

County of Santa Clara
Finance Agency
Controller-Treasurer Department



F01 102009

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Controller-Treasurer

DATE: October 20, 2009

TO: Board of Supervisors

FROM:

A handwritten signature in black ink, appearing to read "John V. Guthrie".

John V. Guthrie
Finance Agency Director

SUBJECT: Adoption of the Fiscal Year 2009 -10 Statement of Appropriations Limit
(Gann Limit) for County-wide Funds

RECOMMENDED ACTION

Adopt Resolution establishing the appropriations limit for County-wide Funds for FY 2009 -10 that is subject to financial constraints under Article XIII B of the State Constitution. (Roll Call Vote)

FISCAL IMPLICATIONS

There is no fiscal impact to the General Fund as a result of this action. Taxpayer refunds would occur only if proceeds of taxes exceed the appropriations limit. The FY10 budgeted proceeds of taxes for County-wide funds were \$658 million, which is \$2.93 billion below the appropriations limit of \$3.59 billion.

REASONS FOR RECOMMENDATION

The recommended action is necessary to comply with Article XIII B of the State Constitution and requirements in Section 7910 of the Government Code. The appropriations limit has been calculated by the Controller-Treasurer Department and is based on the best available information.

BACKGROUND

In 1979, Proposition 4 (the Gann Initiative) was approved adding Article XIII B to the State Constitution. This initiative was designed to constrain government expenditures by placing an annual limit on jurisdictions' revenue and appropriation growth. This annual allowance growth is linked to changes in population and cost of living. The passage of Proposition 111 in June 1990 amended Article XIII B, making changes in the base year upon which the appropriations limit is based, establishing new cost of living factors and new population factors for use by local governments, and increasing appropriations not subject to the limit (primarily qualified capital outlay projects).

The financial constraints of Article XIII B apply to the State, all cities, counties, special districts and all other political subdivisions. The main provisions of Article XIII B are:

1. Funds appropriated in fiscal year 1986-87 are established as a base level of allowable appropriations;
2. An annual limit (Gann Limit) is placed on appropriations growth from the base;
3. The same Gann Limit also applies to "proceeds of taxes" so that any revenues in excess of the Gann Limit must be refunded to taxpayers. Proceeds of taxes which exceed the limit in one year may be carried over to a succeeding year. The portion of carried over revenue which cannot be appropriated within the following year's limit is considered excess revenue and must be returned within the next two fiscal years;

4. The State is required to reimburse local jurisdictions for the cost of complying with state mandates;
5. In the event that the financial responsibility of providing a service is transferred then the Gann Limit of the transferring entity is reduced and the Gann Limit of the transferee entity is increased by a mutually agreed upon amount; and
6. Exclusions from the Gann Limit include debt service, appropriations required for complying with mandates of the court or federal government which require additional or increased cost of providing a service, special districts levying a 12.5 cent tax rate or less in the 1977-78 fiscal year, or which are totally funded by other than proceeds of taxes, and appropriations related to qualifying capital outlay projects.

The limits on revenue growth apply only to those revenues termed "proceeds of taxes". There are four main categories within "proceeds of taxes":

- Taxes;
- Charges for services that exceed the cost of providing the services;
- Funds from the State, the use of which is unrestricted ("subventions");
- Interest from investing these three types of revenue

CONSEQUENCES OF NEGATIVE ACTION

Failure to establish the appropriations limit will result in non-compliance with Government Code statutes.

STEPS FOLLOWING APPROVAL

Upon Board approval, one (1) copy of the executed Board Transmittal will be kept in the Controller-Treasurer Department and the documentation supporting the appropriations limit will be accessible to the public in the Controller-Treasurer Department.

ATTACHMENTS

- Resolution establishing the appropriations limit for County-wide Funds