

# Capitola City Council

## Agenda Report



**Meeting:** June 13, 2024  
**From:** Finance Department  
**Subject:** Year 2024-25 Appropriation Limit

**Recommended Action:** Adopt a resolution establishing the Fiscal Year 2024-25 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 the City Council ratify the calculation factors and set the City’s appropriations limit for the following fiscal year prior to 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 this percentage change in population factor for January 1, 2024, in conjunction with the County-issued “Change in California Per Capita Income” to calculate the Appropriation Factor used to determine the limit.

The 2024-25 calculation is:

Annual % change in City Population minus Exclusions	Change in California per capita Income	Appropriation Factor	FY 2023-24 Appropriation Limit	FY 2024-25 Appropriation Limit
0.9936	1.0362	1.0296	\$ 35,126,146	\$ 36,164,767

The 2024-25 Proposed Budget tax revenues are:

Source of Tax Revenue	2024-25 Proposed Budget
Sales Tax (1%)	\$ 6,286,590
District Taxes (Measures O & F)	2,222,060
Property Tax and In-Lieu	3,277,120
Transient Occupancy Tax	2,222,000
Document Transfer Tax	100,000
Franchise Taxes	698,500
Business License Tax	318,750
Cannabis Retail Tax	300,000
Interest Income from tax revenue	20,000
Total Tax Revenue	\$ 15,445,020

The 2024-25 percent of appropriations limit used is:

Fiscal Year ended:	2022-23	2023-24	2024-25
Appropriations Limit	\$ 34,079,286	\$ 35,126,146	\$ 36,164,767
Tax revenue	\$ 15,052,269	\$ 15,276,471	\$ 15,445,020
Remaining to limit	\$ 19,027,017	\$ 19,849,675	\$ 20,719,747
% of limit used	44.17%	43.49%	42.71%
Limit vs. prior year	\$ 1,365,138	\$ 1,046,860	\$ 1,038,621
Incr./(Decr.) vs. pr. yr.	4.2%	3.1%	3.0%

As shown in the tables above, Capitola tax revenues have historically been well below the Appropriations Limit and the FY 2024-25 Proposed Budget continues this trend.

**Fiscal Impact:** The appropriations limit increased \$1,038,621 (or 3.0%) to \$36 million from Fiscal Year 2023-24 to Fiscal Year 2024-25.

Attachments:

1. Resolution

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Approved By: Jamie Goldstein, City Manager