



Foster City Financial Update FY 23/24 Q2

City of Foster City
Financial Services Dept.

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Positive revenue growth trends for the fiscal year is expected to help alleviate the projected General Fund deficit from \$6.32 million to \$4.54 million

The FY 23/24 adopted General Fund budget (Funds 001 to 003) included a projected deficit of \$6.32 million, inclusive of a \$6.0 million transfer out to the City's CIP Fund. Improvements in several revenue categories during the 1st half of the fiscal year as well as a favorable outlook is prompting a projected reduction of our projected deficit to \$4.54 million.

Total General Fund Revenues (Funds 001 to 003) for the 6 month period were \$31.23 million. Property tax revenues including ERAF refunds were \$19.94 million compared to \$18.91 million in the prior year. Having received our 1st installment of ERAF, the full year projection has been revised to include the second installment payment expected later this year. Property tax in Lieu of Vehicle License Fees declined from \$4.41 million to \$2.20 million as the City received a \$2.01 million VLF shortfall payment from the State via the County in FY 22/23 versus a VLF shortfall payment of \$667,557 in the current fiscal year. In addition, since there are only five non-basic aid school districts this fiscal year compared to six in the prior fiscal year, the County has less available property tax revenues to fund this year's VLF. Hence, this year's VLF shortfall is estimated to be \$114.39 million (FC's portion is \$2,285,850) compared to last year's shortfall of \$70.05 million (FC's portion is \$1,398,472). As a result, staff is reducing this year's VLF revenue projection by \$652,000 from \$4.39 million to \$3.74 million. Sales tax improved by \$124,000 to \$1.96 million compared to the prior year. Transient Occupancy Taxes continued its recovery, improving from \$1.56 million to \$2.01 million. Recreation fees climbed \$229,000 to \$1.01 million. Investment income jumped \$729,000 to \$1.14 million as the higher Fed Funds rate have remained unchanged at 5.25% to 5.50% since July 2023. Intergovernmental revenues declined by \$4.12 million as one-time ARPA (American Rescue Plan Act) funding ended last fiscal year.

General Fund expenditures (Funds 001 to 003) totaled \$28.72 million or 48.4% of the annual budget compared to last fiscal year's mark of \$29.68 million with unfilled positions still an ongoing challenge. The wage COLA for FY 2023-24 was 4.2% for the both the POA bargaining unit and the Management unit. The AFSCME unit finalized their labor agreement in October 2023 with a 5% COLA adjustment retroactive July 1, 2023. The City made 3 quarterly payments to San Mateo Consolidated Fire for its 20% shared costs for fire protection and prevention services.

Expenditures for many of the City's special revenue funds, including Measure A, Measure M, SBI, and Measure W funds are non-linear and commonly program and/or project driven. Water and Wastewater Enterprise operating revenues were 14.7% and 11.9% ahead of last year's pace due to a combination of new rate increases that took effect July 1 and higher investment income. Water operating expenditure were 8.8% higher due to higher wholesale water rates and a general increase in operating and labor costs. Wastewater expenditures were 3.8% higher. Notwithstanding, these enterprise fund expenditures were well within the budget for the six month period and are expected to be within full year's targets by year-end.

As stated earlier, the City continues to experience difficulties in filling vacant positions, including economic development manager, human resources manager, and police officers. The projected multi-year structural deficits, cost impacts from two consecutive years of CalPERS underperformance of investment returns (a negative 6.1% return in FY 21/22 and a 5.8% return in FY 22/23 compared to their 6.8% annual target), annual VLF shortfalls and the State's posturing in possibly not backfilling these vital revenues are some of the major challenges as City staff begins the preparation of its FY 24/25 budget and 5-year financial plan.