TOWN OF FAIRFAX

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July 2015

Town of Fairfax Operating and Capital Budgets for Fiscal Year 2015-16

Dear Mayor and Town Council:

I am pleased to present the Fiscal Year 2015-16 Operating and Capital Improvement Budget. This budget reflects the revisions made by Council at their workshop and June and July meetings prior to the adoption in August.

The total Operating and Capital budget is approximately $10,900,000 of which $8,200,000 is allocated for general fund operations, $2,100,000 for capital improvement projects (CIP), and $600,000 for other expenses such as Measure K debt service and special revenue funds. The FY15-16 total budget is approximately $300,000 or 3% higher than last year's adopted budget.

This year's budget continues to reflect the positive growth in the economy. In FY15-16, property tax revenues are projected to grow by over 6.5% or approximately $220,000. The voter renewal of the special municipal tax- aka Measure J- in November 2014 will add another $250,000 to General Fund revenues. However, this increase is offset by a decrease in projected sales tax revenues compared to FY14-15. This decrease was due to the "double counting" of a portion of sales tax revenue in last year's budget. General Fund revenues also now include recreation fees which used to be classified as a special revenue fund (i.e., separate from the General Fund). The good news is that net General Fund revenues and transfers (e.g., Measure J) are estimated to be $440,000 (approx. 6%) higher than the FY14-15 budget.

Typically, this level of revenue increase would more than offset any projected expenditure increases. Unfortunately, this isn't a "typical" year for increases in expenditures. General Fund expenditures and transfer outs (e.g.,, from General Fund to capital project fund) are expected to increase by approximately $400,000 or 6% above FY14-15. These increases are primarily related to retirement costs, fire services, and one-time capital costs.

Specifically, CalPERS (the state retirement system) increased the Town's annual retirement contribution by $230,000. This contribution will be applied toward the new CalPERS "side fund." A "side fund" is the amount a Town owes to CalPERS to fully fund its retirement obligations. The Town's payment to the "side fund" is in addition to its annual contributions to CalPERS. The Town will now have two CalPERS side funds. This year's budget includes a "PERS side fund" line item under each department's personnel costs. One side fund (approx. $1.5M) is slated to be repaid in seven (7) yrs. and the other (approx. $5.3M) is amortized by CalPERS over 20-30 years. Staff is researching the options for financing the smaller side fund

SUPPLEMENT TO
AGENDA ITEM # 10

and/or a portion of the larger side fund which could result in hundreds of thousands of dollars in interest savings to the Town over a period of time.

Another major expenditure increase is for Ross Valley Fire Department (RVFD) services, which also experienced a similar increase in retirement costs. The Town's contribution to RVFD will increase by approximately $150,000. The one-time capital cost is for the Manzanita Rd. reconstruction project. In FY14-15, the Council allocated projected General Fund operating expenditure savings (approx. $65,000) toward the repair of Manzanita Road. However, the project has been carried over to FY15-16. The FY15-16 budget also includes negotiated cost of living adjustments (COLA's) for the two bargaining groups and management.

In recognition of the increased expenditures, the FY15-16 budget does include approx. $170,000 in permanent net reductions in operating expenses compared to FY14-15. These reductions along with increases in revenue combine to offset the increases in retirement and RVFD costs. We believe these net reductions will not significantly impact service levels.

The net impact is that the Town will again need to dip into General Fund Reserves, but at an amount ($75,000) less than the previous year's budget ($121,000). It should be noted that while last year's budget anticipated dipping into General Fund Reserves, the Town did not need to do that due to year end expenditure savings and higher than anticipated revenues received.

For FY15-16, the Town will be using its reserves to pay for one-time capital expenses (i.e., Manzanita Road). Overall, General Fund reserves continue to remain healthy. For FY15-16, we estimate the ending General Fund balance (i.e., June 30, 2016) will remain above $2,000,000 or at approximately 25% of General Fund operating expenses per Council policy. It should be noted that the $2,000,000 projected ending fund balance is 3.5% higher than the ending fund balance in June 2014.

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Five Year General Fund Forecast

The Five Year Forecast (Forecast) allows the Town Council an opportunity to plan for the future based on projected revenues and expenditures. Graph A shows General Fund expenses and revenues will roughly equal each other over the 5 year period. The Town will need to slightly dip into General Fund Reserves for a couple years, but will contribute to the General Reserves in the later year.

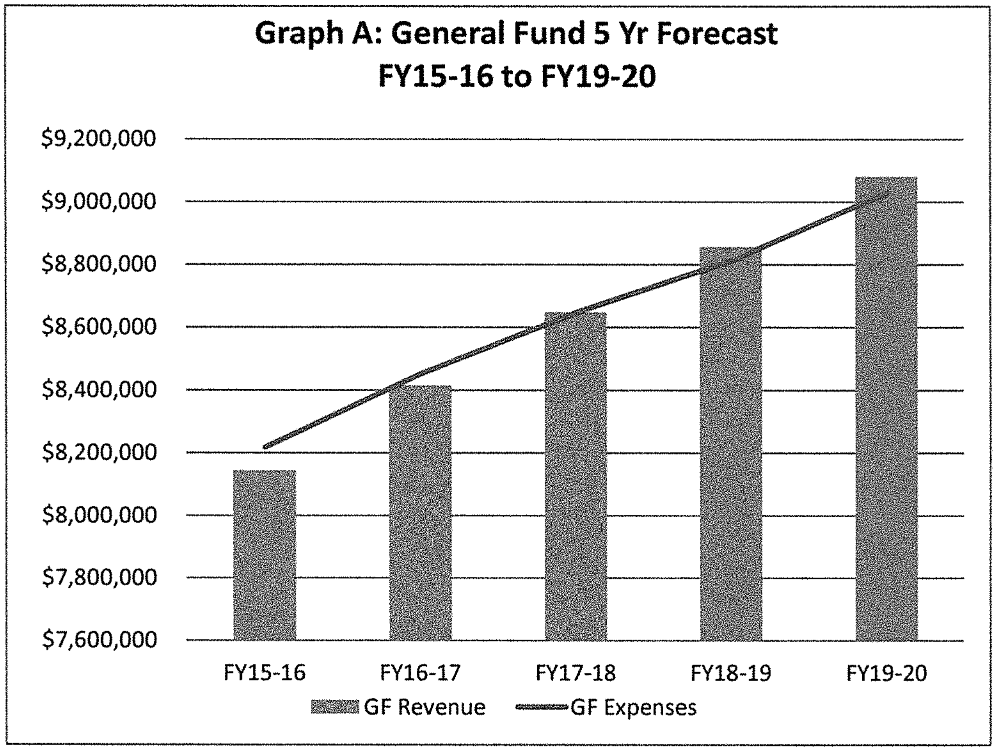


Table A shows how the total revenues including transfers would cover projected expenses over the Forecast period. General Fund reserves would range between 23% - 24% of General Fund expenditures. While this is slightly below the Council's policy of 25%, we are not projecting a significant need to tap into reserves to balance the budget during the Forecast period.

Table B shows that General Fund revenues will grow by an average 3.0% per year from FY16-17 to FY19-20. In comparison, expenditures will increase by an average of 2.5% during the same time period. The Forecast does include COLA adjustments per negotiated agreements with bargaining groups. Health care costs are estimated to increase annually by 9%. Retirement costs are estimated to increase by approximately 8.2% in FY16-17 and average of 6.3% per year for FY17-18 thru FY19-20. Non-personnel expenses are increased by 1% per year. However, the Forecast does assume savings from staff turnover/retirements during the Forecast period as well as some minor reductions in on-going operating costs.

Personnel costs (salaries and benefits) comprise approximately 70% of the Town's budget not including the cost of the fire services, since that is a contractual service. Needless to say, increases in health and retirement costs continue to represent the most significant impact to

TABLE A

Five Year General Fund Forecast

	Estimated Yr End FY14-15	Projected FY15-16	Projected FY16-17	Projected FY17-18	Projected FY18-19	Projected FY19-20
Total GF Appropriations	$ 7,570,062	$ 8,210,636	$ 8,451,470	$ 8,646,402	$ 8,813,427	$ 9,029,123
GF Revenue (taxes, fees)	$ 5,585,286	$ 5,752,500	$ 5,914,778	$ 6,097,481	$ 6,284,764	$ 6,465,997
Other GF Rev*	$ 1,602,420	$ 1,590,000	$ 1,629,750	$ 1,670,494	$ 1,712,256	$ 1,755,062
Transfers In**	$ 593,815	$ 800,000	$ 869,000	$ 879,000	$ 859,000	$ 859,000
Subtotal GF Revenue	$ 7,781,521	$ 8,142,500	$ 8,413,528	$ 8,646,974	$ 8,856,020	$ 9,080,059
Net Surplus(Deficit) to GF reserves	$ 211,459	$ (68,136)	$ (37,942)	$ 572	$ 42,593	$ 50,936
Ending GF Bal	$ 2,138,350	$ 2,070,214	$ 2,032,272	$ 2,032,844	$ 2,075,437	$ 2,126,373
In % of GF Exp	28.2%	25.2%	24.0%	23.5%	23.5%	23.6%

* contributions from Planning and Building revenues and retirement fund assumes 2.5% increase/yr

** Measure J, COPS Grant, Gas Tax, Festival

Expense Assumptions

Includes allowance for salary adjustments and/or COLA's

Salaries/benefits assumes some employee savings based on turnover and retirement over the 5 yrs

Health benefits increase by 4.5%/yr

Retirement increase increases by $230,000 in FY15-16, then 8.2% in FY16-17 and then averages 6.3%/yr thru FY19-20out

Assumes renewal of 1/2 sales tax Measure D

All other expenses increase by 1%/yr with the exception that RVFD increases by $133,000 in FY15-16 and 2% thru FY19-20; assumes additional reductions in expenditures in future years

TABLE B
GENERAL FUND REVENUE AND EXPENDITURE FORECAST IN %

	Budget FY15-16	Projected FY16-17	Projected FY17-18	Projected FY18-19	Projected FY19-20
Total GF Revenue*	$ 5,752,500	$ 5,914,778	$ 6,097,481	$ 6,284,764	$ 6,465,997
Revenue Increase from previous yr	$ 205,000	$ 162,278	$ 182,703	$ 187,283	$ 181,233
Increase in % from previous yr	3.7%	2.8%	3.1%	3.1%	2.9%
Total GF Expenses	$ 8,210,636	$ 8,451,470	$ 8,646,402	$ 8,813,427	$ 9,029,123
Expenditure Increase	$ 640,574	$ 240,834	$ 194,933	$ 167,025	$ 215,696
Increase in %	8.7%	3.2%	2.4%	2.0%	2.5%

* GF revenue does not include transfers or special revenue

future budgets. Unfortunately, we have little control over these two factors.

Table C shows the breakdown of General Fund Revenues. Over the five-year forecast period, property and sales tax revenues are projected to grow by an average of 3.5% per year. The FY15-16 General Fund budget now includes the newly consolidated Recreation and Community Services Department. Previously, recreation (aka FOCAS) revenues and expenditures were shown in a Special Revenue Fund.

One major assumption of the 5 Year Forecast is the renewal of the 0.5% sales tax (referred to as Measure D) in November 2016. Without the renewal, the Table below shows that in FY17-18 the Town would need to fill an estimated $455,000 gap in revenue or approximately 5.5% of total General Fund revenues including transfers. This would necessitate a major restructuring of the projected budget in FY17-18.

GENERAL FUND REVENUE AND EXPENDITURE FORECAST INCREASES (DECREASES) w/o MEASURE D

	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20
GF Revenue w/o Measure D	$ 8,142,500	$ 8,341,028	$ 8,191,974	$ 8,379,020	$ 8,588,749
GF Expenses	$ 8,216,000	$ 8,451,470	$ 8,646,402	$ 8,813,427	$ 9,029,123
Diff	$ (73,500)	$ (110,442)	$ (454,428)	$ (434,407)	$ (440,374)

Graph B below illustrates the short fall between forecasted revenues and expenditures as well as the impact to General Fund reserves if the Town did not revise its budget to reflect the loss of Measure D revenues.

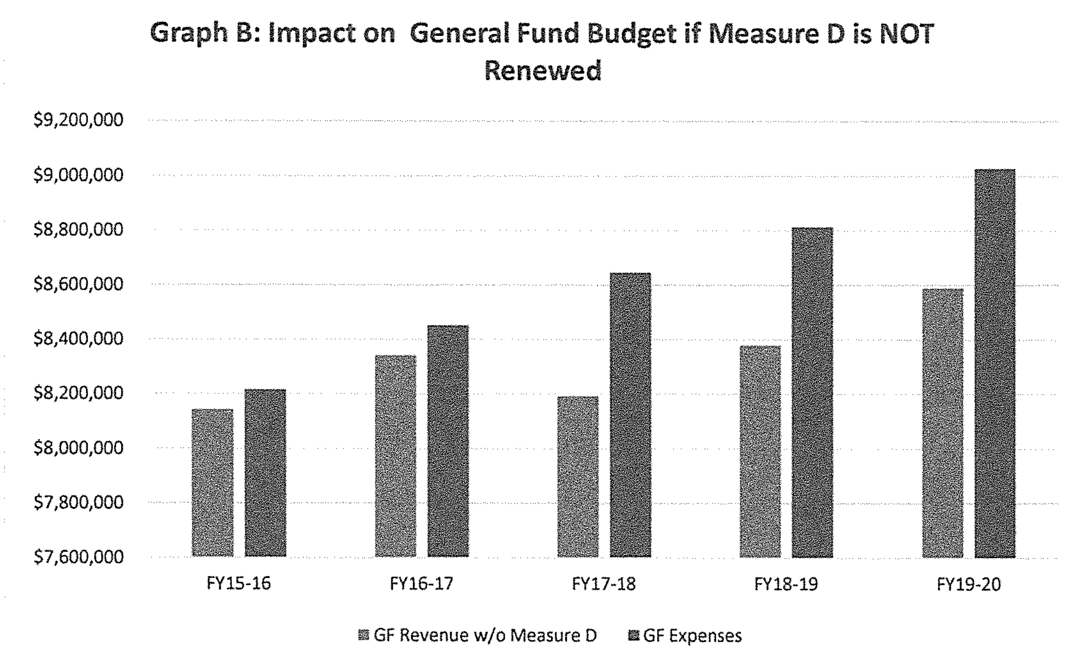
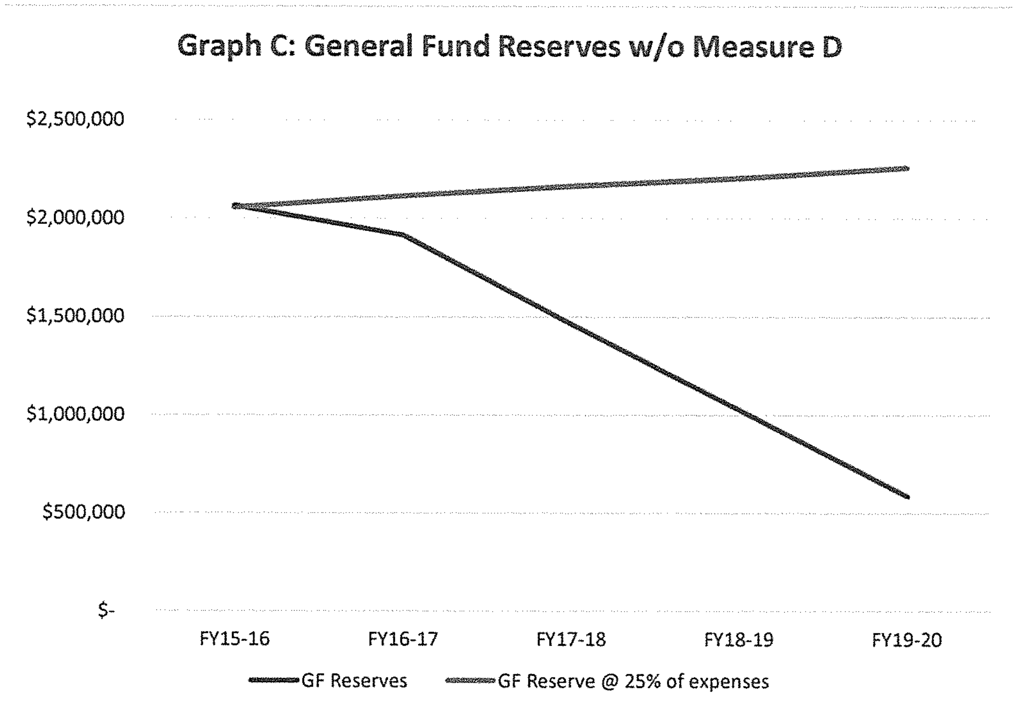


TABLE C
GENERAL FUND REVENUE ACTUAL AND 5 YEAR FORECAST

Revenue Detail	Projected FY14-15	Proposed Budget FY15-16	Projected FY16-17	Projected FY17-18	Projected FY18-19	Projected FY19-20
Property Tax	$ 3,376,000	$ 3,470,000	$ 3,591,450	$ 3,717,151	$ 3,847,251	$ 3,981,905
Sales Tax (1%)	$ 665,000	$ 656,000	$ 678,000	$ 705,000	$ 730,000	$ 751,900
Measure D Sales Tax (0.5%)	$ 408,000	$ 425,000	$ 435,000	$ 455,000	$ 477,000	$ 491,310
Other- Utility	$ 364,000	$ 375,000	$ 376,875	$ 378,759	$ 380,653	$ 382,556
Subtotal Taxes	**$ 4,813,000**	**$ 4,926,000**	**$ 5,081,325**	**$ 5,255,910**	**$ 5,434,904**	**$ 5,607,671**
Other Revenues						
Franchise Fees	$ 336,000	$ 348,000	$ 349,740	$ 351,489	$ 353,246	$ 355,012
Business License	$ 125,000	$ 125,000	$ 125,625	$ 126,253	$ 126,884	$ 127,519
Fines	$ 116,000	$ 115,000	$ 117,300	$ 119,646	$ 122,039	$ 124,480
Rental & Maintenance Fees	$ 29,000	$ 31,000	$ 32,550	$ 34,178	$ 35,886	$ 37,681
Revenues from other Agencies	$ 60,500	$ 59,500	$ 59,798	$ 60,096	$ 60,397	$ 60,699
Recreation/Class Fees		$ 72,000	$ 73,440	$ 74,909	$ 76,407	$ 77,935
Charges for Svc	$ 68,000	$ 76,000	$ 75,000	$ 75,000	$ 75,000	$ 75,000
Subtotal Other Rev	**$ 734,500**	**$ 826,500**	**$ 833,453**	**$ 841,571**	**$ 849,860**	**$ 858,326**
TOTAL GENERAL FUND REVENUE	**$ 5,547,500**	**$ 5,752,500**	**$ 5,914,778**	**$ 6,097,481**	**$ 6,284,764**	**$ 6,465,997**

Assumptions for 5 yr GF Projections (not including FY15-16)
Total Prop Tax increase by 3.5% per yr
Sales tax based on consultant data
Utility taxes remain flat
Franchise fees, other revenues, and business license increased by 0.5%/yr
Revenues from other agencies slight increase
Fines and recreation fees increased 2%/yr
Other Charges for svcs increased per Dispatch contract
Assumes renewal of half cent sales tax Measure D

In FY19-20, if forecasted expenditures did not change (highly unlikely), Graph C indicates that General Fund reserves would be less than 7% of operating expenses which would be well below the Town policy of maintaining a 25% fund balance reserves and would adversely impact the Town's cash flow and operations.



Needless to say, the renewal of Measure D would need to be seriously considered by the Town Council and the community in FY16-17.

Key Service Additions

This budget does include one significant change to service levels. Over the past year, the Public Works Department (DPW) has been understaffed in the field. While the DPW budget did include funding for a half-time position (approximately $25,000), we decided to keep the position vacant to evaluate the impact on workload and, if contractors, could be used to assist staff as needed. We have since determined that that approach was not very effective. In addition, we believe a full-time position is warranted given the workload and the need for succession planning. With retirements on the horizon, it would be prudent to begin training staff for the future. The position including salary and benefits is estimated to cost $60,000/yr. which will add a net $35,000 to DPW personnel costs since we already budgeted $25,000/yr. for a part-time position.

Key Budget Assumptions for Fiscal Year 2015-16

This budget contains the same sections and components (e.g., Five Year forecast) as last year with the biggest change being the consolidation of volunteer and recreation services (formerly known as FOCAS) into a new Recreation and Community Services Department. As a result, all expenditures and revenues associated which such activities now appear in the General Fund as opposed to a Special Revenue Fund. The net impact to the budget is neutral as the expenditures and revenues for these programs are projected to be relatively the same as in FY15-16.

We have also added detailed sheets to better track the use of Measure A (TAM) Transportation funding and County Measure A Park funding. The use of these monies are now show in the newly created Funds 22 and 23, respectively.

The following are key budget assumptions used to develop the FY15-16 budget:

Continue to Keep Two Positions Vacant and Add a DPW Position

- Fund a portion (part-time @ 25%) of the current vacant Administrative Assistant position.
- Continue to keep one Police Officer position vacant.
- Continue to keep Public Works director position vacant.
- Add new DPW Maintenance Worker I position.

Stable Sales and Property Tax Revenues and Fees

- Sales tax projections are projected to be somewhat flat as we now have a better handle of the revenue generated from the ½ cent sales tax (Measure D). It should be noted that the sales tax revenue budget estimate for FY14-15 doubled counted the "In-Lieu Sales Tax" in the "Bradley- Burns" 1% sale tax estimate. As a result, the FY15-16 sales tax estimate is $100,000 lower than the adopted budget estimate in FY14-15.
- Overall property tax revenues are projected to increase by over 6% or $220,000 in FY15-16. Over 70% of the property tax increase is from secured properties (e.g., single family home).
- Increases in Planning and Building revenue due to fee adjustments to reflect 100% cost recovery.

Measure J and Recreation Fees

- With the passage of Measure J, the special municipal tax of $195/unit per year, the Town will collect approximately $250,000 more in revenue per year. Measure J, which was a renewal of Measure I, consists of the following: 1) the base of $125/unit annual tax under Measure I, 2) incorporated the eliminated General Municipal Services Tax of $50 per residential and commercial unit, and 3) included a $20/unit increase to reflect inflationary cost since the tax's inception in 2005.

The Town will collect over $710,000 annually from Measure J of which $130,000 is typically allocated to capital improvement projects. Last year, the Town collected approximately $460,000 from the previous Measure I ($125/unit) and did not collect the General Municipal Tax (approx. $180,000 annually) since it was going to be incorporated into Measure J. The additional $20/unit will generate approximately $70,000 in annual revenue.

- Recreation fees and expenses for classes and programs are now included in the General Fund revenues as opposed to a Special Revenue Fund. The result is that this will add over $70,000 in General Fund revenues which are offset by the inclusion of program expenses into the newly created Recreation and Community Services Department.

- The budget includes increased funding for youth and senior recreational activities as well as Volunteer Board activities.

Permanent Reductions in Expenditures

- The budget reflects net permanent reduction in operating expenses of approximately $170,000. The reductions reflect decreases in outside contracting and services and lower contributions for equipment/computer replacement. Approximately $80,000 is in non-personnel operating expenses in DPW. Of the $80,000, $25,000 is trail maintenance which has been allocated entirely to Measure A (Park) and Measure J funding. The overall reductions were somewhat offset by increases in non-departmental expenses (Fund 01-715). This division includes all the operational costs not associated with specific departments. For example, the Town's contract with the Humane Society for animal control services and contractual costs for IT services are classified as non-departmental expenses. The increases are related to increases in costs for outside services and higher liability/workers compensation insurance costs.

- In essence, the net reductions were offset by increases in the Ross Valley Fire Department (RVFD) operations. As stated above, RVFD has also experienced significant increases in retirement costs (approx. $320,000) similar to Fairfax as well as increases in overtime expenditures. In addition, last year, RVFD used the remainder of its operating reserves to keep the annual increase reasonable for its member agencies. The net result is that the Town's contribution to RVFD will increase by approximately 8% or $150,000 for FY15-16.

Personnel Costs- Increase in Health and Retirement Costs and reflects new MOU's

- Health costs are projected to increase by 9% annually.

- Retirement costs increased by $230,000 in FY15-16 and is now shown in a "side fund" line item.[1]

- The budget reflects tentative agreements on new labor contracts (MOU's) with the Service Employees International Union (SEIU) and Fairfax Police Officer Association (FPOA) as well as agreement with the non-represented management group. The FY15-16 budget does reflect cost of living adjustments (COLAs) per the MOU's and management resolution. For FY15-16, the estimated costs are approximately $60,000 or less than a 2% increase in the Town's total personnel costs. The MOU's are for three years (FY15-16 thru FY17-18) and represent the positive working relationship between the Town and its employees.

Workplan and Performance Data

This information is intended to assist the Council with its understanding of departmental activities. Specifically, the workplan identifies key new programs/initiatives or actions that a department will be working on in FY15-16. It differs from a goal in that it lists key milestones for success.

The performance data reflects the type of work a department is doing, but is not meant to assess effectiveness or efficiency of the work. This continues to be a work in progress.

Five Year Capital Improvement Plan (5 Yr CIP)

The Five Year CIP will allow the Council to set priorities for future projects and assess the availability of funding. The Council only adopts the first year of the 5 Yr CIP. While the total 5 Yr CIP budget is approximately $11,400,000, the budget for FY15-16 is approximately $2,100,000. The funding comes from federal, state, local grants (e.g., Highway Bridge Program, sales tax from TAM), gas tax, Measure J, and funds reserved for the Pavilion. The funding per year is allocated on a "cash" basis.

One change from previous years is that we are trying build reserves for future capital projects (e.g., Fund 51). Specifically, the 5 Yr CIP shows that the Town will require $240,000 in FY17-18 to fund matching requirements for projects. The purpose of the reserves is to minimize the use of General Fund reserves to fund future capital projects.

We have also created two new funds (i.e., Funds 22 and 23) to better track TAM Measure A

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[1] The side fund represents the amount the Town must pay to fund the shortfall in its pension obligations. This was caused by three key factors: 1) When the High Tech and Housing Bubble burst, CalPERS was unable to achieve its projected return on investment (ROI) needed to cover future pension obligations In essence, the Town is paying for the shortfall in ROI (7.75% v 1-2%) over those years, 2) the recent actuarial studies indicate employees are living longer which, obviously, impacts retirement costs, and 3) previously, CalPERS charged a percentage of payroll to cover retirement costs. However, the Tier I classification for retirement is closed to new members and CalPERS determined that its previous approach was unsustainable since the pool of members in Tier I was getting smaller and smaller due to retirements.

transportation and County Measure A park funding allocated to projects.

The FY15-16 CIP contains the following projects:

- Renovation of the Parkade project.

- Preliminary archeological consulting services needed for the Pavilion seismic retrofit project.

- Replacement of the Pavilion roof (Note- the mid-year budget indicated we would begin the project in FY14-15, but we have since decided to include it the FY15-16 CIP budget).

- Improvements for making the stage in the Women's Club useable for activities as well as ADA accessible.

- Design and construction of a Class I Bike lane along Sir Francis Drake from Glenn Dr. to Lefty Gomez Field (aka Bike Spine Gap Completion Project).

- Repair/improvements to pedestrian trails and repairs/replacement to park equipment and facilities. Approximately $48,000 in Measure A Park and $26,000 in Measure J funds are allocated to the various projects.

- Street improvements are funded at a lower level than FY14-15 because the TAM transportation funding for FY15-16 has been allocated to the Parkade project. However, it should be noted that the TAM funding for FY14-15 was also reallocated toward the Bank St. parking lot construction project. As a result, the Town did not undertake any major street improvement projects in FY14-15. For FY15-16, a combination of Measure J and reserves in Fund 51- Capital Projects will be used to fund improvements. In FY15-16, Town will be primarily focusing on street maintenance activities such as slurry sealing and thermoplastic striping of specific crosswalks. This approach should reduce maintenance costs in the future.

- New recycling containers for downtown.

- Implementation of the sidewalk repair program to help offset costs to residents.

- Reconstruction of Manzanita Road due to slide damage.

- Preliminary design of the new Azalea bridge replacement project.

- Continuation of the five bridge improvement projects: Meadow Way, Creek Rd, Marin, Spruce, and Canyon. The matching funds represent the carryover of available funds allocated in FY14-15.

Issues to Begin Considering in FY15-16

While the Five Year Forecast shows the Town can maintain the status quo, it does assume the renewal of Measure D (1/2% sales tax) in FY17-18. In order to avoid any lapses in the sales tax, which expires in April 2017, the Council would need to place a measure for the renewal on the November 2016 ballot. In FY17-18, we estimate Measure D would generate approx. 455,000/yr. or approximately 5.5% of total General Fund revenues and transfers. Measure J is slated to expire in FY19-20. Needless to say, the combined effect of losing all these funding sources would have a catastrophic effect on the Town's budget (see Five Year Forecast).

On the bright side, the Town has ample time to explore future revenue sources, especially if existing tax measures are not renewed (e.g., Measure D). The significant untapped future resource is parking revenue and/or annexation of unincorporated areas which are partially surrounded by the Town limits. The managed parking concept is to be discussed in the workshops regarding the Town Center Element which will occur in FY15-16. The Marin Local Agency Formation Commission (LAFCO), the agency responsible for annexations in the County, will be conducting a study over the next two years to review and develop policies and procedures to effectuate city annexations of unincorporated lands that are entirely or substantially surrounded by the affected city (i.e., "islands"). Staff will keep the Council apprised of LAFCO's progress on the study.

One important factor to consider is that if the Town is able to finance the smaller CalPERS side fund ($1.5 million), the side fund would be repaid in five (5) years. Although this repayment is outside the Forecast period, after year 5 (FY19-20), the monies that the Town had been budgeting to pay the side fund (approx. $300,000 per year) could be used to partially offset the impact of the lost revenue or, if the sales tax is renewed, be used for other purposes such as capital projects (e.g., street repaving).

Special Thanks

I would like to thank the Town staff for their input and insights as we prepared this draft document, with appreciation to Police Chief Chris Morin and Planning and Building Services Director Jim Moore. A special thanks to our Finance staff, mainly Finance Director, Michael Vivrette, for continuing his efforts to refine the budget format with a goal of creating a more transparent and readable budget. Michael continues to strive to create a budget that meets the "best practice" guidelines of the California Society of Municipal Finance Officers.

Also, I would be remiss not to give a "shout out" to all those Fairfax residents who supported Measure J. Without their on-going support, the Town would be facing draconian budget level and significant reductions in service levels. I appreciate their trust in the Town Council and staff.

Staff members continue to wear multiple hats to balance the competing priorities of the Town. It is clear to me that staff are very dedicated and take pride in what we have been able to accomplish on a limited budget. That seems to be the Fairfax way.

There are potential financial challenges on the horizon, but the Town Council has demonstrated the ability to successfully take these challenges head on. I look forward to working with Council and community on these issues and, hopefully, we can all remember to keep smiling, even when the outcomes may be less than desirable☺

Sincerely,

Garrett Toy

GARRETT TOY
Town Manager