



Staff Report

City Council

Item No. 3.F

Meeting Date: May 22, 2024

From: Kevin Biersack, Financial Services Director

Title: Fiscal Year 2024/2025 Appropriations Limit, Gann Initiative Limitation

RECOMMENDATION:

To approve the City's appropriations limit for the FY 2024/2025, Gann Initiative Limitation.

BACKGROUND:

In 1979, one year after Proposition 13 was adopted, the voters approved Proposition 4, referred to as the Gann Initiative. This proposition is now Article XIII B of the California Constitution. In June 1990, the original Article XIII B (Proposition 4) and its implementing Chapter 1205/80 were modified by Proposition III and SB88 (Chapter 60/90). The Gann Initiative was aimed at government spending and places limitations on appropriations of revenue from the "proceeds of taxes". These proceeds are defined to include: (1) all tax revenues; (2) revenue from the investment of tax revenues; (3) revenue from user charges and regulatory fees to the extent it exceeds the reasonable cost of providing the service; and (4) local government subventions received from the state.

To determine the "Gann Limit", the city was required to establish a base year 1981/1982 appropriations limitation. Each year this limitation has been adjusted to reflect changes in population and the cost of living. Beginning with the 1990/1991 Appropriations Limit, the annual adjustment factors changed. Instead of using the lesser of California Per Capita Income of U.S. CPI to measure inflation, each city may choose:

1. The growth in the California Per Capita Income,
- or**
2. The growth in the non-residential assessed valuation due to new construction within the city.

In addition, instead of using only the population growth of the city, each city may choose to use the population growth within its county. These are both annual elections.

After determining the dollar limit, the budgeted or anticipated "tax revenues" are calculated and compared to the "Gann Limit". If the city exceeds its "Gann Limit" in any one year, they may avoid a tax refund if they fall sufficiently below the limit in the next fiscal year. They then

have two more years to refund any remaining excess by revising tax rates or fee schedules, or return monies already collected, or obtain a successful override vote.

DISCUSSION:

For fiscal year (FY) 2024/2025, staff estimates tax proceeds to be received, as well as tax proceeds appropriated by the City Council, will, as in prior years, continue to be under the legal limit. The City's appropriations limit for FY 2024/2025 is established at \$105,859,654, a 4.7 percent increase above the FY 2023/2024 limit of \$101,602,596. This represents the maximum amount of tax proceeds the city will be able to receive and appropriate in the coming fiscal year.

FISCAL IMPACT:

The city's appropriations subject to the limit for FY 2024/2025 are estimated to be \$50,586,367. Therefore, the city's FY 2024/2025 adopted budget appropriations subject to the limit are \$55,273,287 less than the appropriation limit of \$105,859,654.

FIVE-YEAR STRATEGIC PLAN:

GOAL C: FISCAL STABILITY AND SUSTAINABILITY

Objective: Cathedral City has economically prospered by facilitating the investment of private dollars in high-quality development which benefits the community. We remain financially solvent by instituting prudent fiscal policies and transparent financial practices.

ATTACHMENTS:

1. Gann Limit Narrative_ FY25
2. Gann Limit by fiscal year_ FY25
3. Gann Limit Resolution_ FY25