



# AGENDA REPORT

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MEETING DATE:	June 24, 2014	<i>Council Item</i>
TITLE:	Adoption of Resolution Establishing Appropriations Limit for Fiscal Year 2014-15	
PRESENTED BY:	Cynthia Fortune, Finance Director	
RECOMMENDATION:	(1) Select the Change in Per Capita Personal Income of - 0.23% (decrease) as the Price Factor for the Fiscal Year 2014-15 Appropriations Limit Calculation;	
	(2) Select the Change in County of San Bernardino Population of 0.78% as the Population Change Factor for the Fiscal Year 2014-15 Appropriations Limit Calculation; and,	
	(3) Adopt Resolution Establishing Appropriations Limit of \$11,399,967 for the City of Grand Terrace for Fiscal Year 2014-15.	

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## **BACKGROUND:**

On November 6, 1979, California voters approved the Gann Spending Limitation Initiative (Proposition 4) establishing Article XIII B of the State Constitution. Article XIII B sets limits on the amount of tax revenues that the State and most local governments can appropriate within a given fiscal year. Its basic provisions are as follows:

- Each year, the State and local governments must adopt a resolution establishing an Appropriations Limit, also known as the "Gann Limit". Fiscal Year 1984-85 appropriations serve as the base for this limit, with adjustments being made annually to reflect increases in population, the cost of living, and financial responsibility transfers.
- Only tax proceeds are subject to the limit. Charges for services, regulatory fees, grants, loans, donations and other non-tax proceeds are not subject to the limit. Exemptions are also made for voter-approved debt, debt that existed prior to January 1, 1979, and for the cost of compliance with court or Federal government mandates.
- All tax revenues received in excess of the Appropriations Limit must be refunded to taxpayers within a two-year period.
- The voters may approve an increase in the Appropriations Limit. For the increase to remain in effect, however, it must be re-approved by voters at four-year intervals.

On June 5, 1990, California voters approved the Traffic Congestion Relief and Spending Limitation Act (Proposition 111), which made various amendments to Article XIII B of the State Constitution. The major changes, which became effective July 1, 1990, are as follows:

- The change in the cost of living is defined to be either the change in California per capita personal income or the change in assessed valuation due to the addition of non-residential new construction. Previously, the change in the cost of living was defined as the lesser of the change in the U.S. Consumer Price Index or the change in California per capita personal income.
- The change in population is defined as either a change in the City's population or a change in the County's population, whichever is greater.
- "Qualified capital outlay projects" were added to the items exempted from the Appropriations Limit. Qualified capital outlay projects must have a useful life of ten or more years and a cost that equals or exceeds \$100,000.
- Tax revenues received in excess of the Appropriations Limit must be refunded to taxpayers only if the limit is exceeded over a two-year period.

The annual calculation of the Appropriations Limit must be reviewed as part of the City's annual financial audit.

#### **DISCUSSION:**

As indicated above, Proposition 111 made several changes to the method used to calculate the Appropriations Limit. The change in the cost of living (or "price factor") is defined to be either the change in California per capita personal income or the change in assessed valuation due to the addition of non-residential new construction. Following are the two options for the City's FY 2013-14 Appropriations Limit calculation:

- 1) Change in California per capita personal income (provided by California Department of Finance): -0.23% (decrease)
- 2) Change in Grand Terrace assessed valuation from 2013 to 2014 due to the addition of non-residential new construction: This information is not yet available from the County Assessor's office. When the data is available, if it is greater than the change in California per capita personal income, the Appropriations Limit will be revised and resubmitted to the City Council for approval.

Based on the above information, the change in California per capita personal income has been used as the price factor for the FY 2014-15 Appropriations Limit calculation.

The "population factor" to be used in calculating the Appropriations Limit is defined by Proposition 111 as either a change in the City's population or a change in the County's population, whichever is greater. Per information provided by the California Department of Finance, following are the population changes from 2013 to 2014:

- 1) Change in City of Grand Terrace population: 0.50%
- 2) Change in San Bernardino County population: 0.78%

Since Option 2 (change in County of Grand San Bernardino population) is greater than the City of Grand Terrace population change, it is recommended to be used as the population factor for the FY 2014-15 Appropriations Limit calculation.

Exhibit A provides the calculation of the FY 2014-15 Appropriations Limit using the recommended price and population factors. Exhibit B identifies the revenues that are classified as tax proceeds and those that are classified as non-tax proceeds for Appropriations Limit purposes. Exhibit C is the Department of Finance letter providing the per capita personal income and population change information used in the Appropriations Limit calculation.

The City's Appropriations Limit for FY 2013-14 was \$11,337,610. The recommended change factor, as allowed by Proposition 111 due to cost of living and population changes, is 1.0055. This results in a FY 2014-15 Appropriations Limit of \$11,399,967. The FY 2014-15 Proposed Budget contains appropriations subject to the Appropriations Limit of \$2,864,631, which is \$8,535,336 below the City's legal limit.

The Appropriations (Gann) Limit for FY2013-14 incorporates Goal #1, "Ensure Our Fiscal Viability" of the City's 2030 Vision and Strategic Plan.

**FISCAL IMPACT:**

There is no fiscal impact associated with adoption of the FY 2014-15 Appropriations Limit, as the City is safely within its legal appropriations limit for FY 2014-15.

**ATTACHMENTS:**

- Resolution\_Appropriations Limit FY 2014-15
- FY 2014-15 Appropriations Limit Calculation

**APPROVALS:**

Cynthia Fortune	Completed	06/13/2014 12:28 PM
Finance	Completed	06/13/2014 12:29 PM
City Attorney	Completed	06/13/2014 3:54 PM
City Manager	Completed	06/15/2014 5:42 PM
City Council	Pending	

**RESOLUTION NO. 2014-\_\_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
GRAND TERRACE, CALIFORNIA, ESTABLISHING THE  
APPROPRIATIONS LIMIT FOR FISCAL YEAR 2014-15**

WHEREAS, Article XIII B of the California Constitution and Section 7910 of the California Government Code require that each year the City of Grand Terrace shall by resolution, establish an Appropriations Limit for the fiscal year; and

WHEREAS, the City Council has prepared a Proposed Budget for Fiscal Year 2014-15, a copy of which is on file in the Office of the City Clerk and available for public inspection, and

WHEREAS, the said Proposed Budget contains the estimates of the services, activities and projects comprising the budget, and contains expenditure requirements and the resources available to the City; and

WHEREAS, the City's Finance Department has prepared calculations and documentation required for and to be used in the determination of certain matters and for the establishment of an Appropriations Limit for the City for Fiscal Year 2014-15 and such data and documentation has been available to the public for at least fifteen (15) days prior to the adoption of this Resolution; and

WHEREAS, the City Council has considered pertinent data such as price and population factors and made such determinations as may be required by law, and has adopted this Resolution as a regularly scheduled meeting of the City Council: and

WHEREAS, the Appropriations Limit for the City of Grand Terrace for Fiscal Year 2014-15 is hereby established at \$11,399,967 and the total annual appropriations subject to such limitation for Fiscal Year 2014-15 are determined to be \$2,864,631.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GRAND TERRACE, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:

1. That \$11,399,967 is hereby established as the Appropriations Limit for the City of Grand Terrace for Fiscal Year 2014-15.
2. The City Council hereby adopts the findings and methods of calculation set forth in Exhibit A (Appropriations Limit Calculation) and Exhibit B (Proceeds of Tax Calculation).
3. The City of Grand Terrace reserves the right to revise the factors associated with the calculation of the limit established pursuant to Article XIII B of the California Constitution if such changes or revisions would result in a more advantageous Appropriations Limit in the future.

BE IT FURTHER RESOLVED that this Resolution shall take effect immediately up the date of its adoption.

**PASSED, APPROVED AND ADOPTED** by the City Council of Grand Terrace at a regular meeting held on the 24<sup>th</sup> day of June, 2014 by the following vote:

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Mayor of the City of Grand Terrace  
and the City Council thereof

ATTEST:

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Interim City Clerk of the City of Grand Terrace

I DEBORA THOMSEN, INTERIM CITY CLERK of the City of Grand Terrace, California, do hereby certify that the foregoing Resolution was introduced and adopted at a regular meeting of the City Council of the City of Grand Terrace held on the 24<sup>th</sup> day of June, 2014, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Debora Thomsen, Interim City Clerk

**APPROVED AS TO FORM:**

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City Attorney

EXHIBIT A

CITY OF GRAND TERRACE  
APPROPRIATIONS (GANN) LIMIT CALCULATION  
FISCAL YEAR 2014-15

**APPROPRIATIONS SUBJECT TO THE LIMIT**

FY 2014-15 Total Revenue*	\$	6,524,250
Less Non-Proceeds of Tax		3,659,619
<b>A) Total Appropriations Subject to the Limit</b>	<b>\$</b>	<b>2,864,631</b>

**APPROPRIATIONS LIMIT**

B) FY 2013-14 Appropriations Limit		11,337,610
C) Change Factor**	% Increase	Factor
Cost of Living Adjustment	-0.23	0.9977
Population Adjustment	0.78	1.0078
Change Factor (0.9977 x 1.0078)		<u>1.0055</u>
D) Increase (decrease) in Appropriations Limit	\$	<u>62,357</u>
<b>E) FY 2014-15 Appropriations Limit (B x C)</b>	<b>\$</b>	<b><u>11,399,967</u></b>

**REMAINING APPROPRIATIONS CAPACITY (E-A)**

**\$ 8,535,336**

Remaining Capacity as Percent of the FY 2014-15 Appropriations Limit		<u>74.87%</u>
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\*Revenues are based on FY 2014-15 Proposed Budget (all City funds excluding Successor Agency).

\*\* State Department of Finance  
Percent of Change in California Per Capita Income  
Percent of Change in City of Grand Terrace Population

**EXHIBIT B**

**CITY OF GRAND TERRACE  
APPROPRIATIONS (GANN) LIMIT  
PROCEEDS OF TAX CALCULATION  
FISCAL YEAR 2014-15**

<u>REVENUE SOURCE</u>	<u>BUDGETED PROCEEDS OF TAX</u>	<u>BUDGETED NON-PROCEEDS OF TAX</u>	<u>TOTAL REVENUE</u>
<b>TAXES</b>			
Property Tax (1)	\$ 1,730,570		\$ 1,730,570
Sales Tax (2)	1,047,000		1,047,000
Business License Tax	81,700		81,700
<b>FEES</b>			
Franchise Fees		\$ 480,000	480,000
Building Fees		106,000	106,000
Planning Fees		37,900	37,900
Other Permits/Fees		247,100	247,100
Residual Receipts Agreement		-	-
Intergovernmental		35,000	35,000
Use of Property/Other		315,000	315,000
Child Care Fees		1,207,650	1,207,650
Waste Water Disposal Fees		-	-
Gas Tax/Highway User Fees		324,400	324,400
Measure "I" Transportation		170,000	170,000
SLESF (AB 3229 COPS)		100,000	100,000
CDBG		49,530	49,530
Other		468,400	468,400
<b>OPERATING BUDGET SUBTOTAL</b>	<b>\$ 2,859,270</b>	<b>\$ 3,540,980</b>	<b>\$ 6,400,250</b>
% of Total	44.67%	55.33%	100.00%
<b>Interest Allocation (3)</b>	<b>5,361</b>	<b>6,639</b>	<b>12,000</b>
<b>CAPITAL PROJECT FUNDING</b>			
Gas Tax/Measure "I"/Transfers		112,000	112,000
State Grants		-	-
Bond Proceeds		-	-
<b>CAPITAL PROJECT SUBTOTAL</b>	<b>\$ -</b>	<b>\$ 112,000</b>	<b>\$ 112,000</b>
<b>TOTAL</b>	<b>\$ 2,864,631</b>	<b>\$ 3,659,619</b>	<b>\$ 6,524,250</b>

Revenues are based on FY 2014-15 Proposed Budget (all City funds excluding Successor Agency).

Notes:

- (1) Includes Property Tax In-Lieu of Vehicle License Fees & RPTTF Residual Receipts
- (2) Includes Property Tax In-Lieu of Sales Tax
- (3) Based on percentage of Tax/Non-Tax Proceeds



DEPARTMENT OF  
**FINANCE**  
OFFICE OF THE DIRECTOR

## EXHIBIT C

EDMUND G. BROWN JR., GOVERNOR  
STATE CAPITOL ■ ROOM 1145 ■ SACRAMENTO CA ■ 95814-4998 ■ WWW.DOF.CA.GOV

May 2014

Dear Fiscal Officer:

### **Subject: Price and Population Information**

#### **Appropriations Limit**

The California Revenue and Taxation Code, section 2227, mandates the Department of Finance (Finance) to transmit an estimate of the percentage change in population to local governments. Each local jurisdiction must use their percentage change in population factor for January 1, 2014, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2014-15. Attachment A provides the change in California's per capita personal income and an example for utilizing the price factor and population percentage change factor to calculate the 2014-15 appropriations limit. Attachment B provides city and unincorporated county population percentage change. Attachment C provides population percentage change for counties and their summed incorporated areas. The population percentage change data excludes federal and state institutionalized populations and military populations.

#### **Population Percent Change for Special Districts**

Some special districts must establish an annual appropriations limit. Consult the Revenue and Taxation Code section 2228 for further information regarding the appropriations limit. Article XIII B, section 9(C), of the State Constitution exempts certain special districts from the appropriations limit calculation mandate. The Code and the California Constitution can be accessed at the following website: <http://leginfo.legislature.ca.gov/faces/codes.xhtml>.

Special districts required by law to calculate their appropriations limit must present the calculation as part of their annual audit. Any questions special districts have on this issue should be referred to their respective county for clarification, or to their legal representation, or to the law itself. No state agency reviews the local appropriations limits.

#### **Population Certification**

The population certification program applies only to cities and counties. Revenue and Taxation Code section 11005.6 mandates Finance to automatically certify any population estimate that exceeds the current certified population with the State Controller's Office. **Finance will certify the higher estimate to the State Controller by June 1, 2014.**

**Please Note:** Prior year's city population estimates may be revised.

If you have any questions regarding this data, please contact the Demographic Research Unit at (916) 323-4086.

MICHAEL COHEN  
Director  
By:

KEELY M. BOSLER  
Chief Deputy Director

Attachment



- A. **Price Factor:** Article XIII B specifies that local jurisdictions select their cost of living factor to compute their appropriation limit by a vote of their governing body. The cost of living factor provided here is per capita personal income. If the percentage change in per capita personal income is selected, the percentage change to be used in setting the fiscal year 2014-15 appropriation limit is:

Per Capita Personal Income	
Fiscal Year (FY)	Percentage change over prior year
2014-15	-0.23

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2014-15 appropriation limit.

**2014-15:**

Per Capita Cost of Living Change = -0.23 percent  
 Population Change = 0.95 percent

Per Capita Cost of Living converted to a ratio:  $\frac{-0.23 + 100}{100} = 0.9977$

Population converted to a ratio:  $\frac{0.95 + 100}{100} = 1.0095$

Calculation of factor for FY 2014-15:  $0.9977 \times 1.0095 = 1.0072$

**Attachment B**  
**Annual Percent Change in Population Minus Exclusions\***  
**January 1, 2013 to January 1, 2014 and Total Population, January 1, 2014**

County City	<u>Percent Change</u>	<u>Population Minus Exclusions</u>		<u>Total</u>
	2013-2014	1-1-13	1-1-14	1-1-2014
San Bernardino				
Adelanto	2.06	31,172	31,814	32,511
Apple Valley	0.83	70,173	70,755	70,755
Barstow	0.73	22,687	22,853	23,292
Big Bear Lake	0.57	5,092	5,121	5,121
Chino	2.71	73,002	74,978	81,747
Chino Hills	0.51	75,747	76,131	76,131
Colton	0.57	52,758	53,057	53,057
Fontana	0.98	200,221	202,177	202,177
Grand Terrace	0.50	12,224	12,285	12,285
Hesperia	0.49	91,057	91,506	91,506
Highland	0.58	53,724	54,033	54,033
Loma Linda	0.96	23,330	23,554	23,614
Montclair	0.54	37,172	37,374	37,374
Needles	0.31	4,893	4,908	4,908
Ontario	0.69	166,241	167,382	167,382
Rancho Cucamonga	1.10	170,427	172,299	172,299
Redlands	0.46	69,560	69,882	69,882
Rialto	0.53	100,896	101,429	101,429
San Bernardino	0.41	210,283	211,151	212,721
Twentynine Palms	0.78	17,262	17,396	26,576
Upland	0.70	74,628	75,147	75,147
Victorville	0.67	114,865	115,630	120,590
Yucaipa	0.57	52,354	52,654	52,654
Yucca Valley	0.48	20,952	21,053	21,053
Unincorporated	0.69	286,233	288,201	297,425
<b>County Total</b>	<b>0.78</b>	<b>2,036,953</b>	<b>2,052,770</b>	<b>2,085,669</b>

\*Exclusions include residents on federal military installations and group quarters residents in state mental institutions, state and federal correctional institutions and veteran homes.