



# TOWN OF FAIRFAX

## STAFF REPORT

### August 5, 2020

**TO:** Mayor and Town Council

**FROM:** Michael Vivrette, Finance Director

**SUBJECT:** Adoption of a Resolution Making Certain Findings and Determinations in Compliance with Section XIII B of the California Constitution (Gann Initiative) and Setting the Appropriation Limit for Fiscal Year 2020-21

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#### **RECOMMENDATION**

Adopt a resolution determining the Proposition 4 (Gann) Appropriation Limit calculation for Fiscal Year 2020-21. The Town's Fiscal Year 2021 appropriations are estimated to be \$419,784 under the limit, based on the Fiscal Year 2020-21 Adopted Budget.

#### **DISCUSSION**

In November 1979, the voters of the State of California approved Proposition 4, commonly known as the Gann Initiative. The proposition created Article XIII B of the State Constitution, placing limits on the amount of revenue that can be spent by all entities of government. Proposition 4 became effective for the 1980-81 fiscal year, but the formula for calculating the limits was based on the 1978-79 "base year" revenues. Appropriations backed by tax revenues collected by all funds within the Town are subject to measurement against the Town's calculated Gann Limit. Since the General Fund is the primary recipient of tax revenue, a rough estimate of the appropriations subject to that limit can be calculated by summing certain tax revenue that the General Fund receives. Please note that the "Proceeds of Taxes" are defined as general purpose taxes the Town receives such as sales and property taxes, but not special purpose taxes such as the special municipal service tax (Measure F). Franchise fees and charges for services are also not included in the "Proceeds of Taxes."

1. The Appropriation Limit calculation (see Attachment A Resolution- Exhibit A) starts with the appropriation limit from the prior year. This limit is updated with the "change factors" from population and CPI changes in the prior year as provided by the State Department of Finance (see Attachment B).
2. The result is compared to the current calculation of "Appropriations subject to limit" (Proceeds of taxes based on the budget for the new fiscal year). Note that in this calculation, the term "appropriations" refers to tax revenues to be received by the town. The Appropriation Limit needs to be higher than the "Appropriations subject to limit" or the Town might have to return revenues to the taxpayers, or pass a measure approving a higher limit.

The Appropriation Limit for the Town in Fiscal Year 2020-21 is \$6,838,836. Based on the adopted budget for FY 2020-21, the Town is under its limit by \$419,784.

#### **FISCAL IMPACT**

N/A

#### **ATTACHMENTS**

- A. Resolution with Exhibit A: Calculation of Appropriation Limit
- B. California Department of Finance Memo May 2020