



DATE: June 17, 2024

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Jessie Gooch, Finance Director
Janine Tedrow, Finance and Accounting Manager

SUBJECT: Resolution Adopting the Appropriations Limit for Fiscal Year 2024-2025 and Making the Annual Election for Adjustment Factors

RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution Adopting the Appropriations Limit for Fiscal Year 2024-2025 and Making the Annual Election for Adjustment Factors.

BACKGROUND

In November 1979, California voters added Article XIII-B to the California State Constitution, which placed limitations on the appropriations of State and local governments. The Article defined the process to calculate the appropriations limit and required cities to adopt resolutions establishing the annual appropriations limits. Article XIII-B was amended in June 1990, by Proposition 111. The amendment created the new base year of FY 1986-1987, and allowed annual increases based on factors comprised of the change in population combined with either the change in California per-capita personal income or with the change in the local assessment roll due to local non-residential construction. Selection of one or the other of these two latter factors is at the City's election. It also provided for the exclusion of qualified capital expenditures and required independent auditor review of the calculations. The City of Petaluma has complied with all applicable laws and regulations regarding the appropriation limit requirements including auditor reviews.

DISCUSSION

The City of Petaluma's appropriations limit has increased significantly since 1987 by applying the allowable factors as outlined above. Under the provisions of California State law, the City is required to establish an Annual Appropriations Limit commonly referred to as the "Gann Limit." As is also required, detailed worksheets are provided showing the appropriations limit calculations. These worksheets are available for public review and inspection at the City Clerk's

office. The limit amount may be adjusted by the City each year by applying the annual adjustment factors of “Per Capita Income” and “Population” changes as provided by the California State Department of Finance (Exhibit B). The Limit for Fiscal Year 2024-2025 has been calculated by using the changes in per-capita personal income and population as the factors to adjust the appropriations limit. The change in per-capita income was 3.62% combined with the change in the City’s population of -0.02%, resulting in a calculated factor of 3.6%. This increase adjusts the appropriations limit upwards from \$192,702,129 in FY 2023-2024 to \$199,638,010 for Fiscal Year 2024-2025, an increase of \$6,935,881. The Fiscal Year 2024-2025 appropriations that are subject to the limit are calculated to be \$69,738,854. Only the proceeds of taxes are subject to the limit. Other revenues earned by the General and certain Special Revenue Funds are excluded from the limit as non-proceeds of taxes.

PUBLIC OUTREACH

This agenda item appeared on a tentative agenda in the previously published agenda packet, which was publicly noticed through all appropriate City communications channels.

ENVIRONMENTAL REVIEW

Adopting the appropriations limit for the fiscal year and making the annual election for adjustment factors is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15378, as adopting the budget for a fiscal year does not meet CEQA's definition of a “project,” because the action does not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, it is a fiscal activity which does not involve commitment to any specific project, and because the action constitutes organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

FINANCIAL IMPACTS

The appropriations limit has never been a factor in considering the City’s annual budget. Currently, the City is spending \$129,899,156 less than the appropriations limit of \$199,638,010. The total FY 2024-2025 appropriations subject to the limit are \$69,738,854 (Proceeds of Taxes). Examples of proceeds of taxes are Property Taxes, Sales Taxes, TOT Taxes, Business License Taxes, Motor Vehicle In Lieu of Taxes etc. These taxes are accounted for in the General and various Special Revenue Funds.

ATTACHMENTS

1. Resolution Adopting the Appropriations Limit for Fiscal Year 2024-2025 and Making the Annual Election for Adjustment Factors
Exhibit A - Appropriations Limit Calculations – Worksheets
Exhibit B - California State Department of Finance Price (Per Capita Income) and Population Computations and Information