



## MEMORANDUM

**TO:** City Council

**FROM:** Nicole Valentine, Administrative Services Director

**BY:** Lynda Horejsi, Accounting Manager

**SUBJECT:** Consideration of Approval of Fiscal Year 2023-24 Appropriation Limit

**DATE:** June 27, 2023

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### **SUMMARY OF ACTION:**

Calculating the appropriation limit from tax proceeds is required annually by Propositions 4 and 111, and Government Code section 7900 et seq. Adoption of a Resolution establishing the appropriation limit from tax proceeds for Fiscal Year (FY) 2023-24 will ensure compliance with these requirements.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

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

### **RECOMMENDATION:**

1) Adopt a Resolution establishing the appropriation limit from tax proceeds for FY 2023-24; and 2) Determine that the adoption of the resolution 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.)

### **BACKGROUND:**

Proposition 4, known as the Gann Initiative, was approved by California voters in 1979 adding Article XIII B to the State 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. Proposition 111 included new adjustment formulas allowing 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

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in non-residential assessed valuation due to new construction within the City of Arroyo Grande. In May 2023, the California Department of Finance released population and per capita personal income information. The population between January 2022 and January 2023 for the City decreased by one point two percent (-1.2%) and the County population decreased by a half-percent (-0.5%). For FY 2023-24, the change in per capita personal income from the prior year increased by four point forty-four percent (4.44%).

In accordance with Proposition 111, the City's annual spending limit must be approved by Council at the beginning of each fiscal year. The limit is calculated using the previous year's appropriation limit (\$26,838,434) multiplied by the per capita personal income percentage increase (4.44%) and multiplied again by the greater available population growth factor, which for FY 2023-24 is the County'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 Fiscal Year 2023-24, the appropriation limit has been calculated to be \$27,890,501. This calculation means the City cannot appropriate more than \$27,890,501 of tax-based revenues in FY 2023-24. The estimated proceeds of taxes subject to appropriation limit for the proposed 2023-24 fiscal year budget is estimated to be \$19,991,979, which is approximately \$7.9 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 2023-24; or
2. Revise and adopt a Resolution establishing the appropriation limit for FY 2023-24;  
or
3. Provide other direction to staff.

**ADVANTAGES:**

Adoption of the Resolution establishing the appropriation limit for FY 2023-24 will ensure that the City is in compliance with Propositions 4 and 111 and Government Code section 7900 et seq.

**DISADVANTAGES:**

There are no disadvantages identified with the recommended action.

**ENVIRONMENTAL REVIEW:**

The Resolution establishing the appropriation limit for FR 2023-24 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.)

**Item 9.b.**

**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