

FISCAL YEAR 2018-19 TAX APPROPRIATIONS LIMIT

Gann Limit Summary

In November 1979, California voters approved Proposition 4 (the Gann Initiative) and added Article XIII B to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIII B. This legislation required the governing body of each local jurisdiction in California to establish a Tax Appropriations Limit (also referred to as the GANN Limit) on or before June 30 of each year for the following fiscal year. The Tax Appropriations Limit is based on actual appropriations during the State of California fiscal year (FY) 1978-79 and adjusted each year using population and inflation adjustment factors.

On June 5, 1990, California voters approved Proposition 111, amending Article XIII B. Proposition 111 allows local jurisdictions to choose among measures of inflation and population growth to compute the adjustment factor. The measures for inflation (price factors) include growth in California per capita income or growth in the county's gross assessed valuation due to new non-residential construction; while measures for population growth include population growth within the county, county and contiguous counties or all cities within the county.

The proposed Tax Appropriations Limit for Humboldt County for FY 2018-19 is \$191,731,339. In accordance with Proposition 111 guidelines, the FY 2018-19 Tax Appropriations Limit was calculated by adjusting the prior year's Tax Appropriations Limit using the adjustment factors described in Government Code Section 7901. The alternative adjustment factors applicable to FY 2018-19 are shown on page two of the attached Gann Limit Calculations. The recommended adjustment factor was calculated using the price factor based on the percent change in State per capita income (3.67%) and the population factor based on the percent growth in the incorporated portion of the county (1.00%), resulting in an adjustment factor of 1.0367. The use of this adjustment factor results in a Tax Appropriations Limit for FY 2018-19 of \$191,731,339, or a 1.0367% increase over the FY 2017-18 Tax Appropriations Limit of \$184,947,494.

The Tax Appropriations Limit does not apply to all county revenues, or all General Fund revenues, but only to proceeds of taxes including property tax, sales tax, transient occupancy tax, and other local taxes. The following are excluded from the appropriations subject to limitations: costs required to comply with mandates of the courts or federal government; qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds \$100,000); and debt service costs for qualified capital projects. Other revenues, including fees, licenses and permits, rents and concessions, and inter-fund transfers are not subject to the limit. Charges for services or fees cannot exceed the cost of providing the regulation or service. Based on the Humboldt County FY 2018-19 Adopted Budget and adjustments made at First Quarter Budget Review to the Cannabis Excise Tax the proceeds of taxes subject to the Tax Appropriations Limit are projected to be \$90.6 million, as shown on page 3 of the attached. The adjusted appropriations are calculated to be \$87,933,660. The appropriations subject to the limit are estimated to be approximately \$104 million below the proposed limit of \$191,731,339.

GANN LIMIT CALCULATIONS

Fiscal Year 2018-19 Alternative Adjustment Factors & Calculation of Tax Appropriations Limit

Price Factor (A)

Percent growth in State Per Capita Personal Income.

(Source: California Dept. of Finance, Price Factor and Population letter dated May 2018)

Price Factor = 3.67000

Price Factor converted to Adjustment Factor = $(\text{price factor} + 100)/100$

Adjustment Factor (A) = 1.03670

Price Factor (B)

Percentage change in the local assessment roll from the preceding year due to the addition of local nonresidential new construction.

(Source: Humboldt County Assessor Report of Prop 111 values)

(a) Prior year total secured and unsecured assessment roll value = 12,705,378,491 FY 2016-17

(b) New nonresidential construction value = 16,005,795 FY 2017-18

Price Factor = b/a 0.00126

Price Factor converted to Adjustment Factor = $(\text{price factor} + 100)/100$

Adjustment Factor (B) = 1.00001

Population Factor (C)

Percent growth in population within the county combined with population growth in all counties having borders contiguous to the county.

(Source: California Dept. of Finance, Price Factor and Population letter dated May 2018)

Percent growth in counties population = (0.00181) From Population of Contiguous Counties

Population Factor converted to Adjustment Factor = $(\text{population factor} + 100)/100$

Adjustment Factor (C) = 0.99998

Population Factor (D)

Percent growth in population within the incorporated portion of the county.

(Source: California Dept. of Finance, Price Factor and Population letter dated May 2018)

Percent growth in cities population = (0.00194) From Population of Humboldt Cities

Population Factor converted to Adjustment Factor = $(\text{population factor} + 100)/100$

Adjustment Factor (D) = 0.99998

Fiscal Year 2018-19 Alternative Adjustment Factors & Calculation of Tax Appropriations Limit (continued)

Annual Adjustment Factors

Based on the actual data, the four alternative adjustment factors are as follows:

$$\begin{array}{l} A \times C = 1.03670 \times 0.99998 = 1.03668 \\ A \times D = 1.03670 \times 0.99998 = \underline{1.03668} \\ B \times C = 1.00001 \times 0.99998 = 0.99999 \\ B \times D = 1.00001 \times 0.99998 = 0.99999 \end{array}$$

The recommended limit is (A x D), which results in a 3.67% increase over the fiscal year 2017-18 Annual Tax Appropriations Limit. Of the four adjustment factors listed above this represents the largest allowable increase to the appropriations limit.

Calculation of the Fiscal Year 2018-19 Appropriations Limit:

(Prior Year Limit) x (Recommended Adjustment Factor) = New Limit

$$184,947,494 \times 1.03668 = \underline{\$ 191,731,339}$$

Proceeds of Taxes Subject to the Tax Appropriations Limit *

Property Tax		\$	28,909,169
Sales Tax			10,502,930
Sales Tax Measure Z			11,578,000
Transient Occupancy Tax			2,053,000
Property Transfer Tax			790,000
Business License Tax			78,000
Cannabis Excise Tax			17,726,000
Timber Yield Tax			730,591
Motor Vehicle License Fee			17,800,000
Homeowners Property Tax Relief Reimb.			349,150
State Mandate Reimbursements			100,000
Other Discretionary State Aid			25,324
Adjusted Interest Earnings			66,139
Total Unadjusted Appropriations subject to Limit	[A]	\$	90,708,303

Adjustment for Appropriations Not Subject to the Tax Appropriations Limit *

Qualified Capital Outlay			
Contribution to ADA ISF for capital improvements			1,250,000
Qualified Capital Outlay Debt Service			
2004 COP Refunding Animal Shelter			278,000
2003 COP Refunding Jail, Regional Center and Library			874,993
2012 COP Juvenile Hall and Earthquake Projects			371,650
Total Adjustment	[B]	\$	2,774,643
Total Adjusted Appropriations Subject to the Limit	[C = A - B]	\$	87,933,660

Difference between the Tax Appropriations Limit and Appropriations Subject to the Limit

Tax Appropriations Limit for Fiscal Year 2018-19	[D]	\$	191,731,339
Adjusted Appropriations are below the Limit by	[E= D - C]	\$	103,797,679

* Source: Fiscal Year 2018-19 County Adopted Budget, Estimated Revenue by Source (Schedule 5)
First Quarter Fiscal Year 2018-19 Budget Update

**Ten Year History of Price and Population Factors and Tax Appropriations Limits
For Fiscal Years 2009-10 Through 2018-19**

Fiscal Year	Price Adjustment	X	Population Adjustment	=	Total Adjustment	Appropriations Limit
2009-10	1.04204	X	1.0050	=	1.0472	\$ 78,066,688
2010-11	1.21404	X	1.0053	=	1.2205	\$ 95,278,662
2011-12	1.08004	X	1.0077	=	1.0884	\$ 103,697,440
2012-13	1.03770	X	1.0068	=	1.0448	\$ 108,338,560
2013-14	1.13080	X	1.0079	=	1.1397	\$ 123,477,067
2014-15	1.19460	X	1.0095	=	1.2059	\$ 148,905,427
2015-16	1.07102	X	1.0093	=	1.0810	\$ 160,963,560
2016-17	1.07980	X	1.0090	=	1.0895	\$ 175,372,014
2017-18	1.04571	X	1.0085	=	1.0546	\$ 184,947,494
2018-19	1.03670	X	1.0000	=	1.0367	\$ 191,731,339

Population of Humboldt County Cities

Calculation to Determine Appropriation Limit in Accordance with Article XIIB of the California Constitution

Fiscal Year 2018-19

<u>City</u>	<u>Population Minus Exclusions</u>		<u>Change</u>
	<u>January 1, 2017</u>	<u>January 1, 2018</u>	
Arcata	18,388	18,398	10
Blue Lake	1,301	1,280	(21)
Eureka	26,500	26,362	(138)
Ferndale	1,373	1,367	(6)
Fortuna	12,008	12,042	34
Rio Dell	3,355	3,348	(7)
Trinidad	335	340	5
Total	63,260	63,137	(123)

Percentage Change (0.00194436)

Source: California Department of Finance, Price Factor and Population Information, May 2018

Population of Contiguous Counties

Calculation to Determine Appropriation Limit in Accordance with Article XIIB of the California Constitution

Fiscal Year 2018-19

<u>County</u>	<u>Population Minus Exclusions</u>		<u>Change</u>
	<u>January 1, 2017</u>	<u>January 1, 2018</u>	
Del Norte	24,837	24,571	(266)
Humboldt	136,248	135,799	(449)
Mendocino	88,931	89,136	205
Siskiyou	44,591	44,542	(49)
Trinity	13,535	13,537	2
Total	308,142	307,585	(557)
		Percentage Change	<u>(0.00180761)</u>

Source: California Department of Finance, Price Factor and Population Information, May 2018

Interest Allocation

	<u>Amount</u>	<u>Source</u>
a) Non-interest Tax Proceeds	90,642,164	Page 3
b) Minus Exclusions	2,774,643	
c) Net invested Proceeds from Taxes	87,867,521	(a - b)
d) Total Revenue	405,968,557	Revenue Schedule 5
e) Proceeds of Taxes as a Percentage of Revenues	0.216439228	(c/d)
f) Interest Earnings - Total	305,578	Revenue Schedule 5
g) Amount of interest Earned from Proceeds of Taxes	<u>\$ 66,139</u>	(e x f)



May 2018

Dear Fiscal Officer:

Subject: Price Factor and Population Information

Appropriations Limit

California Revenue and Taxation Code section 2227 requires the Department of Finance to transmit an estimate of the percentage change in population to local governments. Each local jurisdiction must use their percentage change in population factor for January 1, 2018, in conjunction with a change in the cost of living, or price factor, to calculate their appropriations limit for fiscal year 2018-19. Attachment A provides the change in California's per capita personal income and an example for utilizing the price factor and population percentage change factor to calculate the 2018-19 appropriations limit. Attachment B provides the city and unincorporated county population percentage change. Attachment C provides the population percentage change for counties and their summed incorporated areas. The population percentage change data excludes federal and state institutionalized populations and military populations.

Population Percent Change for Special Districts

Some special districts must establish an annual appropriations limit. California Revenue and Taxation Code section 2228 provides additional information regarding the appropriations limit. Article XIII B, section 9(C) of the California Constitution exempts certain special districts from the appropriations limit calculation mandate. The code section and the California Constitution can be accessed at the following website: <http://leginfo.legislature.ca.gov/faces/codes.xhtml>.

Special districts required by law to calculate their appropriations limit must present the calculation as part of their annual audit. Any questions special districts have on this requirement should be directed to their county, district legal counsel, or the law itself. No state agency reviews the local appropriations limits.

Population Certification

The population certification program applies only to cities and counties. California Revenue and Taxation Code section 11005.6 mandates Finance to automatically certify any population estimate that exceeds the current certified population with the State Controller's Office. **Finance will certify the higher estimate to the State Controller by June 1, 2018.**

Please Note: The prior year's city population estimates may be revised.

If you have any questions regarding this data, please contact the Demographic Research Unit at (916) 323-4086.

MICHAEL COHEN
Director
By:

AMY M. COSTA
Chief Deputy Director

Attachment

- A. **Price Factor:** Article XIII B specifies that local jurisdictions select their cost of living factor to compute their appropriation limit by a vote of their governing body. The cost of living factor provided here is per capita personal income. If the percentage change in per capita personal income is selected, the percentage change to be used in setting the fiscal year 2018-19 appropriation limit is:

Per Capita Personal Income	
Fiscal Year (FY)	Percentage change over prior year
2018-19	3.67

- B. Following is an example using sample population change and the change in California per capita personal income as growth factors in computing a 2018-19 appropriation limit.

2018-19:

Per Capita Cost of Living Change = 3.67 percent
Population Change = 0.78 percent

Per Capita Cost of Living converted to a ratio: $\frac{3.67 + 100}{100} = 1.0367$

Population converted to a ratio: $\frac{0.78 + 100}{100} = 1.0078$

Calculation of factor for FY 2018-19: $1.0367 \times 1.0078 = 1.0448$