

## CITY OF SIMI VALLEY • MEMORANDUM

**DATE:** May 17, 2019  
**TO:** General Public  
**FROM:** Office of the City Manager  
**SUBJECT:** CITY'S APPROPRIATIONS LIMIT FOR FY 2019-20

Article XIII B of the California State Constitution sets limits on the amount of tax revenues that local governments can appropriate in a given fiscal year. Each year, the City of Simi Valley is required to adopt a resolution establishing an appropriations limit. This action is currently scheduled for the City Council meeting of Monday, June 3, 2019.

Due to the 15-day required public notification and review process, a staff report, resolution, and supporting documentation regarding the City's appropriations limit are now available for public review and may be obtained from the Office of the City Clerk.



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Brian P. Gabler  
Interim City Manager

**CITY OF SIMI VALLEY  
MEMORANDUM**

June 3, 2019

**TO:** City Council

**FROM:** Department of Administrative Services

**SUBJECT:** ADOPTION OF A RESOLUTION ESTABLISHING THE CITY'S FY 2019-20 APPROPRIATIONS LIMIT

**STAFF RECOMMENDATION**

It is recommended that the City Council adopt the attached resolution (page 5) setting the City's FY 2019-20 Appropriations Limit at \$79,727,227.

**CITY MANAGER'S RECOMMENDATION**

The Interim City Manager concurs with the Staff Recommendation.

**BACKGROUND AND OVERVIEW**

Each year the City is required to adopt a resolution establishing a limit on its appropriations of tax proceeds. For FY 2019-20, the City's appropriations limit is calculated to be \$79,727,227. Based on net proceeds of taxes subject to the limitation in the amount of \$62,594,691 in the FY 2019-20 Proposed Budget, proposed City appropriations are \$17,132,536 below the limit.

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. FY 1978-79 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 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.

## **FINDINGS AND ALTERNATIVES**

The information used to calculate the City's FY 2019-20 appropriations limit is presented in Exhibit A (page 7). The City's appropriations limit for FY 2018-19 was \$76,595,354. The FY 2019-20 adjustment factor allowed by Proposition 111 due to population and cost of living changes is 1.04088855. Multiplying the 2018-19 limit by the adjustment factor results in a FY 2019-20 appropriations limit of \$79,727,227.

As indicated above, Proposition 111 provides several options for calculating increases in the appropriations limit. With respect to the change in population, the City's calculation uses the greater of the percentage increase in either the City or the County population. The increase in the City's population was used since it was greater than Ventura County's (+0.23% vs. -0.18%).

With respect to the change in the cost of living criterion, the change in California per capita personal income (3.85%) was used, as the change in non-residential assessed valuation information is not yet available from the County. The Ventura County Assessor's Office has customarily been able to provide assessed value information in July of each year. Staff is of the opinion that the change in non-residential assessed valuation is unlikely to reflect a change that is lower than the change in per capita personal income, which would result in a lower appropriations limit for FY 2019-20 if used in lieu of the per capita income data.

The City's total revenue proceeds from all funds subject to the limit are \$76,944,003. Of this amount, \$63,123,103 is identified as coming from tax proceeds, while \$13,820,900 is identified as coming from non-tax proceeds. Attachment B (page 9) provides a detailed breakdown, by fund, of budgeted revenues and their classification as tax proceeds or non-tax proceeds.

The City is entitled to make certain deductions from its FY 2019-20 tax proceeds of \$63,123,103 for the purpose of calculating the Net Proceeds of Taxes Subject to the Limit. The first of these is a deduction for qualified capital outlay projects. Since the FY 2019-20 Proposed Budget does not include any General Fund dollars for Capital Projects, there is no capital project deduction, see Attachment C (page 10).

The City is also entitled to deduct the cost of compliance with Federal mandates, which is \$528,412 in FY 2019-20. Medicare and Social Security are two such mandates that are relatively easy to identify and to calculate. Detailed information on the City's Medicare and Social Security costs is provided in Attachment D (page 11). The deduction has been limited to the portion of total cost to be paid from tax proceeds.

Having taken the available deductions into consideration, the FY 2019-20 Proposed Budget contains appropriations subject to the limitation of \$62,594,691. This amount is \$17,132,536 below the City's legal appropriations limit of \$79,727,227.

The following alternatives are available to the City Council:

1. Adopt the attached resolution (page 5) establishing the City's FY 2019-20 appropriations limit at \$79,727,227;
2. Provide staff with other direction.

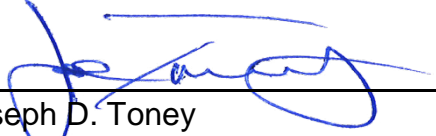
Staff recommends Alternative No. 1.

### **SUGGESTED CITY COUNCIL MOTION**

I move to approve the adoption of a resolution establishing the City's FY 2019-20 appropriations limit.

**SUMMARY**

Each year the City is required to adopt a resolution establishing a limit on its appropriations of tax proceeds. The Traffic Congestion Relief and Spending Limitation Act (Proposition 111), approved by the voters on June 5, 1990, changed some of the factors used to calculate the limit. For FY 2019-20, the City's appropriations limit is calculated to be \$79,727,227. The City's Proposed Budget contains appropriations subject to the limit of \$62,594,691. Therefore, the portion of the FY 2019-20 Proposed Budget subject to the limit is \$17,132,536 less than the City's FY 2019-20 appropriations limit.



Joseph D. Toney  
Administrative Services Director

Prepared by: Carolyn Johnson, Budget Officer

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RESOLUTION NO. 2019-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
SIMI VALLEY ESTABLISHING AN APPROPRIATIONS  
LIMIT FOR FISCAL YEAR 2019-20

WHEREAS, the voters approved the Gann Spending Limitation Initiative (Proposition 4) on November 6, 1979, adding Article XIII B to the Constitution of the State of California to establish and define annual appropriations limits on State and local government entities; and

WHEREAS, Chapter 1205, Statutes of 1980 (SB 1352) provides for the implementation of Article XIII B by defining various terms used in the Article and prescribing procedures to be used in implementing specific provisions of the Article, including the establishment by resolution each year by the governing body of each local jurisdiction of its appropriations limit; and

WHEREAS, the voters approved the Traffic Congestion Relief and Spending Limitation Act (Proposition 111) on June 5, 1990, amending Article XIII B of the Constitution of the State of California; and

WHEREAS, Chapter 60, Statutes of 1990 (SB 88) provides for the implementation of Proposition 111 by defining various terms used in the Article and prescribing procedures to be used in implementing the amendments to the Article; and

WHEREAS, the required computations to determine the appropriations limit for Fiscal Year 2019-20 have been performed by the Department of Administrative Services, are on file with the Office of the City Clerk, and are available for public review; and

WHEREAS, these computations are provided in Exhibit A, which is incorporated herein by reference and attached hereto.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SIMI VALLEY DOES RESOLVE AS FOLLOWS:

SECTION 1. The Appropriations Limit for the City of Simi Valley for Fiscal Year 2019-20 is \$79,727,227.

SECTION 2. The adjustment factors for the City's Appropriations Limit are the increase in the City of Simi Valley population and the change in California per capita personal income.

SECTION 3. The City Clerk shall certify to the adoption of this resolution and shall cause a certified resolution to be filed in the Office of the City Clerk.

PASSED and ADOPTED this 3<sup>rd</sup> day of June 2019.

**Attest:**

\_\_\_\_\_  
Ky Spangler, City Clerk

\_\_\_\_\_  
Keith L. Mashburn, Mayor of the City of  
Simi Valley, California

**Approved as to Form:**

**Approved as to Content:**

\_\_\_\_\_  
Lonnie J. Eldridge, City Attorney

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Brian P. Gabler, Interim City Manager

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Joseph D. Toney  
Administrative Services Director

**CITY OF SIMI VALLEY  
COMPUTATION OF FY 2019-20 APPROPRIATIONS LIMIT**

FY 2018-19 Appropriations Limit	\$76,595,354
Change in Per Capita Income *	3.85%
(Change in Non-Residential Assessed Valuation Not Available)	
Change in City Population*	0.23%
(Change in City Population = 0.23%)	
Cumulative Compound Change Factor	
(1.0385 X 1.0023)	1.04088855
FY 2019-20 Appropriations Limit	<u><u>\$79,727,227</u></u>

\* SOURCE: State of California, Department of Finance, Price and Population Factors - May 2019



**CITY OF SIMI VALLEY  
COMPARISON OF PROPOSED BUDGET  
TO APPROPRIATIONS LIMIT**

<b>FY 2019-20 Total Tax Proceeds of All Funds Subject to Limit (From Attachment B)</b>	<b>\$76,944,003</b>
Less: Non-Tax Proceeds (From Attachment B)	<u>(13,820,900)</u>
 FY 2019-20 Proceeds of Taxes	 63,123,103
Less: Qualified Capital Outlay Projects (From Attachment C)	0
Less: Federal Mandates (From Attachment D)	<u>(528,412)</u>
 FY 2019-20 Net Proceeds of Taxes Subject to the Limit	 <b>62,594,691</b>
Less: FY 2019-20 Appropriations Limit (From Exhibit A)	<u>(79,727,227)</u>
 <b>Budget Appropriations Over/(Under) the Limit</b>	 <b><u>(\$17,132,536)</u></b>

**CITY OF SIMI VALLEY  
CALCULATION OF PROCEEDS OF TAXES SUBJECT TO FY 2019-20 LIMIT**

	Total	Tax Proceeds	Percent Of Total	Non-Tax Proceeds	Percent Of Total	Notes
<b>GENERAL FUND:</b>						
Taxes and Franchises	\$60,940,175	\$56,340,175		\$4,600,000		1
Licenses and Permits	2,462,000	0		2,462,000		
Fines and Forfeitures	690,800	0		690,800	1%	
Leases and Rentals	264,900	0		264,900		
From Other Governments	252,100	193,000		59,100		2
Grants	181,400	0		181,400		
Service Charges	2,644,100	0		2,644,100		
Other Revenues	2,602,300	0		2,602,300		
Transfers In	4,008,874	3,919,374		89,500		
<b>Subtotal</b>	<b>74,046,649</b>	<b>60,452,549</b>	<b>81.64%</b>	<b>13,594,100</b>	<b>18.36%</b>	
Interest (from Attachment E)	549,600	444,800		104,800		3
<b>Total General Fund</b>	<b>74,596,249</b>	<b>60,897,349</b>		<b>13,698,900</b>		
<b>LIBRARY FUND:</b>						
Taxes and Franchises	\$ 2,225,754	\$ 2,225,754		\$ -		
Licenses and Permits	-	-		-		
Fines and Forfeitures	45,000	-		45,000		
Leases and Rentals	4,000	-		4,000		
From Other Governments	-	-		-		
Grants	-	-		-		
Service Charges	5,000	-		5,000		
Other Revenues	68,000	-		68,000		
Transfers In	-	-		-		
<b>Subtotal</b>	<b>\$ 2,347,754</b>	<b>\$ 2,225,754</b>	<b>95%</b>	<b>\$ 122,000</b>	<b>5%</b>	
Interest (from Attachment E)	0	0		0		
<b>Total Library Fund</b>	<b>\$ 2,347,754</b>	<b>\$ 2,225,754</b>		<b>\$ 122,000</b>		
<b>TOTAL ALL FUNDS SUBJECT TO THE LIMIT</b>	<b>\$76,944,003</b>	<b>\$63,123,103</b>		<b>\$13,820,900</b>		

## Notes:

- 1 All tax revenues have been classified as proceeds of taxes with the exception of Franchise
- 2 All Funds From Other Governments have been classified as tax proceeds with the exception of Peace Officers Standardized Training (P.O.S.T.) and Unfunded Mandates (SB 90)
- 3 Interest Earnings have been prorated between tax and non-tax proceeds based on the relative share that total tax and non-tax revenues bear to total fund revenues.

**CITY OF SIMI VALLEY  
IDENTIFICATION OF QUALIFIED FY 2019-20 CAPITAL OUTLAY PROJECTS**

Total General Fund Appropriations	Appropriation of Tax Proceeds	Appropriation of Non-Tax Proceeds
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\$0	\$0	\$0
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Total General Fund Projects	0	0	0
<b>TOTAL QUALIFIED CAPITAL OUTLAY PROJECTS</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Notes:

There are no new General Fund Appropriations in FY 2019-20 capital projects.

**FEDERAL MANDATE - MEDICARE/SOCIAL SECURITY CALCULATION**

	Total Medicare/SS	Tax Proceeds	Non-Tax Proceeds
General Fund	\$645,290	\$526,800	\$118,490
Transit	47,900	-	47,900
Library Fund	1,700	1,612	88
<b>Total</b>	<b>\$694,890</b>	<b>\$528,412</b>	<b>\$166,478</b>

Notes:

Medicare/Social Security appropriations have been allocated based on the relationship between tax and non-tax proceeds for total General Fund Revenues, exclusive of interest earnings (81.64% to 18.36%).

**CITY OF SIMI VALLEY  
INTEREST EARNINGS PRODUCED BY TAXES**

GENERAL FUND

1. Non-Interest Tax Proceeds (from Attachment B)	\$60,452,549
2. Less Exclusions:	
Capital Projects (from Attachment C)	0
Federal Mandates (from Attachment D)	(528,412)
3. Net Invested Taxes (Item 1 - Item 2)	59,924,137
4. Total Non-Interest Budget (from Attachment B)	74,046,649
5. Tax Proceeds as Percent of Budget (Item 3 / Item 4)	80.93%
6. Interest Earnings (Budgeted Amount)	549,600
7. Amount of Interest Earned From Taxes (Item 5 x Item 6)	444,800
8. Amount of Interest Earned from Non-Taxes (Item 6 - Item 7)	104,800

LIBRARY FUND

1. Non-Interest Tax Proceeds (from Attachment B)	\$ 2,225,754
2. Less Exclusions:	
Capital Projects (from Attachment C)	-
Federal Mandates (from Attachment D)	(1,612)
3. Net Invested Taxes (Item 1 - Item 2)	2,224,142
4. Total Non-Interest Budget (from Attachment B)	2,347,754
5. Tax Proceeds as Percent of Budget (Item 3 / Item 4)	95%
6. Interest Earnings (Budgeted Amount)	-
7. Amount of Interest Earned From Taxes (Item 5 x Item 6)	-
8. Amount of Interest Earned from Non-Taxes (Item 6 - Item 7)	-