



## **TITLE**

Appropriations Limit for Fiscal Year 2026-27

## **RECOMMENDATION**

Adopt a Resolution establishing the Appropriations Limit of \$28,102,776 for Fiscal Year 2026-27.

## **CONTACT**

Jemelyn Cruz, Finance Director

## **BACKGROUND & ANALYSIS**

State law requires local agencies to set an appropriation limit each fiscal year. Only certain annual budget appropriations from proceeds of taxes, as defined by the law and accepted statewide guidelines, are subject to the limit. The appropriations limit is revised annually, usually upward, by a formula that uses a combination of percent changes in Statewide Per Capita Income (PCI) or Non-residential assessed valuation, if available, and City or County Population.

In November 1979, the people of California added Article XIII B to the State Constitution, which placed limitations on the appropriations of State and local governments. The Article was implemented by State Legislation that defined the process to calculate the appropriations limit and required that cities adopt a resolution setting an annual appropriations limit. The base year was set as fiscal year 1978-1979 and the first appropriations limit was applied to qualifying public agencies budgets for fiscal year 1980-1981.

In June 1990, the people approved Proposition 111, which, among other things, amended Article XIII-B. The amendment made significant changes to how the limit was calculated, what appropriations were subject to the limit, and added City Council resolution and independent audit requirements. One of the significant changes was to allow the City to make two choices when computing the appropriations limit:

- Inflation factor - choose between per capita income or increase in non-residential assessed valuation due to new construction
- Population factor – choose between City population growth and County population growth.

There are no penalties under Article XIII B for failure to adopt a limit. Compliance with the law is intended to be locally enforced by citizens. The State Government Code limits challenges in civil court to the appropriations limit calculation to a 45-day period after adoption.

If the portion of the City Budget that is subject to the appropriations limit exceeds the limit, the City can carry over the excess amount one year. If, after the second year, the City still exceeds the limit, the voters can approve a temporary override or the City would need to refund the excess amount to the people by lowering taxes or fees.

#### Updated Appropriations Limit

The change in the appropriations limit is calculated annually by staff from the information provided by the State Department of Finance each May. Consistent formulas are used to ensure an accurate calculation.

#### Proceeds of Taxes and Appropriations Subject to Limit

After the annual appropriations limit is calculated, the appropriations that are subject to the limit are determined. The appropriations limit only applies to appropriations that are funded from proceeds of taxes. Proceeds of taxes are fairly well defined in the statewide guidelines; however, the method to determine which appropriations are from proceeds of taxes can be complicated.

#### FY 2026-27 Appropriation Limit

The Fiscal Year 2026-27 appropriations limit was calculated using the Statewide Per Capita Personal Income increase of 4.95% and the City population increase of 0.14%. When applying these factors, the prior year limit increased by 5.10%.

#### City Limit

The appropriations limit increased \$1,363,693 to \$28,102,776 (Resolution in Attachment 1). Appropriations that are subject to the limit are \$22,156,203 so the City is under the appropriation limit by \$5,946,573. The detail computations are presented in the Appropriations Spending Limit Worksheet (Attachment 2).

#### Public Notice

As required by State Law, detailed worksheets supporting the appropriation limit calculations have been available for review by the public in the City Clerk's Office. Also, as required, a public notice has been published for this meeting to adopt the appropriations resolution.

### **COUNCIL PRIORITY PROGRAMS AND PROJECTS**

Not applicable.

### **FISCAL IMPACT**

None

## **ENVIRONMENTAL REVIEW**

None.

## **ATTACHMENTS:**

1. Resolution City Appropriation Limit
2. Appropriations Limit FY 2026-27