

*The Economics of Land Use*



## **Final Report**

# City of San Mateo Economic and Revenue Forecast

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City of San Mateo

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## 1. BACKGROUND AND SUMMARY OF FINDINGS

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The City of San Mateo successfully weathered the Great Recession; however, it was necessary for the City to close its budget gap by increasing revenues (e.g., Measures L and M) and by reducing expenses (e.g., wage concessions and unpaid furlough days). Although revenues have improved significantly with the economic recovery, City staff remain concerned about the sunset and loss of Measure L revenues beginning in FY17-18. Other cost increases, for example increases in required PERS contributions, also contribute to concerns about the ability of reserves and future revenue growth to help cover those losses. To help strategically plan for those future years, the City retained Economic & Planning Systems, Inc. (EPS) to assist the City with its revenue forecasting effort of key revenues, including property tax, sales tax, hotel tax, and transfer tax, which account for 75 percent of General Fund Revenues. **Table 1** illustrates these revenues.

In 2009 and 2010, EPS and City staff worked together and prepared a similar forecast to help the City plan and budget for the effects of the 2008 Financial Crisis. This forecast represents a complete update of the previous effort.

### Background

The financial crisis of 2008 and the ensuing economic downturn have been labeled by economists as the “Great Recession.” Precipitated by overly-aggressive lending practices and the resulting collapse of the housing market, the nation’s credit market dried up, which slowed economic activity. The slowdown in consumer spending contributed to worsening economic conditions and significant job losses across all sectors of the economy.

The recession officially ended in 2009; however, recovery has been slow and job growth and wage increases have been significantly less than in prior economic recoveries. Actions by the Federal government to inject money into the economy, maintain low interest rates, and invest in struggling industries contributed to the recovery.

On the whole, the Peninsula was well-positioned to resist the worst of the recession. Located in a highly desirable portion of the Bay Area with excellent access to urban and natural amenities, the City is home to a stable population of wealthy, older households. The City’s commercial base is diverse and not wholly dependent on the success of a single economic sector. Recently, real estate markets have strengthened, particularly in the Bay Area as the tech industry has led the local recovery. New construction is beginning, which in turn will further improve wages and spending in the economy. Local tax revenues have improved.

Although prospects are brightening and forecasts generally call for continued improvement in revenues, risks remain and the City needs to continue to monitor and plan for uncertainties. Increases in mortgage interest rates are likely to moderate housing demand, and continued price growth will further widen affordability gaps. The loss of redevelopment will make the reuse and revitalization of older and underutilized areas more difficult, particularly in communities such as San Mateo that have limited land supply for new development. These factors, combined with community concerns about excessive density required to meet regional growth forecasts, will tend to slow rates of growth.

**Table 1**  
**City of San Mateo General Fund Revenue Sources**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	2008-2009		2009-2010		2010-2011		2011-2012		2012-2013		2013-2014	
	Actual	% of Total GF	Estimated Actual	% of Total GF	City Revised Adopted	% of Total GF						
Property Tax [1]	\$31,384,000	41%	\$30,839,211	41%	\$30,185,454	38%	\$31,997,752	38%	\$32,285,899	36%	\$35,201,291	38%
Property Transfer Tax	\$3,337,000	4%	\$3,837,735	5%	\$4,221,831	5%	\$4,387,035	5%	\$6,307,133	7%	\$7,157,000	8%
Sales Tax [2]	\$14,245,000	18%	\$14,210,680	19%	\$19,123,408	24%	\$20,793,456	25%	\$21,821,391	24%	\$21,729,974	24%
Transient Occupancy Tax	\$2,776,000	4%	\$2,886,222	4%	\$3,775,527	5%	\$4,694,146	6%	\$5,326,759	6%	\$5,593,097	6%
Other	<u>\$25,541,000</u>	<u>33%</u>	<u>\$22,667,914</u>	<u>30%</u>	<u>\$22,531,060</u>	<u>28%</u>	<u>\$22,026,825</u>	<u>26%</u>	<u>\$24,728,242</u>	<u>27%</u>	<u>\$22,635,854</u>	<u>25%</u>
<b>Total, General Fund</b>	<b>\$77,283,000</b>	<b>100%</b>	<b>\$74,441,762</b>	<b>100%</b>	<b>\$79,837,280</b>	<b>100%</b>	<b>\$83,899,214</b>	<b>100%</b>	<b>\$90,469,424</b>	<b>100%</b>	<b>\$92,317,216</b>	<b>100%</b>

[1] Property tax revenue includes Secured Property, Unsecured Property, HOPTR, Property Tax in lieu of VLF, Supplemental Assessments, and AB26 RDA Property Tax.

[2] Sales tax revenue includes Sales & Use Tax (75%), Property Tax in-lieu of Sales Tax, September Clean Up (if applicable), Public Safety Sales Tax, and Measure L revenue.

Sources: City of San Mateo budget documents (rev forecast & GF ref-exp summary.xlsx); Economic & Planning Systems, Inc.

**Table A-1** provides a 15-year history of the four revenue sources analyzed in this study. Sales tax and property transfer tax revenues fell considerably by approximately 15 percent and 42 percent, respectively, in FY2008/09, accounting for a total decline of \$4.8 million. TOT also fell by about \$500,000 or approximately 16 percent. Property tax revenue lags actual changes to assessed value and increased by 5.9 percent in FY2008/09 as a result of housing market performance in 2007 and statutory increases. Since FY2008/09, underlying economic conditions stabilized and began to grow. **Figure 1** displays this same historical data graphically, also showing EPS's baseline revenue projections by revenue source through FY2023/24.

The analysis breaks the study's projection horizon into near-term (FY2013/14 through FY2015/16), mid-term (FY2016/17 and FY2017/18) and long-term (FY2018/19 through FY2023/24). Ranges around the annual growth rates are provided, but they are not designed to anticipate or account for legislative "shocks" or other fiscal anomalies. The ranges are a function of time; they are tighter in the near term and looser in the long term because of increased uncertainty in the outyears.

## Summary of Findings

Projections are in nominal dollars (including inflation) except where noted. Generally, inflation is expected to increase to approximately 2 percent in the near term and 2.5 percent (or slightly above) in the mid- to long-term. If inflation increases beyond these levels, the following projections will need to be adjusted accordingly.

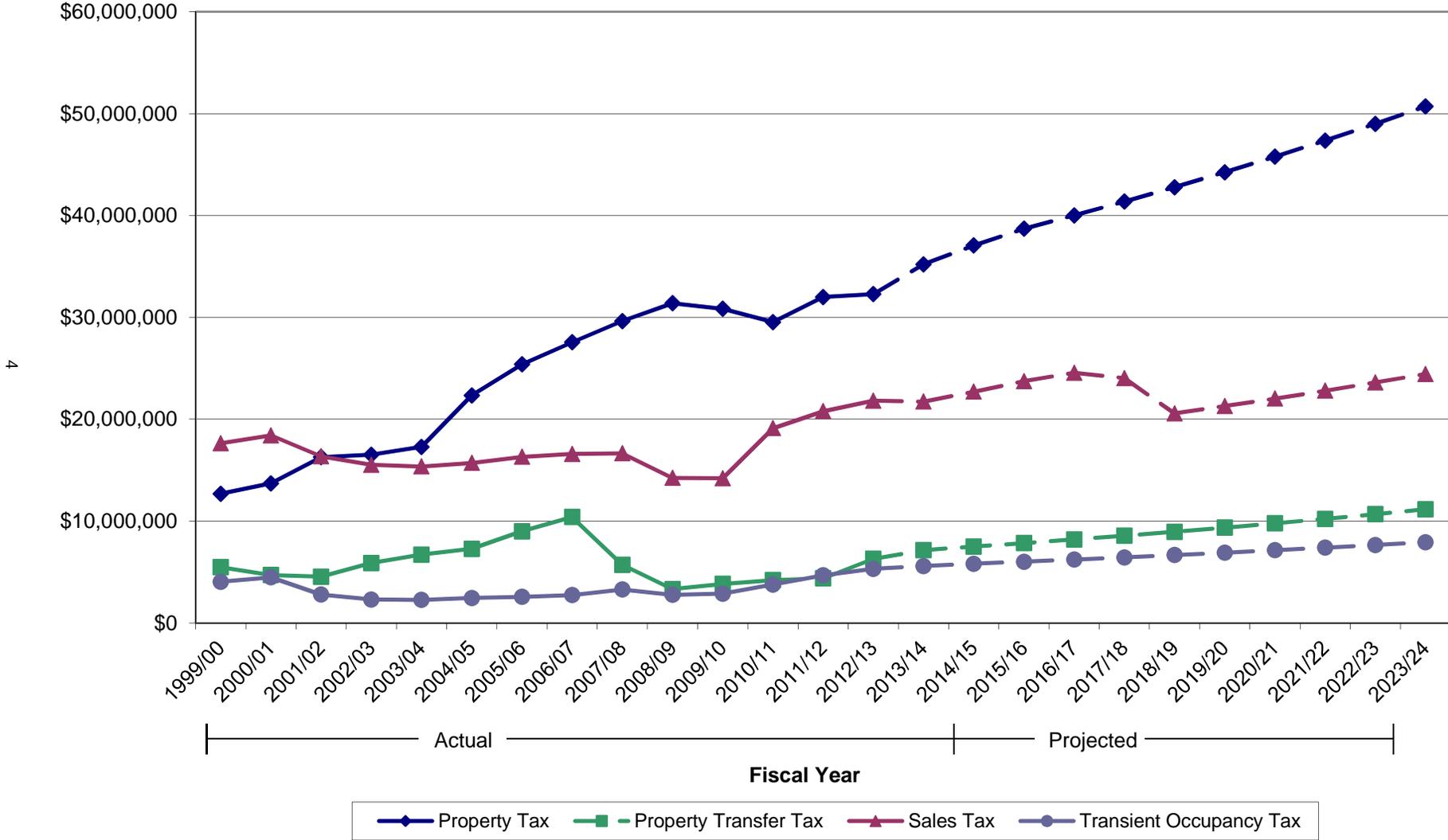
- 1. In the near term, forecasts of the City's four General Fund key revenue sources increase 6 percent in FY2013/14 over the prior year, then grow at a more moderate pace and contract about \$1.4 million in FY2018/19 due to the sunset and loss of Measure L sales tax revenue.***

Near-term economic conditions in the City of San Mateo appear strong as the economy continues to recover from the effects of the Great Recession. Based on an evaluation of fundamental indicators such as job and household growth, household income growth, home price appreciation, transaction activity and a steady yet reasonable supply pipeline of new development, EPS forecasts that in the mid- to long term, revenue trends will be closely tied to market fundamentals, with modest appreciation of approximately 1 to 2 percent real, or 3.5 to 4.5 percent including inflation. **Figure 1** illustrates the historical trends and projected performance of each of the revenue categories.

- 2. Property tax revenue is expected to increase between 4.5 and 5.5 percent for the next two fiscal years (FY2014/15 and FY2015/16), then moderate to approximately 3.5 percent.***

Both the residential and commercial market recoveries are well underway. As shown on **Table 2**, EPS expects residential assessed value in the City to increase in the near-term due to continued turnover and recapture of assessed value of homes that have not sold for many years (or were re-assessed downwards during the recession) as well as new supply associated with Bay Meadows and other development in the City. Sales activity and assessed value growth of nonresidential parcels is also expected to increase due to the strong employment and lease rate growth on the Peninsula.

**Figure 1  
City of San Mateo Revenue Trends  
and EPS Projections, FY 2000-2024**



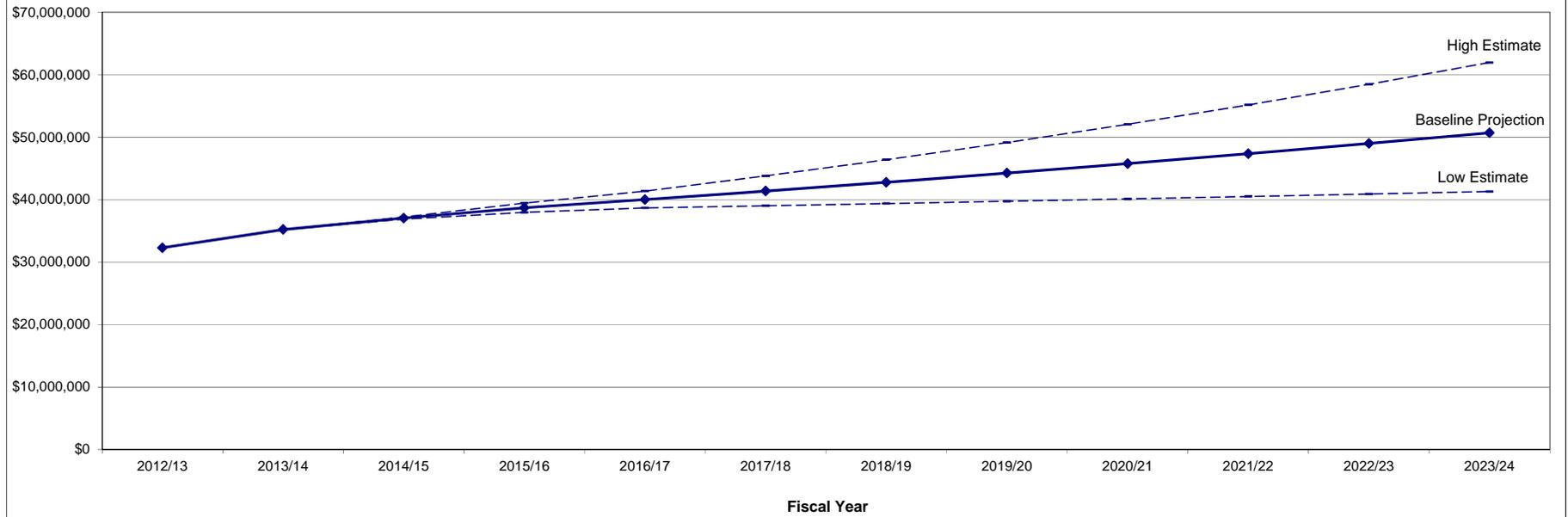
**Table 2**  
**Property Tax Projections (Through FY2023/24)**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

		2012/13 City Actual	2013/14 City Projected	2014/15 EPS Projected	2015/16 EPS Projected	2016/17 EPS Projected	2017/18 EPS Projected	2018/19 EPS Projected	2019/20 EPS Projected	2020/21 EPS Projected	2021/22 EPS Projected	2022/23 EPS Projected	2023/24 EPS Projected
<b>Baseline Projection</b>													
Residential Assessed Value		\$12,693,847,776	\$13,561,842,677	\$14,375,553,238	\$15,094,330,900	\$15,698,104,135	\$16,326,028,301	\$16,979,069,433	\$17,658,232,210	\$18,364,561,499	\$19,099,143,959	\$19,863,109,717	\$20,657,634,106
Annual Percent Change (Nominal)		2.2%	6.8%	6.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Commercial Assessed Value		\$2,877,959,217	\$3,106,866,524	\$3,324,347,181	\$3,523,808,012	\$3,647,141,292	\$3,774,791,237	\$3,906,908,930	\$4,043,650,743	\$4,185,178,519	\$4,331,659,767	\$4,483,267,859	\$4,640,182,234
Annual Percent Change (Nominal)		4.7%	8.0%	7.0%	6.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Total Net Assessed Value [1]		\$15,571,806,993	\$16,668,709,201	\$17,699,900,418	\$18,618,138,911	\$19,345,245,427	\$20,100,819,538	\$20,885,978,363	\$21,701,882,953	\$22,549,740,018	\$23,430,803,726	\$24,346,377,576	\$25,297,816,340
Annual Increment		\$398,859,155	\$1,096,902,208	\$1,031,191,217	\$918,238,493	\$727,106,516	\$755,574,111	\$785,158,825	\$815,904,590	\$847,857,064	\$881,063,708	\$915,573,850	\$951,438,764
1% Property Tax (of Increment)	1.00%	\$3,989,000	\$10,969,000	\$10,312,000	\$9,182,000	\$7,271,000	\$7,556,000	\$7,852,000	\$8,159,000	\$8,479,000	\$8,811,000	\$9,156,000	\$9,514,000
City's Allocation Factor [2]	14%	\$558,000	\$1,536,000	\$1,444,000	\$1,285,000	\$1,018,000	\$1,058,000	\$1,099,000	\$1,142,000	\$1,187,000	\$1,234,000	\$1,282,000	\$1,332,000
Property Tax excluding VLF Swap		\$25,384,895	\$27,435,133	\$28,879,133	\$30,164,133	\$31,182,133	\$32,240,133	\$33,339,133	\$34,481,133	\$35,668,133	\$36,902,133	\$38,184,133	\$39,516,133
Annual Increase/Decrease		1.9%	8.1%	5.3%	4.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.5%	3.5%	3.5%
Property Tax in lieu of VLF [3]		\$6,901,004	\$7,766,158	\$8,175,000	\$8,539,000	\$8,827,000	\$9,126,000	\$9,437,000	\$9,760,000	\$10,096,000	\$10,445,000	\$10,808,000	\$11,185,000
Property Tax including VLF Swap		\$32,285,899	\$35,201,291	\$37,054,133	\$38,703,133	\$40,009,133	\$41,366,133	\$42,776,133	\$44,241,133	\$45,764,133	\$47,347,133	\$48,992,133	\$50,701,133
		0.9%	9.0%	5.3%	4.5%	3.4%	3.4%	3.4%	3.4%	3.4%	3.5%	3.5%	3.5%
<b>Low Estimate</b>													
Property Tax including VLF Swap		\$32,285,899	\$35,201,291	\$36,878,000	\$37,966,000	\$38,678,000	\$39,023,000	\$39,378,000	\$39,742,000	\$40,117,000	\$40,502,000	\$40,897,000	\$41,301,000
Annual Percent Change (Nominal)		0.9%	9.0%	4.8%	3.0%	1.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%
<b>High Estimate</b>													
Property Tax including VLF Swap		\$32,285,899	\$35,201,291	\$37,230,000	\$39,445,000	\$41,368,000	\$43,805,000	\$46,393,000	\$49,142,000	\$52,062,000	\$55,164,000	\$58,460,000	\$61,961,000
Annual Percent Change (Nominal)		0.9%	9.0%	5.8%	6.0%	4.9%	5.9%	5.9%	5.9%	5.9%	6.0%	6.0%	6.0%

[1] Data provided by HdL on behalf of the City of San Mateo. Values exclude redevelopment areas.  
[2] Approximate increment or allocation factor without supplemental or unitary taxes, provided by Doris Koo.  
[3] Assumes VLF Swap increases/decreases at the same rate at property tax.

Sources: City of San Mateo; HdL; Economic & Planning Systems, Inc.

Figure 2  
Property Tax Revenue Projections, FY 2015-2024



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The mid- to long-term forecast shows nominal appreciation of approximately 3.5 percent, reflecting modest real appreciation of 1 percent (above inflation) tied primarily to household growth projections and price appreciation. EPS's property tax projections may vary +/- 0.5 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2.5 percent in the long term, as shown on **Figure 2**.

**3. Sales tax revenue was buoyed by the passage of Measure L in FY2009/10, and when it expires in FY2017/18, there will be a substantial loss of revenue for which the City will need to plan and budget.**

The passage of Measure L increased the tax rate by 0.25 percent beginning April 1, 2010, which helped to offset the job losses and stagnant income growth attributable to the Great Recession. With Measure L in effect, sales tax revenue growth has been robust in recent years. In combination with strong underlying fundamentals such as growth in households, jobs, and household income, sales tax revenue should continue to increase through FY2016/17.

Growth in sales tax revenue is forecast to outpace inflation by 2 percent in the near term and then moderate to 1 percent. However, the expiration of Measure L will cause sales tax revenues to decline in FY2017/18 and FY2018/19 by about \$4 million in aggregate during the two years.

These sales tax revenue projections may vary +/- 1 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2 percent in the long term, as shown on **Table 3** and **Figure 3**.

**4. The City's Transient Occupancy Tax (TOT), or hotel tax, should outpace inflation in the near term due to strong and rising occupancy rates in the City's hotels.**

In the City of San Mateo, TOT is closely tied to job growth as local hotels primarily serve business travelers flying in and out of San Francisco International Airport. Job growth and increasing business travel will continue to put upward pressure on occupancy rates and room rates. There was one hotel closure in FY2012/13, and there are two motels in the City that may be demolished and replaced with residential units, which would have a modest downward effect on the City's TOT. On the other hand, development of new hotels in the long term is possible as room rates and occupancy rates continue to strengthen.

In the mid- to long term, TOT revenue growth is expected to track employment growth, resulting in 3.5 percent nominal annual growth, as shown on **Table 4** and **Figure 4**. The TOT revenue projections may vary +/- 1 percent in the near term, +/- 2 percent in the mid-term, and +/- 3 percent in the long term.

**Table 3**  
**Sales Tax Projections (Through FY2023/24)**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

	2012/13 City Actual	2013/14 City Projected	2014/15 EPS Projected	2015/16 EPS Projected	2016/17 EPS Projected	2017/18 EPS Projected	2018/19 EPS Projected	2019/20 EPS Projected	2020/21 EPS Projected	2021/22 EPS Projected	2022/23 EPS Projected	2023/24 EPS Projected
<b>Baseline Projection</b>												
Non-Measure L Sales Tax Revenue [1]	\$17,224,768	\$16,991,474	\$17,756,090	\$18,555,114	\$19,204,543	\$19,876,702	\$20,572,387	\$21,292,421	\$22,037,655	\$22,808,973	\$23,607,287	\$24,433,542
Annual Percent Change (Nominal)	5.2%	-1.4%	4.5%	4.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
0.25% Sales Tax Revenue, Measure L [2]												
Portion of Year Affected	100.0%	100.0%	100.0%	100.0%	100.0%	75.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Measure L Revenue	\$4,596,623	\$4,738,500	\$4,951,733	\$5,174,560	\$5,355,670	\$4,157,339	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	\$21,821,391	\$21,729,974	\$22,707,823	\$23,729,675	\$24,560,213	\$24,034,041	\$20,572,387	\$21,292,421	\$22,037,655	\$22,808,973	\$23,607,287	\$24,433,542
Annual Percent Change (Nominal)	4.9%	-0.4%	4.5%	4.5%	3.5%	-2.1%	-14.4%	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Low Estimate</b>												
Sales Tax Revenue [3]	\$21,821,391	\$21,729,974	\$22,490,523	\$23,165,239	\$23,628,544	\$22,675,523	\$19,034,474	\$19,319,991	\$19,609,791	\$19,903,938	\$20,202,497	\$20,505,535
Annual Percent Change (Nominal)	4.9%	-0.4%	3.5%	3.0%	2.0%	-4.0%	-16.1%	1.5%	1.5%	1.5%	1.5%	1.5%
<b>High Estimate</b>												
Sales Tax Revenue [3]	\$21,821,391	\$21,729,974	\$22,925,123	\$24,300,630	\$25,515,661	\$25,451,513	\$22,206,678	\$23,428,045	\$24,716,588	\$26,076,000	\$27,510,180	\$29,023,240
Annual Percent Change (Nominal)	4.9%	-0.4%	5.5%	6.0%	5.0%	-0.3%	-12.7%	5.5%	5.5%	5.5%	5.5%	5.5%

[1] These projections account for the 75% sales and use tax revenue, the property tax in lieu of sales tax revenue, true-ups, the administrative fee, September clean-ups, and the public safety sales tax revenue. As of the final quarter of 2015/16, the triple flip will expire and the Bradley Burr

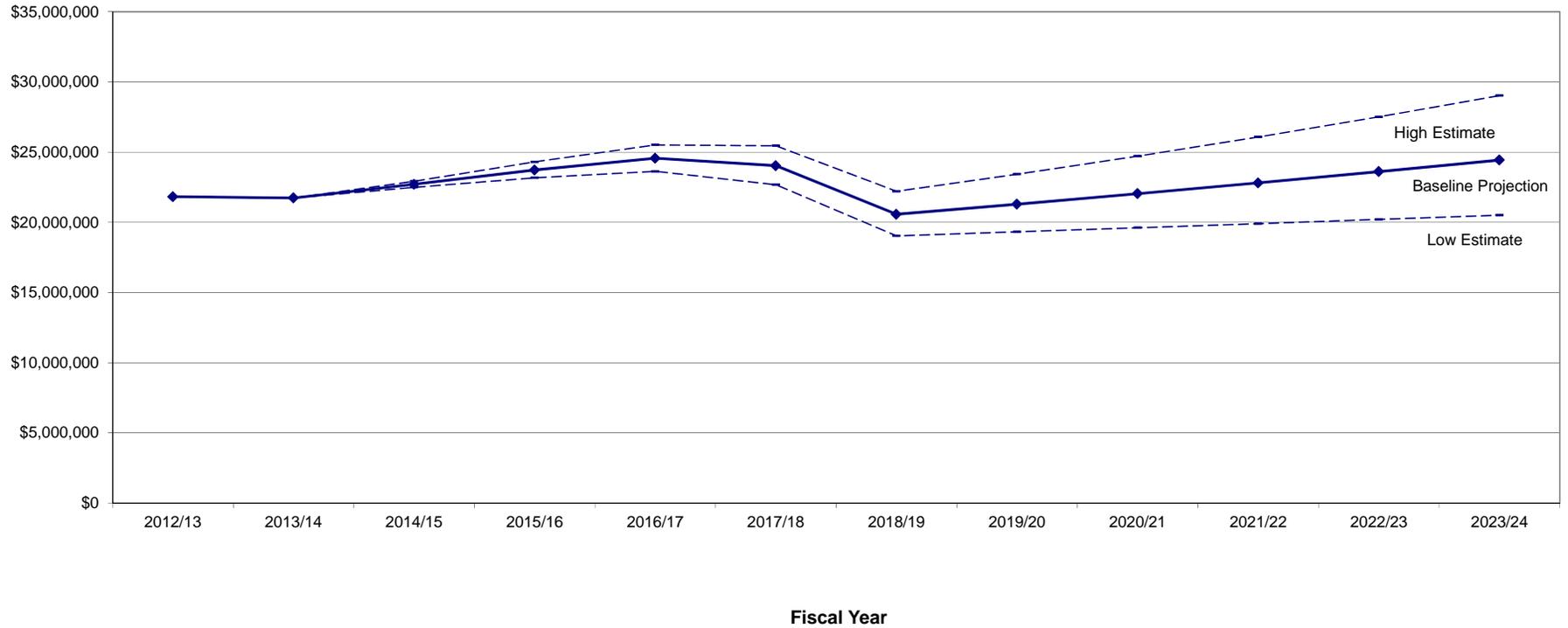
[2] With the passage of Measure L, the sales tax rate in the City of San Mateo is 9.5 percent effective April 1, 2010. The additional tax is set to expire on March 31, 2018.

[3] Revenue stream includes Measure L in applicable years.

Sources: City of San Mateo; Economic & Planning Systems, Inc.

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**Figure 3**  
**Retail Sales Tax Projections, FY 2015-2024**



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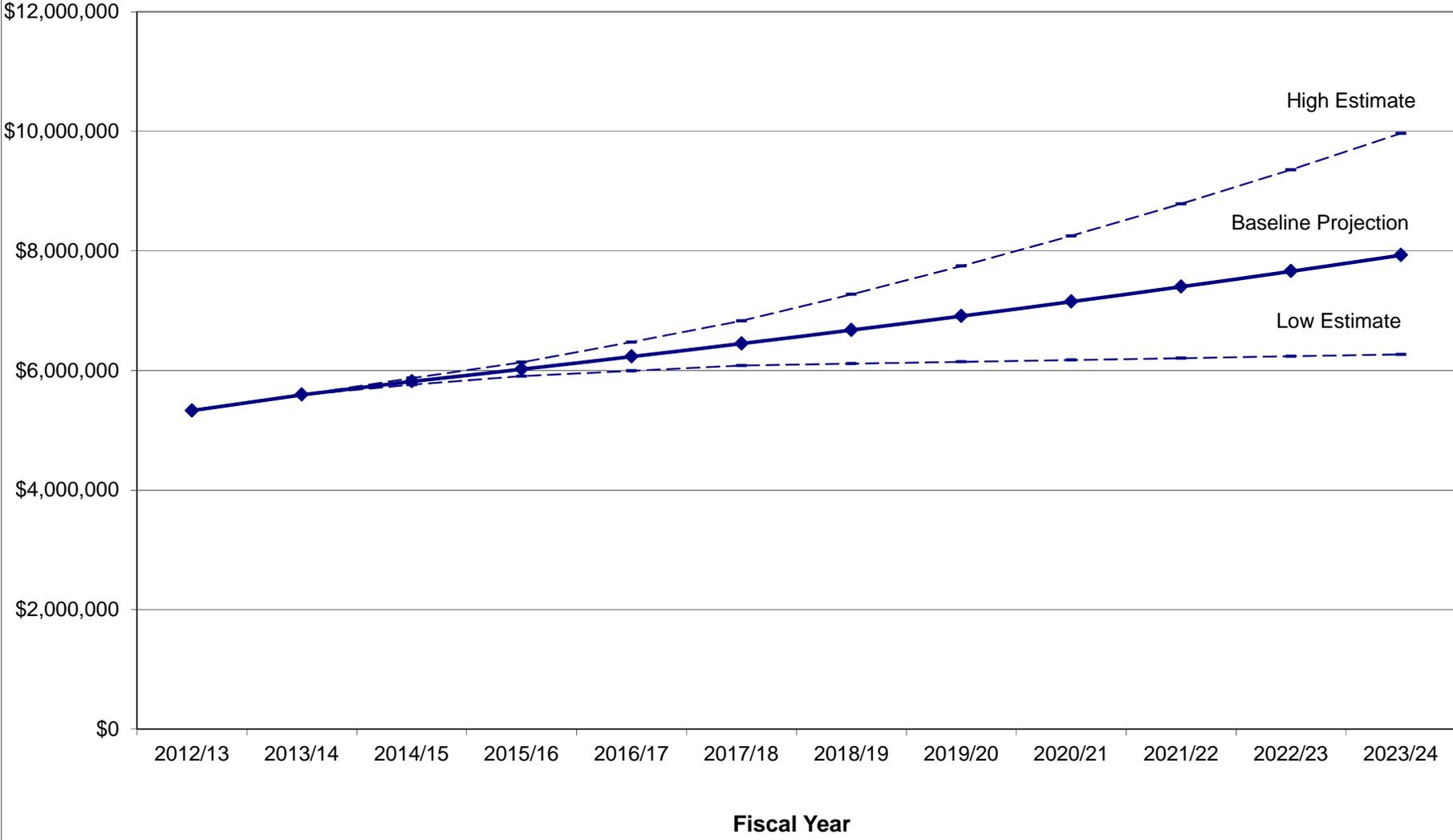
**Table 4**  
**Transient Occupancy Tax Projections (Through FY2023/24**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	City Actual	City Projected	EPS Projected									
<b>Baseline Projection</b>												
Total TOT [1]	\$5,326,759	\$5,593,097	\$5,816,821	\$6,020,410	\$6,231,124	\$6,449,213	\$6,674,936	\$6,908,559	\$7,150,358	\$7,400,621	\$7,659,642	\$7,927,730
Annual Percent Change (Nominal)	13.5%	5.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
<b>Low Estimate</b>												
Total TOT [1]	\$5,326,759	\$5,593,097	\$5,760,890	\$5,904,912	\$5,993,486	\$6,083,388	\$6,113,805	\$6,144,374	\$6,175,096	\$6,205,971	\$6,237,001	\$6,268,186
Annual Percent Change (Nominal)	13.5%	5.0%	3.0%	2.5%	1.5%	1.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
<b>High Estimate</b>												
Total TOT [1]	\$5,326,759	\$5,593,097	\$5,872,752	\$6,137,026	\$6,474,562	\$6,830,663	\$7,274,656	\$7,747,509	\$8,251,097	\$8,787,418	\$9,358,600	\$9,966,909
Annual Percent Change (Nominal)	13.5%	5.0%	5.0%	4.5%	5.5%	5.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

[1] Measure M went into effect in final months of fiscal year 2009/10.

Sources: City of San Mateo; Economic & Planning Systems, Inc.

**Figure 4**  
**Transient Occupancy Tax Projections, FY 2015-2024**



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**5. Property transfer tax revenue is expected to increase by 5 percent in FY2014/15 before moderating to 4.5 percent in the years beyond.**

Property transfer tax is the most volatile revenue source as it is driven by home values and transaction volume, which can vary significantly even during periods of relatively stable economic growth. EPS forecasts continued price increases in the near-term (FY2014/15 and FY2015/16) but that the number of transactions will stabilize in the coming years.

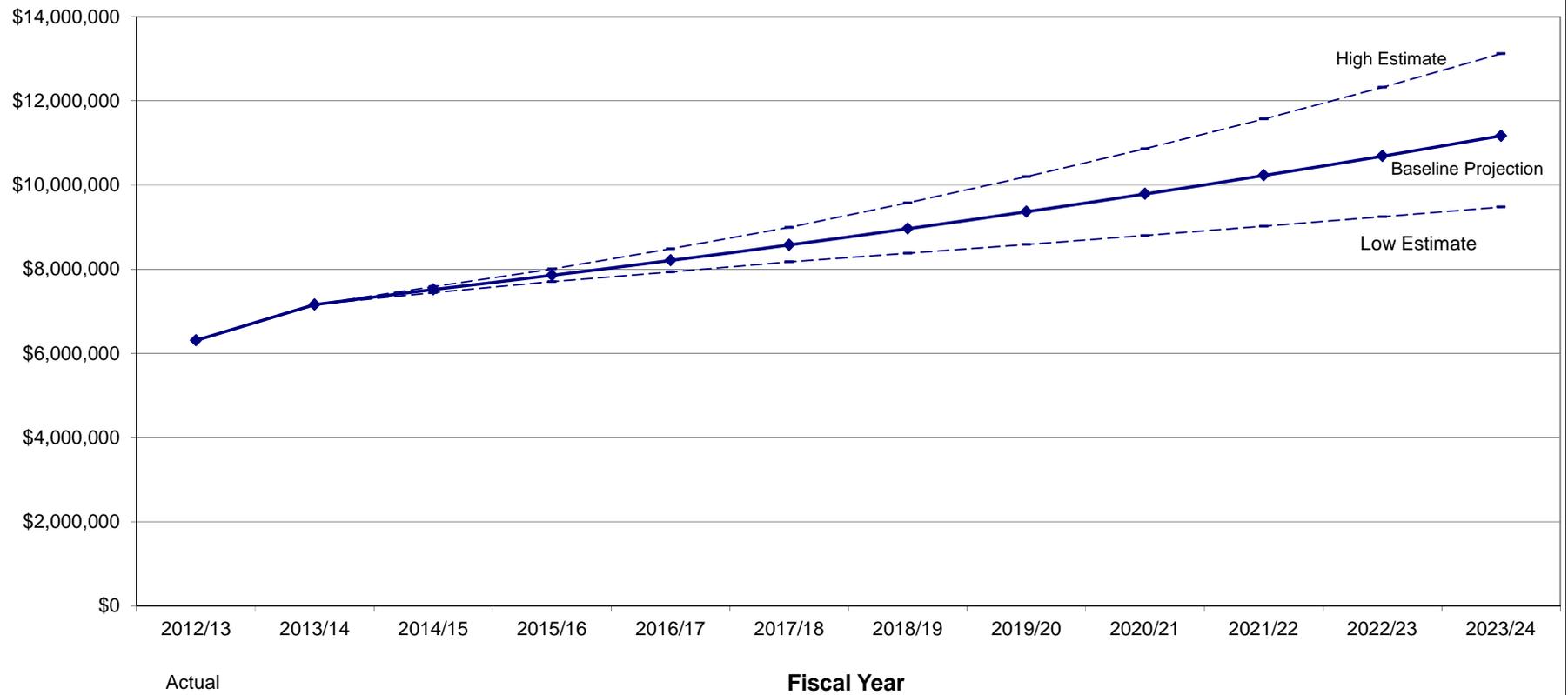
Long term, EPS anticipates transfer tax revenue to increase by approximately 4.5 percent per year, in nominal dollars as a result of continued growth in assessed value, and consistent with historic trends. As shown on **Table 5** and **Figure 5**, the property transfer tax revenue projections may vary +/- 1 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2 percent in the long term.

**Table 5**  
**Property Transfer Tax Projections (Through FY2023/24)**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

	2012/13 City Actual	2013/14 City Projected	2014/15 EPS Projected	2015/16 EPS Projected	2016/17 EPS Projected	2017/18 EPS Projected	2018/19 EPS Projected	2019/20 EPS Projected	2020/21 EPS Projected	2021/22 EPS Projected	2022/23 EPS Projected	2023/24 EPS Projected
<b>Baseline Projection</b>												
Property Transfer Tax	\$6,307,133	\$7,157,000	\$7,514,850	\$7,853,018	\$8,206,404	\$8,575,692	\$8,961,598	\$9,364,870	\$9,786,289	\$10,226,673	\$10,686,873	\$11,167,782
Annual Percent Change (Nominal)	43.8%	13.5%	5.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
<b>Low Estimate</b>												
Property Transfer Tax	\$6,307,133	\$7,157,000	\$7,443,280	\$7,703,795	\$7,934,909	\$8,172,956	\$8,377,280	\$8,586,712	\$8,801,380	\$9,021,414	\$9,246,949	\$9,478,123
Annual Percent Change (Nominal)	43.8%	13.5%	4.0%	3.5%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>High Estimate</b>												
Property Transfer Tax	\$6,307,133	\$7,157,000	\$7,586,420	\$8,003,673	\$8,483,893	\$8,992,927	\$9,577,467	\$10,200,003	\$10,863,003	\$11,569,098	\$12,321,089	\$13,121,960
Annual Percent Change (Nominal)	43.8%	13.5%	6.0%	5.5%	6.0%	6.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%

Sources: City of San Mateo; Economic & Planning Systems, Inc.

**Figure 5**  
**Property Transfer Tax Projections, FY 2015-2024**



## 2. GROWTH AND DEVELOPMENT

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This study projects the performance of four key revenue sources through FY2023/24 based on national and local economic indicators and market fundamentals such as population and household growth and household income, as well as planned new development.

Growth prospects in the near term are strong, given current real estate markets and the economic outlook, and should support revenue increases exceeding inflation. Population and job growth are likely to be in the 1 to 2 percent range annually, which result in a 3.5 to 4.5 percent annual increase or more when added to inflation. In the longer term, however, it will be challenging to continue to achieve regional growth allocations to San Mateo due to the limits on land supply available for new development, costs of infill development, likely increases in interest rates, and pressure from reduced housing affordability.

### ABAG Projections

Estimates of the City's population, households, and job growth are summarized on **Table A-2** and inform the fiscal projections, as these factors influence future revenue growth. The Association of Bay Area Governments (ABAG) released their 2013 projections for the City of San Mateo as a part of the Plan Bay Area report. These projections provide a basis for the fiscal forecasts; however, for purposes of the revenue estimates, EPS has modified certain of the assumptions as described below, based on consideration of supply, demand, development costs and other factors influencing development in San Mateo.<sup>1</sup>

#### Housing Units

From 2010 to 2020, Plan Bay Area (PBA) projects a 3,467-unit increase in housing in the City of San Mateo; this represents an average of 347 units annually or about 0.90 percent growth per year. This is a significant increase compared to the 885 total units added between 2000-2010, reflecting improving economic conditions, strong residential demand, and the increase in land supply attributable to Bay Meadows.

Over the next three to five years, EPS assumes demand for 347 annual new units, consistent with PBA; however, limited land supply outside of Bay Meadows and the high cost of developing infill sites are factors likely to constrain rates of development. In addition, pent-up demand from the recession is likely to run its course, and increasing interest rates/reduced affordable will also reduce rates of new construction over the longer-term. EPS assumes an annual rate of growth of 0.5 percent over the longer term, or about 180 new units annually.

#### Population

Plan Bay Area forecasts an 8,793 increase in population from 2010 through 2020. This change is approximately equal to the 0.9 percent increase in households over that period.

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<sup>1</sup> Rates of change are annual compounded rates. Unit and square foot averages are calculated from the total change divided by number of years.

Similar to the household forecast, EPS assumes that population will grow at a 0.9 percent annual rate over the next 3 to 5 years, or about 880 new residents annually. Over the longer term, EPS assumes that the rate of growth will slow to about 0.5 percent annually, or about 450 new residents per year.

### Jobs

Plan Bay Area projects a 10,890 increase in total jobs in the City of San Mateo over the 2010 to 2020 period.<sup>2</sup> This represents an average increase of about 1,090 jobs annually, or about 1.9 percent. This increase will result in increased occupancy rates of existing commercial space, hiring by existing businesses, and will support the construction of new commercial space for new and expanded businesses in San Mateo.

## City's Development Pipeline

Studying the City's development pipeline helps assess whether available "supply" will act as a constraint on future growth. As actual projects come online, they will cause actual revenues to fluctuate year-to-year relative to the revenue forecasts, in addition to variances caused by economic fluctuations.

There are a number of significant projects under construction and in the pipeline, at various stages of approval, such as Bay Meadows and Station Park Green. Bay Meadows has started construction and sale of homes, and is planning commercial projects. Station Park Green has an approved Specific Plan, but has not progressed to construction as of the date of this report. The Bay Meadows development provides a significant supply to meet a substantial portion of PBA forecasts; however, in the long term this supply will be exhausted and new development will become more challenging.

Following is a summary of pipeline by land use type. This information is also shown on **Appendix Table A-3**.

### Residential

The City of San Mateo has approximately 2,400 planned or approved residential units in the pipeline. This represents about a nine-year supply of new development based on the growth in new households described above. Bay Meadows has completed approximately 60 units, and holds building permits for another 200 units.

### Hotel

No new hotels are planned. Two projects are being planned which will redevelop two older motels into residential units.

### Office

Approximately 1.3 million square feet of office space are planned or approved, over half as part of the Bay Meadows project. At an average annual absorption rate of 145,000 square feet per year, this represents about nine years of development capacity.

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<sup>2</sup> Draft Plan Bay Area, July 2013.

## Retail

About 170,000 square feet of retail space are planned or approved, representing approximately eight to nine years of development capacity.

## Projected Commercial Development

In order to bracket and confirm EPS's revenue forecasts in the context of expected new development, EPS evaluated the amount of projected commercial development and estimated an annual absorption rate for each commercial land use category. Projected job growth would support approximately 350,000 square feet of commercial space annually.<sup>3</sup> However, as noted previously, new jobs will occupy existing commercial space and in some cases not require new construction (outside sales positions, etc.).

## Office

For purposes of the forecasts, no significant new construction is anticipated over the next two to three years; as new development (especially Bay Meadows) comes online over the subsequent three to eight years, total job growth is assumed to result in 150,000 square feet annually of new office space, which is about half of the forecast of new jobs.<sup>4</sup> Over the longer term, limited land supply and the costs of reuse and new development is assumed to continue to constrain office development to the 150,000 square feet per year, on average. In any given year, this amount will vary depending on the size, type and number of new buildings constructed.

## Retail

Household growth could support about 30,000 square feet of new retail space annually; however, it is likely that much of this new demand will result in increased sales at existing retail in the region, rather than significant new construction. Approximately 20,000 square feet of new retail space is assumed annually as new development ramps up over the next three to eight year period.

## Other Key Assumptions

### Inflation

Inflation in the San Francisco Bay Area has averaged about 2.3 percent over the past decade. Economists generally anticipate some upwards pressure on inflation as the current recovery continues; however, actions by the Federal Reserve (e.g., reductions in quantitative easing and increases in the Federal Funds rates) are likely to temper CPI increases. In the near term, inflation is assumed to increase from its current 2 percent level up to 2.5 percent to 3.0 percent, settling down to a 2.5 percent annual rate over the longer term.

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<sup>3</sup> Assumes an average of 320 square feet per employee based on prior EPS research and experience.

<sup>4</sup> The industrial categories of finance, insurance and real estate, government, professional and business services, education and health services, information, and other services comprise about 50 percent of total wage and salary jobs in the Bay Area.

### 3. PROPERTY TAX REVENUE

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In FY2012/13, property tax revenue was \$32.3 million and represented 36 percent of the City's general fund. According to the revised adopted City budget projections, property tax revenue is expected to increase 9 percent in FY2013/14 after posting modest declines in FY2009/10 and FY2010/11 and increases in FY2011/12 and FY2012/13. Property tax revenues have increased on average 7.7 percent per year during the past decade.<sup>5</sup> The near-term forecast is for nominal appreciation of 5.3 percent in FY2014/15 and 4.5 percent in FY2015/16, reflecting strengthening home values, steady transaction activity, new development, and Proposition 8 value recapture. The mid- to long-term forecast is tied to household growth projections and modest real appreciation of 1 percent, resulting in nominal annual increases of approximately 3.5 percent.

Assessed valuation is derived from the sum of the prior year's "base" plus an added annual increment that includes up to a 2 percent statutory increase, value added from turnover of real property (property sales), value added by new construction, and value added or subtracted by re-assessments. Of the incremental revenue generated by growth in the City's total assessed value, the City receives approximately 14 percent.<sup>6</sup>

#### Residential

As of the end of 2012 (the most recent full year for which data is available), the number of single-family residential sales transactions was up 12 percent year-over-year while the median sales price was up 7.9 percent during the same period.<sup>7</sup> Through the end of October 2013, the median sales price was up 23.8 percent, and the median price is beginning to approach the 2007 peak. The average annual growth rate since 1999 was approximately 4.4 percent, or approximately 2.5 percent above inflation. The average annual number of existing single-family home sales during the same period was approximately 950. This history is summarized on **Table A-4** and in **Figure B-1**. Average annual turnover rates are calculated on **Table A-5**.

Proposition 13 limits the percentage increase of a residential property's assessed value to 2 percent per year or the rate of inflation, whichever is lower. Upon transfer of the property, the base value is adjusted to reflect the sales price, and annual increases are thereafter subject to the 2 percent cap. The Proposition 8 Decline in Value Program reviewed the assessed values of residential properties that were purchased after January 1, 2002 to determine if the market value of the property was lower than its Proposition 13 allowed value. Of the City of San Mateo's total residential inventory, approximately 15.5 percent (4,004 parcels) are considered "Prop. 8 Parcels" as of 2013, representing \$740 million of assessed value still to be recaptured.<sup>8</sup>

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<sup>5</sup> FY2004/05 through FY2013/14, nominal dollars.

<sup>6</sup> The increment or allocation factor varies by tax rate area; however, 14 percent represents the Citywide average.

<sup>7</sup> HdL Coren & Cone, Single-family Residential Full Value Sales (01/01/1999 – 10/31/2013).

<sup>8</sup> If a parcel is sold before its potential assessed value is recaptured, the value is considered a loss due to transfer. Data is provided by HdL, Coren & Cone.

The assessed value of the existing housing stock will grow at an annual rate of no more than 2 percent per Proposition 13, plus about 1 percent per year because of real appreciation.

However, new and existing home sales will result in increases to the assessor's role beyond the 2 percent growth rate. ABAG projects a 9 percent overall increase in households between 2010 and 2020, or 3,467 households. For forecasting purposes, EPS believes the number of new households between 2010 and 2020 will amount to fewer than 2,000 new households, assuming an annual growth rate of 0.5 percent. The anticipated increase in supply is likely to come online in lumpy increments as there are 745 new housing units currently under construction. Another 1,600 units have been approved by Planning but do not have active building permits. The pipeline of new residential (and commercial) development is summarized on **Table A-6**.

## Commercial

The City's total commercial assessed value is approximately \$2.3 billion, or 13.6 percent of the City's total assessed value roll. The City's nonresidential assessed value (includes commercial, industrial, government-owned, institutional, miscellaneous, recreational, vacant, unsecured and unknown) is approximately \$3.1 billion or 19 percent of the City's total assessed value roll.

The City of San Mateo has over 7 million square feet of leasable office space. Vacancy rates are falling and lease rates are increasing. Across the peninsula, Class A asking rates are now 34 percent higher than they were in 2009. In the City of San Mateo, Class A asking rates have increased further; as of the third quarter of 2013, they are 44 percent higher than they were as of the third quarter of 2009 (\$3.75 per square foot per month compared with \$2.50 per square foot per month). The City's office vacancy rate is 9.9 percent as of the third quarter of 2013. **Table A-7** summarizes vacancy rates and asking lease rates in the City of San Mateo, the Central County, and the San Francisco Peninsula during the past five years.

CBRE reports in their Third Quarter, 2013 San Francisco Peninsula Office Market Report that demand in the southern peninsula markets is expected to expand north into San Mateo. In addition, the report notes that sales activity could increase as landlords seek to take advantage of the improving market. San Mateo's office market will depend on the general economy, the current tech boom in the region, and the ability of San Mateo to compete for tenants against rents and available space in prime locations in Silicon Valley to the south, and San Francisco to the north.

Property taxes generated from commercial properties are less volatile compared with residential property taxes. Lease rates will tend to peak less dramatically than residential prices, as rates are limited by lease agreements, tenant financial capacity and profitability. Commercial landlords have the ability to incrementally reduce lease rates as demand declines, and lease terms will tend to "lock-in" lease revenues, short of business defaults.

Over the longer term, it is likely that commercial value growth will follow general economic growth. This growth will tend to be approximately 1 percent above the rate of inflation reflecting general economic growth, or a combined 3.5 percent nominal growth in value. Although values may have declined during the recession (FY2009/10 and FY2010/11) in part due to the re-assessment process, the County assessor has the ability to restore values if justified by increased economic value. Periodic turnover in property ownership will also help assessed values to keep up with economic values.

## Looking Ahead

The City has strong housing market fundamentals, including desirable location, limited land supply, low unemployment, a reasonable supply of new housing, and low turnover rates. The City's diverse industry base (e.g., biotech, high tech, financial and business services) will buoy demand for commercial space and support new development, particularly in Bay Meadows. New development alone could contribute about 1.8 percent to annual growth in property taxes, or about 35 percent of EPS' projected 5.3 percent growth in FY14-15, as shown on **Table A-8**.

Changes to property tax revenue that stem from changes to the Assessor's roll typically lag one year.<sup>9</sup> As a result of anticipated increases in residential and commercial property values this year and next, we concur with the City's projection that property tax revenue will increase approximately 9 percent in nominal terms in FY2013/14. In FY 2014/15, we project property tax revenue to continue to increase by approximately 5.3 percent due to continued real price appreciation, transaction activity, and the reappraisal of under-valued properties. Beyond FY2014/15, we expect to see growth in the housing market that is tied to market demand fundamentals such as household, job, and income growth. More responsible lending practices are expected to keep market activity in line with fundamentals through the projection horizon, and we anticipate positive growth of 4.5 percent in FY2015/16, stabilizing at around 3.4 to 3.5 percent growth in FY2016/17 and beyond as real price appreciation and turnover moderate (or about 1 percent beyond inflation).

EPS's residential and commercial assessed value and property tax projections through FY 2023/24 are shown on **Table 2** and **Figure 2**. EPS's property tax projections may vary +/- 0.5 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2.5 percent in the long term.

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<sup>9</sup> <http://www.cityofsanmateo.org/DocumentView.aspx?DID=4740>

## 4. SALES TAX REVENUE

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Retail sales derive from retail business transactions in the City of San Mateo. The City receives 0.95 percent of these sales from sales taxes levied by the State of California, although beginning in FY2004/05 the State “traded” a portion of the City’s share of sales tax (also referred to as the “flip”) for an equivalent share of property taxes. EPS forecasts include the .25 percent “flip” portion, which is expected to phase out in 2016/17 due to recommended changes to the Governor’s most recent budget proposal.

As shown on **Table A-9**, in the 12-month period ending June 2013, general retail accounts for approximately 45 percent of the City’s sales tax revenue. Food products account for 21 percent and transportation for another 20 percent. After a significant surge of more than 100 percent in 2012, the sales tax revenue stemming from the construction sector declined by nearly 40 percent in 2013.

Sales tax revenue in the City of San Mateo fell dramatically in the years following the dot com bust of 2001 and then stabilized between 2004 and 2008. The Great Recession hurt retail sales in the City, and sales tax revenues (not including Measure L) fell in 2008, 2009, and 2010. In FY 2013/14, sales tax revenue accounted for approximately 24 percent of the General Fund.

The City has a healthy mix of local and regional-serving retail. As of the end of 2013, the average vacancy rate across the City’s retail inventory was 2.3 percent, down from 2.8 percent at the end of 2012 and down from 4.1 percent at the end of 2009. Average lease rates in 2013 were approximately level with 2012 (\$25.08 per square foot per year, NNN) but up 17 percent from their low point in 2010. **Table A-10** summarizes current retail market indicators across the County.

### Looking Ahead

City of San Mateo voters passed Measure L in November 2009 which authorizes an additional 1/4-cent tax on sales to be levied within the City of San Mateo. With the passage of Measure L, the sales tax in San Mateo is 9.5 percent effective April 1, 2010. The Measure is in effect for eight years and is set to expire on March 31, 2018. Revenue from Measure L offset declines in sales activity preventing sales tax revenue losses during the Recession. When the Measure expires in 2018, sales tax revenue in the City will decline and it could take several years before sales tax revenue is fully restored.

Though this past recession fundamentally changed consumers’ spending habits (i.e., consumers are likely going to continue to increase their savings), job growth is occurring and unemployment in San Mateo County is at 5 percent as of November 2013, well below its recent peak of 8.8 percent in 2010. In the near term, we expect retail sales will continue to increase as a result of household growth, household income growth, and deferred demand. Growth in taxable expenditures from new households could contribute about 0.4 percent to annual growth in sales taxes, or about 10 percent of EPS’ projected 4.5 percent growth in FY14-15, as shown on **Table A-11**.

Based on year-to-date payments received by the City, we concur with the City’s projections that sales tax revenue will decline by 0.4 percent in FY2013/14. In FY2014/15 and FY2015/16, we expect sales tax revenue to grow at a nominal annual growth rate of 4.5 percent and then grow

at 3.5 percent per year in nominal dollars, or about 1 percent in real dollars, as shown on **Table 3** and **Figure 3**. This rate is higher than the 0.5 percent growth in new households projected by EPS for the 2010 to 2020 time horizon to account for increased household spending, employment growth, some new retail development associated with Bay Meadows, and capture of regional sales as well. When Measure L expires towards the end of FY2017/18, EPS anticipates declines in revenue of 2 percent in FY2017/18 and 14 percent in FY2018/19. These sales tax revenue projections may vary +/- 1 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2 percent in the long term.

## 5. *TRANSIENT OCCUPANCY TAX REVENUE*

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The Transient Occupancy Tax (TOT) is a tax on hotel revenue. In November 2009, City of San Mateo voters approved Measure M which increased the City's TOT rate from 10 percent to 12 percent effective January 1, 2010. Of the revenues collected from the TOT, 10 percent will go to the City's General Fund.<sup>10</sup> During the last few years and with the passage of Measure M, revenue from the City's TOT has accounted for approximately 5 to 6 percent of the City's General Fund revenue (compared with 3 to 4 percent prior to the passage of Measure M).

TOT revenue hit a historic high in 2001, bringing in \$4.5 million. Oversupply and the post-9/11 decrease in travel contributed to the 50 percent drop in TOT between FY2000/01 and FY2003/04. Modest annual growth between FY2003/04 and FY2006/07 preceded a sharp increase of 20 percent in FY2007/08. TOT revenue fell in FY2008/09 and would have fallen in FY2009/10, but for Measure M. In the past ten years, between FY2003/04 and FY2013/14, hotel revenues grew at an average rate of 10.1 percent in the City, buoyed by Measure M.<sup>11</sup>

Besides the TOT rate, other factors affecting TOT revenue include occupancy rates and room rates. As of the second quarter of 2013, the San Francisco-San Mateo market area experienced a year-over-year increase in the average daily rate of 10.3 percent, representing an average daily rate of \$183.<sup>12</sup> According to PKF Hospitality Research, occupancy rates and average daily rates are expected to grow during the next four quarters.<sup>13</sup>

There is no hotel development in the City's pipeline, but with occupancy rates continuing to improve, new hotel development could become economically feasible. In addition, applications to demolish the Avalon Motel and construct 42 townhomes and demolish the Hillside Inn and construct 180 condominium units are being reviewed by the City's Planning Department. If approved, these projects will reduce the supply of rooms in the City and could affect TOT revenue.

The City's hotel industry is partially linked to the business operations of San Francisco International Airport. Passenger counts rose between 2012 and 2013 (calendar year-to-date through November).<sup>14</sup> Future expansion of the airport or expansion of the airlines serving the airport would result in increased passenger travel which in turn drives demand for hotel stays.

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<sup>10</sup> Prior to January 1, 2010, 8 percent of the TOT revenues have gone to the General Fund.

<sup>11</sup> <http://www.cityofsancarlos.org/civica/filebank/blobdload.asp?BlobID=3181>

<sup>12</sup> <http://www.hotelmanager.net/hotel-occupancy-rates-increase.html>

<sup>13</sup> PKF Hospitality Research, San Francisco Snapshot Report, December 2013 – February 2014.

<sup>14</sup> San Francisco International Airport, Analysis of Scheduled Airline Traffic, Comparative Traffic Report, November 2013.

## Looking Ahead

EPS expects near-term TOT revenue growth tied to a continuation of the economic recovery currently underway. Nominal growth of 5 percent is anticipated for FY2013/14 and nominal growth of 4 percent is expected for FY2014/15. Beyond 2015, EPS anticipates nominal annual growth of 3.5 percent, or 1 percent above inflation, as shown on **Table 4** and **Figure 4**. This growth is somewhat more conservative than the historical trend, in part because of the applications to demolish two of the City's existing hotels.

However, development of new hotels is possible as room rates and occupancy rates strengthen due to increasing demand. New hotel development could increase TOT revenue if the City of San Mateo is able to capture the increased demand. Even without new hotel construction, TOT revenues are likely to increase as population and jobs increase.

The TOT revenue projections may vary +/- 1 percent in the near term, +/- 2 percent in the mid-term, and +/- 3 percent in the long term.

## 6. PROPERTY TRANSFER TAX REVENUE

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Upon the sale or transfer of real property, the City collects a transfer tax of 0.5 percent of the value of the transaction.<sup>15</sup> The collection of the City's transfer tax is administered through the County. Revenues are an almost real-time reflection of the market's residential and commercial sales activity. Property transfer tax revenue is affected by (1) the value of each sale and (2) the number of sales. Both of these factors fell during the downturn, reducing the City's property transfer tax revenue from a high of \$10.4 million in 2006/07 to \$3.3 million in 2008/09, a nearly 70 percent decline.

Transfer tax revenue then grew by 15 and 10 percent in FY2009/10 and FY2010/11, respectively and grew only very modestly in FY2011/12, at a year-over-year rate of 3.9 percent. There was a tremendous surge in transfer tax revenue in FY2011/12 of nearly 44 percent due to underlying increases in both sales volume and pricing. In 2012, prices increased and sales volume returned to 2006 levels. While transactions moderated in 2013 (through the end of October), prices increased year-over-year by 24 percent.

The average residential turnover rate (i.e., the number of sales in any given year divided by the total number of housing units) in the City (2005 through 2013) is 3.2 percent.<sup>16</sup> This is a lower-than-average turnover rate, reflecting the relative stability of the San Mateo housing market. According to the City's Housing Element, the population of San Mateo is aging, which is likely to perpetuate the low turnover rate, at least through the coming two decades as soon-to-be retirees stay in their homes as long as they are able.

As of the end October 2013, the median price of homes sold in the City is \$728,000, up 24 percent from the year before and just 8 percent below the 2007 peak of \$789,500. For the 15-year period for which HdL provided single-family home sales and price data (1999 through October 2013), the annual median price growth rate is approximately 4.4 percent in nominal dollars.

Because sales volume and sales prices both affect and react to one another and can but do not always move in the same direction as one another, property transfer tax is a highly volatile revenue source. To protect the City's General Fund against this volatility, the City establishes a revenue cap based on anticipated growth, consistent with historical growth rate trends. Any revenues in excess of the cap are allocated to a General Fund "rainy-day" fund or to one-time capital improvement projects.

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<sup>15</sup> The County collects \$1.10 for every \$1,000 of value transferred, none of which is redistributed to the City.

<sup>16</sup> This calculation is based on dividing the number of single-family home sales by the number of residential parcels in the City, which is not a perfect measure but does allow for annual comparisons.

## Looking Ahead

EPS concurs with the City's FY2013/14 projection of 13.5 percent due to rapidly recovering home prices and steady transaction volume. In FY2014/15 EPS estimates annual growth of 5 percent. Beyond FY2014/15, EPS anticipates a 4.5 percent increase in property transfer tax revenue as sales volume stabilizes and median home price appreciation moderates, as shown on **Table 5** and **Figure 5**. New development could account for nearly 18 percent of the anticipated transfer tax in FY2014-15, as shown in **Table A-12**.

The property transfer tax revenue projections may vary +/- 1 percent in the near term, +/- 1.5 percent in the mid-term, and +/- 2 percent in the long term. Though our analysis anticipates relative stability in the long term, this revenue source is highly unpredictable and should not be the basis for future budget commitments.

## 7. INDICATORS TO MONITOR

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The preceding forecasts are based on the following market indicators and should be watched closely in the coming months and years.

- **Job growth** drives demand for new office space and demand for business travel. Unemployment suppresses consumer spending.
- **Household growth** drives demand for new homes, and other goods and services.
- **Household income growth** drives demand for retail goods and services.
- **Residential and commercial development pipeline** reflects the future supply of new space.
- **Home prices** affect property taxes and property transfer taxes.
- **Number of residential sales** affects property taxes and property transfer taxes.



APPENDIX A:  
Appendix Tables

**Table A-1**  
**General Fund Revenue Trends (Nominal Dollars)**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

General Fund Revenues	Audited FY 99-00	Audited FY 00-01	Audited FY 01-02	Audited FY 02-03	Audited FY 03-04	Audited FY 04-05	Audited FY 05-06	Audited FY 06-07	Audited FY 07-08	Audited FY 08-09	Audited FY 09-10	Audited FY 10-11	Audited FY 11-12	Estimated Actual FY 12-13	Revised Adopted FY 13-14
<b>Nominal Dollars</b>															
Property Tax [1]	\$12,692,000	\$13,713,000	\$16,282,000	\$16,521,000	\$17,297,000	\$22,338,000	\$25,390,000	\$27,560,000	\$29,633,000	\$31,384,000	\$30,839,211	\$30,185,454	\$31,997,752	\$32,285,899	\$35,201,291
% Change from Prior Year	n/a	8.0%	18.7%	1.5%	4.7%	29.1%	13.7%	8.5%	7.5%	5.9%	-1.7%	-2.1%	6.0%	0.9%	9.0%
Property Transfer Tax	\$5,480,000	\$4,708,000	\$4,552,000	\$5,898,000	\$6,713,000	\$7,288,000	\$9,006,000	\$10,417,000	\$5,718,000	\$3,337,000	\$3,837,735	\$4,221,831	\$4,387,035	\$6,307,133	\$7,157,000
% Change from Prior Year	n/a	-14.1%	-3.3%	29.6%	13.8%	8.6%	23.6%	15.7%	-45.1%	-41.6%	15.0%	10.0%	3.9%	43.8%	13.5%
Sales Tax [2]	\$17,644,000	\$18,414,000	\$16,354,000	\$15,522,000	\$15,360,000	\$15,716,000	\$16,307,000	\$16,591,000	\$16,660,000	\$14,245,000	\$14,210,680	\$19,123,408	\$20,793,456	\$21,821,391	\$21,729,974
% Change from Prior Year	n/a	4.4%	-11.2%	-5.1%	-1.0%	2.3%	3.8%	1.7%	0.4%	-14.5%	-0.2%	34.6%	8.7%	4.9%	-0.4%
Transient Occupancy Tax [3]	\$4,052,000	\$4,494,000	\$2,800,000	\$2,313,000	\$2,272,000	\$2,466,000	\$2,578,000	\$2,745,000	\$3,295,000	\$2,776,000	\$2,886,222	\$3,775,527	\$4,694,146	\$5,326,759	\$5,593,097
% Change from Prior Year	n/a	10.9%	-37.7%	-17.4%	-1.8%	8.5%	4.5%	6.5%	20.0%	-15.8%	4.0%	30.8%	24.3%	13.5%	5.0%

[1] Includes Property Tax in lieu of VLF beginning in FY04/05. Does not include RDA tax increment.

[2] Includes Property Tax in lieu of Sales Tax beginning in FY04/05.

[3] FY09/10 projection includes revenue associated with Measure M.

Sources: City of San Mateo budget documents (rev forecast & GF ref-exp summary.xlsx); Economic & Planning Systems, Inc.

**Table A-2**  
**ABAG Projections (2013) for Plan Bay Area**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	2000	2010	2020	2030	2040	2010-2020		
						Total Change	Avg. Annual Growth Rate	
<b>Population</b>	92,482	97,207	106,000	115,400	126,000	8,793	879	0.9%
<b>Households</b>	37,338	38,223	41,690	45,150	48,620	3,467	347	0.9%
<b>Median Household Income</b>	\$64,757	\$86,772	<i>not estimated</i>					
<b>Jobs</b>	52,300	52,540	63,430	67,380	72,950	10,890	1,089	1.9%

Sources: ABAG Projections 2013; Economic & Planning Systems, Inc.

**Table A-3**  
**Development Forecast for Pending Projects**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

<b>Item</b>	<b>Residential (units)</b>	<b>Hotel</b>	<b>Office (sq.ft.)</b>	<b>Retail (sq.ft.)</b>	<b>Other (sq.ft.)</b>
Bay Meadows	1,005	-	746,765	92,579	-
Other Projects	<u>1,369</u>	-	<u>537,902</u>	<u>79,510</u>	<u>30,082</u>
<b>Subtotal Pending Projects</b>	<b>2,374</b>	-	<b>1,284,667</b>	<b>172,089</b>	<b>30,082</b>
Avg. Absorption/year	347		150,000	20,000	na

Sources: ABAG Projections 2013; Economic & Planning Systems, Inc.

**Table A-4**  
**City of San Mateo Single Family Home Transactions and Values (HdL 1999 - 2013)**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 [1]	1999-2013		
																% Change	Avg. Annual	
<b>Median Home Price</b>																		
Single Family Homes	\$400,000	\$475,000	\$515,000	\$515,000	\$558,250	\$645,000	\$750,000	\$750,000	\$789,500	\$665,000	\$599,500	\$605,000	\$545,000	\$588,000	\$728,000		82%	4.4%
<b>Transactions</b>	1,307	1,106	789	1,114	1,200	1,281	1,015	931	730	688	658	738	827	926	908			948

[1] Data provided through October 2009. Total number of transactions in 2009 is estimated assuming the average number of monthly sales remains constant.

Sources: HdL; Economic & Planning Systems, Inc.

**Table A-5**  
**City of San Mateo Residential Turnover Rate, 2005-2013**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2005-2013 Average
Total Residential Parcels	25,483	25,492	25,574	25,616	25,751	25,762	25,762	25,784	25,781	--
Total Single Family Transactions	1,015	931	730	688	658	738	827	926	908	825
Turnover Rate [2]	4.0%	3.7%	2.9%	2.7%	2.6%	2.9%	3.2%	3.6%	3.5%	3.2%

[1] Data provided through October 2013. Total number of transactions in 2013 is estimated assuming the average number of monthly sales remains constant.

[2] The turnover rate calculated here is useful for comparing single family home transaction activity level in one year with another year; however, it is not a good indicator of the City's actual residential turnover rate, as the number of parcels includes multifamily parcels and the number of transactions is for single family homes only.

Source: HdL; Economic & Planning Systems, Inc.

**Table A-6  
Residential and Commercial Development Pipeline  
City of San Mateo Revenue Forecast Analysis; EPS #131138**

<b>Project Category/Name</b>	<b>Project Description (Total)</b>	<b>Notes</b>
<b><u>Under Construction or Approved</u></b>		
Bay Meadows	746,765 sq.ft of Office, 92,579 sq.ft. of Retail/Restaurant 1,066 Residential Units	61 residential units completed. Additional 50-68 residential units to be entitled.
92 & Delaware Office	276,467 sq.ft. of Office	
1990 & 2000 S. Delaware St. Housing	120 Residential Units	60 residential units completed.
2090 Delaware	111 Residential Units	
Arbor Rose	30,082 sq.ft. Self Storage	The residential portion of the project has already been built.
Barneson Townhomes	7 Residential Units	
Cal Water Office	18,184 sq.ft. of Office	Public Utility
Elkhorn Court	197 Residential Units 125,978 sq.ft. of Office	
Mariner's Island Condominiums	73 Residential Units	
Mi Rancho Market	12,500 sq.ft. of Retail	
Monte Diablo	16 Residential Units	Likely never be built (Darcy Forsell 1/14/14).
Nazareth Terrace	11 Residential Units 7,273 sq.ft. of Office 3,010 sq.ft. of Retail	Permits being issued soon (Darcy Forsell 1/14/14).
North San Mateo Drive Apartments	154 Residential Units	
Sadigh Mixed Use	10 Residential Units 4,000 sq.ft. of Retail	Likely never be built (Darcy Forsell 1/14/14).
San Mateo Drive Condominiums	33 Residential Units	
San Mateo Executive Park	100,000 sq.ft. of Office	
Verona Ridge	24 Residential Units	10 residential units completed.
<b><u>Planned or Proposed</u></b>		
Station Park Green	599 Residential Units 10,000 sq.ft. of Office 60,000 sq.ft. of Retail	No planning approvals, just specific plan (Darcy Forsell 1/14/14).
Bay Meadows	Additional 60 Residential Units	Additional 50-68 residential units to be entitled.
Kimochi	14 Residential Units	Residential Care Facility for the Elderly for 14 persons, in either private or shared (double occupancy) rooms.

Sources: Darcy Forsell at the San Mateo Planning Department (1/14/14) and the San Mateo Planning Department website.

**Table A-7**  
**San Francisco Peninsula Office Indicators, 2009 - 2013**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	3Q09	3Q10	3Q11	1Q12 [1]	3Q13
<b>San Mateo</b>					
Net Rentable Area (Sq. Ft.)	7,250,076	6,838,199	6,859,410	6,859,410	7,001,092
Vacancy Rate	20.7%	19.0%	15.9%	13.1%	9.9%
Average Asking Lease Rate [2]					
Class A	\$2.60	\$2.50	\$2.85	\$3.10	\$3.75
Class B	\$2.15	\$2.15	\$2.55	\$2.75	\$3.34
Under Construction (Sq. Ft.) [3]	0	0	0	0	0
<b>Central County [4]</b>					
Net Rentable Area (Sq. Ft.)	21,074,997	20,814,703	19,305,443	19,296,757	19,663,502
Vacancy Rate	19.5%	17.8%	12.3%	10.8%	10.2%
Average Asking Lease Rate [2]					
Class A	\$2.85	\$2.72	\$3.03	\$3.29	\$4.06
Class B	\$2.21	\$2.20	\$2.55	\$2.81	\$3.00
Under Construction (Sq. Ft.) [3]	0	0	0	0	11,142
<b>San Francisco Peninsula [5]</b>					
Net Rentable Area (Sq. Ft.)	42,853,651	43,368,033	42,350,684	39,808,835	40,392,550
Vacancy Rate	16.9%	14.4%	10.9%	11.0%	10.9%
Average Asking Lease Rate [2]					
Class A	\$3.48	\$3.28	\$3.94	\$4.18	\$4.68
Class B	\$3.08	\$2.82	\$3.68	\$3.88	\$4.17
Under Construction (Sq. Ft.) [3]	45,289	0	70,051	49,669	324,142

[1] 3Q2012 not available at time of report preparation; 1Q2012 used instead.

[2] Full service gross.

[3] Includes office space expected to be completed within six months.

[4] Includes San Mateo, Foster City, Belmont, San Carlos, and Redwood City/Redwood Shores.

[5] Includes Daly City, South San Francisco, Brisbane, San Bruno, Millbrae, Burlingame, San Mateo, Foster City, Belmont, San Carlos, Redwood City/Redwood Shores, Menlo Park, Palo Alto, and East Palo Alto.

Sources: CB Richard Ellis; Economic & Planning Systems, Inc.

**Table A-8**  
**Property Tax Revenue Forecast for Pending Projects**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	Residential	Hotel	Office	Retail	Total
Avg. Absorption/Year	347	-	150,000	20,000	
<b>Assessed Value of New Development</b>					
Per Unit or Per Sq. Ft.	\$800,000		\$400	\$400	
Total Est. A.V. (annual increase)	\$277,600,000	\$0	\$60,000,000	\$8,000,000	<b>\$345,600,000</b>
<b>Property Tax Revenue from New Development</b>					
Annual Increase in 1% Property Tax	\$2,776,000	\$0	\$600,000	\$80,000	\$3,456,000
City's Share (14%) of 1% Prop. Tax Increase	\$389,000	\$0	\$84,000	\$11,000	<b>\$484,000</b>
<u>Comparison with Citywide Projections for FY2014/15</u>					
Projected Citywide Property Tax					\$26,400,000
Projected Citywide Annual Increase in Property Tax [1]					5.3%
Avg. Annual New Development as % of Citywide Property Tax					1.8%

[1] From EPS baseline projection, excluding VLF Swap; see Table 2.

Sources: City of San Mateo; Economic & Planning Systems, Inc.

**Table A-9**  
**Sales Tax Revenue Trends by Economic Sector**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

Item	2009		2010		2011		2012		2013	
	Amount	% of Total								
General Retail	\$6,418,131	47%	\$6,193,831	47%	\$6,364,868	46%	\$6,741,792	42%	\$7,137,294	45%
Food Products	\$2,787,861	21%	\$2,728,753	21%	\$2,857,869	21%	\$3,172,127	20%	\$3,366,120	21%
Transportation	\$2,419,261	18%	\$2,464,778	19%	\$2,702,861	20%	\$3,098,420	20%	\$3,137,813	20%
Construction	\$896,696	7%	\$794,021	6%	\$926,492	7%	\$1,895,028	12%	\$1,141,154	7%
Business to Business	\$854,404	6%	\$742,726	6%	\$741,773	5%	\$816,401	5%	\$962,953	6%
Miscellaneous	<u>\$151,030</u>	<u>1%</u>	<u>\$144,679</u>	<u>1%</u>	<u>\$133,966</u>	<u>1%</u>	<u>\$156,452</u>	<u>1%</u>	<u>\$182,890</u>	<u>1%</u>
Total [1]	\$13,527,383	100%	\$13,068,788	100%	\$13,727,829	100%	\$15,880,220	100%	\$15,928,224	100%

Note: Estimates are as of the end of the 2nd quarter and include the previous four quarters (i.e., 2013 Total includes 3Q12, 4Q12, 1Q13, and 2Q13).

[1] Totals may differ from audited budget figures due to factors related to the timing of payments to the City.

Source: City of San Mateo

**Table A-10**  
**San Francisco Peninsula Retail Market Indicators, 2006-2013**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

<b>Period</b>	<b>Number of Buildings</b>	<b>Total Rentable Building Area</b>	<b>Total Vacancy Rate</b>	<b>Total Avg Annual Lease Rate (per sq.ft.) [1]</b>
2013 4Q	555	5,387,608	2.3%	\$25.08
2012 4Q	555	5,387,608	2.8%	\$25.27
2011 4Q	547	5,359,046	3.0%	\$23.34
2010 4Q	547	5,353,454	2.2%	\$21.35
2009 4Q	548	5,394,651	4.1%	\$21.53
2008 4Q	549	5,400,291	2.9%	\$23.92
2007 4Q	548	5,394,505	2.7%	\$24.35
2006 4Q	548	5,394,505	3.8%	\$27.18

[1] NNN lease rates per year.

Sources: CoStar; Economic & Planning Systems, Inc.

**Table A-11**  
**Sales Tax Revenue Forecast for Pending Projects**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

<b>Item</b>	<b>Retail</b>
Avg. Supportable Retail/Year	30,000
Taxable Retail Sales per Sq. Ft.	300
Annual Increase in Total Retail Sales	\$9,000,000
Annual Increase in 1% Sales Tax	\$90,000
<u>Comparison with EPS Citywide Projections for FY2014/15</u>	
Projected Citywide 1% Sales Tax [1]	\$23,700,000
Projected Citywide Annual Increase in Citywide 1% Sales Tax	4.5%
Avg. Annual New Development as %	0.4%

Note: supportable retail exceeds amount of space assumed constructed.

[1] From EPS baseline projection; see Table 3.

Sources: City of San Mateo; Economic & Planning Systems, Inc.

**Table A-12**  
**Property Transfer Tax Revenue Forecast for Pending Projects**  
**City of San Mateo Revenue Forecast Analysis; EPS #131138**

<b>Item</b>	<b>Residential</b>
Estimated Annual New Development Value	\$277,600,000
<b>Annual Transfer Tax Revenue (0.5%) from New Development</b>	<b>\$1,388,000</b>
<u>Comparison with EPS Citywide Projections for FY2014/15</u>	
Projected Citywide Transfer Tax [1]	\$7,900,000
Avg. Annual Tax from New Development as % of Citywide	17.6%

[1] From EPS baseline projection; see Table 5.

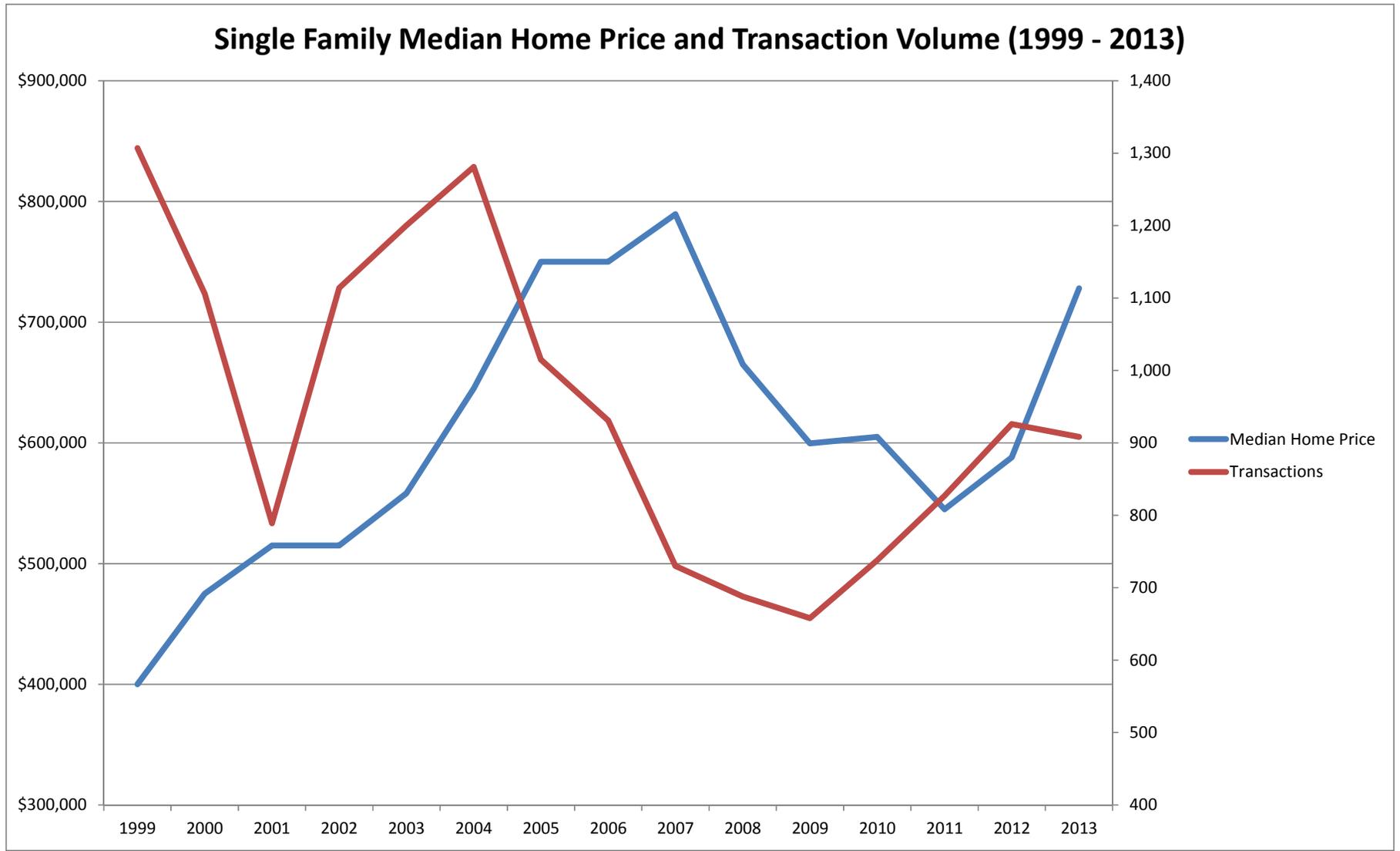
Sources: City of San Mateo; Economic & Planning Systems, Inc.

APPENDIX B:

Single-Family Median Home Price and  
Transaction Volume (1999-2013)



Figure B-1



Source: HdL