



CITY OF  
**FOLSOM**  
DISTINCTIVE BY NATURE

## Folsom City Council Staff Report

<b>MEETING DATE:</b>	2/8/2022
<b>AGENDA SECTION:</b>	New Business
<b>SUBJECT:</b>	Council Workshop on Developing a Strategy to Close the City’s Future Funding Gap and Direction to Staff
<b>FROM:</b>	Finance Department

### **RECOMMENDATION / CITY COUNCIL ACTION**

Receive staff presentation about the City’s financial outlook and direct staff to develop a community engagement plan to inform the public/obtain input about service priorities.

### **BACKGROUND / ISSUE**

The City’s fiscal position has improved steadily since the December 2007 - June 2009 “Great Recession”. That said, the City experienced continued effects of the recession through Fiscal Year 2011 when the General Fund’s “rainy day fund” reached its low point of just \$3.9 million. Initial recovery from the recession meant there was lost ground to be regained, as the City prioritized maintaining quality of life services and was able to minimize cuts with strong fiscal management and the deferral of improvements and maintenance. Over the next few years, sales tax revenues increased as pent-up consumer demand was satisfied, and property tax revenues increased as real estate values recovered; however, this trend in revenue growth, particularly sales taxes, has slowed down while the cost of providing services continues to increase.

COVID-19 has also added to the fiscal strain, affecting revenues once again and solidifying concerning shifts in sales tax trends and consumer behavior. Unfortunately, as has been shared with the City Council previously, Folsom has received a relatively small infusion of state or federal COVID-19 relief dollars, disproportionate to other jurisdictions.

During both the “Great Recession” and the COVID-19 related economic downturn, the City kept service levels high by deferring millions of dollars’ worth of capital improvements and

maintenance, and reducing staffing levels. Staffing levels at this time are still below the levels they were at before the “Great Recession”.

This approach has provided for break-even budgets in recent years, and staff expects that will continue for FY 2022-23, with operational revenues anticipated to roughly equal operational expenses. However, as expenses continue to grow and outpace the growth of revenues, City staff is projecting a \$2.3 million funding gap by FY 2026-27 *just to provide our current level of service*. This \$2.3 million projected shortfall does not address the City’s future unfunded needs, let alone meet the understandably increasing expectations of the residents of our growing city.

Due to slowing revenue growth and increasing costs to provide services, the City has had to make difficult decisions in recent years, deferring most requests from operating departments for increased budget allocations for facility and park maintenance, vehicle and equipment replacements, and increased staffing needs. *If the City were to maintain its current level of service while also fully funding these accumulating maintenance, vehicle and equipment replacement, and other annual unfunded needs that have been deferred for many years, the General Fund budget would realize a \$20 million deficit per year.* Unfortunately, these needs do not go away when they are deferred; they continue to accumulate and the cost to fund them in the future only grows.

## ANALYSIS

In line with City staff’s ongoing commitment to approaching the City Council early and often regarding budget and fiscal concerns, staff will be presenting the current and projected financial status of the City’s General Fund, including discussion of the major revenue sources and a five-year General Fund forecast. The presentation will also provide specific examples of unfunded and underfunded future needs.

Staff will also discuss possible means and methods to close the future funding gap at the workshop, including but not limited to the use of remaining ARPA dollars, raising revenues, deploying economic development tactics, and/or implementing cuts to City services.

In response to this fiscal reality, staff is recommending that the City Council direct staff to initiate a process involving the community aimed at evaluating the City’s General Fund operations and revenues. The goal would be to find a way to balance the City’s obligation to address its long-term expenses while maintaining fiscal stability and the high-quality essential services and programs most valued by the community.

The implementation of this type of process has the potential to substantially impact City service and program levels, the community’s current quality of life, and the City’s long-term vision for the future.

As such, an extensive community education and participation program will ensure the community has a clear understanding of the City’s fiscal constraints, and has multiple

opportunities to provide input. The program will also ensure that the City has a clear understanding of community priorities.

### **Public Engagement Plan**

The City intends to engage in a multifaceted and effective public engagement plan with the following goals:

- Support continued transparency of the City's decision-making process and budget and fiscal situation.
- Gather extensive community feedback and data about priorities for quality-of-life City programs, services, and amenities.
- Proactively educate the community about the City's budget and fiscal situation and needs, including revenues, expenses, and challenges.
- Provide multiple opportunities and forums for the community to provide valuable feedback to the City.
- Provide information and community feedback to the City Council and City staff about the kind of community people want to live in and which services they value.
- Highlight the trade-offs associated with allocating limited resources.

Strategies for informing and engaging the wider community will include research and planning, social media, direct mail, electronic newsletters, public forums, surveys, exercises, opinion research, online engagement tools, local advertising, media relations, and a concentrated focus on two-way collaborative communication. These elements will be considered in the development of a public engagement plan.

The City intends to engage a consultant to assist with the implementation of an effective public information and engagement plan.

### **FINANCIAL IMPACT**

Council direction to engage a consultant to assist with implementation of an effective community engagement plan consistent with the goals outlined in this report would require various staff resources. Existing City staff will be used to absorb the workload to the extent feasible. Consultants will be needed to assist in public outreach strategy development and to conduct a scientific community survey. Consultants and other engagement tools will be paid for with current available budget within the General Fund.

Ensuring broad, meaningful civic engagement in this effort will also require a higher commitment of staff resources; however, the effect will be significant. The City's effort to gather and leverage public input to generate collective ideas and informed recommendations will advance the quality and effectiveness of the City's budgeting process. The budget is ultimately a reflection of the community's priorities and values, as it outlines how the City invests its resources to make Folsom the kind of community its residents want it to be.

Submitted,

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Stacey Tamagni, Finance Director/CFO

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