



Third Quarter Report Fiscal Year 2019-20

Third Quarter Report

Fiscal Year 2019-20

Overview

This financial report provides an overview of the City's financial position through the third quarter of the fiscal year (FY) 2019-20 (July 1, 2019, through March 31, 2020) for (1) the General Fund, (2) the major enterprise operating funds, and (3) revenues in other selected funds. City departments and the Budget Office analyzed budget to actual performance for potential issues requiring immediate action and identified none. Staff plan to publish the fourth quarter report in October and present it to the City Council along with any recommended budget revisions based on updated financial information.

The following factors should be taken into considerations when analyzing this third-quarter report:

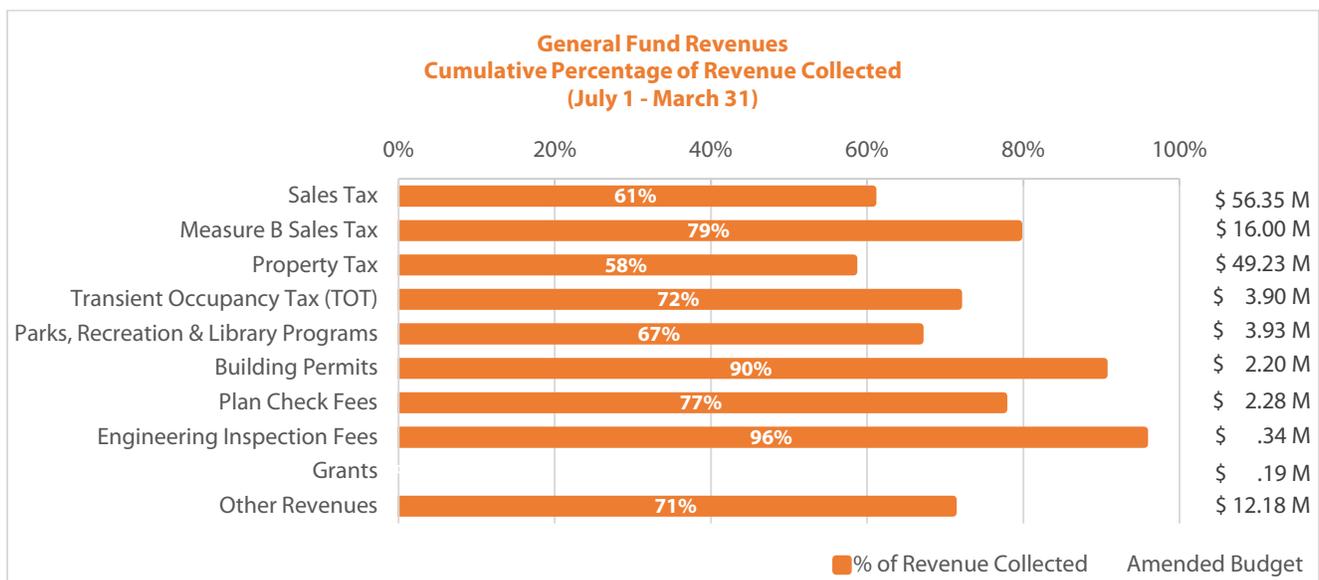
- The COVID-19 pandemic has caused wide-ranging impacts on the economy, including significant unemployment and reduced retail sales and hotel occupancy due to business closures and stay-at-home orders, which have direct correlations to the City's significant General Fund tax revenues (sales and transient occupancy taxes). The pandemic has also affected revenue and expenses of programs in other City funds, including the utilities, transit, youth development, and golf. Although the pandemic began during the third quarter, reductions in some of the City's more significant revenues streams are not reflected in this third quarter report due to the timing associated with receiving these revenues. Since the more significant impacts of COVID-19 are occurring during the fourth quarter, this report also includes an update on revenues and expenditures to date.
- Property tax revenue is received in mid-January and mid-May.
- Some significant expenditures/expenses are incurred upfront (for example, the annual payment to CalPERS toward the City's Unfunded Accrued Liability (UAL) and some contracts with annual payments) with variances smoothing out over the fiscal year.

General Fund: Operating Revenues

The following table includes cumulative revenue through the third quarter and a revenue budget to actual comparison for FY2019-20.

Revenue Type	Budget to Cumulative Revenue Comparison (July 1 – March 31)			
	Amended Budget	Cumulative Revenues	Balance	% of Budget
Sales Tax	\$ 56,348,950	\$ 34,214,723	\$ 22,134,227	61%
Measure B Sales Tax	16,000,000	12,703,061	3,296,939	79%
Property Tax	49,227,860	28,684,892	20,542,968	58%
Transient Occupancy Tax (TOT)	3,900,000	2,795,540	1,104,460	72%
Parks, Recreation & Library Programs	3,934,560	2,626,248	1,308,312	67%
Building Permits	2,200,000	1,986,768	213,232	90%
Plan Check Fees	2,281,322	1,767,180	514,142	77%
Engineering Inspection Fees	340,400	325,104	15,296	96%
Grants	191,643	0	191,643	0%
Other Revenues	12,179,313	8,646,758	3,532,555	71%
Total	\$ 146,604,048	\$ 93,750,274	\$ 52,853,774	64%

General Fund operating revenues are at 64 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 (mid-January and mid-May). The second installment will be reflected in the fourth quarter report. Overall, this level of collection as of the third quarter is similar to the prior year (62 percent in FY2018/19 and 64 percent in FY2019/20).



Staff is projecting a General Fund revenue shortfall in the range of \$2 million to \$9 million due to the COVID-19 pandemic. This shortfall will be offset with expenditure controls, including the implementation of a hiring freeze and a pause on non-essential programs and activities, and a transfer from the General Fund Stabilization Reserve.

Following are additional details on specific General Fund revenue sources:

- Sales tax (Bradley Burns) revenues are at 61 percent and Measure B sales tax revenues are at 79 percent of budget as of the 3rd quarter. The percentage rate of collection for the Bradley Burns sales tax revenue through the third quarter are in line with prior year disbursements from the State of California (\$34.4 million in FY2018-19 and \$34.2 million in FY2019-20). The higher percentage rate of collection for Measure B sales tax revenue is primarily due to the conservative budget for the full first year of the voter-approved local tax.

The closure of retail stores due to the pandemic toward the end of the third quarter is having a significant impact on this revenue stream. In addition, the State has implemented several programs to assist businesses, including an extension on filing sales tax returns and paying taxes due for the January to March 2020 quarter for 90 days, and a small-business deferral program, which allows for a 12-month interest-free payment plan. The magnitude of the impact of the retail closures, as well as the state sales tax extension and deferral programs, will not come into focus for several more months because of the timing associated with the state's collection and distribution of these funds. The City will not receive all of the sales tax revenues for the January to March 2020 period, because of the filing extension, or revenues from the April to June period until late August.

The City has collected three additional sales tax distributions (in April, May and June) that are not included in this report because they were received after the end of the City's third quarter.

The Bradley-Burns sales tax revenue distributions received after the third quarter include:

- \$4.2 million received in April for the January to March 2020 quarter
- \$2.7 million clean-up payment received in May for the January to March 2020 quarter
- \$3.6 million received in June, including a \$2.5 million estimated advance for the April to June 2020 quarter and a \$1.1 million clean-up payment for the January to March 2020 quarter

These additional payments bring the total collected through June to \$43.9 million compared to the \$55.2 million budget. Additional payments will be received in July and August for the April to June quarter and any residual clean-up payments for the January to March quarter. Staff anticipate that Bradley-Burns sales tax revenues will end the year \$4-8 million below budget.

The Measure B local sales tax revenue distributions received after the third quarter include:

- \$1.7 million received in April for the January to March 2020 quarter
- \$482,000 clean-up payment received in May for the January to March 2020 quarter
- \$1.4 million received in June, including a \$787,000 estimated advance for the April to June 2020 quarter and a \$580,000 clean-up payment for the January to March 2020 quarter

These additional Measure B payments bring the total collected through June to \$16.2 million compared to the \$16.0 million budget.

- Property tax revenues are at 58 percent of the budget as of the 3rd quarter. As mentioned previously, the second installment of property tax revenues will be received during the fourth quarter. Staff anticipates that the City will generate revenue between \$50.2 million to \$51.2 million in property taxes during FY2019-20. This equates to \$1 million to \$2 million above budget forecasts. Property tax revenue is based on the assessed value of property as of January 1, 2019; therefore, other than minor delinquent collections, the COVID-19 pandemic will not significantly affect property tax revenues during FY2019-20.
- The pandemic has hit the hotel and motel industry particularly hard. TOT revenue through the third quarter is \$2.8 million compared to the budget of \$3.9 million. The City has received three additional TOT payments (in April, May and June), totaling \$552,530 that are not included in this report because they were received after the end of the City's third quarter. In April alone, revenues dropped by 75 percent as compared to the prior year (\$311,000 in FY2018-19 and \$77,000 in FY2019-20). This reduction is contributing to a forecasted \$1 million shortfall in this revenue category.
- Building permit revenues, plan check fees, and engineering inspection fees are all on track to come in on or above budget due to the level of development activity in the City. These revenue streams have been minimally impacted by the COVID-19 pandemic.
- Other revenues include reimbursements from the State, development reimbursement activity, business license tax, and rental revenues. As of the end of the third quarter, the City had received approximately \$3.5 million or 71 percent of estimated revenue.

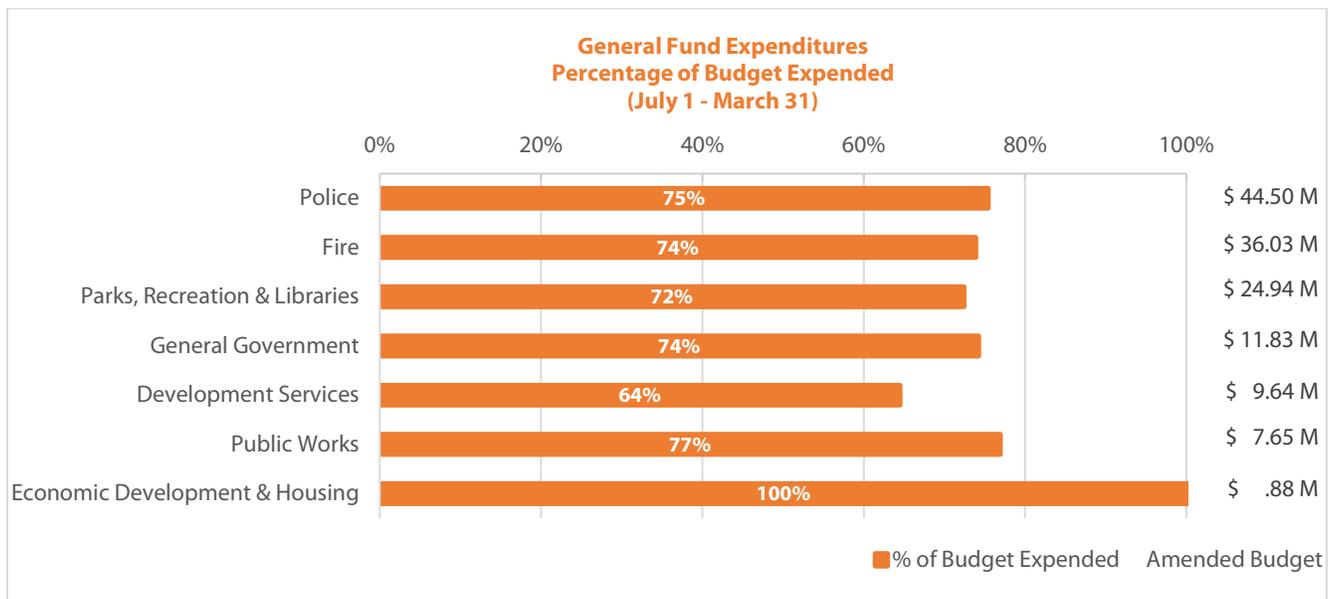
General Fund: Operating Expenditures

The following table includes cumulative third quarter expenditure comparisons for General Fund departments for FY2019-20.

Budget to Cumulative Expenditure Comparison (July 1 – March 31)				
Department	Amended Budget	Cumulative Expenditures	Balance	% of Budget
Police	\$ 44,501,957	\$ 33,559,315	\$ 10,942,642	75%
Fire	36,032,753	26,614,740	9,418,013	74%
Parks, Recreation & Libraries	24,942,685	18,063,080	6,879,605	72%
General Government*	11,829,917	8,778,947	3,050,970	74%
Development Services	9,642,075	6,217,750	3,424,325	64%
Public Works	7,653,032	5,884,368	1,768,664	77%
Economic Development & Housing	876,841	877,953	(1,112)	100%
Total	\$ 135,479,260	\$ 99,996,153	\$ 35,483,107	74%

*Includes City Council, City Manager, Public Affairs and Communications, City Attorney, Finance, Human Resources, and City Clerk.

Through the first nine months, as compared to budget, General Fund expenditures are tracking as expected at 74 percent of the budget. This level of spending is similar to the prior year (72 percent in FY2018-19 and 74 percent in FY2019-20). The slight overage in the Economic Development & Housing budget is primarily due to General Fund labor expenditures that will be re-allocated to Housing funds, as well as the upfront payment to CalPERS and annual membership contributions to economic development organizations at the beginning of the year. After re-allocating the General Fund labor expenditures, the Economic Development & Housing Department anticipates coming in on budget by the end of the fiscal year.



In anticipation of revenue shortfalls due to COVID-19, the City has implemented a number of cost saving measures including a hiring freeze, halting all non-essential travel and pausing non-essential projects. Many of these

measures were put into place toward the end of the third quarter so the savings associated with these measures will help offset the impact of revenue shortfalls.

Enterprise Funds: Operating Revenues and Expenditures

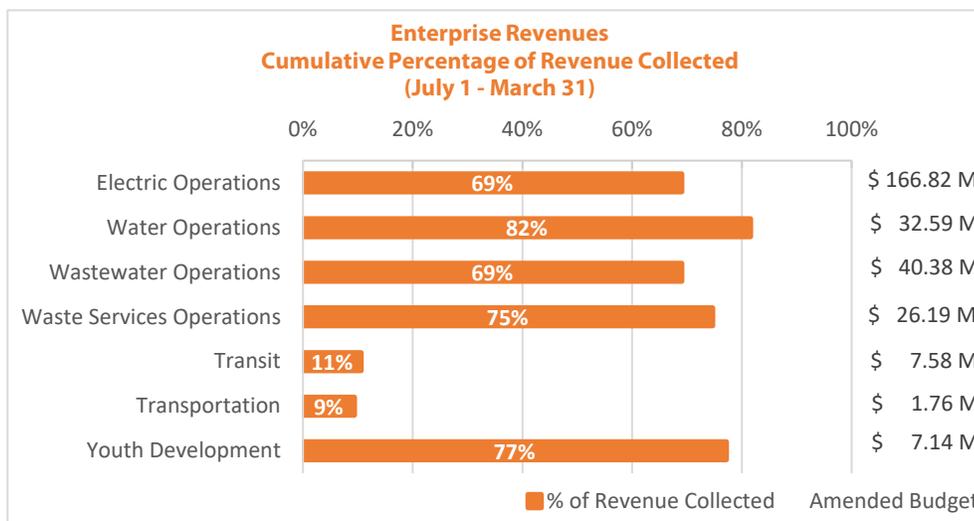
Revenues

At the end of the third fiscal quarter, most of the Enterprise Funds' revenue collection was in the 70 to 75 percent range of projected revenues. This level of revenue collection is similar to prior years.

	Budget to Cumulative Revenue Comparison (July 1 – March 31)			
	Amended Budget	Cumulative Revenues	Balance	% of Budget
Electric Operations	\$ 166,816,565	\$115,111,209	\$ 51,705,356	69%
Water Operations	32,586,519	26,589,024	5,997,495	82%
Wastewater Operations	40,382,779	27,874,933	12,507,846	69%
Waste Services Operations	26,192,571	19,557,420	6,635,151	75%
Transit	7,579,004	803,918	6,775,086	11%
Transportation	1,761,023	164,706	1,596,317	9%
Youth Development	7,138,254	5,506,721	1,631,533	77%

The Electric Department expects that operating revenues for FY2019-20 will be approximately \$6 million under budget primarily due to a decline in electricity sales of \$5.2 million, of which \$2.2 million is associated with the COVID-19 emergency. The remaining \$0.8 million shortage is related to reduced revenue from greenhouse gas (GHG) allowance auction proceeds. Reduced operating costs will offset the decline in Electric revenues.

Water revenues are tracking at 82 percent of the budget; a contributing factor for this trend is the increased development in the City through the third quarter. Wastewater revenues are slightly under budget due to timing associated with receiving wastewater reimbursements from the South Placer Municipal Utility District and County of Placer.



Larger budget to actual variances in the Transit and Transportation enterprise funds are due to the timing associated with their primary funding streams as the majority of their revenue is realized in the last two quarters of the fiscal year. However, due to the impact of COVID-19, only 80 to 85 percent of the

revenue will be collected through year-end, the remaining 15 to 20 percent is expected in the month of August. Another contributing factor to decreased Transit revenues is the loss of passenger fares as a result of COVID-19. To mitigate the impact of reduced revenues, the City Council adopted a resolution to submit a Federal Transit

Administration (FTA) grant request for apportioned Coronavirus Aid Relief and Economic Security (CARES) Act funds of \$2,679,013. The CARES Act funds will make up for the shortfall due to lost revenue and increased expenses as a direct result of COVID-19 over the last quarter of FY2019-20 and throughout FY2020-21.

Although the Youth Development fund revenues are tracking at 77 percent of the budget through the end for the third quarter, the closure of Adventure Club and Preschool centers due to COVID-19 resulted in reduced before and after school child care, and preschool tuition fees as these valuable services were temporarily suspended. The revenue shortfall is estimated to be 20 to 22 percent of the budget. Staff is exploring options to mitigate the financial impacts of the lost revenue, and will return to City Council with an update and recommendations in the fall.

Expenditures

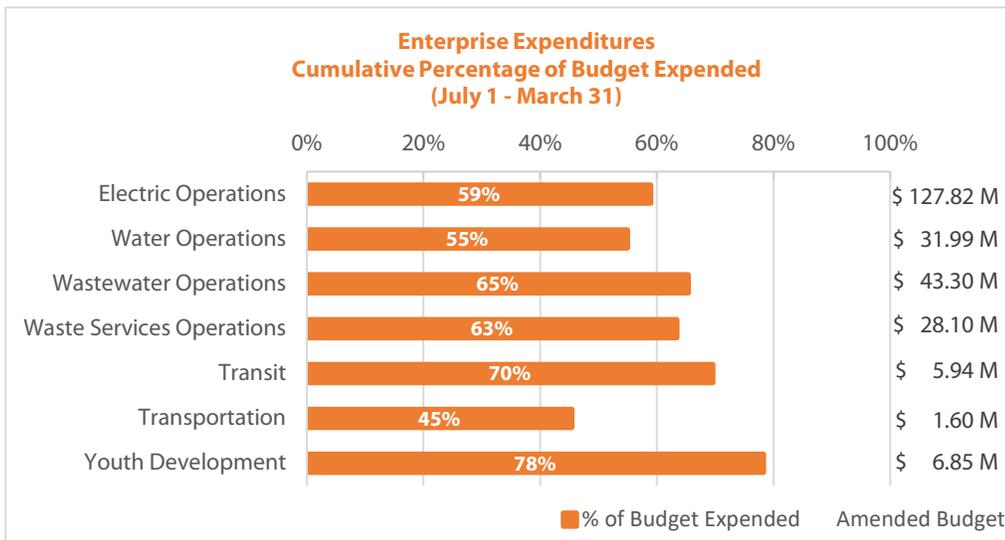
Overall, expenditures for all of the enterprise funds are tracking to end the year under budget due to expense controls, vacancies, or seasonal expenditures.

Electric expenditures are tracking at 59 percent due to reduced purchased power costs and savings in salaries, materials, services, and supplies. Expenditures for the Environmental Utilities funds are expected to level off during the fourth quarter, as the weather gets warmer.

Transit Fund expenses are expected to come in higher than expected during the fourth quarter due to enhanced bus and shelter cleaning and disinfection protocols implemented, because of COVID-19, as well as increased operational costs to provide delivery services for Family Meal Roseville. The increase in COVID-19 related expenses in the last quarter of FY2019-20 will be offset by Roseville Transit's expected CARES Act funding.

During the transition to the new Oracle financial system, some labor related expenses in the Transportation Fund were coded to incorrect funds and cost centers. This miscoding has led to the Transportation Fund tracking lower than budget as of the end of the third quarter. Staff is in the process of fixing this issue and the corrected expenditures will be reflected in the fourth quarter report.

	Budget to Cumulative Expenditure Comparison (July 1 – March 31)			
	Amended Budget	Cumulative Expenditures	Balance	% of Budget
Electric Operations	\$ 127,815,726	\$ 75,380,512	\$ 52,435,214	59%
Water Operations	31,994,531	17,588,214	14,406,317	55%
Wastewater Operations	43,302,311	28,322,107	14,980,204	65%
Waste Services Operations	28,104,440	17,827,188	10,277,252	63%
Transit	5,941,546	4,135,253	1,806,293	70%
Transportation	1,595,741	724,406	871,335	45%
Youth Development	6,854,478	5,366,178	1,488,300	78%



The three percent variance in the Youth Development fund, from the expected 75 percent consumption mark, is due to the annual payment to CalPERS and the cost of seasonal temporary labor employed during the summer months of 2019. Effective at the end of March, all temporary part-

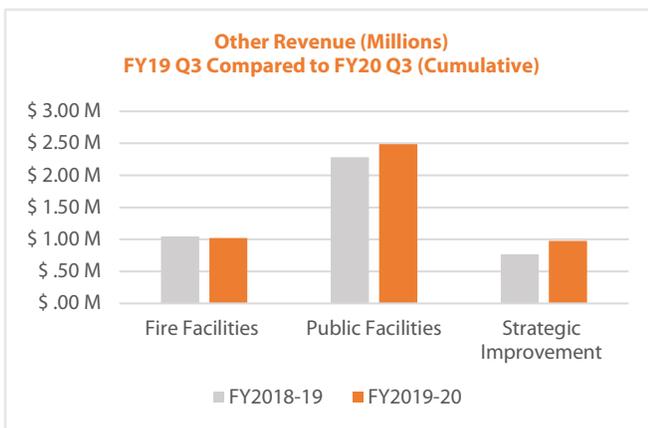
time employees working for the programs funded through the Youth Development Fund were laid off due to COVID-19 program closures. This measure will represent a decrease of approximately 6 percent of budgeted expenses through year-end. Full-time employees have continued to work through the closure by providing support to other departmental programs; however, due to the lack of revenue to support their salaries, staff is anticipating a \$900,000 decrease in the fund balance of the Youth Development Fund.

Other Revenue

The following table shows revenues in the Fire Facilities, Public Facilities, and Strategic Improvement Funds through the third quarter of FY2018-19 and FY2019-20. The revenue

	Budget to Cumulative Revenue Comparison (July 1 - March 31)				
	FY2018-19 Actual	Amended Budget	Cumulative Revenues	Balance	% of Budget
Fire Facilities	\$ 1,048,044	\$ 1,333,744	\$ 1,021,344	\$ 312,400	77%
Public Facilities	2,284,471	3,723,570	2,485,993	1,237,577	67%
Strategic Improvement	769,582	1,853,220	974,786	878,434	53%

estimates for these three funds are based on a multi-year trend analysis of forecasted single family, multi-family and commercial development and prior year revenue collections. The FY2019-20 budget for the Strategic Improvement



Fund (SIF) includes \$584,800 in surplus property sales proceeds. Without taking into consideration the unrealized revenue from property sales, the SIF revenue is tracking at 76 percent of budget. Despite trending lower than budget, revenue collection through the third quarter of FY2019-20 for the Public Facilities Fee Fund is higher than the prior year.