

City Manager's Budget Message



EXECUTIVE OVERVIEW

Fiscal Summary

Preparing a budget for a full-service city always has its share of unknown variables. Doing so in the midst of an economic shutdown during a global pandemic elevates the task to a new level of uncertainty.

It requires reprioritizing and adapting as the economy recovers. As restrictions are lifted in phases, we'll have a clearer picture of our revenue outlook and whether the City will be reimbursed for additional expenses related to the crisis response.

It is impossible to anticipate, at this point, the depth and duration of the economic downturn caused by the pandemic. Yet, Roseville's conservative approach to budgeting has withstood the test of time, allowing for cautious optimism.

On March 27, 2020, a week after a statewide mandatory stay-at-home order took effect, the City laid off 617 temporary employees due to a lack of work and as a precautionary measure. These temporary employees worked in areas that saw a tremendous drop in demand during the shutdown, including libraries, recreation programs, and even the broadcasting of public meetings. When health restrictions are eased, the City anticipates rehiring many of these staff members as demand for these services returns.

The unpredictability of this year's budget mirrors the unpredictable spread of the virus and unknown timing for effective therapies to treat it. As of the time of this writing in May 2020, California cities and counties still await a decision from the state on when the stay-at-home order will be lifted or eased. It depends on meeting health data objectives, having testing available, establishing operational protocols, and other factors that ensure safety and health.

At the federal level, we're observing a reluctance to provide financial relief to cities like Roseville with populations less than 500,000 in any of the federal stimulus aid packages. This critical help is needed because our long-term ability to maintain police, fire, road, and park services at today's service levels has no safety net. We rely almost entirely on the success of our economy via tax revenues to fund 70 percent of these services.

While we've been advocating strongly to include smaller cities in each iteration of the federal aid from the start, we see no relief in sight. Our residents and business are as deserving of federal help to protect their public services as larger cities are.

It is with an understanding of the complexity and uncertainty of the situation we are dealing with at this time, that I present the FY2020-21 Budget for the City of Roseville.

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Continuity of Services

In November 2018, Roseville voters approved a half-cent sales tax known as Measure B to preserve service levels for city services such as public safety, road maintenance, parks, libraries, and recreation. In April 2019, the collection of this revenue began. By the end of its first full year, it was projected to bring in an additional \$19-20 million in new sales tax revenue.

Not only did the additional revenue stabilize General Fund services and fund high-priority areas identified by the community, it allowed the City to set aside nearly \$11 million this first year in a General Fund economic stabilization reserve fund. This fund was established to help us weather a future economic downturn by minimizing drastic cuts to services in the event of a significant drop in revenues.

The timing could not have been better.

While the City anticipated a long-predicted downturn in the economic cycle, one caused by a health crisis—let alone a crisis with the swiftness and severity of the COVID-19 pandemic—took the world by complete surprise. This reserve allows the City a continuity of operations and services while economic levers are pulled and pushed, scientists work on therapeutic remedies and a vaccine, and health officials monitor data to determine safe approaches to daily life.

Before the COVID-19 pandemic, however, the City already recognized that the additional sales tax revenue would not be sufficient by itself to maintain long-term fiscal stability. Though the state legislature and Congress are currently laser-focused on the pandemic response, the reality of cost increases from federal and state mandates, materials, supplies, pensions, and labor will continue to stretch our dollars. Because of this, we continue to look for ways to identify operational efficiencies, reduce expenses including pension costs, and reduce the size of our organization in non-growth areas.

One budget strategy we have put on pause during this health crisis is the active implementation of new revenue opportunities. In fact, the City has indefinitely postponed a property assessment measure in several neighborhoods that was to be voted on in spring 2020 and delayed scheduled fee increases for a variety of services that had been scheduled to take effect on July 1, 2020.

In response to the economic effects of the pandemic, in April 2020, the City implemented a citywide hiring freeze. Exceptions were made for public safety positions and, as approved by an executive committee, for positions that address an immediate critical need.

In addition, we had anticipated a large number of retirements over the next year. How the economic fallout of the crisis affects these decisions remains to be seen. Retirements offer us a unique opportunity to reduce the size of the organization with less disruption, but it also means a tremendous loss of institutional knowledge, requiring more time, training and development to bring new employees onboard. There might also be services that we no longer provide.

In accordance with the Council's financial policies, the FY2020-21 General Fund budget matches budgeted expenses with projected revenues with an estimated use of \$2 million from the economic stabilization reserve. The funding for the economic stabilization reserve came primarily from Measure B revenues that continue to allow us to maintain service levels while assessing the economic fallout from the shutdown. Had Measure B not passed, the City would have already made \$8.5 million worth of cuts to the current year General Fund budget, including to police, fire, street maintenance, parks, recreation facilities and programs, libraries, and code enforcement.

Our community's support of Measure B has allowed the City to avoid significant reductions in the FY2019-20 and FY2020-21 budgets. With a revised revenue projection of \$18 million of Measure B revenue, the City is facing a \$2 million deficit instead of a \$20 million deficit that would have emerged without Measure B revenue in the budget. The City's financial condition is stronger than most because of community engagement, financial policies, leadership from the City Council, and commitment throughout the organization.

Although the City's General Fund budget is balanced for FY2020-21, many underfunded needs remain. The City was able to maintain service levels during the 2008 recession by deferring millions of dollars' worth of capital improvements and maintenance, borrowing from reserves, and lowering payments to key funds such as workers' compensation and retiree health. As the economy recovered, the Council adopted policies to ensure that future revenues are allocated to move towards fully funding these crucial obligations.

As we emerge from the immediate threat of this health crisis, the City will have to replenish the stabilization reserve we're using now to maintain service levels. This strategy will fortify our ability to weather the next financial challenge.

It will undoubtedly take longer to climb out of this fiscal valley than the dizzying pace it took to descend to this point. The whole time, our budget will continue to face pressure from additional expenses, including pension payments to CalPERS, resulting from the crisis.

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This budget, which was largely developed before the economic downturn occurred, builds on the importance expressed by the community to maintain services that enhance our quality of life. We realize that this budget will be amended—likely several times throughout the next fiscal year. We will likely draw down some of our reserve funds and look at service levels cuts to manage the expense side, until we get a clearer picture of our revenue projections.

With an overall City budget of about \$555 million, only \$159 million comprises the General Fund operating budget. The majority of the remaining \$396 million in funding is dedicated to electric, water, wastewater and waste service operations.

In the \$159 million General Fund, \$53 million is restricted, coming from grants, specific fees, and taxes tied to specific projects and non-discretionary expenses. Council has discretion over \$106 million that is unrestricted. Over half of this unrestricted funding—about \$64.5 million—goes toward public safety, the Council's top priority. The rest funds parks, recreation, libraries, museums, streets, floodplain management, code enforcement, and general government such as: finance, legal, human resources, public records, website, broadcasting, and custodial maintenance.

It's an ongoing balancing act to ensure that service levels are maintained, and that funding aligns with operational necessities and Council priorities.

City responds to COVID-19 effects

The City is working to mitigate the effects of the shutdown on our residents and businesses. To this end, the City has taken a variety of swift and effective actions. The funding for money loaned or granted in the community comes from sources other than the City's General Fund.

For example, funds for small-business loans, homelessness assistance, and Family Meal Roseville comes from interest earned in the Citizens Benefit Fund. It will be repaid through the repayment of the loans made to small businesses as well as the sale of surplus City property. Funding for electric bill credits comes from public benefit funds that must be invested in community needs.

The actions to date include:

- Approved providing \$1 million in zero-interest loans to Roseville small businesses
- In addition to the \$6.4 million in federal funds we administer each year to assist low-income families, we added \$500,000 to reduce homelessness and provide for rapid rehousing

- Offered a one-time credit to Roseville Electric Utility customers who qualify based on income
- Suspended fare collection on Roseville Transit to allow for social distancing on our buses
- Waived the hotel-occupancy tax that we could collect on contracts to house the homeless at area hotels during the pandemic
- Provided \$50,000 to launch a program called Family Meal Roseville in partnership with a nonprofit organization to feed those experiencing food insecurity while helping to keep local restaurants afloat

Council established priorities in a five-year plan

Though we had just closed the first quarter of our new fiscal year, our City Council and department heads spent two days in October 2019 to set the long-term vision for our city and our top priorities for FY2020-21 and beyond.

The Council Goals workshop was the kickoff to our annual budget-planning process, and we spent additional time and focus this year on the effort. For the first time, we were planning on incorporating Measure B revenues in our planning. We were continuing to focus on community priorities identified through our EngageRoseville outreach effort, and we remained aware of the shifting circumstances that affect our operations daily.

At the public workshop, the Council reviewed key accomplishments, important issues we face, best practices for the strategic-planning process, and the capacity and timelines to tackle these priorities.

The Council also set priorities for the next several years and affirmed our mission, vision, and values. The workshop kicked off with a lookback to celebrate what we've done together.

Aligning operations and priorities, establishing clear expectations, and developing consensus on policy direction were some of the goals achieved at the workshop.

While the outlook has changed drastically with the coronavirus crisis that has emerged since that time, it is still important to note key results from this planning effort that will continue to guide budget decisions.

Council Goals

The previous set of City Council priorities was established in 2012 and had been expanded over the years. The list had grown to 11, without any items being removed or refined in that time. The Council focused on honing the list to provide

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a more concise policy direction. Even during an economic downturn the Council goals continue to guide budget decisions. This set of goals emerged:

- Remain fiscally responsible in a changing world
- Expand community engagement and advocacy
- Maintain a safe and healthy community
- Enhance economic vitality
- Deliver exceptional City services
- Invest in well-planned infrastructure and growth

Key Accomplishments

In individual interviews with the Council in preparation for the workshop, the Council identified the following significant accomplishments from the past several years and thanked staff for getting this important work done.

- Measure B revenues
- EngageRoseville community outreach
- Public safety services (Police staffing, fire station)
- Labor agreements
- City's financial strength (reserves, recession planning)
- Downtown improvements (garage, housing, events, bridges)
- Improved infrastructure and services in general

In addition, several other accomplishments were highlighted:

- Three new councilmembers on board
- Citywide training program established
- Surplus property plan developed
- Social media policy adopted
- Amoruso Ranch Specific Plan approved
- Enterprise resource planning software selection and implementation
- Electronic plan review
- Community solar projects
- Water reliability planning
- New electric substation
- Advanced metering infrastructure project
- Financial policies updated
- New facility agreement for the SPCA facility construction
- Roller-compacted concrete pilot project
- Treatment plan improvements
- New passport center

Celebrating these significant accomplishments was an important recognition of the excellence the community appreciates from City staff.

Workforce changes and investment

The City's largest General Fund expense is labor. In addition to laying off temporary staff in areas where services were no longer permitted, the City also negotiated with one of its labor groups to delay implementation of contracted benefit increases until we have a clearer picture of our revenue outlook. The City's labor groups have been strong partners in the past seven years, collaborating with the City to slow payroll growth, reduce retirement benefits, and lower salaries. I appreciate their ongoing willingness to discuss the fiscal realities the City is facing.

The City's compensation philosophy remains focused on fiscal responsibility by offering competitive wages to employees that we can afford. The City benchmarks total compensation (salary and benefits) at the median of the labor market in order to manage rising pension costs and still be competitive in hiring qualified employees. It also recognizes that, in unique situations, the City may have to pay above the market median to attract qualified candidates or retain skilled employees. We have seen this most notably in competitive recruitments for staff in the electric industry. The City competes with the private sector for these candidates. With the current environment for electric utilities throughout the state, set against the backdrop of wildfire threats and public-safety power shutdowns, this strategy is imperative.

Fiscal Trends

The proposed FY2020-21 budget is a status quo or baseline expenditure budget. It does not include any General Fund service level reductions, but it also contains only the most critical augmentations. The City will look to the numerous existing strategies in place (hiring freeze, and pausing non-essential projects and initiatives, etc.), as well as utilization of our economic stabilization reserve to cover the estimated deficit.

The COVID-19 pandemic and economic turmoil began in the middle of the City's budget development process. Staff had forecasted tax revenues and City departments had already estimated their department revenues and submitted their requests for augmentations. With the amount of fiscal uncertainty that exists with the economic downturn, staff have updated revenue forecasts and reduced the General Fund major tax revenues by \$14 million from our pre-pandemic forecast. However, given the fiscal uncertainty caused by the

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stay-at-home orders and business closures, we recognize the actual tax revenues next year may be significantly different from these estimates.

Since the City will not have final sales tax data from the April through June quarter until late August, staff will return to Council in October with a financial update and potentially budget revisions based on the new information. With the reduced revenue estimates and the status quo expenditure budget, the proposed budget reflects a \$2 million deficit that will be mitigated by a budgeted transfer from the Economic Stabilization Reserve Fund. However, the plan is to wait until after returning to Council in October with that financial update before transferring any resources from the reserve. With continued expenditure controls in place, and with businesses starting to re-open and generate economic activity as this budget is finalized, the City will wait and maintain the reserve as long as possible.

While there is significant uncertainty about how much the City's revenues will decline, we do know some of the ways in which it will happen. The closure of retail establishments means a decline in sales tax revenues. The stay-at-home order means hotels are nearly empty and transient occupancy tax (TOT) will decrease as a result. It also means less driving and demand for fuel, reducing the amount of gas tax revenue available for maintenance of the City's streets and roadways. Closure of facilities such as golf courses, aquatic centers, and gyms result in a loss of revenue; as does the closure of schools on revenues to the City's Adventure Club programs. Any effects on property values caused by this economic downturn, and any decline in associated property tax revenue, won't be known until next year and would affect the FY2021-22 budget.

For the FY2020-21 budget, the City is projecting \$69.7 million in sales tax revenues, including \$18.5 million for the Measure B local sales tax, and \$52.6 million in property tax revenues. Sales and property tax revenues will account for 76 percent of the City's FY2020-21 General Fund operating revenues.

Utility franchise fees from electric, natural gas, and cable companies comprise five percent of General Fund revenues. The remaining 19 percent of revenues come from development-related fees, permits, recreation programs, business license taxes, hotel/motel tax, grants, etc.

Three-Year Operating Revenue (in millions)			
	Actual FY2018-19	Amended FY2019-20	Proposed FY2020-21
Sales Tax	\$56.9	\$72.3	\$69.7
Property Tax	\$48.3	\$49.0	\$52.6
Subtotal	\$105.2	\$121.3	\$122.3
Other Operating Revenue	\$47.1	\$38.6	\$38.4
Total	\$152.3	\$159.9	\$160.7

After forecasting the City's revenue, the City must account for continued pressures on the expense side which include the increasing costs of salaries, benefits, CalPERS retirement costs, retiree health costs, and state minimum wage increases which affect the City's costs of temporary employees and contracts with suppliers. The FY2019-20 expenditures in the table below include transfers to the Economic Stabilization Reserve from Measure B revenue and year-end expenditure savings from FY2018-19, as well as priority one-time investments from FY2018-19 budget savings.

Three-Year Operating Expense Trend (in millions)			
	Actual FY2018-19	Amended FY2019-20	Proposed FY2020-21
Operating Expenditures	\$138.3	\$170.3	\$159.1

Positions

Although most new position requests were deferred until staff return to the City Council in October with updated economic and budget information, the FY2020-21 budget includes recommendations for a net increase of 3.5 full-time equivalent (FTE) General Fund positions to address critical service-level requirements. The recommended positions include 1.0 Police Officer FTE to staff a School Resource Officer at the new high school, 1.0 Police Dispatcher FTE, 1.0 Park Maintenance Worker FTE to support new citywide park amenities, and a 0.5 Housing Technician FTE.

The budget also includes a net increase of 7.25 FTE positions in non-General Fund funds, including 1.0 Water Conservation Worker FTE, 0.25 FTE Office Assistant II FTE, 1.0 Refuse Supervisor FTE, 1.0 Wastewater Collection Supervisor FTE, 1.0 Wastewater Treatment Plant Operator Grade IV FTE, 1.0 Plant and Equipment Maintenance Worker I/II FTE, 1.0 Child Care Site Coordinator FTE, and 1.0 Fleet Mechanic FTE. In addition, 1.0 IT Analyst II FTE is recommended to be added and 1.0 Business Systems Analyst FTE is recommended to be deleted in the Information Technology Operations Internal Service Fund (ISF).

Citywide, the budget increases staffing levels by 10.75 FTE positions after taking into account all new positions, eliminations, reclassifications, and transfers. As the City grows in both size and complexity, departments will need to add positions to deliver the services we provide. This will be balanced with the elimination of vacant positions in other areas. The new positions in this budget are a result of growth of our City, new technology, and additional workload. The table on the next page summarizes the position changes:

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Fund	FTE Positions Added	FTE Positions Eliminated	Net Change
General Fund	+1.00 Police Officer (School Resource Officer for new high school) +1.00 Police Dispatcher +1.00 Park Maintenance Worker +0.50 Housing Technician	No Change	+3.50 FTE
EU Funds	+5.25	No Change	+5.25
Youth Development Fund	+1.00	No Change	+1.00
Information Technology Operations ISF	+1.00	-1.00	No Change
Fleet Services ISF	+1.00	No Change	+1.00
Overall Change	+11.75 FTEs	-1.00 FTEs	+10.75 FTEs

Economic Indicators

Year in review

This past year, work was completed on many new, large, long-term projects. These include a five-story, 275,000-square-foot corporate-office headquarters complex for Adventist Health; 220,000 square feet of new medical office buildings and a two-level parking structure for Kaiser Permanente's Riverside campus; 100,000 square feet for Sutter Roseville Medical Center, including new critical care units and a significant expansion of its emergency department; a new medical-supply distribution facility for McKesson's new Roseville location; grand opening of the first phase of Campus Oaks Apartments, including 42 affordable units; two new hotels adjacent to Top Golf; a new Villa Sport athletic-club facility; and the start of grading at the Sierra Vista Specific Plan property. The community also celebrated the opening of a new sports facility complex @TheGrounds, the Placer County Fairgrounds site in Roseville. The first event at the facility was a regional volleyball tournament in February 2020, and it was booked for youth sports, meetings, and convention needs throughout the year. However, as of this writing, the site is under contract to serve as a testing location for coronavirus.

This past year saw continued expansion of the City's industrial sector with several buildings underway or completed at the "Roseville 80" site. Panattoni Development recently completed construction of an 80,000 square-foot industrial building that will include Restaurant Depot as a tenant. At the same site, construction is underway on an 115,000 square-foot distribution facility for a national delivery-service company. Within the former Hewlett-Packard campus, medical-device manufacturer Penumbra recently completed the renovation of a 150,000 square-foot manufacturing facility. Strada Investments is also nearing completion of the entitlement

process for a new 150,000 square-foot office building on the former HP campus.

The City's retail sector has also seen several new projects completed or in the final phases of approvals. Living Spaces will open to the public later this summer near Top Golf, and several new retail buildings were recently completed in the same center. Construction is expected to begin this summer on the Campus Oaks commercial project, which will include approximately 116,000 square feet of commercial, retail and restaurant uses in the first phase, anchored by a Nugget grocery store. Other notable projects on the horizon include a new commercial center in the West Roseville Specific Plan Village Center, which will include 25,000 square feet of retail and restaurant uses.

At the Westfield Galleria at Roseville, redevelopment of the former Sears building will continue into 2020-21 to bring a 14-screen theater with an entertainment facility featuring bowling, darts, pool, and a restaurant, as well as other lifestyle additions.

In Roseville's downtown, construction of Main Street Plaza Apartments, on the corner of Washington and Main, began in 2019, bringing 65 affordable units and 3,000 more square feet of commercial space to the historic district. Junction Crossing will bring 80 affordable units to Pacific Street. Its developer St. Anton Communities, is expected to break ground when it receives additional financing.

Summer 2019 brought the opening of two new pedestrian bridges over Dry Creek, linking downtown and Royer Park. The third downtown bridge, the historic Icehouse Bridge, was rotated to better align with the recently extended bike and pedestrian trail to strengthen off-road connectivity in our city.

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Looking Ahead

Development activity continues to remain strong in most sectors despite the disruption resulting from COVID-19. At the close of FY2019-20, single-family residential home production is expected to finish at or slightly above the City's historical annual average of 900 permits. Projections for FY2020-21 indicate a similar trend as new subdivisions in the Sierra Vista, Fiddymont Ranch, and Creekview plan areas come online. Completion of the Blue Oaks and Westbrook Boulevards extension projects will further facilitate sustained growth in these areas. Consistent with past years, the budget conservatively assumes the issuance of 900 single-family residential building permits.

A total of \$115 million in commercial investment (\$70 million in new commercial building construction valuation and \$45 million in commercial tenant improvements) will close out FY2019-20. New commercial construction and tenant improvement valuation should decline slightly in FY2020-21 as large projects come to completion. The City conservatively estimates roughly \$100 million in total commercial construction and tenant improvements for FY2020-21.

Space had been at a premium across all sectors of Roseville's commercial property before the shutdown of the economy in March 2020. According to the City's Economic Development Department, the office sector was at 90 percent occupancy. Industrial space is 97 percent filled, and retail space showed a strong 95 percent occupancy. At the time of this writing, it is still not known when the economy will reopen, what health and hygiene requirements will be in place, and how all of this will affect retail, office, and industrial occupancy.

Roseville's top five private-sector employers have been Sutter Health, Kaiser Permanente, Adventist Health, Pride Industries, and Top Golf. Unemployment has risen drastically across the state and nation in the past eight weeks. Last year, the City anticipated a 12.7% increase in job growth projected over the next five years, and the unemployment rate was 3.5 percent. As of this writing, the latest statistics available from the Bureau of Labor Statistics show a 5.3% unemployment rate statewide as of March. Numbers from April 2020, the first full month of the shutdown, are not yet known.

Looking Ahead

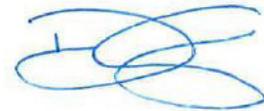
Knowing where our challenges lie is a critical first step in being able to address them. There's a resolve in our City Council, staff, and community to anticipate and adapt to the changing circumstances we're facing. It's one that is firmly rooted in

a strong track record of successful navigation of uncertain times. Additionally, we will remain focused on addressing homelessness with our partners in South Placer, and working to address the need to increase the availability of affordable housing in Roseville. Under state law, the City has until May 31, 2021 to adopt an updated Housing Element and meet the new increased need for affordable housing.

I am confident by working together with our community, Council, and committed staff, we will capitalize on opportunities and mitigate challenges, positioning Roseville to effectively deal with the changes that come in the years ahead as we emerge and recover from this global health crisis.

Our community is strong, resilient and caring.

We will get through this together because **We Are Roseville.**



Dominick Casey
City Manager

