



CITY COUNCIL AGENDA REPORT

MEETING DATE: 6/20/2023

DEPARTMENT: Finance

SUBJECT:

CALIFORNIA CONSITUTION ARTICLE XIIIB APPROPRIATIONS LIMIT

RECOMMENDED ACTION(S):

Adopt a Resolution entitled: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE FOREST, CALIFORNIA, APPROVING THE APPROPRIATIONS LIMIT FOR FISCAL YEAR 2023-24 IN THE AMOUNT OF \$160,113,982

EXECUTIVE SUMMARY:

The Fiscal Year 2023-24 appropriations limit is \$160,113,982 based on the calculation method traditionally used by the City; the limit will remain significantly above appropriations in the proposed budget subject to the limit. These appropriations are derived from the City's "proceeds from taxes," less eligible exclusions, such as unfunded mandates and qualified capital outlay. The factors used in the calculation of the limit were the growth in the City's population and the change in California per capita income.

BACKGROUND:

The appropriations limit imposed by Proposition 4, known commonly as the "Gann Limit" and its subsequent ballot initiative (Proposition 111), create a restriction on the amount of revenue which can be appropriated by the City in any fiscal year. The limit is based on actual appropriations during the 1978-79 Fiscal Year and is increased each year using growth of population and inflation factors. For cities that incorporated after Fiscal Year 1978-79, the initial limit is set pursuant to legislation that implemented Propositions 4 and 111. The controlling statute that governs this appropriations limit is Article XIIIB of the California State Constitution.

DISCUSSION:

Staff calculated the Fiscal Year 2023-24 appropriations limit based on uniform guidelines consistent with State law prepared by the League of California Cities.

The City uses these guidelines each year. By law, the City Council is required to adopt the appropriations limit by resolution.

Adjustment Factors

Using the guidelines, staff computed the appropriations limit for Fiscal Year 2023-24 by applying two adjustment factors for the prior year's limit: inflation and population. Staff selected and calculated these factors independently of each other to arrive at the City's new appropriations limit for the upcoming fiscal year.

Inflation

The City can select either the percentage change in the California per capita personal income or the percentage change in assessed valuation due to non-residential new construction. For Fiscal Year 2023-24, the California per capita personal income change factor is 4.44%. The assessed valuation factor based on non-residential new construction as a percentage of the total value increases was 1.73%. The adjustment used in calculating the Fiscal Year 2023-24 appropriations limit was the change in per capita personal income.

Population

Each year, the City selects either the City's population growth or population growth in the entire County of Orange. For the Fiscal Year 2023-24 calculation, staff selected the City's population growth (0.41% versus -0.46% for the County). This factor selection may change in future years if the County's population grows at a higher rate than the City's.

Appropriations Limit for Fiscal Year 2023-24

In preparing the appropriations limit calculation, staff used the amounts contained in the proposed 2023-2025 Operating Budget for Fiscal Year 2023-24. Based on selected components of the two adjustment factors and the previous year's limit, the appropriations limit for Fiscal Year 2023-24 is \$160,113,982. The City's appropriations subject to the limit are \$51,984,194. These appropriations are derived from the City's "proceeds from taxes" less eligible exclusions, such as unfunded mandates and qualified capital outlay. The City's appropriations limit continues to be significantly in excess of annual appropriations subject to the limit.

FISCAL IMPACT:

There is no fiscal impact associated with the recommended action.

ATTACHMENTS:

Draft Resolution 2023-~~XX~~ Approving Appropriations Limit for Fiscal Year 2023-24

Initiated By: Amy Lewis, Assistant Director of Finance

Submitted By: Kevin Shirah, Director of Finance/City Treasurer

Approved By: Debra Rose, City Manager