



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 10/22/2019

To: Board of Supervisors, Board of Directors of the Agricultural Preservation and Open Space

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

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

Vote Requirement: Majority

Supervisory District(s): All

Title:

Fiscal Year 2019-20 Appropriation's Limit

Recommended Action:

- A) Adopt a Concurrent Resolution establishing Fiscal Year 2019-20 appropriations limits for the County and Board of Supervisors-governed special districts, County Services Areas, and the Sonoma County Agricultural Preservation and Open Space District.
- B) Authorize the Chair to sign an agreement transferring \$63,703 of appropriation limit from County Service Area #40 to Sonoma County Fire Protection District, in line with the Property Tax Transfer Agreement approved by the Board of Supervisors on January 29, 2019.

Executive Summary:

This item details the Fiscal Year 2019-20 Appropriations Limit calculation for the County of Sonoma and various special districts and agencies governed by the Board of Supervisors.

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 2019-20 Proposition 4 Appropriation Limit capacity is \$676.2 million, which is \$358.5 million more than the County's revised budget revenues of \$317.7 million that are subject to the limit. Notice of establishing the FY 2019-20 Appropriation Limits was published October 7, 2019 in the Santa Rosa Press Democrat. The documentation and supporting materials to establish the limit have been available for public review since October 7, 2019 at the County Administrator's Office, at least 15 days prior to the date of the meeting. 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.

The limits are adjusted each year based on the California per capita Income factor and a population growth factor. While statewide per capita income increased by 3.85%, the population of the County actually declined slightly in the previous year, leading to a lower rate of increase of 3.78% for the appropriations limit. Details of the calculation appear in the Discussion section.

In addition to adopting the appropriations limit for the County, the Board of Supervisors also adopts appropriations limits for special districts under their governance, County Service Areas, and the Sonoma

County Agricultural Preservation and Open Space District. Since the last update, two sections of County Service Area #40 have been annexed into other special districts.

This item requests authorization for the Chair to sign an agreement with the Sonoma County Fire Protection District to transfer an appropriate share of the limit to that district. A similar agreement with Geyserville Fire Protection District has been signed by the County Administrative Officer under delegated authority.

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 2019-20 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 2019-20, 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 2019-20 appropriation limit capacity, which exceeds projected applicable revenues by \$358.5 million, it is unlikely that this situation would occur for the County in the near future.

Fiscal Year 2019-20 Calculations

Pursuant to Article XIII-B and Government Code section §7900, et seq., the Fiscal Year 2019-20 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 2019 provides key factors to adjust the FY 2019-20 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				
Year	Total County Population Change Factor	Sonoma County Plus Contiguous County Population Change Factor	County Incorporated Population Change Factor	California Per Capita Personal Income Factor
1-2018 to 1-2019	(0.40)%	(0.08)%	(0.07)%	3.85%

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 2019-20 limit adjustment is thus the combination of the income factor change of 3.85%, and the most favorable population percentage change available.

Of the three population change factors, the most favorable percentage was (0.07)%, 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:

$$1.0385 \text{ (Income Factor)} \times 0.9993 \text{ (Population Factor)} = \\ \mathbf{1.0378} \text{ (Appropriation Limit Adjustment Factor)}$$

Applying the adjustment factor above to the FY 2018-19 fiscal year limit results in the following FY 2019-20 Appropriations Limit calculated in Table 2:

Table 2: FY 2019-20 County Appropriation Limit Calculation	
Description	Amount
FY 2018-19 Appropriations Limit (exclusive of Refuse Disposal and Transit Adjustments)	\$647,252,077
Multiplied by the FY 2019-20 Adjustment Factor	1.0378
FY 2019-20 Base Limit (Prior to Adjustments)	\$671,718,206
Less: Reduction of Tax Support for Refuse Disposal	\$(647,046)
Plus: Limit increase per the Agreement for Transit Services between the County and local municipalities for FY 2019-20 (Board Action 5/14/19, Item #23).	\$5,099,979
FY 2019-20 Appropriations Limit	\$676,171,139

C. Appropriation Limit Adjustments

As noted in Table 2, the first adjustment decreasing the FY 2018-19 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 2019-20 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 14, 2019. Refer to Resolution Exhibit B for details. The total appropriation adjustment of \$5,099,979 is derived by summing the following amounts in Section III of the transit claim, titled "Summary of TDA Fund Activity":

Table 3: FY 2019-20 Transit Claim Adjustment Components	
Adjustments for City Allocations Claimed by the County	Amount
FY 2019-20 Cities' Contributions to Sonoma County Transit	\$2,459,031
FY 2019-20 Contract Services	\$1,610,163
FY 2019-20 Cities' Contributions to Sonoma County Paratransit	\$1,030,785
Total	\$4,099,979

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 (0.08)%,

and the California per capita personal income factor of 3.85% cited in Table 1 of this report. These two factors are combined to provide a single limit adjustment factor in the following manner:

$$1.0385 \text{ (Income Factor)} \times 0.9960 \text{ (Population Factor)} = \\ \mathbf{1.0343} \text{ (Appropriation Limit Adjustment Factor)}$$

The 1.0343, or 3.43%, factor is then multiplied by the approved FY 2018-19 limits for each district in order to establish their respective FY 2019-20 appropriations limits. The full list of new district limits is included in the resolution for the Board's review.

During the last fiscal year, two portions of County Service Area #40 were annexed which affect the calculation. During the spring of 2019, the Sonoma County Fire Protection District (SCFPD) annexed the area of the Mountain Volunteer Fire Company as part of its consolidation. While a tax exchange agreement was put in place and the SCFPD has been receiving associated tax revenue, an agreement is needed to exchange the share of appropriations limit. The proposed agreement (attached) calls for the transfer of \$63,703 of appropriations limit to the District. In addition, Geyserville Fire Protection District completed the annexation of the area served by Knights Valley Volunteer Fire Company in August, 2019. The tax share agreement approved by the Board in December, 2018 delegated authority for the County Administrator to sign an agreement to transfer appropriations limit. The agreement calls for the transfer of \$117,547 in appropriations limit for the portion of FY 2019-20 following the annexation. For FY 2020-21, this will rise to \$141,057, as no proration will apply. Follow these transfers, County Service Area #40 will have a limit of \$3,001,043, which is 19% above budgeted revenue subject to the limit.

The total combined Proposition 4 appropriation limit capacity for all twelve Board Special Districts is \$87.2 million, which is \$32.6 million higher than the Special Districts' aggregate FY 2019-20 revised budget revenues of \$54.6 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 84% below their respective limits.

Prior Board Actions:

Gann limits are adopted annually

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			

Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact of this item.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

Attachments:

Resolution

Exhibit A: Price Factor and Population Information

Exhibit B: TDA Coordinated Claim

Exhibit C: Notice

Agreement with Sonoma County Fire Protection District to Transfer Appropriations Limits

Related Items “On File” with the Clerk of the Board: