

# Section A

## Question 3



### OPERATING BUDGET SAMPLE BOOK: FY 2000-2001

- Does letter/message highlight policy/economic/legislative issues facing the jurisdiction and recommend actions to resolve these issues?
  - To meet this criteria, be very specific with subheadings.
  - What issues are being addressed by League of California Cities?
  - If there are no issues in any one of these areas, discuss how you have resolved past issues.

**Key Economic Issues**

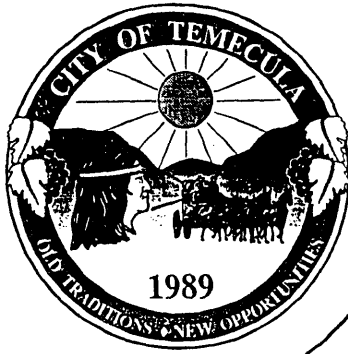
**Global Economy:** In FY 1998/99, we were concerned about Asia's economic and financial problems and how they would affect us. While our local economy experienced healthy economic growth and low inflation, the high-tech industry faltered from the slowdown in the demand for computers and electronic goods. Many Fremont companies laid off workers and had reduced profits. While there are signs that the downturn is ending and a recovery could begin soon, Silicon Valley firms seem hesitant, fearing another downturn. As we reported at the February 1999 mid-year financial review, the City's sales tax revenues dropped in the third quarter of 1998 due to lower business-to-business sales. We believe sales tax revenue will rebound when the high-tech industry does.

**Internet Sales:** We are concerned about the impact of Internet sales on local government revenues. This is a twofold problem. First, many retailers that sell on the Internet and compete directly with our local retailers do not collect sales tax. Second, some Internet retailers collect sales tax but the revenues do not go to Fremont to pay for local services. They are distributed to either the State or County pools, of which Fremont receives a fraction. In both cases, sales taxes, on which the City depends to finance vital public services, are "leaking" away. This leakage affects all municipal governments. The Federal Internet Tax Freedom Act (ITFA), passed in 1998, created the Advisory Commission on Electronic Commerce to examine the issues of competition and tax administration. It is working with the National Tax Association and Electronic Commerce Tax Project, an industry-government group formed in 1998, to reach consensus on a form of model legislation for

states to adopt. In addition, the California Commission on State and Local Government Finance, established in January 1999, is addressing this issue. Fremont will continue to monitor these efforts.

**Vehicle License Fees:** In FY 1998/99, the City of Fremont expects to receive approximately \$8.4 million from motor vehicle in-lieu fees. For FY 1999/00, motor vehicle in-lieu fees are safe from a State takeaway. However, we are wary of assuming this revenue source is forever safe from State takeaway due to continuing budget uncertainty on the State level. We are worried the State may act to further lower the amount of the fee that local governments receive, since last year the State cut the vehicle license fee in half and is considering cutting it more. The State makes up the balance of the vehicle license fee from its general fund, thereby trading one of our rather constant revenue sources for one subject to the whim of the State legislature.

**Hotel Rooms:** As previously mentioned, over 1,000 hotel rooms were approved for development this past year, with many of those now open, and others set to open this coming year. The addition of these hotel rooms will make Fremont more visible and help local businesses, as their guests and employees will now have better access to hotels.



# City of Temecula

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## REVENUES AND ECONOMIC CONDITION

Fiscal Year 1999-00 General Fund revenues are projected to reach \$26,521,800, an increase of \$3,086,500 or 13.2% from FY 98-99, and reflect the continued growth of the local economy. In the past year the City has experienced significant interest in relocation and expansion of existing businesses. The City has continued to work with the Chamber of Commerce and the Temecula Valley Economic Development Corporation in its effort to encourage the expansion or relocation of industries that generate local sales tax and employment advantages. The City has also worked with these organizations to develop and market Temecula as a tourist destination.

Temecula's emergence as a center of job growth is primarily the result of the migration of firms and people to the Inland Empire from the coastal counties of Southern California. This migration is occurring as the density of land development in Orange, Los Angeles and San Diego counties has created a shortage of manufacturing, distribution and housing space, and increased space costs.

In most cases, this phenomena is increasing the demand for business space and homes along transportation corridors in cities directly adjacent to Orange and Los Angeles counties. Temecula is unique in two ways. It has been able to attract firms and families to leap frog across miles of undeveloped land to locate within its borders. And, the jobs coming to the City are better paying than the Inland Empire average. Since the City's inception, local leaders have undertaken a consistent and successful program to lure high technology firms to the area. These efforts have been aided by the City's physical beauty and moderate climate. Meanwhile, the I-15 freeway has given commuters and firms located in Temecula ready access to San Diego and Orange County markets, while allowing them to avoid the land restrictions and high costs of those areas.