Foster City Financial Update FY 16/17 Q4

City of Foster City
Financial Services Dept.

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in Foster City

General Fund Unrestricted Reserves Ends Year at $43.4 Million as City Finishes Fiscal Year with a $5.5 Million Surplus.

The City's General Fund ended FY 16/17 with a $5.5 million surplus, increasing the Unrestricted Reserve Balance to $43.4 million. After setting aside a Reserve Policy amount of $20.65 million (at the 50% level of FY 17/18 Operating expenditures), the City has excess of reserves of $22.75 million. This $22.75 million is forecasted to decrease to $20.05 million FY 17/18 based on an anticipated $647,000 structural deficit and the planned one-time transfer of $2.06 million to establish an Employee Home Loan and Rental Assistance Program. The City also received $200,000 from the City of Half Moon Bay for its Rule 20A funds and based on City Council direction. These monies have been set aside in a separate fund for a Solar Incentive Grant program for Foster City residents.

Total General Fund Revenues were 43.8 million or $100,000 below the adopted budgeted. Total expenditures, including net Transfers In/Out totaled $38.3 million, or $2.5 million below budget. Expenditure savings in Employee Services totaled approximately $1.6 million (mainly salary and benefit savings from staff vacancies and new hires) and Services and Supplies savings was approximately $900,000 (mainly contract services and conservatively budgeted water expenditures for parks).

Major General Fund revenues are discussed below:

Property Taxes: $23.85 million or $1.95 million above the budget. In January, the City received its ERAF refund of $1,450,600 or $879,600 higher than our conservatively budgeted amount of $571,000. Secured property taxes and supplemental property taxes were $528,600 and $458,700 better than expected as home price appreciation and strong new construction activity continued in both Foster City and San Mateo County.

Property Tax In Lieu of Vehicle License Fees (VLF): $3.38 million or $122,000 above the budget. VLF subvention gains are proportional to growth in the City's assessed valuation.

Transient Occupancy tax (TOT): $3.36 million or $450,000 below budget. Most of the shortfall was attributed to the delay in the opening of Town Place Suites which was estimated to generate $397,500 in FY 16/17. The hotel's opening did not occur until the end of September 2017.

Sales tax revenues: $3.15 million or $63,000 above budgeted expectations. The trend for sales tax revenues remains cautionary in the face of annual declines from $3.34 million to $3.22 million to $3.15 million over the most recent three fiscal years.

Building Permits and Fees: $2.82 million or $1.80 million below budget. The budget included $1.18 million of restricted revenues (e.g. General Plan fees, Construction and Demolition fees, Technology Maintenance fees, etc.). Since new Special Revenue Funds 128-135 for these restricted revenues were created in FY 16/17, actual revenues were recorded in the new Funds and not in the General Fund and thereby creating the shortfall. In addition, building permits and fees totaling $951,900 for the Gilead expansion projects (324 and 357 Lakeside) budgeted in FY 16/17 wasn't received until FY 17/18 (in September 2017).

Business License Tax (BLT): $1.74 million or $5,300 above the budget. BLT revenues essentially met expectations. Calendar year 2016 was the 3rd and final year of the BLT measure that was passed by Foster City voters in November 2013 that was phased over a 3-year period.

The six revenue sources discussed above represent 87% of the City's total General Fund revenues. Overall variances in the other revenue categories were not material to overall revenues.

Although the City is fiscally healthy, there are ongoing challenges. As indicated in the FY 17/18 adopted budget, the City is looking at a $647,000 structural deficit that will require the consideration of revenue measures and/or cost containment options to protect and maintain its high level of service to the community. In addition, the City's has significant unfunded liabilities, including an estimated $69.2 million for its CalPERS employee retirement plan. This single liability dwarfs the entire $43.4 General Fund Unrestricted Reserve balance at the end of FY 16/17 (by $25.8 million).