

May 24, 2005

Honorable Mayor and Members of the Folsom City Council:

I am pleased to submit the Budget for Fiscal Year (FY) 2005-06 for your review and adoption. The proposed FY 2005-06 budget is \$158.5 million. The major components are: \$52.6 million for the General Fund, \$40.6 million for Enterprise Fund operations, \$25 million for Special Revenue Funds, \$11.7 million for Debt Service Funds, and \$14.9 million for Capital Improvement Program (CIP) projects.

This year's recommended budget is prepared using the Strategic Plan priorities identified by the City Council at its February 11, 2005 retreat. At the May 10, 2005 City Council meeting we presented the Strategic Plan report to the City Council. This report included key imperatives that the departments submitted and they are included in the Strategic Plan section of the budget. Based on the Strategic Plan and City Council direction, the FY 2005-06 Budget clearly aligns appropriations to key strategic priorities. Each department's budget section also includes the strategic priorities that will be accomplished during the fiscal year.

The overall goal identified by the City Council is to maintain and enhance the quality of life and the quality of service levels, with an overarching priority to maintain the City's long-standing financial health and stability. In light of ongoing revenue uncertainties at the State level, the City Council placed a top priority on activities related to economic growth. The Council also gives top priority to the maintenance of core services - public safety, water, sewer, solid waste, traffic management, and personnel support. Once the delivery of these core services is assured, then the City should move on to "high priority projects" that enhance the quality of life of Folsom residents. The City Council has identified a number of high priority projects: the completion of the new library, a way finding program, the completion of plans for the proposed senior/arts center, the enhancement to and maintenance of the City's trail system, the evaluation of the opportunity for a City-owned gymnasium, and the implementation of technology improvements within the City organization that support overall service delivery.

As the City Council is aware, City staff has prepared a five-year fiscal forecast that has indicated that the FY 2005-06 budget will not have funding for new programs. This is due to the State withholding \$1 million from the City as part of Proposition 1A that was approved by the voters in November 2004. While we are able to continue support for current programs and service levels that must increase as our population increases, I am not proposing new programs that will require ongoing General Fund support. However, the proposed budget provides funding to

maintain a high ratio of officers per thousand residents, adds equipment for both police and fire, provides for the implementation of the new recycling program, and continues funding for both street maintenance and parks renovation.

Fortunately, the City of Folsom remains in good fiscal health. To ensure continued fiscal stability, and in accordance with the City Council's adopted financial policies, the City's undesignated fund balance in the General Fund is estimated at \$8.3 million, which is 16% of the budget. Also consistent with the City's financial policies, the FY 2005-06 budget provides for an additional budgeted contingency in the General Fund equal to 1 percent of proposed appropriations.

As I noted at this time last year, the City is fortunate that our continued strong commercial and residential growth allows us to remain fiscally strong and adhere to the policies that will ensure long-term fiscal health. Although our five-year financial forecast continues to show healthy growth in the foreseeable future, as the City approaches build-out (anticipated in 2009-2010), our property and sales tax revenues will stabilize. Folsom may find itself in the same position as neighboring cities that are experiencing service level reductions as development activity subsides. As we get closer to build-out, the City Council must carefully weigh the cost of new programs against estimates of future available revenue. We must continue to examine our cost of doing business and seek efficiencies wherever possible.

I will now outline the high points of the FY 2005-06 strategic priorities and related budget recommendations.

### **FY 2005-06 Service Plan – Key Strategic Priorities**

**Ensuring the City's Financial Health.** The City has taken numerous steps in guaranteeing its financial vitality. The City Council has adopted financial policies that assist in financial management of the City. The City also has a five year revenue and expense projection for the General Fund and the Redevelopment Agency. These projections guide and assist us in prudent fiscal management.

The City has established various reserve funds to protect the City's financial health. The proposed budget continues to build on previous years' achievements of prudently building reserves. As noted in my introductory comments, the proposed budget provides for a General Fund contingency of 1 percent. In addition, in compliance with the City's financial policies, the level of undesignated fund balance is 16 percent of appropriations. With these continuing efforts to protect the City's financial health, I believe that the City remains in a strong fiscal position to weather any economic downturns or emergency situations.

In accordance with City Council direction for maintaining financial stability, I am recommending that a Financial Analyst and a Revenue Technician be added to the Finance Department. The Financial Analyst will assist our Finance Department in fiscal compliance issues with the Redevelopment Agency, and financial reporting requirements related to federal and state grants. The new Revenue Technician position will perform field investigations throughout the City researching, auditing, and ensuring compliance of related services. With the

implementation of the Residential Water Metering program, this position will be instrumental in establishing field practices for the billing process. These positions are being funded through non-General Fund resources.

**Economic Development.** During FY 2005-06, the City will continue its economic development efforts to strengthen and enhance our fiscal base. To that end, the City has approved a master conceptual plan for mixed-use development of the Railroad Block, located in the heart of the Historic District. Construction of the transit plaza adjacent to the Historic District Light Rail Station is expected to commence in June 2005 and should be completed in September 2005. The City expects to complete negotiations for development of the Railroad Block and complete environmental review for this project by the end of calendar year 2005. We also expect that the construction of a multi-level public parking structure will begin in 2006.

Retail expansion in the east area also is on track. Entitlements for the regional mall "Palladio" and the adjacent 50-acre Kaiser Permanente medical campus have been approved. Phase 1 construction is currently underway it is anticipated that this project will be open to the public in 2007. B.J.'s Restaurant, Fat's Asian Bistro Restaurant, Mel's Diner, and California Fitness have either begun construction or recently opened in Folsom. Future development plans include In-and-Out Burgers, Islands Restaurant, Hampton Inn Hotel, La Quinta Hotel, and Thomasville Furniture.

Business expansion in Folsom also is proceeding in a positive manner. Businesses that have been assisted with their expansion plans over the past year include Folsom Premium Outlets, Jadoo Power Systems, Raley's Supermarkets, Staples, Walgreens, Kindred Hospital, and Gekkeikan Sake. With the pending sale of the City-owned 32-acre property adjacent to the high school, the City has provided another opportunity for major economic development involving residential and retail uses. For this next fiscal year, in response to growing demands for community-wide access to the Internet, the City expects to complete a feasibility study regarding deployment of a City-wide wireless network system. The City has established a Special Event Advantage Team consisting of key department staff along with representatives of the Folsom Tourism Bureau to facilitate permitting of major tourism revenue-generating events in Folsom.

A key strategic priority for FY 2005-06 is enhancing the historic area in anticipation of the Railroad Block development. To help focus this effort, I am recommending that an existing Principal Planner be assigned to the Redevelopment Agency from the Community Development Department in FY 2005-06 to assist the Agency in planning its activities and to insure historic district vitality. This item addresses a recommendation from the Economic Development Summit that the City held last year. We also have included in the budget an appropriation of \$100,000 for outside consulting assistance specifically to support the Sutter Street area.

**Planning for future development.** In November 2004, Folsom voters approved Measure W to establish standards for the development of 3,600 acres of land south of Highway 50. Among other requirements, there must be adequate water supply, schools, and infrastructure prior to annexation. The Community Development Department has worked very hard to complete the visioning process that will assist in the planning for the area. Consistent with City Council direction, staff expects to begin the environmental review process in early FY 2005-06, leading to an annexation application later in the fiscal year.



The FY 2005-06 budget continues the funding for a General Plan update. Through this update, the City will ensure a balance between jobs created and the housing needed to serve the new employees. Also, the City must ensure the continuation of a high quality of life through protecting our environmental, natural and recreational amenities.

This budget also provides for one new position and one title change in the Community Development Department. In light of increased planning activities, I am recommending the addition of Principal Planner/Administration to provide administrative support to the Community Development Director and assist with responses to constituent and developer inquiries. I also recommend realignment of an existing position to the title of Principal Planner to assist in overall planning activities of the City.

**Public Safety.** Overall, proposed public safety appropriations total 55 percent of the General Fund budget, which is higher than last year's appropriations due to fleet funding. Our Fire Department has identified the need to update its service delivery plan due to the growth the City continues to experience. Included in the budget is funding for a study that will assist in evaluating and prioritizing strategies to enhance fire services to our citizens. This will also include recommendations on the potential relocation of Fire Station 38 (located at Oak Avenue and Blue Ravine Road), EMS vs. fire responses, new station needs, and possible addition of an Engine Company. The findings and a recommendation will be presented to the City Council after its completion. The Fire Department budget also includes funding for a new ladder truck that will replace a quint engine and replacement of a type 2/3 engine. These items are proposed to be lease-financed for 10 years. Also included in the budget is an Account Clerk to assist in Ambulance Billing and support for Emergency Medical Services (EMS) Battalion Chief.

This budget maintains the ratio of 1.3 police officers per thousand population. The City is in the second year of absorbing the cost associated with receiving a Community Oriented Policing (COPS) grant for the hiring of ten police officers. As a condition of the grant, the City must assume a greater share of funding each year for the next three years. The City will absorb 100 percent of the cost of the ten officers beginning in FY 2007-08. The budget also includes two

additional police officers that will be assigned to provide public safety to the new light rail operations. The cost for these officers will be funded by Regional Transit.

The City Council also recently approved salary adjustments to sworn police officers, which allows Folsom to maintain a competitive compensation package and retain quality police staff. The City Council is aware of an on-going staffing shortage in the Dispatch Center. To help address this issue, the FY 2005-06 budget includes an increase of \$82,000 in temporary salaries for dispatch staff to augment existing staff. This year's budget also contains \$462,526 for the purchase of seven replacement vehicles, one new vehicle, and one new motorcycle.

The Police Department also has applied for the State Office of Traffic Safety grant for DUI enforcement and education. I am pleased to announce that we learned late Friday that the City has been approved to receive funding for two officers and related equipment. The education portion of the grant is specifically designed to address alcohol/drug use and driving of teenagers. We will bring a budget adjustment to recognize the grant amount once we receive written confirmation. The grant fully funds the cost for the first year and 50% for the second year. After the second year it is expected that the City would absorb the full cost of the two officers.

As identified previously, funding for fleet replacement for Fire and Police continues to be a challenge as we approach build-out. The Fire Chief and Finance Director are completing the evaluation of establishing a Fire fleet replacement fund. The Police Chief has identified a five year replacement schedule for Police vehicles and is working with the Finance Director on establishing a Police fleet replacement fund. The annual amount needed is approximately \$750,000 a year. We are funding \$462,520 in the FY 2004-05 budget. Because of current fiscal constraints, I was not able to include the establishment of this fund within the proposed FY 2005-06 budget. To begin a future replacement fund, we need to prioritize one-time resources for this essential program.

Folsom has other public safety needs that have not been funded in this year's budget due to the State's withholding of the one million dollars in revenue. Specifically, the Police Chief requested funding for a special enforcement team to address narcotics, graffiti, homeless issues and street issues. I commend the Chief and members of the Police Department for working within limited resources by creating the Advisory Council on Homeless in Folsom, coordinating with Neighborhood Services on graffiti abatement, and working with Regional Transit to coordinate policing efforts relative to Light Rail. Narcotics enforcement remains a concern, and police staff is working diligently to address this issue. We need to focus our efforts particularly at the school level, and hope to be successful with the DUI grant referenced above.

Fire staffing levels and station location also remain a priority for funding as the State budget picture improves. We will not be able to fund a staffing level of four fire fighters per ladder truck as recommended by the National Fire Protection Association. The Fire Chief continues to evaluate this issue and address it through overtime as necessary.

**Water, Sewer and Solid Waste Utilities.** Once again, this year's budget includes no rate increases for the sewer and solid waste rates. Water rates are currently under review but the current budget proposal assumes no rate changes. Changes to the utilities operations and

management structure allowed the City to realize operational efficiencies. With these changes, we can continue to provide the reliable and customer-based services that the community has come to expect.

The City's adopted Solid Waste Management Plan requires us to add green waste and recycling collections to the existing refuse collections program. Several neighborhoods within the City have already transitioned to the new solid waste program during FY 2004-05. The remaining neighborhoods will transition into the new program over the next few months. I am recommending the addition of a Recycling Maintenance worker to complete the roll-out of the new program. It should be noted that two other positions originally planned for this program were determined to be unnecessary as a result of the operational changes to increase efficiency. My compliments to the Utilities Director and his staff for improving customer service and reducing costs. We have targeted completion of the recycling program transition by October 2005, before the holiday season begins. In addition to the new single family residential curbside recycling, we will also complete the multi-family recycling, expansion of commercial recycling and neighborhood drop-off sites and the construction-and-demolition recycling program during this upcoming fiscal year. These new solid waste programs and the new position have been included in the current rates and previous cost analyses. Savings from the two eliminated positions noted above and other operational changes have been used to offset planned rate increases.

For Water and Sewer operations, I am recommending a Compliance Engineer and a Typist Clerk. The Compliance Engineer will assist in meeting the recurring reporting and project needs associated with the Title 22, Chapter 13 State requirements for the City's drinking water system and the U.S. National Pollutant Discharge Elimination System (NPDES) Permitting Program for the City's sewer collection system. This position will also address water quality and capacity needs. The Typist Clerk is a conversion of an existing temporary position to a full time status. The costs for these two positions have been included in the recent rate and cost analyses, and can be absorbed in the current rates through an identified reduction in management consulting contracts. This results in net cost reductions for recurring operating expenses to the Utilities Department.

**Transportation and Traffic.** The budget consolidates the City's street and traffic activities in one fund. This will allow more clarity in presenting the fiscal picture. Several key projects will continue over the next fiscal year to alleviate traffic congestion.

- **Folsom Dam Road Closure:** The City continues to address the impact of the closing of Folsom Dam Road to public traffic. The traffic impacts associated with the closure have caused significant traffic congestion and delays, impacted businesses and residents, and affected emergency services. The proposed budget includes funding in several areas in an effort to implement short-term improvements and long-term solutions. Funds are included in the FY 2005-06 budget for the evaluation of an intelligent transportation system, which will allow real time signal control from a separate operations center. We also have set aside funds for intersection operational improvements to help improve traffic flow at congested locations throughout the City. Finally, the City continues to work with the U.S. Bureau of Reclamation and the Department of the Interior on a

security plan that will allow for limited use of the Dam Road until the new bridge can be built. The City continues to explore the possibility of receiving funding from El Dorado County and Placer County to help offset the expense of operating the Dam Road under the proposed security plan.

- New Bridge – The Public Works Director and his staff are working closely with the US Army Corps of Engineers to have the new bridge below Folsom Dam open to traffic by the end of 2007. In order to facilitate this key project, the City has agreed to be the non-federal sponsor for this project. The new bridge project will include a four-lane bridge and roadway with bike lanes from East Natoma Street to Folsom-Auburn Road below the existing Folsom Dam. Congress authorized \$66 million of federal funding for this project. Currently, the project is estimated to cost approximately \$80-\$90 million. The City expects to provide funding up to \$28 million from the renewal of the Measure A sales tax program. However there is a timing issue when the Measure A proceeds will become available. The City may be required to provide some initial funding for the project costs that occur in FY 2005-06.
- Traffic Noise Mitigation: This budget will continue to fund \$350,000 for the construction of high priority noise mitigation projects, which use the application of rubberized asphalt to reduce tire noise. Projects completed in FY 2004-05 include Folsom-Auburn Road between the Dam Road and old Oak Avenue, and East Natoma Street between Blue Ravine and the Dam Road. The Public Works Department also is reviewing potential Federal and State funding opportunities to augment these projects.
- Light Rail: Rail transit service between Folsom and downtown Sacramento will be available to Folsom residents beginning in October 2005. The City bus operations will be modified to provide feeder service to the new Light Rail line and downtown commuter bus service will be discontinued. The proposed budget assumes the current level of service for transit operations, as negotiations with Regional Transit have not been completed. Once the negotiations are completed, staff will bring an amendment to the Transit Budget to the City Council for its consideration.

**Infrastructure Maintenance.** We continue to include infrastructure enhancements to provide for the proper maintenance of existing City infrastructure.

- Street Rehabilitation: As portions of the City's street system age, street reconstruction or resurfacing is necessary. Street rehabilitation projects may include street reconstruction, resurfacing, or slurry sealing. The Public Works Department will be presenting a Pavement Management plan to the City Council on May 24, 2005. This plan will identify long-term maintenance priorities for street overlay and identifies funding gaps. The funding needed to bring all of the Streets in the City to a "good" condition is approximately \$36.6 million. The City does not have the fiscal capacity to provide this one-time funding. A more realistic alternative is to provide annual funding of approximately \$3.2 million. This funding will allow the City to provide cost effective maintenance before certain roadways deteriorate to a point requiring more expensive maintenance.

For this fiscal year the proposed budget includes \$2.9 million from various sources, including \$1.8 million of one-time funding from grants, transportation development and Redevelopment Agency funds. This funding includes the projects discussed under Traffic Noise Mitigation. The remaining \$1.1 million includes ongoing funding from Gas Tax, Redevelopment Agency and the General Fund. The General Fund contribution of \$500,000 is the last repayment of the loan made for the construction of Lake Natoma Bridge. Starting in FY 2009, the City will start receiving additional funds ear marked for Street Maintenance from the renewal of Measure A. We will need to balance this need against demands on Measure A for the construction of the bridge below the Dam. The loss of loan repayment and use of one-time funds create an on going challenge particularly in FY 2006-07 and FY 2007-08 to fund our street rehabilitation efforts.

- Storm Water Management Program: The City of Folsom is a co-permittee with the County of Sacramento and the Cities of Sacramento, Citrus Heights, Galt, and Elk Grove operating under the third generation of a Phase I National Pollutant Discharge Elimination System Permit. The City continues to comply with the permit requirements. I have asked the Public Works Director and the Finance Director to make recommendations in the upcoming fiscal year regarding the feasibility of a fee for this service and what services this fee would provide.
- City Building Maintenance: During FY 2004-05, renovations to the exterior of the Civic Center area (city hall, police headquarters and community center) began. This renovation includes the repair and restoration of the exposed wood structure and trim and the painting of the buildings. It is anticipated that this work will be completed in the summer of 2005. The budget also has funding for resurfacing the City Hall and Police Department roofs and slurry sealing parking lots in the Civic Center area.
- Technology Improvements. This budget provides funds to maintain the City's investment in technology. Included are funds to increase network storage and bandwidth improvements.
- Lighting & Landscaping (L&L) Districts – The Neighborhood Service Department has identified a need to add a Construction Inspector. This position will monitor maintenance and improvements, facilitate timely repairs, and will respond to citizen inquiries. This position is not included in the proposed budget, but we will continue to evaluate the merit of this position in the upcoming year.
- Fleet Maintenance. This year's budget includes the addition of a professional Fleet Manager to oversee the fleet maintenance operations and increase the level of service overseeing this operation. Under the Utilities Department, the new Fleet Manager will also oversee the large vehicle and equipment procurement activities as the Department implements the fleet and equipment replacement program for the solid waste, water and sewer operations, which comprises over forty % of the fleet operations. The costs for this position will be absorbed in the current level of service through identified operational changes.

**Public Outreach.** The proposed budget provides for funding to finish the marketing materials to assist in attracting new businesses to Folsom. Also included in the budget is funding for the design development of a City-wide way finding program. This program will welcome visitors to our City and assist visitors and citizens in locating key business and tourist destinations within the City. Implementation of this program will require a significant non-recurring funding source. The implementation of the way finding program will require additional appropriation, and likely will be completed in stages.

**Library Services.** The Library staff and the Administrative Services Director continue to work hard to expand our library services. The Capital Improvement Plan includes funding for the construction of a new 23,000 square foot library building and continued work towards construction of the joint use library at the Lago Vista High School. The new main library is planned to be open to our citizens in the fall of 2006, and the Lago Vista joint use library is planned to be open in fall of 2007.

During the discussions concerning the budget for the new library, staff highlighted the need for a book replacement budget totaling \$975,000. The proposed budget continues the transfer to the Library Development Fund of \$325,000, which will fulfill the funding need by June 2006. Starting in FY 2006-07, this General Fund transfer will be used to cover the increased operating and maintenance expenses for the new library.

**Cultural and recreational services.** The Parks and Recreation Department continues to provide first rate programs and services to our community. This past year we opened the Handy Park and continued to expand programs for teens at the skate park. Marketing materials produced by our in-house staff received state-wide awards. I also commend the Parks and Recreation Department for continuing to enhance activities that preserve Folsom's small town spirit, such as the Veterans Day Parade and Get Fit in Folsom. Next year we will be funding a 150<sup>th</sup> birthday celebration to recognize our community heritage.

For the FY 2005-06 budget Park and Recreation funding will constitute 13 percent of the General Fund budget for FY 2005-06. The support from the General Fund to various parks and recreation activities such as Community Center, Aquatics and Recreation Funds has increased to \$2.2 million or an increase of \$460,000 over the FY 2004-05 budget. The increase in the General Fund support is primarily due to two reasons. A portion (\$205,000) is due to full cost recovery for the City's cost allocation plan. The second reason is due to increased personnel and operational costs of \$254,000 including the addition of a new recreation position (.75 percent) for the growth in adults and youth sports leagues. Evaluation of recreation program rates will continue in FY 2005-06. As part of this evaluation, Aquatics rates already were adjusted in FY 2004-05.

The proposed FY 2005-06 budget also continues the funding of the Park Renovation Fund that was established in FY 2003-04. The total recommended funding amount for FY 2005-06 of \$350,000 is the same level of funding as the current fiscal year's budget. Of this amount, the Parks and Recreation Department has committed \$250,000 to Kuntz Field renovation and \$58,000 to improvements to the Stafford Street entrance. The General Fund support

demonstrates a recognized need for a long-term commitment to preservation of our current and potential park infrastructure.

The proposed budget also includes funding to complete the design and cost estimates for a combined Senior, Arts and Cultural Center to be located at the former fire station in the Civic Center Complex. This budget also includes funding for improvements to our Zoo Sanctuary, such as Macaque and Macaw exhibits. Zoo capital projects are funded through the Zoo trust.

The FY 2005-06 budget does not provide for funding of acquisition or on going operations and maintenance cost for a new Sports Complex/Gymnasium. As noted later in my letter, the partial acquisition cost is included in the list of potential use of sale proceeds from the Prairie City property. Parks and Recreation also has requested that one million dollars to be set aside for acquisition cost for this project from the Parks Capital Impact Fee Fund. This item is not included at this time because adequate funds are not currently available in this Fund. The Finance Director will monitor the development impact fee account and submit an appropriation adjustment once the funds are available.

Parks and Recreation also identified a need for matching funds for trail grants. A potential source is the existing Tree Mitigation Fund. I have requested the Finance Director to research the potential use of Tree Mitigation funds for this grant item and provide me with a recommendation. We expect to return to the City Council with a proposal on this issue by September 2005.

### **Employee Benefit Costs and Insurance Issues**

In previous years, the City Council has identified as a key strategic priority the analysis of long-term benefit costs for current and retired city employees. The FY 2005-06 budget is built upon the following assumptions regarding employee benefit costs.

**Retirement Increase.** The City provides a retirement plan to its employees through the California Public Employees' Retirement System (CalPERS). CalPERS retirement benefits are funded through contributions paid by contracting employers (such as the City and earnings from CalPERS investments). In the 1990s, CalPERS achieved high rates of return on its investments. Those high rates of return were passed along as savings to participating employers through decreasing employer contributions. As investment income has decreased with the weakening of the national economy, CalPERS is now increasing employer contributions. There is a three-year lag between the plan year and the actuarial valuation used to determine employer contributions. The proposed FY 2005-06 budget assumes that the City's contribution to CalPERS will increase by 6.6 percent in the City's contribution for miscellaneous employees and a decrease of 8.7 percent for public safety employees.

**Health Insurance Increases.** The FY 2005-06 proposed budget includes funding for a projected 12 percent increase in health insurance premiums effective January 1, 2006. This continues to be a significant savings over PERS health costs. I would like to once again compliment our employees for working to contain health care expenses by agreeing to leave the PERS system.

**Retiree Health Insurance.** In August 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other no pension benefits. Collectively, these benefits are commonly referred to as *other post employment benefits*, or *OPEB*. The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The effective date for the City will be July 1, 2007. The City has been working with an actuary to evaluate the potential impact of this new accounting standard.

In his May budget revise, the Governor has indicated a willingness to accelerate the repayment schedule for the FY 2003-04 Vehicle License Fee (VLF) “loan” from the local agencies to the State. His original intent was to repay the ‘loan” in FY 2006-07. Based on current projections, the State may repay Folsom approximately \$600,000 in FY 2005-06. I recommend that this amount be set aside to assist in the funding of the GASB requirements pertaining to retiree health.

I have asked the Assistant City Manager to develop a recommendation with the Health Benefits Committee for retiree health benefits that are sustainable and competitive. It is anticipated that a recommendation will be presented to the City Council in September 2005.

### **Financial Plan**

**Property Tax Growth.** The City continues to demonstrate strong growth in property taxes. This growth can be attributed to the City’s strong housing market, as reflected by the increase in assessed land values. The FY 2005-06 Proposed Budget estimate for property tax revenue is \$11.7 million, an increase of 12 percent over FY 2004-05 budget estimates. The City also allocates a portion of its property tax received to the Library function. For FY 2005-06 it is projected that the Library Fund will receive \$1.4 million in property taxes which is an increase of 12% over prior year.

**Sales Tax Growth.** While many areas in California are experiencing flat sales tax revenue growth, the City has experienced healthy sales tax revenue growth. This trend will continue into FY 2005-06. The proposed FY 2005-06 budget assumes a 10 percent increase in sales tax receipts.

**Vehicle License Fees.** For FY 2005-06 we are not anticipating a growth in this category. This is due to the changes made by the State and Proposition 1A

**Property Tax/Sales Tax/VLF Swap.** Proposition 1A has altered the historical funding sources for local agencies. The state has eliminated \$4.1 billion in VLF backfill and decreased the VLF rate from 2 percent to 0.67 percent. Cities and counties receive an equivalent amount of property taxes. In FY 2004-05 and FY 2005-06 however, the State did not swap the full amount, retaining \$700 million (\$350 million from counties and \$350 million from cities). Folsom’s annual loss is \$1 million a year in both FY 2005 and FY 2006, for a total of approximately \$2 million.

Beginning in FY 2006-07, local agencies would receive the full swap amount of \$4.1 billion. Also, in FY 2006-07, the State would repay the \$1.3 billion VLF gap loan and begin to pay its obligations for state-local mandates in equal payments over a five-year period. The Governor's May revise released on May 13, 2005 indicates his desire to accelerate the payment into FY 2005-06. In light of the State's prior practice of renegeing on promises to local government, we have not programmed any of this "loan repayment" as future revenue. As discussed above if the City does receive the payment it is my recommendation that this amount be set aside to assist in the funding of the GASB requirements for retiree health insurance.

**Water, Sewer, Solid Waste Rates.** Customers in the City are charged a monthly utility rate for water, sewer, and solid waste services. The FY 2005-06 budget is based on the following assumptions:

- Solid Waste Rates – Utilities and Finance Department presented a new rate structure to the City Council in April 2005. The overall rates did not change but reflect the implementation of a three can recycling program. The new rate structure will be presented to the City Council on June 28, 2005 for adoption. The current solid waste rate was adopted in December 2003.
- Sewer Rates - The review of rates and cost of service indicate no rate adjustment for FY 2005-06. The sewer current rates were approved by the City Council in December 2003.
- Water Rates - The Utilities Department and Finance Department are completing the review of water rates and the impact of cost of service including the analyses for a dry year water supply and implementing meter rate structures. It is anticipated that this review will be completed and presented to City Council by early fall and might contain a rate change recommendation due to the planned CIP's and increased federal regulations for drinking water. However, this budget is based on water rates adopted by the City Council in January 2003.

**Analysis of Fund Balance in the General Fund.** During FY 2004-05 the City Council established a financial policy of maintaining 15% percent as the undesignated fund balance. As noted above, the proposed FY 2005-06 budget abides with this policy.

### **One Time Revenue Source**

With the potential sale of the Prairie City property, the City will receive approximately \$7.5 million. Because of prior obligations, the net proceeds will be approximately \$6.5 million. The following projects or needs have been identified as potential uses of the proceeds. As illustrated below our City has numerous needs that need to be addressed. I will be working to align these requests with the City's long term strategic goals, and after the sale is concluded I will submit a recommended list to the City Council. The current proposals (non priority order) include:

- Bridge Project
- Street maintenance
- Senior and Arts Cultural Center
- Livermore Park completion
- Police and Fire fleet funding
- Park maintenance funding

- Sports Complex/Gymnasium construction or purchase
- Way finding program
- Live telecast for City Council meeting
- Retiree health insurance funding
- Fire station
- Communication Centre relocation and expansion
- Zoo operations center
- Zoo parking lot
- Mercy Hospital expansion (fee waivers)

### **Relationship between Budget and Strategic Plan**

This year's budget continues the improvements introduced in FY 2003-04 budget document. The City's strategic planning initiative drives the budget proposal, and departmental budgets are linked to a strategic planning goal. Each department page includes key departmental issues, objectives, and strategies that tie to the strategic plan. Key performance measures are included to measure departmental progress.

### **Conclusion/Acknowledgements**

I am pleased to acknowledge again that the City's FY 2004-05 budget document received awards from the Government Finance Officers Association and the California Society of Municipal Finance Officers. This is the second consecutive time that the City has received this award. The proposed FY 2005-06 budget document continues to improve upon an already excellent process.

In closing, I would like to thank Assistant City Manager Jim Estep, the City's Executive Management Team and their staffs for their participation in the budget process. In particular, Finance Director Navdeep Gill, Assistant Finance Director Rachelle Agatha, Budget and Evaluation Manager Jeffrey Meyer, Financial Analysis and Reporting Manager Mark Bresolin, Disbursement Supervisor Jean Young, Revenue Supervisor Anne Clayton, and Administrative Assistants Deanne Gabrik and Patricia Shannahan have devoted significant effort to the coordination, developing and completion of this budget document.

The City Council will hold a work session concerning this budget proposal on June 1 and hold a public hearing to receive citizens' comments on the proposed budget on June 28.

The staff and I look forward to working with you as you review the proposed budget.

Very truly yours,

Martha Clark Lofgren  
City Manager