



Foster City Financial Update FY 20/21 Q2

City of Foster City
Financial Services Dept.

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To overcome its initial budget forecast of a \$644,000 deficit, City staff implemented various deficit remediation strategies and is now projecting a \$362,000 surplus for FY 20/21, subject to a continuation of revenue recovery from the COVID-19 pandemic

Depressed economic conditions from the COVID-19 pandemic continued to impact General Fund revenues, especially our local hotels and the City's recreation center programs/rentals. Although the FY 20/21 adopted General Fund budget included a downsizing of revenues and a retrenchment of expenditures, it was still filled with risk susceptible assumptions and uncertainty and included a \$644,000 structural deficit. In approving the FY 20/21 budget, the City Council tasked staff to continue its efforts to close/eliminate the budget shortfall for FY 20/21. Over the past six months, staff's efforts to cure the structural deficit included a \$400,000 transfer of surplus reserves from the Equipment Replacement Fund and a \$627,619 transfer of Fund Balance from the BAERS Fund (due to the discontinuation of this program) to the General Fund. These efforts have led to City staff's current forecast that shows the elimination of the deficit and in addition, a \$362,000 surplus.

Total General Fund Revenues (Funds 001 to 003) were \$24.1 million or \$2.3 million lower than the same quarter last year. There were severe year-over-year declines in Transient Occupancy Tax (TOT) revenues and Parks and recreations revenues of \$2.1 million or 82.8% and \$937,000 or 78.9% respectively. These shortfalls were partially mitigated by a \$1.3 million gain in property tax revenues. Interest Income for the quarter sank by 57.1% to \$184,000 as interest rates plummeted to near zero as the Federal Reserve injected monetary stimulus to the economy to combat the economic contraction caused by COVID-19. During the period, the City received its \$407,000 CARES Act funding. General Fund expenditures (Funds 001 to 003) totaled \$26.3 million or 56.7% of the annual budget as the City made a \$6.21 million prepayment of its annual unfunded liability obligation to CalPERS. The lump sum option represents a \$214,000 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 amounts to a third quarter prepayment of \$1.99 million. The City also agreed to a one-year MOU with its AF-SCME labor unit with no wage increases, saving an estimated \$96,000 for the General Fund. Ongoing labor negotiations are continuing for the Police Officers Association as well as the unrepresented Management Unit. Lastly, a \$1.35 million transfer was made to the City Capital Projects Fund. As a part of the City's structural budget remediation strategy, City staff also identified \$286,000 of various personnel cost savings for FY 20/21, primarily from vacancies and unneeded part-time/seasonal labor.

In August, the City earned the highest credit rating (Aaa) from Moody's Investor Service for its \$85 million General Obligation Bonds issuance for its Levee CIP project. The rating represents very strong Foster City credit worthiness and helped the City secure a favorable net interest cost of 2.33% on its sale of bonds.

Water Enterprise Fund operating revenues and expenditures were \$9.6 million and \$6.8 million respectively and within budget expectations. Wastewater Enterprise Fund operating revenues totaled \$7.88 million or \$864,000 higher than the same period in the prior year as base rates were increased by 14.25% effective July 1, 2020, 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 \$2.13 million or \$661,000 lower than the same period last year as the District had not received its 2nd quarter Wastewater Treatment Plant maintenance bill from San Mateo yet. In November, the District and the City of San Mateo completed a Water Infrastructure Financing and Innovation Act (WIFIA) loan with the Environmental Protection Agency (EPA) for its 2nd tranche of financing for the WWTP project. The interest rate on the District's portion of the loan was 1.14%.