



Foster City Financial Update 4Q 09/10

City of Foster City

For the Year Ended June 30, 2010

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General Fund Finishes FY 2009-2010 with \$22.1 Million in Reserves

As we close the books on FY 2009-2010, the City's General Fund, which is the primary fund from which police, fire, parks, and other core city functions are paid, looks to finish the year with \$22.1 million in unrestricted reserves. The original budget anticipated finishing the year with \$19.5 million in reserves, and the mid-year forecast projected a year-end reserve balance of \$20 million. Primary reasons for the higher-than anticipated reserve balance are:

- Total revenues finished \$900k higher than the mid-year

forecast, primarily in the areas of Property Tax (\$200k), Sales Tax (\$150k), TOT (\$100k), and Vehicle License Fees (\$250k).

- Total expenditures finished \$850k lower than the mid-year forecast due primarily to expenditure savings across multiple departments that were greater than expected.

The \$22.1 million reserve level equates to 72% of budgeted annual operating expenditures for FY 2010-2011. This

reserve level is more than twice the Council's newly adopted reserve policy of 33.3% of annual operating expenditures. While this reserve level may seem high, these reserves will serve the City well as it seeks to cure its structural deficit portrayed in the 5-year forecast. The higher-than anticipated reserve level starting FY 2010-2011 gives the City greater financial resources to be able to address future deficits and any unforeseen circumstances that may arise in the coming year.

Water Funds Fall Short of Expectations, while Wastewater Funds Finish Ahead of Forecast

The Water Operating fund finished the year with \$6.15 million in reserves, or \$600,000 lower than original budget expectations. Revenues fell short of expenses by \$68,000. A surplus of \$254,000 was expected (net of CIP expenditures). This short-

age of \$322,000 was due primarily to a problem with the water meter charges levied to certain customers with large (6" or 8") dual meters. This matter was discussed with the District Board during the budget discussions, and the situation has been rectified in the

FY 2010-2011 water rate model. Water consumption for FY 2009-2010 was 2.2 million ccf, or 4.5 million gallons per day, which was 11% lower than rate model projections. A rainier than normal winter and spring accounted for the reduc-

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Highlights:

- General Fund finishes the year with \$22.1 million in reserves
- Water Fund finished the year with a lower fund balance, corrected through changes in meter charges.
- Wastewater fund finished ahead of forecast due to delays in WWTP CIP projects.
- Decrease in projected property tax revenues and increase in PERS costs will make FY 2010-2011 a challenge to meet budget, but employee vacancies will help offset the losses.



Key General Fund Revenue Trends in FY 2009-2010

There are 10 key revenue sources that have a significant impact on the City's General Fund. Here are the trends that were noticed in FY 2009-2010.

Property Taxes (\$12.1m)

Property tax revenues finished \$200k (or 1.7%) higher than the mid-year forecast, and \$650k above budget. An ERAF refund of \$813k helped these revenues exceed forecast.

Sales Tax (\$3.82m)

Sales tax revenues finished 4% higher than anticipated as revenues in 4Q10 improved over prior quarters. This was reflective of slight optimism in the markets in retail sales in the state. Whether or not this trend continues is suspect and will be watched closely.

Transient Occupancy Tax (\$1.18m)

TOT revenues came in \$220k lower than budget, due to the downturn in the economy, but 4Q TOT revenues exceeded expectations based on the mid-year projections.

Franchise Taxes (\$1.02m)

Franchise tax revenues fell \$100k below budget. PG&E franchise fees were lower due to significant decreases in natural gas prices, and Allied Waste fees were off due to constriction of revenues from commercial customers.

Vehicle License Fees (\$2.51m)

VLF fees beat mid-year projections to come in \$50k over budget. Statewide VLF revenues increased slightly over the prior year, which allowed the City to recognize an increase in revenues.

Business License Taxes (\$598k)

Business license tax revenues were off by more than 10% from budget due primarily to the economic downturn and lower underlying sales revenues upon which the tax is based.

Building Permits / Planning Fees (\$805k)

Building and Planning fees exceeded budget by \$164k as building and planning activity was higher than originally anticipated in the budget.

Investment Income (\$236k)

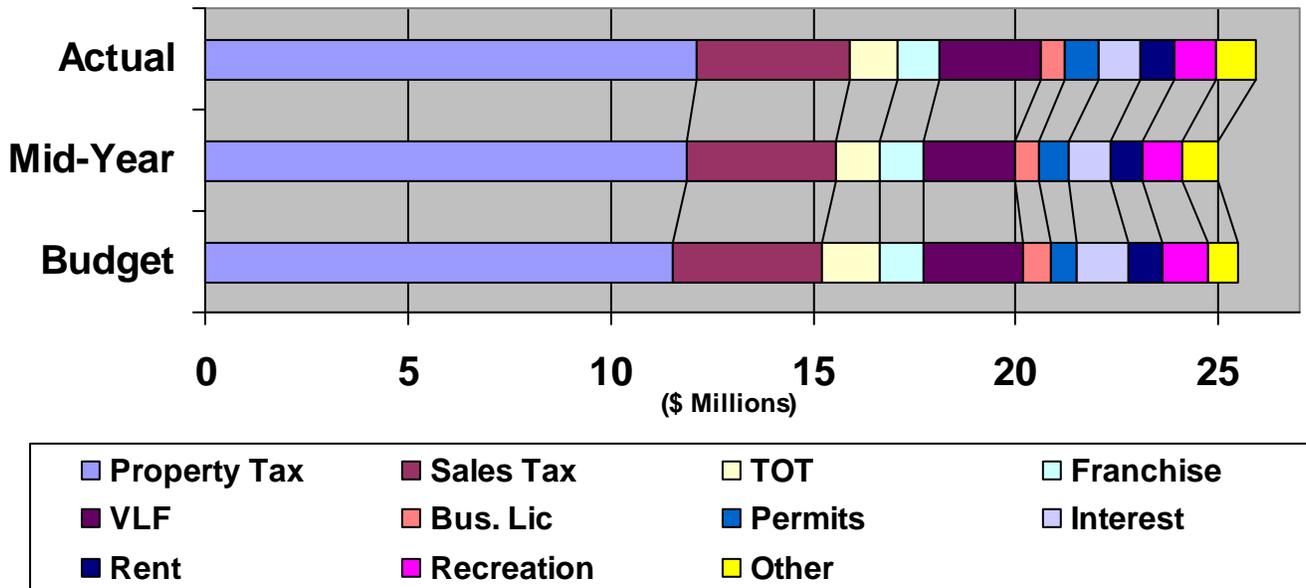
Investment income only approached half of the original budget due to the continued decreasing interest rate environment for Treasury and other fixed-income securities. Until employment rebounds, this trend will continue.

Rental Income (\$811k)

Rental income on various City-owned properties fell just short of budget projections by 4% due primarily to lower cash revenues from the NPJC property as a larger portion of their "in-kind" rent in the form of discounts to Foster City residents was realized compared to budget projections.

Recreation Programs (\$1.04m)

Recreation program revenue fell short of budget projections by 8%, yet improved in 4Q10 to exceed the mid-year projections.





Water Funds Fall Short; Wastewater Funds Finish Positive

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tion in water consumption. Operating trends in FY 2010-2011 will need to be closely monitored in order to close the gap in the lower-than-expected reserve levels and to manage the future rate increases necessary to keep the fund whole.

The Wastewater fund, on the other hand, finished the year with a reserve balance of \$7.60 million, which was nearly \$1.8 million higher than expected per the original budget. Wastewater Treatment Plant (WWTP) operating costs paid to the City of San Mateo were \$400,000 less than budget due to the installation of a more accurate

meter to measure flows to WWTP from Foster City. Another \$1.2 million (\$700,000 carried over from the prior year) in the annual WWTP CIP plan did not need to be expended. Those funds will be required in the future and will be incorporated into the future rate models as they become known.

Financial Issues to Watch Closely in FY 2010-2011

We are tracking the following trends in FY 2010-2011, including issues which have been made known to us in IQ 10/11.

Surplus Property Tax Increment from CDA

As the CDA reaches its tax increment cap of \$170 million during the year, surplus property taxes will flow to EMID. Initial projections showed \$2.8 million flowing to the General Fund. Based on updated projections and correction of an error in the calculation, the figure will more likely be \$1.5 million for FY 10-11. This is a one-time impact only. Ongoing revenues to the District beginning in FY 11-12 will be over \$4.8 million.

PERS Public Safety Rates Higher

CalPERS rejected the City's request, along with 8 other agencies, to reamortize the unfunded pension obligation for Public Safety. The County of Santa Clara is taking the lead in appealing the Chief Actuary's decision that is a departure from the previous Actuary's interpretation of the Hardship Request policy enacted in 2003. If the deci-

sion is not overturned, the City's Public Safety PERS rate will be 9.5% greater than projected. This will impact the General Fund by \$635k ongoing starting in FY 10-11.

Lower Sales Tax Revenues Expected

It has come to our attention that certain businesses in Foster City, which generate sales tax revenues here, will be either relocating to office space elsewhere or closing. Estimated sales tax loss is ~ \$115k.

Property Tax Assessments Lowered by Assessor

Final assessment rolls were received in July which showed a decline in AV of 2.04% for FY 10-11. Original projections from the Assessor's Office showed AV increasing in Foster City by .79%. Late assessment appeal decisions and an overall decline in AV for properties purchased in the past several years led to the significant decline. Impact on the General Fund may be \$300,000, but will likely be short-term depending on property turnover and future increases in property values.

ERAF Refund

ERAF deductions from City property

taxes are made each year based on conservative estimates of projected property values and tax status of school districts in the County. Each year, the County Controller analyzes prior years' ERAF deductions and issues refunds to agencies for which excess ERAF has been withheld. Average ERAF refunds for the past 7 years have equaled \$580k. The current projections for the ERAF refund owed EMID is \$400k. These funds are not budgeted.

Employment Vacancies

There are currently 10 positions vacant, yet funded. Five (5) of these positions are in the Police Department, with one (1) position each in City Clerk, Community Development, Fire, Parks & Recreation and Public Works. These positions are subject to the current hiring freeze. If these positions are not filled, salary and benefits savings totaling \$950k will be realized in the current year.

The net impact on the General Fund of known issues is an additional operating deficit of \$1 million. However, as the General Fund finished FY

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Trends Affecting FY 2010-2011

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09-10 with \$2.1 million in additional reserves, we currently project FY 10-11 to finish the year with \$17.6 million in reserves, or \$1.1 million greater than the original budget.

Economic Trends



Staff is closely following key economic trends and their potential impact on Foster City. Those trends include:

- Unemployment - impacts sales tax, business license, property tax, and investment earnings.
- Housing Prices - impacts property taxes and real property transfer tax
- Inflation - impacts cost of goods purchased, investment earnings (when coupled with interest rate

trends)

- Financial Markets - impacts long-term PERS costs, investment earnings.

There is concern that the economy has just entered the beginning of a “double-dip” recession. The effect of unemployment from temporary Census workers returning to the job pool, expiring tax credits that will impact business reinvestment and disposable income, and delayed or expiring Federal stimulus funds combine to create the potential for another economic decline.

Of key importance will be monitoring Foster City business trends and real estate prices that will affect short- and long-term impacts to property tax, sales tax, TOT, and business license revenues.

Status of Other Key Funds at Close of FY 09-10

- Capital Investment City - the City’s CIP fund ended the year with \$4.2 million in reserves, lower than expected due primarily to lower investment earnings from interest rate declines.
- Measure “A” and Gas Tax - these funds dedicated to streets-related projects finished with \$2.8 million in reserves, \$100k under projections due to lower investment earnings and tax remittances.
- Internal Services Funds - combined ISF’s finished the year with \$20.7 million in reserves, over \$830k higher than anticipated. These funds are considered unrestricted and at the discretion of the City Council.

Status of the State Budget - Day 82 (and counting?)

As of the date of this report, the Legislature and the Governor have still not yet reached terms on a FY 10-11 State Budget. There are still no agreed-upon solutions to solve the State’s \$19 billion deficit.

Republicans put forward a plan that contained most of the Governor’s May Revise with notable changes in the areas of red light cameras, raising property insurance surcharges to pay for emergency response, increasing water quality fees, and housing low-level prisoners in county jail. The Republican proposal eliminates welfare-to-work programs and state-subsidized childcare.

Democrats put forward a plan that contained spending authorizations that would provide more money to schools and continues funding for welfare-to-work programs. Facing pressure from within their own caucuses, Democrats did not take up trailer bills that contain the “tax swap” proposal, increase in the Vehicle License Fee, delaying several corporate tax breaks, or suspending Proposition 98. The Democrat majority needs 4 Republicans in the Senate, and 9 Republicans and/or Independents in the Assembly to forward a budget onto the Governor and meet the 2/3 require-

ment. A vote along party lines will not get a budget passed.

There have been no signs from either party of including proposals that would directly take City revenues. The Supplemental ERAF grab on redevelopment agencies in FY 09-10 and 10-11 is currently not being proposed again. Legislators are closely watching public sentiment supporting Proposition 22 on the November ballot that could potentially put a stop to any further takeaways by the State on local revenues. For now, there does not appear to be any impact on Foster City’s FY 10-11 budget from



any proposals being reviewed.

Budget negotiations amongst the “Big Five” continue, but there does not appear to be any budget solution in sight at the present time.

Staff will continue to closely monitor the State Budget situation for any impacts to Foster City and will keep the Council apprised accordingly.