Foster City Financial Update FY 22/23 Q2

City of Foster City
Financial Services Dept.

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The combination of $4.05 million of American Rescue Plan Act (ARPA) relief funds and improved revenues are expected to pull the City's General Fund from a deficit to a projected surplus of $3.61 million by year-end

The FY 22/23 adopted General Fund budget (Funds 001 to 003) included a projected structural deficit of $3.94 million, inclusive of a $3.5 million transfer out to the City's Capital Improvement Projects Fund. An improvement of in several revenue segments in the 1st half of the fiscal year combined with the July receipt of the final tranche of American Rescue Plan Act (ARPA) relief monies for $4.05 million (for the recovery of loss revenues from COVID-19) is prompting a projected $3.61 million General Fund surplus by year end.

Total General Fund Revenues (Funds 001 to 003) for the 6 month period were $35.33 million compared to $30.12 million in FY 21/22. Property tax revenues including ERAF refunds were $18.91 million compared to $17.56 million in the prior year. Property tax in Lieu of Vehicle License Fes surged from $1.81 million to $4.41. million as source funding increased from seven to eight non-basic aid school districts and the City received $2.01 million for its FY 20/21 shortfall. However, in an ominous sign, the State did not include San Mateo County's FY 21/22 total shortfall of $32.9M (FC's portion is $676,977) in its proposed FY 23/24 budget. Sales tax improved by $300,000 to $1.84 million compared to the prior year. Transient Occupancy Taxes continued its recovery, improving from $840,000 to $1.56 million. Planning fees and recreation fees saw double digit year-over-year gains. As the Federal Reserve continued its money tightening stance (the discount rate increased from 0.25% last year to 4.75% through Feb 2023), staff is projecting a significant improvement in its investment income earnings.

General Fund expenditures (Funds 001 to 003) totaled $29.68 million or 55.0% of the annual budget compared to last fiscal year's mark of $28.53 million. The City made 3 quarterly payments to San Mateo Consolidated Fire for its 20% shared costs for fire protection and prevention services. Based on its labor agreements with the Police Officers Association and AFSCME as well as it's Management Group Compensation and Benefit Plan executed last fiscal year, the CPI adjusted wages for city staff increased by 5% in FY 22/23. Labor agreements are due to expire on 6/30/23, with focus completing the citywide classification and compensation studies and the initiation of labor negotiations.

In August 2022, the City completed the $7 million purchase of 22 workforce housing units using reserves from the Capital Asset Acquisition and Replacement Fund. The projected FY 22/23 revenues for the Workforce Housing Fund has been marked down by $359,000 to $319,000. While 12 of the 22 units have been rented, full lease up of the building has been slowed. The original estimate was 5 months to fill the 22 units and due to a multitude of issues, many units were not ready to rent until after the second week of November 2022. The property management company estimates it will take an additional 3 to 4 months to fill the remaining units due to changing circumstances of many applicants since the closure of the waitlist over one year ago and subsequent need to reopen the waitlist, allow interested households sufficient time to apply, and to process applications and income certifications.

While Water Enterprise operating revenues are 4.8% ahead of last year's pace, staff is reducing the full year projections based on the carryover of last year's strong conservation efforts. Wastewater Enterprise Fund operating revenues totaled $10.40 million or $1.78 million higher than the prior year as base rates were increased by 14.25% effective July 1, 2022 primarily to fund the WWTP debt service costs.

The City continues to experience staffing loss, including the January separation of the Public Works Director. With an ongoing tight labor market, recruitments remains very challenging. The projected multi-year structural deficit, potential cost escalation from the classification and compensation study, the negative 6.1% CalPERS returns last year, high inflation, the State's posturing in possibly not backfilling the County's VLF shortfalls, and a potential recession this year are some of the major challenges as City staff prepares the FY 23/24 budget and 5-year financial plan .