



# Foster City Financial Update 4Q 11/12

City of Foster City

For the Twelve Months Ended June 30, 2012

## City General Fund Finishes FY 2011-2012 With Over \$20 Million in Reserves, Ahead of Forecasts

Bolstered by stronger sales tax and transient occupancy (hotel) tax collections, one-time development permit fees, and prudent spending by departments, the City General Fund finished FY 2011-2012 with over \$20 million in available reserves, which was about \$2.7 million ahead of expectations.

The unaudited final results were tabulated in September after the books were closed on FY 2011-2012. Total General Fund Revenues finished at \$31.7 million, over \$2 million ahead of projections. Variances in key revenues for the year are detailed below:

- ☺ Property Taxes - Property tax revenues ended the year \$450,000 higher than forecast, which yields some mixed results. Ongoing property taxes finished the year \$360,000 lower than original projections, yet the refund of excess Educational Revenue Augmentation Fund (ERAF) taken from prior years of \$810,000 which was not included in the original projections helped to make up for the difference.
- ☺ Sales Taxes - Sales tax collections exceeded original estimates by \$670,000 due primarily to gains in the business-to-business, transportation (gas stations), and construction sectors. It should be noted that some of the gains in the construction sector were due to local sales tax filings by contractors constructing the Pilgrim-Triton site (which totaled roughly \$75,000 of the overall gain).
- ☺ TOT - Hotel taxes finished the year

\$380,000 higher than original forecasts, of which \$125,000 was anticipated due to the increase in TOT rates in January 2012, with the remainder due to increased occupancy.

- ☺ Permit Revenues - Building permit revenues are at their strongest level ever due to the development projects being constructed at the Pilgrim-Triton site and at the Gilead Sciences campus. A total of \$1.6 million in permit revenues was received by June 30, nearly \$900,000 higher than original forecasts due to the timing and the extent of the projects being developed.
- ☺ Charges for Current Services - service fee revenues finished behind forecast due to the delayed timing of components of the Pilgrim-Triton site. Furthermore, recreation fee revenues finished behind forecast, but expenditures were well-managed to mitigate the subsidy to the Special Recreation fund component of the General Fund.

Spending by General Fund departments (see details on Page 2) was \$1.3 million lower than the amounts appropriated by the City Council in the FY 2011-2012 budget, led predominantly through expenditure savings in Parks & Recreation, Police and Community Development.

Ending FY 2012-2013 with \$20 million is reflective of the conservative fiscal management the City has made a tradition for several decades, and will serve the City well as it looks to solve its budgetary deficit in FY 2013-2014.

### Included in this report:

<i>General Fund Reserves Finish FY 2011-2012 at over \$20 million</i>	1
<i>General Fund Expenditures Details</i>	2
<i>Funds other than City General Fund Stay Strong</i>	3
<i>Dissolution of the Community Development Agency / State Budget Impacts</i>	4

### Highlights:

- General Fund reserves finish FY 2011-2012 at \$20 million
- Sales tax and transient occupancy tax revenues are trending higher
- The Pilgrim-Triton and Gilead Sciences Campus development projects are yielding significant one-time revenues, and stand to generate ongoing revenues to help fund City services.
- Economic forecasts, pension reform, and redevelopment dissolution all weigh into the City's economic future.



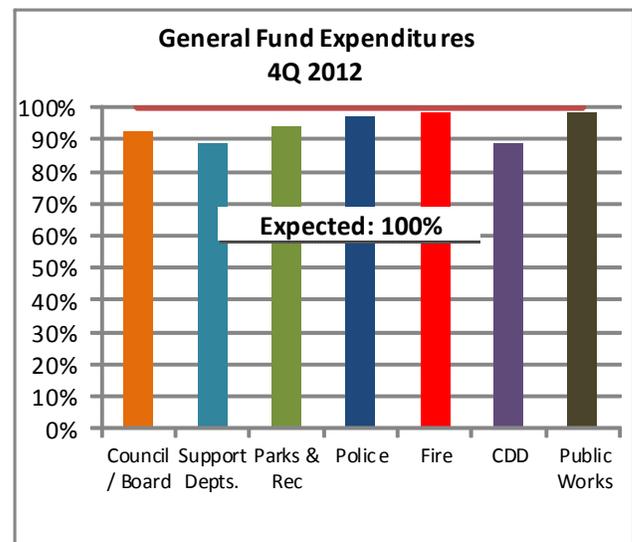
## General Fund Expenditures To Finish At or Below Original Forecast

General Fund expenditures, on a budget basis, finished FY 2011-2012 over \$1.3 million lower than amounts appropriated by the City Council during the fiscal year. This represents expenditure savings of 4.3% of the amended \$31.3 million budget.

Departments that generated over \$50,000 in savings in FY 2011-2012 are detailed below:

- City Clerk - elimination of one Clerical Assistant position after adoption of the budget plus a reclassification of the Deputy City Clerk position to a Records Analyst generated \$35,000 in salary savings, with an additional \$25,000 savings in elections costs associated with the November 2011 election.
- Human Resources - hiring a 60% part-time HR Director in September 2011 to replace the previous full-time position, coupled with savings in contractual services and advertising expenditures for job openings was responsible for generating the \$91,000 in savings.
- Financial Services - expenditures savings totaling nearly \$120,000 resulted from salary savings from vacant positions, a reorganization of the department in January 2012, and savings in outsourced services for online utility billing and audit fees.
- Parks & Recreation - total department savings were \$396,000, which resulted from three key areas: 1) the elimination of a temporary Maintenance Worker position as of 1/1/2012; 2) reduction in water consumption that led to water utility savings; and, 3) close monitoring of discretionary expenditures relative to special recreation programs, especially in facility rentals, adult sports, and youth contract classes.
- Police - personnel savings relative to vacant positions in the Administration Division and savings in several line items such as contracted services and departmental supplies represented the lion's share of the \$270,000 savings in the department.
- Fire - one (1) vacant firefighter position was backfilled through overtime, which generated the relatively small amount of savings (\$90,000) in the departmental budget. These savings are roughly 1.2%
- Community Development - Total expenditure savings in the department was \$225,000. The elimination of an Office Assistant II position was approved subsequent to the approval of the FY 2011-2012 budget, generating expenditure savings of \$75,000. In addition, vacancies in the Planning Department and Building Department, coupled with delaying the anticipated General Plan update through the use of consultants, contributed to the remainder of the budgetary savings.

Because of the City's conservative budgeting approach, the City's General Fund typically turns back 3-5% of its annual appropriations to reserves through budgetary savings. The year-end results are consistent with these trends.





## All Other Non-General Fund Resources Remain Well-Preserved

The health of the City's non-General Funds finished the year at or near final projections. Here is a brief recap:

- ☺ Traffic Safety - traffic fine revenue finished \$24,000 higher than forecast, which will be used to fund Public Works Streets Division operations in future budget years.
- ☺ Measure A - sales tax revenues from the County's Measure A funds were \$45,000 higher than forecast, consistent with the City Sales Tax trend. Measure A funds anticipated to fund a portion of the Multi-Project Traffic Improvements project were not received in FY 2011-2012, but are anticipated to be received in FY 2012-2013 to fully fund the requisite portion of that project.
- ☺ Gas Tax - gas tax revenues that fund ongoing Streets maintenance fell short by \$34,000, but the § 2103 taxes that fund capital projects exceeded budget expectations by \$110,000.
- ☺ Park In-Lieu Fees - the remaining unspent balance in park in-lieu fees from the prior year generated higher interest revenues than the original projections of about \$13,000.
- ☺ SLESF/COPS Grant - the VLF swap provided \$109,000 in grant funding to fund one police officer position
- ☺ Foster City Foundation - strong community support for Foundation-funded activities generated revenues nearly \$70,000 above expectations.
- ☺ Affordable Housing Reimbursement Agreement - unspent balances in the AHRA generated investment income in excess of projections by \$30,000. These funds (except for \$6.3 million funded towards the Pilgrim-Triton project) are expected to be swept by the State as part of the dissolution of redevelopment agencies in November 2012.
- ☺ Cooperative Services Agreement - the reduction in interest yield generated lower-than-expected interest income of about \$29,000 behind original projections. These funds are retained in the Successor Agency books to fund the obligation to the high school district.
- ☹ City CIP Fund - lower investment earnings led to a shortfall of \$30,000 in revenues. The recognition of revenues to fund the Multi-Project Traffic Improvements project of \$3.622 million is delayed until which time that project is constructed.
- ☹ Water Operations - water revenues finished \$354,000 above forecast, net of several factors: 1) one-time connection fees of \$530,000 for the Pilgrim-Triton and Gilead Sciences projects; 2) penalty amounts to the Water Sustainability Fund of \$300,000; and, 3) milder-than-normal weather and water conservation efforts that reduced water revenue collections by nearly \$400,000 when compared to original projections. Expenditures for the Water Operations fund were \$1.2 million lower than budget due to reduced water consumption paid to the SFPUC, and salary savings due to vacant positions and savings in contractual services line items.
- ☹ Wastewater Operations - wastewater revenues beat forecast by \$888,000 due to two factors: 1) increases in water consumption amongst commercial customers (especially the hotels), for which wastewater charges are based upon indoor consumption, and 2) collection of \$607,000 in connection fees. Expenditures were \$471,000 lower than budget due to lower-than-anticipated billings from the San Mateo Wastewater Treatment Plant operations due to lower flows.
- ☹ Internal Service Funds - collectively, Internal Service Funds met revenue expectations while generating expenditure savings of \$840,000 due to equipment deferred for replacement, competitive bidding market for equipment, and savings in various line items in support of those operations.

The City's other funds are strong in terms of revenue performance and expenditure savings due to strong fiscal management practices. The result: year-end reserves ensure that the necessary infrastructure, amenities and services can be provided to the community.



## City of Foster City

City Manager's Office  
Steve Toler, Assistant City Manager  
610 Foster City Blvd.,  
Foster City, CA 94404

Phone: 650-286-3214  
Fax: 650-286-2514  
E-mail: [SToler@fostercity.org](mailto:SToler@fostercity.org)



## External Forces Under Close Watch Heading Into FY 2012-2013 and FY 2013-2014

There are several external forces being closely monitored by the City as it completes its 1st Quarter of FY 2012-2013 and heads into a very important budgeting year of FY 2013-2014 as the City looks to solve its structural deficit.

### Economic Factors

Amidst the backdrop of the November 2012 Presidential Election, economists continue to predict a mixed future for the national and worldwide economy. The woes in Greece, Spain, and other European countries continue to play important parts in the future of the US economy. The Federal Reserve recently affirmed its need to not only keep interest rates low through mid-2015, but hinted at the potential of another round of "quantitative easing" in buying mortgage-backed securities to maintain the necessary cash flow to stimulate economic growth.

Unemployment in the US is holding steady at 8.1% - America is finding it difficult to put people back to work to drive growth. California unemployment stands at 10.7%, while San Mateo County unemployment is estimated to be 7.0% - an improvement over prior quarters, but still under the target of 5% as "full-employment".

The fiscal health of California also places pressures on the regional economy. Proposition 30, the Governor's tax measure to avert further cuts in state services, will be important to watch in November in terms of whether or not further state services are discontinued and its resultant impact on the residents and businesses in California. Moodys' recent downgrade of all California and municipal bonds, which stands to increase interest rates on future municipal bond borrowings, may place greater burdens on services provided by local governments throughout the state.

### Pension Reform

The Governor's signature on AB 340, the Public Employ-

ees Pension Reform Act, stands to reduce pension costs for public employers such as Foster City in future years. The extent to which savings are generated locally will depend on several factors and may not be immediately realized. The City will need to determine how the Act will impact future personnel costs, recruitment, and retention initiatives.

### Redevelopment Dissolution

The City, acting as Successor Agency, continues to work through the impacts of the original dissolution bill, ABx1 26, and the trailer bill enacted in June 2012, AB1484. The latter bill will require the City to turn over nearly \$13 million in affordable housing funds in November 2012 that will be redistributed to taxing entities. The final amount that the Estero Municipal Improvement District will receive of these funds is not yet known. The City Council has indicated its desire to use these funds for affordable housing, including the proposed senior affordable housing on the 15-Acre Site.

Furthermore, in late September 2012 the District will have a better sense as to the final impact on the District's collection of property taxes in the wake of the dissolution of the Marlin Cove and Hillsdale/Gull redevelopment areas. This will be factored into the revenue projections and, as such, the projection of the structural deficit that remains in FY 2013-2014 that the City Council has indicated its intent to cure by that year.

City staff will continue to monitor these issues and their related impact on the City's financial operations in FY 2012-2013 and the strategies to cure the structural deficit by FY 2013-2014.