



Honorable Mayor and Members of the Hermosa Beach City Council

ADOPT A RESOLUTION TO APPROVE AND ADOPT THE ANNUAL TAX APPROPRIATIONS LIMIT FOR THE FISCAL YEAR 2025-26

CEQA: Determine the recommended action is exempt from the California Environmental Quality Act.

(Administrative Services Director Brandon Walker)

Recommended Action:

Staff recommends City Council adopt a Resolution (**Attachment 1**) approving and adopting the annual Tax Appropriations Limit for the upcoming Fiscal Year 2025–26.

Executive Summary:

In 1979, the State of California adopted Tax Appropriation Limits on state and local governments and in 1990 updated the method of limit calculation. Each year, staff presents to City Council a resolution to approve and adopt the City's annual Appropriations Limit as required by State law.

The budgeted FY 2025-26 revenue subject to limitations is \$40,492,787. This is below the FY 2025-26 tax appropriations limit of \$55,957,202.

Background:

Article XIII B of the California State Constitution specifies that appropriations made by State and local governments may increase annually by no more than a factor comprised of the change in population combined with either the change in California per capita personal income or the change in the local assessment roll due to local non-residential construction, whichever is greater. In 1989, the base year was changed to 1986–87. The fundamental purpose of the appropriation limit is to keep real (inflation adjusted) per person government tax spending under 1986–87 levels.

The Appropriations Limit does not apply to all City revenues, or all General Fund revenues, but only to proceeds of taxes including property tax, sales tax, transient occupancy tax, and other local taxes, less the amount paid in debt service on both voter approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds \$100,000). Other revenues, including fees, licenses and permits, rents and concessions, and interfund transfers are not subject to the limit.

The Appropriations Limit is the calculated dollar amount which restricts the ability to appropriate proceeds of taxes. In its simplest form, the Appropriations Limit for any year is the Appropriations Limit from the previous fiscal year increased for inflation and population growth. Ultimately, the Appropriations Limit in a given year depends on the Appropriations Limit for the base year, which is the first year of calculation, adjusted annually according to specified factors.

On June 5, 1990, Proposition 111 modified the calculation method, beginning with fiscal year 1990–91, to allow the City to choose the most beneficial of two adjustment factors for inflation and population as follows:

Inflation

California Per Capita Personal Income Change
or
Increase in Non-Residential Assessed Valuation Due to New Construction

Population

City Population Growth
or
County Population Growth

Proposition 111 also implemented a requirement that the Appropriations Limit be reviewed annually by the City’s Independent Auditor.

Analysis:

The 2025–26 limit was calculated (**Attachment 2**), per the League of California Cities Uniform Guidelines, by applying the population and inflation factors to the prior year limit. The County of Los Angeles’ population change of 0.30 percent was used as the population growth factor since it is greater than the City’s population change of -0.22 percent. The California Per Capita Personal Income Change of 6.44 percent was used as the inflation factor since the increase in Non-Residential Assessed Valuation Due to New Construction is 1.89 percent. The factor with the largest change is always chosen to give the City maximum discretion regarding appropriations.

The law requires adoption of the 2025–26 limit by resolution and a recorded vote of the Council to select annual adjustment factors. The choice is set forth in the attached resolution.

The budgeted FY 2025-26 revenue subject to limitations is \$40,492,787. This is below the 2025-26 limit calculation of \$55,957,202.

The limit calculation will be reviewed by the City's auditors during the annual financial audit. No issues were noted by the City auditors with the prior FY 2024–25 limit calculation.

General Plan Consistency:

PLAN Hermosa, the City's long-range planning document, was adopted by the City Council in August 2017, and envisions a future where "Hermosa Beach is the small town others aspire to be; a place where our beach culture, strong sense of community, and commitment to sustainability intersect." One of the guiding principles to achieve the vision is to make decisions and take actions that help contribute to the City's economic and fiscal stability.

This report and associated recommendations have been evaluated for their consistency with the City's General Plan. Relevant policies are listed below:

Governance Element

Goal 1. A high degree of transparency and integrity in the decision-making process.

Policy:

- **Open meetings.** Maintain the community's trust by holding meetings in which decisions are being made, that are open and available for all community members to attend, participate, or view remotely.

Fiscal Impact:

There is no fiscal impact associated with the recommended action.

Attachments:

1. Resolution Adopting FY 2025–26 Appropriations Limit
2. FY 2025–26 Calculation of Appropriations Limit

Respectfully Submitted by: Charlotte Newkirk, Senior Finance Analyst

Concur: Henry Chao, Finance Manager

Noted for Fiscal Impact: Brandon Walker, Administrative Services Director

Approved: Steve Napolitano, Interim City Manager