



# Folsom City Council Staff Report

<b>MEETING DATE:</b>	10/24/2023
<b>AGENDA SECTION:</b>	New Business
<b>SUBJECT:</b>	Consideration of Potential Sales Tax Measure and Direction to Staff
<b>FROM:</b>	City Manager's Office

## **RECOMMENDATION / CITY COUNCIL ACTION**

The City Manager recommends that the City Council provide direction to staff pertaining to a potential local sales tax measure to be placed on the November, 2024 General Municipal Election for consideration by Folsom voters.

## **BACKGROUND / ISSUE**

At a recent City Council meeting, a consensus of the City Council directed the City Manager to return to a future meeting with an agenda item to discuss consideration of a potential local sales tax measure and provide direction to staff.

Over the last approximately four years, through various Budget and strategic planning agenda items, special meetings, and workshops, the City Manager and the Chief Financial Officer have brought information to the City Council regarding a change in the historical, predictable pattern of the City's sales tax revenue rate of growth paired with rising costs (including employee compensation and benefits); concern about the low level of the City's overall reserves proportionately compared to other jurisdictions; concern about the City's financial inability to respond to long-deferred construction and maintenance needs in our parks, in our facilities, and on our trails; the City's inability to set aside money for future needs, including information technology infrastructure, facility improvements, and risk management; concern about staffing needs and personnel recruitment and retention challenges throughout the City organization; and the City's General Fund projected structural deficits over the next five fiscal years, beginning in FY2024-25.

In the context of these very significant fiscal challenges, the City Manager and the Chief Financial Officer previously discussed the benefits of a potential local sales tax measure with the City Council. City staff initiated and completed a comprehensive community outreach effort on these subjects in 2022; engagement from the community was rated as remarkably high compared to other jurisdictions by the expert consultants engaged in that effort at the time. Staff subsequently presented proposed ballot language for a local sales tax measure to the City Council at its July 12, 2022 regular meeting for consideration for placement on the ballot of the November, 2022 General Election. The City Council declined to place the language on the ballot.

The City Manager will provide a briefing to the City Council on a potential local sales tax measure, including a summary of the City's fiscal challenges; examples of benefits to the City organization and the community if such a measure were passed; and options and questions for the Council's consideration and direction.

### **POLICY / RULE**

All powers of the City shall be vested in the City Council except as otherwise provided by the City Charter. Section 2.02 of the City Charter.

### **ANALYSIS**

Folsom's cumulative tax rate on retail sales currently stands at the base rate of 7.25 percent of the purchase price, plus an additional .5 percent for Measure A transportation uses, for a total of 7.75 percent of purchase price. However, the City of Folsom does not receive 7.75 percent of the purchase price from each sale within Folsom. Instead, that tax revenue is allocated between the State of California, the County of Sacramento, the City of Folsom, and other public agencies. Folsom's share is 1.0 percent of the purchase price. This means that if someone makes a one dollar purchase in Folsom, the City of Folsom receives just one cent (not 7.75 cents) from that transaction.

If voters were to approve a local sales tax measure, 100 percent of the revenue from that measure would go to the City of Folsom; that is to say, the revenue would not be shared with other agencies. A successful sales tax measure raising Folsom's rate by one-half percent would increase the cumulative tax rate in Folsom to 8.25%, and Folsom's share of the purchase price would increase from 1.0 percent to 1.5 percent. A successful sales tax measure raising Folsom's rate by one percent would increase the cumulative tax rate in Folsom to 8.75 percent, and Folsom's share of the purchase price would increase from 1.0 percent to 2.0 percent.

Traditional estimates show that about 40 percent of sales tax is paid by non-residents.

By way of comparison with our jurisdictional neighbors within Sacramento County, the Cities of Elk Grove (8.75 percent), Galt (9.25 percent), Rancho Cordova (8.75 percent), and Sacramento (8.75 percent) all have at least a one percent local sales tax in place. The City of Citrus Heights remains at 7.75 percent alongside Folsom.

**FINANCIAL IMPACT**

Staff estimates that a one-half percent local sales tax would initially generate approximately \$11 million per year, while a one percent local sales tax would initially generate approximately \$22 million per year until and unless repealed by voters.

**ENVIRONMENTAL REVIEW**

The recommended action of the City Council is not a project as defined by the California Environmental Quality Act (CEQA) and therefore does not require environmental review.

Respectfully submitted,

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Elaine Andersen, City Manager

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**FOLSOM**  
DISTINCTIVE BY NATURE