TO:  HONORABLE CITY COUNCIL

FROM:  KIELY NOSE, DIRECTOR, ADMINISTRATIVE SERVICES/CFO

DATE:  JUNE 22, 2020

SUBJECT:  AGENDA ITEM NUMBER 18 – PUBLIC HEARING: ADOPTION OF A RESOLUTION SETTING THE APPROPRIATIONS LIMIT (GANN LIMIT) FOR FISCAL YEAR 2021

This memorandum transmits an updated calculation of the FY 2021 Appropriations Limit (GANN) limit. As discussed in the original memorandum for the item on June 22, 2020 the City is subject to certain limits for its year over year increase in expenses. The updated calculation attached to this document addresses the final actions taken by the City Council to adopt the FY 2021 Budget, notably revisions to include Special Revenue Fund capital project expense in the calculation and an adjustment to the General Fund for use of Development Service Reserve funds to balance overall operations.

Through this refined calculation, the City is still $66.81 million below its appropriation limit authority. An updated resolution is attached to this memorandum, as is a refined calculation.

Attachments:
Attachment A GANN Resolution FY 2021
Attachment A, Exhibit 1 – Appropriations Limitation Compliance Calculation
RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO DETERMINING THE CALCULATION OF THE APPROPRIATIONS LIMIT FOR FISCAL YEAR 2021

WHEREAS, under Article XIIIIB of the Constitution of the State of California, the City of Palo Alto (City) may not appropriate any proceeds of taxes in excess of its appropriations limit (Limit); and

WHEREAS, since fiscal year 1991, the City is permitted to annually adjust its Limit in accordance with inflation and population adjustment factors; and

WHEREAS, pursuant to Government Code Section 37200, the calculation of the Limit and the total appropriations subject to the limit were set forth in the annual budget of the City for Fiscal Year 2021, which was adopted by ordinance of the Council on June 22, 2020; and

WHEREAS, pursuant to Government Code sections 7901 and 7910, the final calculation of the Limit has been determined, and the adjustment factors on which the calculation is based are a 3.73% percent change in California per capita income and a 0.37% percent change in the population growth for the County of Santa Clara; and

WHEREAS, the documentation used in the determination of the Limit has been made available to the general public for fifteen (15) days prior to the date of adoption of this resolution; and

WHEREAS, according to the final calculation, the City’s net appropriations subject to limitation are approximately $113.06 million.

NOW, THEREFORE, the Council of the City of Palo Alto does RESOLVE as follows:

SECTION 1. The Council of the City of Palo Alto hereby finds that, for Fiscal Year 2021, the final calculation of the Appropriations Limit of the City of Palo Alto has been determined in accordance with the adjustment factors referred to above, the documentation used in the determination of the calculation has been made available to the general public for the period of fifteen days as required by law, and the City’s appropriations subject to limitation are under the Limit by approximately $66.81 million.

SECTION 2. The Council hereby adopts the final calculation of the Appropriations Limit of the City for Fiscal Year 2021, a copy of which is attached hereto as Exhibit 1.
SECTION 3. The Council finds that the adoption of this resolution does not constitute a project under the California Environmental Quality Act, and, therefore, no environmental assessment is necessary.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

__________________________________________
City Clerk

APPROVED:

__________________________________________
Mayor

APPROVED AS TO FORM:

__________________________________________
City Manager

__________________________________________
Senior Assistant City Attorney

__________________________________________
Administrative Services Director
### APPROPRIATIONS LIMITATION COMPLIANCE CALCULATION

#### FOR FISCAL YEAR 2021 ADOPTED BUDGE

($ IN MILLIONS)

<table>
<thead>
<tr>
<th>Total Budgeted Appropriations</th>
<th>General Fund</th>
<th>Capital Projects Funds</th>
<th>Special Revenue Funds</th>
<th>Debt Service Fund</th>
<th>Combined Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2021 Adopted Budget</td>
<td>$ 196.97</td>
<td>$ 179.05</td>
<td>$ 19.43</td>
<td>$ 7.56</td>
<td>$ 403.01</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interfund Transfers</td>
<td>$ (17.80)</td>
<td>$ 2.38</td>
<td>$ (12.87)</td>
<td></td>
<td>$ (28.29)</td>
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<tr>
<td>Allocated Charges</td>
<td>$ (18.31)</td>
<td>$ -</td>
<td>$ (12.87)</td>
<td></td>
<td>$ (18.31)</td>
</tr>
<tr>
<td>Non-Proceeds</td>
<td>$ (49.20)</td>
<td>$ (175.68)</td>
<td>$ (10.98)</td>
<td></td>
<td>$ (243.35)</td>
</tr>
<tr>
<td><strong>Net Appropriations Subject to Limit</strong></td>
<td>$ 111.66</td>
<td>$ 5.75</td>
<td>$ (4.41)</td>
<td>$ 0.06</td>
<td>$ 113.06</td>
</tr>
</tbody>
</table>

#### FY 2021 Per Capita Income Change (CA Department of Finance) 3.73%

Factor A 1.0373

FY 2021 Population Change (Santa Clara County) 0.37%

Factor B 1.0037

FY 2021 Adopted Appropriations Limit 172.76

Factor A x Factor B 1.0411

FY 2021 Adopted Appropriations Limit $ 179.86

Net Appropriations Subject to Limit $ 113.06

Amount Under the Limit $ 66.81

The City of Palo Alto remains well within its appropriations limit in FY 2021. Future year limit trends can be made based on the average change in regional population and income growth. The appropriations subject to limitation includes proceeds of taxes from the General Fund, Capital Projects Fund, and Special Revenue Funds.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Per Capita Income Factor</th>
<th>Population Change Factor</th>
<th>Total Adjustment Factor</th>
<th>Appropriations Limit</th>
<th>Appropriations Subject to Limit</th>
<th>Amount Under the Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>1.0385</td>
<td>1.0033</td>
<td>1.0419</td>
<td>$ 171.75</td>
<td>$ 127.42</td>
<td>$ 45.34</td>
</tr>
<tr>
<td>2019</td>
<td>1.0367</td>
<td>1.0040</td>
<td>1.0408</td>
<td>$ 164.83</td>
<td>$ 114.94</td>
<td>$ 50.87</td>
</tr>
<tr>
<td>2018</td>
<td>1.0369</td>
<td>1.0002</td>
<td>1.0454</td>
<td>$ 158.36</td>
<td>$ 131.49</td>
<td>$ 26.88</td>
</tr>
<tr>
<td>2017</td>
<td>1.0537</td>
<td>1.0130</td>
<td>1.0674</td>
<td>$ 151.48</td>
<td>$ 109.51</td>
<td>$ 41.97</td>
</tr>
<tr>
<td>2016</td>
<td>1.0382</td>
<td>1.0113</td>
<td>1.0499</td>
<td>$ 141.92</td>
<td>$ 100.60</td>
<td>$ 41.31</td>
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<tr>
<td>2015</td>
<td>0.9977</td>
<td>1.0150</td>
<td>1.0127</td>
<td>$ 135.17</td>
<td>$ 82.93</td>
<td>$ 52.24</td>
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<tr>
<td>2014</td>
<td>1.0512</td>
<td>1.0157</td>
<td>1.0677</td>
<td>$ 133.48</td>
<td>$ 90.28</td>
<td>$ 43.20</td>
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<tr>
<td>2013</td>
<td>1.0377</td>
<td>1.0124</td>
<td>1.0506</td>
<td>$ 125.01</td>
<td>$ 96.73</td>
<td>$ 28.28</td>
</tr>
<tr>
<td>2012</td>
<td>1.0251</td>
<td>1.0089</td>
<td>1.0342</td>
<td>$ 119.00</td>
<td>$ 89.00</td>
<td>$ 30.00</td>
</tr>
<tr>
<td>2011</td>
<td>0.9746</td>
<td>1.0144</td>
<td>0.9886</td>
<td>$ 115.06</td>
<td>$ 78.94</td>
<td>$ 36.12</td>
</tr>
</tbody>
</table>

On November 6, 1979, California voters approved Proposition 4, an initiative that added Article XIIIIB to the state Constitution. The provisions of this article place limits on the amount of revenue that can be appropriated by all entities of government. The Appropriations Limit is based on actual appropriations during the 1978-1979 fiscal year, as increased each year using specified population and inflationary growth factors.