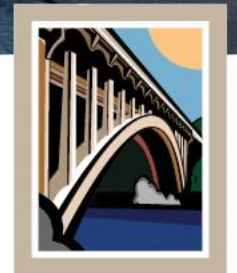


Consideration of Potential Sales Tax Measure and Direction to Staff

October 24, 2023

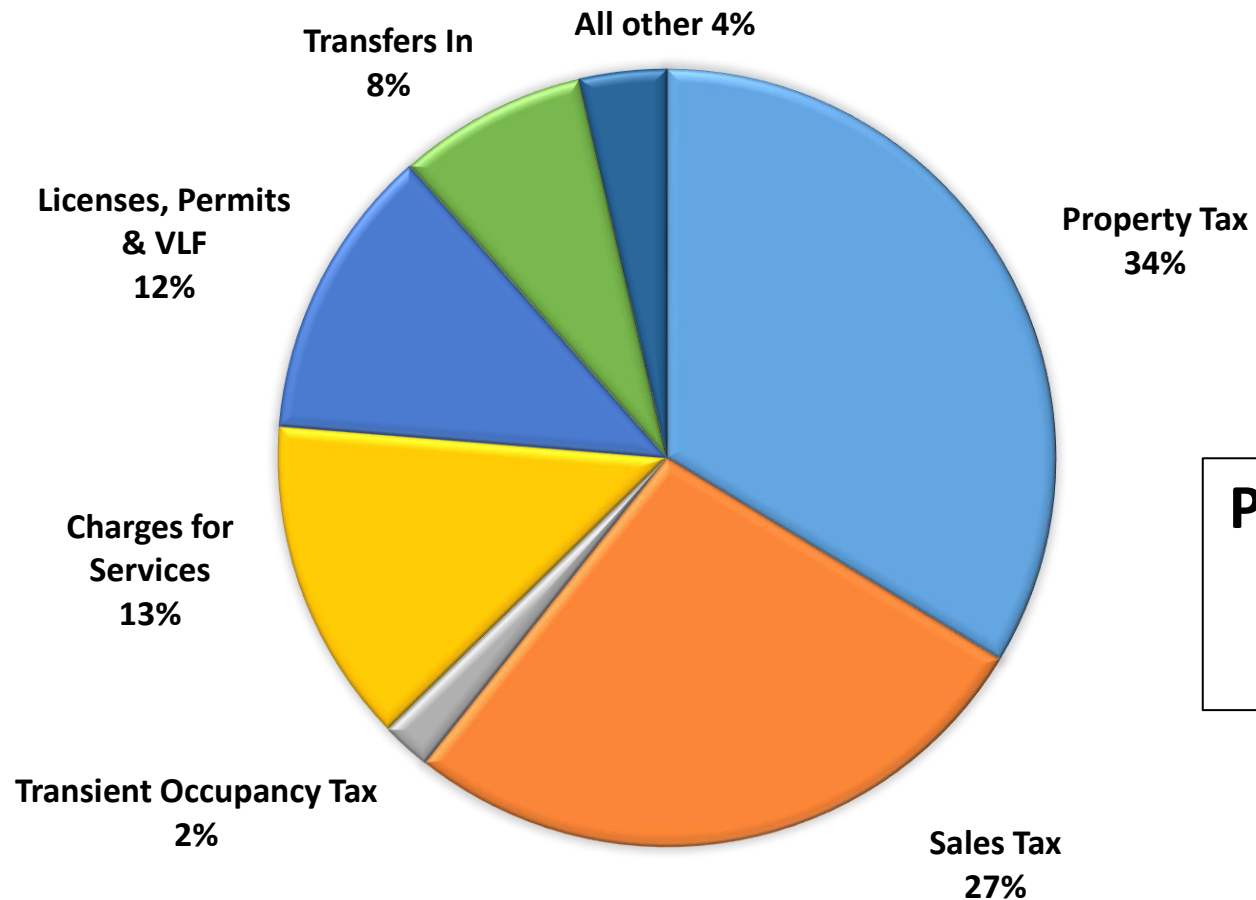


CITY OF
FOLSOM

General Fund Revenue



CITY OF
FOLSOM

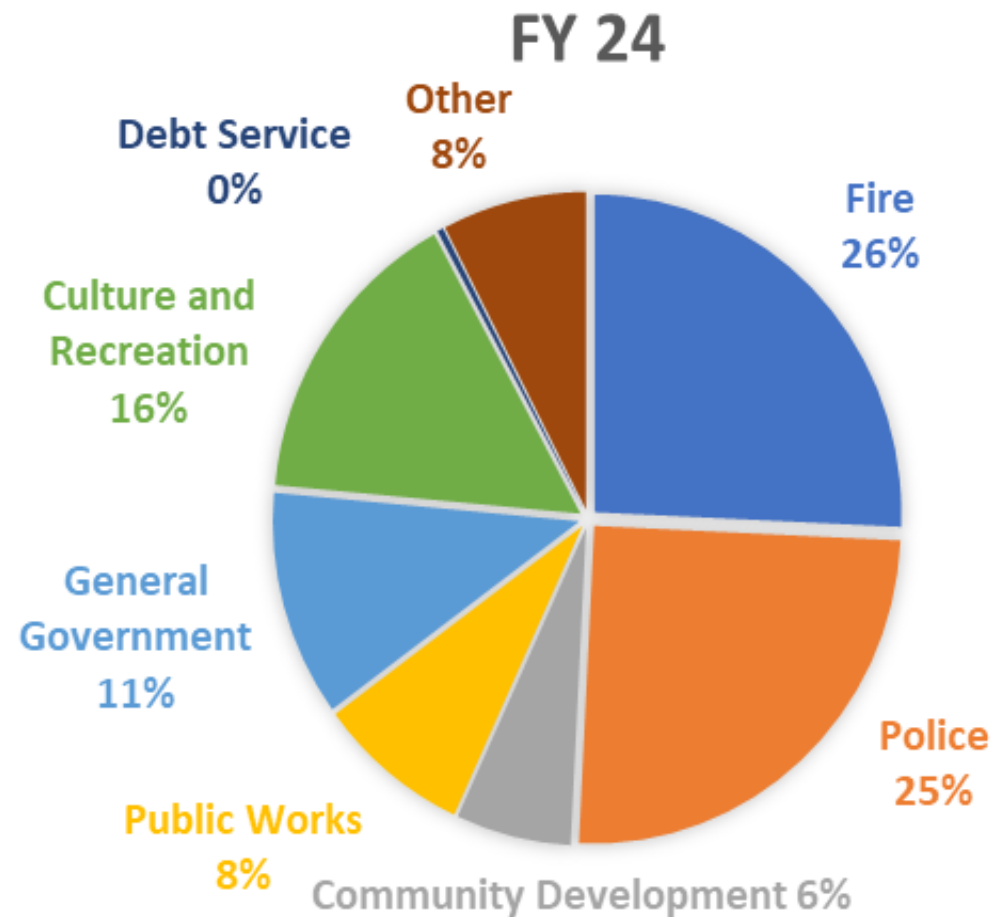


**Property and Sales Tax:
61% of Total General
Fund Revenue**

General Fund Appropriations



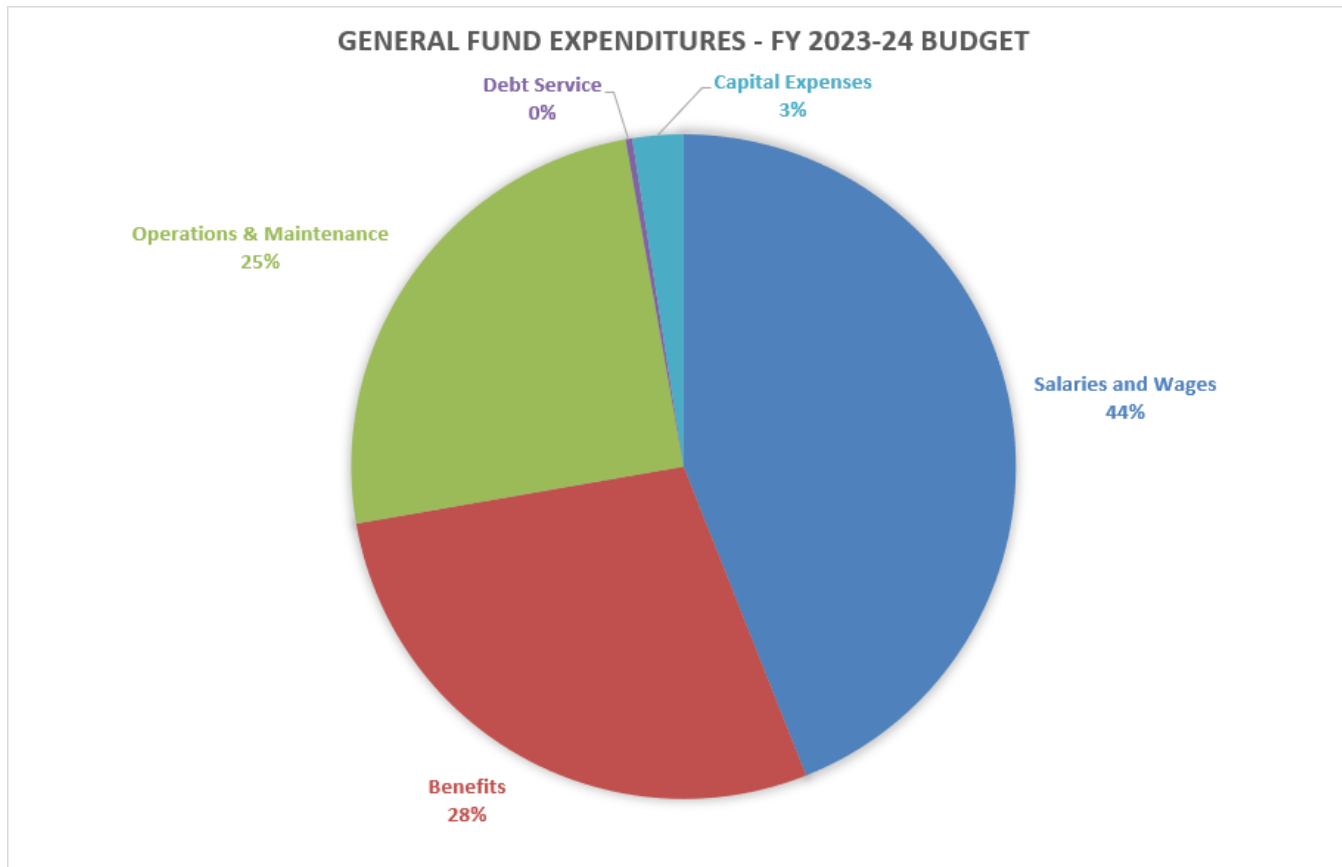
CITY OF
FOLSOM



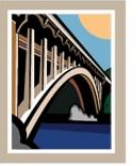
General Fund Expenses



CITY OF
FOLSOM



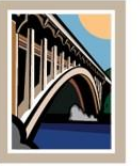
General Fund Property Tax



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FOLSOM

- California's approximate property tax rate: 1%
- Folsom receives 20% of the 1% paid
- Approximate value of all property in Folsom: \$18.5 billion
- Property tax receipts generated: \$185 million
- Folsom receives about: \$37 million annually

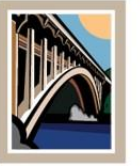
General Fund Property Tax



CITY OF
FOLSOM

- Assume an average taxable home value in Folsom of \$450,000
- This generates \$4,500 in property tax
- Folsom receives \$900 for General Fund operations

General Fund Property Tax



CITY OF
FOLSOM

- Property tax growth trends are projected to continue to be steady at about 5% per year
- The City can do little to influence this growth

General Fund Property Tax



CITY OF
FOLSOM

- Property tax revenue from growth South of 50 is not an unexpected windfall; these tax increases were expected and factored into projections
- Planned expenses to provide services for that area are also factored into expense projections
- This creates a zero-net effect on the General Fund

General Fund Sales Tax



CITY OF
FOLSOM

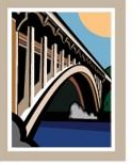
7.75% sales tax rate in Folsom

- This is the state minimum of 7.25%, plus a .50% Sacramento County tax for transportation maintenance and improvements (Measure A)

Folsom receives 1¢ of the 7.75¢ tax paid per dollar spent

- The majority goes to the State
- ½ cent goes towards Sacramento County transportation maintenance and improvements
- Small amount goes directly to County for programs

General Fund Sales Tax



CITY OF
FOLSOM

- Approximate annual taxable sales in Folsom: \$2.8 billion
- Sales tax generated: \$217 million
- Folsom receives: \$28 million

General Fund Sales Tax

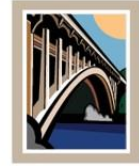


CITY OF
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Sales tax paid by average Folsom household:

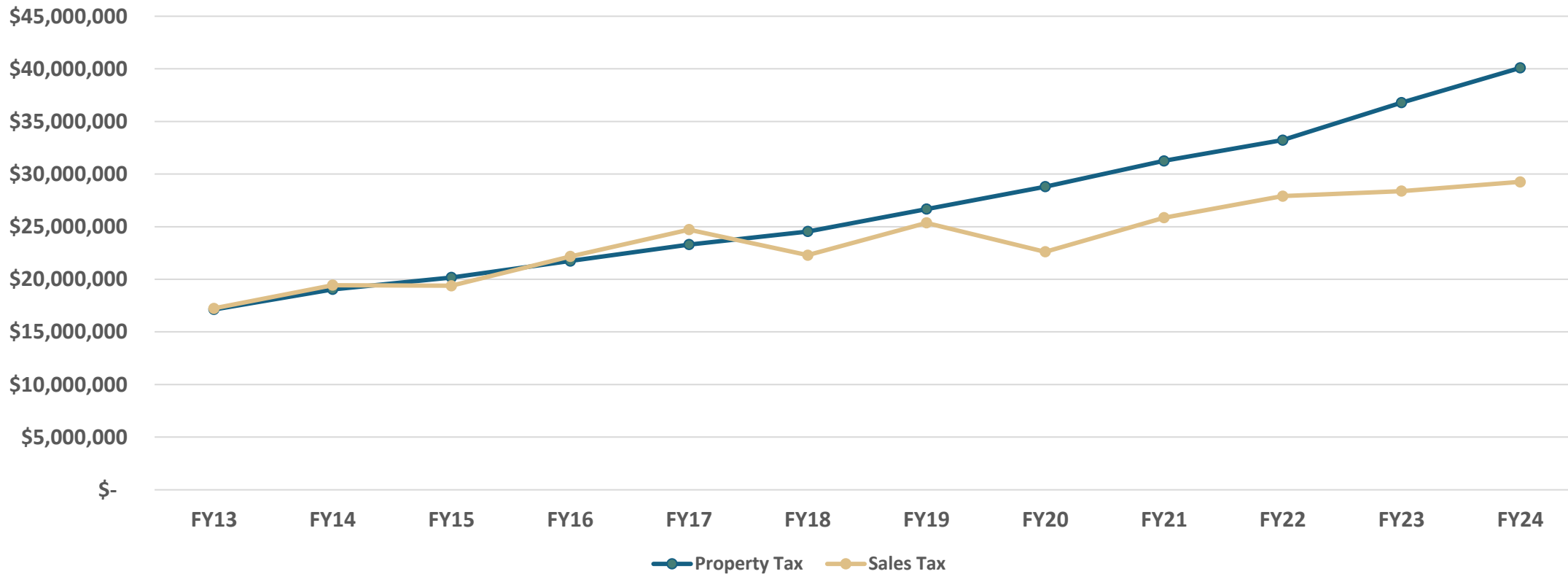
- About \$114,405 average household income
- Of that income, about 25%, or \$28,601, spent on taxable items
- About 75% of the taxable spending, or \$21,450, is spent in the City
- This generates \$1,662 in sales tax within the City
- Folsom receives \$215/year for General Fund operations

Flattening Sales Tax Trend

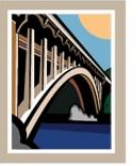


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Revenues by Type



Sales Tax – What’s Happening?



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Sales tax is no longer a steady source of income.

There is a shift in:

- What we buy

There is a shift from purchasing “things” to purchasing services

- How we buy it

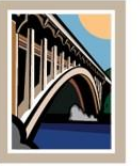
Internet sales

- How much we can afford to buy

Increased cost of services and housing erodes buying power for taxable goods

This trend is not going away.

General Fund Sales Tax



CITY OF
FOLSOM

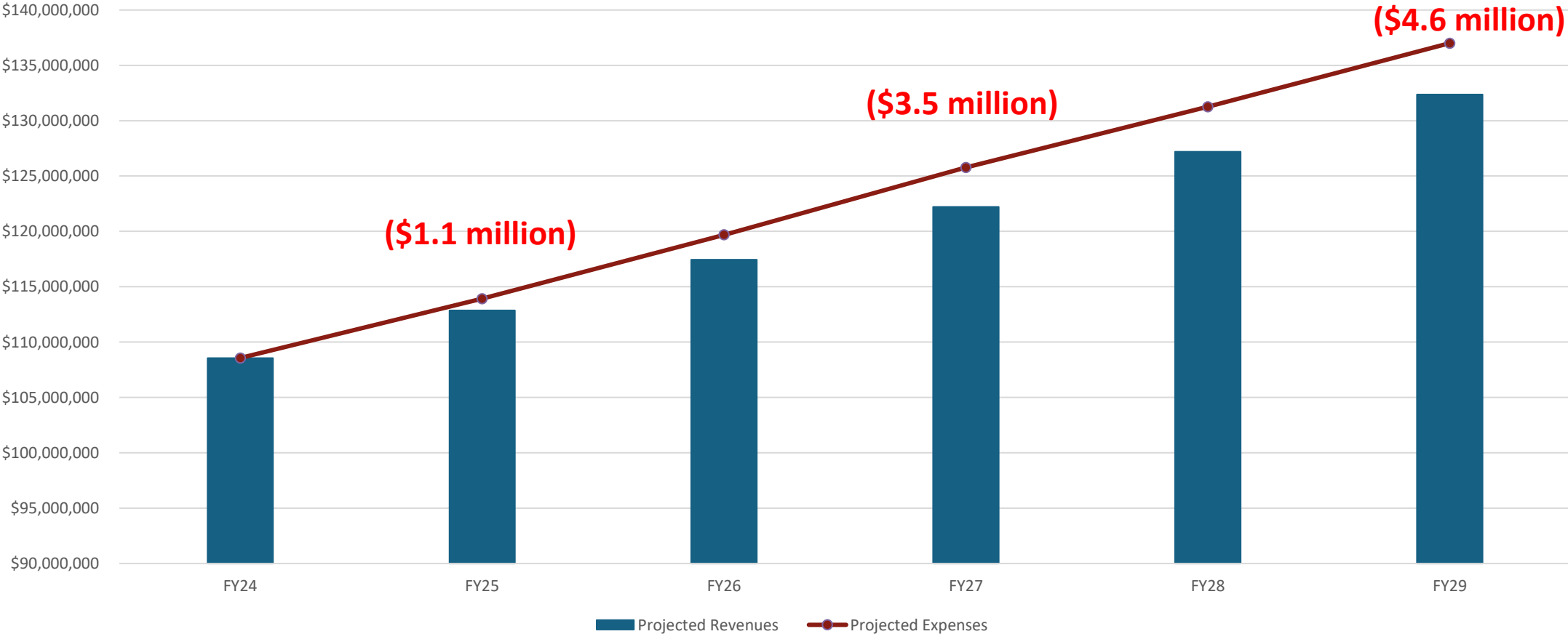
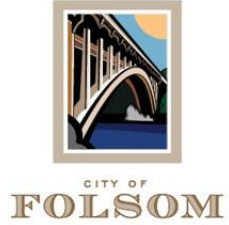
Good news:

- Significant sales tax (an estimated 40%) is generated from non-Folsom residents
- Very diversified tax base

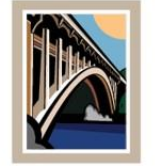
Concerns:

- Quite volatile
- Heavily impacted by an economic downturn
- As spending trends continue to change, sales tax revenue growth is eroded

Sales Tax: Why Does It Matter?



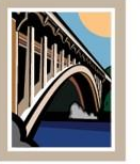
City Response to Challenges



CITY OF
FOLSOM

- Over the last 10 years, the City has:
 - Significantly reduced staffing levels (remained flat for the past 4 years) - all departments doing more with less
 - Used part-time or contract employees when feasible
 - Increased employee contributions towards retirement (employees pay their entire share)
 - Eliminated retiree health benefits for new employees
 - Increased employee contributions to health benefits
 - Restructured education incentive pay for costs savings
 - Extended the number of steps in pay ranges to have smaller annual pay increases
 - Eliminated longevity pay for new employees
 - Capped accrued leaves balances and cash out amounts

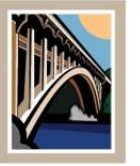
Current Status



CITY OF
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- We've done the hard work, and then some.
- We have staff shortages in nearly every General Fund department, even as our population and community expectations continue to rise.
- We are concerned about employee recruitment and retention issues.
- The cost of doing business has gone up significantly.

Current Status



CITY OF
FOLSOM

- Department heads are putting forward reasonable requests over and over again, and they are declined.
- We have no reserve funds for individual departments, functions, purposes, or visions.
- We have almost no money to deal with surprises.
- Our facilities, parks, and trails are aging out.
- There are at least \$20 million annually in unfunded or underfunded needs that the City is deferring.
- We need to serve the Folsom Plan Area.

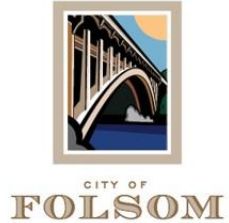
Bottom Line



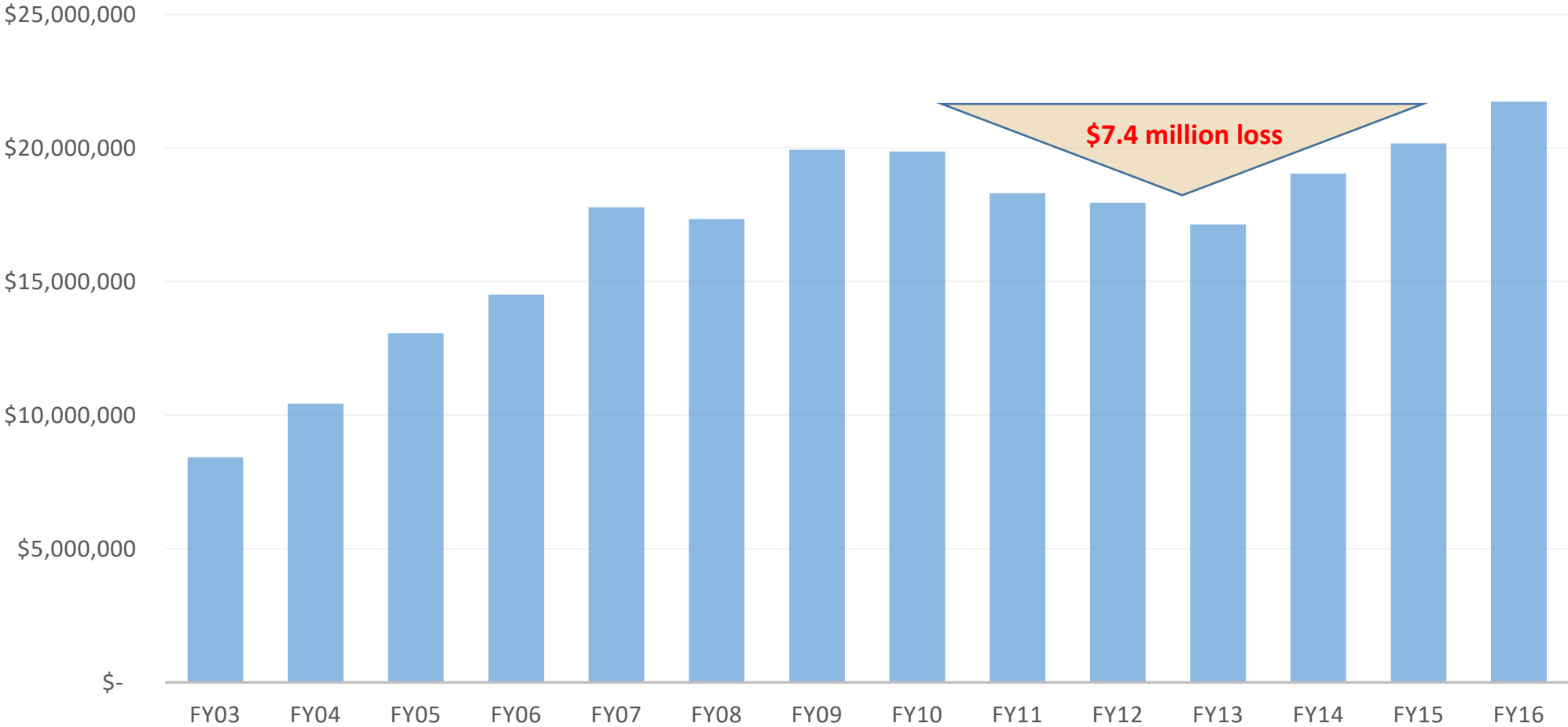
CITY OF
FOLSOM

- There is limited ability to reduce service costs further.
- Without increased revenues, a reduction in City services will be required to balance future budgets.

Historical Property Tax Results



Property Tax Results FY 03-FY 16

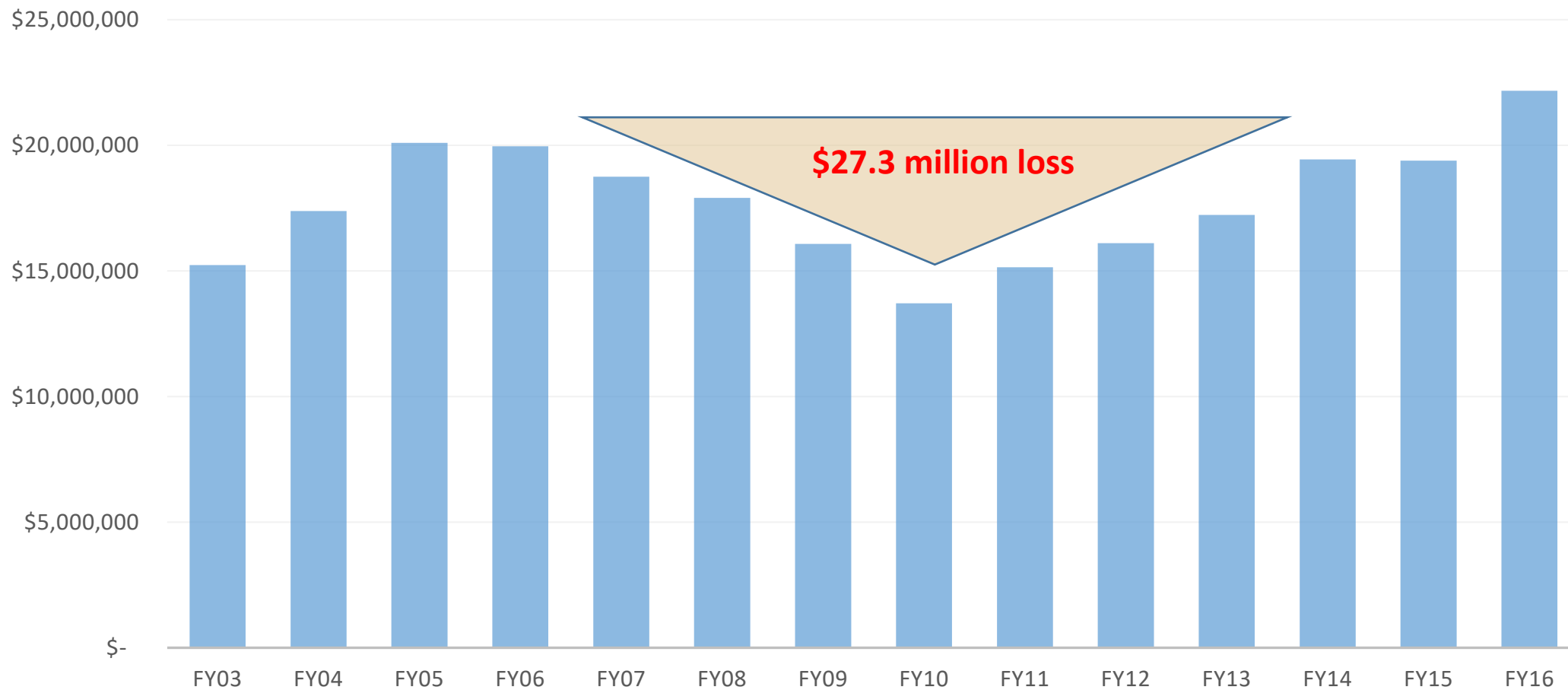


Historical Sales Tax Results

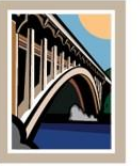


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Sales Tax Results FY 2003-FY 2016



Unassigned General Fund Balance



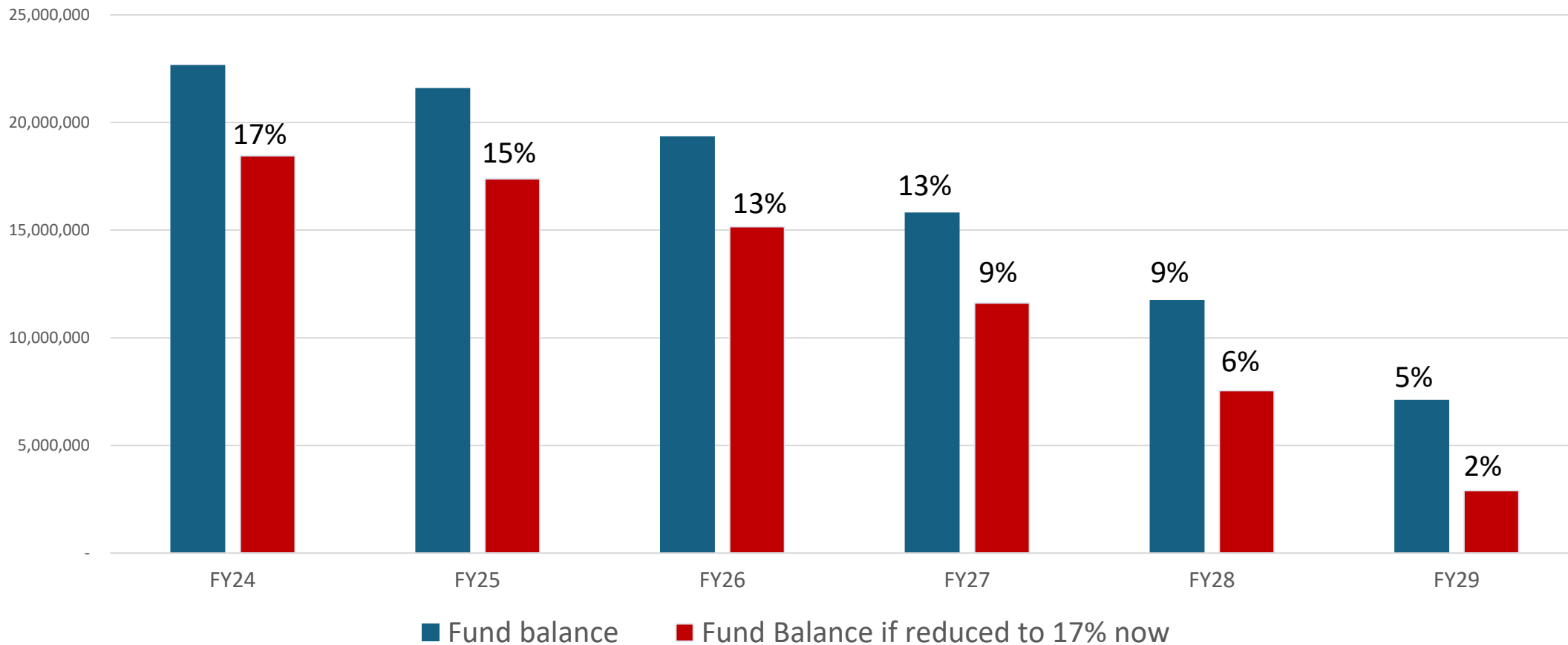
CITY OF
FOLSOM

- The City Council's financial policy says that a minimum of 15 percent of the General Fund Budget should be kept for reserve.
- And once that's hit, the extra should first go into dealing with deferred maintenance.
- Keep in mind that as the City's General Fund grows, so does that reserve number.
- If you use your fund balance in any given year, then the required additions in a future year to get back to the minimum are even larger and more difficult to achieve.

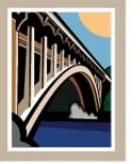
Projected Unassigned Fund Balance if Used to Cover Annual Budget Shortfalls



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FOLSOM



Important Factors



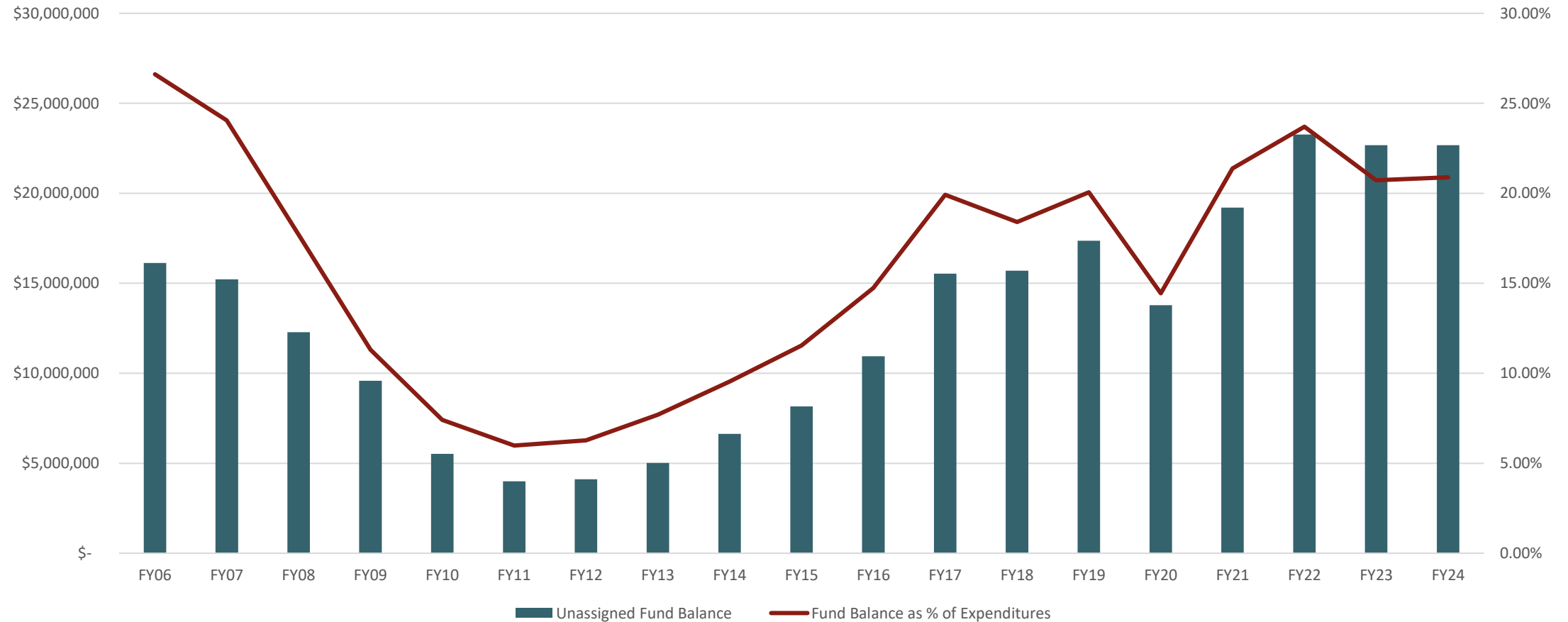
CITY OF
FOLSOM

- American Rescue Plan Act (ARPA) one-time dollars helped us quite a bit; ARPA won't happen again, to our knowledge.
- Thanks to careful attention over many years by City Councils to replenishing the reserve, it was there for us during tough times.
- The reserve becomes even more important as we no longer have many of the additional tactics available to us that helped us through those times.

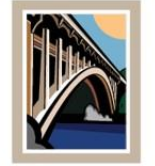
Unassigned General Fund Balance



CITY OF
FOLSOM



Comparing Our Reserve Levels to Others

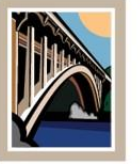


CITY OF
FOLSOM

	Rancho Cordova	West Sacramento	Elk Grove	Roseville	Folsom
Annual General Fund Expenditures	\$ 75,601,695	\$ 67,461,013	\$ 85,996,000	\$ 211,776,207	\$ 108,460,133
General Fund Reserve	14,466,824	24,451,228	24,774,000	64,817,040	22,675,718
As % of Expenditures	19%	36%	29%	31%	21%
Other Reserve Funds	51,988,238	29,572,241	47,106,100	49,929,100	8,940,293 *
Total Reserves	\$ 66,455,062	\$ 54,023,469	\$ 71,880,100	\$ 114,746,140	\$ 31,616,011
Total as % of Gen. Fund Expenditures	88%	80%	84%	54%	29%

* Folsom's "other reserve funds" are Risk Management, Compensated Leaves and Capital Replacement used for capital purchases

Local Sales Tax Measure



CITY OF
FOLSOM

- Previous discussions with City Council
- Comprehensive community outreach effort
- Presentation of ballot language to City Council at its July 12, 2022 meeting
- City Council declined to place the language on the November, 2022 ballot

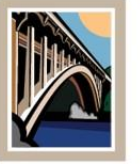
Local Sales Tax Measure



CITY OF
FOLSOM

- 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.
- With a successful sales tax measure of one percent, it is interesting to note that shoppers would only pay one percent more, but for the City, it's not just a one percent increase; it would double the local sales tax received. The City would go from receiving one percent to two percent, or from about \$29 million to about \$58 million.
- Traditional estimates show that about 40 percent of sales tax is paid by non-residents.

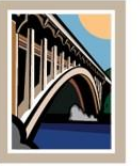
Local Sales Tax Rates



CITY OF
FOLSOM

- Galt: 9.25 percent
- Elk Grove: 8.75 percent
- Rancho Cordova: 8.75 percent
- Sacramento: 8.75 percent
- Citrus Heights: 7.75 percent
- Folsom: 7.75 percent

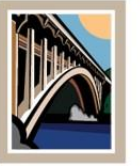
Local Sales Tax Measure



CITY OF
FOLSOM

- A one-half percent local sales tax would initially generate approximately \$11 million per year (latest numbers received in the last few days estimate \$14.5 million)
- A one percent local sales tax would initially generate approximately \$22 million per year until and unless repealed by voters (latest numbers received in the last few days estimate \$29 million).

General Tax



CITY OF
FOLSOM

- A general tax is any tax levied to fund general government purposes and which goes into the local government entity's general fund. General taxes require approval from a simple majority of voters—50 percent + one vote.
- With a general tax, the dollars would go into the City's General Fund for general governmental purposes as directed by the City Council to serve Folsom residents and businesses.
- A general tax would allow the City Council to:
 - Set priorities for the City as it currently does every year via the Budget process.
 - Provide resources to achieve goals set in the Council-adopted Strategic Plan.
 - Retain maximum flexibility to address future City needs.
 - Help protect City residents from unforeseen crises or natural disasters.
 - Be swift and nimble in providing high-quality services and amenities to Folsom residents.

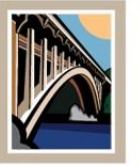
Special Tax



CITY OF
FOLSOM

- A special tax is any tax levied for a specific purpose. If revenue from a tax is earmarked in a legally binding way for a service such as public safety, parks and recreational facilities and/or maintenance, transportation infrastructure, and economic development, it is a special tax. Special taxes imposed by local governments require a two-thirds vote at the ballot box for approval.
- The revenue from a special tax could only be used for the specific needs laid out in the ballot language, and using it for any other purpose would be illegal because it would thwart the will of the voters.
- A special tax would benefit the functions and departments called out in the ballot language, while other functions and departments would be left to use only non-special tax revenues that are not constricted. This could result in a fairly dramatic shift in how the City's traditional allocation pie is cut.

Successful Local Sales Tax Measures



CITY OF
FOLSOM

- Galt: 0.5 percent in 2008 (special tax) *and* 1.0 percent in 2022 (general tax)
- Elk Grove: 1.0 percent in 2022 (general tax)
- Rancho Cordova: 0.5 percent in 2014 (general tax) *and* 0.5 percent in 2020 (general tax)
- Sacramento: 1.0 percent in 2018 (general tax)

Council Direction, Please



CITY OF
FOLSOM

Does the City Council direct staff to bring back proposed ballot language for its consideration for a local sales tax measure intended for the ballot for the November, 2024 General Election?

If **no**, is there any related direction the City Council wishes to provide on the issue of a local sales tax measure?

If **yes**, does the City Council wish that proposed ballot language to call for a half-percent sales tax measure or a full-cent sales tax measure?

If **yes**, does the City Council wish that proposed ballot language include a sunset, and if so, for what time period?

If **yes**, does the City Council wish that proposed ballot language include a citizens advisory committee?

If **yes**, does the City Council wish that proposed ballot language to be in the form of a general tax or a special tax?

If a **special tax**, what needs would the City Council wish to call out in the proposed ballot language?