	# Foster City Financial Update FY 23/24 Q1	**City of Foster City Financial Services Dept.** Live, Work & Play in Foster City

Based on the strong results in FY 22/23 and continued growth trends, staff is increasing estimated FY 23/24 General Fund revenues by $1.03 million which will help alleviate a budgeted General Fund Deficit of $6.32 million

The adopted FY 23/24 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 Capital Improvement Projects Fund. Due to the stronger FY 22/23 revenue results and expected revenue growth trends for transient occupancy tax, sales tax, and business license tax, City staff is increasing the total projected General Fund revenues by $1.03 million.

Total General Fund Revenues (Funds 001 to 003) in the 1st quarter were $4.33 million compared to $8.74 million in FY 22/23. This is due primarily to the 2nd and final tranche of American Rescue Plan Act (ARPA) relief monies received in FY 22/23 and the larger amount of Property Tax in-lieu of VLF backfill last year vs. this fiscal year ($2.01 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 $663,000, $294,000, and $819,000 respectively compared to the prior year's results of $489,000, $247,000, and $610,000. Recreation Center program revenue for the 1st quarter was $819,000, a $209,000 improvement from last year. With the Federal Funds rate remaining at its current 5.25% to 5.50% level and expectations of a rate cut not occurring before May 2024, the City's FY 23/24 interest earnings will likely exceed last year's results.

General Fund expenditures (Funds 001 to 003) totaled $13.5 million or $6.6 million lower than the prior year's mark of $20.1 million. Due to the City's available investment yield of approximately 5.5%, staff opted not to prepay this entire year's required unfunded accrued liability (UAL) to CalPERS at the end of July and instead make its 12 monthly payments. This amounted to a cash outflow difference of $5.67 million ($1.84 million vs. $7.51 million). In addition, the City made just the 1st quarterly funding payments of $2.29 million to SMC Fire Department for the current fiscal year, but made both the 1st and 2nd quarterly funding payments totaling $4.36 million ($2.18 million for each quarter) in the 1st quarter of the prior fiscal year. Wage COLA for FY 2023-24 increased by 4.2% for the POA bargaining unit as well as the Management unit. No COLA payment was made for the AFSCME unit in the 1st quarter as that labor agreement wasn't finalized until October 2023. In terms of the first quarter's performance from a budget perspective, General Fund expenditures were at 22.8% of the annual total.

Water Enterprise operating revenues were $468,000 higher than last year as water consumption and fixed charges increased by 4.3% and 6.0% respectively. Operating expenditures were $3.60 million or $265,000 higher than the same period last year. Wastewater Enterprise Fund operating revenues totaled $3.43 million or 642,000 higher than the same period in the prior year as base rates were increased by 3.0% effective July 1, 2023 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 $1.37 million or $132,000 higher than the same period last year.

While the organization still has multiple staff vacancies with recruitment being a high priority, we are happy to have hired a new Administrative Services Director overseeing Human Resources, Risk Management, and Information Technology. The projected multi-year deficits, impacts from CalPERS' negative 6.1% returns in FY 21/22 and a 5.8% return in FY 22/23, higher labor costs, and higher Recreation Center rebuild costs are some of the challenges as City staff begins the preparation of the FY 24/25 budget and 5-year financial plan in the upcoming weeks.