Foster City Financial Update FY 21/22 Q2

City of Foster City Financial Services Dept.

Live, Work & Play in Foster City

The City Received $4.05 million in American Rescue Plan Act (ARPA) Relief Funds in July. These monies provide for the recovery of lost City revenues from the COVID-19 pandemic and helps negate an otherwise projected General Fund Deficit of $1.73 million

Depressed economic conditions from the COVID-19 pandemic continued to impact General Fund revenues, especially our local hotels. As a result, the FY 21/22 adopted General Fund budget (Funds 001 to 003) included a reduction of the annual transfer to the City CIP Fund from $3.5 million to $1.5 million and a $2.07 million deficit. The deficit was corrected by using American Rescue Plan Act (ARPA) relief monies (for the recovery of loss revenues from the pandemic). In July, the City received the 1st tranche of funding for $4.05 million. The 2nd and final tranche is expected in July 2022.

Excluding the $4.05 million of ARPA revenues, total General Fund Revenues (Funds 001 to 003) for the 6 month period were $26.06 million compared to $24.09 million in FY 20/21. Property tax revenues including ERAF refunds were $17.56 million compared to $17.48 million in the prior year. Property tax in Lieu of Vehicle License Fes improved from $1.62 million to $1.81 million as source funding increased from five to six non-basic aid school districts. Building permit fees, planning fees, recreation fees and rentals also saw double digit year-over-year gains. Although Transient Occupancy Taxes climbed 94.6% from a very depressed mark of $432,000 to $840,000, it remains 2/3 below the pre-pandemic mark of $2.51 million. Interest Income sank as the City portfolio yield fell from 0.60% to 0.31% year over year. General Fund expenditures (Funds 001 to 003) totaled $28.53 million or 59.1% of the annual budget as the City made a $6.79 million prepayment on its annually required unfunded accrued liability payment to CalPERS. The lump sum payment option represents a $233,000 citywide savings compared to making monthly payments. The City also contributed 9 months of funding obligation to San Mateo Consolidated Fire for its portion of share costs for fire protection and prevention services to the City, which equates to a third quarter prepayment of $2.1 million. The City agreed to two-year agreements with its AFSCME and POA labor units as well as its unrepresented management unit. As a deficit reduction action, the City pared down it normal $3.5 million transfer to the City Capital Projects Fund to $1.5 million.

Water Enterprise Fund operating revenues and expenditures were $8.25 million and $6.35 million respectively. Wastewater Enterprise operating revenues totaled $8.62 million or $740,000 higher than the same period in the prior year as base rates were increased by 14.25% effective July 1, 2021, primarily to fund debt service costs associated with the District's current and projected debt service for the financing of its $153.6 million share of the Wastewater Treatment Plant Master Improvements (WWTP) project with the City of San Mateo. Operating expenditures were $3.0 million and within expectations. On July 1, the District closed the sale on $62.76 million of wastewater revenue notes to attain a $1.1 million financing savings before drawing on its WIFIA loan to pay off the notes in 2025.

As reported at the November 1 City Council meeting, the City closed out FY 2020-21 with a $4.3 million rollover surplus. The surplus may help address one-time needs including, but not limited to unfunded pension liability, CIP projects (e.g. Recreation Center replacement), and the strengthening of City reserves (e.g. Facilities Replacement Fund). City staff will also be seeking City Council direction on a pension liability reduction policy as well as any revenue enhancement ballot measures to address the General Fund structural deficit over the course of the next few months.

Over the past year, the organization experienced its share of staff departures/retirements. Conditions in the labor market remain extremely tight and challenging. An expedited completion of the much needed classification and compensation studies will aid in the retention of staff and the recruitment of multiple vacancies. The successful hiring of a permanent City Manager is also paramount for the organization.