



CITY OF
FOLSOM
DISTINCTIVE BY NATURE

City of Folsom Quarterly Financial Report

Fiscal Year 2008-09 Fourth Quarter

August 25, 2009

**Prepared by the Department of Finance
Financial Analysis and Reporting Division**

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INTRODUCTION

Section 5.05R of the Charter of the City of Folsom requires the City Manager submit to the City Council a financial and management report showing the relationship between budgeted and actual revenues, and expenditures and encumbrances on a quarterly basis.

This Quarterly Financial Report is an analysis of the financial status of the City's major funds for the fourth quarter of Fiscal Year (FY) 2008-09, covering the twelve month period from July 2008 through June 2009. The report provides an analysis of each fund's unaudited revenues, expenditures and fund balance as compared to the FY 2008-09 Budget. Please refer to the Appendices for detailed schedules of the City's key funds for the period ending June 30, 2009. The document also includes an analysis of the unaudited revenue and expenditure activity for the City's:

- General Fund
- Special Revenue Funds – Redevelopment
- Enterprise Funds – Water, Wastewater, Solid Waste, and Transit
- Outstanding Debt, Capital Improvement Plan and Encumbrances

Several funds that were previously classified as Special Revenue, Internal Service, or Enterprise funds have now been combined with the General Fund. In addition, the Utilities Admin Fund, which had previously combined with the General Fund, is now solely accounted for in the Enterprise Funds. Included in the Appendices is a schedule of these funds.

EXECUTIVE SUMMARY

Projected year-end General Fund revenues are \$69.8 million or 89% of the appropriated amount and expenditures are \$76.3 or 95% of the appropriated amount, resulting in a \$6.5 million use of fund balance and an unaudited unrestricted fund balance of \$9.1 million. Of this amount, \$2.0 million was a planned use of fund balance at the time of budget adoption.

CURRENT AND PROJECTED FINANCIAL CONDITION

In January of 2009 the City Council approved an 18 month budget to deal with the City's on-going economic challenges due to significant declines to key revenues. The changes adopted by the Council have resulted in reduced expenditure levels in the General Fund as well as other Funds. The City Council was also provided fiscal year end projections that estimated that the current year revenue shortfall would be \$6.0 million and the unrestricted General Fund fund balance would be \$10.2 million. The current projection for the year-end revenue shortfall is \$8.2 million with an unrestricted General Fund fund balance of \$9.1 million. Through expenditure cut backs and a change to the Development Fund, the City was able to keep the unrestricted General Fund fund balance at \$9.1 million.

Although the current projected unrestricted fund balance is \$1.1 million less than the January estimate of \$10.2 million, this difference is due mostly to the exclusion of fixed assets, net of related debt, from the General Fund unrestricted fund balance in accordance with Generally Accepted Accounting Principals (GAAP). As previously mentioned, during the current year, several funds that were previously classified as Special Revenue, Enterprise or Internal Service funds were combined with the General Fund. In keeping with GAAP, fixed asset balances, net of related debt, were excluded from Enterprise and Internal Service Fund fund balances when combining fund balances with the General Fund.

Previously the Finance department had proposed that several funds be moved into the General fund and the Development Fund was one of these funds. Because revenues declined more than previously expected the Finance Department has moved all but \$3.3 million of the Development funds' negative \$9.7 million fund balance.

The projected year-end unaudited expenditures for the General Fund are approximately \$76.3 million or \$4.2 million below budget. As previously projected it was expected that through expenditure cut backs the City would be able to cut expenditures by approximately \$4.0 million.



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A more detailed description of the financial status of the General Fund and other significant City funds along with the forecast of General Fund revenues by source follows.

General Fund Revenues by Source

	Budget	Forecast	%
Property Tax	\$ 19,367,860	\$ 19,936,202	103%
Sales and Use Tax	18,309,862	15,298,174	84%
Transient Occup Tax	1,591,000	1,176,649	74%
Real Prop Transfer	300,000	277,605	93%
Franchise Fees	535,133	573,928	107%
Other Taxes	-	93,509	
Lic And Permits	1,880,860	2,214,115	118%
Intergovt Revenue	5,839,358	6,121,017	105%
Charges For Serv	13,704,309	11,622,736	85%
Fines & Forfeitures	308,257	358,683	116%
Interest Rev	481,691	476,656	99%
Miscellaneous	6,554,374	101,470	2%
Transfers In	9,215,275	11,571,297	126%
Total	\$ 78,087,979	\$ 69,822,041	89%

GENERAL FUND REVENUE

The General Fund is the main operating fund of the City. For financial reporting purposes the following funds are presented on a combined basis: General Fund, Cash Basis, Compensated Absences, and Folsom History Interpretive Center.

The decline in projected revenues is mostly reflected in a downturn in sales tax revenues as well as declines in charges for services, such as engineering and plan check fees, associated with the slowing of residential development. A brief discussion of significant General Fund revenue sources follows.

- Property taxes year-end estimate is \$19.9 million, or 103% of budget, an increase of \$1.0 million or 5.3% over the prior year.
- Sales and Use Tax collections year-end estimate is \$15.3 million, or 84% of budget, a decrease of \$3.0 million or 16.6% over the prior year.
- Transportation Occupancy Tax (TOT) collections year-end estimate is \$1.2 million or 74% of budget, a decrease of nearly \$182,000 or 13.4% compared to prior year and was due in part to a delay in the construction of several hotels.
- Business Licenses and Building Permits year-end estimate is \$2.2 million or 118% of the budget, an increase of more than \$440,000 or 24.8% over

the prior year and is due to new commercial development.

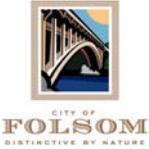
- Intergovernmental revenues year-end estimate is \$6.1 million, or 105% of budget. Compared to prior year, revenues decreased approximately \$260,000 or 4.1%. These revenues consist mainly of vehicle license gap repayment fees in the amount of \$5.4 million.
- Charges for services year-end estimate is \$11.6 million, or 85% of budget. Compared to prior year, current year revenues are down nearly \$1.3 million or 10.0%, primarily related to a decrease in fees received for city-wide development.
- Miscellaneous revenues year-end estimate is \$101,496, or 2% of budget, because the \$6.6 million budgeted is mostly a budgeted fund balance appropriation.
- Transfers In were \$11.6 million which incorporates the changes to the Combined General Fund.

GENERAL FUND EXPENDITURES

Year-end projections for General Fund expenditures are \$76.4 million, or 95% of budget, and represent a \$4.2 million reduction in appropriated expenditures. The General Fund expenditures by department are as follows:

General Fund Expenditures by Department

	Budget	Forecast	%
City Council	\$ 134,877	\$ 118,155	88%
City Manager	920,757	900,586	98%
City Clerk	534,794	514,723	96%
Finance	2,646,340	2,446,065	92%
City Attorney	1,016,923	984,270	97%
Human Resources	1,167,521	1,133,582	97%
Admin Svcs	2,827,375	2,638,867	93%
Econ Developmt	485,375	458,708	95%
Police	19,283,738	19,401,619	101%
Fire	16,053,067	15,897,285	99%
Fleet Mngmt	1,446,309	1,354,684	94%
Public Works	7,036,495	5,757,137	82%
Parks & Rec	13,103,683	11,619,306	89%
Comm Developmt	5,068,309	4,840,614	96%
Library	2,151,372	1,690,715	79%
Other	1,200,000	1,786,347	149%
Non-Dept	4,528,467	3,024,453	67%
Transfers Out	913,453	1,781,485	195%
Total Expenditures	\$ 80,518,855	\$ 76,348,603	95%



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SPECIAL REVENUE FUNDS

Redevelopment Funds

Low to Moderate Housing Fund

As of the end of FY 2008-09 total unaudited revenues are projected to be \$647,656, or less than 33% of budget. Budgeted revenue in the amount of \$3,321,030 represents a budgeted use of fund balance.

Year-end projections for expenditures are \$1,182,381 or 24% of budget. Contract expenditures were \$555,894 or 13% of budget, the majority of which related to a \$250,000 payment towards the Railroad Block project and \$240,615 for the Seniors Handyman Program.

The projected year-end unrestricted fund balance at June 30, 2009 is \$4.2 million, which represents an increase of \$465,275 over the prior year.

Central Folsom Redevelopment Project Fund

The projected year-end estimate for revenues is \$6.5 million, or 32% of budget. Budgeted revenue in the amount of \$14,291,073 represents a budgeted use of fund balance.

The projected year-end estimate for expenditures is \$10.4 million or 50% of budget. Of the \$8.1 million spent, approximately \$711,686 was for salaries and benefits, \$1.2 million was for AB 1290 program expenditures, \$2.4 million was for transfers out for capital projects, debt service and overhead, and \$3.1 million was for Owner Participation Agreements.

The projected year-end unrestricted fund balance estimate at June 30, 2009 is \$8.1 million, which represents a decrease of \$3.8 million over the prior year.

Other Special Revenue

Three city funds that are currently on the Finance Department's watch list are the Development, Humbug Willow Creek, and the Park Dedication (Quimby) Funds.

As previously discussed, the Finance Department combined several funds that were previously classified as Special Revenue, Internal Service, or Enterprise funds with the General Fund. However, only \$6.4 million of Development Fund's negative \$9.7 million fund balance was consolidated into the General Fund, leaving a negative fund balance of \$3.3 million in the Development Fund. As we continue to move forward, we must remain diligent to aggressively reduce expenses in order to absorb the remaining \$3.3 million into the General Fund.

The Humbug Willow Creek Fund ended the quarter with a negative cash balance in the amount of \$1.3 million. Although this represents a decrease from a negative \$1.7 million from last quarter, the fund's cash position is essentially the same as in the prior year. In addition, the Park Dedication Fund is currently being used to save the cash needed for the last two debt service payments for the Sports and Teen Center. However, it is doubtful that those funds will be available only through the accumulation of impact fees. The Finance Department is continuing to work with Parks and Recreation to develop a plan to resolve the negative cash balance and to secure the cash for the Sports and Teen Center.

ENTERPRISE FUNDS

Water Fund

The Water Funds are reported on a combined basis and include the following funds: Water Impact, Water Operating, Water Capital, and Water Meters.

As of the end of FY 2008-09 total unaudited revenues are projected to be \$16 million or 58% of budget, and unaudited expenses are projected at \$21.4 million or 70% of budget, resulting in total expenses exceeding total revenues. Excluding miscellaneous revenue, which represents a budgeted use of fund balance, revenues are projected at 92% of budget. Projections for operating revenues and expenses are \$12.4 million or 100% of budget and \$12.9 million, or 90% of budget, respectively.

Presently, the fund's net asset balance at fiscal year end is projected to be \$78.3 million.



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Wastewater Fund

The Wastewater Funds are reported on a combined basis and includes the Wastewater Operating and Wastewater Capital funds.

As of the end of FY 2008-09 total unaudited revenues are projected to be \$5.9 million or 71% of budget, and unaudited expenses are projected at \$6.6 million or 68% of budget, resulting in total expenses exceeding total revenues. Excluding miscellaneous revenue, which represents a budgeted use of fund balance, revenues are projected at 100% of budget. Projections for operating revenues and expenses are \$5.8 million or 99% of budget and \$3.9 million, or 90% of budget, respectively.

The Utilities Department is in the process of completing the landfill closure and currently all expenses associated with this closure are being borne by the Solid Waste Fund. During the fiscal year completion procedures the Wastewater Operating Fund will fund the Landfill Closure Fund at 40% of the landfill closure expenses.

Presently, the fund's net asset balance is projected to be \$39.2 million at the fiscal year end of FY 2008-09.

Solid Waste Fund

The Solid Waste Funds are reported on a combined basis and includes Solid Waste Operating and Solid Waste Capital.

As of the end of FY 2008-09 total unaudited revenues are projected to be \$10 million or 82% of budget, and unaudited expenses are projected at \$12.6 million or 100% of budget, resulting in total expenses exceeding total revenues. Excluding miscellaneous revenue, which represents a budgeted use of fund balance, revenues are projected at 95% of budget. Projections for operating revenues and expenses are \$9.8 million or 94% of budget and \$9.9 million, or 99% of budget, respectively.

Presently, the fund's net asset balance is projected to be \$53,812 at fiscal year end.

Transit Fund

The fund's primary operations consist of fixed routes, dial-a-ride, and charter services.

As of the end of FY 2008-09 total unaudited revenues are projected to be \$2.2 million or 93% of budget, and unaudited expenses are projected at \$2.5 million or 107% of budget, resulting in total expenses exceeding total revenues. Projections for operating revenues and expenses are \$191,644 or 31% of budget and \$2.1 million, or 108% of budget, respectively.

The Public Works Department along with the Transit Division has been working with Sacramento Regional Transit (RT) as well as Sacramento Area Council of Governments (SACOG) to find ways to reduce the FY 2008-09 farebox penalty. All parties, Public Works, RT, and SACOG have now come up with an alternative so that the amount that the City of Folsom pays for Light Rail maintenance is included in the calculation for the farebox penalty. This does not completely eliminate the penalty. For FY 2008-09 farebox penalty is estimated to be \$92,000 and will be a required payment by the General Fund.

Presently, the fund's net asset balance is forecasted to be \$2 million at the end of the fiscal year.

Outstanding Debt

At the end of the fourth quarter of FY 2008-09, the City had approximately \$207.1 million of outstanding debt comprised as follows:

	FY 09 Payment	Outstanding Debt	Responsible Fund
General Obligation Bonds	\$2.4 million	\$20.7 million	General
Certificates of Participation	1.2 million	5.8 million	General & D/S
Revenue Bonds	3.5 million	111.2 million	Agency
Revenue Bonds	.75 million	28.7 million	Water
Revenue Bonds	.98 million	10.6 million	General
Tax Allocation Bonds	.53 million	30.1 million	Redevelopment

General obligation debt is backed by the full faith and credit of the City and by general taxes. Certificates of participation are used to finance capital improvements while complying with or avoiding constitutional debt limitations applicable to the State of California, its cities, counties, school districts, and to public entities in various other states. Tax allocation bonds are issued by the Folsom Redevelopment Agency for specific projects and are



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secured by anticipated increments in the property taxes generated from redeveloped property. Revenue bond debt is supported by a pledge of specific revenues. Approximately \$29.0 million of the City's revenue bond debt is supported by the City's water utility.

Capital Improvement Plan (CIP)

This section presents a summary of all CIP projects adopted with the passage of the FY 2008-09 budget. CIPs are projects that contribute to providing essential municipal services that make Folsom a community of choice for living, working, and enjoying leisure activities.

At the end of the fourth quarter of FY 2008-09, the City had 51 budgeted projects totaling \$51,035,972. During the current quarter, significant CIP progress was made on the Infiltration/Inflow Improvements (Wastewater), Street Overlay (Street), and Folsom Lake Crossing Bridge (Transportation) projects.

The following table provides a summary of CIP activity through June 30, 2009.

CIP Activity

	Budget	Actual	% of Budget
Culture and Recreation	\$ 4,392,355	\$ 603,291	13.7%
Drainage	3,079,340	2,031,329	66.0%
General Services	6,412,383	1,640,898	25.6%
Open Space & Greenbelts	2,021,837	640,567	31.7%
Wastewater	4,954,784	1,525,370	30.8%
Streets	7,156,883	3,730,239	52.1%
Transportation	17,259,628	11,707,709	67.8%
Water	5,758,762	919,901	16.0%
Total	\$ 51,035,972	\$22,799,304	44.7%

Encumbrances

This section presents a summary of open encumbrances/purchase orders. Encumbrances are the recognition of commitments that will subsequently become expenditures when goods and services are received. An encumbrance does not represent an expenditure for the period, only a commitment to expend resources. California Government Code Section 16304 states that "An appropriation shall be deemed to be encumbered at the time and to the extent that a valid obligation against the appropriation is created."

Folsom Municipal Code Section 3.02.030 provides further clarification: "All appropriations, except for

capital projects involving capital replacements and capital additions, shall lapse at the end of the fiscal year to the extent that such appropriation has not been expended or encumbered, except: (1) All capital project appropriations shall continue in force until expended, revised or repealed by action of the City Council; and (2) all capital project appropriations shall be deemed to be abandoned if three years pass without disbursement from or encumbrance against the appropriation."

The following table provides a summary listing of outstanding encumbrances by operating and capital projects funds at June 30, 2009:

Fund	Fund Name	Non-Capital		% of Non-Capital Budget
		Budget FY08-09	Encumbrance \$ Total	
10	General	\$ 73,728,107	\$ 887,989	1.20%
22	Utilities Administration	1,995,605	3,314	0.17%
23	Public Works	7,702,876	296,749	3.85%
201	Comm Dev Block Grant	575,000	4,800	0.83%
226	Tree Planting	253,594	14,012	5.53%
238	RDA Low to Mod	4,967,250	46,065	0.93%
239	RDA Project Area	20,838,145	28,386	0.14%
273	Sphere Of Influence	192,379	195,660	101.71%
412	Park Improvements	948,130	1,212	0.13%
446	Transportation Impr	1,934,021	69,755	3.61%
458	Library	200,436	3,172	1.58%
520	Water Operating	17,201,282	3,474,371	20.20%
521	Water Capital	905,840	846,955	93.50%
530	Wastewater	4,816,513	186,176	3.87%
531	Wastewater Capital	50,675	4,188	8.26%
540	Solid Waste	12,514,753	1,135,281	9.07%
601	Major Cap &Renovation	112,582	4,529	4.02%
760	Wetland/Open Space Maint	29,305	8,763	29.90%
Total Non-Capital		\$ 148,966,493	\$ 7,211,379	4.84%
Fund	Fund Name	Capital		% of Capital Budget
		Budget FY08-09	Encumbrance \$ Total	
10	General	\$ 633,698	\$ 122,093	19.27%
206	Transportation System Mgt	175,008	15,201	8.69%
223	Humbog Willow Creek	1,992,220	35,339	1.77%
247	Gas Tax 2105	20,000	1,661	8.31%
248	Transportation Tax(Sb325)	16,000	15,027	93.92%
264	Park Renovation Fund	605,014	1,000	0.17%
265	Sponsorship-Lembi Aquatic	107,000	591	0.55%
412	Park Improvements	3,163,883	853,449	26.97%
425	Zoo Capital	831,476	58,569	7.04%
431	RDA Capital Project	18,628,444	393,500	2.11%
446	Transportation Impr	24,184,949	1,182,260	4.89%
448	Drainage Capital	1,021,754	284,147	27.81%
520	Water	7,550,331	983,796	13.03%
530	Wastewater	4,962,871	844,412	17.01%
537	Fac Augmentation General	231,666	84,586	36.51%
Total Capital		\$ 64,124,314	\$ 4,875,631	7.60%
Total Citywide		\$ 213,090,807	\$ 12,087,010	5.67%