



# TOWN OF FAIRFAX

## STAFF REPORT

### March 1, 2017

**TO:** Mayor, Town Council

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

**SUBJECT:** Accept 2016-17 Mid-Year Budget Review Report, discuss/consider budget revisions, and approve separate budget for storm related expenses.

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#### **RECOMMENDATION**

Accept 2016-17 Mid-Year Budget Review Report, discuss/consider budget revisions, and approve mid-year budget adjustments including the appropriation of funding for storm related expenses.

#### **DISCUSSION**

The attached Mid-Year Budget Report (Report) reviews key FY16-17 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on six 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 stable revenues and solid controls over expenditures. Specifically, we are projecting revenues to come in higher than budgeted (net \$175,000 after adjustment for contingency) and General Fund expenditures to be approximately \$150,000 less than budgeted before mid-year expenditure adjustments.

Staff is requesting the following mid-year budget adjustments:

- Storm Damage (01-513) - Staff has activated a special fund to pay and track repair costs related to damage caused by the winter storms. We recommend an initial appropriation of \$300,000. It is possible a portion of these costs could be reimbursed by state and/or federal disaster relief funds. The creation of the fund will also allow us to better track costs which is a requirement for reimbursement by state and/or federal funds.
- Town Attorney (01-121) - The Town Attorney has had to work on numerous land use issues and ordinance revisions such as zoning amendments per the Town's adopted General Plan and Housing Element policies for the Senior Housing project and the proposed conversion of CH (highway-commercial) to CC (central commercial) zone. We are recommending a budget adjustment of \$80,000. A portion of these costs are reimbursable by the applicants for the zoning requests.

SUPPLEMENT TO  
AGENDA ITEM # 14

- Street lights (01-512)- The Town has experienced abnormally high maintenance costs for street signals, especially for the older flashing beacon systems. We are recommending a budget adjustment of \$15,000.

Between increased revenue and expenditure savings, the Town has approximately \$325,000 available for these proposed mid-year budget adjustments. Staff proposes \$95,000 be allocated for the General Fund adjustments with the remaining \$230,000 allocated to the new Storm Damage fund. The Storm Damage Fund would be supplemented with \$70,000 from General Fund reserves. The Town started the year with a projected fund balance of approximately \$2.4 million (27.5% of General Fund expenses). The contribution from fund balance will reduce the percentage to approximately 27% which is still well above the Town's policy of maintaining a 25% General Fund reserve.

### **ATTACHMENTS**

FY16-17 Midyear Budget Review Report



# Town of Fairfax FY16-17 Mid-Year Budget Review Report

## **SUMMARY**

The Mid-Year Budget Report (Report) reviews key FY16-17 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on six 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 stable revenues and solid controls over expenditures. Specifically, we are projecting revenues to come in higher than budgeted (net \$175,000 after adjustment for contingency) and General Fund expenditures to be approximately \$150,000 less than budgeted before mid-year expenditure adjustments.

The report does recommend mid-year adjustments for two departments and the appropriation of monies to the newly activated Storm Damage fund to account for the costs incurred by the Town from winter storm damage. These added cost would be funded by the combination of increased revenue and expenditure savings.

Specifically, the Town has approximately \$325,000 available for these proposed mid-year budget adjustments. Staff proposes \$95,000 be allocated for the General Fund mid-year adjustments with the remaining \$230,000 allocated to the Storm Damage fund. The Storm Damage Fund would be supplemented with \$70,000 from General Fund reserves. The Town started the year with a projected fund balance of approximately \$2.4 million (27.5% of General Fund expenses). The contribution from fund balance will reduce the percentage to approximately 27% which is still well above the Town's policy of maintaining a 25% General Fund reserve.

## **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 \$175,000 (+2.0%) primarily due to higher-than-projected tax revenues. Table A below shows the majority of the increase is due to higher than projected property taxes, sales taxes, fines and parking tickets, and Planning and Building fees. While Table A does show a projected a \$225,000

increase in revenue, for projection purposes, we apply a 20% contingency of \$50,000 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	\$ + 105,000
Sales Taxes	+ 37,000
User Taxes (UUT & Hotel)	+ 14,000
Franchise Fees	+ 8,000
Fines & Licenses	+ 23,000
Rental & Maintenance Fees	- 5,000
Revenues from other Agencies	- 2,000
Charges for Current Services	+2,000
Building & Planning Fees – Fund 04	+34,000
Retirement Fund – 06	+10,000
Subtotal (approx.)	\$ + 225,000
Adjustment: reduce 20% for estimate*	- 50,000
Available Funds	\$ <u>175,000</u>

\*Note: As these estimates are based on 6 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 exceed budget by \$105,000 for this fiscal year. Property values continue to benefit from improved economic conditions in the Bay Area. The original projected property tax increase of +4.7% (based on county projections) has been closer to 6.9% over Property Tax revenues for the prior year. The increase-over-budget will be \$50,000 (+2.1%). As in prior years, this may reflect 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 VLF (“VLF Swap”) is projected to be \$708,000 exceeding budget by \$48,000 (+7.3%). ERAF revenues, budgeted to be \$385,000, may come in at \$21,000 (+5.5%) over budget, while real estate transfer tax will probably fall short of budgeted by \$3,000 as will supplemental property taxes (\$10,000). These trends may reflect a limited inventory of houses for sale and slowing sales in Fairfax.

**Sales Taxes:**

Sales Tax revenues are expected to come in approximately \$37,000 over projections with the renewal and increase of the Measure C sales tax. This includes an increase in base (“Bradley Burns 1%”) sales tax of \$7,000 (+1.1%) and an increase in special district sales tax (formerly “Measure D”, now “Measure C”) of \$30,000 (6.7%). The In-Lieu Sales Tax (“Triple Flip”) ended last year with a final “true up” payment in FY16 of \$76,000 is counted as a revenue of the prior year on the accrual basis.

### **User Taxes:**

User tax revenue includes Utility User taxes and Hotel Tax. Revenue from Telecom UUT, budgeted to bring in \$372,000 has brought in \$193,000 through January 31<sup>st</sup>. We are projecting that revenue in this category could exceed budget by \$14,000.

### **Building & Planning Fees**

At January 31, 2017, the Building & Planning revenues from permits and fees were at 55.1% of budget. Based on trends from prior years this could put total Building & Planning revenue over budget by \$34,000 (+7%). We may also see an up-tick from permits related to recent weather damage.

### **Retirement Fund Taxes**

Consistent with the increase in property tax revenues, the Retirement Fund (06) should realize additional estimated revenues of \$10,000 as of June 30, 2017. 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 before proposed mid-year adjustments. Most departments are under budget as of December 31<sup>st</sup>. Personnel costs, the largest component of expenditures, are within budget as December 2016.

At mid-year, through December 2016, General Fund expenditures were \$4,093,887 which is 46.9% of budgeted expenditures for the fiscal year. The total does not include transfers, which are posted in June. General Fund expenditures are projected to be under budget by approximately \$150,000 for FY16-17 (budget \$8.73M less projected \$8.58M) before recommended mid-year adjustments for General Fund Departments. It should be noted that these are considered one-time savings from a budget perspective.

### **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 2016-17. As of December 31<sup>st</sup> the Town has expended 47.2% of its salary budget and 37.5% 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 58.1%. Health insurance costs are at 45.1% of budget as of the end of December. The budget did include an anticipated 5% increase in health care rates effective January 2017. Overall; health care costs are projected to be within the budgeted amount. PERS retirement costs are at 49.7% as of December 2016.

## **Departmental Expenditures**

As of December 31, 2016, the following departments had exceeded 50% of budget:

- 211 Town Attorney	75.9%
- 512 Street Lighting	71.8%
- 616 Community Services	52.8%
- 231 Personnel	51.6%
- 311 Planning	50.9%

With the exception of the Town Attorney and Street Lighting departments, we anticipate that all General Fund departments will end the year at or under budget. However, two departments will require mid-year budget adjustments:

- Town Attorney (Fund 01-121)– The Town Attorney has had to work on numerous land use issues and ordinance revisions such as zoning amendments per the Town's adopted General Plan and Housing Element policies for the Senior Housing project and the proposed conversion of CH (highway-commercial) to CC (central commercial) zone. We estimate a budget adjustment of \$80,000 to increase the Town Attorney budget from \$140,000 to \$220,000 is required to account for the increased workload.
- Street lights (01-512)- The Town has experienced abnormally high maintenance cost this year for street signals especially for the older flashing beacon systems. We are recommending a budget adjustment of \$15,000 to account for the added costs.

## **Funds for Storm Damage Repair (01-513)**

Due to the gusty winds and heavy rainfall in January and February, the Town has experienced a significant amount of cost related to damage caused by the storms. To date, the Town has incurred the following approximate costs related to storm damage:

- Tree removal (includes fallen trees)- \$50,000
- Clean up/debris removal- \$12,000
- Temporary emergency repair- \$9,000
- Staff overtime- \$10,000
- Supplies/materials- \$5,000

Subtotal: \$86,000

This is more than double what the Town typically budgets for storm related repairs and clean-up. This does not include the costs to repair roads damaged by mudslides. We estimate the cost to design and repair the roads damaged by the storms to be upwards of \$200,000. These streets include Canyon, Tamalpais and Madrone roads. Due to the significant costs related to storm damage, staff has activated Fund 01-513 to capture storm related costs. This fund will allow us to better track costs which is required for possible reimbursement by state or federal disaster relief funds. It should also be noted that the Town will seek reimbursement from private property owners for fallen trees that these owners were unable to remove in a timely matter.

While we have moved the above costs into the Storm Damage fund, an initial appropriation of funds is required to allow staff to continue to charge expenses against the fund. Staff is recommending an initial appropriation of \$300,000. It should be noted that the repairs of the mudslide between the Women's Club and ballfield and Forrest Avenue are not included in this initial estimate because construction costs are unknown at this time. These projects will obviously require an additional appropriation of funds. Staff will recommend funding sources at the time the projects are brought to the Council for consideration.

**Funding Sources**

As described in the Report Summary, the Town has approximately \$325,000 available for these proposed mid-year budget adjustments. Staff proposes \$95,000 be allocated for the General Fund mid-year adjustments with the remaining \$230,000 allocated to the new Storm Damage fund. The Storm Damage Fund would be supplemented with \$70,000 from General Fund reserves.

**CAPITAL IMPROVEMENT FUNDS**

Capital Improvement costs (\$198,400) are 10.8% spent after six months and are expected to end the year at \$1,307,000 expended of \$1,845,000 budgeted (approx. 70.8%). A majority of the cost savings are attributed to one-time savings.

As of December 31<sup>st</sup>, \$198,418 was expended on capital projects. Major projects worked on during the period included: Meadow Way Bridge (\$72,359), Azalea Ave Bridge (\$39,703), and Creek Rd Bridge Repair (\$20,436). An additional \$1,108,000 is projected to be expended by June 30<sup>th</sup> for Capital Improvement Program (CIP) projects. A summary of CIP expenditures is shown in Table B.

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**Table B: Projected Year-End CIP Expenditures**

Capital Project	Spent To Dec 31	Projected to June 30
SR&R Tamalpais Rd	\$ 0	15,000
SR&R Mtn View	0	28,000
SR&R Canyon	0	20,000
Women's Club Rehab	2,398	17,602
Misc. Park & Trail	6,332	43,668
Azalea Ave Bridge	39,703	174,940
Meadow Way Bridge Rep	72,359	208,865
BPMP Spruce, Marin, Canyon	15,483	56,659
Creek Rd Bridge	20,436	171,824
Bike Spine Class I	6,250	301,750
Pavilion Seismic Retrofit	0	20,000
Sidewalk Program	3,843	15,000
Street Resurfacing & Repair	31,614	20,000
Parkade Improvements	0	15,000
<b>Net Total</b>	<b>\$198,418</b>	<b>\$ 1,108,308</b>

Project descriptions are available in the Town's FY16-17 Capital Improvement Budget (CIP). Most of the projects are funded with grant funds such as the completion of the Bike Spine project (i.e., Class 1 Bike Lane) and bridge projects.

Some key assumptions are:

- Design should be completed for Canyon, Tamalpais and Mountain View roads.
- The Bike Spine completion project is scheduled to be out to bid in early March. We have included a bid alternative in the packet in the event bids are higher than budgeted.
- The Council will continue the community discussion regarding the preliminary design concepts for the Parkade.
- Staff will pursue discussions with the County of Marin regarding short-term financing for the Town's capital improvements.
- Due to the impact of the recent storms on the Town's infrastructure, the Council may want to discuss its funding priorities for capital improvements in FY16-17.