

Capitola City Council

Agenda Report



Meeting: January 8, 2023
From: Finance Department
Subject: FY 2023-24 Appropriation Limit

Recommended Action: Adopt a resolution setting the Fiscal Year 2023-24 appropriation limit.

Background: 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 government 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 that prior to June 30 of each year, the Council ratify the calculation factors and set the City’s appropriations limit for the following fiscal 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 this percentage change in population factor for January 1, 2023, in conjunction with the County-issued “Change in California Per Capita Income” to calculate the Appropriation Factor used to determine the limit.

The 2023-24 calculation is:

Annual % change in City Population minus Exclusions	Change in California per capita Income	Appropriation Factor	FY 2022-23 Appropriation Limit	FY 2023-24 Appropriation Limit
0.9869	1.0444	1.0307	\$ 34,079,286	\$ 35,126,146

The 2023-24 Proposed Budget tax revenues are:

Source of Tax Revenue	2023-24 Proposed Budget
Sales Tax (1%)	\$ 6,445,250
District Taxes (Measures O & F)	2,172,100
Property Tax and In-Lieu	3,091,621
Transient Occupancy Tax	2,200,000
Document Transfer Tax	100,000
Franchise Taxes	635,000
Business License Tax	312,500
Cannabis Retail Tax	300,000
Interest Income from tax revenue	20,000
Total Tax Revenue	\$ 15,276,471

The 2023-24 percent of appropriations limit used is:

Fiscal Year ended:	2021-22	2022-23	2023-24
Appropriations Limit	\$ 32,714,148	\$ 34,079,286	\$ 35,126,146
Tax revenue	\$ 13,444,809	\$ 15,052,269	\$ 15,276,471
Remaining to limit	\$ 19,269,339	\$ 19,027,017	\$ 19,849,675
% of limit used	41.10%	44.17%	43.49%
Limit vs. prior year	\$ 1,616,555	\$ 1,365,138	\$ 1,046,860
Incr./(Decr.) vs. pr. yr.	5.2%	4.2%	3.1%

As shown in the tables above, Capitola tax revenues have historically been well below the Appropriations Limit and the FY 2023-24 Proposed Budget continues this trend.

Fiscal Impact: The appropriations limit increased \$1,046,860 (or 3.1%) to \$35 million from Fiscal Year 2022-23 to Fiscal Year 2023-24.

Attachments:

1. Resolution

Report Prepared By: Luis Ruiz, Accountant I

Reviewed By: Jim Malberg, Finance Director; Julia Moss, City Clerk

Approved By: Jamie Goldstein, City Manager