



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

BY: Lynda Horejsi, Accounting Manager

SUBJECT: Consider Approval of Fiscal Year 2024-25 Appropriation Limit

DATE: June 11, 2024

RECOMMENDATION:

- 1) Adopt a Resolution adopting a tax proceeds expenditure appropriation limit for Fiscal Year 2024-2025; and
- 2) Determine that establishing the appropriation limit for FY 2024-25 is not a project subject to the California Environmental Quality Act ("CEQA") because it has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (b)(2)-(3), 15378.)

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

There are no significant fiscal or personnel impacts associated with approval of the appropriation limit.

BACKGROUND:

Proposition 4, known as the Gann Initiative, was approved by California voters in 1979, adding Article XIII B to the California Constitution. This Article established an annual limit (Gann Limit) on the appropriations of tax proceeds for government agencies. In 1990, the article was modified by Proposition 111 and SB 88, which included new adjustment formulas that allow cities a choice in methodologies for determining both the annual growth and inflation factors. The annual population growth factor can be calculated by using the greater of the City of Arroyo Grande or County population growth. Agencies have a choice of using the growth in California per capita personal income, or the growth in non-residential assessed valuation due to new construction within their city. In May 2024, the California Department of Finance released population and per capita personal income information. The population between January 2023 and January 2024 for the City decreased by a half-percent (-0.5%) and the County population decreased by an eight-thousandths of a percent (-0.08%). For FY 2024-25, the change in per capita personal income from the prior year increased by three point sixty-two percent (3.62%).

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In accordance with Proposition 111, the City's annual spending limit must be approved by the City Council at the beginning of each fiscal year. The limit is calculated using the previous year's appropriation limit (\$27,890,501), multiplied by the per capita personal income percentage increase (3.62%), and multiplied again by the greater available population growth factor, which for FY 2024-25 is the City's -0.5%.

ANALYSIS OF ISSUES:

The City is responsible for separating citywide revenues between tax and non-tax revenue and applying the formula to the cumulative appropriation limit. For FY 2024-25, the appropriation limit has been calculated to be \$28,875,036. This calculation means the City cannot appropriate more than \$28,875,036 of tax-based revenues in FY 2024-25. The estimated proceeds of taxes subject to appropriation limit for the proposed FY 2024-25 budget is estimated to be \$20,577,352, which is approximately \$8.3 million less than the appropriation limit. Therefore, the City is in compliance with Article XIII B of the California Constitution.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Adopt a Resolution establishing the appropriation limit for FY 2024-25; or
2. Revise and adopt a Resolution establishing the appropriation limit for FY 2024-25;
or
3. Provide other direction to staff.

ADVANTAGES:

Adoption of the Resolution establishing the appropriation limit for FY 2024-25 will ensure that the City is in compliance with Article XIII B of the California Constitution.

DISADVANTAGES:

There are no disadvantages identified with the recommended action.

ENVIRONMENTAL REVIEW:

Establishing the appropriation limit for FY 2024-25 is not a project subject to the California Environmental Quality Act ("CEQA") because it has no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (b)(2)-(3), 15378.)

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

ATTACHMENTS:

1. Proposed Resolution