



Foster City Financial Update 3Q 10/11

City of Foster City

For the Nine Months Ended March 31, 2011

City's General Fund Projected to Finish with \$19.4 million in Reserves

The City's General Fund began FY 2010-2011 with about \$22.4 million in reserves and will likely finish FY 2010-2011 with \$19.4 million in reserves. In other words, the projected deficit (expenditures exceeding revenues) is \$3 million. Revenues are projected to fall short of budget by \$156,000 (or 0.6% of the original \$27.7 million revenue estimate) for FY 2010-2011. In the Mid-Year Financial Review, we reported that revenues might fall nearly \$1.4 million short of expectations. Two specific revenue items have been

adjusted based on positive news received in 3Q 2011:

- **Property Taxes** - now that the final tally is known in regards to the CDA tax increment cap being reached, the District now expects to finish the year with \$13.6 million in property taxes, \$518,000 better than projected at mid-year.
- **Sales Taxes** - the County Controller's office found an error in its "Triple Flip" calculations that has adjusted sales tax

revenues by over \$600,000 to the positive.

On the expenditure side of the ledger, salary savings in the Police and Fire departments will counteract CalPERS' action of delaying approval of the "hardship request" to reamortize the City's obligation. However, the City received very positive news in that CalPERS approved the hardship request for FY 2011-2012, which will reduce the employer's pension contribution rate by 9.6% of salary for public safety employees.

Included in this report:

City General Fund likely to finish with \$19.4 million in reserves, due to a \$3 million deficit

All other City Funds in healthy shape, meeting or exceeding budget

General Fund revenues expected to fall \$156k (0.6%) short of budget.

General Fund expenditures likely to finish \$620k lower than budget

Economic outlook sees mixed signals, uncertainty

State Budget unresolved, \$120k negative impact on City likely

Highlights:

- CalPERS grants City's request to reamortized public safety pension costs - reduces pension rate by 9.6%
- County Controller correct error related to Sales Tax Triple Flip; Sales Taxes expected to meet target
- Economic outlook is mixed, housing market continuing to be slow amidst higher sales tax, TOT and franchise revenues.
- Loss of key sales tax producers being watched closely.

Revenue / Expenditure Trends Affecting Non-General Fund Activities

Although the City General Fund is always a primary focus, the activities of the City's other funds is also of great importance to the City's overall financial status. Highlights of selected key funds are presented below.

Special Revenue Funds

- **Traffic Safety** - code violation revenues are

meeting budget forecasts

- **Measure A** - sales tax revenues are exceeding forecasts. Funding of street improvements projects is underway.
- **Gas Tax** - revenues are meeting budget estimates; state is no longer "holding" funds due to Prop 22.

- **Proposition 42** - Funds were expended as planned to fund street improvements.
- **Park-In-Lieu Fees** - The Pilgrim-Triton project developer is expected to pull its first building permit by June 30, triggering the requirement for a \$4 million contri-

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General Fund Revenue Trends - Comparison to Prior Year 3Q (with projected final totals for FY 2010-2011)

Property Taxes (\$13.61m)

Property Tax collections through March were higher than prior year at this time. Projections through the end of the fiscal year, however, suggest that revenues will fall short of budget by \$625k due to assessment appeals granted by the County after the City budget was adopted.

Sales Tax (\$3.73m)

Sales tax collections are lower than prior year due to the County's error regarding the Triple-Flip allocation to the City (corrected in April). Sales tax is projected to meet budget estimates.

Transient Occupancy Tax (\$1.29m)

TOT revenue collections in 3Q were 10% greater than prior year. Occupancy at both hotels is up from the prior year.

Franchise Taxes (\$1.24m)

Franchise tax collections have exceeded prior year by over 20%, and will likely finish \$227k above estimates.

Business License Taxes (\$611k)

Business license collections are up by 4% compared to prior year, but are expected to fall just short of budget projections.

Building Permits / Planning Fees (\$1.59m)

Building permit and plan check activity in 3Q 10/11 is up by 60% from prior year, due primarily to building activity with Visa, Gilead Sciences and Pilgrim-Triton. Such fees are expected to exceed budget by \$274k.

Vehicle License Fees (\$2.52m)

VLF fees received in December were roughly at the same levels as the prior year, which were 8% short of

budget projections (totaling \$230k by year end).

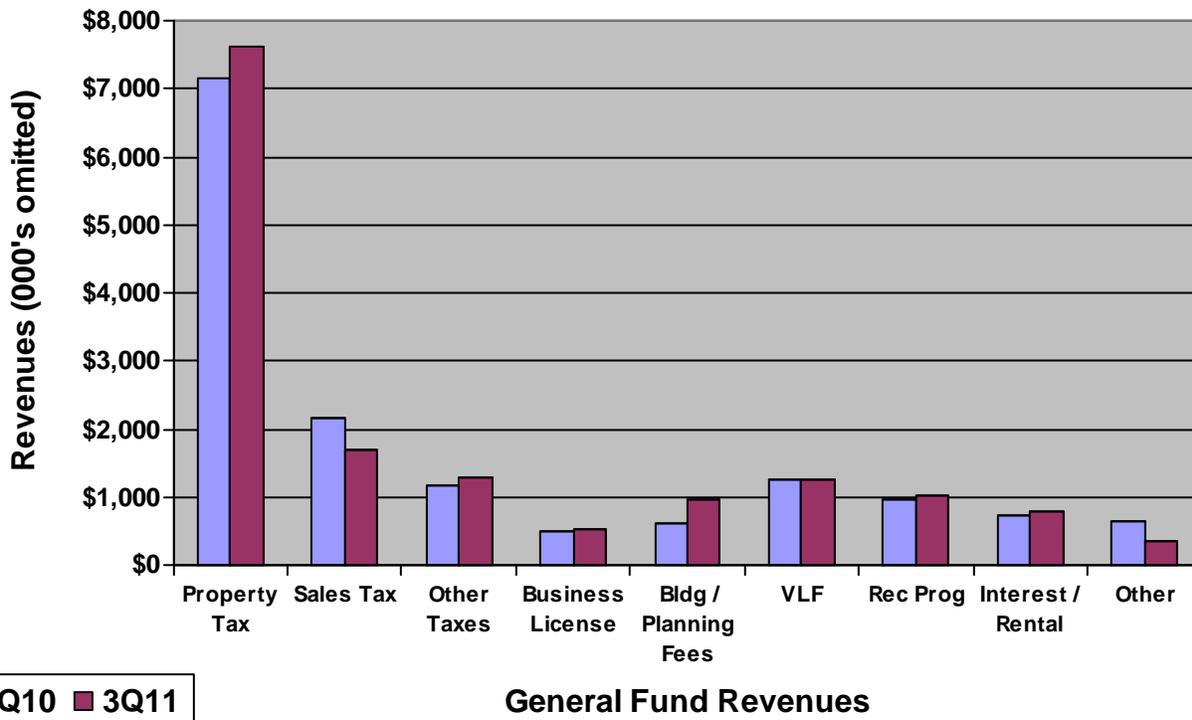
Interest / Rental Income (\$1.27m)

Investment income is 42% greater than prior year primarily due to an increased investment in longer-term securities than in previous years that is providing greater yields. Rental income is on par with prior year. Overall, interest / rental income will exceed budget by \$106k at year end.

Other Revenues (\$214k)

Other revenues are over 57% lower than last year as there were several wildland fire reimbursements received from providing a greater number of responses by FCFD teams. Other revenues will likely fall short of budget projections by \$92k.

Revenue Collections Quarter to Date



General Fund Revenues



General Fund Expenditure Trends - Comparison to Budget

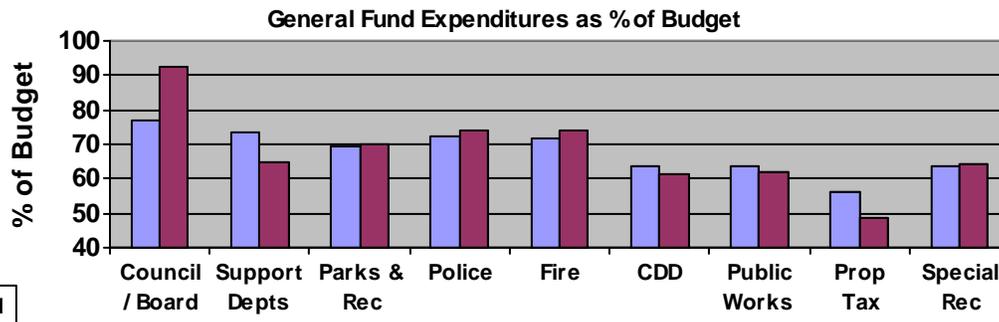
Overall spending to date for General Fund departments is 70.7% of total budget at the 75% point of the year, with year-end expenditure savings of \$620k (or 2% of total appropriations of \$30.8 million) expected.

- **Council/Board** - 88.7% of budget spent as most funded events and contributions have already occurred.
- **City Manager** - on target at 75.3%
- **City Clerk** - at 46.8%, elimination of Office Assistant II position will yield expenditure savings.
- **City Attorney** - at 62.8%, expected to finish within budget depending upon case work in 4Q.
- **Administrative Services** - reassigned to other departments.

- **Human Resources** - on target at 71.9%
- **Finance** - at 51.3% of budget, expenditures related to online utility billing will be incurred in 4Q.
- **Parks & Recreation** - at 70.2% of budget with salary savings realized from unfilled positions.
- **Police** - 73.8% of budget, with salary savings offsetting the hardship request denied by PERS. Expected to stay within budget.
- **Fire** - 74.0% of budget, with salary savings offsetting the hardship request denied by PERS. Expected to stay within budget.
- **Community Development** - at 61.1%, salary savings from vacant Senior Planner and Office Assistant

II position (net of part-time and consultant work) will likely yield expenditure savings.

- **Public Works** - at 62.0% of budget, will likely finish with expenditure savings in consulting services and personnel costs.
- **Library** - at 76.8%, on target for year end as additional hours funding ended on December 31, 2010.
- **Property Tax Admin** - at 48.7% of budget, charged when property tax payments received by County. Will finish on target with budget.
- **Special Recreation** - at 64.4% of budget, expenditures ramp up closer to summer sessions, will finish at or below budget.



Financial Issues Watch List for FY 2010-2011 and 2011-2012

The following trends are being monitored for the rest of FY 2010-2011 and as we move into budgeting for FY 2011-2012.

Surplus Property Tax Increment from CDA

The CDA Project Area One reached its tax increment cap of \$170 million in May 2011. Surplus property taxes are now flowing to the District of \$1.4 million in FY 10-11, and \$4.2 million annually starting in FY 11-12.

PERS Public Safety Rates Higher

CalPERS finally approved the City's

request to reamortize the unfunded pension obligation for Public Safety. The positive budgetary impact on an ongoing basis is \$800k, although the obligation will need to be repaid over a longer period.

Sales Tax Revenues

Local sales tax collections will have increased over the prior year, which is a positive sign for future economic growth. Retention of key sales tax producers will be vital to sustain Foster City's economic health. Solar City, one of the sales tax producers in Foster City, is in the process of moving

their offices to San Mateo and is expected to complete by December 2011. Development of the Pilgrim-Triton site, however, may generate additional sales tax revenues dependent upon the completion of the commercial space and the types of businesses that move into the space.

Economic Outlook

Staff is closely following key economic indicators (highlighted in **bold text**) and their potential impact on Foster City.

While the Recession may technically



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Trends Affecting Non-General Fund Activities

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bution in park-in-lieu fees.

Capital Projects Fund

- Investment income is exceeding budget estimates due to changes in the investment policy

Enterprise Funds

- Water Revenue - Increased collections over prior year due to the increase in rates and tiered rate penalties; consumption will likely be lower than budget projections by end of year.
- Wastewater Revenue - Increased collections due to rate increases; exceeding budget projections, primarily due to higher than expected revenues among commercial class customers.

Internal Service Funds

- All funds exceeding revenue expectations due primarily to investment income earnings exceeding budget estimates.

CDA Funds

- Project Area One - reached its tax increment cap; funds only being expended where necessary, with excess transferred to PIRA and AHRA agreements.
- Marlin Cove - revenue and expenditures on target with budget, with the final SERAF payment of \$1.2 million expected on May 10, 2011.
- Hillsdale/Gull - revenues (and developer subsidy) will be lower than expected due to developer's lower assessment.

Financial Issues Watch List

(Continued from page 3)

be over, there are renewed concerns about future economic growth in the near term. Renewed concerns of **inflation impacts** on economic growth have surfaced given the rapidly rising costs of fuel and oil-based products and questions on monetary policy, which will have an impact on **investment earnings** on the City's investment portfolio. Some quarterly economic indicators - **retail sales**, manufacturing, **stock market**, corporate profits - have seen positive advances, while other factors such as construction (especially private construction markets) and housing starts have seen declines. The **housing market** in Foster City continues to soften while 30-year mortgage rates rose to 5.1% before declining to 4.75% in March. Of biggest concern is the continued level of **unemployment** in

the US (8.8%) and in California (12.0%). While the unemployment rates have declined in the past quarter, the overall level remains persistent. Economic recovery will truly not begin until corporations and government begin to employ people in new jobs. Yet the government sector is expected to continue to layoff workers as tax revenues continue to fall.

We also continue to watch performance of the **stock market** that affects PERS rates. The market gained nearly 5.4% in 3Q 10/11, and 26% since July 1. The PERS board determined to maintain their discount rate at 7.75%. Employer rates, however, will climb by 3-4% of payroll in FY 11-12, and 2-4% through FY 13-14. Monitoring Foster City business trends and real estate prices will be of continued importance, which affects property tax, sales tax, TOT, and business license revenues.

No Resolution on State Budget

State Budget discussions have reached a point of stalemate. Governor Brown's FY 11-12 budget identified a \$25.8 billion deficit, and proposed a series of revenue enhancements in the form of tax extensions and increases and significant cuts in General Fund spending to solve the State's long-term deficit.

While the expenditure cuts were approved, the Legislature voted along party lines and, as such, the tax extensions and redevelopment agency termination proposals did not pass. The Governor halted any further negotiations and is in the process of developing his May revise budget, which may include a significant number of additional expenditure cuts that some fear will have a tremendous impact on State funded services. However, it is clear that the budgetary impacts

for Foster City as we move into FY 11-12 will be twofold:

- SLESF/COPS Funding - the failure to extend tax increases will eliminate \$100k in annual funding the City gets to fund one officer position.
- Booking Fees - the County will likely need to pass increased booking fees to the City as State backfills will no longer be available (an impact of \$20k per year).

The further elimination of social service funding may incent the County to find ways to pass along costs to cities that have otherwise not been done.

As budget proposals are issued, including the Governor's May revise, staff will analyze the impacts on the City's FY 11-12 budget and long-term forecasts.