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## **5.0 FINANCING ABILITY**

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## 5.0 FINANCING ABILITY

This section examines the fiscal status of the City of Elk Grove, including financial statements, audits, and other budgetary documents, to assess the long-term financial viability of the City to provide future services. Annual financial statements from fiscal year (FY) 2011-12 were reviewed to determine the fiscal status of the City.

It should be noted that services which may be provided by other affected agencies will be subject to the policies, infrastructure and finance planning of the respective agencies. Such discussion is not addressed in this MSR.

### CITY FINANCES

**Financial Stability: The City is financially stable, as the City has sufficient assets and funds available for the continued operation of the City. The Comprehensive Annual Financial Report (CAFR), the City's audited financial statements, highlights the City's financial situation. For the fiscal year beginning July 1, 2011 to June 30, 2012, the City's financial highlights included:**

- The City's net assets exceeded liabilities by \$1.32 billion, with \$22 million in unrestricted net assets to be used to meet ongoing obligations;
- The City has a governmental fund balance of \$126 million;
- The City's long term debt decreased by \$3.3 million due no new debt issued and \$3.35 million in payments of principal on long-term during the fiscal year.
- The City added capital assets of \$10 million for capital street improvements, facilities, and equipment; and
- The City has committed reserves available of \$17.7 million available for continuation of operations with \$10.4 million specifically reserved for economic uncertainty.

### Revenues

Taxes account for the City's largest single revenue source. Most of the taxes received are not restricted and are used for general city purposes in the general fund. These taxes include property tax, sales tax, utility user's tax, and franchise tax. **Table 5.0-1** shows the City's major revenue sources

**Table.0-1  
Revenues FY 2011-12**

Taxes	\$35.0
Licenses, fees, and permits	\$17.0
Intergovernmental	\$37.0
Fines and forfeitures	\$1.7
Charges for services (Business-type activities)	\$20.1
Investment earnings	\$2.6

<b>Total</b>	<b>\$113.4</b>
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Most City services are supported by the General Fund. The General Fund contains all the City's general revenues that are not specifically levied or collected for other City functions and related expenditures. During FY 2011-12, the City had a total general fund balance of \$26.5 million, with \$7.3 million unassigned for a specific use. The General Fund provides support to such areas as general governmental operations, public safety, roadways, and community development.

Specific municipal services, which depend on usage, are almost entirely supported by enterprise funds. Services include drainage, solid waste, and transit. Enterprise funds are generally sufficient to cover existing operating costs. Unlike most enterprise funds that are fully funded from user fees, the Transit operations receives its operating revenue from multiple sources including transit grants, local transportation funding and user fees.

The major sources of revenues for the City include the following:

- Property Tax - The State Constitution (Proposition 13) sets the base property tax rate at 1 percent of assessed value. The City receives a portion of the property tax generated in the City, with the majority of the revenue going to the County.
  - Under the terms of incorporation, the City transfers a percentage of its property tax revenues from the original City boundary to Sacramento County for a period of 25 years, pursuant to the revenue neutrality arrangement as conditioned by LAFCo. as demonstrated in the following **Table 5.0-2**. For fiscal year 2011-12 the City's was in their twelfth year and received 20% of the property tax. In fiscal year 2014-15 the City's share will increase to 25%.
  - The City gradually pays the County less over this 25-year period under the terms of the revenue neutrality agreement. **Table 5.0-2** shows the revenue neutrality agreement with the County for each year after incorporation, and the percentage each agency receives.

**Table 5.0-2  
Revenue Neutrality Tax Agreement**

1-5	90%	10%
6-10	85%	15%
11-14	80%	20%
15-18	75%	25%
19	70%	30%
20	60%	40%
21	50%	50%
22	40%	60%
23	30%	70%
24	20%	80%
25	10%	90%
26+	0%	100%

- Sales and Use Tax – The City receives its local share of taxable items sold within the City limits. Sales Tax is the largest single General Fund revenue source, with major portions from the auto sector (approximately one fourth of the total). The City has experienced increases in sales tax generation since the end of the Great Recession, but has not returned to the amounts experienced before the Great Recession
- Enterprise Funds – The City receives funds that are used to account for self-supporting activities which provide services on a user-fee basis. Fees collected support operating and capital improvements costs for drainage, solid waste, and transit.
- Other Revenue – The City receives other significant revenues from the transfer tax, motor vehicle in-lieu (VLF) fee, interest, highway users tax (gasoline tax), and grant monies.

**EXPENDITURES**

MOST OF THE CITY’S EXPENDITURES ARE FOR PROVIDING PUBLIC SERVICES TO RESIDENTS. MAJOR EXPENDITURES ARE SHOWN ON TABLE 5.0-3.

**TABLE 5.0-3  
EXPENDITURES FY 2011-12**

General Governmental Activities	\$134.2	General Government	\$16.9	10.7%
		Public Safety	\$30.9	19.5%
		Public Works	\$74.5	47.0%
		Community Development	\$6.5	4.1%
		Debt Service	\$5.5	3.5%
Business-Type Activities	\$24.5	Solid Waste	\$12.0	7.6%
		Transit	\$9.2	5.8%
		Drainage	\$3.2	1.8%
<b>Total</b>	<b>\$158.7</b>	<b>Total</b>	<b>\$158.7</b>	<b>100%</b>

The City has continued its practice of funding operations with current revenues and draws down on its reserves for a onetime expenditure. However, the City’s revenues and expenditures fluctuate each year, and the City closely monitors and adjusts its planned expenditures during the year to maintain a balance budget. The City’s current Revenue Neutrality arrangement helps alleviate some of the net negative impact of decreases in property tax that occurred since the Great Recession. Assessed valuation growth is now expected to return in 2013-14.

The Proposed FY 2013-14 Budget reflects moderate growth in the City’s major revenue sources and commensurate growth in operating expenses. The General Fund budget, which primarily funds public safety, administration, and governance, proposes balanced operations with one-time use of reserves on a limited basis. The Proposed FY 2013-14 Budget assumes no significant changes in compensation for employees. Employee concessions currently in place will remain. An issue of concern across the State is

rising health care costs as the Affordable Care Act is implemented. Industry experts estimate that health care premiums will increase anywhere from five to 40 percent in 2014. The current five-year forecast for the General Fund indicates that fund balance should not be needed to maintain daily operations in the next two years; however, slowing revenue growth and increased compensation costs in FY 2015-16 are challenges that the City, will address in order to navigate this potential fiscal challenges. Another issue of concern is the increasing employer cost of retirement pension benefits that have been projected by CalPERS to increase 50% over a five year period beginning in FY 2015-16.

The City of Elk Grove plans to invest nearly \$240 million on transportation, drainage, and facilities over the next five years through the 2013-18 CIP. The proposed 2013-18 CIP projects range in priority from imperative to important. Examples of Priority 1 projects include accessibility improvements, bridge preventative maintenance, some major drainage repairs, and the Special Waste Collection Center, as they each address dangerous conditions or satisfy a legal obligation. Two other projects that are worth mentioning are the East Stockton Sound Wall Renovation project, which will replace approximately 1800 feet of deteriorated metal sound wall with a new masonry sound wall, the other is the Elk Grove Creek Trail Crossing at SR99 which will extend the existing Class 1 bikeway along Elk Grove Creek from Laguna Springs Drive to Emerald Park Drive, and construct an overcrossing at SR99.

Most of the proposed projects, however, position the City to enhance traffic capacity, invest in economic development, and leverage available funding sources. More details can be found in the City's 2013-18 Capital Improvement Program within the City's 2013-14 adopted budget.

### **Long Term Debts**

The City continues to pay off its long term debt obligations. For the FY ending in 2011-12, the City had total primary government debt totaling \$110 million, \$67.1 million special assessment bonds and \$10.5 million in Enterprise debt. These current long-term debt obligations are not a significant burden for the City and repayment is funded from a variety of sources include user fees, community facility districts and the General Fund. Cities generally incur long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The City has not defaulted on any of these debts and is able to continue making regular payments while maintaining a strong level of fund debt service reserves.

### **Future Growth Impacts**

Future growth is not expected to have a significant negative impact on the City's financing of needed infrastructure. Although future growth areas will require municipal services, they will also contribute funds to the City and affected agencies to construct the required infrastructure to serve new development, offsetting costs. Future growth is required to pay its fair share to upgrade and expand municipal utilities to adequately serve new development, resulting in no negative financial impacts to current residents regarding the expansion of new infrastructure. The City has established comprehensive finance programs to allow the City to collect sufficient funds on time in order to allow major new projects. As the City is currently financially stable, it is anticipated that the City will remain financially stable as new growth occurs.

The City has the following General Plan policies to ensure adequate financing for development projects:

**PF-19:** Public facilities should be phased in a logical manner which avoids "leapfrog" development and encourages the orderly development of roadways, water and sewer, and other public facilities. The City shall not provide public financing or assistance for projects that do not comply with the planned phasing of public facilities. Interim facilities may be used only if specifically approved by the City Council.

**PF-20:** The City shall require secure financing for all components of the transportation system through the use of special taxes, assessment districts, developer dedications, or other appropriate mechanisms in order to provide for the completion of required major public facilities at their full planned widths or capacities in one phase.

**PF-21:** New development shall fund its fair share portion of its impacts to all public facilities and infrastructure as provided for in state law.

**PF-23:** The City will coordinate with independent public service providers, including schools, parks and recreation, reclamation, water, transit, electric and other service districts, in developing financial and service planning strategies.

Services provided by the City of Elk Grove are primarily funded by taxes and fees. Fees are charged for services such as drainage, solid waste, and transit. The City is financially stable, as operational expenditures are consistently monitored not to exceed revenues. Capital project expenses are expected in some years to exceed Capital revenues which would be expected as revenues are collected to fund future projects.

Future growth is not expected to have a significant negative impact on the City's future financial status. Although future growth areas will require municipal services, future developments are required to contribute to offset the costs of new infrastructure and services required.

### **Determination**

The Commission will make this determination at the time of the project public hearing.

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## **6.0 SHARING OF FACILITIES**

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**6.0 SHARING OF FACILITIES**

This section evaluates sharing of facilities for needed infrastructure and improvements, including implemented measures and potential opportunities for shared facilities for City Departments and other agencies to reduce costs while improving service levels.

CITY OF ELK GROVE

**Law Enforcement**

Prior to 2005, the City of Elk Grove contracted for law enforcement services from the Sacramento County Sheriff's Department. The City now provides its own law enforcement services. Both agencies provide mutual aid and collaborate on several operational areas. Jail services for the booking and housing of City prisoners is provided by agreement with the Sheriff's Department as are radio services. The two agencies periodically evaluate potential opportunities for the sharing of facilities but none are presently under consideration.

**Solid Waste and Public Transit**

The City currently contracts with private providers for solid waste and public transit services. In Fall 2013, the City is anticipating the opening of the City's Special Waste Collection Center that will accept typical household hazardous waste. Currently, the City is working on establishing a Memorandum of Understanding with Sacramento County, City of Sacramento, City of Rancho Cordova, City of Galt, and City of Citrus Heights to allow the drop off of household and small business hazardous waste at any special waste collection center located within the participating local jurisdiction. For the City's public transit system (E-Tran), transit routes are coordinated with Sacramento Regional Transit (RT) buses and light rail and South County Transit/Link (SCT/LINK) to areas outside the City. In addition, E-Trans also coordinates with RT for the use of bus stops located within RT's service area. The Public Works Department has not identified any other potential opportunities for the sharing of facilities with another agency.

COSUMNES COMMUNITY SERVICES DISTRICT

**Fire Protection and Emergency Medical Response**

As the only fire and emergency services provider for the area, there are no opportunities for the CCSD to share facilities with another agency. However, fire and emergency services in Sacramento County have developed a Joint Powers Authority (JPA) for a unified dispatch system. Under the JPA, the closest unit available is dispatched to an incident and fire district boundaries are not an issue when an incident occurs. The JPA is comprised of the City of Sacramento Fire Department, Sacramento Metropolitan Fire District, Folsom Fire District, and CCSD Fire Department. The Wilton Fire Protection District (WFPD) is located southeast of the SOIA, south of the Cosumnes River, and is staffed primarily with volunteers. Both CCSD Fire and WFPD participate in mutual aid agreements.



COSUMNES COMMUNITY SERVICES DISTRICT/CITY OF ELK GROVE

**Parks and Recreation**

Both CCSD and the City currently provide parks and recreational services. Currently, CCSD and the City do not share any parks and recreational facilities with exception to those located in the Laguna Ridge Specific Plan (LRSP). The City and CCSD have adopted an agreement resulting in the joint ownership of all parks, including land and facilities, within the LRSP. The only exception is the Civic Center Community Park, which will be owned and maintained by the City. Both agencies do not have a formal agreement in place to share facilities.

SACRAMENTO AREA SEWER DISTRICT / SACRAMENTO REGIONAL COUNTY SANITATION DISTRICT

**Wastewater**

Areas served by the Sacramento Area Sewer District (SASD), which includes the City of Elk Grove, City of Rancho Cordova, City of Citrus Heights, City of Folsom, and City of Sacramento are benefiting from SRCSD through the cost and administrative benefits of sharing one regional network and facility, rather than operating their own treatment plants. Services are more efficient and costs are shared among a larger population who benefit.

The service providers are benefiting from a cost avoidance opportunity by contracting with the County's Water Quality Department for employees to maintain and operate their facilities. Sacramento Regional County Sanitation District (SRCSD) and SASD do not have any employees in their agencies. The contract workers from the County are already skilled, and because they are from the same department, they both benefit from information sharing and training. The two agencies also benefit from facility sharing, as some of the workers operate out of the same building. The two agencies maintain separate equipment.

The two agencies have a Master Interagency Agreement with other agencies regarding wastewater management. The facilities are already being shared across multiple agencies and jurisdictions. SASD provides services to unincorporated areas of Sacramento County, the cities of Citrus Heights, Elk Grove, Rancho Cordova, as well as portions of the cities of Folsom and Sacramento. SRCSD provides wastewater treatment for SASD and the cities of Elk Grove, Citrus Heights, Rancho Cordova, Folsom, Sacramento, and West Sacramento.

The proposed SOIA is not with the SOI or service areas of either SASD or SRCSD.

SACRAMENTO COUNTY WATER AGENCY/ELK GROVE WATER DISTRICT/OMOCHUMNE-HARTNELL WD

**Water**

The Sacramento County Water Agency (SWCA) works closely with Sacramento County's Municipal Service Agency, Department of Water Resources. SWCA is considered a dependent special district that is overseen by the County Board of Supervisors. SWCA frequently utilizes the County's staff and resources, including various facilities and equipment. Because it is a County agency, the SCWA is not subject to LAFCo purview.

In addition, SCWA works with the Elk Grove Water District (EGWD) by providing wholesale water to EGWD's Tariff Area No. 2. EGWD is utilizing SCWA's services and infrastructure to obtain water. The proposed SOIA is not within the SOI or service area of the EGWD.

In addition, EGWD has multiple emergency inter-tie connections throughout the perimeter along SCWA's service area. SWCA can supply emergency water to the other portion of EGWD's service area, known as Tariff Area No. 1. During an emergency, the inter-ties would be opened to allow one agency to supply water to another agency. Tariff Area No. 1 currently depends on groundwater.

The Omochumne-Hartnell Water District (OHWD) primarily serves agricultural users adjacent to the Cosumnes River and Deer Creek. The northeastern portion of the SOIA Area is located within the service area of OHWD. OHWD has historically purchased and managed supplemental water from the Central Valley Project. OHWD service area includes approximately 30,000 acres that is generally bounded by Grant Line Road to the north; SR-99 to the west; extends up to 1.5 miles to the south of the Cosumnes River; and an east boundary that extends from the southeast corner of the jurisdictional boundary of Ranch Cordova to southwest of Rancho Murieta. It is anticipated that no urban water would be provided by OHWD.

### DETERMINATION

The Commission will make this determination at the time of the project public hearing.

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## **7.0 ACCOUNTABILITY, STRUCTURE, AND OPERATIONS**

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**7.0 ACCOUNTABILITY, STRUCTURE, AND OPERATIONS**

This section examines how well the City makes its processes transparent to the public and invites and encourages public participation. Overall management practices are discussed and considered. This section includes a discussion of the City's ability to meet its demands under its existing government structure, alternatives to the current government structure, boundaries, and future service areas.

ACCOUNTABILITY AND GOVERNANCE

**City Council**

The City is able to operate effectively under a City Council-Manager form of government. The City Council serves as the legislative, policy making body for the City. The duties of the City Council include the review and approval of an annual budget, establishing community goals and objectives, approving the City's General Plan and initiating the proposed SOIA, reviewing and approving major projects and hearing community problems and concerns. The City Council is also responsible for appointing a City Manager, City Attorney, and City Clerk.

The current City Council is shown below.

Gary Davis, Mayor	Citywide
Steven Detrick, Vice Mayor	District 3
James Cooper, Councilmember	District 1
Patrick Hume, Councilmember	District 2
Robert Trigg, Councilmember	District 4

The City Council is able to adequately represent its residents. The City Council is composed of five elected representatives on the City Council, the mayor and four councilmembers. The office of the elective mayor is decided by the voters, with the position elected citywide (at-large), having a residency requirement within the City limits, and serves a two-year term. There are four council residency districts, and councilmembers are elected citywide (at-large) and serve four-year terms. Each district is a separate geographical area, each with a population of over 38,000 residents. Each councilmember must reside within the district of the city that they oversee. The District boundaries were last updated and adopted by the City Council on July 13, 2011. A vice mayor is selected annually by the City Council and serves a one-year term. City Council elections are held with staggered terms (two positions are filled in one election, two positions in the next election).

**Public Participation**

The City Council welcomes and encourages participation by Elk Grove residents in City Council meetings. The City Council holds regular meetings on the second and fourth Wednesday of each month at City Council Chambers, located at 8400 Laguna Palms Way. City Council meetings are noticed and published

## 7.0 ACCOUNTABILITY, STRUCTURE, AND OPERATIONS

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according to California's Open Meeting Law, known as the Brown Act. Agendas for the City Council meetings and Council committee meetings are available on the City's website and in City Hall. Public meetings are held in compliance with Brown Act requirements, which govern open meetings for local government bodies.

The City provides many other ways to view City Council meetings. City Council meetings are broadcasted live on the cable television government channel, Channel 14. The meetings are then rebroadcast days after the meeting. Live and archived broadcasts of the Council meetings are also available on the City's website at [www.elkgrovecity.org](http://www.elkgrovecity.org).

Extensive public information is readily accessible through the City's website, at <[elkgrovecity.org](http://elkgrovecity.org)>. Residents may also contact the City at 8401 Laguna Palms Way, or by telephone at (916) 683-7111.

The Planning Commission meetings are also open to public participation. The Planning Commission holds regular meetings on the first and third Thursday of every month at 6:30 P.M. in City Council Chambers.

### GOVERNMENT STRUCTURE

#### **General Law City**

The City is able to operate effectively under the current General Law statutes. The City of Elk Grove was incorporated as a general law city on July 1, 2000 and operates under the general law statutes defined under the California Government Codes, which enumerates their powers and specifies their structure. This form of government allows the City to provide the following services: public safety, streets, solid waste/recycling, sanitation, culture, parks and recreation, public improvements, land use planning and zoning, general administrative services. Services provided by others include: utilities, electricity, and other general governmental services contract – street lighting, etc.. No change in the current government structure is necessary to continue the adequate provision of municipal services in consultation and coordination with affected agencies and service providers. As a City, Elk Grove is a legally separate and fiscally independent agency. It can issue debt, set and modify budgets and fees, and sue or be sued.

#### **Charter City Considerations**

The City Council has expressed interest in considering becoming a Charter City. In 2007, the City Council appointed five persons to a Charter Exploratory and Election Reform Committee to "research and enumerate the advantages or disadvantages of the General Law and City Charter forms of government", and to "study election reform issues". The Committee completed their report in December 2007, which provided the City Council with an overview of the issues, advantages, and disadvantages of each form of government. As a charter city, the City can have more autonomy over the City's municipal affairs. On March 26, 2008, the Elk Grove City Council formally established the Charter Commission. The Charter Commission was tasked with creating a City Charter for consideration by the Elk Grove City Council. The Charter Commission submitted its final report and proposed charter language to the Elk Grove City Council in January 2010. At that meeting, the City Council chose to postpone indefinitely the matter of the Elk Grove City Charter and disbanded the Commission. No further action in regards to establishing Charter City status has been pursued since 2010. Regardless, a change from a General Law City to a Charter City would not cause a significant adverse affect to the provision of municipal services.

## **7.0 ACCOUNTABILITY, STRUCTURE, AND OPERATIONS**

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### INTERNAL MANAGEMENT STRUCTURE AND OPERATIONS

The City has a sufficient organizational structure to efficiently provide services and remain accountable. The City is organized into five groups, which include: Executive Group, Police Department, Human Resources, Development Services Group, and Administrative Services Group. No significant management deficiencies in each group or department have been identified, relative to coordination or oversight of the public services provided by the City, other agencies, and contracted service providers.

The City budget is usually an indicator of management efficiency. According to information contained in the approved budgets and financial audits, as analyzed in section 5.0, Financing Ability, the City is financially stable. Contained in the budget is the purpose of each department and division, goals, and accomplishments. The current organizational structure is currently effective and no significant changes are proposed.

### DETERMINATION

The Commission will make this determination at the time of the project public hearing.

