Foster City Financial Update FY 24/25 Q1

City of Foster City Financial Services Dept.

Live, Work & Play in Foster City

Based on the updated growth trends, staff is increasing estimated FY 24/25 General Fund revenues by net $950,000 which will help alleviate a budgeted General Fund Deficit of $5.58 million

The adopted FY 24/25 General Fund budget (Funds 001 to 003) included a projected deficit of $5.58 million, inclusive of a $5.75 million transfer out to the City's Capital Improvement Projects Fund. Due to the updated revenue growth trends for sales tax and business license tax (BLT), City staff is increasing the total projected General Fund revenues by $950,000. This includes the downward adjustment of $449,600 for sales tax revenues and increase of $1.4 million in BLT revenues due to the passage of Measure V in November 2024.

Total General Fund Revenues (Funds 001 to 003) in the 1st quarter were $5.10 million compared to $4.33 million in FY 23/24. This is due primarily to the higher interest income and the larger amount of Property Tax in-lieu of VLF backfill in current year vs. last fiscal year ($1.40 million vs $667,000 respectively).

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 are paid by the County to the City in December and April. Since property taxes account for over 60% of total General Fund revenues, total first quarter revenues are normally low, as is the case for the current fiscal year. Notwithstanding, transient occupancy tax (TOT), sales tax, and recreation program/class revenues were $644,000, $296,000, and $714,000 respectively compared to the prior year's results of $663,000, $295,000, and $819,000 . Recreation Center program revenue for the 1st quarter was $714,000, a $106,000 drop from last year. With the Federal Funds rate remaining at around 5.00% level and expectations more rate cuts in coming months, the City's FY 24/25 interest earnings will likely drop compared to the last year's results.

General Fund expenditures (Funds 001 to 003) totaled $16.36 million or $2.84 million higher than the prior year's mark of $13.52 million. In the prior year, considering the availability of investment returns of approximately 5.5%, City staff opted not to prepay its unfunded accrued liability (UAL) to CalPERS in July of the previous fiscal year and instead made its 12 monthly payments. However, after looking at the actual results, there were no savings, staff opted to prepay UAL in the current fiscal year, which amounted to a cash outflow difference of $5.53 million ($7.37 million vs. $1.84 million). In addition, the City made recorded quarterly funding payments of $2.40 million each to SMC Fire Department for the current fiscal year, but made only the 1st quarterly funding payment totaling $2.29 million in the 1st quarter of the prior fiscal year. Wage COLA for FY 2024-25 increased by 3.8% for the POA bargaining unit as well as the Management unit. COLA payment for the AFSCME unit was made in the 1st quarter as that labor agreement was finalized in September 2024. In terms of the first quarter's performance from a budget perspective, General Fund expenditures were at 24.6% of the annual total.

Water Enterprise operating revenues were $176,000 higher than last year as water consumption and fixed charges increased by 3.8% and 4.5% respectively. Operating expenditures were $4.04 million or $442,000 higher than the same period last year. Wastewater Enterprise Fund operating revenues totaled $3.86 million or 428,000 higher than the same period in the prior year as base rates were increased by 2.0% effective July 1, 2024 primarily to fund debt service costs associated with the District's financing of its $156 million share of the Wastewater Treatment Plant (WWTP) Master Improvements project with the City of San Mateo. Operating expenditures were $1.46 million or $90,000 higher than the same period last year.

The organization still has multiple staff vacancies with recruitment being a high priority. The projected multi-year deficits, impacts from increasing CalPERS' and higher labor costs, and higher Recreation Center rebuild costs are some of the challenges as City staff begins the preparation of the FY 25/26 budget and 5-year financial plan in the upcoming weeks.