



Foster City Financial Update FY 20/21 Q1

City of Foster City
Financial Services Dept.

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The Amended General Fund Budget (Funds 001 to 003) projects a \$587,000 deficit for FY 20/21. City staff will continue to provide Quarterly Structural Deficit Remediation Strategies to the City Council with the goal to further reduce or eliminate the imbalance.

Economic conditions in the 1st quarter continue to be challenging with COVID-19 still gnawing at many segments of the economy. Although the FY 20/21 adopted General Fund budget included a downsizing of revenues and a retrenchment of expenditures, there is sizable uncertainty for the remainder of the fiscal year. Total General Fund Revenues (Funds 001 to 003) were \$2.42 million or \$915,000 lower than the same quarter last year. There were large year-over-year declines in Transient Occupancy Tax (TOT) revenues and Parks and recreations revenues of \$643,000 and \$515,000 respectively. These shortfalls were mitigated by an over \$1 million of one-time transfers to the General Fund from the BAERS Fund and the Equipment Replacement Fund that was identified as part of the 1st quarter structural budget remediation strategy. Interest Income for the quarter was sank by 52% to \$106,000 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. It is important to note that the City's revenues are non-linear and are not received evenly by the City over the course of the fiscal year. As an example, most property tax revenues and property tax in lieu of vehicle license fees (VLF In-Lieu) are paid by the County to the City in December and April. Since property taxes account for over 50% and VLF In-Lieu over 8% of total General Fund revenues, total first quarter revenues are normally low, as is the case for the current fiscal year. During the quarter, the City received 50% of its \$407,000 CARES Act funding with the remaining balanced paid in October. General Fund expenditures (Funds 001 to 003) totaled \$17.5 million or 37.7% of the annual budget as the City made a \$6.21 million prepayment of its current year's unfunded liability obligation to CalPERS. The lump sum option represents a \$214,000 savings compared to making monthly payments. The City also contributed both its first and second quarter funding obligation to San Mateo Consolidated Fire for its portion of share costs for fire protection and prevention ser-

vices to the City. This second quarter prepayment amounted to \$1.99 million. The City also agreed to a one year MOU with its AFSCME 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 also a part of the 1st quarter structural budget remediation strategy, City staff identified \$285,000 in total personnel savings from the City Manager vacancy, the conversion of Community Development Department building inspector to a permit technician, and the reduction of non-essential part time staffing.

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 the highest credit worthiness and helps the City secure very favorable interest rates at time of the bond sale.

Wastewater Enterprise Fund operating revenues totaled \$1.96 million or \$85,000 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 \$157.5 million share of the Wastewater Treatment Plant Master Improvements (WWTP) project with the City of San Mateo. Operating expenditures were \$1.06 million or \$45,000 higher than the same period last year. The District and the City of San Mateo is finalizing a low interest Water Infrastructure Financing and Innovation Act (WIFIA) loan with the Environmental Protection Agency (EPA) for its 2nd tranche of financing for the WWTP project.

There is continued uncertainty regarding the impacts of COVID-19 on the remainder of the fiscal year and beyond. Staff will follow through on its commitment to the City Council to provide quarterly revenue forecast and remediation strategy updates to reduce or cure the structural deficit.