



Foster City Financial Update 2Q 13/14

City of Foster City

Live, Work & Play in Foster City

General Fund Expected to Finish FY 2013-2014 with \$20.7 million in Reserves; Revenues Beating Forecast by \$1.3 million

The economic forecast for the City's General Fund has improved through the midway point in the fiscal year due to strong increases in property tax revenues and voter approval of the Business License Tax Ordinance.

The City's latest projections indicate that the General Fund is likely to finish FY 2013-2014 with \$20.7 million in reserves, which is nearly \$3.2 million better than the original budget of \$17.5 million. Based on the recently completed Comprehensive Annual Financial Report, the City's General Fund started the year with \$19.2 million, or \$1.9 million better than the original adopted budget. Revenues are also trending higher than expected, which is expected to lead to nearly \$1.3 million in additional General Fund revenues.

The City has received its first installment of **property tax revenues**, which confirmed the estimates received from the County Controller in September 2013 that property taxes were expected to beat original estimates by nearly \$1.1 million. Property taxes comprise over 54% of all General Fund revenues. Assessed values (AV) of properties were adjusted higher in cases where the property owners had previously received AV reductions. The City 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. In addition, Real Property Transfer Tax revenues are at 61% of original projections, but the lack of available inventory is muting the projections through the rest of the year. Nevertheless, the turnover in homes,

many of which were sold at prices higher than a Prop 13 AV basis, will lead to greater property taxes in future years.

Sales tax revenues, however, continue to trend 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. The City expects a \$200,000 shortfall of sales tax revenues as a result, and the City is carefully monitoring sales tax returns of its largest sales tax producers as the year progresses.

Other significant trends of note:

- ☹️ **Franchise fees** will fall \$160,000 short of original projections, due primarily to the decrease from 10% to 5% in the franchise fee charged to Recology for the privilege of using City rights of way to conduct their business.
- ☺️ **Business License revenues** are expected to beat original budget estimates by \$275,000 due to the approval of Measure U by voters which will increase the gross revenue cap upon which the tax is assessed ratably over the next four years,
- ☺️ **Vehicle license fees** are trending higher than original estimates by \$238,000 as many agencies in the State saw increases in vehicle registrations and the flow of vehicle license fee revenues from the State.

Positive trends in long-term revenues bode well for the City's long-term financial forecasts as we approach the FY 2014-2015 budget cycle.

Included in this report:

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Highlights:

- General Fund Reserves expected to finish at or above \$20.7 million by June 30, 2014
- Revenue trends in property tax, business license tax, and vehicle license fees bode well for City's long-term fiscal health
- Sales tax revenue trends will require careful monitoring and will play an important part in the City's future economic development plans
- Non-General Funds are very healthy, with positive revenue trends.
- The City is exiting the Recession, but sustained economic growth will be important for the future.



Live, Work & Play in Foster City

**City of Foster City**

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Sustainable Foster City:

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

**Robust Receipts in Measure A, Gas Tax, Park-in-Lieu, and Water and Wastewater Revenues**

With all the focus on the City's General Fund, the City's other funds have, themselves, shown signs of financial strength in the first six months of the fiscal year.

- ☺ Measure A revenues will finish the year nearly \$630,000 ahead of forecast due primarily to the receipt of county-wide funds that assisted the Multi-Project Traffic Improvement project along Triton Drive near the Pilgrim-Triton project. Those revenues will be turned back to the developers if the remaining projects finish within original cost estimates. Ongoing Measure A sales tax revenues are meeting original forecasts.
- ☺ Gas Tax revenues are beating original estimates by \$240,000, or roughly 29% higher than original forecasts, due to increased collections at the pump statewide. This positive trend, if it were to continue, would help offset the transfers from the General Fund to fund long-term street improvements.
- ☺ Park in Lieu fees will finish higher than anticipated as the final calculation of the PIL fees for the Triton Pointe project were higher than the original conservative budget estimates. This will allow the City to fund the necessary park improvements to meet the demands put on the park system as a result of increased population.
- ☺ Water revenues are higher than forecast due to increased water demand by commercial customers and the need to irrigate lawns as a result of the lack of precipitation this Winter. This latter point is being watched closely by the District in terms of any needs for water rationing if the dry conditions continue.
- ☺ Wastewater revenues are higher than anticipated due to that increase in commercial customer demand for water, which drives wastewater rates paid by those customers.

Have We Really Exited the Recession?

The stock market is up 20% in the past year. CalPERS posted a 16.3% return on investments, doubling the discount rate of 7.5% upon which pension costs are based. Housing prices in the Bay Area, and in Foster City, have now exceeded pre-Recession levels. Unemployment in California is back to 2008 levels at 8.2%, and the Greater Peninsula unemployment rate is at 5% which many believe is better than "normal unemployment". The State's Legislative Analyst is projecting 5% growth in personal income tax and nearly 6% growth in sales tax revenues over the next 3-5 years. National economists, while there are varying opinions, are suggesting that there are strong signs in the economy at the present time, but concerns that the stock market is outpacing the "reality" of recovery.

What does it all mean for Foster City? The City is tracking key relevant economic data through the year, and particularly in anticipation of the preparation of the next five-year forecast as part of the FY 2014-2015 budget, including:

- ◆ Housing market, particularly home prices, the available inventory and turnover
- ◆ Developer investment in the community
- ◆ Sales tax trends at the local, regional, and state level
- ◆ Investment markets, and in particular, the impact to the CalPERS Investment portfolio and pension rates
- ◆ Inflation and its impact on personnel costs and infrastructure raw material costs
- ◆ Labor market trends in the private and public sector and its impact on recruitment and retention
- ◆ Bond market impact on the City's investment portfolio

The City views the economic trends that have occurred over the past year as very promising and how they have manifested themselves in the City's key revenues. The City will continue to monitor these trends as it looks to update its financial forecasts entering the FY 2014-2015 Budget cycle.