

**“Folsom, we have
a problem.”**

Five-year Budget Forecast

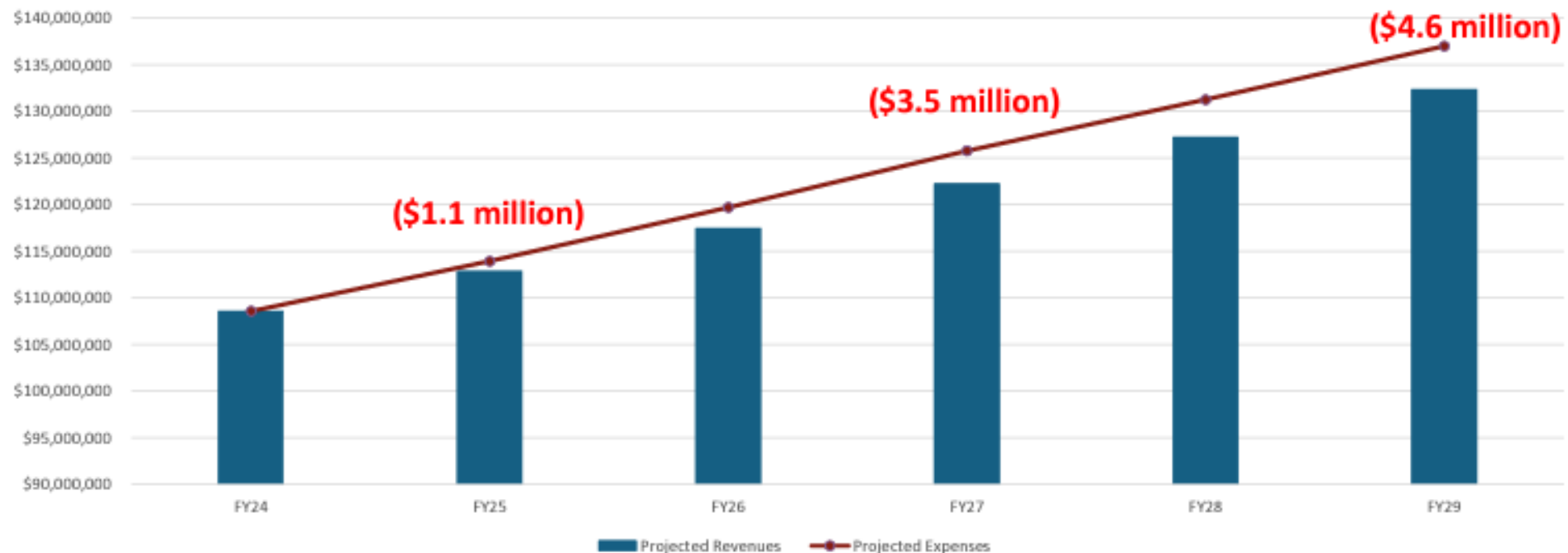


All budget information taken from the City of Folsom's budget documents and is public information.

Major Budgetary Concerns – FY 25-FY 29



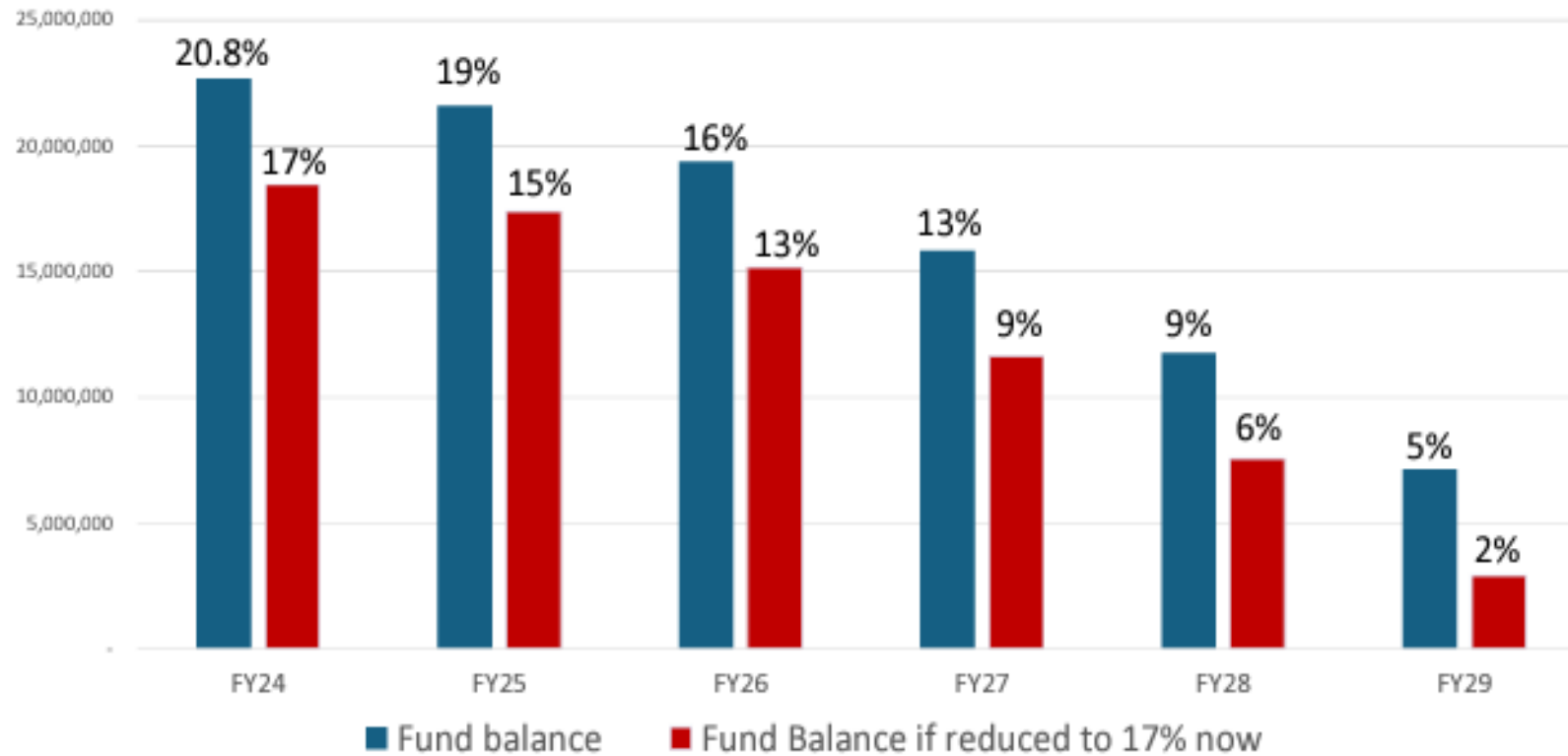
1. The five-year forecast predicts a General Fund structural deficit as the cost to provide services grows at a faster pace than revenues.



Major Budgetary Concerns – FY 25-FY 29



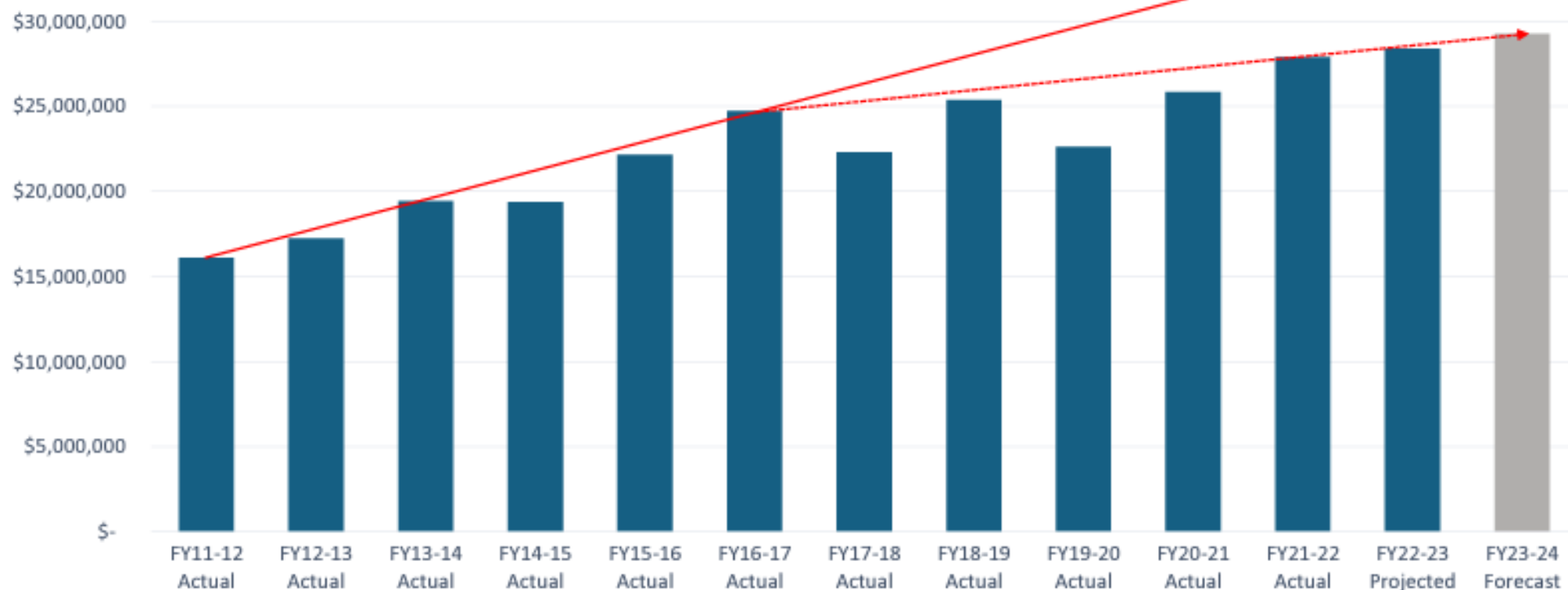
2. Projected Unassigned Fund Balance if Used to Cover Annual Budget Shortfalls



Major Budgetary Concerns – FY 25-FY 29



3. Flattening sales tax revenue trend – now averaging 2.3% growth per year



Major Budgetary Concerns – FY 25-FY 29



5. There are millions of dollars (estimated at \$20 million annually) of unfunded or underfunded needs that the City has been deferring, year after year

	One-Time Costs Years 1 - 5	Annual Costs Years 1 - 5	One-Time Costs Future (5 years+)
Police	\$ 9,551,814	\$ 8,417,858	\$ 7,888,590
Fire	15,909,521	6,653,145	15,000,000
Parks and Recreation	10,782,000	3,986,700	140,350,849
Community Development	985,000	450,000	-
Public Works	1,379,400	1,077,845	70,100,000
Total	\$38,757,735	\$20,585,548	\$233,339,439

Source: Budget Workshop slides presented to the City Council February 8, 2022

Major Budgetary Concerns – FY 25-FY 29



6. Uncertainty of future CalPERS contribution requirements

In the August 24, 2022, news release from CalPERS after FY2021-22 investment return of -6.1% CalPERS announced: "Cities can expect employer rates for their miscellaneous plans to increase about 2-4% in fiscal year 2024-25. Safety plan employer rates may increase between 4 and 6%."

Each year that the investment returns do not meet the 6.8% discount rate, the City will see an increase in their required contribution in a future year. This is unpredictable and out of the City's control.

Major Budgetary Concerns – FY 25-FY 29



9. Depletion of reserve funds with little ability to replenish in future years

- January 24, 2023 - Staff recommended that the City Council consider replenishing the reserve balances of the Risk Management and Compensated Leaves internal service funds
- The recommendation was not approved and the reserve balances in those funds are projected to decline to **\$4.2 million for the Risk Management fund** and **(\$225k) for the Compensated Leaves fund** by the end of FY 2022-23.
- A \$50,000 transfer is recommended in the budget to begin to replenish the reserve. At that rate **it will take 66 years to rebuild the reserve used during COVID-19.**
- FY 2023/24 increases for property insurance will be up 30%-45%, or \$500k-\$600k, and employee health insurance is projected to increase 13.5%-15.5%, or \$1.6 million, up from a 2.1% increase in FY 2022-23.
- These increases will need to be funded from Risk Management – **a \$2 million total increase**. That is a use of about **50% of the remaining fund balance in one year.**

FY 23-24 Budget Summary



Structurally sound and balanced budget that maintains core essential services



Maintains the balance of expenditures by department



Budget does not draw upon the City's unassigned, unreserved fund balance but leaves overall reserves underfunded



Leaves millions of dollars in infrastructure, equipment repair and replacements, staffing needs and other items unfunded

Did the departments you represent or support receive the funding you hoped/thought they needed in the last two City budgets?

Major Budgetary Concerns – FY 25-FY 29



10. Low reserve levels threaten the City's ability to provide essential services in the future and ensure future obligations are funded

The table below reveals that the City of Folsom's total reserves pale in comparison to those of our neighboring cities, leaving Folsom far behind in terms of future financial stability

	Rancho Cordova	West Sacramento	Elk Grove	Roseville	Folsom
Annual General Fund Expenditures	\$ 75,601,695	\$ 67,461,013	\$ 85,996,000	\$ 211,776,207	\$ 108,460,133
General Fund Reserve	14,466,824	24,451,228	24,774,000	64,817,040	22,675,718
As % of Expenditures	19%	36%	29%	31%	21%
Other Reserve Funds	51,988,238	29,572,241	47,106,100	49,929,100	8,940,293 *
Total Reserves	\$ 66,455,062	\$ 54,023,469	\$ 71,880,100	\$ 114,746,140	\$ 31,616,011
Total as % of Gen. Fund Expenditures	88%	80%	84%	54%	29%

* Folsom's "other reserve funds" are Risk Management, Compensated Leaves and Capital Replacement used for capital purchases

What have City management and City Councils done to mitigate this issue?

- Maintaining reserves above the adopted policy of 15% (currently 20.8%)
- Deferred millions of dollars of maintenance and capital costs
- Staffing levels still below Great Recession levels (FY 07/08)
- General Fund employees reduced by 36% (calculated per 1,000 residents)
- Eliminated retiree health benefits for new employees
- Increased employee contributions to health benefits
- Increased employee contributions towards retirement
- Implemented state-mandated pension reform (PEPRA)
- Extended the number of steps in the pay range to have smaller annual pay increases
- Eliminated longevity pay for new employees
- Extended “useful life” of city vehicles
- Cell tower revenue diverted from Park Renovation Fund to General Fund (approx. \$300,000/yr)
- Implemented electronic permitting and payment system to reduce paper, and provide remote processing
- Continue to apply for, and receive many grants each year for both capital and service needs
- Developed new private sector contracting services (parks, trails, alarm systems, etc.)
- Constant awareness of gaps where services can be provided or enhanced at minimal additional cost

Important FAQs

- **Why is the City in this fiscal situation?** 1) Loss of sales tax revenue from online spending. 2) Inflation: CPI 2021 = 3.3%, 2022 = 5.6%, 2023 = 4.2%; Construction Cost Index: 2021 = 13.4%, 2022 = 9.3%, 2023 = 4%-5%+ (projected)
- **We have lots of growth S of 50. The homes are selling for \$800K+. There is also lots of infill building going on North of 50 and all the sales of nice homes north of 50 seem to sell for \$1M or more. Don't those developments bring in lots of property tax revenue?** Residential development typically is a break-even, at best. Generally, a brand-new home will provide more in tax revenue than services used, but as a community ages, and more services are required, it is anticipated that the revenue generated from each household will be less than the cost to provide services because of expenses growing at a faster rate than the 2% property tax increase allowed by Prop. 13.
- **There are planned medical and commercial centers going in S of 50. Why aren't the revenues generated from all the new building enough to solve the fiscal problems?** The medical facilities (UC Davis and Dignity Health) will likely apply and qualify for an annual exemption from property tax under the Welfare Exemption and there is no significant commercial development at this point.
- **Is S of 50 self-sustaining between property tax from S or 50 and developer fees or is there a revenue gap that is being funded by the General Fund, such as staff time and other expenses?** For now, south of 50 is self-sustaining, with property tax covering current related operations (such as fire staff for the new station) and development impact fees will cover the construction of planned facilities. The projected General Fund budget gap is not caused by south of 50 development.

- **What is the City doing to promote more economic development and buying in Folsom instead of online. Is it all in the hands of the Chamber and its entities and are they delivering to the maximum extent possible and to the satisfaction of the City?** ...when new businesses have a ribbon cutting, the Mayor visits and provides a welcome kit, certificate of recognition, and a City New Business Guide. The guide is a recently published guide of City of Folsom business resources – available in print and online. We also have a City economic development website that serves as a resource for prospective businesses: <https://economicdevelopment.folsom.ca.us>. City has issued a request for proposals for economic development consulting services, available on the City's RFP webpage.
- **What are potential solutions?**
 - Backfill revenue shortfalls with unallocated General Fund Reserve (short-term, unwise)
 - Service reductions (ultimately requires layoffs)
 - Combination of both the above
 - Transient Occupancy Tax (hotel tax) increase – likely generates only \$2 million annually
 - Parcel Tax (2/3 voter approval required, general spending ok, only property owners pay)
 - Supplemental Property Tax - per \$100,000 assessed value (only property owners pay)
 - City-wide Lighting and Landscape District – property maintenance and improvement only
 - Local Sales Tax – everyone pays a little, including non-resident shoppers (40%)

Major Budgetary Concerns – FY 25-FY 29



4. Sales tax concerns continued – Top 25 sales tax generators in alphabetical order

- ARCO AM/PM MINI MARTS
- BEST BUY STORES
- CHEVRON SERVICE STATIONS
- COSTCO WHOLESALE
- ENTERPRISE RENT-A-CAR
- FOLSOM BUICK GMC
- FOLSOM CHEVROLET
- FOLSOM LAKE CHRYSLER DODGE JEEP RAM
- FOLSOM LAKE FORD
- FOLSOM LAKE HYUNDAI
- FOLSOM LAKE KIA
- FOLSOM LAKE TOYOTA/SCION
- FUTURE NISSAN OF FOLSOM
- GREEN ACRES NURSERY & SUPPLY
- HOME DEPOT
- LOWE'S HOME CENTERS
- NIKE FACTORY STORE
- NORDSTROM RACK
- PRISON INDUSTRY AUTHORITY
- RALEY'S AISLE 1
- SAM'S CLUB
- TARGET STORES
- TOTAL WINE & MORE
- VSP ONE FOLSOM
- WALMART STORES

These “Top 25” businesses generate about \$13 million annually in sales tax revenue received by the City, about 58% of the total sales tax received. **The City would need an additional set of business that generate this level of sales tax, AND the local income to sustain these new businesses, to collect as much as a .5% local sales tax could generate.**

Agencies in Sacramento Region with a local sales tax:

- City of Sacramento – 8.75%, includes supplemental sales tax
 - Roseville – 7.75%, includes supplemental sales tax (Placer Co, no Measure A)
 - West Sacramento – 8.25%, includes supplemental sales tax
 - Elk Grove – 8.75%, includes supplemental sales tax
 - Rancho Cordova – 8.75%, includes supplemental sales tax
 - Galt – 9.25%, includes supplemental tax
 - Isleton – 8.75%, includes supplemental tax
 - Woodland – 8.00%, includes supplemental tax
 - Davis – 8.25%, includes supplemental tax
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- Folsom – 7.75%, NO supplemental sales tax
 - Citrus Heights – 7.75%, NO supplemental sales tax
 - Lincoln – 7.75%, NO supplemental sales tax

Options for a Local Folsom Sales Tax

- **Placed on ballot by the City Council, requires voter approval**
 - General Tax = 50% + 1 (revenue used for any “general” service or program...safety, parks & rec, library, etc.)
 - Special Tax = 66.6% (revenue restricted to the “special” identified projects or services)
- **Placed on ballot by a citizens initiative, requires voter approval**
 - General Tax = 50% + 1 (revenue used for any “general” service or program)
 - Special Tax = 50% + 1 (revenue restricted to the “special” identified projects or services)
- Taxpayer Protection and Government Accountability Act will change citizen initiative to a 2/3 vote instead of 50% if passed by voters in the 2024 general election. Retroactive to 2022.
- ACA 13 – in CA Legislature now (if passed by voters in March 2024 may mitigate this)

If a local sales tax, how?

- 1) Should groups go to the City Council and request a tax measure be put on the ballot?
- 2) Will city council members support a general tax?
- 3) It is likely that support would exist for a city special tax, but could a 2/3 vote in favor be achieved?
- 4) Should/can we start a citizens initiative?

Outline of a Citizen's Initiative

1. Preliminary process - file Notice of Intent, etc....60 days = October start
 - a. Nominal filing fees
 - b. Need legal counsel to avoid mistakes = \$
 - c. Need to prepare education campaign = \$
2. Signature gathering
 - a. 10% of registered voters = 5,036
 - b. Need 30% contingency = 6,550
 - c. 180 days...would need to start December 1 and conclude June 1
3. Signature verification by Sacramento County...30 days
4. Officially placed on ballot by Folsom City Council resolution...July/August
5. Develop and implement advocacy campaign = \$
6. Vote

5-Year Strategic Plan

- **Financial Stability and Sustainability:**

Support fiscal health through long-term planning, cost control, heightened efficiency, increased revenue, and cost recovery.

- **Public Safety and Infrastructure:**

Enhance the provision of public safety resources, invest in technological solutions, and maintain, repair, and improve public facilities and infrastructure.

- **Economic and Community Development:**

Promote effective use of existing amenities and resources to create future opportunities that enrich the community.

- **Organization Effectiveness:**

Build strong connections and support for the community and employees through a commitment to local government best practices and employee development, support, and retention to meet community needs.

City Council's Short Term Priorities

- Identify a funding plan to expand police department facilities to meet department needs.
- Identify funding to increase police department staffing to meet community needs.
- Initiate technology solutions to streamline the organization and improve efficiency.
- Complete the River District Master Plan to enhance the city's waterfront and waterfront-adjacent recreation and development opportunities.
- Develop a funding/sponsorship plan for the Johnny Cash Art Trail.

Discussion Points

1. How do groups feel about participating in a tax measure?
2. Should a measure be initiated by citizens, or by the City Council?
3. What can we expect in the next City budget – April/May 2024?
4. Thoughts on Special Tax or General Tax?
5. Can the needed volunteers be identified for a grassroots effort?

Next Steps

- Review our discussion with your boards of directors.
- Do your own research and talk with your colleagues.
- Determine if there is a desire and if there is bandwidth in your organizations to assist.
- Attend our follow-up meeting – Wednesday, September 20th

Make sure we have your contact information if you would like to stay informed!