



# Community Priorities Municipal Finance 101 July 26, 2017

# Tonight's agenda

---

- How Are We Doing Today?
- Government Speak
- City wide revenue/expenses
- General Fund revenue/expenses
- Sales Tax & Property Tax
- 5-year General Fund forecast
- Cost Pressures

# How Are We Doing Today?

---

- The city is fiscally sound
- Better than many others
- Has taken prudent actions in the past
- Then why are we here?
- The world is changing
- Roseville wants to be proactive
- We are not covering all our long term expenses

# Government Speak



# Government Speak

- Enterprise Funds
- Rate Payer vs Tax Payer
- Color of Money
- Fund Accounting
  - Accounts for money movement
  - Brick Walls
- General Fund
- Appropriations
- GAAP vs GASB
- Discretionary Spending
- ISF
- One-Time vs Ongoing
- OPEB
- PERS
- CIP

# Citywide Budget Revenue and Expenses



# FY2018 Citywide Revenue *(\$ millions)*

---

Fund type	FY2018
General Fund operating	\$138.1
General Fund non-operating	\$8.5
Less transfers in	- <u>\$20.7</u>
General Fund net	\$125.9
Enterprise funds	\$298.2
Special revenue funds	\$19.1
Capital project funds	\$12.2
Permanent funds	\$0.4
Special district agency funds	\$31.9
Trust funds	\$11.4
Other	\$8.4
<b>Total revenue</b>	<b>\$507.5</b>

# Components of the Revenue Funds

---

## Enterprise Funds:

- Electric, Water, Wastewater, Solid Waste, Transit, Golf, Youth Develop.

## Special Revenue Funds:

- Funds that are established to collect money that must be used for a specific project
- Affordable Housing, Air Quality Mitigation, Bike Trail Maintenance, Gas Tax, Highway Users Tax, Native Oak Tree Propagation, Landscape and Lighting Districts

## Special District Agency Funds:

- Funds that are established to collect money from property owners to maintain their parks, etc.
- Westbrook, Northeast Roseville, Woodcreek West, Crocker Ranch  
Diamond Creek

## Trust Funds:

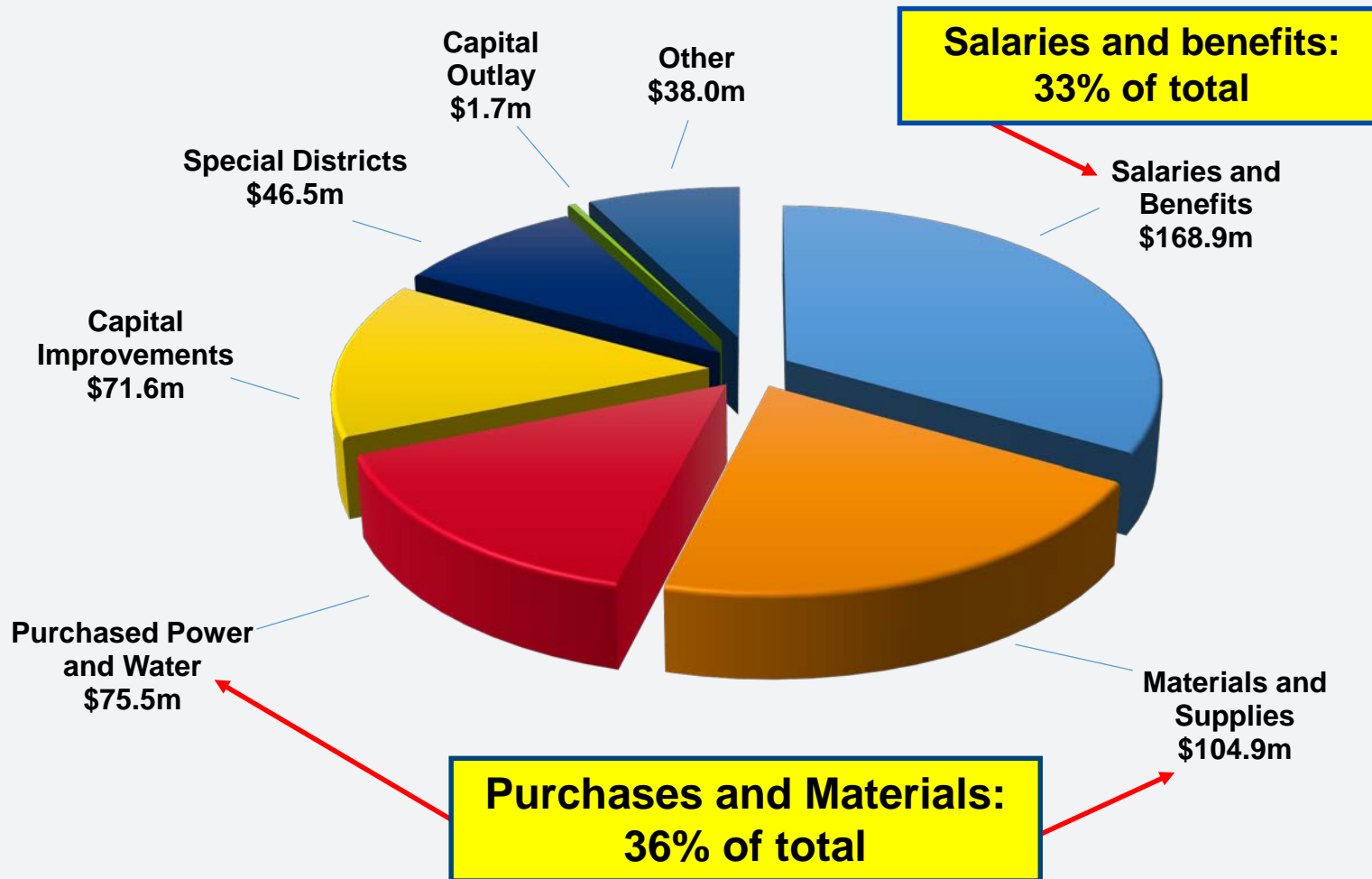
- Funds that are established to hold money in trust for various purposes
- OPEB, Successor Agency, Open Space endowments, Reason Farms  
Environmental Reserve Fund

# FY2018 Citywide Expenses by Category

---

Category	% of Total
Salaries and Benefits	33.3
Materials and Supplies	20.7
Purchased Power and Water	14.9
Capital Improvements	14.1
Special Districts	9.2
Capital Outlay	0.3
Other	7.5
<b>Total</b>	<b>100.0%</b>

# Breakdown of \$507.1m Citywide Expenses



# General Fund Sources of Revenue



# FY2018 General Fund Revenue

General Fund Revenue Source	(\$millions)	% of Total
Sales tax	\$ 53.5	38.7
Property tax	\$ 41.6	30.1
Charges for current services	\$ 10.9	7.9
Electric/Franchise fees	\$ 9.2	6.7
Other revenue	\$ 7.9	5.7
Indirect Cost	\$ 7.2	5.2
Licenses and permits/ Rev. from use of money/property	\$ 3.9	2.8
Operating transfers in	\$ 3.9	2.8
<b>Total</b> <i>Over 100 Revenue Line Items</i>	<b>\$138.1</b>	<b>100.0%</b>

# Examples of Revenue Sources

---

## Charges for current services:

- Engineering inspections, plan and map checks, administrative fees, street and fire services, recreation programs

## Other revenue:

- Grants, reimbursements, third party recoveries, donations, gifts, sale of publications, misc.

## Indirect Cost:

- Allocates departmental costs from the General Fund to all funds that receive benefit from services that the General Fund departments provide

## Licenses and permits:

- Animal licenses, building permits, encroachment, fire and other permits

## Revenue from use of money/property:

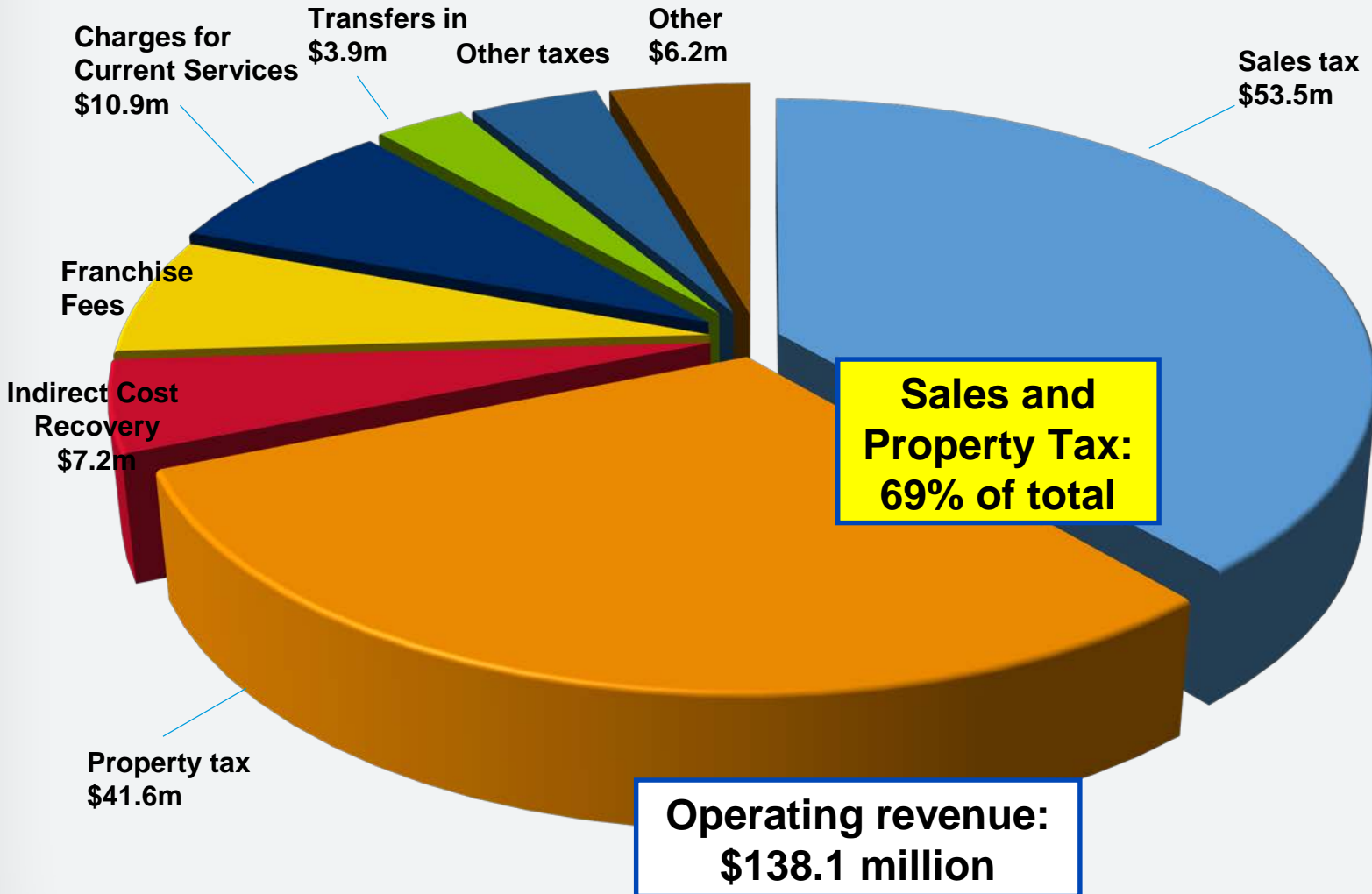
- Interest on investments, rental/lease revenue

## Operating transfers in:

- Municipal Services District CFD #3, Public Facilities, Strategic Improvement Fund, Utility Impact Reimbursement Franchise Fees



# FY2018 General Fund Revenue



# General Fund Expenses



# Operational Departments

---

- Police
- Fire
- Public Works
- Development Services
- Parks, Recreation and Libraries



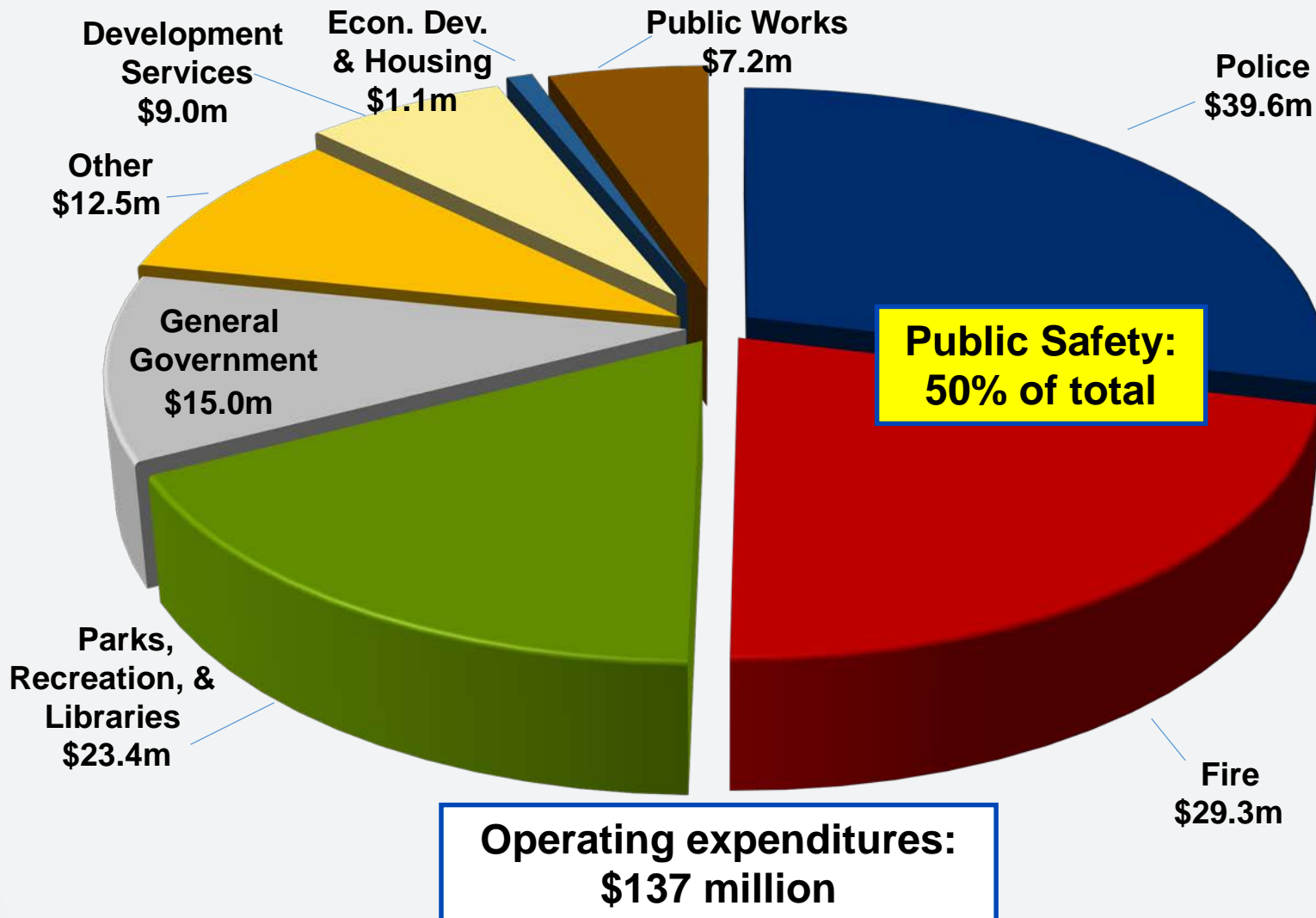
# Support Departments

---

- City Council
- City Manager
- City Clerk
- City Attorney
- Finance
- IT
- Human Resources
- Central Services
  - Building Maintenance
  - Fleet Maintenance
- Public Affairs & Communications
- Economic Development and Housing



# FY2018 General Fund Expenditures\*



\*Rounded to nearest hundred thousand dollars

# FY2018 General Fund Expenditures

---

General Fund Expenditure by Service Area	% of Total
Police	28.9
Fire	21.4
Parks, Recreation, & Library	17.1
General Government	10.9
Other	9.1
Development Services	6.5
Public Works	5.3
Economic Development & Housing	0.8
<b>Total</b>	<b>100.0%</b>



# What is “Other”? (*\$millions*)

---

Annexation Payments	\$5.5
Post Retirement Trust Fund	\$4.6
General Fund Contingency	\$1.2
Stormwater Management	\$0.6
General Fund CIP	\$0.5
Lease payments, Transit, etc.	\$0.1
<b>Total</b>	<b>\$12.5</b>

# FY 2017-18 Department Expenses

	Total Operating Expense (\$millions)	Revenue Offsets (\$millions)	Net-Discretionary General Fund Expense (\$millions)
Police	\$39.6	\$6.6	\$33.0
Fire	\$29.3	\$4.8	\$24.4
Parks, Recreation & Libraries	\$23.4	\$8.0	\$15.4
Development Services	\$9.0	\$4.8	\$4.2
Public Works	\$7.2	\$4.0	\$3.2
Other Departments	\$16.1	\$10.1	\$6.0
<b>TOTAL</b>	<b>\$124.6</b>	<b>\$38.3</b>	<b>\$86.3</b>

# FY 2017-18 Department Expenses

	Total Operating Expense (\$millions)	Revenue Offsets (\$millions)	Net-Discretionary General Fund Expense (\$millions)*
Finance	\$4.4	\$3.9	\$0.5
Central Services	\$2.4	\$2.2	\$0.2
Human Resources	\$2.2	\$1.1	\$1.1
City Attorney	\$2.0	\$0.5	\$1.5
Econ Development	\$1.1	\$0.6	\$0.5
City Manager	\$1.1	\$0.5	\$0.6
City Clerk	\$1.0	\$0.5	\$0.5
Public Affairs and Communication	\$0.8	\$0.3	\$0.5
Development Operations	\$0.6	\$0.1	\$0.5
City Council	\$0.5	\$0.2	\$0.3
<b>TOTAL</b>	<b>\$16.1</b>	<b>\$10.1</b>	<b>\$6.0</b>

\*Totals do not foot out due to rounding to nearest hundred thousand

# **‘Actual’ City Council General Fund Control Over Spending**



# Council Discretionary Spending (\$ millions)

---

Major service area	Proposed FY2018
<b>Total</b> City Wide Budget	\$507.1
<b>Less</b> Enterprise Funds	\$281.5
<b>Less</b> Special Revenue Funds	\$14.4
<b>Less</b> Capital Project Funds	\$25.0
<b>Less</b> Special District Agency Funds	\$31.7
<b>Less</b> Trust Funds	\$8.9
<b>Less</b> Other	\$8.6
<b>Equals</b> General Fund Operating Budget	\$137.0

Now lets breakdown the \$137.0 General Fund Budget

# Council discretionary spending

---

- Some revenue received by the General Fund is reimbursement for services provided and is not discretionary. Some Examples:
  - **\$13.4M** User Fees
  - **\$6.6M** Electric Franchise Fees fund PD,FD & Parks
  - **\$7.2M** Reimbursement of Costs
  - **\$2.5M** Licenses and Permits
  - **\$0.3M** Grants
- Total of **\$38.3M** not available for discretion

# Council discretionary spending

---

- Some expenses paid by the General Fund are prior or contractual agreements that are not discretionary. Some examples:
  - \$5.5M Annexation payments
  - \$4.6M OPEB
  - \$0.57M Stormwater management
- Total of \$11.0M not available for discretion

# Council Discretionary Spending (\$millions)

Resource category	2018 Budget
<b>Total</b> General Fund operating expenses	\$137.0
<b>Less</b> revenue offsets	\$38.5
<b>Less</b> non-discretionary expenses with offsets	\$11.0
<b>Equals</b> General Fund Discretionary Spending	\$87.5
<b>Less</b> Police and Fire expenditures (TBD)	\$57.4
<b>Equals Total discretionary spending</b>	<b>\$30.1</b>

# Sales Tax Today



# General Fund Sales Tax

---

- 7.25% sales tax rate in Roseville
  - The state minimum
- Roseville receives 1¢ of the 7.25¢ paid per dollar spent
  - Majority goes to the State
  - Small amount goes to the County)
- Approximate annual taxable sales in Roseville: \$5.4 billion
- Sales tax generated: \$392 million
- Roseville receives: \$54 million

# **\$138 Typical Household Sales Tax to Roseville**

## ***Roseville typical household spending***

- About \$80,000 annual household income
- About 23% of income, or \$18,400 spent on taxable items
- About 75% of the taxable spending, or \$13,800 is spent in the City
- This generates \$1,001 in sales tax in the City
- Roseville receives \$138



# Sales Tax from The Galleria

---

- Generates about \$500 million in sales
- Equates to \$36 million in sales tax
- Roseville receives \$5 million of this amount
- \$5 million is 3.5% of General Fund revenue



# Sales Tax In Roseville

---

- Roseville is a net importer of sales tax
- This is Great News:
  - Very diversified tax base
  - Significant sales tax is generated from non-Roseville residents
  - Significant leverage of a tax override
- But:
  - Quite volatile
  - Heavily impacted by an economic downturn

# Property Tax Today



# Roseville Receives Small Portion of Property Tax

- California approximate property tax rate: 1%
- Roseville receives 15% of the 1% paid
  
- Approximate value of all property in Roseville: \$27.7 billion
- Property tax receipts generated: \$277 million
- Roseville receives: \$42 million

# **\$615 Typical Household Property Tax to Roseville**

- Assume an average taxable house value in Roseville of \$410,000
- This generates \$4,100 in property tax
- Roseville receives \$615



# \$753 Typical Household Taxes to Roseville

The combined tax receipts received by the City of Roseville by a typical residence:

Sales Tax: \$138

Property Tax: \$615

**Total Tax \$753**

# \$1,114 Shortage per Household of Taxes to Cover Cost of Services

Assumptions:

\$100 million sales tax and property tax received by Roseville

136,000 residents and 2.54 residents/household

53,543 households

Cost of city services funded by sales and property taxes: \$1,867 ( $\$100\text{m}/53,543$ )

Tax income received: \$753

**Shortage in funding costs of services: \$1,114**

# \$1,114 Shortage per Household of Taxes to Cover Cost of Services

- Sales & property tax received: \$753
- Cost of services provided: \$1,867

Shortage in funding costs of services: \$1,114

- As a resident we are receiving city services for less than half the cost



# How is the Shortfall Funded?

---

Two significant funding sources :

1. Roseville is a net importer of sales tax
  - This results in significant sales tax being generated from non-Roseville residents
2. Property tax from commercial property

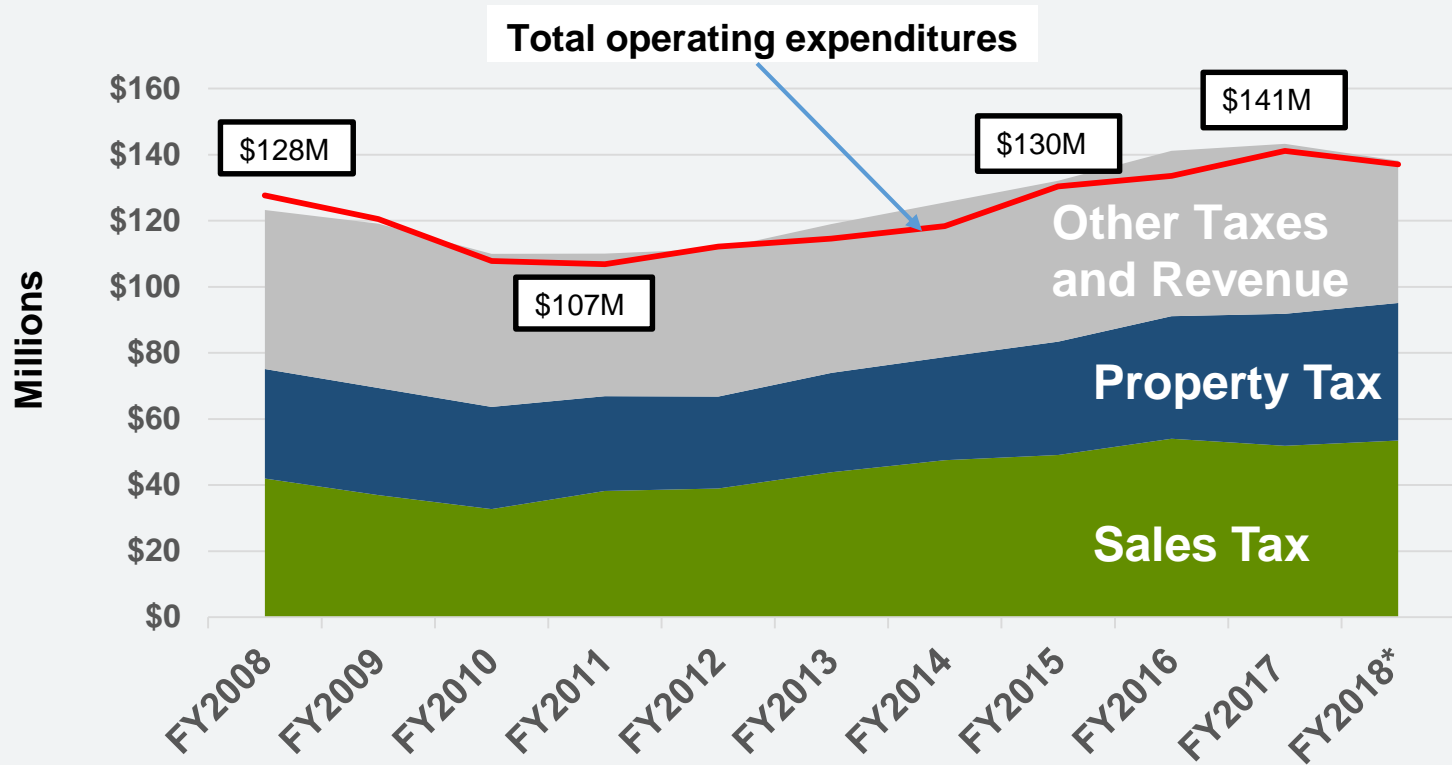


# Sales Tax

## Yesterday and Tomorrow



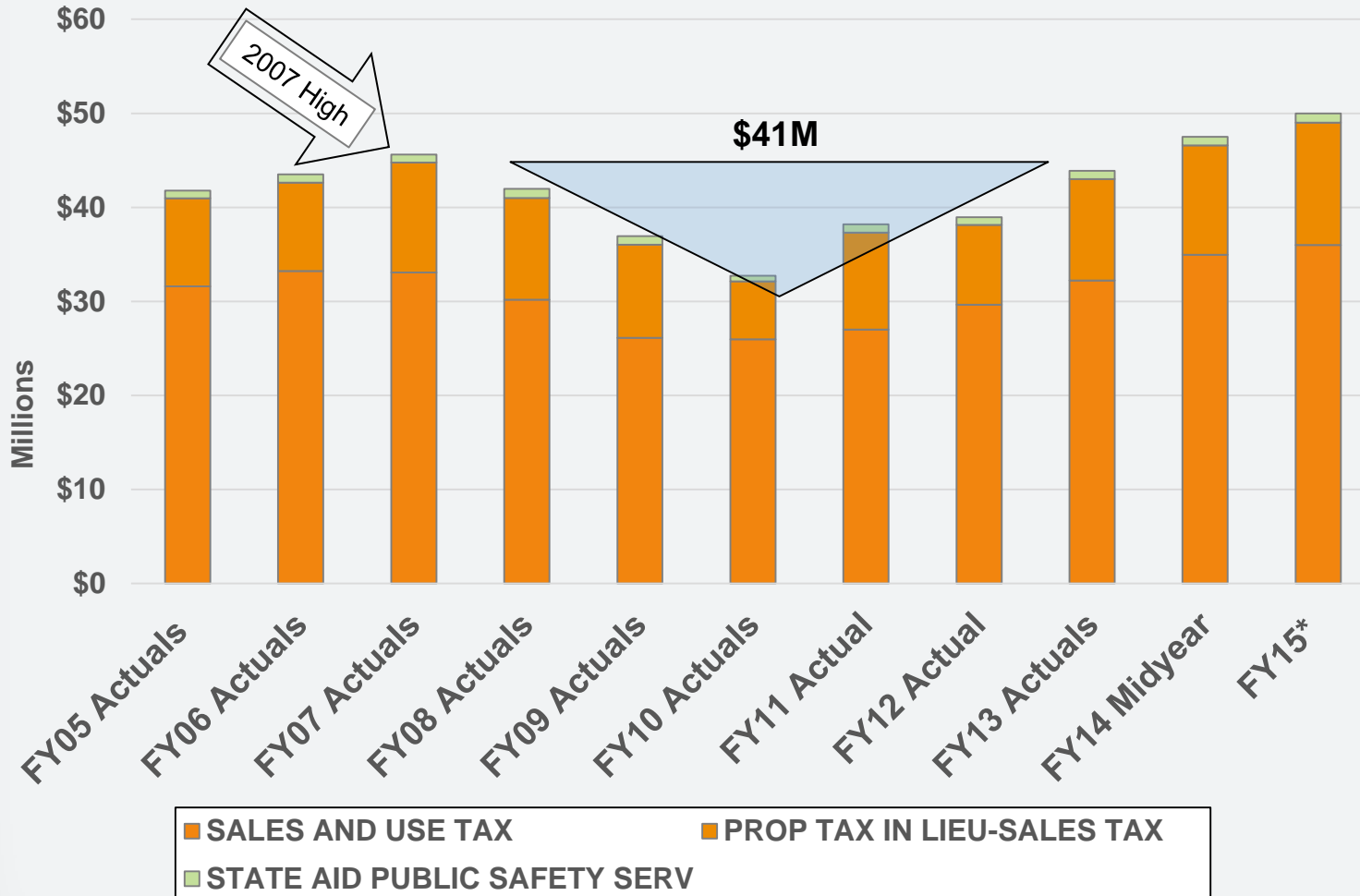
# General Fund Overall



\*Proposed budget

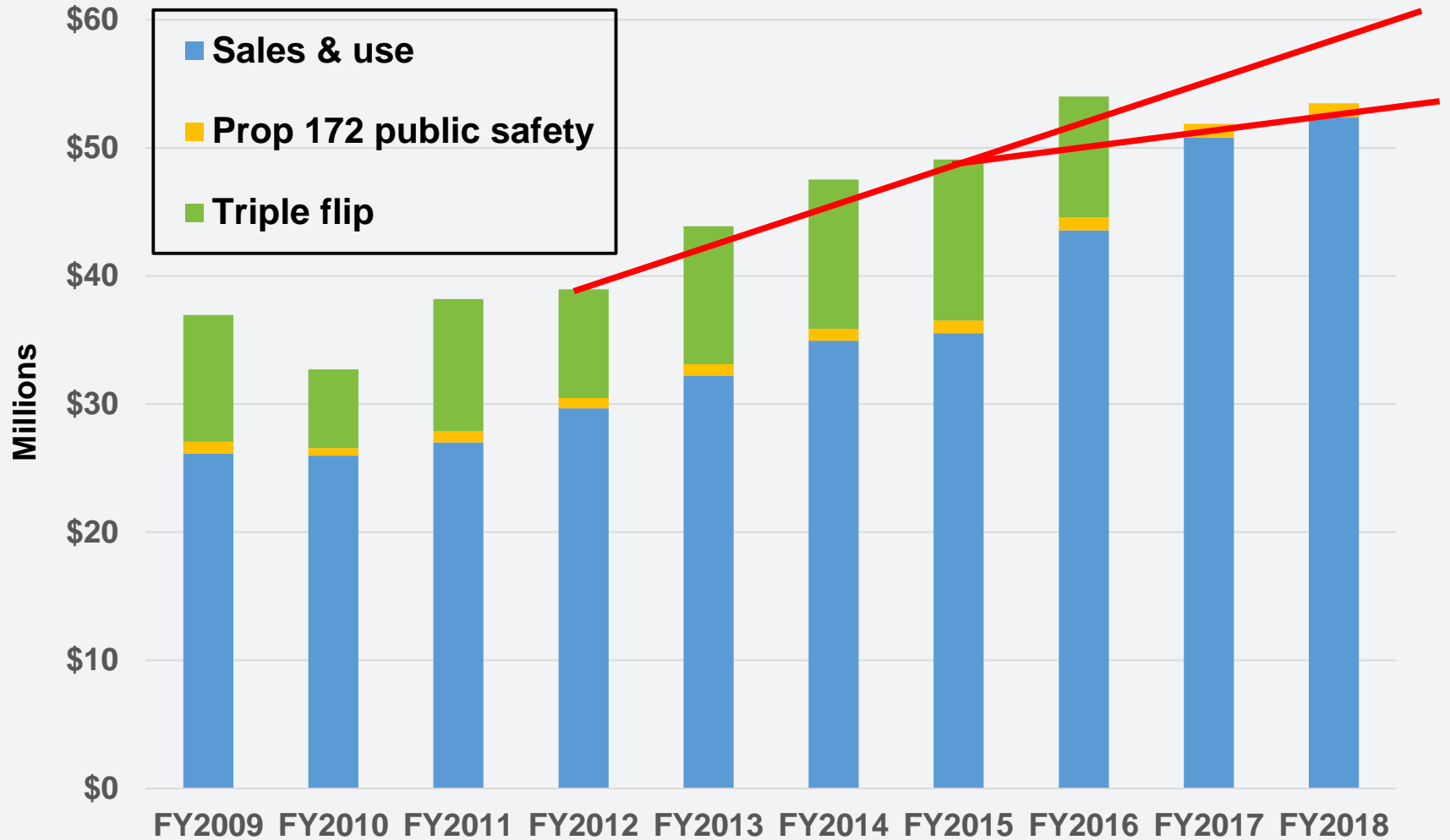
# Historical Sales Tax Revenues

Prepared 9-21-2014



\*Adopted Budget

# Slowdown in Sales Tax Growth



# What is Happening

---

Sales tax is no longer a steady source of income

There is a shift in:

- What we buy
  - Shift from purchasing “things” to purchasing services
- And how we buy it
  - Internet sales
  - Currently losing \$3-\$4M annually
  - Resulting in store closures nationwide
- This trend is not going away

# What is Happening

---

Macy's

Closed 68 stores this year

Another 34 to be closed

JC Penny

Closing 138 stores

Sears and Kmart

Closing 72 more stores after announcing that more than 180 stores will close

Amazon (some tax) & eBay (almost no tax)

Continued exponential growth



# What is Happening

---

All indications are that sales tax will increase at a decreasing rate

2019 2.9%

2020 2.6%

2021 2.4%

2022 2.0%

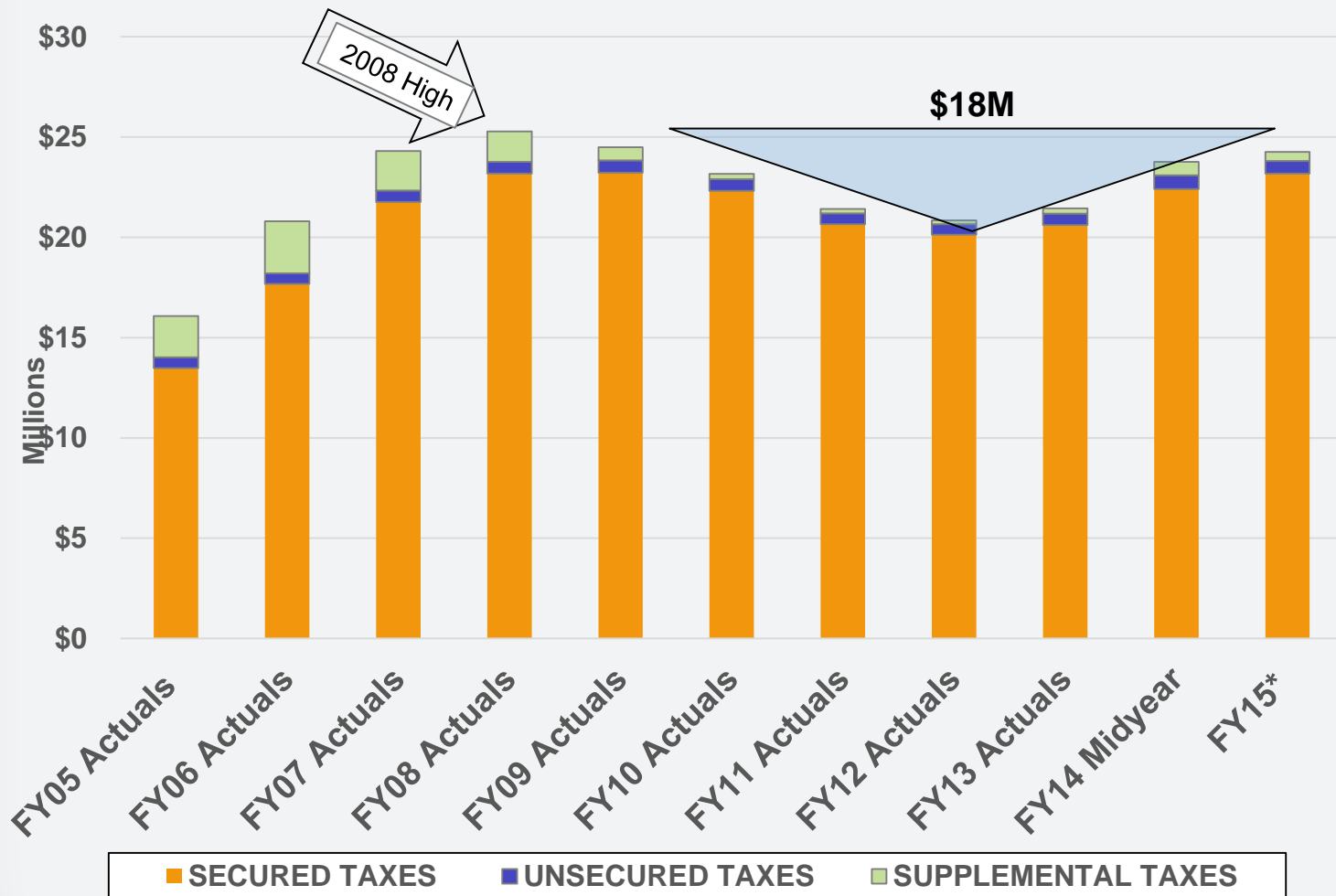
2023 2.1%

# Property Tax Yesterday and Tomorrow



# Historical Property Tax Revenues

## Prepared 9-21-2014

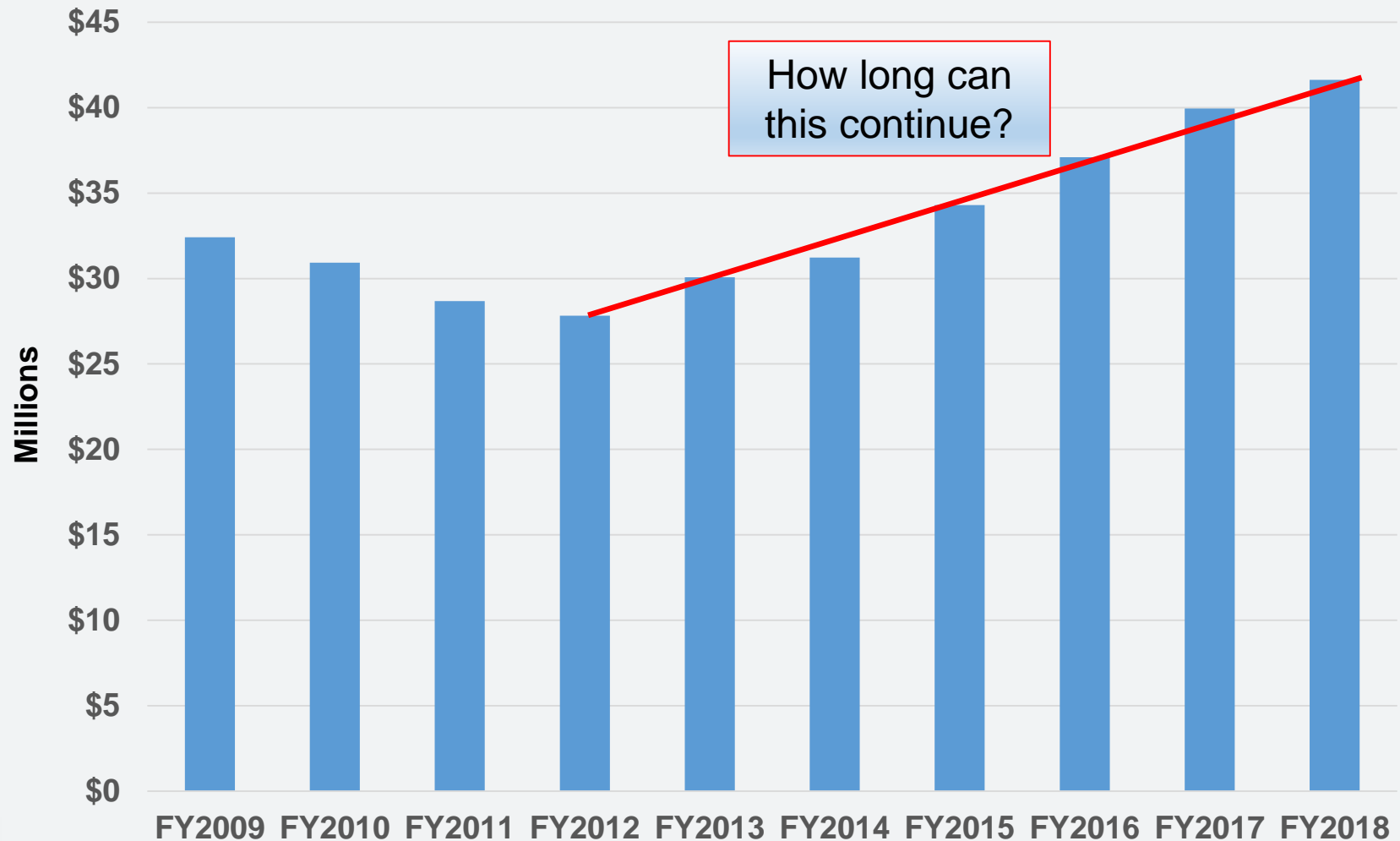


\*Adopted Budget

\*\* Estimates based on forecast provided by Muni Services (June 2014)



# Continued Property Tax Growth



# The Recession



# How was the Shortfall Funded?

---

- Roseville like many, if not most cities, utilized existing cash and reserves to fund ongoing operations
- Spent more money than came in during the year
- The length and depth of the recession was greater than many projections predicted
- Cities believed they could repay the internal funding once the economy became healthy again



# How was the Shortfall Funded?

---

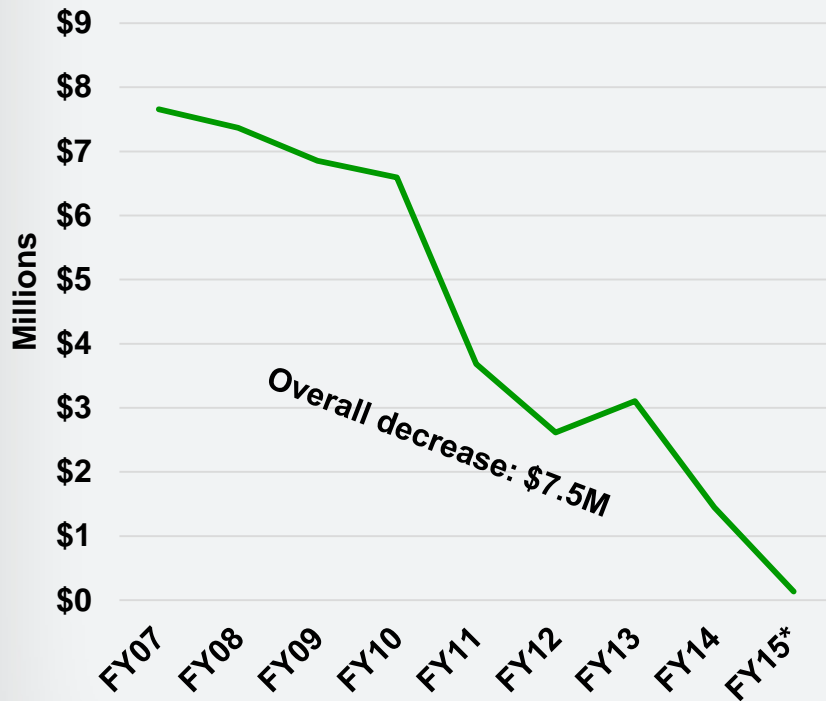
- Instituted “funding holidays”
  - Workers Comp
  - General Liability insurance
- Deferred maintenance of buildings, equipment and vehicles
  - Extended life of vehicles
  - Delayed roof repairs
  - Delayed replacing IT hardware and software
- Use Vehicle Replacement Fund to buy new *incremental* vehicles, not necessarily *replacement* vehicles



# How Was the Shortfall Paid For? One Example: Funding Holidays to the Internal Service Funds

Prepared 9-21-2014

Gen'l Liability Fund Balance



Overall decrease: \$7.5M

Workers' Comp Fund Balance



Overall decrease: \$6M

\*Adopted Budget

# New Financial Policies

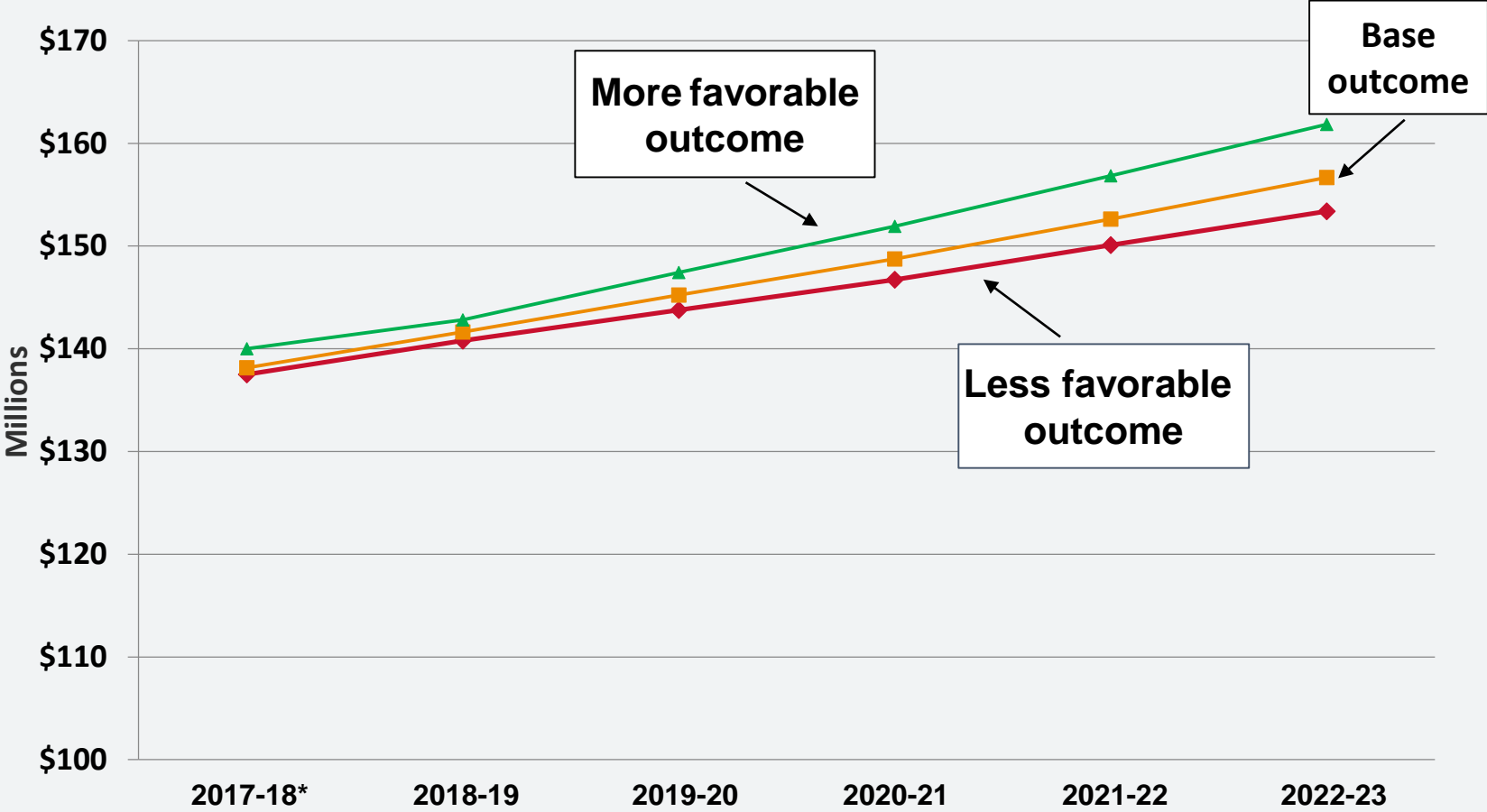
---

- Address decisions made during recession
- Provide guidance to staff and Council
- Ensure fiscal stability in next recession
- Examples
  - Live within our means
  - Workers Comp
  - General Liability

# General Fund 5-Year Forecast

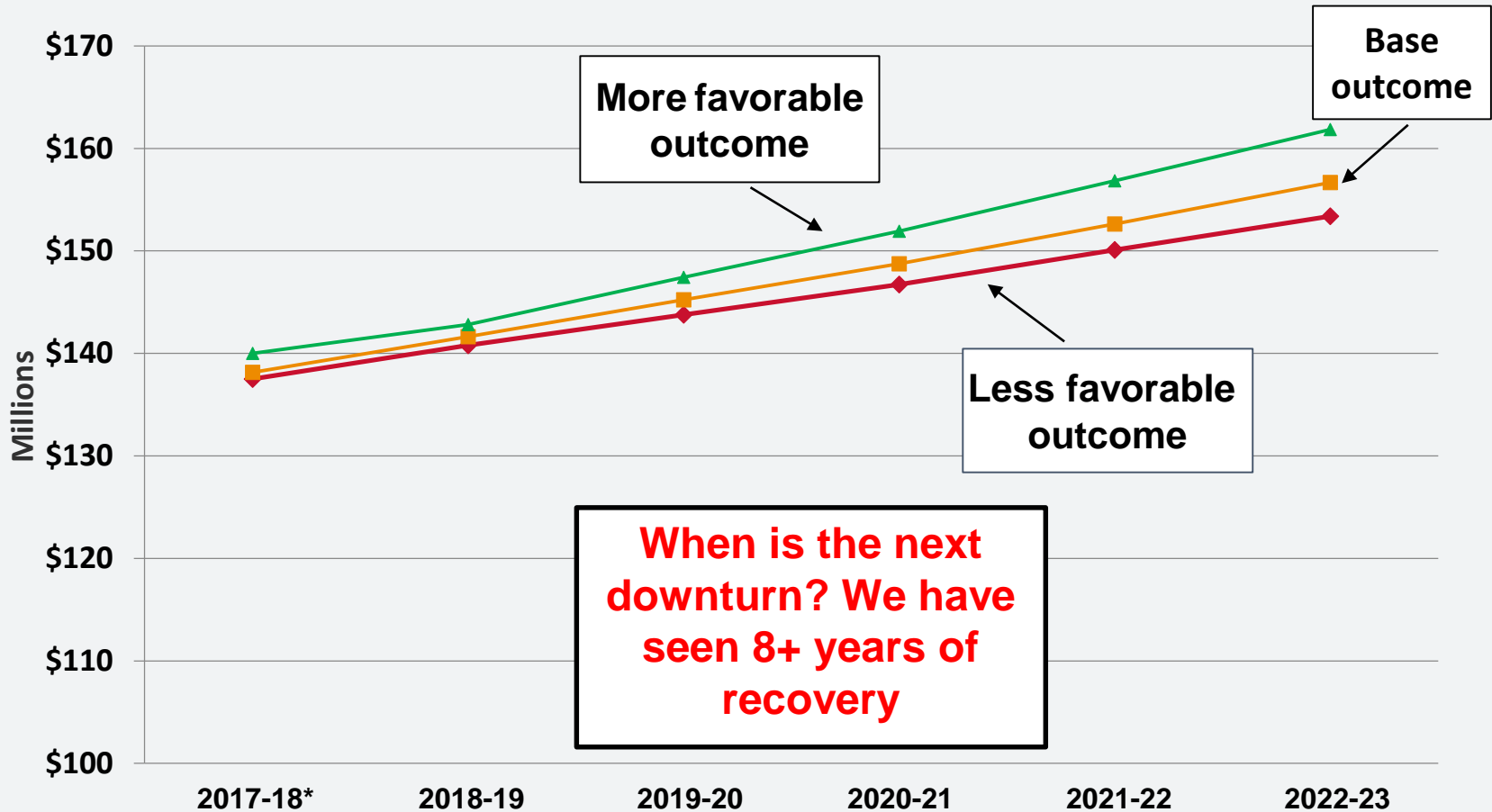


# General Fund operating revenue forecast



\*Proposed

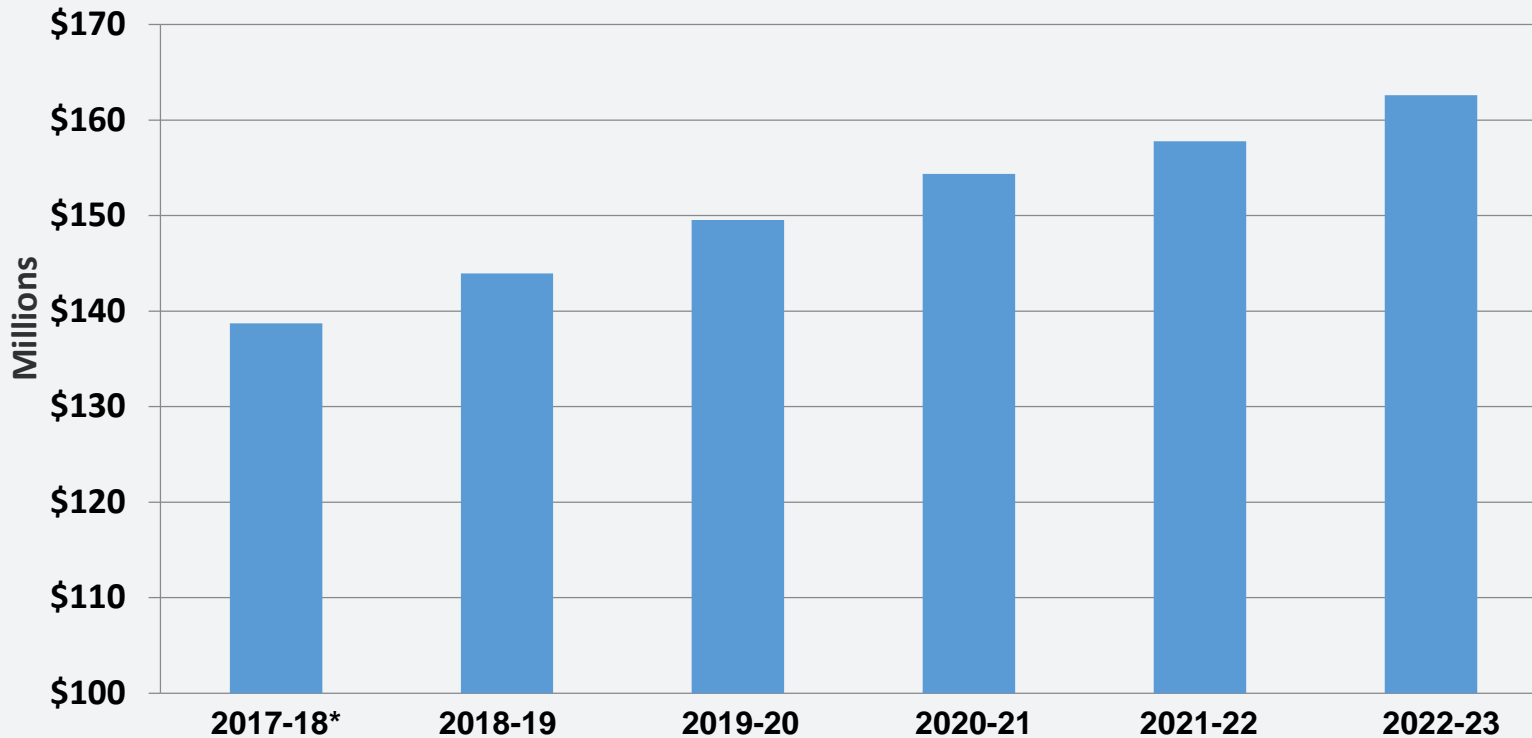
# General Fund operating revenue forecast



\*Proposed

# General Fund operating expenditures forecast

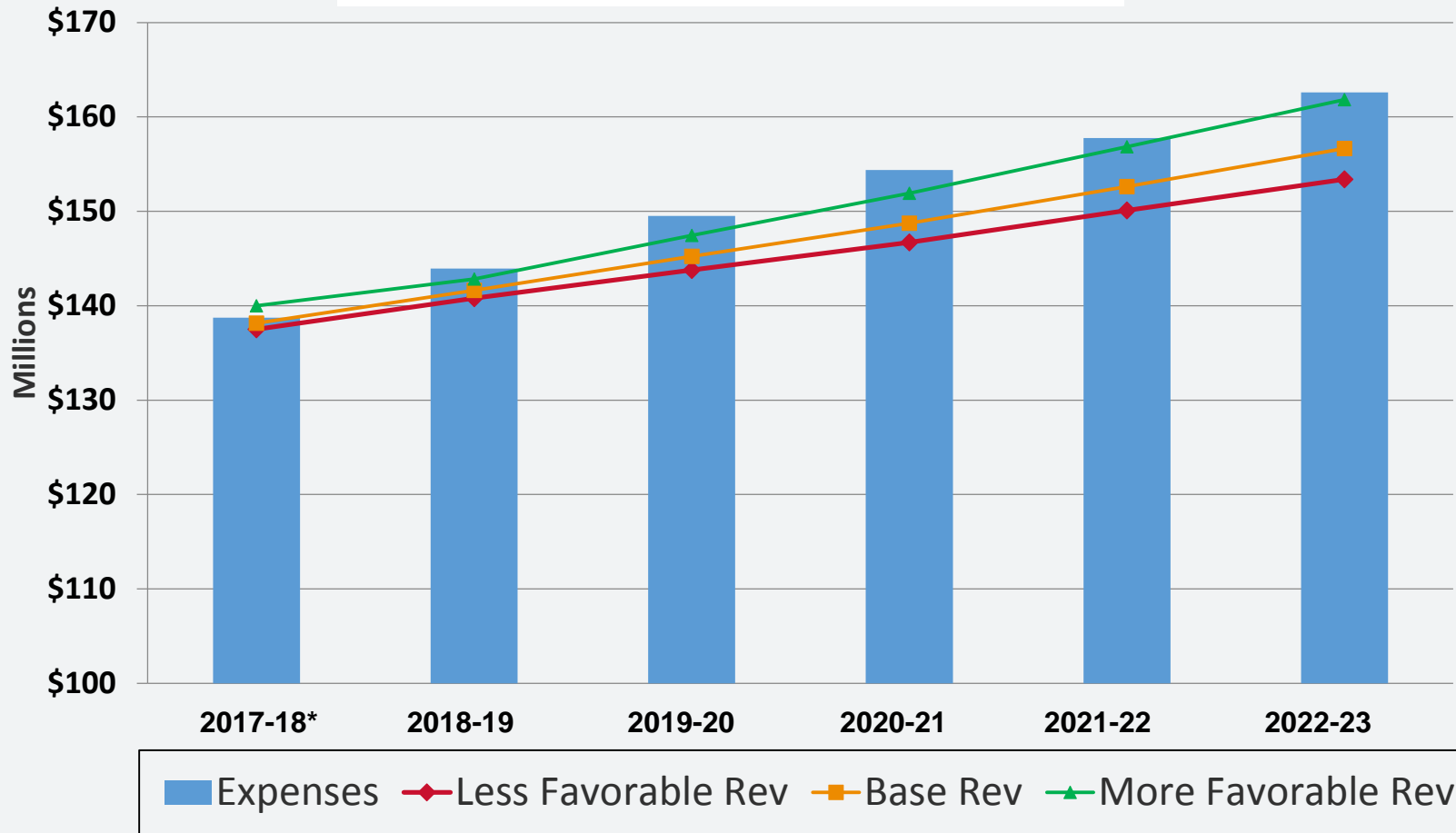
Assuming the addition of 5 FTEs per fiscal year



\*Proposed

# General Fund 5-year forecast

Assuming the addition of 5 FTEs per fiscal year



\*Proposed

# Cost Pressures

---

- Costs Exceeding revenue (-)
- Slowing sales tax in the era of internet sales (-)
- Healthy property tax (+)
- MOU agreements (+/-)
  - New wage/benefit increases(-)
  - Implementation of Salary/Benefit changes to future employees (+)
- Minimum wage and health insurance impact on vendors(-)
- Unknown impacts from Washington and Sacramento

# Cost Pressures

---

- Replacing equipment not purchased or funded during recession (-)
- Unfunded Liabilities
  - PERS & OPEB contributions (-)
  - CIP (-)
- Increasing public expectations (-)

