



Folsom City Council Staff Report

MEETING DATE:	6/10/2025
AGENDA SECTION:	Public Hearing
SUBJECT:	Resolution No. 11401– A Resolution Adopting the Fiscal Year 2025-26 Operating and Capital Budgets for the City of Folsom, the Successor Agency, the Folsom Public Financing Authority, and the Folsom Ranch Public Financing Authority (Revised)
FROM:	City Manager's Office

****Revised****

RECOMMENDATION / CITY COUNCIL ACTION

Staff recommends that the City Council conduct a public hearing and consider adopting Resolution No. 11401 – A Resolution Adopting the Fiscal Year 2025-26 Operating and Capital Budgets for the City of Folsom, the Successor Agency, the Folsom Public Financing Authority, and the Folsom Ranch Public Financing Authority.

BACKGROUND / ISSUE

City staff recommends that the City Council conduct multiple budget reviews during the fiscal year to ensure that expenditures and revenues are tracking as anticipated. If expenditures or revenues are not following the original budgetary projections, this process provides the opportunity to make necessary course corrections.

It is proposed that the City will follow the following annual budget process:

- 1) The Preliminary Budget for the Fiscal year starting July 1st is developed and approved by the City Council in May or June of each year.
- 2) The Final Budget is reviewed and approved by the City Council in October or November of each year.
- 3) The Mid-year Budget is reviewed and approved by the City Council in February or March of each year.

This report presents the Fiscal Year 2025-2026 proposed Preliminary Budget for the City of Folsom.

The City Manager’s Proposed Preliminary Budget for Fiscal Year 2025–26 was presented to the City Council on May 27, 2025, during a special budget workshop. During the workshop, the City Manager outlined key components of the proposed budget and responded to questions from both City Council members and community participants.

POLICY / RULE

Folsom Municipal Code, Section 3.02.030, Budget

“An Annual Budget shall be prepared by the City Manager, with the assistance of the Finance Director. . . . (G) The City Council shall adopt the annual budget by Resolution by fund and program by affirmative vote of at least three members, on or before the last working day of the last month of the current fiscal year. If the City Council fails to adopt the budget by the last working day of the current fiscal year, the budget as presented by the City Manager shall be deemed adopted.”

ANALYSIS

Budget Structure and Overview:

The Operating Budget for the City of Folsom is a complex document that manages the revenues and expenditure of over 150 separate Fund Accounts. A summary of these accounts is found in Attachment 2. Many of these fund accounts have specific rules and requirements that dictate how these funds can be used.

For example, funds collected from the water bills that are paid for by residents each month can only be used to cover the costs associated with maintaining and operating the water system. These funds cannot be used to cover public safety or any other non-water related expenses.

The four largest and most familiar Fund Accounts in the budget are 1) General Fund; 2) Solid Waste Fund, 3) Sewer Fund; and 4) Water Fund.

- 1) ***General Fund (Fund 010)*** – This fund accounts for all general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit which are not accounted for in other funds.
- 2) ***Solid Waste (Fund 540)*** – This fund accounts for the revenues and expenses of the City’s solid waste operations.
- 3) ***Sewer Fund (Fund 530)*** – This fund accounts for the revenues and expenses of the City’s sewer operations.
- 4) ***Water Fund (Fund 520)*** – This fund accounts for the revenues and expenses of the City’s water operations.

All City Funds Budget Analysis:

The City Manager's Fiscal Year 2025-26 Proposed Preliminary Budget as presented totaled \$266,480,640. Below is a breakdown by Fund category

Fund Category	FY 2025-26 Proposed Amounts
General Fund	\$ 121,877,171
Enterprise Funds	53,700,278
Special Revenue Funds	13,377,152
Debt Service Funds	16,761,774
Capital Projects Funds	10,624,850
Internal Service Funds	25,060,360
Fiduciary Funds	25,079,055
Total	<u>\$ 266,480,640</u>

The City Manager's proposed Fiscal Year 2025-26 Preliminary Budget also includes 513.5 full and permanent part-time positions across all funds. This proposed budget provides for 8 new positions all funded by Enterprise Funds. The added positions are listed below along with the department.

Department	Position
Environmental and Water Resources	Senior Civil Engineer
Solid Waste	Refuse Driver (6)
Solid Waste	Senior Office Assistant

The City Manager's Fiscal Year 2025-26 Proposed Preliminary Budget is available on the City's web site at https://www.folsom.ca.us/government/finance/city-budget/-folder-366#docfold_14_786_600_366.

General Fund Budget Analysis:

The proposed FY 2025-2026 General Fund budget anticipates revenues of \$114,442,459 and Transfers In of \$5,546,145 for a grand total in revenues of \$119,988,604. The City projects expenses of \$121,877,171 with Transfers Out of \$1,601,982 for a grand total for expenses of \$123,479,153. This budget intends to use \$3,490,549 of unassigned General Fund Balance to maintain current services. Going forward, this is unsustainable.

Staff recommends that the City Council approve the FY 2025-2026 Preliminary Budget as proposed but that it also directs staff to start planning for necessary budget reductions for the FY 2026-2027 budget year.

Recommended Budget Approval Process

- June 10, 2025 – City Council holds budget public hearing and continues the public hearing to the June 24, 2025, City Council meeting. This will allow for more public dialogue.
- June 24, 2025 – City Council holds budget public hearing, receives public input and approves the FY 2025-2026 Preliminary Budget.
- July – September 2025 – City departments review their budgets and develop cost cutting proposals and that will be reviewed at the Review of the Final Budget in September/October 2025.
- FY 2025-2026 Review of Final Budget - September/October 2025:
 - o At a City Council meeting in either September or October City staff will have another budget review with the City Council that will allow additional public input from the community. This budget review will allow the City to work with the actual ending fund balance numbers for FY 2024-2025. Possible FY 2026-2027 General Fund budget reductions discussions will take place.
- FY 2025-2026 Mid-Year Budget Review – February/March 2026:
 - o At a City Council meeting in either February or March City staff will conduct a Mid-Year Budget review with the City Council. Any adjustments needed for the current year will be approved by the City Council at that time. Staff will be seeking direction from the Council as to what cuts they would consider including in the FY 2026-2027 budget.

Why is the General Fund experiencing stress when property tax revenues continue to rise?

There are several things that contribute to the struggles of the General Fund.

- Flattening out of Sales Tax Revenues
- Pension Costs
- Retiree Health Care Costs
- Cost Increases Due to Inflation
 - o Supplies and Contracts
 - o Cost of employees

Brief History on the 3@50 (Public Safety) PERS Retirement Plan (ChatGPT was utilized to create this summary)

The 3% at 50 public employee retirement plan—commonly referred to as 3@50—originated in California in 1999, when Senate Bill 400 was signed into law by Governor Gray Davis. This legislation significantly enhanced pension benefits for California Highway Patrol (CHP) officers by allowing them to retire at age 50 with 3% of their highest annual salary multiplied by each year of service. The change was retroactive, meaning officers could retire immediately with much larger pensions.

The rationale for this enhancement was to improve recruitment and retention in public safety roles and to reward the hazardous nature of the work. The California Public Employees' Retirement System (CalPERS) supported the change, assuring lawmakers and local governments that the pension enhancements would be “cost-neutral” due to booming investment returns in the late 1990s. This led many to believe it was a free benefit, funded entirely by market gains.

After the state adopted 3@50, CalPERS encouraged cities and counties across California to adopt similar benefits for their own police and fire employees. Using actuarial models that assumed continued high returns, CalPERS told municipalities they could do so at no additional cost, or even with savings in the short term. Facing union pressure and the risk of losing qualified officers to other agencies offering better retirement packages, cities felt compelled to follow suit, leading to a widespread adoption of 3@50 across the state.

However, the dot-com bust, Great Recession, and ongoing market volatility revealed the flaw in those assumptions. Investment returns fell short, while pension obligations soared. Instead of being a no-cost perk, 3@50 created a massive long-term liability for local and state governments. Rising pension costs have since forced cities to cut services, raise taxes, or take on more debt, and several have even faced bankruptcy, citing unsustainable pension obligations as a major cause.

In summary, the 3@50 plan was sold as a cost-free enhancement during a time of financial optimism, but in reality, it established a deeply underfunded system that burdened cities across California with long-term financial obligations that continue to strain public budgets today.

Increasing PERS Costs:

Year	GF Expense
FY 21-22	\$ 15,040,540
FY 22-23	16,194,561
FY 23-24	17,710,969
FY 24-25 (Estimated)	20,061,174
FY 25-26 (Proposed Budget)	22,431,140

The anticipated General Fund PERS costs in FY 2025-2026 are anticipated to be \$7,390,600 higher than they were just a few years ago in FY 2021-2022 when they were \$15,040,540. This represents a 50% cost increase.

Increasing Retiree Health Costs:

Year	Cost for GF Retirees
FY 21-22	\$ 4,089,010
FY 22-23	4,242,976
FY 23-24	4,645,188
FY 24-25 (Estimated)	4,718,075
FY 25-26 (Proposed Budget)	5,141,151

The anticipated General Fund Retiree Health costs in FY 2025-2026 are anticipated to be \$1,052,141 higher than they were just a few years ago in FY 202-2022 when they were \$4,089,010. This represents a 26% cost increase.

CONCLUSION:

The City of Folsom cannot continue to provide the General Fund services it presently provides to the community. There is a projected \$3.5 million General Fund deficit for FY 2025-2026. To live within its means the City will need to reduce its expenditures which translates into reductions in services.

Staff proposes using General Fund Reserves to fund the FY 2025-2026 budget but aggressively pursue a strategy to reduce costs and services in preparation for the FY 2026-2027 budget period that begins on July 1, 2026.

Only the FY 2025-2026 Budget Summaries are included with the Council Packet. The full budget with the detail pages will be made available on Tuesday, June 10, 2025 prior to the City Council meeting.

ATTACHMENTS

1. Resolution No. 11401 – A Resolution Adopting the Fiscal Year 2025-26 Operating and Capital Budgets for the City of Folsom, the Successor Agency, the Folsom Public Financing Authority, and the Folsom Ranch Public Financing Authority
 - a. Exhibit A - Budget Summary by Fund – Projected Balance 2025-26 and Summary of General Fund Revenues and Expenditures
 - b. Exhibit B – Staffing Detail 2025-2026
 - c. Exhibit C – FY 2025-2026 Budget Request Proposal Detail Listing

Submitted,

Bryan Whitemyer, City Manager