



## COUNTY OF SONOMA

575 ADMINISTRATION  
DRIVE, ROOM 102A  
SANTA ROSA, CA 95403

### SUMMARY REPORT

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**Agenda Date:** 6/11/2019

**To:** Board of Supervisors; Board of Directors of the Agricultural Preservation and Open Space District; Board of Directors of the Sonoma County Water Agency

**Department or Agency Name(s):** County Administrator's Office

**Staff Name and Phone Number:** Peter Bruland, 707-565-3086

**Vote Requirement:** Majority

**Supervisorial District(s):** All

**Title:**

Fiscal Year 2018-19 Appropriations Limit

**Recommended Actions:**

Adopt a Concurrent Resolution establishing Fiscal Year 2018-19 appropriations limits for the County and Board of Supervisors-Governed Special Districts, County Service Areas, Sonoma County Agricultural Preservation and Open Space District, and Sonoma County Water Agency.

**Executive Summary:**

This item details the FY 2018-19 Appropriations Limit calculations for the County of Sonoma and Board of Supervisors-governed special districts and agencies.

In accordance with the California Constitution, the County's appropriations limit specifies the maximum amount of tax revenue it is allowed to appropriate within a given fiscal year. This requirement was put into the Constitution by Proposition 4, with the aim of ensuring the fiscal responsibility of State and Local government entities in California. The County's FY 2018-19 Proposition 4 Appropriation Limit capacity is \$659.5 million, which is \$359.5 million more than the County's revised budget revenues of \$300.0 million that are subject to the limit. Notice of establishing the FY 2018-19 Appropriation Limits was published May 24, 2019 in the Santa Rosa Press Democrat. The documentation and supporting materials to establish the limit have been available for public review since May 24, 2019 at the County Administrator's Office. Pursuant to Article XIII-B of the California Constitution, and Section 7910 of the Government Code, the attached resolution formally establishes the appropriation limits, and includes notice of the appropriate period of judicial review.

**Discussion:**

**Background**

On November 6, 1979, voters approved the Gann Spending Limitation (Proposition 4), which established Article XIII-B of the State Constitution. Article XIII-B sets limits on the amount of tax revenues the State and most local governments can appropriate within a given fiscal year. The Gann Limit does not apply to the entire County budget. The limit only applies to appropriations from proceeds of taxes from both the general fund and special funds of government entities, which includes: (1) property, sales, transient occupancy, and other tax revenues; (2) interest earnings on invested tax revenues; and (3) any revenues collected by a regulatory license fee or user charge *in excess* of the amount needed to cover the cost of providing that regulation,

product, or service. Further refined by Propositions 98 and 99 in 1988, and Proposition 111 in 1990, Article XIII-B provides that appropriation limits are to be established annually by each governmental entity in accordance with the constitutional amendments and enabling state legislation. Current appropriation limits are generally based upon actual revenue appropriations during the initial base year of FY 1986-87 (per Prop 111), and adjusted annually thereafter to account for California per capita cost of living increases, and year-over-year population growth as published by the California State Department of Finance.

The limits for Fiscal Year 2018-19 must be adopted for County government and those Board of Supervisors-governed special districts and County service areas that had a property tax rate of 12.5 cents or more per \$100 of assessed valuation in 1977-78. Appropriations from non-tax revenues and proceeds are excluded from the limit, such as: Federal funds, charges for services, regulatory fees, grants, loans, and donations. Exemptions are also made for voter-approved debt, debt that existed as of January 1, 1979, and the cost of compliance with court or Federal government mandates.

Of particular note, Proposition 111 (The Traffic Congestion Relief and Spending Limitation Act of 1990) amended Article XIII-B to allow for funding congestion relief, mass transit, health care, services for the elderly, and other priority programs, while still providing an overall limit on state and local spending. Proposition 111 changed the previous Constitutional cost-of-living and population factors for both the state and local appropriations limits, and added new exclusions from the appropriations limit. However, none of the exclusions allowed by Proposition 111 were employed in the County's calculation for FY 2018-19, as total revenues appropriations are far below the new limit.

In general, the County may not exceed the appropriation limit adopted today. However, in the event of a declared emergency, the appropriation limit may be increased. Voters of a jurisdiction may also authorize a temporary increase in the Appropriations Limit, not to exceed a period of four years, at which point the limit would revert to what it would otherwise have been. If revenues exceed the adopted appropriation limit for two consecutive fiscal years, the County would return the excess through a revision of the tax rates in the two subsequent fiscal years. Based on the FY 2018-19 appropriation limit capacity, which exceeds projected applicable revenues by \$359.5 million, it is unlikely that this situation would occur for the County in the near future.

### **Fiscal Year 2018-19 Calculations**

Pursuant to Article XIII-B and Government Code section §7900, et seq., the Fiscal Year 2017-18 Appropriations Limit will be established by adjusting the Fiscal Year 2017-18 Appropriations Limit for (a) population growth, (b) per capita income change, and (c) the transfers of financial responsibility described below.

#### **A. Proposition 111 - Factors for Limit Calculation**

The California State Department of Finance sends to local governments an annual letter providing an estimate of the percent change in population and change in the per capita personal income, which are both used to calculate each local government's appropriation limit. The Department's letter dated May 2018 provides key factors to adjust the FY 2018-19 spending limit (refer to Resolution Exhibit A). According to the letter, the following percentages can be utilized in computing the appropriations limits for the County and special districts governed by the Board of Supervisors:

Table 1: Appropriation Limit Change Factors

<b>Total County Population Change Factor</b>	<b>Sonoma County Plus Contiguous County Population Change Factor</b>	<b>County Incorporated Population Change Factor</b>	<b>California Per Capita Personal Income Factor</b>
(0.22)%	0.21%	1.22%	3.67%

**B. County Appropriation Limit Calculation**

Per Government Code §7901, a county may choose to use the change in population from any one of the following: (1) the change in population within its jurisdiction; (2) the change in population within its jurisdiction, combined with the change in population within all counties having borders that are contiguous to that county; or (3) the change in population within the incorporated portion of the county. Sonoma County typically uses the highest of the three factors in order to provide maximum appropriation flexibility. The FY 2018-19 limit adjustment is thus the combination of the income factor change of 3.67%, and the most favorable population percentage change available.

Of the three population change factors, the most favorable percentage was 1.22%, equal to the change in population within the incorporated portion of Sonoma County. The income and population factors are combined to provide a single limit adjustment factor, as follows:

1.0367 (Income Factor) x 1.0122 (Population Factor) = **1.0493** (Appropriation Limit Adjustment Factor)

Applying the adjustment factor above to the FY 2017-18 fiscal year limit results in the following FY 2018-19 Appropriations Limit calculated in Table 2:

Table 2: FY 2018-19 County Appropriation Limit Calculation

<b>Description</b>	<b>Amount</b>
FY 2017-18 Appropriations Limit (exclusive of Refuse Disposal and Transit Adjustments)	\$624,760,692
Multiplied by the FY 2018-19 Adjustment Factor	1.0493
<b>FY 2018-19 Base Limit (Prior to Adjustments)</b>	<b>\$655,561,394</b>
<b>Less:</b> Reduction of Tax Support for Refuse Disposal	\$(647,046)
<b>Plus:</b> Limit increase per the Agreement for Transit Services between the County and local municipalities for FY 2018-19	\$4,586,693
<b>FY 2018-19 Appropriations Limit</b>	<b>\$659,501,041</b>

**C. Appropriation Limit Adjustments**

As noted in Table 2, the first adjustment decreasing the FY 2017-18 limit is due to the reduction of tax support for refuse disposal operations. The Constitution and enabling state legislation requires that if tax support of a

service is reduced, and fees are increased to offset the reduction of tax support, the limit must be decreased by an equivalent amount. Historically, the County provided \$647,046 of tax support for refuse disposal, until FY 1987-88, when tax support for refuse disposal was terminated. Because refuse disposal operations are now funded by fees and not tax proceeds, the appropriations limit must be manually adjusted each year to remove the fixed \$647,046 amount.

The second adjustment cited in Table 2 increases the appropriation limit pursuant to the FY 2018-19 agreement for transit services between the County and cities in Sonoma County, based on the summary of the coordinated claim approved by the Board of Supervisors on May 22, 2018. Refer to Resolution Exhibit B for details. The total appropriation adjustment of \$4,586,693 is derived by summing the following amounts in Section III of the transit claim, titled "Summary of TDA Fund Activity":

Table 3: FY 2018-19 Transit Claim Adjustment Components

<b>Adjustments for City Allocations Claimed by the County</b>	<b>Amount</b>
FY 2018-19 Cities' Contributions to Sonoma County Transit	\$2,355,446
FY 2018-19 Contract Services	\$1,364,502
FY 2018-19 Cities' Contributions to Sonoma County Paratransit	\$866,745
<b>Total</b>	<b>\$4,586,693</b>

The limit transfer from the cities allows the County to provide transit services to other jurisdictions without adversely impacting its available appropriation limit for provision of other tax-supported activities. This adjustment is made in accordance with Article XIII-B, Section 3, of the State Constitution.

#### **D. District Appropriations Limit Calculation**

The appropriation limit calculation for special districts and other governmental entities under the financial/budgetary control of the Board of Supervisors uses the overall county population factor of (0.22)%, and the California per capita personal income factor of 3.67% cited in Table 1 of this report. These two factors are combined to provide a single limit adjustment factor in the following manner:

$$1.0367 \text{ (Income Factor)} \times 0.9978 \text{ (Population Factor)} = \mathbf{1.0344} \text{ (Appropriation Limit Adjustment Factor)}$$

The 1.0344, or 3.44%, factor is then multiplied by the approved FY 2017-18 limits for each district in order to establish their respective FY 2018-19 appropriations limits. The full list of new district limits is included in the resolution for the Board's review. The total combined Proposition 4 appropriation limit capacity for all twelve Board Special Districts is \$84.5 million, which is \$33.8 million higher than the Special Districts' aggregate FY 2017-18 revised budget revenues of \$50.1 million that are subject to the limit. For each of the twelve special districts, revenue appropriations subject to the Gann limit are between 16% and 86% below their respective limits.

#### **Prior Board Actions:**

The Board of Supervisors adopts the appropriation limit annually.

**FISCAL SUMMARY**

<b>Expenditures</b>	<b>FY 18-19 Adopted</b>	<b>FY19-20 Projected</b>	<b>FY 20-21 Projected</b>
Budgeted Expenses			
Additional Appropriation Requested			
<b>Total Expenditures</b>			
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
Contingencies			
<b>Total Sources</b>			

**Narrative Explanation of Fiscal Impacts:**

There is no fiscal impact to this item.

<b>Staffing Impacts:</b>			
<b>Position Title (Payroll)</b>	<b>Monthly Salary Range (A - I Step)</b>	<b>Additions (number)</b>	<b>Deletions (number)</b>

**Narrative Explanation of Staffing Impacts (If Required):**

N/A

**Attachments:**

Board of Supervisors Concurrent Resolution

Exhibit A - Department of Finance Letter re: Price Factor and Population Information, dated May 2018

Exhibit B - Sonoma County TDA Coordinated Claim Fiscal Year 2018-19

Exhibit C - Notice of Fiscal Year 2018-19 Appropriation Limit Adoption

**Related Items "On File" with the Clerk of the Board:**

None