

File No. 170192

Committee Item No. 6

Board Item No. 10

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date April 6, 2017

Board of Supervisors Meeting

Date April 18, 2017

Cmte Board

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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution |
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Completed by: Linda Wong Date March 30, 2017

Completed by: Linda Wong Date April 12, 2017

1 [California Constitution Appropriations Limit - FY2016-2017 - \$3,185,468,215]

2
3 **Resolution establishing the appropriations limit of \$3,185,468,215 for FY2016-2017**
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
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 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 2015-16
2 was 5.37%, while the percentage change in the local assessment roll from 2015 due to the
3 addition of local non-residential new construction was 0.33%; and

4 WHEREAS, The percentage change in population during calendar year 2015 for the
5 City and County of San Francisco according to the California Department of Finance
6 was 1.06%; and

7 WHEREAS, The resulting calculation establishing the City and County of San
8 Francisco's fiscal year 2016-17 Appropriations Limit is:

9 \$2,991,417,308 X 1.0537 X 1.0106 = \$3,185,468,215; and

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

12 WHEREAS, The documentation used to determine the Appropriations Limit for the City
13 and County of San Francisco for FY2016-2017 was available for public inspection in the
14 Office of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly
15 scheduled meeting; now, therefore, be it

16 RESOLVED, That the City and County of San Francisco elects to use the percentage
17 change in California per capita personal income and elects to use the percent change in

18
19 // // //

20 // // //

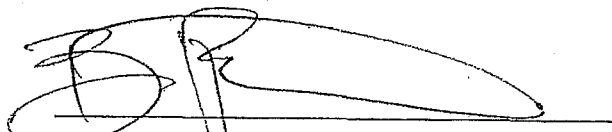
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1 population within its jurisdiction from the previous year for the purpose of computation of its
2 Appropriations Limit pursuant to Article XIII B of the California Constitution for FY 2016-2017;
3 and, be it

4
5 FURTHER RESOLVED, That the net appropriations limit for FY 2016-2017 is
6 established at \$3,185,468,215.

7
8 Recommended:


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

9 Ben Rosenfield

10 Controller

<p>Item 6 File 17-0192</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 2016-17 appropriations limit at \$3,185,468,215 as calculated by the Controller. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • Article XIII B of the California State 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. • Local governments are allowed to calculate the change in the cost of living using (1) the percentage change in California per-capita personal income or (2) the percentage change for the local jurisdiction's assessment roll for non-residential new construction. In FY 2015-2016, the change in per-capita personal income was 5.37 percent and change in assessment roll was 0.33 percent. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • The Controller calculated the FY 2016-17 appropriations limit to be \$3,185,468,215, using the percentage change in California per-capita personal income. 	
<p style="text-align: center;">Policy Consideration</p>	
<ul style="list-style-type: none"> • The Controller has discretion to calculate the change in the cost of living using (1) the percentage change in California per-capita personal income or (2) the percentage change for the local jurisdiction's assessment roll for non-residential new construction. • The Controller calculated the appropriations limit of \$3,185,468,215, using the change to the per-capita income. Had the Controller elected to use the percentage change in the local assessment roll, the appropriations limit would have been calculated at \$3,033,102,648 which is \$152,365,567 less than the proposed appropriations limit of \$3,185,468,215. 	
<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 2015, San Francisco's population growth was 1.06 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 5.37 percent in FY 2015-16, 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 0.33 percent in FY 2015-16.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2016-17 appropriations limit at \$3,185,468,215, as calculated by the Controller. The appropriations limit for FY 2016-17 is based on the amount of the FY 2015-16 appropriations limit and adjusted to reflect increases in (1) the population and (2) cost of living (calculated using the increase in per-capita personal income).

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, (c) qualified capital outlays, and (d) other federal mandates. Consequently, the Controller excluded \$676,138,404 from the City’s total FY 2016-17 tax proceeds of \$3,674,736,995 as shown in Table 1 below, resulting in net tax proceeds subject to the appropriations limit of \$2,998,598,591.

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

FY 2016-17 Estimated Total Tax Proceeds*	\$3,674,736,995
Exclusions	
(a) Debt Service	(249,483,102)
(b) Federal Mandate for Social Security/Medicare	(153,246,302)
(c) Qualified Capital Outlays	(238,675,425)
(d) Other Federal Mandates	(34,733,575)
Subtotal Exclusions	(676,138,404)
FY 2016-17 Net Tax Proceeds Subject to Appropriations Limit	\$2,998,598,591

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

As shown on Table 2 below, the City’s FY 2016-17 appropriation limit, as calculated by the Controller, is \$3,185,468,215. The FY 2016-17 net tax proceeds of \$2,998,598,591 is \$186,869,624 less than the FY 2016-17 appropriation limit of \$3,185,468,215.

Table 2: Proposed FY 2016-17 Appropriations Limit

FY 2015-16 Appropriations Limit^a	\$2,991,417,308
Adjustment Factors	
Increase in Population	1.06%
Increase in Per-Capita Personal Income	5.37%
FY 2016-17 Appropriations Limit^a	\$3,185,468,215

Source: Controller’s Office

^a The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2016-17 appropriations limit based on the increase in the City’s population and the increase in per-capita personal income as follows: \$2,991,417,308 x 1.0106 x 1.0537 equals \$3,185,468,215 (actual total may vary due to rounding).

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 5.37 percent in FY 2015-16, 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 0.33 percent in FY 2015-16.

Table 3 below shows the FY 2016-17 appropriations limit using both definitions.

Table 3: The FY 2016-17 Appropriations Limit by Definition

	<u>Definition 1</u>	<u>Definition 2</u>
	Per-Capita Personal Income	Local Assessment Roll from Non- Residential New Construction ^a
FY 2015-16 Appropriations Limit	\$2,991,417,308	\$2,991,417,308
Adjustment Factors		
Increase in Population	1.06%	1.06%
Increase in Per-Capita Personal Income	5.37%	-
Increase in Local Assessment Roll	-	0.33%
FY 2016-17 Appropriations Limit	\$3,185,468,215	\$3,033,102,648

^a Difference due to rounding

For the FY 2016-17 appropriations limit, the Controller elected to use the percentage change in per-capita personal income from the preceding year to calculate the cost of living adjustment, consequently calculating the appropriations limit at \$3,185,468,215, as shown in Table 3 above. Had the Controller elected to use the percentage change in the local assessment roll from the preceding year, the appropriations limit, as shown in Table 3 above, would have been calculated at \$3,033,102,648, which is (a) \$152,365,567 less than the proposed appropriations limit of \$3,185,468,215 and (b) \$34,504,057 more than the Controller’s estimate of net tax proceeds subject to the appropriations limit of \$2,998,598,591, as shown in Table 1 above.

RECOMMENDATION

Approve the proposed resolution.



Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

February 10, 2017

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 2016-17

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 2016-17. We estimate City and County appropriations are approximately \$187 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 the change in San Francisco City and County population. According to the California Department of Finance, between January 1, 2015 and January 1, 2016, San Francisco City and County population growth was 1.06%. 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 fiscal year 2015-16 change in per capita

income was 5.37%, while the local assessment growth due to non-residential new construction was 0.33%. The fiscal year 2015-16 increase in California per capita personal 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:

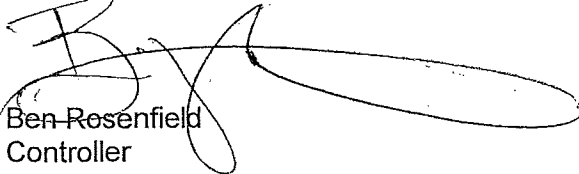
- (1) \$249.5 million is excluded as bonded indebtedness (Article XIII B, Section 9(a));
- (2) \$153.2 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIII B, Section 9(b)); and,
- (3) \$238.7 million is excluded under the determination of "qualified capital outlay" (Article XIII B Section 9(e))
- (4) \$34.7 million is excluded as other federal mandates (Article XIII B, Section 9(b)).

City and County Appropriations are well under the Limit

Our appropriation limit for FY 2016-17 is \$3,185,468,215. We estimate that our appropriations subject to limitation will be \$2,998,598,591. Thus, the Controller projects that the City and County will be \$186,869,624 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 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: Melissa Whitehouse, Mayor's Budget Office
Dennis Herrera, City Attorney
Buck Delventhal, Deputy City Attorney
Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst

California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2016-17 Final Budget
 Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit

	GENERAL FUND	OTHER GOVERNMENTAL FUNDS	MUNICIPAL TRANSPORTATION FUND	TOTAL
Property Taxes	1,412,000,000	358,997,480	-	1,770,997,480
Business Taxes	669,450,000	2,000,000	-	671,450,000
Other Local Taxes	1,079,760,000	-	-	1,079,760,000
Interest (1)	10,288,613	418,020	-	10,706,632
Rents & Concessions (1)	697,800	-	33,977,082	34,674,882
Grants - State (2) (3) (4)	105,808,000	1,340,000	-	107,148,000
TOTAL PROCEEDS OF TAXES	3,278,004,413	\$362,755,500	\$33,977,082	3,674,736,995

LESS:

Indebtedness funded from proceeds of tax (Article XIII B Section 9(a) exclusion)	(249,483,102)
Federal Mandate for Social Security/Medicare (Article XIII B Section 9(b) exclusion)	(153,246,302)
Qualified Capital Outlay (Article XIII B Section 9(d) exclusion)	(238,675,425)
Other Federal Mandates (Article XIII B Section 9(b) exclusion)	(34,733,575)

NET PROCEEDS OF TAXES 2,998,598,591

Adjusted Appropriations Limit 2016-17 - Exhibit B 3,185,468,215

Less: Estimated Appropriations from Proceeds of Taxes (2,998,598,591)

FY 2016-17 Appropriations Under (Over) Statutory Limit \$186,869,624

- (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 13).
- (4) Excludes federal and state tobacco taxes (Article XIII B Sections 12).

California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2016-17 Final Budget
 Exhibit B - Calculation

Fiscal Year 2016-17:

CA Per-Capita Personal Income change (1)			5.37%
Percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction. (2)			0.33%
Cost of Living Change			5.37%
County of San Francisco (1)			1.06%
CCSF and Surrounding Counties (1)			1.03%
Population Percentage Change			1.06%
Cost of Living Change converted to ratio	$\frac{5.37 + 100}{100}$	=	1.0537
Population Change converted to ratio	$\frac{1.06 + 100}{100}$	=	1.0106
Calculation of Appropriations Limit:			
Ratio Change	1.0537×1.0106	=	1.0649
Appropriations Limit FY 2015-16			2,991,417,308
X Ratio Change			1.0649
Unadjusted Limit			3,185,468,215
Voter approved Limit changes:			0
Appropriations Limit FY 2016-17			<u><u>\$3,185,468,215</u></u>

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

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

California Constitution Article XIII B Appropriation Limit
 Fiscal Year 2016-17 Final Budget
 Exhibit C - Annual Changes FY 1980-81 to FY 2016-17

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:

					Voter 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
1999-00	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	1.095236	+	-	= 1,719,429,294
2002-03	1,719,429,294	x	1.020090	+	-	= 1,753,972,216
2003-04	1,753,972,216	x	1.031899	+	-	= 1,809,921,579
2004-05	1,809,921,579	x	1.041062	+	-	= 1,884,241,303
2005-06	1,884,241,303	x	1.061968	+	-	= 2,001,004,232
2006-07	2,001,004,232	x	1.048541	+	-	= 2,098,134,098
2007-08	2,098,134,098	x	1.056313	+	-	= 2,216,285,736
2008-09	2,216,285,736	x	1.058648	+	-	= 2,346,265,997
2009-10	2,346,265,997	x	1.022929	+	-	= 2,400,062,943
2010-11	2,400,062,943	x	1.018682	+	-	= 2,444,901,111
2011-12	2,444,901,111	x	1.035043	+	-	= 2,530,578,930
2012-13	2,530,578,930	x	1.042577	+	-	= 2,638,323,870
2013-14	2,638,323,870	x	1.062553	+	-	= 2,803,358,837
2014-15	2,803,358,837	x	1.015432	+	-	= 2,846,620,971
2015-16	2,846,620,971	x	1.050866	+	-	= 2,991,417,308
2016-17	2,991,417,308	x	1.064869	+	-	= 3,185,468,215

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2017 FEB 14 AM 8:09

BY euBen Rosenfield
ContrTodd Rydstrom
Deputy Controller

February 10, 2017

Angela Calvillo
Clerk of the Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102RE: Legislation to Establish the Appropriation Limit for Fiscal Year 2016-17,
Pursuant to California Constitution Article XIII B.

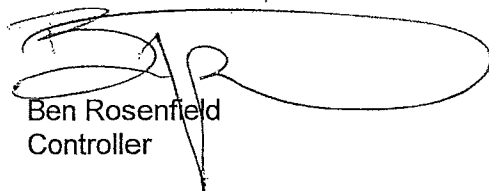
Dear Ms. Calvillo:

Enclosed is the above referenced resolution to set the City and County's appropriation limit for Fiscal Year 2016-17, 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 the Controller's Office, Room 316.

Please contact Michelle Allersma at (415) 554-4792 if you have any further questions regarding this matter.

Sincerely,


Ben Rosenfield
ControllerEnclosures 1) California Spending Limit Resolution
 2) Transmittal to Mayor and Board of Supervisors
 3) Supporting Documents - Exhibits

FY 2016-17 City and County of San Francisco Appropriations Limit

Budget and Finance Committee

April 6, 2017

1



Background

- California Proposition 4, the "Gann Limit" Initiative, passed by voters in November 6, 1979 amended the California Constitution to:
 - Limit growth in government appropriations to the percentage increase in the cost of living and the percentage increase in population.
 - Require state and local governments to return funds to taxpayers in excess of the limit for a given fiscal year.



Fiscal Year 2016-17 Appropriations Limit

- FY 2015-16 Limit: \$2,991,417,308
- 2015 San Francisco Population Increase: 1.06%
- 2015 Change in Cost of Living: 5.37%
- FY 2016-17 Appropriation Limit: \$3,185,468,215
- The appropriation limit reflects the results from Prop K (sales tax) which did not pass.



Appropriations Subject to Limit

FY 2016-17 Estimated Total Tax Proceeds:	\$ 3,674,736,995
Exclusions of:	- \$ 676,138,404
* Debt Service	
* Federally-Mandated Services	
* Qualified Capital Outlays	
Net Proceeds:	\$ 2,998,598,591
FY 2016-17 Appropriations Subject to Limit:	\$ 3,185,468,215
Net Proceeds:	- \$ 2,998,598,591
Amount Below Limit:	\$ 186,869,624



History of Amounts Below the Limit

Fiscal Year	Budgeted Appropriations Under Limit
2010-11	\$ 369,571,867
2011-12	\$ 291,012,967
2012-13	\$ 172,255,383
2013-14	\$ 106,970,307
2014-15	\$ 84,955,651
2015-16	\$ 62,016,501
2016-17	\$ 186,869,624



