

Third Quarter Report

Fiscal Year 2018-19

Introduction

This financial report provides an overview of the City's financial position through the third quarter of fiscal year (FY) 2018-19 (July 1, 2018, through March 31, 2019) for (1) the General Fund, (2) the major enterprise operating funds, and (3) revenues in other selected funds. Notable cumulative third quarter to third quarter and budget to actual comparisons are included in this report.

The following factors should be taken into consideration when analyzing third quarter data:

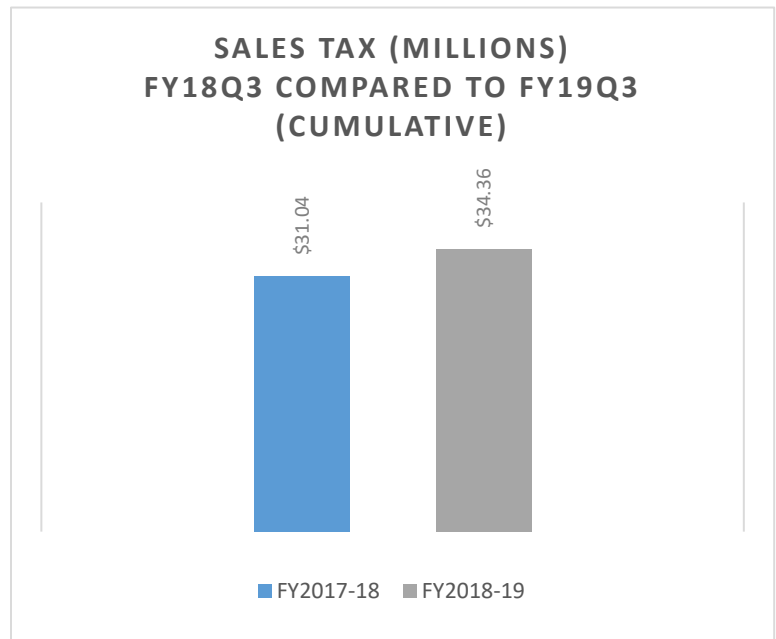
- Property tax revenue has not been received entirely (second installment expected in mid-May).
- Some significant costs are incurred up front (for example, CalPERS payments and some contracts) with variances smoothing out over the fiscal year.

General Fund: Operating Revenues

The following table includes cumulative revenue comparisons through the third quarter of FY2017-18 and FY2018-19 and a revenue budget to actual comparison for FY2018-19.

	Cumulative third quarter actual comparison (July 1 – March 31)				Budget to actual comparison	
	FY2017-18	FY2018-19	\$ Variance	% Variance	FY2018-19 Amended Budget	% of budget
Sales Tax	\$ 31,043,109	\$ 34,357,205	\$ 3,314,096	10.7%	\$ 56,947,700	60.3%
Property Tax	23,586,287	25,249,672	1,663,385	7.1%	44,725,920	56.5%
Parks, Recreation & Libraries Programs	2,717,844	2,705,618	(12,226)	-0.4%	4,053,321	66.8%
Building Permits	1,801,572	1,657,718	(143,854)	-8.0%	2,216,300	74.8%
Plan Check Fees	1,598,056	1,469,474	(128,582)	-8.0%	2,306,822	63.7%
Engineering Inspection Fees	127,115	64,756	(62,359)	-49.1%	171,880	37.7%
Grants	105,841	47,628	(58,213)	-55.0%	353,889	13.5%
Other Revenues	12,596,660	14,395,183	1,798,523	14.3%	17,507,134	82.2%
Total	\$ 73,576,484	\$ 79,947,254	\$ 6,370,770	8.7%	\$ 128,282,966	62.3%

General Fund operating revenues through the third quarter are \$6.4 million, or 9 percent above the same period in FY2017-18. Revenues are at 62 percent of the budget through the third quarter of the current year, primarily due to the timing associated with receiving some of the larger revenues sources. For instance, property tax is the second largest General Fund revenue source, but funding is received in two installments. The second installment will be received during the fourth quarter of the fiscal year. The following is an explanation of the notable variances:



- Sales tax revenues exceeded last year's cumulative third quarter by 11 percent or \$3.3

million. Approximately \$0.8 million of this increase is due to a delay in processing state-wide tax remittances caused by the implementation of a new software system at the California Department of Tax Fee Administration. These one-time revenues were not included in the FY2018-19 budget because the City was not made aware of the delay until after budget adoption. The remaining balance of \$2.5 million is attributed to growth in sales tax revenues as compared to the prior year.

Based on the latest sales tax forecast and accounting for the \$0.8 million in prior year revenues, sales tax is trending to end year approximately \$500,000 below the FY2018-19 budget estimates at \$56.4 million. Without the \$0.8 million in prior year revenues, sales tax revenues would come in \$1.3 million under budget.

- Property tax revenues exceeded last year's cumulative third quarter by 7% or \$1.7 million. This increase is attributed to continued growth in the housing market. Based on latest projections, property tax is expected to exceed estimates by \$2.7 million at \$47.4 million.
- Building permit revenues, plan check fees, and engineering inspection fees all decreased due to slower development activity as compared to the same period of FY2017-18. Although revenues are trending low for the third quarter of FY2018-19, the Development Services Department anticipates that these revenues will meet the budget target by the end of the fourth quarter.

- Other revenues increased by 14 percent or \$1.8 million. The major factors contributing to this variance include increased hotel/motel room tax revenues, reimbursements from the State for fire strike team, development reimbursement activity, and workers' compensation reimbursements.

General Fund: Department Operating Expenditures

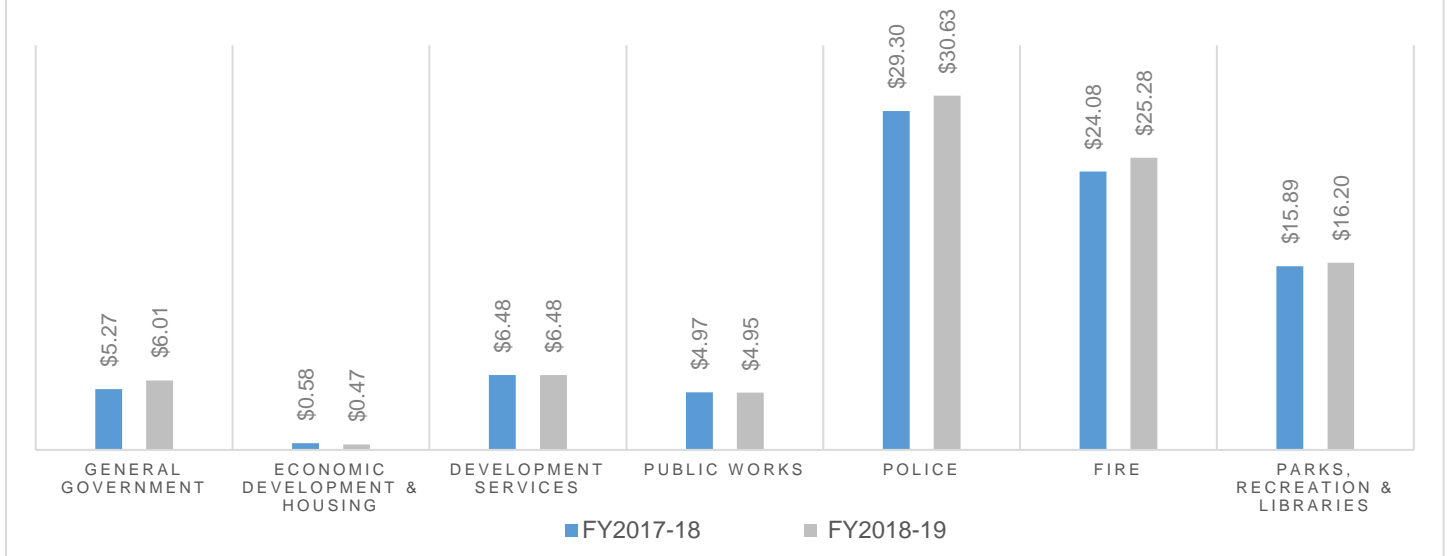
The following table includes cumulative third quarter actual expenditure comparisons for FY2017-18 and FY2018-19 and an expenditure budget to actual comparison for FY2018-19.

	Cumulative third quarter actual comparison (July 1 – March 31)				Budget to actual comparison	
	FY2017-18	FY2018-19	\$ Variance	% Variance	FY2018-19 Amended Budget	% of budget
General Government	\$ 5,265,421	\$ 6,009,388	\$ 743,967	14.1%	\$ 9,486,266	63.3%
Economic Development & Housing	577,453	470,459	(106,994)	-18.5%	814,076	57.8%
Development Services	6,480,647	6,479,602	(1,045)	0.0%	9,969,898	65.0%
Public Works	4,973,452	4,952,580	(20,872)	-0.4%	7,053,390	70.2%
Police	29,303,520	30,632,440	1,328,920	4.5%	41,782,519	73.3%
Fire	24,083,228	25,283,821	1,200,593	5.0%	32,387,215	78.1%
Parks, Recreation & Libraries	15,888,409	16,198,177	309,768	1.9%	23,127,137	70.0%
Total	\$ 86,572,130	\$ 90,026,467	\$ 3,454,337	4.0%	\$ 124,620,501	72.2%

Overall, cumulative third quarter General Fund expenditures increased 4 percent compared to the prior year. The expenditures for General Government (which includes Human Resources, Finance, City Clerk, etc.) increased 14 percent from the previous year. This increment is in alignment with the FY2018-19 budget and is mainly driven by personnel, materials, services, and supplies costs.

Economic Development & Housing show a significant decrease in expenditures compared to the third quarter of the previous year because of a Development Analyst position being vacant during most of the year. Police and Fire Departments' expenditures increased by 4.5% and 5% respectively due to higher budget requirements to maintain service levels. Spending in all of the remaining General Fund Departments for the third quarter of FY2018-19 was similar to the prior year quarter.

**OPERATING EXPENDITURES BY DEPARTMENT (MILLIONS)
FY18Q3 COMPARED TO FY19Q3
(CUMULATIVE)**



General Fund expenditures are tracking at 72 percent of the budget through the third quarter of FY2018-19. The following is an explanation of the department specific variances through the third quarter as compared to the prior year.

- Economic Development & Housing Department expenditures are trending low at 58 percent because of the vacant Development Analyst position through the third quarter. This trend will extend through the fourth quarter as the position will not be filled until the end of June.
- Fire Department expenditures are tracking at 78 percent of the budget, due to the maintenance of the four firefighter response standard despite reducing the standard to three firefighters in the budget, a large turnout (fire protection suit) order and higher than anticipated constant staffing costs. General Fund contingency funds in the amount of \$832,221 (2.6% of budget) will post during the fourth quarter to cover any budget overages.

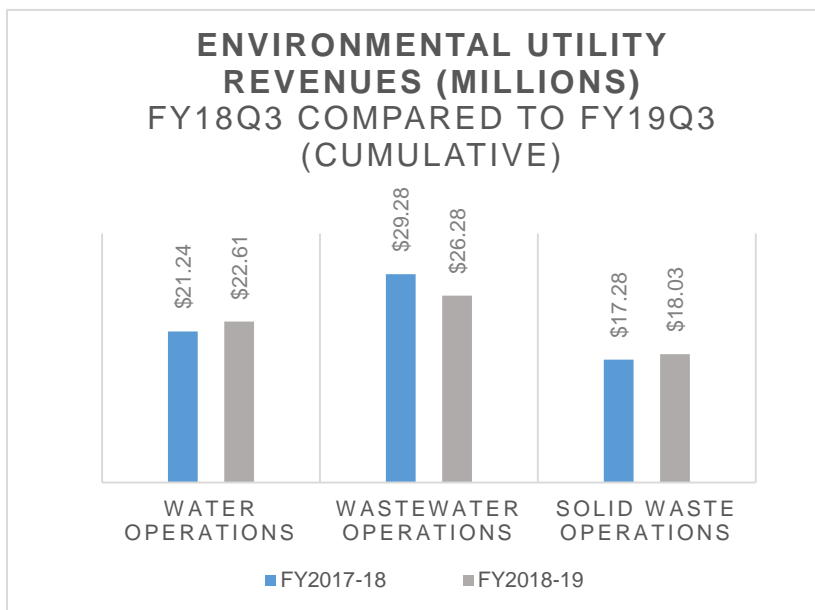
Overall General Fund departments' expenditures are trending low (under the 75% expectation) because of vacancies and labor charges allocated to the Enterprise Resource Planning (ERP) replacement project.

Enterprise Funds: Operating Revenue

The table below includes cumulative third quarter actual revenue comparisons for FY2017-18 and FY2018-19 and a revenue budget to actual comparison for FY2018-19 for the Enterprise Funds.

	Cumulative third quarter actual comparison (July 1 – March 31)				Budget to actual comparison	
	FY2017-18	FY2018-19	\$ Variance	% Variance	FY2018-19 Amended Budget	% of budget
Electric Operations	\$ 117,904,536	\$ 117,085,814	\$ (818,722)	-0.7%	\$ 164,273,925	71.3%
Water Operations	21,237,619	22,607,117	1,369,498	6.4%	30,440,666	74.3%
Wastewater Operations	29,279,975	26,279,381	(3,000,594)	-10.2%	38,394,809	68.4%
Solid Waste Operations	17,281,946	18,026,331	744,385	4.3%	23,270,158	77.5%
Transit	880,731	925,422	44,691	5.1%	10,918,918	8.5%
Transportation	48,329	197,381	149,052	308.4%	2,089,055	9.4%
Youth Development	5,318,086	5,629,045	310,959	5.8%	6,780,998	83.0%

Electric revenues are similar to the prior year with only a less than 1 percent change. Reduced large customer electric usage during the third quarter lowered actual revenues for the current fiscal year. It is expected that overall revenues for FY2018-19 will be approximately \$2 million under budget and will be offset by reduced expenditures.



Water and Solid Waste revenues increased compared to the first three quarters of last year due to rate increases of 7 percent and 2 percent respectively as well as increased utility sales. Wastewater revenues decreased by \$3 million or 10 percent due to timing associated with receiving wastewater reimbursements from the South Placer Municipal Utility District and County of Placer. The Department anticipates that the remainder of the reimbursements will be received during the fourth quarter after yearly reconciliation.

The Youth Development Fund revenues are tracking higher than expected at 83 percent of the budget due to higher demand for childcare programs and the opening of the Orchard Ranch site.

Overall, Enterprise Fund revenues as compared to the budget will meet or exceed targets. Larger budget to actual variances in the Transit and Transportation enterprise funds are due to the timing associated with their primary revenue streams as a majority of their funding is realized in the last quarter of the fiscal year.

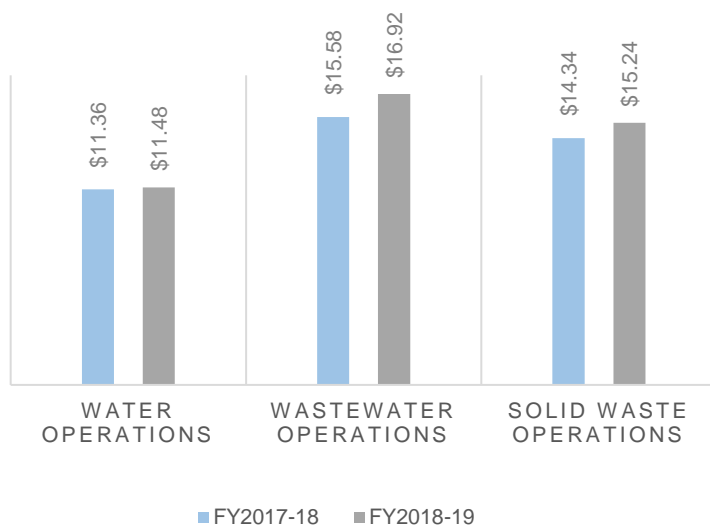
Enterprise Funds: Operating Expenditures

The following table includes cumulative third quarter actual expenditure comparisons for FY2017-18 and FY2018-19 and an expenditure budget to actual comparison for FY2018-19.

	Cumulative third quarter actual comparison (July 1 – March 31)				Budget to actual comparison	
	FY2017-18	FY2018-19	\$ Variance	% Variance	FY2018-19 Amended Budget	% of budget
Electric Operations	\$ 74,566,419	\$ 70,857,133	\$ (3,709,286)	-5.0%	\$ 120,938,568	58.6%
Water Operations	11,364,498	11,480,538	116,040	1.0%	23,833,117	48.2%
Wastewater Operations	15,580,996	16,920,154	1,339,158	8.6%	29,630,897	57.1%
Solid Waste Operations	14,340,284	15,243,533	903,249	6.3%	24,961,391	61.1%
Transit	3,963,247	3,940,639	-22,608	-0.6%	6,740,931	58.5%
Transportation	722,750	697,082	-25,668	-3.6%	1,430,351	48.7%
Youth Development	4,563,714	4,560,684	-3,030	-0.1%	6,547,179	69.7%

Most of the enterprise funds experienced decreased expenditures through the third quarter due to efficiencies gained, vacancies or seasonal expenditures. The variance in the Electric Fund, is the result of lower purchased power market prices and reduced customer energy usage resulting in a 5 percent or \$3.7 million decrease in expenditures as compared to the prior year.

**ENVIRONMENTAL UTILITIES
EXPENDITURES (MILLIONS)
FY18Q3 COMPARED TO FY19Q3
(CUMULATIVE)**



Water, Wastewater and Solid Waste expenses increased because budgeted transfers for the Utility Exploration Center, Environmental Utilities administration and outreach, and utility billing are being changed to reimbursed expenditures.

Overall, expenditures for all of the Enterprise Funds are tracking to end the year under budget. The following is an explanation of the factors contributing to these variances:

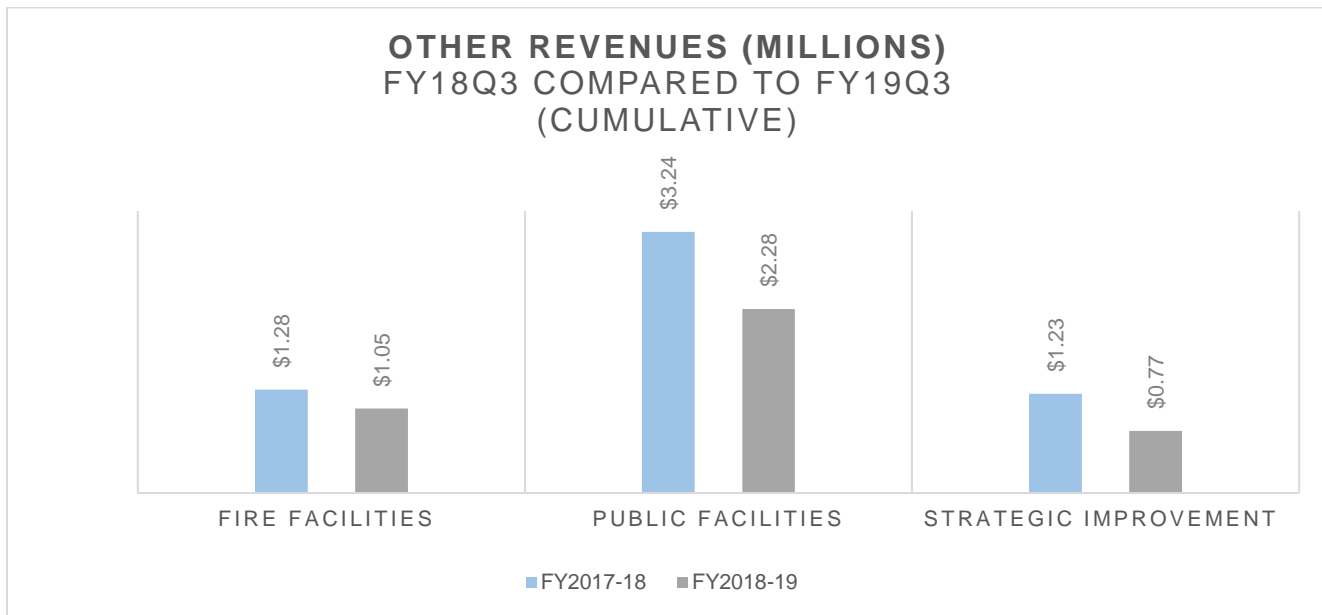
- Electric expenditures are tracking at 58.6 percent primarily due to reduced fuel and purchased power commodities prices.
- The expenditures for Water, Wastewater and Solid Waste Departments are trending low because of vacancies.
- Transit and Transportation expenditures are tracking low at 59 and 49 percent respectively due to partial year vacancies in both divisions and seasonal expenditures occurring towards the end of the four quarter.
- The expenditures for the Youth Development Fund are lower than budget at 70 percent as a result of efficiencies gained by changes in the staffing model and vacancies through the year.

Other Revenue

The table below shows revenues in the Fire Facilities Fund, Public Facilities Fund, and Strategic Improvement Fund through the third quarter of FY2018-19. The third quarter improved over the second quarter (Second quarter actual comparison: Fire Facilities: -27.7 percent; Public Facilities: -48.7 percent; and Strategic Improvement: -46.7 percent) but continued to trend lower than FY2017-18. Staff attributes these reductions to less development activity as compared to the same period of the previous fiscal year.

Overall, the Fire Facilities, Public Facilities and Strategic Improvement funds are tracking to come in on or above budget. All three of these funds are following relatively close to budget, despite less revenue as compared to the previous year quarter, because the City has historically taken a conservative approach when budgeting these revenues because of the volatile nature of development.

	Cumulative third quarter actual comparison (July 1 – March 31)				Budget to actual comparison	
	FY2017-18	FY2018-19	\$ Variance	% Variance	FY2018-19 Amended Budget	% of budget
Fire Facilities	\$ 1,283,618	\$ 1,048,044	\$ (235,574)	-18.4%	\$ 1,388,251	75.5%
Public Facilities	3,242,645	2,284,471	(958,174)	-29.5%	2,828,181	80.8%
Strategic Improvement	1,229,798	769,582	(460,216)	-37.4%	962,784	79.9%



Conclusion

Except for identified variances, expenditures and revenues are tracking as expected. Staff will continue to monitor these variances and come back to City Council in the winter with the FY2018-19 Year-End Report.