Foster City Financial Update FY 19/20 Q3

City of Foster City
Financial Services Dept.

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in Foster City

Revenue losses from COVID-19 is anticipated to decimate the previously projected $1.8 million General Fund surplus for the current year but more importantly, precipitate multi-year deficits. Notwithstanding, the City's $45.4 million General Fund reserves offers a degree of solace in preparing for the fiscal challenges ahead.

The City's General Fund Reserves (Funds 001-003) began the fiscal year at $52.2 million, inclusive of a $6,773,154 FY 18/19 "rollover surplus". On March 16, the City Council authorized the use of the surplus as follows: 1) $3.5 million transfer to the Pension Stabilization Fund. Due to concerns expressed regarding the COVID-19 impacts on CalPERS investment returns, they held off on using that money to pay off the remaining estimated balance of the Public Safety "classic" plan's 6/30/16 Asset Loss base and 2) $1,636,577 transfers each to the City CIP Fund and the City Facilities Fund. This still leaves $45.4 million in General Fund Reserves, which represents 100% of budgeted FY 19/20 General Fund operating expenditures (excluding Transfers Out).

City staff is projecting the City's General Fund (Funds 001-003) to finish the current fiscal year with a small surplus as dramatic revenue losses in multiple segments, including transient occupancy tax, sales tax, and Park and Recreation programs and rental revenues are anticipated to abruptly turn the previously projected $1.8 million surplus into a $1 million deficit. Expenditure reductions primarily from salary savings of unfilled positions and a current hiring freeze are expected to offset the deficit and leave a small surplus.

Significant General Fund revenues are discussed below.

Property Taxes: Based on fiscal year-to-date receipts and full year estimates of property taxes revenues, including ERAF refunds from the County, staff is projecting property tax revenues will reach $29.7 million in FY 19/20.

Property Tax in lieu of Vehicle License Fees (VLF): VLF revenues are anticipated to miss budget by $42,400 to $4.16 million. This represents a big improvement from the $738,400 decline previously reported in Q2 as the deficiency of available property taxes designated to fund VLF abated. San Mateo County has indicated that in its conversations with the State, a FY 2021-2022 appropriation to cover this shortfall, which totals $9.2 million countywide is under consideration.

Transient Occupancy tax (TOT): Transient Occupancy Tax revenues are projected to decline from a pre-COVID-19 forecast of $4.85 million to $3.4 million as the hotel industry has been one of the hardest hit segments of the shelter in place health orders. The City's 3 hotels are either closed or nearly closed.

Sales tax revenues: Restaurants and service stations have also been among the hardest hit by the economic shutdown. As a result, staff has marked sales tax revenues down by $572,000 from the adopted budget estimate of $3.39 million.

Recreation charges and fees: With the recreation center closed, staff is projecting a $574,000 revenue reduction to $1.07 million.

General Fund Expenditures: A $1.2 million budgetary savings is projected primarily from unfilled positions and a hiring freeze currently in place to mitigate the impacts of the severe revenue losses indicated above.

Capital Asset Acquisition and Replacement Fund: This fund holds a balance of $40.3 million. After adding an estimated $1.68 million from PJCC loan repayments and investment earnings, the projected 6/30/20 balance is anticipated to reach $42 million, with $7 million earmarked for the City's planned purchase of 22 workforce housing units in the Pilgrim Triton Phase C project.

Wastewater Enterprise Fund operating revenues totaled $9.0 million or 64.9% and operating expenditures were $4.5 million or 58.0% of the budgeted estimates. These expenditures do not include all of the apportioned operating charges from the City of San Mateo for the jointly owned Wastewater Treatment Plant as they are billed to the Wastewater Enterprise quarterly in arrears.

As the City/District develops its upcoming annual budget and 5-year financial plan, COVID-19 adds great uncertainty on top of financial concerns related to levee construction costs, recreation center replacement costs, labor negotiations, and escalated pension costs associated with the growth of City's unfunded pension liability.