

File No. 200008

Committee Item No. 9

Board Item No. 24

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 29, 2020

Board of Supervisors Meeting

Date February 4, 2020

Cmte Board

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Completed by: Linda Wong Date January 24, 2020

Completed by: Linda Wong Date January 30, 2020

1 [California Constitution Appropriations Limit - FY2019-2020 - \$5,528,830,486]

2
3 **Resolution establishing the appropriations limit of \$5,528,830,486 for FY2019-2020**
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

1 WHEREAS, The change in California per-capita personal income in FY2018-2019 was
2 3.85%, while the percentage change in the local assessment roll in 2018 due to the addition of
3 local non-residential new construction was 23.65%; and

4 WHEREAS, The percentage change in population during calendar year 2018 for the
5 City and County of San Francisco according to the California Department of Finance was
6 0.33%; 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 three measures, the Soda and Sugary Sweetened
10 Beverages Tax (Proposition V-November 2016), the increase in the Real Estate Transfer Tax
11 (Proposition W-November 2016), and the Tax on Cannabis Businesses (Proposition D-
12 November 2018), that increased the Appropriations Limit by the aggregate sum collected by
13 the levy of these taxes; and

14 WHEREAS, The aggregate sum collected by the levy of these taxes through FY2019-
15 2020 is projected to be \$139,717,381; and

16 WHEREAS, Article XIII B, Sections 8(h) and 10.5 of the California Constitution
17 establish that the Base Appropriations Limit for a local government is equal to the
18 appropriations subject to limitation in FY1986-1987; and

19 WHEREAS, The Base Appropriations Limit for FY2018-2019 is \$4,343,960,284; and

20 WHEREAS, The resulting calculation establishing the City and County of San
21 Francisco's FY2019-2020 Appropriations Limit is:

22 \$4,343,960,284 X 1.0033 X 1.236519 + \$139,717,381 = \$5,528,830,486; and

23 WHEREAS, This matter has been considered at a regularly scheduled meeting of the
24 Board of Supervisors for the City and County of San Francisco; and
25

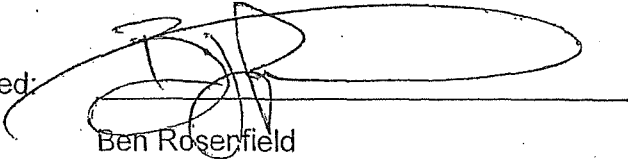
1 WHEREAS, The documentation used to determine the Appropriations Limit for the City
2 and County of San Francisco for FY2019-2020 was available for public inspection in the
3 Office of the Clerk of the Board of Supervisors for at least 15 days prior to said regularly
4 scheduled meeting; now, therefore, be it

5 RESOLVED, That the City and County of San Francisco elects to use the percentage
6 change in the local assessment roll from 2018 due to the addition of local non-residential new
7 construction and the percent change in population within its jurisdiction from the previous year
8 for the purpose of computation of its Appropriations Limit pursuant to Article XIII B of the
9 California Constitution for FY2019-2020; and, be it

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FURTHER RESOLVED, That the net appropriations limit for FY 2019-2020 is established at \$5,528,830,486.

Recommended: 
Ben Rosenfield
Controller

Item 9
File 20-0008

Department:
Controller's Office (Controller)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed resolution would establish the City's FY 2019-20 appropriations limit at \$5,528,830,486, as calculated by the Controller. The appropriations limit for FY 2019-20 is based on the amount of the FY 2018-19 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).

Key Points

- 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 2018-19, the growth in personal income was 3.85 percent and the roll growth due to new nonresidential construction was 23.65 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

- 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 \$806,528,808 from the City's total FY 2019-20 tax proceeds of \$4,879,698,132, resulting in net tax proceeds subject to the appropriations limit of \$4,073,169,324.
- The City's FY 2019-20 appropriation limit, as calculated by the Controller, is \$5,528,830,486. The FY 2019-20 net tax proceeds of \$4,073,169,324 are \$1,455,661,162 less than the FY 2019-20 appropriation limit of \$5,528,830,486.

Policy Consideration

- For the FY 2019-20 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 \$5,528,830,486. 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 \$4,665,807,105

Recommendation

- Approve the proposed resolution.

MANDATE STATEMENT

California Constitution Article XIII B states that each local government must set an annual appropriation 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 2018, San Francisco's population growth was 0.33 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 3.85 percent in FY 2018-19, 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 23.65 percent in FY 2018-19.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would establish the City's FY 2019-20 appropriations limit at \$5,528,830,486, as calculated by the Controller. The appropriations limit for FY 2019-20 is based on the amount of the FY 2018-19 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 the Controller's Office, the City is allowed to choose whichever percentage change is higher.

As mentioned above, in FY 2018-19, the growth in personal income was 3.85 percent and the roll growth due to new nonresidential construction was 23.65 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 mentioned above, 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 \$806,528,808 from the City's total FY 2019-20 tax proceeds of \$4,879,698,132, as shown in Table 1 below, resulting in net tax proceeds subject to the appropriations limit of \$4,073,169,324.

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

FY 2019-20 Estimated Total Tax Proceeds*	\$4,879,698,132
Exclusions	
(a) Debt Service	(465,571,452)
(b) Federal Mandate for Social Security/Medicare	(118,194,234)
(c) Qualified Capital Outlays	(222,763,122)
Subtotal Exclusions	(806,528,808)
FY 2019-20 Net Tax Proceeds Subject to Appropriations Limit	\$4,073,169,324

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

Section 4 of Article XIII B provides that the appropriations limit may be changed by the voters for up to four years. In November 2016, the voters approved two measures that included increases to the appropriations limit: The Soda and Sugary Sweetened Beverages Tax (Proposition V) and the Real Estate Transfer Tax (Proposition W). In November 2018, the voters approved the measure on the Cannabis Business Tax Increase (Proposition D). In November 2019, voters approved the Traffic Congestion Mitigation Tax (Proposition D). These voter-approved measures increased the appropriations limit by the aggregate sum collected from these taxes. The Controller found that the adjustment was equal to approximately \$139,717,381. After FY 2019-20, the voter-approved overrides for the Sugary Sweetened Beverages Tax and the Real Estate Transfer Tax expire. In FY 2020-21, the Controller estimates that the total voter override from the remaining taxes will fall to approximately \$55.3 million.

In June 2018, voters approved the Commercial Rent Tax for Childcare and Early Education (Proposition C) and a City parcel tax for the benefit of the San Francisco Unified School District (Proposition G). In November 2018, voters approved the Our City, Our Home Tax for homelessness services (Proposition C). All three measures included temporary overrides to raise the appropriations limit. However, these measures are currently in litigation and consequently, the City is collecting but not recognizing any revenue. When the revenue from these taxes is recognized, it will be included as proceeds of taxes for the appropriations limit. The voter-approved override for these taxes cannot extend longer than four years from the date the measures were approved, regardless of when the revenue is recognized.

As shown on Table 2 below, the City's FY 2019-20 appropriation limit, as calculated by the Controller, is \$5,528,830,486. The FY 2019-20 net tax proceeds of \$4,073,169,324 shown in Table 1 above are \$1,455,661,162 less than the FY 2019-20 appropriation limit of \$5,528,830,486.

Table 2: Proposed FY 2019-20 Appropriations Limit

FY 2018-19 Appropriations Limit	\$4,343,960,284
Adjustment Factors^a	
Increase in Population	0.33%
Roll Growth Due to New Nonresidential Construction	<u>23.6519%</u>
Subtotal	\$5,389,113,105
Voter approved limit changes	139,717,381
FY 2019-20 Appropriations Limit^a	\$5,528,830,486

Source: Controller's Office

^a The annual appropriations limit is a formula set by the California Constitution. The Controller calculated the FY 2019-20 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: \$4,343,960,284 x 1.0033 x 1.236519. This added to the voter approved limit changes of \$139,717,381 equals \$5,528,830,486. (Note that calculations are not exact but estimates because of rounding numbers).

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 3.85 percent in FY 2018-19, 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 23.65 percent in FY 2018-19.

Table 3 below shows the FY 2019-20 appropriations limit using both definitions.

Table 3: FY 2019-20 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 2018-19 Appropriations Limit	\$4,343,960,284	\$4,343,960,284
Adjustment Factors		
Increase in Population	0.33%	0.33%
Increase in Per-Capita Personal Income	3.85%	-
Increase in Local Assessment Roll	-	23.6519%
Subtotal	\$4,526,089,724	\$5,389,113,105
Voter Approved	139,717,381	139,717,381
FY 2019-20 Appropriations Limit	\$4,665,807,105	\$5,528,830,486

For the FY 2019-20 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 \$5,528,830,486, 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 \$4,665,807,105, which is (a) \$863,023,381 less than the proposed appropriations limit of \$5,528,830,486 and (b) \$592,637,781 more than the Controller’s estimate of net tax proceeds subject to the appropriations limit of \$4,073,169,324, as shown in Table 1 above.

RECOMMENDATION

Approve the proposed resolution.

California Constitution Article XIII B Appropriations Limit
 Fiscal Year 2019-20 Final Budget
 Exhibit A - Appropriations Funded by Proceeds of Taxes Subject to Limit

Fiscal Year 2019-20

Proceeds of Taxes

	General Fund	Other Governmental Funds	Total
Property Tax	\$ 1,771,000,000	\$ 610,490,045	\$ 2,381,490,045
Excess ERAF	185,008,000	-	185,008,000
Business Tax	1,050,620,000	22,100,000	1,072,720,000
Other Local Taxes	1,144,376,000	33,441,000	1,177,817,000
Interest	57,083,334	449,754	57,533,087
State Subventions	3,790,000	1,340,000	5,130,000
Total Proceeds of Tax	\$ 4,211,877,334	\$ 667,820,799	\$ 4,879,698,132

Excludable Appropriations

FICA Expenditures	\$ 118,194,234
Qualified Capital Outlays	222,763,122
Debt Service	465,571,452
Total Excludable Appropriations	\$ 806,528,808

Net Proceeds of Taxes:	\$ 4,073,169,324
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Appropriations Limit Calculation

Base Limit for FY 2018-19		4,343,960,284
Population Adjustment	0.3300%	
Cost of Living Adjustment	23.6519%	
Total Adjustment	24.0599%	
Base Limit for FY 2019-20		5,389,113,105
Temporary Voter Approved Overrides		139,717,381
Appropriations Limit for FY 2019-20		\$ 5,528,830,486

FY 2019-20 Appropriations Under (Over) Statutory Limit	\$ 1,455,661,162
---------------------------------------------------------------	-------------------------

California Constitution Article XIII B Appropriations Limit
 Fiscal Year 2019-20 Final Budget
 Exhibit B - Appropriations Limit Calculation

Cost of Living Factor: Use the maximum of CA Per-Capita 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	3.85%
Roll Growth Due to New Nonresidential Construction	23.6519%
Cost of Living Change	23.6519%

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	0.33%
CCSF and Surrounding Counties	0.41%
Population Percentage Change	0.33%

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 2018-19	4,343,960,284
Cost of Living Growth Factor	1.23652
Population Growth Factor	1.00330
Base Appropriations Limit FY 2019-20	5,389,113,105
Voter approved Limit changes:	139,717,381
Appropriations Limit FY 2019-20	\$5,528,830,486



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

December 19, 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 2019-20

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 2019-20. We estimate City and County appropriations are approximately \$1,456 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, 2018 and January 1, 2019, San Francisco City and County population growth was 0.33%. 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 2018-19 is 3.85%, while the local assessment growth in 2018 due to non-residential new construction is 23.65%. The fiscal year 2019-20 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) \$465.6 million is excluded as bonded indebtedness (Article XIII B, Section 9(a));
- (2) \$118.2 million is excluded as the federal mandate for Social Security and Medicare payroll taxes (Article XIII B, Section 9(b)); and,
- (3) \$222.8 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 three measures, the Soda and Sugary Sweetened Beverages Tax, the increase in the Real Estate Transfer Tax, and the Tax on Cannabis Businesses, that increased the appropriations limit by the aggregate sum collected by the levy of these taxes. This adjustment raises the FY 2019-20 appropriations limit by \$139.7 million.

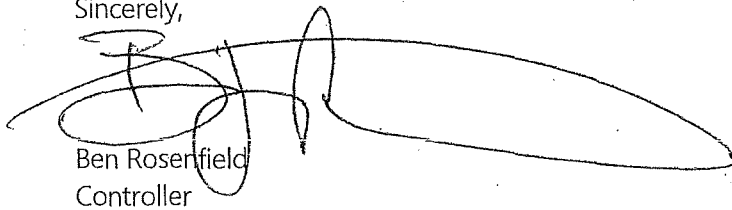
In June 2018, voters approved the Commercial Rent tax for Housing and Homelessness Services and a City parcel tax for the benefit of the San Francisco Unified School District. In November 2018, voters approved Our City, Our Home gross receipts tax. All three measures included temporary overrides to raise the appropriations limit. However, these measures are currently in litigation and consequently, the City is not recognizing any revenue from these measures or including them as proceeds of taxes. The override cannot extend further than four years after the date the measure was approved by voters regardless of when these revenues are recognized.

City and County Appropriations are under the Limit

The appropriations limit for FY 2019-20 is \$5,528,830,486. We estimate that appropriations subject to limitation will be \$4,073,169,324. Thus, the Controller projects that the City and County will be \$1,455,661,162 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 black ink, appearing to read "Ben Rosenfield", is written over a large, horizontal, oval-shaped scribble.

Ben Rosenfield
Controller

Attachments

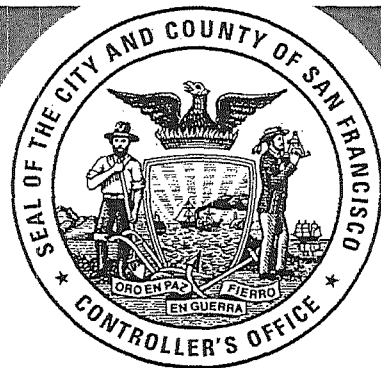
cc: Kelly Kirkpatrick, Mayor's Budget Director
Dennis Herrera, City Attorney
Jana Clark, Deputy City Attorney
Angela Calvillo, Clerk of the Board
Harvey Rose, Budget Analyst

File # 200008
Received in Committee
1/29/20
fn

FY 2019-20 City and County of San Francisco Appropriations Limit

Budget and Finance Committee
January 29, 2020

1021



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 2018, population growth in the City was 0.33%
- The growth in California per capita personal income was 3.85% and the percentage increase in the assessment rolls due to new construction was 23.65%. The City can choose the greater of these two factors.
- The total percentage increase in the Gann Limit for this year is 24.06%

Temporary, Voter-Approved Increases

- With voter approval, the Gann Limit can be increased for up to four years.
- Since November 2016, four tax measures have passed that raised the Gann Limit by the aggregate sum collected from the taxes: the Sugary Drinks Distributor Tax (SDDT), the Real Property Transfer Tax (RPTT), the Cannabis tax, and the TNC tax.
- FY 2019-20 is the final year of the override for SDDT and RPTT. In FY 2020-21, the voter override for the Cannabis and TNC taxes will be an estimated \$55 million.
- Since June 2018, three other tax measures passed that included Gann Limit voter overrides: the Commercial Rent Tax for Childcare and Early Education (Prop C), a City parcel tax for the benefit of the SFUSD, and the Our City, Our Home gross receipts tax (Prop C). Due to pending litigation, the City is not yet recognizing revenue from these measures.

Fiscal Year 2019-20 Appropriations Limit

- FY 2018-19 Limit: \$4,343,960,284
- 2018 San Francisco Population Increase: 0.33%
- 2018 Increase in Cost of Living: 23.65%
- Temporary Voter Approved Increase: \$139,717,381
- FY 2019-20 Limit: \$5,528,830,486

FY 2019-20 Appropriations Limit

6

Appropriations Subject to Limit

FY 2019-20 Estimated Total Tax Proceeds:	\$ 4,879,698,132
Less Appropriations Excluded from the Limit:	
Voter-Approved Debt:	-\$ 465,571,452
Qualified Capital Outlay:	-\$ 222,763,122
Federal Mandates (FICA / ADA Compliance) :	<u>-\$ 118,194,234</u>
<i>Net Tax Proceeds:</i>	<u>\$ 4,073,169,324</u>
FY 2019-20 Appropriations Limit:	\$ 5,528,830,486
Net Tax Proceeds:	<u>-\$ 4,073,169,324</u>
Amount Below Limit:	\$ 1,455,661,162