

Capitola City Council

Agenda Report



Meeting: June 9, 2022

From: Finance Department

Subject: Consider the Adoption of a Resolution Setting the Fiscal Year 2022/23 Appropriation Limit

Recommended Action: Adopt a resolution setting the Fiscal Year 22/2023 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, 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, 2022, in conjunction with the County-issued “Change in California Per Capita Income” to calculate the Appropriation Factor used to determine the limit.

The 2022-23 calculation is:

Annual % change in City Population minus Exclusions	Change in California per capita Income	Appropriation Factor	FY 2021-22 Appropriation Limit	FY 2022-23 Appropriation Limit
0.9686	1.0755	1.0417	\$ 32,714,148	\$ 34,079,286

The 2022-23 Proposed Budget tax revenues are:

Source of Tax Revenue	2022-23 Proposed Budget
Sales Tax (1%)	\$ 6,334,500
District Taxes (Measures O & F)	2,327,800
Property Tax and In-Lieu	2,972,713
Transient Occupancy Tax	2,100,000
Document Transfer Tax	80,000
Franchise Taxes	571,256
Business License Tax	304,000
Cannabis Retail Tax	360,000
Interest Income from tax revenue	2,000
Total Tax Revenue	\$ 15,052,269

The 2022-23 percent of appropriations limit used is:

Fiscal Year ended:	2020-21	2021-22	2022-23
Appropriations Limit	\$ 31,097,593	\$ 32,714,148	\$ 34,079,286
Tax revenue	\$ 10,834,632	\$ 13,444,809	\$ 15,052,269
Remaining to limit	\$ 20,262,961	\$ 19,269,339	\$ 19,027,017
% of limit used	34.84%	41.10%	44.17%
Limit vs. prior year	\$ 1,052,132	\$ 1,616,555	\$ 1,365,138
Incr./(Decr.) vs. pr. yr.	3.5%	5.2%	4.2%

As shown in the tables above, Capitola tax revenues have historically been well below the Appropriations Limit. The FY 2022-23 Proposed Budget, which will be presented to the City Council for adoption on June 23, continues this trend.

Fiscal Impact: The appropriations limit increased \$1,365,138 (or 4.2%) to \$34 million from Fiscal Year 2021/22 to Fiscal Year 2022/23.

Attachments:

1. Proposed resolution

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Approved By: Jamie Goldstein, City Manager