

CITY OF FOLSOM

50 Natoma Street
Folsom, CA 95630



May 23, 2006

Honorable Mayor and Members of the Folsom City Council:

I am pleased to submit the Preliminary Budget for Fiscal Year (FY) 2006-07 for your review and adoption. I submit this budget on behalf of your Interim City Manager, Sam Spiegel. As the City Council is aware, my tenure as City Manager ended on April 15, 2006. It was my pleasure to return, at the City Council's request, to complete the budget with the City's Chief Financial Officer, Navdeep S. Gill.

The preliminary FY 2006-07 budget is \$193.3 million. The major components are: \$58.7 million for the General Fund, \$41.3 million for Enterprise Fund operations, \$28 million for Special Revenue Funds, \$12.4 million for Debt Service Funds, and \$37.9 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 3, 2006, retreat. In this retreat, the City Council reaffirmed its 2005 commitment to a strategic framework shaped around two overall goals:

- *To maintain the City's long-standing financial health and stability.* The City Council has placed a top priority on activities related to economic growth to protect the City from State actions that may adversely affect revenue streams.
- *To maintain and enhance the quality of life and the quality of service levels.* The City Council has given top priority to the maintenance of core services - public safety, water, sewer, solid waste, traffic management, personnel support, and information technology infrastructure.

In February 2006, the City Council also emphasized technology investment as an essential core service. Once the delivery of these core services is assured, then the City should move on to "high priority" capital improvement projects and new programming efforts that enhance the quality of life for Folsom residents.

The Preliminary FY 2006-07 Budget clearly aligns appropriations to the strategic framework. Each department's budget section also includes the strategic priorities that will be accomplished during the fiscal year.

The Preliminary FY 2006-07 Budget provides continued support for current programs and service levels that must increase as our population increases. In addition, the proposed budget supports the quality of service levels by providing additional resources:

- to correct deficiencies in fire service staffing,
- to augment police resources through the establishment of a specialized team,
- to enhance compensation for police and fire employees,
- to provide additional operating operations and maintenance support for parks and recreation programs, and
- to provide additional staffing for the Georgia Murray Library, which will open in the fall of 2006.

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 \$8.5 million, which is 15% of the budget. Also consistent with the City's financial policies, the proposed FY 2006-07 budget provides for the third year an additional budgeted contingency in the General Fund equal to one (1) percent of proposed appropriations.

During the current year, staff has informed the City Council of a slow-down in development activity. This leads to a financial trend of less robust growth in financial resources than what the City has become accustomed in recent years. This results in both less residential and retail development activity. Both the Development Fund and Impact Fee funds are affected by this trend. Perhaps more significantly for the long-term, this trend will also result in a flatter growth rate in the property tax base. As the City approaches build-out (anticipated in FY 2009-10), our property and sales tax revenues will continue to stabilize. Folsom must plan carefully in order to avoid finding 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.

With these parameters in mind, I will now outline the high points of the FY 2006-07 strategic priorities and related budget recommendations.

FY 2006-07 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 15 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.

Public Safety. Overall, proposed public safety appropriations total 56.4% percent of the General Fund budget, which is higher than last year's appropriations due to compensation adjustment and fleet funding.

Citygate Associates, LLC was hired during FY 2005-06 to complete an analysis that included 1) a fire service deployment plan and performance goals known as a "Standards of Response Cover Plan;" 2) recommended response performance goals in order to best determine the quantity, staffing and location of fire stations; and 3) an independent review of the current fire station sites and number of fire companies, possible station location change opportunities that may exist, and possible fire station sites. With this information, this budget allocates additional funding of \$360,000 to the Fire Department. This funding will be used to provide additional services as determined by a staffing analysis that will be completed in FY 2006-07.

The Fire Department budget also includes funding for a Type I Engine, Type II/III Engine (Grass Unit) and an ambulance. Also included are funding for Emergency Medical Servers (EMS), computer replacements, and EMS patient care software.

This budget maintains the ratio of 1.3 police officers per thousand population. The City is in the third 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 two years. The City will absorb 100 percent of the cost of the ten officers beginning in FY 2007-08. In addition this budget also includes absorbing the 50 % of cost of two police officers funded from a grant received from the State Office of Traffic Safety grant for DUI enforcement and education. The City is expected to absorb the full cost next year, in FY 2007-08.

To add additional police services this year, the Police Department has applied to the State Department of Alcoholic Beverage Control (ABC) for \$125,000 to fight alcohol-related crime. This grant is a part of an ABC program to provide grant assistance to local police departments to target liquor license locations that generate alcohol-related crime problems in their communities. The request includes funding for equipment, training and one year salary for a police officer who would be assigned to duties described in the grant request. The City will be expected to absorb the full cost in FY 2007-08.

I also recommend funding for a special enforcement team to address narcotics, graffiti, homeless issues, and street issues. This proposed budget includes funding of two police officers and a reallocation of three police officers which will form the special enforcement team. This year's budget also contains \$426,600 for the purchase of nine replacement vehicles.

The City Council also recently approved salary adjustments to Fire personnel, which allows Folsom to maintain a competitive compensation package and retain quality fire staff. This is consistent with the salary adjustments provided to sworn police officers in FY 2004-05.

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.

- New Bridge – The Public Works Director and his staff are working closely with the United States Army Corps of Engineers to have the new bridge below Folsom Dam open to traffic by the end of 2008. 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 has authorized approximately \$83 million of federal funding for this project. Currently, the project is estimated to cost approximately \$105 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 as to 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 2006-07.
- 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 2005-06 include portions of East Natoma Street, Riley Street and Blue Ravine Road.
- Light Rail: Rail transit service between Folsom and downtown Sacramento began in October 2005. The City bus operations have been modified to provide feeder service to the new Light Rail line and the downtown commuter bus service has been discontinued. The City is currently reviewing with the Sacramento Regional Transit District to evaluate extending the hours of light rail services. Regional Transit funding for the equivalent of two police officers will continue in this next fiscal year.

Solid Waste Utilities. Over this past fiscal year, the City's Solid Waste Management Program focused on expanding the recycling collections to our non-residential and multi-family customers, and implemented operational changes to improve efficiencies – a major cause for eliminating a planned rate increase. Efficiency improvements included consolidation of collection routes, changes to collection vehicle equipment, re-organization of assignments to collections staff and increasing non-residential customer participation. As the new programs unfolded, permanent staffing positions originally planned for this program were determined to be unnecessary as a result of the operational changes. No new positions are proposed for the next fiscal year.

For this upcoming year, we are targeting the development of a transfer facility, which will help to reduce the number of direct hauls to the landfill or recycling facilities. In addition, we will also complete the expansion of commercial recycling and the construction-and-demolition recycling program. These solid waste programs have been included in the current rates and previous cost analyses, and the savings from the operational changes have been used to offset planned rate increases.

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 include street reconstruction, resurfacing, or slurry sealing. The Public Works Department completed the Pavement Management Plan, which identified long-term maintenance priorities for street overlay and identified 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. The FY 2005-06 Budget included \$3 million to fund street rehabilitation. This rehabilitation work is slated to be completed in summer 2006.

For this fiscal year, the proposed budget includes \$1.3 million from various one-time sources from grants, transportation development, and Redevelopment Agency funds. This funding also includes the projects discussed under Traffic Noise Mitigation. The General Fund contribution has decreased by \$500,000. The \$500,000 was the last repayment of the loan made for the construction of Lake Natoma Bridge. Beginning in FY 2009 the City will start receiving additional funds earmarked 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 ongoing 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. The Public Works Director and the Chief Financial Officer are developing recommendations regarding the feasibility of a fee for this service and what services this fee would provide. This information will be presented to your new city manager and the city council in the third quarter of the fiscal year.
- **Technology Improvements.** This budget provides funds to maintain the City's investment in technology. Included are funds to increase network switches, routers, and storage; provide web casting of City Council meetings; and increase capacity for wireless encrypted access for our field employees. The City currently uses HTE software to process fiscal, personnel, land use, and police and fire data. In the upcoming year the Administrative Services and Finance departments will collaborate in identifying alternatives for a new software system to meet the City's growing needs.
- **Lighting & Landscaping (L&L) Districts** – The Neighborhood Services Department has identified a need to add a Construction Inspector. This budget includes this position that will monitor maintenance and improvements, facilitate timely repairs, and respond to citizen inquiries.

Economic Development. During FY 2006-07, the City will continue its economic development efforts to strengthen and enhance our fiscal base. The City has started implementing the approved 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 was completed in September 2005. The City expects to complete negotiations for the development of the Railroad Block by the end of calendar year 2006; the environmental review for this project is also expected to be completed by that time. The construction of a multi-level public parking structure will begin in November 2006 and is anticipated to be completed in December 2007. The Folsom Redevelopment Agency approved a parking structure on 602 Sutter Street. This structure will be complete in fall of 2007. This parking structure will support 28,500 square feet of retail and office space.

Entitlements for the regional mall “Palladio” and the adjacent 50-acre Kaiser Permanente medical campus have been approved. Phase 1 construction is currently underway, and it is anticipated that this project will be open to the public in 2008. During the past fiscal year, B.J.’s Restaurant, Fat’s Asian Bistro Restaurant, Mel’s Diner, Islands Restaurant, and California Family Fitness were completed. Future development plans include In-N-Out Burgers; Hampton Inn Hotel; La Quinta Hotel; Olive Garden Restaurant; Bed, Bath & Beyond; Circuit City; and Ethan Allen 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 Raley’s Supermarket, Syblon Reid Construction, and Mercy Hospital. The City continues to implement a Wi-Max pilot project to demonstrate the feasibility of a City-wide wireless system.

Planning efforts for the Historic District are ongoing. It is anticipated that a report detailing the needed improvements will be presented to the City Council in fall 2006.

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 completed the visioning process in June 2005 and is currently working with the property owners to amend the General Plan and prepare a Specific Plan for the entire area based on the conceptual vision plan. Staff expects to begin the environmental review process in FY 2006-07, leading to an annexation application with the Sacramento Local Agency Formation Commission (LAFCo) in early FY 2007-08.



The FY 2006-07 budget includes developing a General Plan Update schedule/budget. The General Plan Update is expected to address economic development, focus on infill development

opportunities, incorporate smart growth concepts, and preserve and enhance existing neighborhoods.

Public Outreach. Included in the budget is funding of \$440,000 for Phase II of the 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. The Public Information Officer will be submitting a recommendation to the City Council concerning the prioritization of sign marker installation this fall. The implementation of the way finding program will require additional appropriation beyond FY 2006-07, and will be completed in stages. The City will also be pursuing private partnerships to complete funding of the project.

Library Services. The Library staff and the Administrative Services Director have continued their efforts to expand our library services. The Georgia Murray Library will be completed and open for business by late 2006. The proposed budget continues the transfer to the Library Development Fund of \$325,000. The General Fund transfer will be used to cover the increased operating and maintenance expenses for the new library. This budget includes 3.5 new library staff positions to assist in operating the new library. All of these new positions are covered by the planned General Fund contributions that the City Council has systematically set aside for the past four years.

The City continues to work towards construction of the joint use library at the Lago del Vista High School, which is planned to open in fall of 2007.

Cultural and recreational services. The Parks and Recreation Department continues to provide first-rate programs and services to our community.

For the FY 2006-07 Budget, Park and Recreation funding will constitute 14 percent of the General Fund budget for FY 2006-07, which is higher than previous fiscal year due to increases in park maintenance and General Fund support to the Community Center and to the Recreation and Aquatics fund. The subsidies from the General Fund to various parks and recreation activities such as Community Center, Aquatics and Recreation Funds totals \$2.6 million, or an increase of \$368,000 over the FY 2005-06 budget. The increase in the General Fund support is primarily due to increased personnel and operational costs of \$283,000, including the conversion to full-time for the Marketing Coordinator. The secondary reason is static program revenues. For FY 2006-07, the General Fund subsidy to the various parks and recreation activities has risen to 50% of expenditures. This subsidy amount is higher than the Parks and Recreation cost recovery target, which calls for 40% General Fund subsidy. Parks and Recreation is submitting a rate adjustment for the Community Center rental and will need to evaluate the recreation fees and cost. The Zoo subsidy for FY 2006-07 is projected to be \$1,034,000 which is a slight increase from the previous fiscal year.

During FY 2005-06, the City acquired the Folsom Sports Complex. This budget includes full year revenue and cost for operating the complex. Per City Council direction, \$225,000 of the General Fund transfer to the Park Renovation fund is being set aside as an operating reserve for the Sports Complex. Any unused amount from the reserve will be available for future park renovation projects.

As part of the acquisition of the Sports Complex, the City Council also prioritized future park construction consistent with recommendations from the Parks and Recreation Commission. Future parks will be approved when capital funding and operational funding has been secured and stabilized. The proposed budget also contains the annual payment of \$500,000 for the Sports Complex that will continue until 2013. The Budget is also in compliance with the City Council's direction of reserving annual payments for two years, equivalent to a \$1 million set-aside, as recommended by the Parks and Recreation Commission.

The proposed budget also includes funding to complete the renovation for a combined Senior, Arts and Cultural Center to be located at the former fire station in the Civic Center Complex. Parks and Recreation staff anticipate opening this center in the spring of 2007, and every effort will continue to be made to move this date up earlier. Also slated to be completed in FY 2006-07 is the renovation of Hinkle Creek Center. Full-year operational costs for both centers have been included in the proposed budget. This budget also includes additional funding for required park maintenance that is due to the completion of Briggs Ranch Park and the proposed Willow Hills recreation area. In the past, we have added staff to provide maintenance. Consistent with direction from the City Council, the proposed budget contemplates that the cost for maintenance will be provided through contractual services. No new maintenance employees have been added this fiscal year.

The proposed FY 2006-07 Budget also includes funding improvements to our Zoo Sanctuary, such as a coyote exhibit, animal observation cameras, and a cougar safety squeeze cage. None of these capital projects will require additional staffing, but rather provide for health safety improvements and enhance exhibits to maintain visitor levels. Zoo capital projects are funded through the Zoo trust.

Parks and Recreation also identified a need for matching funds for trail grants. A potential source is the existing Tree Mitigation Fund, and the Parks and Recreation Director will be pursuing an ordinance change to facilitate the expanded use of these funds.

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 2006-07 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 decreased with the weakening of the national economy, CalPERS increased employer contributions. In response to increases in employer contributions, CalPERS has adopted a policy of imposing an annual contribution amount by establishing a rolling 30-year amortization of all remaining unamortized gains or

losses. Based on this new methodology, the City's FY 2006-07 financial contributions for miscellaneous employees have decreased by 1.22% and by 14.02% for public safety. Based on projections provided by CalPERS, future years have a nominal increase in contribution.

Health Insurance Increases. The FY 2006-07 Proposed Budget includes funding for a projected 15 percent increase in health insurance premiums effective January 1, 2007. This amount is consistent with projections used in the City's financial forecast.

Retiree Health Insurance. In August 2004, the Government Accounting Standards Board (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 non-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.

City staff has continued to work with the City Council and the City's employee representatives in response to GASB 45 reporting requirements. It is important that this matter remain a high priority for resolution in the first half of this upcoming fiscal year. The City will face serious budgetary issues if the retiree health program is not resolved this next fiscal year.

Financial Plan

Property Tax/Sales Tax/VLF Swap. Proposition 1A has altered the historical funding sources for local governments. The State eliminated \$4.1 billion in Vehicle License Fees (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 from this action was \$1 million a year in both FY 2004-05 and FY 2005-06, for a total of approximately \$2 million.

Beginning in FY 2006-07, local agencies will receive the full swap amount of \$4.1 billion, of which Folsom's share is \$1 million. Also, in FY 2005-06, the State repaid the \$1.3 billion VLF gap loan, and Folsom received \$1.2 million

Property Tax Growth. The FY 2006-07 Proposed Budget estimate for property tax revenue is \$14.5 million, an increase of 17 percent over FY 2005-06 budget estimates due to the \$1 million funding being restored by the State. Without the \$1 million, the growth is 8%. The City also allocates a portion of its property tax received to the Library function. For FY 2006-07 it is projected that the Library Fund will receive \$1.5 million in property taxes, which is an increase of 5% over prior year.

Sales Tax Growth. The Proposed FY 2006-07 Budget assumes a 7 percent increase in sales tax receipts.

Vehicle License Fees. For the Proposed FY 2006-07 Budget it is anticipated that this revenue will grow by 9% over the previous fiscal year.

Water, Sewer, Solid Waste Rates. City customers are charged a monthly utility rate for water, sewer, and solid waste services. The Proposed FY 2006-07 Budget is based on the following assumptions:

Solid Waste Rates – The solid waste program is based on the current rate structure as adopted by the City Council in June 2005. The overall residential and non-residential rates are not expected to change. The program for proposed construction-and-demolition collections is expected to be presented for consideration to the City Council this summer.

Sewer Rates - The review of rates and cost of service indicates no rate adjustment for FY 2006-07.

Water Rates - This year's budget is based on water rates adopted by the City Council in December 2005 as developed by the Utilities and Finance Departments for flat and metered water rates. This year, these departments will focus on the implementation of a city-wide metered water rate plan and planning for a dry year water supply. It is anticipated that the water meter implementation plan will be developed and presented to City Council by this fall for public input and for subsequent City Council consideration.

Analysis of Fund Balance in the General Fund. During FY 2004-05, the City Council established a financial policy of maintaining 15% as the undesignated fund balance. As noted above, the Proposed FY 2006-07 Budget abides with this policy.

Relationship between Budget and Strategic Plan

This year's budget continues the improvements introduced in the 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. New for the proposed budget are key customer service performance indicators for each department.

Conclusion/Acknowledgements

I am pleased to acknowledge again that the City's FY 2005-06 budget document received awards from the Government Finance Officers Association and the California Society of Municipal Finance Officers. This is the third consecutive time that the City has received these awards. The Proposed FY 2006-07 Budget document continues to improve upon an already excellent process.

I am pleased to leave the City in excellent fiscal health. While there will be challenges for your new city manager, the City Council continues to offer its residents and businesses first-rate services and an excellent quality of life. Over the past fiscal year, the City Council has made it clear that continued efficiencies are necessary as the City approaches build-out. This theme should be a priority for your management staff in all facets of city government over the next fiscal year. I believe this budget sets the stage for achieving success in this direction.

In closing, I would like to thank Interim City Manager Sam Spiegel and the City's Executive Management Team and their staffs for their participation in the budget process. In particular, Chief Financial Officer Navdeep Gill, assisted by Budget and Evaluation Manager Jeffrey Meyer, has devoted significant effort to the coordination, developing and completion of this budget document. They were supported by Financial Analysis and Reporting Manager Mark Bresolin; Disbursement Supervisor Jean Young; Revenue Supervisor Anne Clayton; Financial Analysts Scott Denny, Terri Hemley, and Stacy Tamagni; and Administrative Assistant Deanne Gabrik.

The City Council will hold a work session concerning this budget proposal on May 30 and hold a public hearing to receive citizens' comments on the proposed budget on June 13.

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

Very truly yours,

Martha Clark Lofgren