Form 126 |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form (for hearings) |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Information Form |
| <input type="checkbox"/> | <input type="checkbox"/> | Grant Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Subcontract Budget |
| <input type="checkbox"/> | <input type="checkbox"/> | Contract/Agreement |
| <input type="checkbox"/> | <input type="checkbox"/> | Award Letter |
| <input type="checkbox"/> | <input type="checkbox"/> | Application |

OTHER

(Use back side if additional space is needed)

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Completed by: Victor Young

Date: November 10, 2011

Completed by: Victor Young

Date: _____

An asterisked item represents the cover sheet to a document that exceeds 25 pages. The complete document is in the file.

1 [California Constitution Appropriations Limit for FY2011-2012]

2
3 **Resolution establishing the appropriations limit for FY2011-2012 pursuant to California**
4 **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
15 cost of living, as defined in paragraph (2) of subdivision (e) of Section 8 of Article XIII B
16 of the California Constitution, and the change in population of the local jurisdiction for
17 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
21 for the calculation of the cost of living, the use of either the percentage change in California
22 per-capita income from the preceding year or the percentage change in the local assessment
23 roll from the preceding year for the jurisdiction due to the addition of local non-residential new
24 construction; and

25 WHEREAS, The change in California per-capita income from calendar year 2010 is

1 2.51%, while the percentage change in the local assessment roll from 2010 due to the
2 addition of local non-residential new construction was 0.24%; and

3 WHEREAS, The percentage change in population during calendar year 2010 for the
4 City and County of San Francisco according to the State Department of Finance was 0.97%;
5 and

6 WHEREAS, The resulting calculation establishing the City and County of San
7 Francisco's fiscal year 2011-12 Appropriations Limit is:

8 $\$2,441,531,489 \times 1.0251 \times 1.0097 = \$2,527,091,225$; and

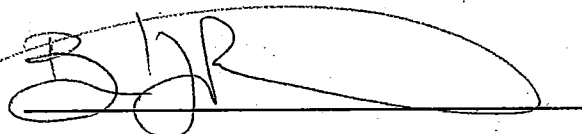
9 WHEREAS, This matter has been considered at a regularly scheduled meeting of the
10 Board of Supervisors for the City and County of San Francisco; and

11 WHEREAS, The documentation used to determine the Appropriations Limit for the City
12 and County of San Francisco for FY2011-2012 was available for public inspection in the
13 Office of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly
14 scheduled meeting; now, therefore, be it

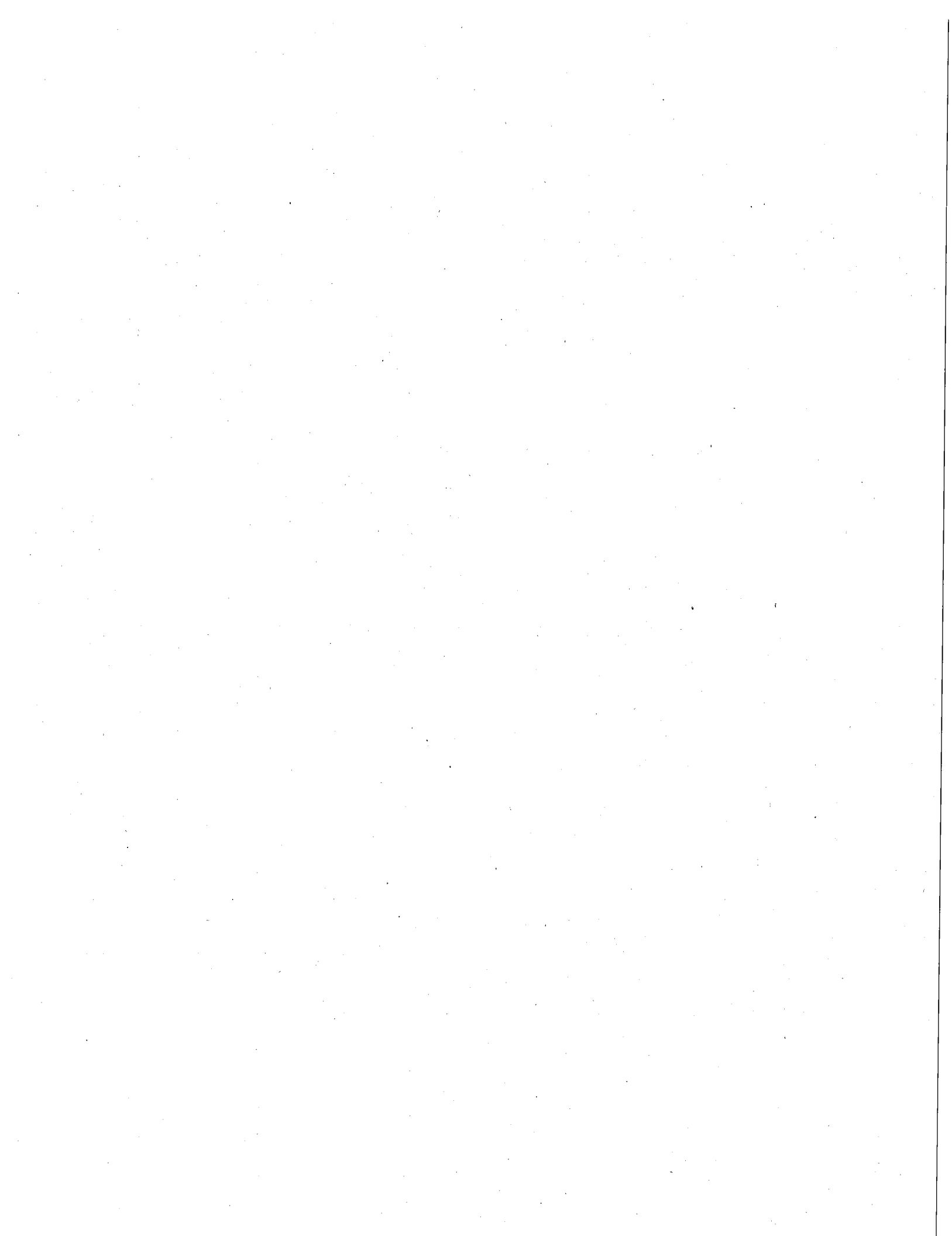
15 RESOLVED, That the City and County of San Francisco elects to use the change in
16 California per-capita income from calendar year 2010 and elects to use the annual percent
17 change in population as measured by the San Francisco City and County population growth
18 from the previous year for the purpose of computation of its Appropriations Limit pursuant to
19 Article XIII(B) of the California Constitution for FY 2011-2012; and, be it

20 FURTHER RESOLVED, That the net appropriations limit for FY 2011-2012 is
21 established at \$2,527,091,225.

22
23 Recommended:



24 Ben Rosenfield,
25 Controller



Items 2 Files 11-1111	Department: Controller
EXECUTIVE SUMMARY	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • Resolution establishing the City and County's Appropriations Limit for FY 2011-2012 pursuant to Article XIII B of the California Constitution. This report is based on an Amendment of the Whole, submitted by the Controller's Office to the Budget and Finance Committee on November 1, 2011. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • The proposed resolution would establish the City's Appropriations Limit in FY 2011-2012 at \$2,527,091,225 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 2011-2012, based on the Controller's calculation, the City's total tax proceeds subject to the FY 2011-2012 Appropriations Limit is \$2,239,565,962, or \$287,525,263 less than the City's Appropriations Limit of \$2,527,091,225, as calculated by the Controller. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • 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 \$2,527,091,225. Instead, if the change in non-residential new construction assessment is used, the City's Appropriation Limit is calculated as \$2,471,130,859, or \$55,960,366 less than the proposed Appropriations Limit of \$2,527,091,225 based on the percentage change in California per-capita income from the preceding year. Using either cost of living adjustment, the City's FY 2011-2012 net tax proceeds of \$2,239,565,962 is below the FY 2011-2012 Appropriations Limit. <p style="text-align: center;">Recommendation</p> <ul style="list-style-type: none"> • 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

This report is based on an Amendment of the Whole, which was submitted by the Controller's Office to the Budget and Finance Committee on November 1, 2011.

The proposed resolution would establish the City's Appropriations Limit in FY 2011-2012 at \$2,527,091,225 as calculated by the Controller, pursuant to Article XIII B of the California Constitution. The City's Appropriations Limit for FY 2011-2012 is based on the amount of the FY 2010-2011 Appropriations Limit multiplied by a cost of living adjustment¹ and a population adjustment².

Table 1 below shows how the City's proposed FY 2011-2012 Appropriations Limit of \$2,527,091,225 was calculated by the Controller's Office.

Table 1: Proposed Appropriations Limit

FY 2010-2011 Appropriations Limit	\$2,441,531,489
Adjusted by:	
Cost of Living (based on the percentage change in California per-capita income from the preceding year)	2.51%
Population (based on the population growth for the calendar year preceding the beginning of the fiscal year)	.97%
Proposed FY 2011-2012 Appropriations Limit	\$2,527,091,225*

*\$2,441,531,489 x 1.0251 x 1.0097 equals \$2,527,091,225.

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 2010, San Francisco's population growth was 0.97 percent.

¹ The cost of living adjustment 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 due to the addition of local non-residential new construction.

² The population adjustment is defined as the percentage change in population over the previous calendar year.

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 calendar year 2010, or 2.51 percent, as the cost of living adjustment.

FISCAL IMPACTS

The City's FY 2011-12 tax proceeds, as determined by the Controller, are \$2,493,383,056. As shown in Table 1 above, the proposed resolution would establish the City's Appropriations Limit in FY 2011-2012 at \$2,527,091,225, 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, a total of \$253,817,094 is excluded from the City's total FY 2011-2012 tax proceeds of \$2,493,383,056. Based on the Controller's calculations, an estimated total of \$2,239,565,962 of the City's net tax proceeds would be subject to the City's FY 2011-2012 Appropriations Limit.

Table 2: Tax Proceeds Subject to the Proposed Appropriations Limit	
Total FY 2011-2012 Tax Proceeds	\$2,493,383,056
Exclusions	
Voter Approved Indebtedness	(189,592,548)
Federally Mandated Services	(55,011,598)
Qualified Capital Outlays	(5,630,131)
Hazardous Waste Program	(3,582,817)
Subtotal Excluded	(\$253,817,094)
FY 2011-2012 Net Tax Proceeds Subject to Appropriations Limit	\$2,239,565,962

Therefore, the City's FY 2011-2012 net tax proceeds of \$2,239,565,962, as shown in Table 2 above, are \$287,525,263 less than the City's proposed FY 2011-2012 Appropriations Limit of \$2,527,091,225, shown in Table 1 above.

In accordance with the Administrative Provisions of the Annual Appropriations Ordinance, any FY 2011-2012 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. In using the change in California per-capita income, which is 2.51 percent, the City's Appropriations Limit is calculated to be \$2,527,091,225. If the alternative cost of living adjustment, the change in non-residential new construction assessments is used, which is .24 percent, instead of the 2.51 percent, the City's Appropriations Limit would be calculated at \$2,471,130,859 ($\$2,441,531,489 \times 1.0024 \times 1.0097$) or \$55,960,366 less than the proposed Appropriations Limit of \$2,527,091,225. Under either cost of living adjustment, the FY 2011-2012 net tax proceeds of \$2,239,565,962, as shown in Table 2 above, would be below the City's FY 2011-2012 Appropriations Limit.

RECOMMENDATION

Approve the proposed resolution.



Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

October 28, 2011

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 2011-12

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 2011-12. We estimate City and County appropriations are approximately \$287.5 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 either the change in San Francisco City and County population or the change in the San Francisco-Oakland-San Jose Consolidated Metropolitan Statistical Area. According to the California Department of Finance, in calendar year 2010, the San Francisco City and County population growth was 0.97%. 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 calendar year 2010 change in per capita income was 2.51%, while the local assessment growth due to non-residential new construction was 0.24%. The calendar year 2010 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) \$189.6 million is excluded as voter-approved bonded indebtedness (Article XIII B, Section 9(a));
- (2) \$55.0 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIII B, Section 9(b));
- (3) \$5.6 million is excluded under the determination of "qualified capital outlay" (Article XIII B Section 9(e)); and,
- (4) \$3.6 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 2011-12 is \$2,527,091,225. We estimate that our appropriations subject to limitation will be \$2,239,565,962. Thus, the Controller projects that the City and County will be \$287,525,262 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: Rick Wilson, Mayor's Budget Office
Dennis Herrerra, City Attorney
Buck Delventhal, Deputy City Attorney
Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst



Ben Rosenfield
Controller
Monique Zmuda
Deputy Controller

October 28, 2011

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

RE: Legislation to Establish the Appropriation Limit for Fiscal Year 2011-12,
Pursuant to California Constitution Article XIII B.

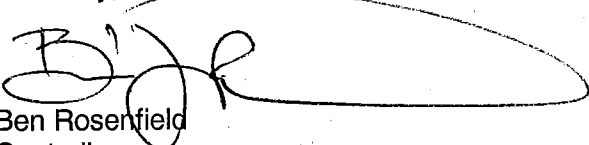
Dear Ms. Calvillo:

Enclosed is the above referenced resolution to set the City and County's appropriation limit for fiscal year 2011-12, 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

**California Constitution Article XIII B Appropriation Limit
Fiscal Year 2011-12 Final Budget
Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit**

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	MUNICIPAL TRANSPORTATION FUND	TOTAL
Property Taxes	1,028,677,110	302,652,548	-	1,331,329,658
Business Taxes	389,878,000	735,000	-	390,613,000
Other Local Taxes	602,255,296	50,903,261	-	653,158,557
Interest (1)	4,366,425	775,124	-	5,141,549
Rents & Concessions (1)	16,522,306	20,716,986	-	37,239,292
Grants - State (2) (3) (4)	74,639,000	1,262,000	-	75,901,000
TOTAL PROCEEDS OF TAXES	\$2,116,338,137	\$377,044,919	\$0	\$2,493,383,056
LESS:				
Voted approved indebtedness funded from proceeds of tax (Article XIII B Section 9(a) exclusion)				(189,592,548)
Federal Mandate for Social Security/Medicare (Article XIII B Section 9(b) exclusion)				(55,011,598)
Qualified Capital Outlay (Article XIII B Section 9(d) exclusion)				(5,630,131)
Hazardous Waste (Government Code Section 7901(i)(2) exclusion)				<u>(3,582,817)</u>
NET PROCEEDS OF TAXES				<u>\$2,239,565,962</u>
Adjusted Appropriations Limit 2011-12 - Exhibit B				2,527,091,225
Less: Estimated Appropriations from Proceeds of Taxes				<u>(2,239,565,962)</u>
FY 2011-12 Appropriations Under (Over) Statutory Limit				<u>\$287,525,262</u>

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

**California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2011-12 Final Budget
 Exhibit B - Calculation**

Fiscal Year 2011-12:

CA Per-Capita Personal Income change			2.51%
Population percentage change - SF-Oakland-San Jose Consolidated MSA (1)			0.97%

CA Per-Capita Personal Income Change converted to ratio	$\frac{2.51 + 100}{100}$	=	1.02510
---	--------------------------	---	---------

Population Change converted to ratio	$\frac{0.97 + 100}{100}$	=	1.00970
--------------------------------------	--------------------------	---	---------

Calculation of Appropriations Limit:

Ratio Change	1.0251×1.0097	=	1.035043
--------------	------------------------	---	----------

Appropriations Limit FY 2010-11		\$2,441,531,489
X Ratio Change		1.035043

Appropriations Limit FY 2011-12		<u><u>\$2,527,091,225</u></u>
---------------------------------	--	-------------------------------

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

**California Constitution Article XIII B Appropriation Limit
Fiscal Year 2011-12 Final Budget
Exhibit C - Annual Changes FY 1980-81 to FY 2011-12**

Base Year Limit	421,812,990
Less: Base Year Voter-Approved Indebtedness funded from Proceeds of Taxes	(11,347,967)
Franchise Fees in Base Year	<u>(1,405,000)</u>
Revised Base Year Limit	409,060,023

Schedule of Annual Changes:

1980-81:	Base Year	x	1.261700	=	\$516,111,031
1981-82	516,111,031	x	1.103200	=	569,373,689
1982-83	569,373,689	x	1.080800	=	615,379,083
1983-84	615,379,083	x	1.040300	=	640,178,860
1984-85	640,178,860	x	1.061900	=	679,805,931
1985-86	679,805,931	x	1.055300	=	717,399,199
1986-87	717,399,199	x	1.058500	=	759,367,052
1987-88	759,367,052	x	1.047430	=	795,383,831
1988-89	795,383,831	x	1.062090	=	844,769,213
1989-90	844,769,213	x	1.068520	=	902,652,799
1990-91	902,652,799	x	1.060650	=	957,398,691
1991-92	957,398,691	x	1.060350	=	1,015,177,702
1992-93	1,015,177,702	x	1.010590	=	1,025,928,434
1993-94	1,025,928,434	x	1.044560	=	1,071,643,477
1994-95	1,071,643,477	x	1.018782	=	1,091,771,470
1995-96	1,091,771,470	x	1.061651	=	1,159,080,666
1996-97	1,159,080,666	x	1.051410	=	1,218,669,177
1997-98	1,218,669,177	x	1.076426	=	1,311,807,188
1998-99	1,311,807,188	x	1.062538	=	1,393,845,379
1999-2000	1,393,845,379	x	1.060248	=	1,477,821,483
2000-01	1,477,821,483	x	1.062319	=	1,569,917,337
2001-02	1,569,917,337	x	1.093726	=	1,717,059,535
2002-03	1,717,059,535	x	1.020090	=	1,751,554,849
2003-04	1,751,554,849	x	1.031899	=	1,807,427,102
2004-05	1,807,427,102	x	1.041062	=	1,881,644,397
2005-06	1,881,644,397	x	1.061968	=	1,998,246,400
2006-07	1,998,246,400	x	1.048541	=	2,095,242,399
2007-08	2,095,242,399	x	1.056313	=	2,213,231,198
2008-09	2,213,231,198	x	1.058648	=	2,343,032,316
2009-10	2,343,032,316	x	1.022929	=	2,396,755,118
2010-11	2,396,755,118	x	1.018682	=	2,441,531,489
2011-12	2,441,531,489	x	1.035043	=	2,527,091,225