Foster City Financial Update FY 21/22 Q4

City of Foster City Financial Services Dept.

Live, Work & Play in Foster City

General Fund Unrestricted Reserves Ends Year at $44.0 million, after transferring $19.0 million to the Recreation Center CIP project and after receiving $4.05 million for the 1st tranche of ARPA relief funds.

The City's General Fund Reserves (Funds 001to 003) ended FY 21/22 with an Unrestricted Reserve balance of $44.0 million. This balance represents a reserve level of 88.2% of FY 22/23 budgeted expenditures of $53.5 million.

Total FY 21/22 General Fund Revenues, including $4.05 million of American Rescue Plan Act (ARPA) were $57.3 million, surpassing adopted budget estimates by $6.0 million. Total expenditures, excluding net Transfers Out were $45.6 million. Total transfers Out of $20.6 million included $1.5 million to the City CIP Fund, $19 million for the Recreation Center CIP project, and $62,000 for Successor Agency loan repayment designated to the Housing Successor Fund.

Significant General Fund revenues are discussed below.

Property Taxes: $34.6 million (includes $3.1 million of Education Revenue Augmentation Fund "ERAF" refunds from San Mateo County) or $2.0 million above budgeted expectations due to a $1.6 million variance in ERAF and modest growth in organic property tax revenues. ERAF refunds are expected to have continued volatility and subject to the State's potential scrutiny.

Property Tax In Lieu of Vehicle License Fees (VLF): $4.3 million or $1.4 million above budget as the State provided backfill for prior year's shortfall. Since the County's distribution of VLF revenues are impacted by the number of non-basic aid school districts; with declines impacting the availability of monies for distribution to the cities, continued uncertainty is anticipated. Thus far, the State has approved funding 2 years after the occurrence of annual VLF shortfalls, but has not been supportive of a legislative fix to the VLF issue.

Transient Occupancy tax (TOT): $1.98 million or $378,000 million below the adopted budget estimates. This revenue category continues to be a major casualty of the COVID-19 pandemic due to the corresponding changes in business travel.

Sales tax revenues: $3.9 million or $819,000 above budget estimates. The increase in gas prices, high merchandise costs as a result of inflation, and one-time use taxes from several businesses contributed to the strong results.

Building Permits: $2.39 million or $1.55 million above estimates as development activity and home improvements/remodels were better than expected

Business License Tax (BLT): $1.58 million, bettering estimates by $132,000.

Intergovernmental: $4.1 million, exceeding estimated by $887,000, primarily due to the higher ARPA receipts.

Interest Income: $224,000 or $56,000 below estimates as the Federal Reserve discount rate remained at 0.25% through March 2022 before climbing to 1.75% by June and catapulting to 3.25% in October. This aggressive ascend is to fight inflation which has climbed from 2.6% in March 2021 to 9.1% in June 2022.

Unrealized Investment Loss: $1.43 million for mark-to-market adjustment to the Investment portfolio due to the steep increase in interest rates which has eroded the market value of the City's investments. Since the City typically holds its investments until maturity, the unrealized losses are not expected to materialize.

Recreation fees/charges: $960,000 or $193,000 below budget. The velocity of City Recreation Center program revenue recovery fell shy of expectations.

Total General Fund (Funds 001to 003) expenditures were $45.6 million or $4.4 million below the amended budget. Personnel related savings accounted for $2.78 million and supplies and contract services $1.62 million. Extended staff vacancies and supply chain disruptions contributed to the reduced personnel expenditures as well as delays and postponement of work plans and related procurements.

While the General Fund and the City's overall fiscal health remain positive, a 6.1% loss in FY 2021-22 CalPERS returns compared to a 6.8% expected return along with the current inflationary conditions, labor shortage, and expiring labor agreements at 6/30/23 are fiscal challenges on top of the existing constraints from the anticipated multi-year structural deficits facing the City's General Fund.