



Foster City Financial Update IQ 13/14

City of Foster City

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General Fund Revenues Have Potential to Exceed Expectations; Changes in Franchise Fee and Business License Tax Revenues Impact FY 13/14 Projections

The end of the first quarter of the 2013-2014 fiscal year finds General Fund revenues set to exceed original expectations based on the latest information regarding property and sales tax, and changes made in two key revenue streams in October and November 2013.

Total revenue collected in the first quarter of the new fiscal year was \$2.2 million, which is merely 7.1% of the total revenues anticipated. However, the City does not receive revenues from its two largest sources—property taxes and sales taxes—until the second quarter of the fiscal year.

The City has received an estimate of property taxes that will be collected by the County Controller based upon the tax rolls billed to property owners in September. The City expects to collect nearly \$17 million in property tax revenues, an increase of \$808,000 over the original projections. Assessed values (AV) of properties were adjusted higher in cases where the property owners had previously received AV reductions. The City has anticipated some AV recovery, but not to the extent that was ultimately issued through the rulings of the Assessment Appeal Board or through updated appraisals conducted by the Assessor's Office. It should also be noted that Real Property Transfer Tax revenues are already at 41% of original projections, which may bode well for the remainder of the year. The City will be watching

this trend closely, as this is indicative of increased property taxes as properties are selling at a faster pace than in the prior year.

Sales tax revenues, however, appear to be trending lower than original projections, primarily due to a reduction in the “triple-flip” amount that is received through the convoluted trade of property and sales taxes and vehicle license fees by the State. We expect a \$166,000 shortfall of sales tax revenues as a result, and the City is carefully monitoring sales tax returns of its largest sales tax producers.

The City Council took action in October 2013 to reduce the franchise fee charged to Recology for the privilege of using City rights of way to conduct their business from 10% to 5%. This reduction, which will go into effect January 1, 2014 after the City Council takes action in approving the solid waste collection rates on November 25, 2013, will reduce franchise fee revenues earned through June 30, 2014 of \$130,000. The annual reduction will be approximately \$275,000 in future years.

On November 5, 2013, the voters in Foster City passed Measure U, the first business license tax ordinance update in 42 years. Passage of this measure will increase the gross revenue cap upon which the tax is assessed ratably over the next four

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Highlights:

- Assessed valuation increases lead to additional property tax revenues \$808,000 greater than original projections
- Sales taxes will fall short due to reductions in “triple-flip” amounts
- Solid waste franchise fees will fall \$130,000 short of expectations due to anticipated reduction of franchise rate from 10% to 5%
- Voters approve Measure U, leading to increased business tax revenues of \$225,000
- Homes are selling at faster rates than expected, boding well for future property tax growth.



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City of Foster City

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Sustainable Foster City:

*Sustaining and
 Enhancing the
 Quality of Life in
 Foster City*



General Fund Revenue Trending Better than Original Forecast

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years, with annual CPI increases thereafter. It is expected that an additional \$225,000 in business license tax revenues will be received this fiscal year when the tax increase goes into effect on January 1, 2014.

All told, General Fund revenues are currently projected to beat the original \$31.5 million projections by 2.3%, or \$740,000.

Revenues in Other Funds Meeting Expectations

Revenues in the City's non-General Funds are meeting expectations. Two positive exceptions to note:

1. City Affordable Housing Fund—The City Council approved the sale of one of the City's affordable housing units that was sold in August 2013. The sale netted approximately \$269,000 in proceeds that can be used for future affordable housing needs.
2. Sustainable Foster City Fund—The City received nearly \$208,000 in non-housing funds that were swept from the City's former redevelopment agency and redistributed to taxing entities. These funds were originally anticipated in FY 2012-2013, but due to a lawsuit filed by the City and its Successor Agency against the State, the funds were not remitted until September.

A more complete update will be provided in the 2Q 13/14 report as the City expects to receive significant revenues in park-in-lieu fees, gas tax and Measure A funds.

Expenditure Trends Within Expectations

With General Fund expenditures at 24.6% of the original budget as of September 30, 2013, the City expects that it will stay well within the budgeted allocations in the original FY 13-14 budget. The increase in the City Attorney expenditures over the prior year is due primarily to the City's legal costs associated with the completion of the documents related to the proposed sale of the 15-acre site to The New Home Company. Barring any unusual circumstances, it is expected that the City Attorney budget will finish the year within expectations.

Otherwise, all other General Fund departments as well as all other funds are within expectations.

Preview of Coming Attractions

The next edition of the Quarterly Financial Update is expected to include discussion on several items of importance, including:

- ◇ Update on the 2Q collections of property and sales taxes
- ◇ Revenue updates on the potential sale of the 15-acre site scheduled for City Council consideration on November 18, 2013
- ◇ Update on the payment of Park-In-Lieu Fees anticipated on the Triton Pointe Project
- ◇ Update on the Sustainable Foster City Plan
- ◇ Key economic indicators that will impact the preparation of the FY 2014-2015 budget and five-year financial forecast.