



Date: Tuesday, June 25, 2024

Honorable Mayor and Council Members:

Author and title: Nicole Casey, Administrative Services Director

Title: **Amending the Gann Appropriations Limit for FY2024/2025**

Jen Callaway, Town Manager

Recommended Action: Council approve the attached Resolution 2024-38, authorizing and amendment to the Gann Appropriations Limit for the 2024-2025 fiscal year to \$32,280,016..

Discussion: Proposition 4, more commonly known as the Gann Initiative, was approved by the California electorate in November 1979. It created Article XIII B in the California Constitution and its purpose is to restrict growth of tax-funded programs and services by limiting the appropriation of the proceeds of taxes to the 1978/79 base year limit, as adjusted annually for changes in population (population factor) and inflation (price factor). Proceeds of taxes in excess of the appropriations limit, with some exceptions, must be returned to the taxpayers by refund or reduction in tax rates, unless an extension of the limit is approved by majority popular vote. Proceeds of taxes include tax revenues and investment earnings related to those tax revenues, proceeds from licenses and users/charges to the extent that they exceed the cost to cover those services, and discretionary tax funds used for contingency, emergency, unemployment, reserve, and retirement sinking funds, trust, or similar funds.

Gann Appropriations Limit Calculation -

The limit is based on the appropriations that were collected in the 1978-79 “base” year, as adjusted each year for population growth and cost-of-living factors. Because the Town did not incorporate until 1993, the Town’s original base limit was created by adoption of the voters after the Town’s first full year of operations.

In fiscal year 2001-2002, the Town entered into a settlement agreement with Nevada County for an increase in the allocation of property taxes owed to the Town. The Nevada County Supreme Court adjusted the Town’s appropriations limit to account for this reallocation of property tax.

Each year, the Town adjusts its Gann Limit by a population growth factor and inflation or price factor. The Town has typically used the factors provided to the Town by the California Department of Finance. There are, however, some alternative options that the Town can utilize in calculating its limit. Proposition 111, which was approved by the California voters in June of 1990, amended the Gann Initiative in the California constitution to provide local agencies with the option of using either the city or county population change percentage (whichever is greater). There was one year in which the county population change percentage was greater than the population factor for just the Town, in fiscal year 2011-2012. In that year, the Town’s population increased by 0.310%, whereas the county-wide population increase was 0.430%. The Town used the County’s population factor for that year in the calculation of the Town’s current rate.

For purposes of the cost of living factor, Proposition 111 added to Article XIII B: "Change in the cost of living for an entity of local government, other than a school district or a community college district, shall be either (A) the percentage change in California per capita personal income from the preceding years, OR (B) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local non-residential new construction, whichever is greater."

The Town first used the alternative factor of the percentage change in the local assessment roll to recalculate the limit for fiscal year 2006-2007. For fiscal year 2023/2024, staff worked with HdL, a consultant the Town uses for sales tax auditing, to understand the changes in the assessed value from new non-residential construction. HdL was able to provide records from fiscal year 2006-2007 through fiscal year 2022-2023. The alternative calculation was used to amend the limit in fiscal year 2009-2010, 2010-2011, and 2014-2015. Based on this recalculation, staff amended the Town's Gann limits from fiscal year 2009-2010 through fiscal year 2023-2024. The Town is using this amended fiscal year 2023-2024 as the base for the fiscal year 2024-2025 amendment.

For fiscal year 2024-2025, staff used the price change factor calculated by the California Department of Finance (DOF) and the Truckee specific change in population, as determined by the DOF. This calculation can be viewed in Attachment B.

Government Code subdivision 7910(a) states: "Fifteen days prior to the meeting, documentation used in the determination of the appropriations limit and other necessary determinations shall be available to the public. The determinations made pursuant to this section are legislative acts." Staff prepared the documentation related to the calculation and made it available on the Town's website on Wednesday, June 5, 2024, ahead of the fifteen day requirement. That documentation is located here:

<https://www.townoftruckee.gov/235/Gann-Appropriations-Limit>

Staff are requesting that Council approve the attached resolution, Resolution 2024-38, authorizing an amendment to the Gann Appropriations Limit for fiscal year 2024-2025 to an adjusted limit of \$32,280,016.

Appropriations Subject to the Limit -

Article XIII B also requires that the Town review the appropriations subject to the limit against the proposed Gann limit. This is essentially reviewing the budgeted revenues and comparing it against the limit. Not every revenue source is subject to the limit. Only amounts that are defined as "proceeds of taxes" must be considered and include property taxes, sales taxes, transient occupancy taxes, interest earned on those taxes, and user fees in excess of the amount needed to provide the services.

Proposition 111, mentioned above, added some exclusions that the Town can use in determining appropriations subject to the limit, including qualified capital outlay and qualified debt service. Proposition 111 defined qualified capital outlay as "an appropriation for a fixed asset (including land and construction) with a useful life of 10 years or more and a value which equals or exceeds one hundred thousand dollars (\$100,000)". This includes the annual debt service on such purchases (qualified debt service).

Staff have completed an analysis of appropriations subject to the limit (e.g., review of the proposed revenue budget) to make considerations for these exemptions, as well as considering all Town funds instead of just the General Fund. Because the Town's fiscal philosophy is to be conservative, staff recommend that the Town use only 90% of the budgeted qualified capital outlay as a reduction to the appropriations subject to the limit. Because the capital budget is the Town's best guess of capital spending for the year, and the timing of capital projects often ends up being different than budgeted, using a conservative 90% will help ensure that there is sufficient capacity in the appropriations limit to cover all appropriations collected against the limit.

In fiscal year 2007-2008, the Town's calculation of appropriations subject to the limit were adjusted to exclude state-mandated costs from the Town's budgeted expenditures. The Town's then Town Attorney, Dennis Crabb provided the Town with research in regard to the allowed exceptions to the Gann Limit. His research determined that the debt limitation applies only to debts the Town has voluntarily incurred, not obligations imposed by law. Specifically, based on a case known as City of La Habra v. Pellerin 216 Cal. App. 2d 99 (1963), the provision of police and fire protection is an obligation imposed by law and therefore these costs can be excluded from the calculations.

Similar to qualified capital outlay, staff recommend that the Town use only 90% of the budgeted police costs in excess of police services charges as a reduction to the appropriations subject to the limit in excess of police revenues for fiscal year 2024-2025, consistent with prior years. This reduction ensures that there is sufficient capacity in the appropriations limit for all expected appropriations. The Town does not always spend 100% of its police budget because the budget assumes full staffing for the full year and a conservative (high) level of overtime.

Attachment C includes the details of the appropriations subject to the limit for fiscal year 2024-2025. Staff have calculated the appropriations subject to the limit for fiscal year 2024-2025 as \$21,003,492, or 65% of the adjusted annual limit.

Priority:

<input type="checkbox"/> Enhanced Communication	<input type="checkbox"/> Climate and Greenhouse Gas Reduction	<input type="checkbox"/> Housing
<input type="checkbox"/> Infrastructure Investment	<input type="checkbox"/> Emergency and Wildfire Preparedness	<input checked="" type="checkbox"/> Core Service

Fiscal Impact: Having an adequate Gann Appropriations Limit ensures that the Town will maintain its long-term ability to pay the necessary costs to provide the level and quality of services required by its citizens.

Public Communication: The data related to the recalculation was posted to the Town website on Wednesday, June 5, 2024. The re-calculation can be accessed by visiting this <https://www.townoftruckee.gov/235/Gann-Appropriations-Limit>

Attachments:

Attachment A: Resolution No. 2024-38

Attachment B: Calculation of Appropriations Limit for fiscal year 2024-2025

Attachment C: Calculation of Appropriations Subject to the Limit for fiscal year 2024-2025

Additional Resources:

Resource 1 - California Municipal Revenues Sources Handbook - <http://californiacityfinance.com/MRSHBch10GannLimit.pdf>

Resource 2 – Article XIII B Government Spending Limitation - https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=CONS&division=&title=&part=&chapter=&article=XIII%20B