



# TOWN OF FAIRFAX

## STAFF REPORT

### March 7, 2018

**TO:** Mayor & Town Council

**FROM:** Michael Vivrette, Finance Director  
Garrett Toy, Town Manager *GT*

**SUBJECT:** Receive 2017-18 Mid-Year Budget Review Report and approve mid-year budget adjustment

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#### **RECOMMENDATION**

Receive 2017-18 Mid-Year Budget Review Report and approve mid-year budget adjustment for Town Attorney department.

#### **DISCUSSION**

The attached Mid-Year Budget Report (Report) reviews key FY17-18 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on seven (7) months of actual Town expenditures and revenues received to date. Overall, the Report indicates the Town's General Fund will continue to experience financial stability with steady revenues and solid controls over expenditures. We conservatively estimate adding approximately \$400,000 to General Fund reserves at the end of the year.

We are projecting revenues to come in higher than budgeted (net \$250,000 after adjustment for contingency). The increase in General Fund revenues is primarily due to increases in various property taxes such as the Property Tax in-lieu of Vehicle License Fees.

General Fund expenditures are projected to be approximately \$150,000 less than budgeted including the proposed mid-year expenditure adjustment. Except for the Town Attorney budget, all other General Fund departments are anticipated to remain within budget with no mid-year adjustments needed. Similarly, the Capital Improvement Program (CIP) budget does not require any mid-year adjustments.

Regarding the Town Attorney budget, expenditures are at 70% of budget due to deferred payments for services provided for the Senior Housing project. As you know, the Assistant Town Attorney assumed the role of Town staff in the processing of the application including attendance and presentations to the Planning Commission and Town Council over the course of 12 months. Specifically, we worked with the Town Attorney to clarify costs for their role in the process. For the remainder of the fiscal year, we anticipate the Town Attorney will be needed to work on numerous ordinance revisions and land use issues such as medical and non-medical cannabis. We are recommending a mid-year budget adjustment of \$65,000 to the Town

Attorney budget (Fund 01-121) which would increase the budget from \$180,000 to \$245,000. It should be noted this is a one-time adjustment and next fiscal year the budget would return to the \$180,000 level.

The projected General Fund expenditure savings of \$150,000 already reflects the proposed mid-year budget adjustment. In essence, savings in other department will be used to fund the adjustment. The primary expenditure saving is that Town does not need to make a repayment of its capital financing loan from the County this year. The Town just received the loan proceeds in February 2018 and the first repayment is not due until February 2019.

The FY17-18 budget projected a year end General Fund balance of approximately 29% of expenditures. An increase of \$400,000 would increase General Fund reserves to 33% of expenditures, which is well-above the Town's policy of maintaining a 25% reserve.

Please note that these revenue increases and expenditure savings will be evaluated during the next budget cycle to determine if they are one-time or on-going annual increases/decreases. Similarly, we recommend the Council consider one-time uses of the increase in General Fund reserves during the upcoming budget cycle. The additional reserves could be used to fund programs/projects such as capital improvements, fire prevention/inspections, and reduction in pension obligations. The Council also has the option of considering such uses prior to the upcoming budget cycle. However, since we will begin the budget process in April, it may be beneficial for the Council to wait to see the Town's financial position for the upcoming fiscal year before considering how to allocate the funds. At that time, the Council can always allocate funds to implement projects or programs prior to the next adopted budget (FY18-19).

## **ATTACHMENTS**

FY17-18 Midyear Budget Review Report



## TOWN OF FAIRFAX

### FY17-18 MID-YEAR BUDGET REVIEW REPORT

#### **SUMMARY**

The Mid-Year Budget Report (Report) reviews key FY17-18 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on seven months of actual Town revenues and all expenditures paid through February.

Overall, the Report indicates the Town's General Fund continues to experience financial stability with steady revenues and solid controls over expenditures. Specifically, we are projecting revenues to come in higher than budgeted (approximately \$250,000 after adjustment for contingency) and General Fund expenditures to be approximately \$150,000 less than budgeted including any mid-year expenditure adjustments. Specifically, we are recommending one mid-year adjustment for the Town Attorney budget.

We conservatively estimate that the Town will add approximately \$400,000 to General Fund reserves at the end of the year. The FY17-18 budget projected a year end General Fund balance of approximately 29% of expenditures. An increase of \$400,000 would increase General Fund reserves to 33% of expenditures, which is well-above the Town's policy of maintaining a 25% reserve.

Please note that these revenue increases and expenditure savings will be evaluated during the next budget cycle to determine if they are one-time or on-going annual increases/decreases. Similarly, the Council could consider one-time uses of the increase in General Fund reserves during the upcoming budget cycle.

#### **REVENUES**

This section provides a summary of projected revenues. The General Funds are the seven discretionary funds - including General Fund (01), Dry Period Fund (02), Building & Planning Fund (04), Retirement Fund (06), and three equipment replacement funds.

Revenues in the General Funds are projected to exceed budget by approximately \$250,000 (3.0%) primarily due to higher-than-projected Property Tax in-lieu of Vehicle License Fees ("VLF Swap"), Education Revenue Augmentation Fund (ERAF) revenues, sales tax revenues, and Planning and Building fees. While Table A does show a projected \$330,000 increase in revenue, for projection purposes we apply a 25% contingency of approximately \$80,000 to revenue projections as a cushion to account for possible fluctuations.

**Table A: Projected Year-End Revenues**

Source:	Projected Variance:
Property Taxes, ERAF, VLF Swap	\$ + 170,000
Sales Taxes	+ 80,000
User Taxes (UUT & Hotel)	- 25,000
Franchise Fees	no change
Fines & Licenses	no change
Rental & Maintenance Fees	no change
Revenues from other Agencies	no change
Charges for Current Services	no change
Building & Planning Fees – Fund 04	+ 90,000
Retirement Fund – 06	+ 25,000
Subtotal (approx.)	\$ + 330,000
Adjustment: reduce 25% for estimate*	- 80,000
Say (Surplus Revenue)	\$ <u>250,000</u>

\*Note: As these estimates are based on 7 months actual data, it is prudent to build some cushion into the estimates to account for fluctuations.

**Property Taxes**

Total property tax revenues are projected to be within 1% of budget for this fiscal year so no change is projected. Property values continue to benefit from improved economic conditions in the Bay Area. The original projected property tax increase of +7.4 % over the budget for the prior year (based on county projections). As in prior years, this likely reflects the Assessed Valuation catching up to normal after several years of lowered assessments. The normal expected annual increase under Prop 13 is +2.0% adjusted slightly by increases of real property.

Property Tax in-lieu of Vehicle License Fees (“VLF Swap”) is projected to be \$743,000, exceeding budget by approximately \$83,000 (+12.6%). Education Revenue Augmentation Fund (ERAF) revenues, budgeted to be \$400,000, will likely come in at approximately \$76,000 (+19.2%) over budget. The real estate transfer tax will probably exceed budget by \$31,000. We are currently researching the underlying causes for the estimated increases.

**Sales Taxes**

Sales Tax revenues are expected to come in approximately \$80,000 over projections as the economy continues to improve. This includes an increase in base (“Bradley Burns 1%”) sales tax of \$54,100 (+8.6%) and an increase in special district sales tax (“Measure C”) of \$55,600 (8.6%).

### **User Taxes**

User tax revenue includes Utility User taxes (UUT) and Hotel Tax. Revenue from Hotel Tax (TOT) has decreased significantly. We project TOT revenues will come in approximately \$10,000 below budget (-32.7%). This may reflect increased activity in short-term rentals such as Airbnb which currently do not generate hotel tax revenues. UUT, budgeted to bring in \$340,000 has brought in \$188,000 through January 31<sup>st</sup>. We are projecting that revenue in this category could fall short of budget by \$15,000.

### **Building & Planning Fees**

As of January 31, 2018, the Building & Planning revenues from permits and fees were at 97.8% of budget. Staff has identified approximately \$150,000 of these revenues which should be reclassified as deposits for future street projects and for pass-through expenses paid for by applicants. Based on trends from prior years this could put total Building & Planning revenue over budget by \$90,000 (+18%) if the activity in the last half of the year is as strong as in the first half.

### **Retirement Fund Taxes**

The Retirement Fund (06) is projected to realize additional estimated revenues of \$25,000 as of June 30, 2018. The Town receives revenues from the Pension Obligation Parcel Tax which is based on assessed valuations.

### **Expenditures**

The General Fund is projected to end the year with expenses below budget by \$150,000 (adjusted for contingency) inclusive of the proposed mid-year adjustment. Most departments are under budget as of January 31<sup>st</sup>. Personnel costs, the largest component of expenditures, are within budget as January 2018. It should be noted that these are considered one-time savings from a budget perspective. Most of the \$150,000 savings is due to not having a loan repayment for capital project financing this year and lower than anticipated election costs.

At mid-year, through January 2018, General Fund expenditures were \$4,642,527 which is 50.9% of budgeted expenditures for the fiscal year. The total does not include transfers, which are posted in June.

### **Personnel Costs**

Personnel costs represent over 50% of General Fund expenditure. The costs of personnel salary and benefits are within the budget projections for FY 2017-18. As of January 31<sup>st</sup>, the Town has expended 56.4% of its salary budget and 39.5% of the part-time salaries budget. The second six months will be higher due to MOU labor cost increases beginning in January. Overtime costs are at 51.6%. Health insurance costs are at 54.4% of budget as of the end of January. The budget did include an anticipated 5% increase in health care rates effective

January 2018. Overall, health care costs are projected to be within the budgeted amount. PERS retirement costs are at 42.1% as of January 2018 due in part to the timing of PERS payments.

### **Departmental Expenditures**

As of January 31, 2018, the following departments had exceeded 60% of budget:

- 116 Town Auditor	66.2%
- 211 Town Attorney	70.8%
- 321 Building Insp	64.9%
- 421 Fire	66.2%
- 622 Summer Camp	86.8%

Based on straight-line projection, departments should be at or less than 58% (7 months/12 months) of budgeted expenditures

Except for the Town Attorney budget, we anticipate that all the General Fund departments will end the year at or under budget including the departments that exceeded the 60% threshold. In general, those departments had more expenses occur in the first 7 months of the fiscal year primarily due to the timing of expenses. For example, the audit and Camp Fairfax expenses typically occur in the first half of the fiscal year.

Regarding the Town Attorney budget, expenditures are at 70% of budget due to deferred payments for services provided for the Senior Housing project. Specifically, the Assistant Town Attorney acted in the role of Town staff in the processing of the application including attendance at and presentations to the Planning Commission and Town Council over the course of 12 months. Staff worked with the Town Attorney to clarify costs for their role in the process after the project was approved in June 2017.

For the remainder of the fiscal year, we anticipate the Town Attorney will be needed to work on numerous ordinance revisions and land use issues such as medical and non-medical cannabis. Staff recommends a mid-year budget adjustment of \$65,000 to the Town Attorney budget (Fund 01-121) which would increase the budget from \$180,000 to \$245,000. It should be noted this is a one-time adjustment and next fiscal year the budget would return to the \$180,000 level.

### **CAPITAL IMPROVEMENT PROGRAM (CIP)**

We do not require any mid-year budget adjustments for the Capital Improvement Program. It should be noted that any budget adjustments for capital projects are approved with the Council's approval of the contracts for a specific project such as the Forrest Avenue road stabilization project. Through January 2018, the Town has spent approximately \$1.15M including all the storm repair projects. The adopted FY17-18 CIP is approximately \$2.9M. CIP projects that are not completed in FY17-18 are carried over and re-budgeted in the following fiscal year.

A status report on the Town's capital improvement projects was presented to the Council at its February 7, 2018 meeting and is available at [www.townoffairfax.org](http://www.townoffairfax.org).