City Council Workshop – Develop Strategy to Close the City’s Funding Gap

Presentation to the Folsom City Council
February 8, 2022
Presentation Agenda

- How is the City doing today?
- Citywide budget - revenue and expenses
- General Fund - revenue and expenses
- Sales and Property Taxes
- 5-year General Fund forecast
- Potential solutions
- Next steps and direction to staff
How is the City doing today?

The City is fiscally sound and continues to take prudent actions.

Why are we here? -

• Folsom wants to continue to be proactive
• The world is changing
• The forecast for future years predicts a structural deficit
• We are currently not covering all our long-term expenses
Citywide Budget

Revenue and Expenses
<table>
<thead>
<tr>
<th>Fund Type</th>
<th>FY 22 Adopted Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$92,521,841</td>
</tr>
<tr>
<td>Enterprise Funds</td>
<td>50,322,160</td>
</tr>
<tr>
<td>Special Revenue Funds</td>
<td>12,442,313</td>
</tr>
<tr>
<td>Debt Service Funds</td>
<td>11,705,722</td>
</tr>
<tr>
<td>Capital Project Funds</td>
<td>11,963,656</td>
</tr>
<tr>
<td>Internal Service Funds</td>
<td>21,353,908</td>
</tr>
<tr>
<td>Fiduciary Funds</td>
<td>19,935,275</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$220,244,875</strong></td>
</tr>
</tbody>
</table>
Fund Type Descriptions

- **Enterprise Funds**: Account for the activity of the city’s water, wastewater and solid waste utility funds.

- **Special Revenue Funds**: Account for specific revenue sources that are legally restricted for a specific purpose. (Gas Tax, Lighting and Landscape Districts, Affordable Housing)

- **Debt Service Funds**: Account for the accumulation of resources that are legally restricted for the payment of long-term debt obligations.

- **Capital Project Funds**: Account for financial resources which are used for long-term major capital projects financed primarily from developer impact fees.

- **Internal Service Funds**: Account for the financing of goods and services by one department to others within the government on a cost reimbursement basis. (Risk management, Employee leave)

- **Fiduciary Funds**: Established to hold money in trust for various purposes (OPEB, Redevelopment Successor Agency, Assessment Districts)
Citywide Expenses

- Salaries: 26%
- Benefits: 18%
- Operations & Maintenance: 25%
- Capital Outlay: 3%
- Debt Service: 17%
- CIP: 11%
General Fund Revenue
# General Fund Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 21-22 Projected</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$32,991,949</td>
<td>34%</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>26,498,472</td>
<td>27%</td>
</tr>
<tr>
<td>Transient Occupancy Tax</td>
<td>2,000,000</td>
<td>2%</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>13,299,975</td>
<td>13%</td>
</tr>
<tr>
<td>Licenses, Permits &amp; VLF</td>
<td>11,960,984</td>
<td>12%</td>
</tr>
<tr>
<td>Transfers In</td>
<td>7,730,248</td>
<td>8%</td>
</tr>
<tr>
<td>All other</td>
<td>3,545,500</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>$98,027,128</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Revenue Types

• **Transient Occupancy Tax (TOT):** % charged on all hotel stays in the City of Folsom

• **Charges for Services:** Engineering inspections, plan and map checks, administrative fees, fire services, recreation programs

• **Licenses, Permits & VLF:** Business license certificates, building permits, encroachment, fire and other permits
Revenue Types

• **Transfers In:** Allocates departmental costs incurred by the General Fund to all funds that receive benefit from services that the General Fund departments provide.

• **All other:** Grants, reimbursements, third party recoveries, donations, gifts, sale of publications, misc.
General Fund Revenue

Property and Sales Tax: 61% of Total General Fund Revenue
Property Tax
General Fund Property Tax

• California’s approximate property tax rate: 1%
• Folsom receives 20% of the 1% paid
• Approximate value of all property in Folsom: $16.6 billion
• Property tax receipts generated: $166 million
• Folsom receives about: $33 million
General Fund Property Tax

• Assume an average taxable home value in Folsom of $450,000

• This generates $4,500 in property tax

• Folsom receives $900 for General Fund operations
Property Tax Results FY 03-FY 16

Historical Property Tax Results

$7.4 million loss
General Fund Property Tax

FY13  FY14  FY15  FY16  FY17  FY18  FY19  FY20  FY21  FY22
Actual  Actual  Actual  Actual  Actual  Actual  Actual  Actual  Actual  Projected

Property Tax

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY15</td>
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<td></td>
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<tr>
<td>FY16</td>
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<tr>
<td>FY17</td>
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<td></td>
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<tr>
<td>FY18</td>
<td></td>
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<tr>
<td>FY19</td>
<td></td>
<td></td>
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<tr>
<td>FY20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FY22</td>
<td></td>
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</tr>
</tbody>
</table>
General Fund Property Tax

• Property tax growth trends are projected to continue to be steady at about 5% per year

• The City can do little to influence this growth
  • Per Prop. 13, unless property is sold, assessed values increase by the change in CPI or 2%, whichever is less
Sales Tax
7.75% sales tax rate in Folsom

- This is the state minimum of 7.25%, plus a .50% Sacramento County tax for transportation maintenance and improvements (Measure A)

Folsom receives 1¢ of the 7.75¢ tax paid per dollar spent

- The majority goes to the State
- ½ cent goes towards county transportation maintenance and improvements
- Small amount goes directly to County for programs
General Fund Sales Tax

• Approximate annual taxable sales in Folsom: $2.6 billion

• Sales tax generated: $205 million

• Folsom receives: $26 million
General Fund Sales Tax

Sales tax paid by average Folsom household:

• About $114,405 average household income
• Of that income, about 25%, or $28,601, spent on taxable items
• About 75% of the taxable spending, or $21,450, is spent in the City
• This generates $1,662 in sales tax within the City
• Folsom receives $215/year for General Fund operations
Historical Sales Tax Results

Sales Tax Results FY 2003-FY 2016

$27.3 million loss
Slowdown in Sales Tax Growth

Sales Tax Projections

Actual    Actual    Actual    Actual    Actual    Actual    Actual    Actual    Actual    Actual    Forecast   Forecast   Forecast
Sales Tax – What is happening?

Sales tax is no longer a steady source of income.

There is a shift in:

- **What we buy**
  - There is a shift from purchasing “things” to purchasing services.
- **How we buy it**
  - Internet sales.
- **How much we can afford to buy**
  - Increased cost of services and housing erodes buying power for taxable goods.

This trend is not going away.
Good news:
• Significant sales tax (an estimated 40%) is generated from non-Folsom residents
• Very diversified tax base

Concerns:
• Quite volatile
• Heavily impacted by an economic downturn
• As spending trends continue to change, sales tax revenue growth is eroded
Combined Tax Revenue

Historical Tax Revenue Growth

Property tax trend continues
Sales tax growth is flattening

Projected
General Fund Expenses
Operational Departments

- Police
- Fire
- Parks and Recreation
- Community Development
- Public Works
- Library
Support Functions

• City Council
• City Manager (includes Communications)
• City Clerk
• City Attorney
• Office of Management and Budget (includes IT)
• Human Resources
• Building Maintenance
• Fleet
General Fund Expenses

Fire 24%
Police 27%
Community Development 6%
Public Works 9%
General Government 12%
Culture and Recreation 15%
Other 6%
Debt Service 1%

Operating Expenditures
Total: $97 million
General Fund Expenses

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Fund Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY13</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>FY14</td>
<td>$40,000,000</td>
</tr>
<tr>
<td>FY15</td>
<td>$60,000,000</td>
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<tr>
<td>FY16</td>
<td>$80,000,000</td>
</tr>
<tr>
<td>FY17</td>
<td>$100,000,000</td>
</tr>
<tr>
<td>FY18</td>
<td>$120,000,000</td>
</tr>
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General Fund Expenditure Growth

Average growth of 4.5%
Folsom like many, if not most cities, utilized existing cash and reserves to fund ongoing operations.

Instituted a “funding pause” of internal service, OPEB and capital replacement funds

Deferred maintenance of buildings, equipment, and vehicles
  • Extending the life of vehicles
  • Delaying roof and building repairs
  • Delaying replacing IT hardware and software
  • Delaying park maintenance
City Response to Challenges

• Over the last 10 years the City has:
  • Significantly reduced staffing levels (remained flat for the past 4 years) - all departments doing more with less
  • Used part-time or contract employees when feasible
  • Increased employee contributions towards retirement (employees pay their entire share)
  • Eliminated retiree health benefits for new employees
  • Increased employee contributions to health benefits
City Response to Challenges

• Over the last 10 years the City has:
  • Restructured education incentive pay for costs savings
  • Extended the number of steps in pay ranges to have smaller annual pay increases
  • Eliminated longevity pay for new employees
  • Capped accrued leaves balances and cash out amounts

Result: There is limited ability to reduce service costs further. Without increased revenues, a reduction in city services will be required to balance the budget.
36% reduction in GF Employees/1000 Residents
Population Growth vs. GF Positions

- General Fund Positions
- Population

FY 07-08 to FY 21-22
## Unfunded/Underfunded Needs

<table>
<thead>
<tr>
<th>Service</th>
<th>One-Time Costs</th>
<th>Annual Costs</th>
<th>One-Time Costs</th>
<th>Additional Positions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Years 1 - 5</td>
<td>Years 1 - 5</td>
<td>Future (5 years+)</td>
<td>Needed</td>
</tr>
<tr>
<td>Police</td>
<td>$9,551,814</td>
<td>$8,417,858</td>
<td>$7,888,590</td>
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<td>$3,986,700</td>
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<td>$985,000</td>
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<td>Public Works</td>
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<td>$1,077,845</td>
<td>$70,100,000</td>
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<tr>
<td>Library</td>
<td>$150,000</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$38,757,735</strong></td>
<td><strong>$20,585,548</strong></td>
<td><strong>$233,339,439</strong></td>
<td><strong>102</strong></td>
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Unfunded/Underfunded Needs

Police Department Needs – One to Five Years:

• Deployment vehicle, small armored vehicle, mobile command vehicle
• Marked and unmarked police vehicles
• Facility renovations and technology updates
• Police Officers (28), Dispatchers (6), Community Service Officers (2) Animal Control Officers (2) and other professional support staff (12).
Unfunded/Underfunded Needs

Fire Department Needs – One to Five Years:

• Fire Station and facility upgrades
• Engines, trucks, medic vehicles and staff vehicles
• Small equipment (Wildland Apparatus, Mechanical CPR Device)
• Firefighters (18), Mechanics (2), Fire Marshal (1), Deputy Chief (1), Division Chief (1) and Admin. Captains (2)
Unfunded/Underfunded Needs

Parks and Recreation Needs – One to Five Years:

• Unfinished planned parks, trails and facilities

• City facility renovations – ADA for Parks and Facilities, Building Maintenance, Turf (indoor and outdoor) for Andy Morin Sports Complex, Irrigation Controller Upgrades in 17 park locations

• Park renovations per Parks and Recreation Master Plan

• Ladder fuel maintenance/Hazard Tree Care

• Aquatic center upgrades and equipment replacement
Unfunded/Underfunded Needs

Parks and Recreation Needs – One to Five Years:

• Municipal Landscape Services staff: Engineering Tech (1), Sr. Maintenance Worker (2), Maintenance Worker (2), Maintenance Supervisor (1)

• Park Maintenance staff: Park Planner (1), Maintenance Worker (3), Irrigation System Coordinator (1)

• Recreation staff: Staff Coordinator II (1), Administrative Assistant (1)
Community Development Needs – One to Five Years:

• Consulting services for studies, plans and updates

• Development Services Analyst (1), GIS Specialist (1), Building Plans Coordinator (1), Building Inspector II (1), Building Plan Checker II (1), Construction Inspector II (1), Planning Technician II (1), Code Enforcement Officer (1)
Unfunded/Underfunded Needs

Public Works Department Needs – One to Five Years:

• Street Sweeper
• Fueling system upgrades, tank replacement, and new fuel pumps
• Various studies (Corporation Yard, Traffic Demand Management, Noise Reduction Program, In-Lieu Fee Study)
• Public Electric Vehicle Charging Stations
• Associate Engineer/Traffic (1), Associate Engineer/CIP(1), Street Maintenance Worker (2), Street Sweeper Maintenance Specialist (1), Sign Shop Maintenance Worker (2)
Unfunded/Underfunded Needs

Library Needs – One to Five Years:

• Carpet replacement (13,700 sq.ft.)
## Unfunded/Underfunded Needs - Revisited

<table>
<thead>
<tr>
<th>Category</th>
<th>One-Time Costs Years 1 - 5</th>
<th>Annual Costs Years 1 - 5</th>
<th>One-Time Costs Future (5 years+)</th>
<th>Additional Positions Needed</th>
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No identified funding source for these costs
5-Year Budget Forecast

Looking Ahead: FY 2023-2027
5-Year Forecast – General Fund

Total Revenue
Projected Expenditures

FY23
FY24
FY25
FY26
FY27

$90,000,000
$95,000,000
$100,000,000
$105,000,000
$110,000,000
$115,000,000
$120,000,000

($14k)
($654k)
($1.4 million)
Grows to $2.3 million
Annual Funding Gap

$2.3 million gap
do not include
$20 million of
unfunded
annual needs

Fully funding deferred needs requires an additional $20 million annually
Impacts of Folsom Plan Area Development on General Fund Revenue and Expenses:

• Property tax increases were expected and are factored into projections

• Planned expenses to provide services for that area are also factored into expense projections

• This creates a zero-net effect on the General Fund
Potential Solutions
Use American Rescue Plan Act (ARPA) dollars in the short-term to “buy time” - $6.2 million remains unallocated

- Total allocation: $8.4 million
- Must be obligated and spent by December 31, 2024 – can’t be saved for future budget shortfalls
- The council already approved $2.2 million for the Provision of Government Services in FY 21/22 (HVAC system, facility painting, police fleet, fire department facility upgrades and equipment)
- The council expressed interest in funding additional general fund expenses such as consultant services for a River District and Central Business District plan
Potential Solutions

Revenue enhancements such as:

• Increases to rates and fees:
  • Possible increases to Planning/Development Fees, Ambulance Fees or Parks and Recreation fees
  • Minimal impact to overall budget gap
Potential Solutions

Revenue enhancements such as:

• Voter approved increase to Sales Tax
  • Estimated that an additional ½ cent tax would increase annual sales tax revenue received by the City by $10.9 million
Cuts to City services to the extent of deficit

- There is a limited ability to further reduce service costs. Without increased revenues, elimination of some city services will be required.
Economic Development
Economic Development
In Partnership with the Greater Folsom Partnership

Expand Retail Recruitment to Attract Sales Tax-Generating Revenue

Maximize and Activate the City’s Assets

Promote Entrepreneurship and Explore the Formation of an Innovation District

Strengthen, Expand, and Develop Tourism Assets and Events

Assist Businesses with Workforce Development
Economic Development
In Partnership with the Greater Folsom Partnership

- Identify and Prioritize Public-Private Development Projects
- Encourage Public-Private Partnerships, When Viable
- Leverage Folsom’s Healthcare Cluster
- Continue to Pursue Funding for Economic Development
- Continue to Ensure City Infrastructure Supports Business Needs
Public Engagement Plan
Public Engagement Plan

- **Two-way communication** between the city and the community.

- **Educate** the community.

- Seek well-informed **feedback** through research and outreach.

- Provide opportunities for the community to **share opinions** with the city.

- **Present** the City Council and staff with extensive community input.
Strategies

• Research and Planning
  o Statistically valid public opinion polls

• Engagement Campaign
  o Logo, tagline, website
  o Social media
  o Videos
  o Direct mail
  o Printed newsletter
  o Local advertising
  o Electronic billboards
  o Utility bill inserts
  o Community forums
  o Media relations
Strategies

- Online Engagement Tools
Strategies

- Online Engagement Tools
Strategies

FlashVote

1391 Total Participants
1285 of 1959 initially invited (66%)
106 others
Margin of error: ± 3%
Public Engagement Plan
Questions/Direction to Staff

• Does the Council seek any additional information at this time on the potential solutions identified, and if so, which one(s)?

• Are there potential, additional solutions that were not included in this presentation that the Council can identify at this time and wishes to explore?

• Does the Council support moving forward with the proposed community engagement process?