CITY OF FOLSOM

50 Natoma Street Folsom, CA 95630



May 22, 2007

Honorable Mayor and Members of the Folsom City Council:

I am pleased to submit the Preliminary Budget for Fiscal Year (FY) 2007-08 for your review and adoption.

The preliminary FY 2007-08 budget is \$209,556,496 made up of the following components:

| General Funds | \$74,301,200 |
|----------------------------------|--------------|
| Enterprise Fund Operations | \$43,618,437 |
| Special Revenue Funds | |
| Debt Service Funds | \$13,142,195 |
| Capital Project Funds | \$29,462,748 |
| Trust and Internal Service Funds | |

This year's budget proposal is presented in the wake of a sluggish housing market. The decrease in construction activity is reflected in flat property tax revenue growth and lower sales tax revenue generated by the lumber and home improvement sector. Meanwhile, the costs of doing business have increased, and the City is absorbing anticipated employee benefit costs. In response to these pressures, I have worked with departments to develop a fiscally sound budget that maintains most service levels while enhancing public safety, library, and affordable housing programs.

During the preparation of this budget proposal, I asked departments to evaluate their departmental operations for opportunities to reduce their FY 2006-07 net costs by 1.8%. To help departments meet this goal, I encouraged departments to reduce their travel and meeting budgets by 20%. I appreciate the department heads' efforts in reviewing their budgets for cost savings and departmental revenue enhancements.

I received a number of service expansion requests from departments that are worthy of further consideration. Unfortunately, funding was unavailable to include most of the service expansion requests in this proposed budget. During the upcoming fiscal year, we will monitor our fiscal status and recommend service expansions as our financial condition allows. In the meantime, staff will continue to pursue other funding alternatives for these proposals.

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 \$8.7 million, which is 14% of the budget. Also consistent with the City's financial policies, the proposed FY 2007-08 budget provides an additional budgeted contingency in the General Fund equal to one percent of proposed appropriations.

For the long term, we must plan carefully for build-out in the current City limits and for development of the sphere of influence area south of U.S. 50. While the City's fiscal position is sound, fiscal challenges remain, as property and sales tax revenues eventually stabilize. Operationally, the City's challenges will reflect those of an established City. In order to best position the City for the future, I will invite all employees to participate in task forces that will review City services and recommend efficiency and customer service improvements. In addition we will examine the feasibility of instituting a two year budget cycle. The possible benefits include greater emphasis on program evaluation and innovation to achieve long term financial and management goals, longer term planning and reduction in time dedicated to budget development.

This year's recommended budget is prepared using 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.

The Preliminary FY 2007-08 Budget aligns appropriations to the strategic framework. Each department's budget section also includes the strategic priorities that will be accomplished during the fiscal year.

This year also marks a transition to a new strategic framework that will be incorporated into future budgets. At its March 9, 2007 retreat, the City Council identified five priority areas to advance its vision for Folsom's future:

- Economic Development
- Recreation, Environment, and Culture Engaging Our Youth
- Sustainable Service Delivery Creative Use of Technology
- Community Image and Identity
- Regional Leadership Positioning Folsom for Success

Much of the departmental work plans that have been prepared in the current strategic framework will be incorporated into the new strategic framework over the next year.

With these parameters in mind, I will now outline the high points of the preliminary FY 2007-08 budget recommendations.

FY 2007-08 Service Plan

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 and contingencies. With these continuing efforts to protect the City's financial health, I believe that the City remains in a strong fiscal position to weather economic downturns or emergency situations.

Public Safety. Overall, proposed public safety appropriations total 57.6% percent of the General Fund budget, which is higher than last year's appropriations due to compensation adjustments.

• Fire Staffing. At its March 14, 2006 meeting, the City Council received the "Standards of Response Cover Plan" report by Citygate Associates and provided direction to staff. Consistent with this direction, the Fire Department successfully initiated a year long pilot constant staffing program in February 2007. Constant staffing permits maximization of resources and predictability in overtime use so as to optimize efficiency. Fire Department management and employee representatives meet on a regular basis to assess this pilot program. In support of this effort, I have included six additional firefighter positions in this budget proposal. Three of these six positions are funded for nine months. The remaining three are funded for four months, but they will not be filled until the pilot program is evaluated. This will allow the new Fire management team to complete the pilot program and evaluate its performance.

In order to fund the additional positions, the proposed budget assumes an anticipated increase in ambulance fees effective July 1, 2007. The City Council will consider this proposal at its June 12 meeting.

The proposed budget also includes the addition of one Fire Prevention Officer to augment current departmental efforts for fire safety inspections of nonresidential structures. Funding for this position will come from revenue generated through increased fire inspection activities.

• <u>Fire Station</u>. The FY 2007-08 Capital Improvement Plan includes funding for the construction of a fire station to serve the Empire Ranch area. The Fire Department is currently in the process of finalizing the site selection for the station.

- <u>Fire Service Enhancements.</u> The Fire Department budget also includes funding for two staff vehicles. Also included are funding for Emergency Medical Servers (EMS), supplies and equipment.
- <u>Police Staffing.</u> The Preliminary FY 2007-08 budget provides funding to maintain the ratio of 1.3 police officers per thousand population. In addition, the proposed budget includes the full cost of police officers that have been funded through federal and state grants in previous years:

| Grant | Number of Positions | Additional FY 2007-08 Cost |
|--------------------------------|------------------------|-------------------------------|
| Federal Community Oriented | 10 | \$300,000 |
| Policing | | |
| State Office of Traffic Safety | 2 | \$86,000 |
| DUI Enforcement and Education | | |
| State Alcohol Beverage Control | 1 | \$86,000 |
| Total | 13 | \$472,000 |

During FY 2006-07, two police officer positions were reassigned from the Patrol Division to the newly created Special Enforcement Neighborhood Enforcement Team (SENET). The proposed FY 2007-08 budget adds two police officer positions to restore the Patrol Division to the pre-SENET level.

The Dispatch Unit continues to experience an increase in service calls. Additionally, the division will soon accept 911 calls from cell phone users. In response to the increasing call volume, the proposed FY 2007-08 budget includes funding for two new dispatcher positions.

The new Vista del Lago High School will open in the fall of 2007. The Police Department anticipates the need for two new School Resource Officer (SRO) positions, consistent with the existing arrangement at Folsom High School. The proposed FY 2007-08 budget includes two SRO positions, one of which is assumed to be funded by the Folsom-Cordova Unified School District.

• <u>Police Capital Outlay.</u> This year's budget also contains funding for the replacement of three motorcycles, two new and five replacements patrol cars.

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. The new bridge will include a four-lane bridge and roadway with bike lanes from East Natoma Street to Folsom-Auburn Road below the existing Folsom Dam. The bridge is currently under construction. Funding for the bridge is provided through federal funds and Measure A sales tax revenues.

- <u>Traffic Noise Mitigation</u>: 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.
- <u>Public Works Staffing.</u> The proposed FY 2007-08 budget includes one Traffic Control and Lighting Technician to address the increased workload for traffic and signal maintenance. In addition, during the midyear process, we will be reviewing the need for additional staffing to support capital projects.

Water Meter Implementation. The proposed budget includes three positions to assist the City in meeting its needs for the first phase of water meter implementation as required under AB 514. The City will implement the water metering program prior to the 2013 deadline. The two positions in the Utilities Department will focus on the residential customer service elements of the water meter program, including quality control on customer meter data and billings, and monthly file coordination with meter reading/maintenance staff. A Revenue Technician position is also recommended to be added to the Finance Department to assist in the coordination of the billing and customer aspects of the water metering program.

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

- <u>Sewer:</u> The proposed budget includes funding for a maintenance worker in the Sewer division. The position will assist in the maintenance of the City's conveyance sewer infrastructure.
- 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. Additional resources are needed in order to meet increasing regulatory requirements and to proactively replace and repair an aging drainage system. There is only a limited amount of revenue available from the General Fund to support the storm water program in light of other City needs, including fire and police protection. Therefore, the City is pursuing potential new revenue generating programs to support the storm water program activities, including the creation of a storm water fee.
- Technology Improvements. The geographic information and technology groups will work closely with the Utility Department to update the City's information technology master plan to ensure that the Utilities Department's technology needs are identified and met. In addition, this budget provides funds to maintain the City's network and servers; meet the City Clerk's records retention requirements; and improve public safety field equipment. Last year, the Administrative Services, Finance, and Human Resources

Departments launched an effort to identify alternatives for a new software system to meet the City's growing needs, and the departments should complete needs analysis and project recommendations in fiscal year 2007-08.

Economic Development. During FY 2007-08, the City will continue its economic development efforts to strengthen and enhance our fiscal base

Phase 1 construction for the regional life-style mall, "Palladio" is currently underway. Anticipated to be open to the public in 2009, this project will have over 900,000 square feet of retail and commercial space, including a theatre complex. In April 2007, Kaiser Permanente broke ground on its ambulatory center as the first phase of construction of its 50-acre medical campus. During the past fiscal year, Bed, Bath, and Beyond, Olive Garden, and Ruby Tuesday were completed. Future development plans include In-N-Out Burgers; Hampton Inn Hotel; Circuit City; Holiday Inn and Suites, Staybridge Suites, and Ethan Allen furniture.

Business expansion in Folsom is also proceeding. Businesses that have been assisted with their expansion plans over the past year include Syblon Reid Construction, Parkshore Properties, and Intel. The City is also engaged in a joint effort with Sacramento County to develop an economic development strategy for the Greenback Lane corridor in Folsom and Orangevale. Folsom has also joined with other jurisdictions and organizations in participating in a regional business retention and expansion program entitled, "Metro-Pulse".

The City continues to implement a Wi-Max pilot project to demonstrate the feasibility of a City-wide wireless system.

Development Services Reorganization. During FY 2006-07, we reviewed the services being provided to our development community. This review resulted in the merger of building, code enforcement and landscaping and lighting maintenance with the existing Community Development Department. The existing Community Development Department had the responsibility of providing planning and land development engineering services. The newly constituted department will facilitate a one point contact for all development related activities.

This allowed the opportunity to create a Redevelopment and Housing Department with a focus on managing the redevelopment and affordable housing activities. The creation of this department is vital to the city because we are able to commit resources to manage the projects and activities that will occur within our redevelopment district.

Redevelopment and Housing. The comprehensive revitalization effort for the historic commercial district is managed by the Redevelopment and Housing Department and funded with Redevelopment Agency dollars.

• The department is implementing the approved master conceptual plan for mixed-use development of the Railroad Block, located in the heart of the Historic District. Negotiations for the development of the Railroad Block were completed in October 2006 with the signing of the Disposition and Development Agreement with the Folsom Railroad Block Developers. The construction of a multi-level public parking structure on

the Railroad Block began in December 2006 and is expected to be open for use by early 2008.

- In early 2008 construction will commence on the Folsom Historic Station, a mixed use commercial and residential development on the Railroad Block.
- Revitalization efforts include upgrades to Sutter Street to improve pedestrian and auto circulation, fire safety improvements to the buildings, an improved parking management program, and a wayfinding program with new directional signs to guide visitors to destinations and locations within the District and the City.
- The department will begin planning for the reuse of the corporation yard once the operations of the Utilities, Public Works, and Administrative Services Departments have been relocated.

In addition to the revitalization projects, the Redevelopment and Housing Department will be coordinating the first-ever comprehensive housing strategy prepared for the City. This effort will establish guidance for the implementation of our successful affordable housing programs. Programs and policies ensuring the continued efficient management and utilization of our affordable housing funds will be established in this housing strategy. Additionally, State statutes direct that each of the 29 jurisdictions within SACOG's Regional Housing Needs Plan (RHNP) have its Housing Element revised by June 30, 2008. SACOG has advised all jurisdictions to plan and prepare for their updated Housing Elements to be adopted by June 30, 2008. A new position of Housing Manager is proposed in this budget to coordinate existing affordable housing activity as well as identify and develop new programs for the continued successful production of housing for residents of all income levels.

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. An interdepartmental team is working with affected property owners to complete work necessary to file an annexation with the Sacramento Local Agency Formation Commission.



During the upcoming fiscal year, the Community Development Department will begin updating the City's General Plan, expanding the planning timeframe to 2030. This update will include all the mandatory elements (except the housing element which will be prepared separately) and may include optional elements devoted to Economic Development, Air Quality, Public Facilities and Arts and Culture. In conjunction with the General Plan Update, an Environmental Impact Report

will also be prepared. The update is expected to focus on infill development opportunities, incorporate smart growth concepts, and preserve and enhance existing neighborhoods. The update will include a public outreach component that will be similar to, but more extensive than, the Visioning Process for the Sphere of Influence. The update process is expected to take 18-24 months to complete.

Library Services. The Georgia Murray Library opened on February 24, 2007. The City continues to work towards construction of the joint use library at the Vista del Lago High School, which is planned to open in Spring of 2008. The proposed budget continues the transfer to the Library Development Fund of \$325,000 that the City Council has set aside for the past four years. This transfer will cover the increased operating and maintenance expenses for the new libraries, including three new staff positions to assist in operating the new joint use library. The proposed budget also includes the position of Library Director.

Cultural and Recreational Services. For the FY 2007-08 Budget, Park and Recreation funding will constitute 13.3 percent of the General Fund budget, which is higher than the previous fiscal year due to increases in park maintenance and General Fund support to the Community Center and to the Recreation and Aquatics fund.

- New Senior/Arts/Cultural Center. The proposed budget includes funding for a combined Senior, Arts and Cultural Center to be located at the former fire station in the Civic Center Complex. Anticipated to be opened on June 1, the center will provide a full range of senior adult services, as well as arts programs and exhibitions. Senior services will include social activities, exercise programs, support groups, health programs, community education programs, and leisure enrichment classes. Arts programs will include recreational art classes, workshops for artists in both ceramic and fine art media. The facility also includes a public art gallery with a full year's exhibition program already planned. Exhibitions include oil, acrylic and water color painting, glass and ceramic sculpture, wearable or textile art forms, photography (including the Folsom Focus local photography contest), and a traveling exhibit of Norman Rockwell's Tom Sawyer and Huckleberry Finn.
- Additional Programming. The proposed budget includes additional funding of \$128,000 in the various activities within the department. The additional funding is for increases to cultural and recreation programs such as senior and arts, fun factory and sports programs offered to our citizens. These costs are offset with additional revenues generated from these activities.
- <u>Zoo Staffing</u>. The proposed budget includes a decrease in salary and benefit costs in the Zoo operations. The department was able to achieve this by restructuring the existing positions to create more efficiencies.
- <u>Subsidies.</u> The subsidies from the General Fund to various parks and recreation activities such as Community Center, Aquatics and Recreation Funds totals \$2.7 million, or an

increase of \$197,694 over the FY 2006-07 budget. The increase in the General Fund support is primarily due to increased personnel and operational costs of \$178,944. 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. The Zoo subsidy for FY 2007-08 is projected to be \$1.2 million which is a slight increase from the previous fiscal year.

- Folsom Sports Complex Set-Aside. 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. 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.
- Performing Arts Center. At its April 10, 2007 meeting, the City Council received a request from Folsom Lake College for a contribution towards the construction of a new performing arts center at the campus. I recommend that the City contribute \$250,000 from year end fund balance and look to complete similar fund balance transfers for an additional \$50,000 a year for five years. The City's contribution will be a minimum of \$500,000.

Employee Compensation Costs and Insurance Issues

The FY 2007-08 budget is built upon the following assumptions regarding employee benefit costs.

Memorandum of Understanding (MOU) Increases. This budget incorporates adjustments that were ratified by the City Council for all represented employee units. The MOUs for Fire rank and file, Fire mid-management and Police rank and file expire on December 31, 2008. Negotiations with these units will commence during the third quarter of the upcoming fiscal year. The above referenced adjustments will keep the City competitive in its market place.

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 is July 1, 2007.

In cooperation with its employees and their representatives the City has addressed its GASB 45 reporting requirements. This cooperative resolution is a major achievement for the City and its employees. The proposed budget includes \$650,000 as a set aside for compliance with GASB 45.

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). The City's FY 2007-08 financial contributions for miscellaneous employees have a minimal increase of .031% and .0371% for public safety employees. Based on projections provided by CalPERS, future years have a nominal increase in contribution.

Health Insurance Increases. The FY 2007-08 Proposed Budget includes funding for a projected 12 percent increase in health insurance premiums effective January 1, 2008. This amount is consistent with projections used in the City's financial forecast.

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.

Property Tax Growth. The FY 2007-08 Proposed Budget estimate for property tax revenue is \$14.5 million, which is unchanged from the FY 2006-07 budget estimates. The City also allocates a portion of its property tax received to the Library function. For FY 2007-08 it is projected that the Library Fund will receive \$1.7 million in property taxes.

Sales Tax Growth. The Proposed FY 2007-08 Budget assumes a 4.3 percent decrease in sales tax receipts due to sluggish activity in the vehicle and home improvements sector.

Vehicle License Fees. For the Proposed FY 2007-08 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 2007-08 Budget is based on the following assumptions:

- <u>Solid Waste Rates</u> 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 was adopted by the City Council in FY 2006-07.
- <u>Sewer Rates</u> The Budget is based on the current rate structure. Sewer rates are under review for possible Council deliberations in November 2007.

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 are implementing 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 this summer for public input and for subsequent City Council consideration. Water rates are under review for possible Council deliberations in November 2007.

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 2007-08 Budget is consistent with this policy.

Relationship between Budget and Strategic Plan

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. Also included are key customer service performance indicators for each department.

Conclusion/Acknowledgements

I am pleased to acknowledge again that the City's FY 2006-07 budget document received awards from the Government Finance Officers Association and the California Society of Municipal Finance Officers. This is the fourth consecutive time that the City has received these awards. The Proposed FY 2007-08 Budget document continues to improve upon an already excellent process.

The City Council will hold a work session concerning this budget proposal on June 6 and hold a public hearing to receive citizens' comments on the proposed budget on June 12.

I would like to acknowledge and thank the City staff that prepared and submitted their department budget requests for FY 2007-08. The preparation of this budget document could not have been possible without the efforts and long hours dedicated by the Budget and Evaluation Division, led by Terri Hemley and include Loo Ng and Deanne Gabrik. In addition, I would like to acknowledge Nav Gill and other members in the Finance Department and City staff who assisted in the preparation and timely delivery of this budget.

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

Respectfully submitted,

Kerry L. Miller City Manager