



## Climate Advocate Appropriations Limit Policy Q+A

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### What is California’s state appropriations limit and why should climate advocates care?

This year, discussions of California’s state budget have often included some mention of the state appropriations limit (SAL), also commonly known as the “Gann Limit.” Analyses from the Department of Finance (DOF) and Legislative Analyst’s Office (LAO) project that state tax revenues in recent years have exceeded – and will likely continue to exceed – a constitutional cap that limits how the state can appropriate the excess revenues. In light of the constraints that the appropriations limit places on the state budget, it is essential for advocates to become familiar with the SAL, understand how it shapes state budgeting, and recognize what funding options exist within the current SAL requirements.

### What is the state appropriations limit?

In 1979, voters approved Proposition 4, which added Article XIII B to the California Constitution creating an appropriations limit on state and local governments.<sup>1</sup> The appropriations limits imposed by this measure are commonly referred to as “Gann Limits,” (in reference to Prop 4’s author Paul Gann).

### How does it work?

The state determines its appropriations limit annually by applying a growth factor to the previous year’s limit that reflects year-over-year growth in population and per-capita personal income. To calculate the amount of appropriations that are subject to each year’s limit, the state first totals that year’s applicable tax revenues (some types of state revenues don’t count towards this calculation) and then subtracts that year’s total appropriations that are excluded from the SAL (not all types of appropriations count, either). If the calculated amount exceeds the appropriations limit over a two-year period, then the amount that exceeds the limit is considered “excess revenue.”

### What happens when revenues exceed the appropriations limit?

In general terms, excess revenue must either be spent on purposes that are exempt from the appropriations limit or split between additional education funding and taxpayer rebates.

<sup>1</sup>State laws adopted to implement Prop 4 can found in Government Code Sections 7900-7914.

## Why should climate advocates care?

In the next few budget cycles, requirements imposed by the SAL could substantially change the types of appropriations that the Legislature and Governor are likely to include in the state budget. As a dramatic example, the LAO has suggested that the Legislature reject all of the Governor's proposed new budgetary spending proposals for 2022-23 that do not conform to Gann limit requirements, so that the funds can be saved to meet state appropriation limit requirements in future years. Climate advocates must consider what budget proposals are (and are not) likely to be viewed favorably by state policymakers who are navigating SAL constraints.

## What are the most likely policy responses?

Although policymakers may seek changes to state laws in response to SAL pressures, there are several potential policy responses to the SAL as it is currently structured. Within the current SAL framework, state policymakers are likely to pursue some combination of measures that:

- Reduce proceeds of taxes. By reducing the state's total proceeds of taxes, policies that reduce tax obligations (like tax credits, rate reductions, and deductions) can help the state avoid exceeding the SAL. Note that short-term proposals will help the state avoid fiscal issues that can result from indefinite changes to tax credits, rates, etc.
- Favor appropriations for spending categories that are excluded from the SAL. The SAL does not apply to some types of appropriations, including spending on: debt service, capital outlays, unrestricted payments to local governments, and emergency spending.
- Shift some types of appropriations to special funds. Some types of funds, including revenues from cap-and-trade auctions, are not counted as proceeds of taxes in the SAL calculations. Appropriations from these special funds may be preferable to General Fund appropriations for spending on categories that aren't excluded from the SAL.
- Provide tax refunds. This year, state elected officials have offered competing proposals for providing tax rebates, in varying amounts and to varying groups of recipients, that would comply with SAL requirements while providing some relief from rising fuel prices. There may be ways to structure tax rebates, both this year and in future years, that could achieve more climate-friendly outcomes.

## Where can I get more information about the SAL?

Over the past year, the LAO has produced a series of reports on SAL-related topics that provide substantial details about how the limit works and what policy options may be available to address the constraints imposed by the SAL. The reports can be found on the LAO's [website](#).