


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: William M. Mushallo, Admin. Services Director/City Treasurer
DATE: July 20, 2010
SUBJECT: Appropriations limit for Fiscal Year 20010-11 Budget

APPROVAL FOR FORWARDING:


William C. Norton, Interim City Manager

ISSUE: To consider a Resolution adopting the 2010-11 appropriation limit.

RECOMMENDATION: To adopt Resolution.

BACKGROUND:

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State law requires the City to set an appropriation limit. The limit is based on appropriations (formal authorization by the City Council to spend funds) only from proceeds of taxes, as defined by the law and statewide reporting guidelines. The appropriations limit amount is increased each year by a formula that uses a combination of percent changes in the Statewide Per Capita Income (PCI), City or County Population and Non-residential assessed valuation.

In November 1979, the people of California added Article XIII-B to the State Constitution, which placed limitations on the appropriations of State and local governments. In June 1990, the people approved Proposition 111, which, among other things, amended the Article XIII-B. The amendment created a new base year of FY 86-87, allowed annual increases based on the City or County population growth and assessed valuation growth of non-residential property, provides for exclusion of capital expenditures over \$100,000 and requires an annual independent auditor review of the calculations. Statewide reporting guidelines were developed to define and implement the changes and establish the annual audit requirements.

The City's appropriation limit and the appropriations subject to limit are calculated based on the statewide reporting guidelines and are reviewed by the independent auditor for compliance with the State law and guidelines. The

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28 appropriations limit has increased significantly since 1987 by applying the higher
29 of County or City population growth rates and the percentage of non-residential
30 assessed valuation growth. The State Department of Finance provides the PCI
31 and population growth rates. The County Assessor provided the non-residential
32 assessed valuation information.

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34 In reviewing the statewide reporting guidelines and best practices in other Cities,
35 it has become practice in recent years to perform a year end update of the
36 appropriations subject to limit. This is done to determine if there have been any
37 significant changes in appropriations from the initial budget adoption.

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39 **FY 10-11 Appropriations Limit**

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41 The Fiscal Year 09-10 appropriations limit for the City was \$10,811,821 and the
42 limit for Fiscal Year 10-11 is \$10,091,754. This limit decreased from the prior
43 year primarily due to a decrease in the assessed valuation change of property
44 values.

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46 The Fiscal Year 10-11 appropriations of \$4,968,111 are the portion that is funded
47 from proceeds of taxes and are subject to the limit. This amount is \$5,123,643 or
48 51% under the appropriation limit.

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50 It is not unusual for cities to be significantly under the appropriations limit since
51 the State law was amended in 1990 to allow for more flexible annual adjustments
52 to the limit calculations.

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54 **FISCAL IMPACT:**

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56 None, since the Appropriations Limit is higher than the Appropriations subject to
57 Limit.

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59 **ATTACHMENTS:**

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- 61 1. Resolution adopting Appropriations Limit for FY 10-11.
- 62 2. Summary of Appropriations History and Regulations

Summary of Appropriations History and Regulations

State law requires the City to set an appropriation limit for each fiscal year. Only certain annual City budget appropriations from proceeds of taxes, as defined by the law and accepted statewide guidelines, are subject to the limit.

The appropriations limit amount is increased each year by a formula that uses a combination of percent changes in Consumer Price Index (CPI), Statewide Per Capita Income (PCI), City or County Population and Non-residential assessed valuation.

In November 1979, the people of California added Article XIII-B to the State Constitution, which placed limitations on the appropriations of State and local governments. The Article was implemented by State Legislation that defined the process to calculate the appropriations limit and require that cities adopted a resolution setting an annual appropriations limit. The base year was set as FY 78-79 and the first appropriations limit was applied to the FY 80-81 Budget.

In June 1990, the people approved Proposition 111, which, among other things, amended the Article XIII-B. The amendment made significant changes to how the limits were calculated what appropriations were subject to the limit and added City Council resolution and independent audit requirements. Guidelines were developed by the League of California Cities to define and implement the changes and establish the annual audit requirements. These Guidelines have been accepted statewide for the implementation of Article XIII-B. The 1990 changes included:

- Adjusted the appropriations limit of back to FY 86-87 based on the new criteria
- Eliminated use of the Consumer Price Index and allowed annual increases based on State Per Capita Income or assessed valuation growth of non-residential property
- Provided for the use of either the annual City or County population growth, whichever was higher
- Added exclusion of appropriations for certain capital expenditures over \$100,000 or the related debt payments
- Required annual adoption of the appropriations limit and other criteria for the adopted budget by City Council resolution, and
- Required an annual independent auditor review of the calculations

Adoption of the appropriations limit has been determined to be a legislative act of the City Council and the limit can be adjusted or updated to correct previous errors in calculations or reflect new appropriations. Generally, the required resolution is adopted with or just after the annual budget resolution and reflects the amounts from the adopted budget. Current practice is to provide an update to the appropriations limit of prior years with the actual final appropriations to insure that the City did not exceed the appropriations limit.

87 **Summary of Appropriations History and Regulations Continued:**

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89 **There are no penalties under Article XIII-B for failure to adopt a limit.**
90 **Compliance with the law is intended to be locally enforced by citizens. The State**
91 **Government Code limits challenges in civil court to the appropriations limit**
92 **calculation to a 45-day period after adoption.**

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94 **Under State law, if the portion of the City Budget that is subject to the**
95 **appropriations limit exceeds the limit, the City can carry over the excess amount**
96 **one year. If, after the second year, the City still exceeds the limit, including the**
97 **prior year carryover, the voters can approve a temporary override or the City**
98 **would need to refund the excess amount to the people by lowering taxes or fees**
99 **within two years.**

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101 **Redevelopment Agencies, Special Assessment Districts and Enterprise funds**
102 **are not subject to the provisions of Article XIII-B.**

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