CITY OF FOLSOM
DISTINCTIVE BY NATURE

Folsom City Council
Staff Report

MEETING DATE:	6/9/2026
AGENDA SECTION:	Public Hearing
SUBJECT:	Resolution No. 11645– A Resolution Adopting the Fiscal Year 2026-27 Operating and Capital Budgets for the City of Folsom, the Successor Agency, the Folsom Public Financing Authority, and the Folsom Ranch Public Financing Authority
FROM:	Finance Department

RECOMMENDATION / CITY COUNCIL ACTION

Staff recommends that the City Council pass and adopt Resolution No. 11645 – A Resolution Adopting the Fiscal Year 2026-27 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

The City Manager's Proposed Operating Budget and Capital Improvement Plan (CIP) for Fiscal Year 2026–27 were presented to the City Council at the May 26, 2026 Council Meeting. During the meeting, the City Manager and staff outlined key components of the proposed budget, highlighted the various CIP projects proposed and responded to questions asked by City Council members. Since then, additional questions have been submitted by the City Council and are addressed, in part, here and in the attachments.

In response to a councilmember's request for updated information on the City's CalPERS unfunded liabilities, updated charts for both the Miscellaneous and Safety Pension Plans have been uploaded to the City's website showing the CalPERS trends and the unfunded liability from FY2007-08 through FY 2026-27. The charts are available here: https://www.folsom.ca.us/government/finance/reports

CalPERS Pension Obligations

The City of Folsom, like most cites, is primarily in the business of providing services such as law enforcement, fire protection, parks services and other municipal services, and it takes personnel to provide those services. Due to this service model, within the General Fund, salary and benefit costs account for over 70% of annual expenses And within the benefits category, payments to CalPERS are the largest expense.

Pension payments are a legal obligation; the City is obligated to pay for the benefits earned by employees. In general, state law prohibits retroactive reductions in pension benefits. Under the "California Rule", pension benefits at the start of employment become a vested right and are protected by constitutional contract law. Pension benefits are an expense that the city will have to continue to pay.

Although CalPERS obligations are a significant expense, the cost is shared. Each employee contributes a required percentage toward their retirement benefits. Currently ranging from 8%-12.75% of salary, depending on the classification of the employee.

What has the City done to address Pension Costs?

The first step taken was Pension Formula Reductions required by the California Public Employees' Pension Reform Act (PEPRA). The new formulas were implemented for all new employees hired on or after January 1, 2013:

Public Safety Employees: 2.7% @ age 57 (down from 3.0% at 50)
Miscellaneous Employees: 2.0% @ age 62 (down from 2.7% at 55)

The City took pension reform a step further than required by PEPRA and did something that wasn't required but would create even more costs savings. Pension benefits for employees new to the City of Folsom organization, but not new to CalPERS (were members of CalPERS prior to January 1, 2013) receive a reduced benefit formula for their years working for the City:

Public Safety Employees: 2.0% @ age 50 (down from 3.0% at 50)
Miscellaneous Employees: 2.0% @ age 55 (down from 2.7% at 55)

The new formulas required by PEPRA and the City's pension reform are lower than for members under the "classic" formulas. Over time, this will reduce the city's overall pension cost as employees under the new formulas begin to make up the majority of the employee groups.

What is an Unfunded Liability?

An unfunded liability occurs when pension plans have a shortfall in the money that should be available in the plan to earn investment returns and pay benefits.

Why does the City have an Unfunded Liability?

The city has always made its full, required contributions to CalPERS. <u>The unfunded liability didn't occur because of some lack of city action or missed payments</u>.

Most cities in California have some level of unfunded liability. The CalPERS system overall is underfunded.

There are several factors that contributed to public organizations within CalPERS having some level of this liability. The League of California Cities® performed a Retirement System Sustainability Study and Findings in 2018, and these factors listed here were determined to have the most impact on the pension system and led to the unfunded liability.

1. Past enhanced benefits (1999-2000)
2. CalPERS investment losses
3. Automatic Cost of Living Adjustments for retirees
4. Past CalPERS contribution policy (Post Great Recession)
5. Demographics

The first factor listed above, past enhanced benefits (1999-2000), is an increase to the pension system's costs when enhanced pension benefits were granted by state and local government employers about 25 years ago following the passage of SB 400 and AB 616. Cities throughout California, and the State itself, provided enhanced benefits and, when negotiated, statute required those enhanced benefits apply to both prior and future service.

At this time most plans, and the CalPERS pension fund overall, were "super funded" with about $40 billion more in assets than in liabilities, so it was generally accepted that these enhanced benefits were something the plan could afford.

The second factor contributing to the growth in the unfunded liabilities across the whole pension system is CalPERS's investment performance and changes to their assumptions. The Great Recession played a big role in CalPERS' less than optimal investment returns and we've seen similar results since that time. In 2008, CalPERS suffered a negative 27 percent return on investment. Factoring in the 2008 discount rate (7.75 percent) results in a gross 34.75 percent impact to the fund. Every year, when investment returns do not meet the assumed discount rate, (assumed income on investments) the public employers (like the city) will take on the liability associated with this shortfall.

In this chart here, from the 2024-25 CalPERS Facts at a Glance: Investments, there have been 5 out of the 10 years, when CalPERS's investment returns did not reach the assumed rate.

Total Fund

Total Fund Highlights *(FY 2024–25)*

$563.0 bil — Total fund market value; ↑11.1% change from previous FY

11.6% — Total fund annual investment rate of return

6.8% — The discount rate (assumed investment rate of return) — what CalPERS expects its investments to earn on average

Investment Returns[1] & Market Value of Assets[2]

FY	Investment Returns	Market Value of Assets *(in billions)*
2024-25	**11.6%**	**$563.0**
2023-24	9.3%	$506.6
2022-23	5.8%	$464.6
2021-22	(6.1%)	$439.4
2020-21	21.3%	$477.3
2019-20	4.7%	$392.5
2018-19	6.7%	$372.6
2017-18	8.6%	$354.0
2016-17	11.2%	$326.5
2015-16	0.6%	$298.7

In years when the investment return does not meet the assumed rate of return, currently 6.8%, the market value of the assets decreases, the total UAL increases, and that leads to higher contributions required from the City to make up that difference.

The third factor that the League of California Cities indicated as contributing to the growth in the unfunded liabilities is the Automatic Cost of living adjustments (COLA) for retirees. These are automatically added to a retiree's pension benefit and when that exceeds the assumed rate for these adjustments that increases the unfunded liability.

The fourth factor was CalPERS contribution policy, most notably after the Great Recession, did not require agencies pay interest on the accrued unfunded liability. While this shift in policy was an attempt to ease the burden on employers during that time, the policy resulted in pushing unfunded liability payments to future years.

The fifth factor is Demographics. The liability for retirees at most cities significantly exceeds that of actives, especially for older cities like the city of Folsom who have been in the pension system for a while. This creates more volatility, less people paying in, and that creates a big impact on funded status and ultimately contributions.

What is the City's current CalPERS Unfunded Accrued Liability (UAL)

The most recent CalPERS actuarial reports, dated July 2025, state an Unfunded Accrued Liability (UAL) as of June 30, 2024, of $105,816,143 for the Safety Plan and $103,637,540 for the Miscellaneous Plan. The UAL calculation is the difference between the Accrued Liability (actuarially estimated obligations to retirees) and the current value of the assets (held by CalPERS on our behalf). If a pension plan has a UAL, that means the plan has a shortfall in the money that should be available in the plan to earn investment returns and pay benefits.

The CalPERS Actuarial Valuation projects employer contributions for both the Normal Cost % and the Annual UAL payment for both plans are as follows:

Safety Plan:

Fiscal Year	Normal Cost (% of payroll)	Annual UAL Payment
2027-28	17.3%	$9,988,000
2028-29	16.9%	$10,728,000
2029-30	16.5%	$10,859,000
2030-31	16.1%	$10,953,000
2031-32	15.7%	$10,767,000

Miscellaneous Plan:

Fiscal Year	Normal Cost (% of payroll)	Annual UAL Payment
2027-28	10.7%	$10,091,000
2028-29	10.5%	$10,920,000
2029-30	10.3%	$11,043,000
2030-31	10.1%	$11,139,000
2031-32	9.9%	$10,362,000

Per CalPERS, the annual UAL payments are expected to peak in FY 2030-31 and begin to decline in the following years. Estimated Outlook Charts, created using the CalPERS Pension Outlook Tool, are included with this staff report as Attachment 5, showing the estimated UAL for each plan into the future. If all assumptions are met, the UAL would be fully paid off in FY 2043/44.

Also using the CalPERS Pension Outlook took, we can compare our UAL and our Funded Ratio to those of some of our neighbors.

FY 2026-27 UAL and Funded Ratio (from CalPERS Pension Outlook Tool) (in millions)						
	City of Folsom		City of Roseville		City of Rancho Cordova	
Safety Plan						
UAL Payment	$	9.6	$	13.2		
Total UAL	$	102.7	$	142.6		N/A
Funded Ratio		67.28%		74.31%		
Misc Plan						
UAL Payment	$	9.8	$	32.6	$	0.8
Total UAL	$	99.0	$	334.9	$	8.1
Funded Ratio		70.13%		68.43%		84.18%

Newer cites, such as Rancho Cordova, tend to have a lower UAL and a higher Funded Ratio, where older cites such as Folsom and Roseville tend to have comparable lower Funded Ratios.

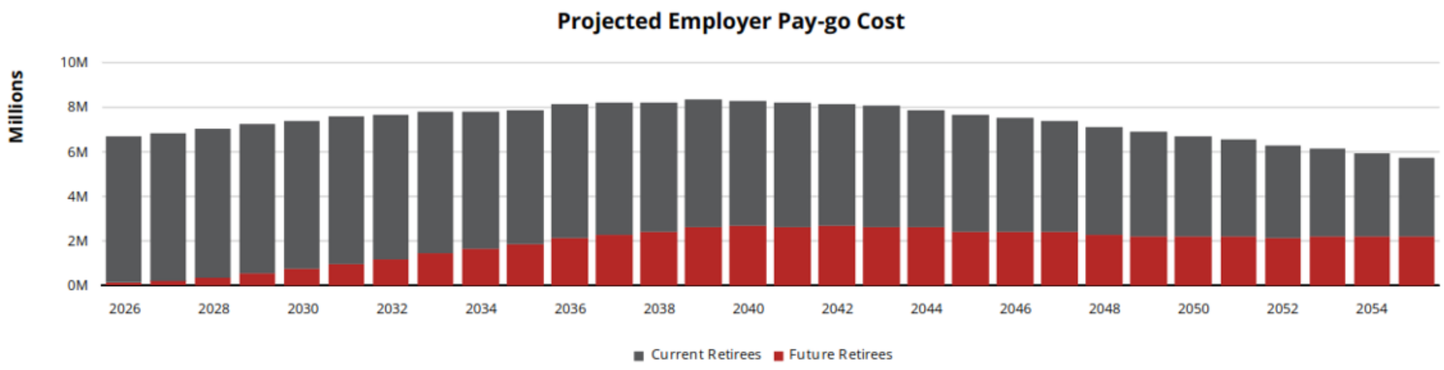
OPEB Retiree Health Benefits

The City's Other Post-Employment Benefit (OPEB) for Retiree Health Benefits also has an unfunded liability. The City pays a portion of the premiums for health benefits for retirees and the actuarily determined cost to pay all the benefits for the entirety of the plan (Total OPEB Liability) is $114,221,134, as of the date of the most recent actuarial report.

As a cost savings measure, the City eliminated this benefit for new employees hired after May 8, 2007, ensuring that this obligation will eventually have an end date since there are no new employees being added into the plan.

The City also established an OPEB Trust Fund in 2008 to set aside resources to help fund the City's OPEB obligation. The City has been contributing to the trust fund regularly, and this FY 2026-27 budget proposes an additional $500k contribution. The total value of the trust fund as of April 30, 2026, is $13,612,990.

The chart below, from the most recent OPEB actuarial report, estimates the City's Pay-go Cost for Retiree Health Benefits will peak in FY 2038-39 at about $8.36 million, and steadily decrease until there are no remaining participants in the plan.



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

The City Manager's Fiscal Year 2026-27 Operating Budget as presented on May 26, 2026, totaled $307,684,472. Since then, a $55,494 reduction to the Zoo Operating Budget in the General Fund has been proposed. The new proposed budget total is $307,628,978 and below is a breakdown by Fund category:

Fund Category	FY 26-27 Proposed Expenditures	FY 26-27 Proposed Transfers Out	FY 26-27 Total
General Fund	$123,366,023	$880,468	$124,246,491
General Grants and SPIF Fee Funds*	242,447	-	242,447
Special Revenue Funds	20,685,257	1,396,515	22,081,772
Debt Service Funds	17,094,421	-	17,094,421
Capital Project Funds	23,967,595	1,915,115	25,882,710
Enterprise Funds	62,156,303	4,467,166	66,623,469
Internal Service Funds	27,886,639	-	27,886,639
Fiduciary Funds	23,571,029	-	23,571,029
Total	**$298,969,714**	**$8,659,264**	**$307,628,978**

*included with General Fund for reporting purposes

The City Manager's Fiscal Year 2026-27 Proposed Operating Budget and CIP also includes 498 full and permanent part-time positions across all funds. This proposed budget provides for 2 new positions and upgrades a part-time position to full-time. The added positions are listed below, along with the department.

Department	**Position**
Police Department	Records Technician (0.5)
Human Resources	Senior HR Analyst (1.0)
Solid Waste	Management Analyst (1.0)

The City Manager's Fiscal Year 2026-27 Proposed Preliminary Budget is available on the City's website at https://www.folsom.ca.us/government/finance/city-budget/-folder-395#docfold_14_786_600_395.

ATTACHMENTS

1. Resolution No. 11645 – A Resolution Adopting the Fiscal Year 2026-27 Operating and Capital Budgets for the City of Folsom, the Successor Agency, the Folsom Public Financing Authority, and the Folsom Ranch Public Financing Authority
2. Budget Summary by Fund – Projected Balance 2026-27
3. Staffing Detail
4. Capital Improvement Plan
5. CalPERS Charts from Pension Outlook Tool
6. Responses to Councilmember Leary's Questions
7. Questions from Mayor Raithel

Submitted,

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Stacey Tamagni, Finance Director