City of Folsom
Quarterly Financial Report
&
Strategic Plan Update

Fiscal Year 2006-07 Third Quarter

May 22, 2007

Prepared by the Department of Finance
Financial Analysis and Reporting Division

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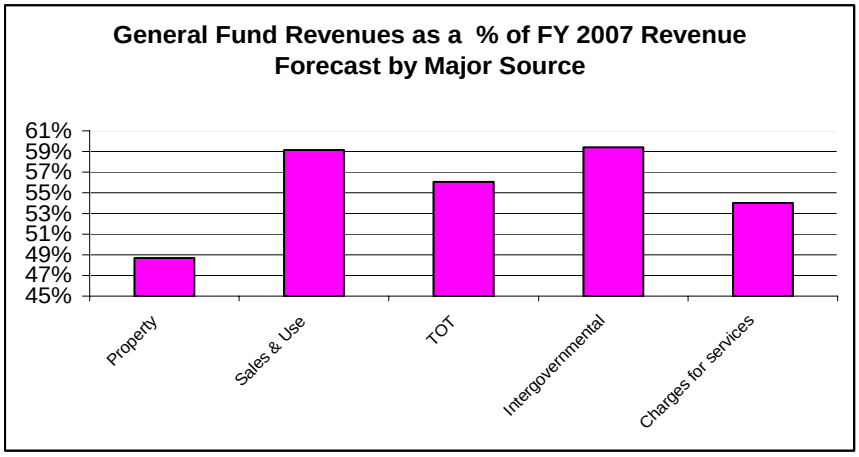
Executive Summary

General Fund revenues through the third quarter of Fiscal Year 2007 came in lower than anticipated and totaled $39.9 million, or approximately 57% of budgeted amounts. Finance department staff continue to monitor the potential $1,000,000 sales tax overpayment, which is being appealed by the affected municipality. Overall revenue collections in the General Fund will be very close to projections by the year end. The following graph shows how major General Fund revenues performed compared to the Fiscal Year forecast.



Revenue collections in all other City funds were either on track or exceeded expectations.

Expenditures, including transfers out, in the General Fund through the third quarter of Fiscal Year (FY) 2007 totaled $46.2 million, compared to total budgeted expenditures of $70.6 million, and followed the City's normal spending pattern. The 2007 annual budget includes approximately $282,000 in General Fund expenditures carried forward from FY 2006 mostly to complete outstanding contract and professional service agreements. The General Fund's fund balance was reserved to support these obligations.

Expenditures in most City funds followed historic spending patterns and were under budget. Several funds including the RDA Central Folsom project area Special Revenue Fund, the Mello-Roos Assessment District, Police Capital Improvement, and the General Capital Improvement Capital Project Funds, have expended their entire budget. This expenditure pattern was anticipated, due to the nature of the capital projects and or debt service patterns.

The available General Fund operating cash balance was unchanged from the previous year, remaining at $11.7 million. There was also approximately $343,000 in outstanding inter-fund loan payments at the end of the quarter.

Third Quarter Financial Report

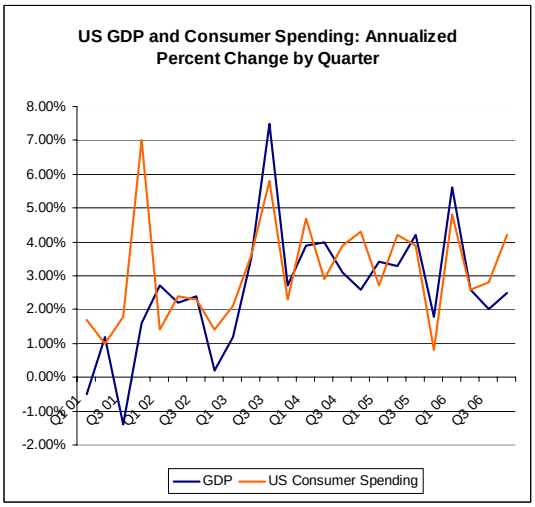
FY 2006-07

Economic Report & State Budget

Economic Report

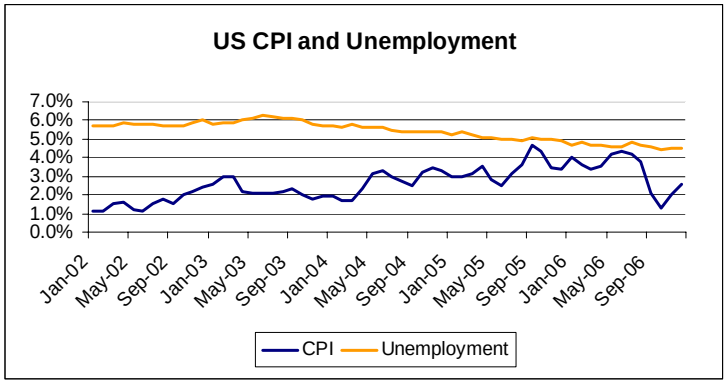
National Economy

Economic growth in the U.S. has slowed in recent quarters, reflecting the economy's transition from the rapid expansion experienced over the preceding years to a more sustainable pace of growth. Real gross domestic product (GDP) rose at an annual rate of roughly 2% in the second half of 2006 and appears to be expanding at a similar rate in 2007.



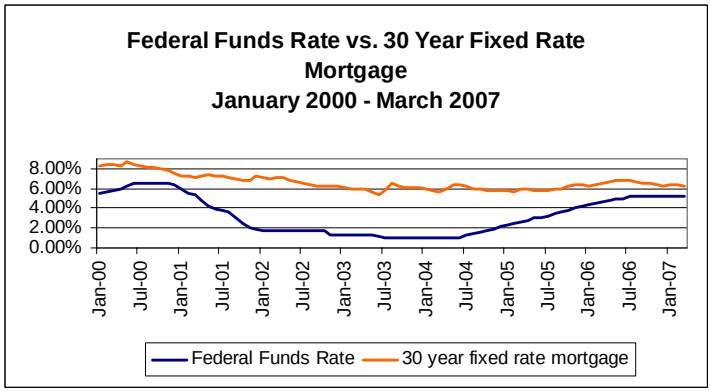
The primary source of the economic growth slowdown, which began a year ago, has been the significant correction in the housing market. Sales of new and existing homes were relatively flat during the second half of 2006. Early indications in 2007 suggest that sales of existing homes have held up, as have other indicators of demand such as mortgage applications for home purchase, and mortgage rates remain relatively low. However, new home sales have fallen, and continuing declines in housing starts have not led to substantial reductions in the inventory of homes for sale.

As of yet, the weakness in housing and in some parts of manufacturing does not appear to have spread to any significant extent to other sectors of the economy. Employment has continued to expand as job losses in manufacturing and residential construction have been more than offset by gains in other sectors, primarily health care, leisure and hospitality, and professional and technical services. Unemployment remains low by historical standards at 4.4% in March 2007, and the continuing increases in employment, together with slight increases in real wages, have helped sustain consumer spending.



The consumer price index (CPI) increased by 2.4% over the twelve months ending in February, down from 3.6% a year earlier. Despite recent increases in the price of crude oil, energy prices are below last year's peak.

The Federal Reserve Bank has left its target funds rate unchanged, at 5.25% since last June. Thirty year mortgage interest rates have remained relatively stable since October 2005 hovering in the low 6% range.



State Economy and Budget

Statewide unemployment held steady at 4.8% through March 2007, as employers added 18,500 jobs, the Employment Development Department reported. It was a good but not great month for job creation and was slightly behind the pace of a year ago, said Howard Roth, the State's chief economist. The construction sector added 1,700 jobs, and while dry weather was part of the reason, it's also true that the industry is doing well in spite of troubles in housing. Commercial and industrial construction are doing very well, said Employment Development Department labor market consultant David Lyons.

In February, sales of existing single-family homes reached their highest level in eight months – 464,560 units on a seasonally adjusted annual rate basis. Furthermore, the pace of home sales posted its smallest year-over-year decline in 14 months. Since August 2006, the rate of home sales has hovered close to 448,000 units. The median price of single-family homes sold in February 2007 was $564,700, a 5.7% increase from a year earlier. The median price rose in three out the most recent four months. While this indicates that a bottom may have been reached, an uncomfortably high inventory of unsold homes and the of the problems facing the "sub-prime" mortgage market may mean that California's real estate markets are not out of the woods entirely.

The on going slump in home construction that began in late 2005 has been counterbalanced by strong gains in nonresidential construction activity. The value of business construction permitting grew at a double-digit year-over-year pace consistently from April 2005 through March 2006, averaging over 24%. Growth has continued thereafter, but the rate slowed. The value of nonresidential permits issued during the first two months of 2007 was up 8.7% from the same months of 2006.

FY 2007-08 Governors' Budget

Following FY 2006-07, a year in which state policymakers were able to use surging revenues to significantly increase education spending and prepay budgetary debt, the state faces a challenging outlook. The Governor's proposed budget for FY 2007-08 attempts to bridge a significant shortfall through a variety of means, including a major redirection of transportation funds, significant reductions in social services, and a substantial increase in tribal gambling revenues from amended compacts. The plan assumes that adoption of its proposals will result in a balanced budget with over $2 billion in reserve. However, critics contend the budget contains a significant number of downside risks and is based on a number of optimistic assumptions.

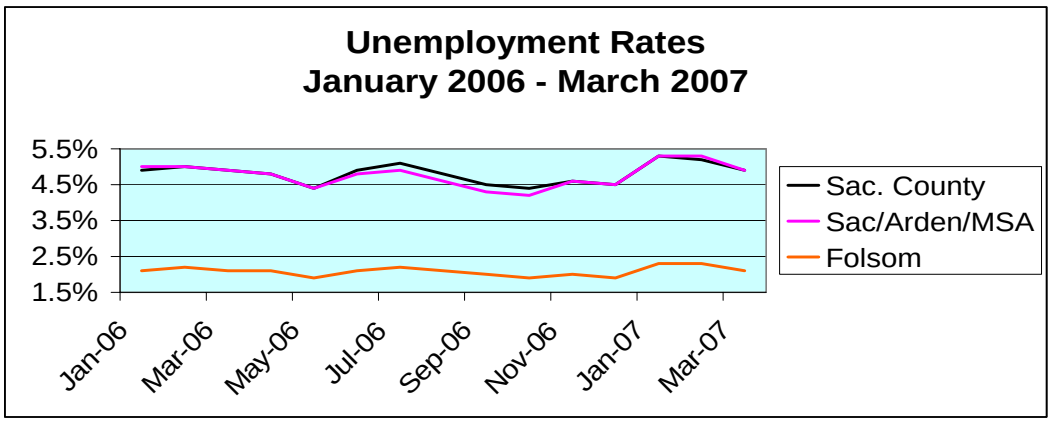
The administration's forecast assumes that current trends will improve in the second half of the fiscal year, but that total revenues and transfers will still increase by only 1.7% from the prior year reaching $95 billion for all of FY 2006-07. Major taxes are projected to increase by a slightly stronger rate of 2.7%. In FY 2007-08, the budget forecast projects that revenues and transfers will be $102.3 billion, a 7.7% increase from the

current year. The increase is supported by the proposed expansion of tribal gambling compacts as well as one-time receipts from the assumed sale of pension obligation bonds. Adjusting for these and other special factors, revenues are expected to increase by 6.5% in the budget year.

The Governors' proposed budget provides funding to address a number of previously identified issues related to inmate capacity and health care in the state's prison system. However, in other areas, there are relatively few major new initiatives. Funding is generally provided to caseload and implementation costs associated with initiatives adopted in the current year. The two areas of the budget experiencing the biggest reductions are social services and transportation.

Local Economy

The six-county Sacramento Region posted 1.6% job growth in February 2007 with a year-over-year gain of 14,800 jobs. The Region's job growth has fallen below the statewide average for the past two months due to a recent pattern of slight decreases in job growth since October 2006 and an up-tick in the state's employment growth rates. This recent pattern is a result of slower growth in nearly every major sector in the Region's economy with Trade, Transportation, & Utilities; Leisure & Hospitality; and Other Services seeing the most significant slowdowns. Despite a few periods of considerable declines, with the exception of a couple months, the Region has seen job growth above the national average for the past 12 months. For most of late 2006 and into early 2007, the Region has experienced modest job growth.



The following table provides a comparative unemployment rates for California and jurisdictions surrounding the City of Folsom.

Area	Unemployment Rate
State of California	4.8%
Sac/Arden/MSA	4.9%
Sacramento County	4.9%
El Dorado County	5.0%
Placer County	4.5%
Yolo County	5.9%
Folsom	2.1%
Citrus Heights	3.4%
Rancho Cordova	5.7%
Roseville	4.6%
Sacramento	5.8%

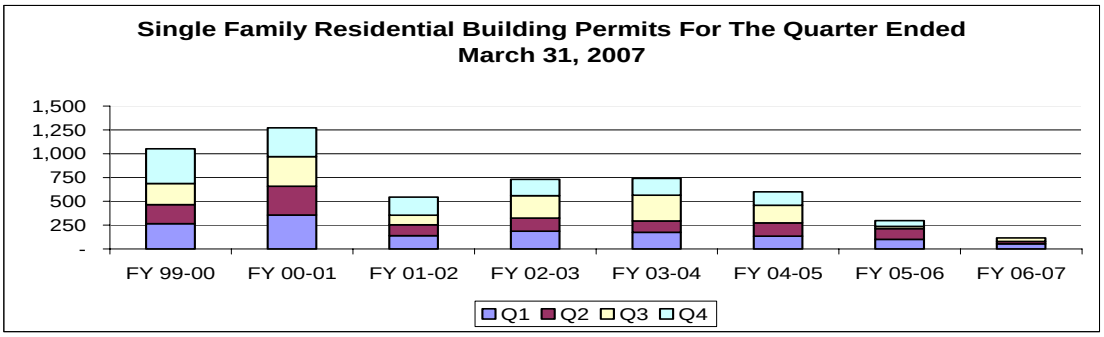
The North State Building Industry Association reported a 10% increase in new home sales in the first quarter of this year, compared to the same period last year, despite the fact that sales slowed in March over January and February. There were 1,869 sales in the 185 new home communities tracked by the BIA in the first quarter. During the first quarter of 2007, 42% of new home sales were priced at or below $400,000, 51% were priced between $400,000 and $600,000. The remaining 7% were priced above $600,000. The 30-year fixed-rate mortgage (FRM) averaged 6.16% with an average 0.4 point for the week ending March 29, 2007, unchanged from the previous week when it averaged 6.16%. Last year at this time, the 30-year FRM averaged 6.35%.

With respect to the local housing market, the latest statistics provided by Data-Quick Information Systems reported that Sacramento-area home sales fell in February in both volume and pricing. But the rate of decline appears to be moderating, signaling that the market may be stabilizing. However, many experts are worried about foreclosure activity and the troubles in the sub-prime lending industry. Even if the housing market doesn't begin booming again, the construction industry in Sacramento is getting help from an up-tick in office, retail and other nonresidential

Please refer to Appendix R for a detailed analysis of the City's sales tax activity for the quarter provided by The HdL Companies.

New Construction

Overall residential building permits issued were down 42% for the three quarters ending March 31, 2007, with 116 permits issued in the current year versus 238 permits issued in the same three quarters of the previous Fiscal Year.



Significant Events

Historic District – On January 16, 2007 construction began on the Historic District Parking Structure. Once completed, the new structure will provide over 300 new parking spaces for Historic District visitors and light rail patrons. The project will impact parking availability in the Historic District for the 12-month duration, primarily in the turntable parking lot on the west half of the Railroad Block.

Bridge Below Folsom Dam Update – On January 8, 2007 the U.S. Army Corps of Engineers (Corps) named Kiewit Pacific, as the contractor for the project, and work began on the project in February 2007. The total project cost is approximately $115 million, and as the lead agency the Corps will pay approximately 2/3 of the costs and Folsom will pay the remainder. The funds are derived from several sources. Congress has authorized $66 million for the project, and $28 million is funded by Measure A, a Sacramento County transportation sales tax measure passed in 2004. Other funding sources include the State Department of Water Resources and the Sacramento Area Flood Control Agency.

In addition to federal funds now available for the bridge in the fiscal year 2007 budget, the White House has recommended an additional $14 million in the fiscal year 2008 budget. Together these funds would complete the federal funding commitment for the bridge.

Georgia Murray Library Building – After a five-week move, the Folsom Public Library opened its 24,000 square foot Georgia Murray Library Building on February 24, 2007, and during March 2007 visitation was up over 50% from the month of March 2006. During opening month, library patrons checked out more than 45,000 books, DVDs and audiovisual items. Staff issued 2,355 new library cards during the first month, an average of more than 65 each day the library was open. In comparison, staff issued 2,802 cards during the entire previous year.

Third Quarter Financial Report

FY 2006-07

General Fund Financial Results

General Fund

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

Revenues

Total General Fund revenues, including transfers in, were at 57% of budget. The low percentage of budget figure is misleading and is timing related as a significant amount of budgeted VLF triple-flip gap repayment revenue is historically received in the fourth quarter of the fiscal year.

Total Combined General Fund Revenues decreased by 10.5% in the third quarter of FY 2007 compared to FY 2006 due to the Prairie City property sale that occurred in FY 2006. However, after adjusting for one-time revenues, the General Fund saw an increase of 5.1% or $1,187,421 from the prior Fiscal Year.

Property tax revenues continue to be slightly behind projections at 49% of budget or $7.1 million. The City typically receives this revenue in two installments occurring in December and April of the fiscal year and Finance staff is predicting revenues to come in at 94.5% of budget or $13.7 million.

Sales tax collections remained sluggish and are in line with regional and national trends due to the slowdown in vehicle sales, rising gasoline prices and a drop in the residential real estate sector. Sales tax collections were at 59% of budget, or $12,274,453. Finance department staff is projecting total Fiscal Year 06-07 sales tax revenues of $18,100,000, below the estimate of approximately $20.8 million.

Licenses and Permits increased 15% or $61,612 over the prior year's third quarter, totaling 93% of the budgeted amount or $474,448.

Intergovernmental revenues increased 22% or $610,415 over the same period in the prior year, for a total $3.4 million in revenue at the end of the quarter. This was made up of $2.4 million of vehicle license fee gap repayment, $358,000 of motor vehicle in-lieu, $152,000 of COP grants, and $354,000 of other state grants.

Charges for current services decreased 62% or $5,656,568 to $3,425,024 due to one-time revenues received in the first quarter of fiscal year 2006 associated with the sale of the Prairie City property in the amount of $7,249,553. After adjusting for one-time revenues, charges for current services in the current fiscal year have increased over FY 2006 by 16% or $484,945.

Revenues	Budget FY 2007	Actual 3/31/2007	% of Budget	% of Total revenue
Taxes:				
Property	$ 14,541,736	$ 7,079,282	48.7%	17.8%
Sales and use	20,756,063	12,274,453	59.1%	30.8%
Transient occupancy	1,361,000	763,019	56.1%	1.9%
Real property transfer	734,117	275,513	37.5%	0.7%
Franchise fees	463,029	-	0.0%	0.0%
Other	-	46,583	0.0%	0.1%
Licenses and permits	511,900	474,448	92.7%	1.2%
Intergovernmental	5,780,681	3,434,618	59.4%	8.6%
Charges for current services	6,342,583	3,425,024	54.0%	8.6%
Fines and forfeitures	226,000	112,519	49.8%	0.3%
Interest	525,000	441,471	84.1%	1.1%
Miscellaneous	3,730,551	1,260,056	33.8%	3.2%
Operating transfers in	15,036,476	10,291,826	68.4%	25.8%
Total revenues	$ 70,009,136	$ 39,878,812	57.0%	

Expenditures

Total General Fund expenditures are at 65% of budget. All Departments are under the targeted 75% of budget. Excluding transfers out, General Fund expenditures have increased 5.5% or $2,132,030 to $41,040,288 compared to Fiscal Year 2006. The increase is due to budgeted increases in all General Fund departments.

The 2007 expenditure budget includes approximately $282,000 carried forward from Fiscal Year 2006 including $70,000 for fire department capital outlay; $68,000 for park maintenance; $74,900 for police department capital outlay & supplies; $30,000 for non-departmental contracts; and the remainder for other one-time operating expenditures.

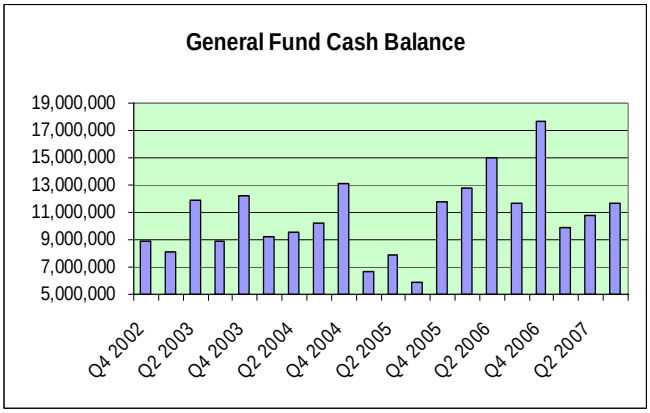
Expenditures	Budget FY 2007	Actual 3/31/2007	% of Budget	% of Total Exp
General government	$ 14,203,892	$ 8,880,289	62.5%	19.2%
Public safety	33,939,659	22,306,463	65.7%	48.3%
Utilities	1,397,412	883,621	63.2%	1.9%
Public works	8,239,259	4,835,702	58.7%	10.5%
Culture and recreation	6,059,634	4,134,213	68.2%	9.0%
Operating transfers out	6,746,488	5,109,389	75.7%	11.1%
Total expenditures	$ 70,586,344	$ 46,149,677	65.4%	

The 2007 expenditure budget for retiree health insurance is $857,500. The expense through the third quarter 2007 was $877,415, or 102% of budget. The revenue received from retirees for the premium share was $59,280. Taking the revenue into account brings the comparison to budget down to 95%, which is higher than the third quarter target of 75%. Please refer to the following table for the number of retirees by fund type along with expenditures through the third quarter of FY 2007.

Fund	# of Retirees 3/31/2007	Actual $ 3/31/2007	FY 07 % of Total Exp.
General Fund	77	$ 525,963	59.9%
CCF	22	82,596	9.4%
Utilities Admin.	1	11,091	1.3%
Public Works	8	34,572	3.9%
Development	17	122,560	14.0%
Redevelopment	2	4,112	0.5%
Library	1	9,337	1.1%
Recreation	2	15,366	1.8%
Transit	5	25,957	3.0%
Water	2	11,787	1.3%
Solid Waste	4	27,520	3.1%
Information Systems	1	6,554	0.7%
Total	142	$ 877,415	

General Fund Cash Balance

The available combined General Fund operating cash balance was approximately $11.7 million at the end of the third quarter of fiscal year 2006-07, unchanged from the previous year balance. The chart on the right provides a twenty-quarter comparison of the General Fund cash balance.



Third Quarter Financial Report

FY 2006-07

Special Revenue Funds Financial Results

- Development
- Redevelopment
- Library

SPECIAL REVENUE FUNDS

Development Fund

Total Development fund revenues, including transfers in, were at 34% of budget. License and permit revenue was 63% of budget as of the end of the quarter, with $1,024,520 received. Approximately 94% of this revenue is made up of building permit fees. Charges for current services revenue was 52% of budget as of the end of the quarter, with $1,491,471 received. The majority of this revenue is associated with structure plan check fees, subdivision improvement plan fees, subdivision improvement inspections, and underground utilities.

The FY 2007 expenditure budget includes approximately $90,000 carried forward from FY 2006; of which $65,000 is related to economic development contracts.

The chart below provides condensed financial activity for the previous four years and the results of the current three quarters. The Development fund has incurred recurring losses from operations and has a negative fund balance of $5,389,787. Management is evaluating corrective action steps to address the structural deficit.

	Fiscal Year Ending				As of
	6.30.2003	6.30.2004	6.30.2005	6.30.2006	3.31.2007
Revenues	6,234,938	4,862,717	5,338,214	4,816,604	2,548,711
Expenditures	4,850,407	5,578,363	6,566,002	6,329,617	4,586,756
Excess (Deficiency) of revenues over expenditures	1,384,531	(715,646)	(1,227,788)	(1,513,013)	(2,038,045)
Other financing sources (uses):	(1,055,642)	(1,524,146)	(1,402,152)	(1,121,889)	(1,274,683)
Net change in fund balance	328,889	(2,239,792)	(2,629,940)	(2,634,902)	(3,312,728)
Fund balance (deficit), beginning of year	5,098,686	5,427,575	3,187,783	557,843	(2,077,059)
Fund balance (deficit) , end of year	$ 5,427,575	$ 3,187,783	$ 557,843	$ (2,077,059)	$ (5,389,787)

Redevelopment Funds

Low to Moderate Housing Fund

Revenues including transfers in were at $999,940, or 18% of budget. This is up from FY 2006 by 16%, or $139,173. Budgeted sundry revenue in the amount of $4,279,166 represents a budget appropriation of fund balance to balance expenditures with revenues.

Expenditures were $1,340,576 or 23% of budget. Contract expenditures were at 21% of budget, with expenditures of $1,098,871 incurred through March 31, 2007. The majority of these expenditures are attributable to $500,000 for the Down Payment Assistance Program and a $500,000 loan to Mercy Housing.

Unrestricted fund balance at March 31, 2007 and 2006, was $2,865,907 and $2,859,429 respectively, an increase of $6,478 from the prior year.

Central Folsom Redevelopment Project Fund

Revenues were $3,302,907, or 93% of budget. This is up from FY 2006 by 7%, or $226,575.

Expenditures, excluding transfers out, were at 32% of budget. Of the $681,072 spent, approximately $499,000 was for AB 1290 program expenditures. The 2007 expenditure budget includes approximately $127,000 carried forward from FY 2006. Operating transfer out activity includes approximately $2.6 million to the RDA capital projects fund and $669,371 for debt service.

Unrestricted fund balance at March 31, 2007 and 2006, was $8,411,842 and $12,896,879 respectively, a decrease of $4,485,037 from the prior year.

Library Fund

Revenues were $1,449,490, or 49% of budget. This is up from FY 2006 by 59%, or $538,899.

Expenditures were at 51% of budget. Of the $1,473,593 spent, approximately 45% or $662,566 was for salaries and benefits.

Unrestricted fund balance at March 31, 2007 and 2006, was $470,438 and $941,711 respectively, a decrease of $471,273 from the prior year. The decline in unrestricted fund balance is mostly due to a corresponding increase of approximately $862,000 to the reserve for encumbrances related to the future purchase of books for circulation and other capital related items.

Third Quarter Financial Report

FY 2006-07

Enterprise Funds Financial Results

- Recreation
- Aquatics
- Sports & Teen Center
- Water
- Sewer
- Solid Waste
- Transit

ENTERPRISE FUNDS

Recreation Fund

Through March 31, 2007, total revenues of $2,041,339 (67% of budget) and expenses of $2,024,352 (66% of budget) resulted in an increase in net assets of $16,987. Significant revenue sources during the quarter were: (1) subsidy transfer of $1,140,075; (2) sports $443,669; and (3) cultural services $349,890. In the sports category, adult sports accounted for $305,764 or 69% of the category's revenue. Cultural services revenue consisted of mostly youth-related revenues of $134,413 and fee based special events of $100,199.

In the expenditure category, the two largest categories were employee services $1,364,831 (70% of budget) and contractual services $289,053 (50% of budget).

This fund ended the quarter with a deficit net asset balance of $260,129; a slight decline of $4,434 from March 31, 2006. The Recreation fund has incurred recurring losses from operations, and as of March 31, 2007, the funds' current liabilities exceeded its current assets by $59,845. The chart below provides condensed financial activity for the previous five years and the results of the current three quarters.

	Fiscal Year Ending					As of
	6.30.2002	6.30.2003	6.30.2004	6.30.2005	6.30.2006	3.31.2007
Revenues	$ 1,073,517	$ 1,198,008	$ 1,326,720	$ 1,511,614	$ 1,432,871	$ 901,264
Expenditures	1,746,431	1,884,621	2,304,446	2,542,052	2,643,743	1,913,525
Excess (Deficiency) of revenues over expenditures	(672,914)	(686,613)	(977,726)	(1,030,438)	(1,210,872)	(1,012,261)
Other financing sources (uses) net:	809,770	821,566	870,558	963,470	1,021,863	1,029,248
Change in net assets	136,856	134,953	(107,168)	(66,968)	(189,009)	16,987
Net assets, beginning of year	-185780	(48,924)	86,029	(21,139)	(88,107)	(277,116)
Net assets, end of year	(48,924)	86,029	(21,139)	(88,107)	(277,116)	(260,129)

Aquatics Fund

Through March 31, 2007, total revenues of $758,702 (61% of budget) and expenditures of $791,042 (63% of budget) resulted in a decrease in net assets of $32,340. Overall revenues and expenditures are behind the targeted 75%; however, the Aquatic Center operations are cyclical with the majority of revenues being earned in the spring and summer months.

Significant revenues during the quarter were from the subsidy transfer $384,965 and recreation swim and lap swim activities $145,007 (53% of budget). In the expenditure category, employee services was the most significant activity $443,107 (61% of budget).

The fund had a deficit net asset balance at March 31, 2007 of $124,739, an improvement of $77,502 from March 31, 2006. Both Finance and Recreation department staff will continue to closely monitor this fund as current liabilities exceed current assets by $89,877.

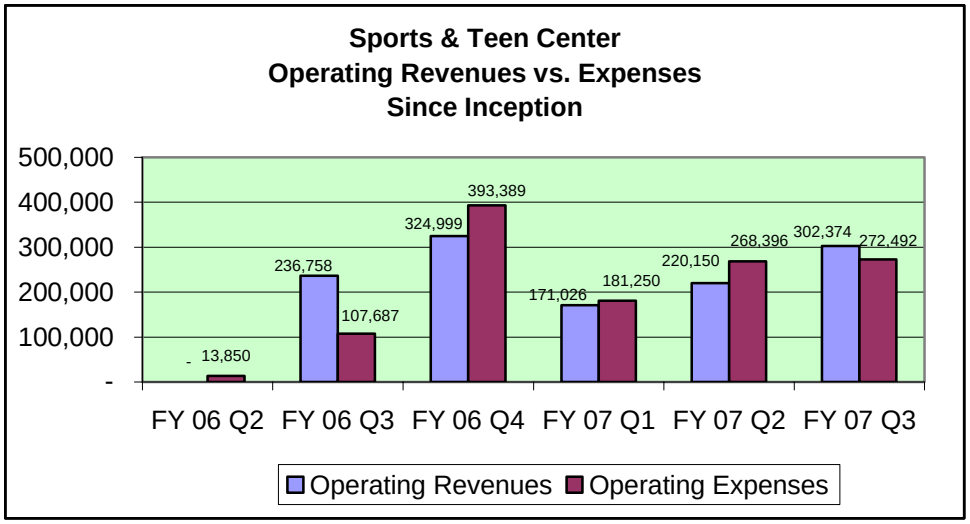
Sports and Teen Center

Through March 31, 2007, total revenues of $1,205,648 (71% of budget) and expenditures of $1,277,350 (75% of budget) resulted in a decrease in net assets of $71,702.

Significant revenues included a transfer in of $500,937, of which $500,000 related to the annual debt service payment for the center. Other significant revenue sources included youth sports $228,913 (66% of budget), adult sports $147,393 (47% of budget), and facility rentals and café sales $141,053 (95% of budget). The top five revenue sources as a percent of total operating revenues are as follows:

- Youth Soccer $163,286 (16%)
- Adult Soccer $101,710 (10%)
- Preschool $ 81,962 (8%)
- Batting Cage $ 75,962 (7%)
- Room Rental $ 70,259 (7%)

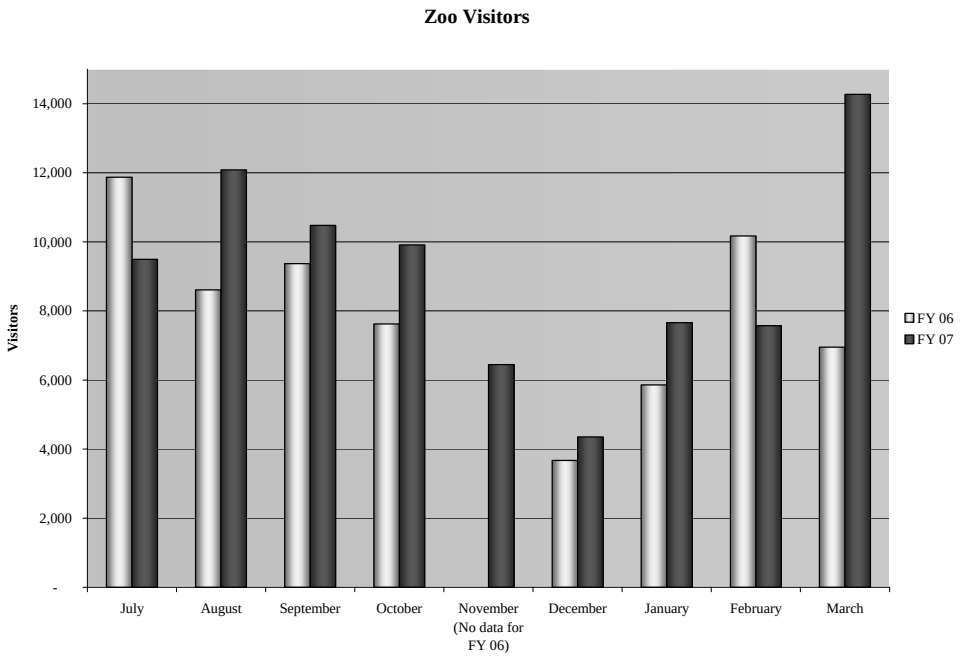
In the expenditure category, significant expenditures included employee services $294,443 (52% of budget), contractual services $107,889 (63% of budget), and supplies $77,437 (42% of budget). The chart below shows the Center's operating revenues and expenses by quarter for calendar year 2006:



Zoo

Through March 31, 2007, Zoo Sanctuary has incurred expenditures of $920,232 and received revenues of $276,777 resulting in a net cost to the General Fund of $643,455. Attendance through March 31, 2007 was 52,767, an increase of 18,135 versus the prior year. Please refer to the following charts for a five-year analysis of the Zoo's operations and the results of the current quarter, along with comparative monthly attendance figures for FY 2007 versus FY 2006.

	Fiscal Year					Through
	2002	2003	2004	2005	2006	3.31.2007
Expenditures						
Salaries	$ 390,358	$ 436,813	$ 519,983	$ 614,495	$ 587,297	$ 446,654
Benefits	151,375	169,504	270,065	356,572	290,029	245,613
Supplies & Services	107,817	126,474	203,526	200,733	230,914	164,493
Liability Insurance	22,084	29,704	(856)	(18,090)	22,599	32,543
Contracts	44,389	62,911	65,545	83,764	85,662	43,709
Capital Outlay	4,075	18,069	16,140	54,404	30,890	30,748
Less Transfer from Zoo Trust	2,575	18,069	12,354	54,404	17,012	43,528
Net Expenditures	717,523	825,406	1,062,049	1,237,474	1,230,379	920,232
Revenues						
Ticket Sales	134,408	125,545	170,593	182,253	202,965	195,022
Gift Shop Sales			63,177	61,210	60,758	52,172
Other Programs	30,066	37,505	47,746	52,323	62,362	29,583
Gross Revenue	164,474	163,050	281,516	295,786	326,084	276,777
Less Transfer to Zoo Trust	(92,541)	(75,366)	(118,534)	(120,859)	(135,658)	-
Net Revenue	71,933	87,684	162,982	174,927	190,426	276,777
Net Cost to General Fund	$ 645,590	$ 737,722	$ 899,067	$ 1,062,547	$ 1,039,953	$ 643,455
Attendance	79,331	73,610	102,212	103,364	110,200	82,268



Water Fund - The Water Funds are reported on a combined basis and include the following funds: Water Impact, Water Operating, Water Capital, Water Meters, and the 1998 Water Bonds Project.

Total revenues were $10,393,799 (54% of budget) and expenditures of $13,482,156 (50% of budget) resulted in a decrease to net assets of $3,088,357 for the third quarter of FY 2006-2007. Operating revenues of $7,214,430 (89% of budget) and expenses of $7,148,212 (74% of budget) resulted in an operating gain of $66,218 for the third quarter of FY 2006-2007. Charges for services were at 89% of budget and are due to three factors: (1) higher rates; (2) increased customer base; and (3) increased non-residential consumption.

Non-operating and transfer activities included impact fees of $715,187, debt service payments of $1,200,928, water treatment plant expansion reimbursements of $1,332,578, transfers out of $1,407,517, and capital outlay expenses of $3,725,499.

Total net assets increased by $10,053,218 to $78,545,124, compared to $68,491,906 at March 31, 2006. Of the total net assets, $5,245,669 is restricted and relates to outstanding encumbrances.

Sewer Fund - The Sewer Fund is reported on a combined basis and includes Funds 530 (Sewer) and 531 (Sewer Capital).

Total revenues of $3,898,809 (70% of budget) and expenses of $4,685,406 (68% of budget) resulted in a decrease to net assets of $786,597 for the third quarter of FY 2006-2007.

Operating revenues of $3,752,277 (76% of budget) and operating expenses of $2,561,135 (74% of budget) resulted in operating income of $1,191,142 for the third quarter of FY 2006-2007.

Non-operating and transfer activities consisted of impact fees of $66,832, investment income of $79,48, capital outlay costs of $1,323,001 and transfers out of $801,270.

Total net assets increased by $1,185,977 to $35,268,932 compared to $34,082,955 at March 31, 2006. Of the total net assets $470,430 is restricted and relates to outstanding encumbrances.

Solid Waste Fund - The Solid Waste Fund is reported on a combined basis and includes Funds 540 (Solid Waste Operating) and 541 (Solid Waste Capital).

Total revenues of $7,514,490 (70% of budget) and expenses of $7,576,683 (68% of budget) resulted in a decrease to net assets of $62,193 for the third quarter of FY 2006-2007. Operating revenues of $7,338,317 (74% of budget) and operating expenses of $5,509,803 (67% of budget) resulted in an operating gain of $1,828,514 for the third quarter of FY 2006-2007. Operating expenses are below the target level of 75% due to limited activity in the contractual services line item (48% of budget).

Recycling revenue totaled $270,332 (80% of budgeted projections). These revenues represent the City's efforts to recycle cardboard, newspaper, metal, and miscellaneous recycling materials collected via the City's residential recycling program.

Non-operating and transfer activities included impact fees of $95,671, investment income of $34,618, intergovernmental revenues of $45,884, debt service expense of $842,898, and transfers out of $1,214,583.

Total net assets totaled $1,911,575, an increase of $273,254 compared to March 31, 2006. Of the total net assets, $466,600, and is restricted and relates to outstanding encumbrances.

Transit Fund - Operating revenues of $111,495 (74% of budget) and operating expenses of $1,345,501 (70% of budget) resulted in an operating loss of $1,234,006 for the third quarter of FY 2006-2007.

The Transit Fund receives most of its revenues via non-operating intergovernmental revenues (Local Transportation Fund and State Transit Assistance) and is budgeted to receive $3.7 million for FY 2006-2007.

Total net assets were $203,144. Of the total net assets, $1.5 million is restricted and relates to outstanding encumbrances for the purchase of new buses, which will be reimbursed to the City via State Transit Bus Replacement Grant funds.

Third Quarter
Financial Report

FY 2006-07

Outstanding Debt, Capital Improvement Plan and Encumbrances

Outstanding Debt

At the end of the third quarter of FY 2007, the City had approximately $155.3 million of outstanding debt comprised as follows: General obligation $25.5 million; certificates of participation $9.2 million; revenue bonds $89.5 million; and tax allocation bonds of $31.1 million. General obligation debt is backed by the full faith and credit of the City and by general taxes. Certificates of participation are used to finance capital improvements while complying with or avoiding constitutional debt limitations applicable to the State of California, its cities, counties, school districts, and to public entities in various other states. Tax allocation bonds are issued by the Folsom Redevelopment Agency for specific projects and are secured by anticipated increments in the property taxes generated from the redeveloped property. Revenue bond debt is supported by a pledge of specific revenues. Approximately $30.2 million of the City's revenue bond debt is supported by the City's water utility.

A complete list of the City's outstanding debt is included in Attachment P.

Capital Improvement Plan (CIP)

This section presents a summary of all CIP projects adopted with the passage of the FY 2006-2007 budget. Capital improvements are projects that contribute to providing essential municipal services that make Folsom a community of choice for living, working, and enjoying leisure activities. The CIP section of the annual City Budget has detailed information about CIP projects and funding sources. Some funds may only be used for specific types of projects, and there is a backlog of projects with no funding at all.

At the end of the third quarter of FY 2007, the City had sixty-six active projects with an approved budget totaling $58,087,768. During the current quarter, significant progress was made on the following projects:

Culture and Recreation – Seniors and Arts Center

General Service – Folsom Main Library

Open Space and Greenbelts – Oak Parkway Trail and Overlook Trail Extension

Sewer – Miscellaneous Infiltration/Inflow Improvements

Streets – Street Overlay

Transportation –New Bridge below Folsom Dam

Water – Water Main Replacement Program

The following table provides a summary of the original budget, revised budget (including encumbrances), total expenditures through March 31, 2007, and percent of revised budget expended. A more detailed listing of CIP expenditures by project is included in Attachment Q.

	Adopted Budget FY 06-07	Revised Budget FY 06-07	Expenditures per quarter Q1	Q2	Q3	Total Expended FY 06-07	% of Budget Expended
Culture and Recreation	$ 3,252,692	$ 5,334,910	$ 64,901	$ 629,710	$ 1,329,102	$ 2,023,712	37.9%
Drainage	1,325,000	1,763,554	30,706	93,642	80,550	204,897	11.6%
General Services	15,889,967	16,254,118	8,292	3,378,341	1,928,933	5,315,566	32.7%
Open Space and Greenbelts	193,200	1,616,146	152,291	254,816	31,612	438,719	27.1%
Sewer	1,345,000	2,680,441	156,589	1,057,925	112,341	1,326,855	49.5%
Streets	1,942,500	4,271,887	1,316,063	292,402	346,944	1,955,409	45.8%
Transportation	18,486,560	19,921,572	5,397,954	5,752,200	3,187,556	14,337,709	72.0%
Water	4,495,000	6,245,140	468,267	539,071	276,938	1,284,276	20.6%
	$ 46,929,919	$ 58,087,768	$ 7,595,062	$ 11,998,106	$ 7,293,975	$ 26,887,143	46.3%

Encumbrances

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

Folsom Municipal Code Section 3.02.030 provides further clarification and states the following: "All appropriations, except for capital projects involving capital replacements and capital additions, shall lapse at the end of the fiscal year to the extent that such appropriation has not been expended or encumbered, except: (1) All capital project appropriations shall continue in force until expended, revised or repealed by action of the City Council; and (2) all capital project appropriations shall be deemed to be abandoned if three years pass without disbursement from or encumbrance against the appropriation."

The table below provides a summary listing of outstanding encumbrances by operating and capital projects funds at March 31, 2007:

Fund #	Fund Name	Fund Type	Total Fund Budget FY 06/07	Encumbrance $ Total	% of Total Fund Budget
10	General	General	$ 59,748,300	$ 555,585	0.93%
23	Public Works	General	7,328,884	361,818	4.94%
220	Development	Special Revenue	9,021,954	89,909	1.00%
225	General Plan Amendment	Special Revenue	302,102	10,000	3.31%
238	RDA Low to Mod	Special Revenue	5,705,879	410	0.01%
239	RDA Project Area	Special Revenue	3,684,825	98,226	2.67%
255	Library	Special Revenue	2,913,316	741,116	25.44%
760	Wetland/Open Space Maintenance	Special Revenue	23,200	23,200	100.00%
510	Recreation	Enterprise	3,090,520	8,682	0.28%
512	Recreation & Teen Center	Enterprise	1,710,056	5,382	0.31%
519	Transit	Enterprise	4,423,352	1,592,390	36.00%
520	Water	Enterprise	11,786,458	210,633	1.79%
530	Sewer	Enterprise	4,493,791	21,514	0.48%
540	Solid Waste	Enterprise	10,797,050	462,867	4.29%
603	Information Systems	Internal Service	1,626,073	57,256	3.52%
		Subtotal non-capital related	$ 126,655,760	$ 4,238,988	3.35%

Fund #	Fund Name	Fund Type	Total Fund Budget FY 06/07	Encumbrance $ Total	% of total Fund Budget
412	Park Improvements	Capital Project	4,546,360	263,562	5.80%
425	Zoo Capital	Capital Project	1,321,038	194,314	14.71%
431	RDA Capital Project	Capital Project	12,346,376	5,719,135	46.32%
446	Transportation Improvement	Capital Project	20,659,310	3,726,498	18.04%
448	Drainage Capital	Capital Project	1,546,349	792,655	51.26%
451	Light Rail Transportation	Capital Project	1,096,605	68,084	6.21%
458	Library	Capital Project	5,457,673	346,457	6.35%
601	Major Capital & Renovation	Capital Project	284,481	58,918	20.71%
456	Water Impact Fees	Enterprise	1,152,142	14,347	1.25%
520	Water	Enterprise	10,476,973	3,366,365	32.13%
521	Water Capital	Enterprise	3,192,608	1,250,644	39.17%
530	Sewer	Enterprise	2,280,169	434,658	19.06%
531	Sewer Capital	Enterprise	72,477	14,204	19.60%
536	FAC Augmentation Critical	Enterprise	16,168	7,867	48.66%
537	FAC Augmentation General	Enterprise	283,812	200,000	70.47%
541	Solid Waste - Capital	Enterprise	340,730	37,835	11.10%
203	Traffic Congestion Relief	Special Revenue	450,000	89,026	19.78%
223	Humbug Willow Creek	Special Revenue	2,321,064	677,882	29.21%
243	Gas Tax 2106	Special Revenue	491,493	178,051	36.23%
244	Gas Tax 2107	Special Revenue	347,528	54,430	15.66%
264	Park Renovation Fund	Special Revenue	1,630,497	243,996	14.96%
		Subtotal Capital	$ 70,313,853	$ 17,738,928	25.23%
		Total Citywide	$ 196,969,613	$ 21,977,916	11.16%

Q4

Folsom In Brief

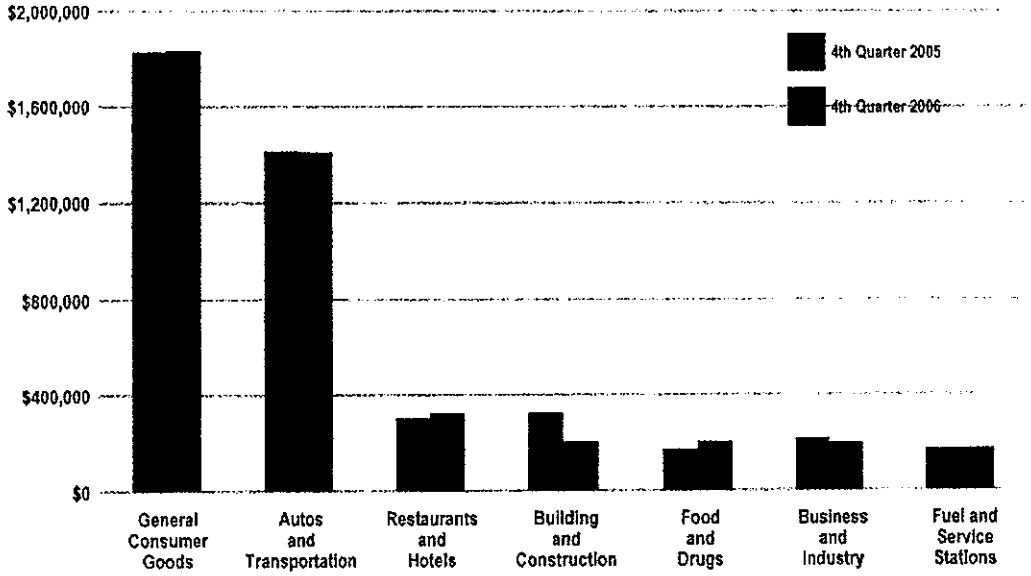
Receipts for sales occurring October to December dipped 2.7% compared to the year-ago quarter.

Sales activity slowed in the discount department store and boat/motorcycle categories. A onetime payment deviation exaggerated the loss in lumber/building materials that declined 18.4% once adjusted. Office supplies/furniture was adversely impacted by a temporary allocation error.

New auto sales performed better than regional and state trends. Additional outlets boosted the grocery stores with liquor, restaurants with liquor, home furnishings and women's apparel groups. Other sectors increased including specialty stores, sporting goods/bike stores, restaurants with no alcohol and government/social organizations. A onetime accounting adjustment spiked receipts in electrical equipment.

During the same period, Sacramento County as a whole declined 4% while the Sacramento region slipped 3.1%.

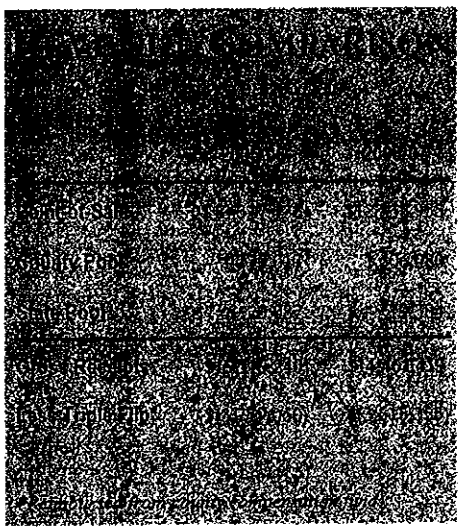
Sales Tax by Major Business Group



Top 25 Producers

In Alphabetical Order

- Best Buy
- California Prison Industries
- Chevron
- Costco
- Folsom Buick Pontiac GMC
- Folsom Chevrolet
- Folsom Lake Chrysler Jeep Hyundai
- Folsom Lake Dodge
- Folsom Lake Ford
- Folsom Lake Hyundai
- Folsom Lake Kia
- Folsom Lake Nissan
- Folsom Lake Toyota Scion
- Home Depot
- Intel
- Kohls
- Lake Forest AM PM
- Linens N Things
- Lowes
- Mervyns
- Raleys
- Sams Club
- Target
- Wal Mart
- Wells Fargo Leasing



NOTES

Statewide Sales Flatten

Fourth quarter sales were unchanged from the same period in 2005 with payment aberrations excluded. This represented the weakest holiday performance since 2001.

As indicated below, the slump impacted all business groups with growth weaker in 2006 than in 2005 in all but Autos & Transportation.

Fourth Quarter Sales Tax Comparison

Business Group	*Q4 '06 v. Q4 '05*	*Q4 '05 v. Q4 '04*
Autos & Transportation	0.1%	2.8%
Building & Construction	-5.7%	15.5%
Business & Industry	0.5%	4.5%
Food & Drugs	-2.9%	5.4%
Fuel & Service Stations	-1.6%	14.1%
General Consumer Goods	1.2%	5.0%
Restaurants & Hotels	4.1%	6.8%
HdL State	0.0%	5.3%

All figures adjusted for economic data.

The lackluster quarter was largely due to a 5.7% drop in Building & Construction receipts. The shift was a reflection of the slowdown in residential construction with the previously highest growth areas (Riverside/San Bernardino, San Joaquin Valley and the Sacramento region) experiencing the severest declines.

The dip in Business & Industry receipts was exaggerated by a $ 1.9 M refund for taxes paid on financed purchases that later became uncollectible. Over 200 local jurisdictions in California had related negative adjustments to their fourth quarter allocations. Another factor in the decrease was a $1M delayed return for a large business services outlet.

A temporary drop in the average price of gasoline and diesel fuel led to a 1.6% decline in receipts from Fuel & Service Stations. Pump prices have since rebounded significantly.

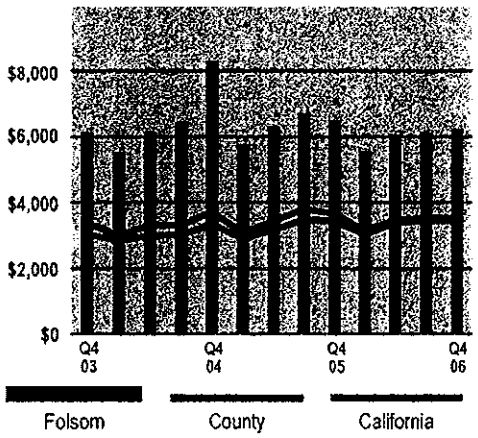
Revenues from restaurants & hotels, the quarter's bright spot, were up in nearly all areas of the state with the Bay Area and the Central Coast regions feasting best.

General Consumer Goods sales exceeded last year's by just 1.2% after a 5% gain the year before. One likely factor: an upsurge in gift card use. Since gift card sales are not taxed until the card is redeemed, more holiday related receipts are being delayed to the following quarter. Reports are that the dollar value of gift cards was up 35% compared to 2005 resulting in a surge in January 2007 sales that was 10.5% above the prior year.

Fourth quarter Autos & Transportation results were virtually unchanged, an improvement from last year's 3.5% decline. Foreign brands continued to outperform domestics.

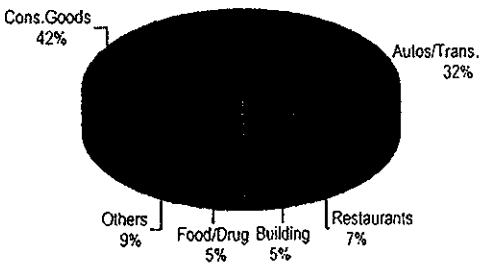
Economists are expressing concern about the impact of volatile energy prices, cutbacks in capital investment, and sub-prime lending on sales revenues through the remainder of calendar year 2007. However, the current consensus overall, is that statewide growth will be weaker than recent years but actual declines are not expected.

Sales Per Capita



Revenue By Business Group

Folsom This Quarter



Folsom Top 15 Business Types

	$1,246.2	1.4%	-2.2%	0.9%
	730.3	-2.0%	2.8%	4.9%
	224.8	0.4%	-1.6%	9.2%
	177.1	0.0%	-3.6%	-0.2%
	173.1	-0.4%	-2.9%	3.0%
	151.2	-44.4%	-40.6%	-31.8%
	145.9	4.9%	0.4%	1.3%
	142.6	16.2%	4.5%	2.7%
	118.0	3.7%	3.6%	3.9%
	111.7	11.2%	5.7%	11.1%
	98.6	3.6%	-12.5%	-1.9%
	94.2	3.8%	-10.4%	-7.5%
	90.5	3.9%	6.4%	4.4%
	71.6	0.2%	-3.3%	-3.3%
	60.4	212.8%	-1.7%	-1.0%
Total All Accounts	[illegible]	2.0%	[illegible]	0.5%
County & State Pool Allocation	[illegible]	[illegible]	[illegible]	[illegible]
Gross Receipts	[illegible]	[illegible]	[illegible]	[illegible]

In thousands