

# Capitola City Council

## Agenda Report

**Meeting:** June 12, 2025

**From:** Finance Department

**Subject:** Fiscal Year 2025-26 Appropriation Limit



**Recommended Action:** Adopt a resolution setting the appropriation limit for Fiscal Year 2025-26.

On November 6, 1979, California voters approved Proposition 4, commonly known as the Gann Initiative, establishing Article XIII B of the State Constitution. This proposition, which has been amended twice, places annual limits on the appropriation of tax proceeds that can be made based on the 1978-79 base year and adjusted each year for population growth and cost-of-living factors. It precludes state and local government from retaining “excess” revenues above the appropriation limit and requires the state to reimburse local governments for the cost of certain mandates.

The appropriations limit on the amount of revenue that can be spent applies only to tax proceeds. Charges for services, fees, grants, loans, donations, and other non-tax-based proceeds are excluded. The State Constitution requires the Council to ratify the calculation factors and set the City’s appropriations limit for the following fiscal year before June 30 of each year.

**Discussion:** The appropriations limit for a given fiscal year is established in the months preceding the beginning of that fiscal year. California Revenue and Taxation Code, Section 2227, mandates that the State Department of Finance transmit an estimate of the percentage change in population to local governments.

Capitola uses the percentage change in population factor for January 1, 2025, in conjunction with the County-issued “Change in California Per Capita Income” to calculate the appropriation factor used to determine the limit.

The 2025-26 calculation is:

Annual % change in City Population minus Exclusions	Change in California per capita Income	Appropriation Factor	FY 2024-25 Appropriation Limit	FY 2025-26 Appropriation Limit
0.9965	1.0644	1.0607	\$ 36,164,767	\$ 38,359,050

The 2025-26 Proposed Budget tax revenues are:

Source of Tax Revenue	2025-26 Proposed Budget
Sales Tax (1%)	\$ 6,349,456
District Taxes (Measures O & F / Y)	3,366,421
Property Tax and In-Lieu	3,441,000
Transient Occupancy Tax	2,222,000
Document Transfer Tax	100,000
Franchise Taxes	790,000
Business License Tax	324,000
Cannabis Retail Tax	300,000
Interest Income from tax revenue	20,000
Total Tax Revenue	<u>\$ 16,912,877</u>

The 2025-26 percent of appropriations limit used is:

Fiscal Year ended:	2023-24	2024-25	2025-26
Appropriations Limit	\$ 35,126,146	\$ 36,164,767	\$ 38,359,050
Tax revenue	\$ 15,276,471	\$ 15,445,020	\$ 16,912,877
Remaining to limit	<u>\$ 19,849,675</u>	<u>\$ 20,719,747</u>	<u>\$ 21,446,173</u>
% of limit used	43.49%	42.71%	44.09%
Limit vs. prior year	\$ 1,046,860	\$ 1,038,621	\$ 2,194,283
Incr./(Decr.) vs. pr. yr.	3.1%	3.0%	6.1%

As shown in the tables above, Capitola tax revenues have historically been well below the Appropriations Limit, and the FY 2025-26 Proposed Budget continues this trend.

Fiscal Impact: The appropriations limit increased \$2,194,283 (or 6.1%) to \$38 million from Fiscal Year 2024-25 to Fiscal Year 2025-26.

Attachments:

1. Resolution

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Reviewed By: Jim Malberg, Finance Director; Julia Gautho, City Clerk; Sam Zutler, City Attorney

Approved By: Jamie Goldstein, City Manager