




TOWN OF FAIRFAX

STAFF REPORT

March 5, 2014

TO: Mayor and Town Council

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

SUBJECT: 2013-14 Mid-Year Budget Review

RECOMMENDATION

- (1) Accept and file Mid-Year Budget Report
- (2) Approve mid-year budget adjustments

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY 13-14 revenue and expenditure activity. The Report provides year-end budget estimates based on seven months of actual Town expenditures and revenues received to date. The Report also revises the Five Year Budget Forecast based on the revised year-end budget estimates. Lastly, the Report will identify three mid-year budget adjustments for the Council to approve.

Overall, the Report indicates the Town is experiencing financial stability with continuing growth in revenues and solid controls over expenditures. Specifically, we are projecting an approximate net \$225,000 increase to the General Fund (GF) by the end of the fiscal year.

Revenues

Revenues are projected to exceed budget by approximately \$376,000 in the General Fund primarily due to an improving economy and real estate market affecting property tax and sales tax revenues which comprise 78.9% of the General Funds revenues. The General Funds are the seven discretionary funds - including General Fund, Dry Period Fund, Building & Planning Fund, Retirement Fund, and three equipment replacement funds.

It should be noted that the FY13-14 budget anticipated drawing down the GF fund balances by approximately \$135,000. The attached Table A indicates that the net impact of increased revenues is a \$225,000 net gain to the Town. Furthermore, the Town will not need to drawdown any monies from GF fund balances as the revenues generated in FY13-14 exceeded expenditures.

Expenditures

Department activity is projected to be under budget with projected savings at year-end of \$100,000 (4.1%). However, cost overruns in Capital Projects (i.e., Pastori Outfall Pipe) will require the General Fund to transfer about \$130,000 to make up the difference. As a result, the General Fund is projected to end the year with expenses exceeding budget by \$31,000.

Five Year Forecast

The revised Five Year Forecast reflects increases in baseline property and sales tax revenues and increases in expenditure projections based on anticipated increases in Fire, medical, and retirement costs. While FY13-14 will end with a significant increase to the General Fund (GF) fund balance, Town revenues are not projected to increase at that level over a five year period because of increased operational costs. However, the Forecast projects the Town to net approximately \$328,000 in additional revenues over the five year period which the Council can use to augment the GF fund balance and/or use to fund one-time projects or programs.

Mid-Year Budget Adjustments

Two of the proposed adjustments represent specific capital improvement projects previously approved by the Council, but staff is recommending a different approach for funding the projects. The result is that the GF fund balance will need to offset expenses by an additional \$43,000. The third adjustment represents an increase in legal costs due to a number of land use issues requiring legal review and input. These added costs will be offset by savings in other General Fund departments.

FISCAL IMPACT

The Mid-Year Report anticipates that the Town will end the year with an increase of approximately \$360,000 in the GF fund balance above the budgeted estimate.

ATTACHMENTS

FY14 Midyear Budget Report
Summary of Budget Adjustment
FY14 Budget Revenue projection
FY14 Budget Expense projection
Five Year Projection

Town of Fairfax - FY14 Mid-Year Budget Report

March 2014

REVENUES

Revenues are projected to exceed budget by approximately \$376,000 in the General Funds primarily due to an improving economy and real estate market affecting property tax and sales tax revenues which comprise 78.9% of the General Funds revenues. The General Funds are the seven discretionary funds - including General Fund, Dry Period Fund, Building & Planning Fund, Retirement Fund, and three equipment replacement funds. Attached is a mid-year revenue projection. The table below summarizes the increases in General Fund revenues by type.

Type Of General Fund Revenue	Variance
Property Taxes – various	+ \$94,000
Sales Tax collections	+ \$222,000
Revenues from Other Agencies	+ \$42,000
Building & Planning charges	+ \$18,000
Total (approx.)	\$376,000

Property Taxes

Property tax revenues are expected to exceed budget by \$94,000 (2.1%) primarily due to higher revenues from Property Tax in-Lieu of VLF, Real Estate transfer fees, and the Pension Obligation Parcel Tax. Specifically, increases in assessed value and real estate activity are higher than anticipated. The Real Estate Transfer tax revenue – originally projected to be \$25,000 for the year- is already over \$26,200. Approximately \$35,000 more in revenue is anticipated from the Pension Obligation Parcel Tax of .091 per \$100 of assessed value. The remaining \$34,000 of additional revenue is from increases in unsecured property taxes.

Sales Taxes

California's economic recovery continues to improve with every region in California experiencing an increase in sales tax cash receipts from the same quarter a year ago. Statewide, the increase was 5.0%. Marin County experienced a 7.3% improvement in sales tax revenues with Fairfax posting a 13.8% increase fiscal year-to-date.

MuniServices, the Towns sales tax consultant, has projected the Town will have higher than budgeted revenues of 38.9% in the basic sales tax (Bradley Burns-1%) and higher-than-budgeted revenues of 23.8% in the Measure D half cent sales tax. The revenue from the 1% sales tax was budgeted at \$405,000 and staff anticipates receiving approximately \$563,000. The revenue from the ½ sale tax was budgeted at \$330,000 and we are projecting approximately \$383,000 in revenues. With regard to in-lieu sales tax (Triple Flip), the staff anticipates receiving approximately \$152,000 based on the receipt of \$76,000 from the State for the first half of the year. Staff budgeted \$140,000 for FY14 and projects the revenue to be 8.2% higher than originally budgeted.

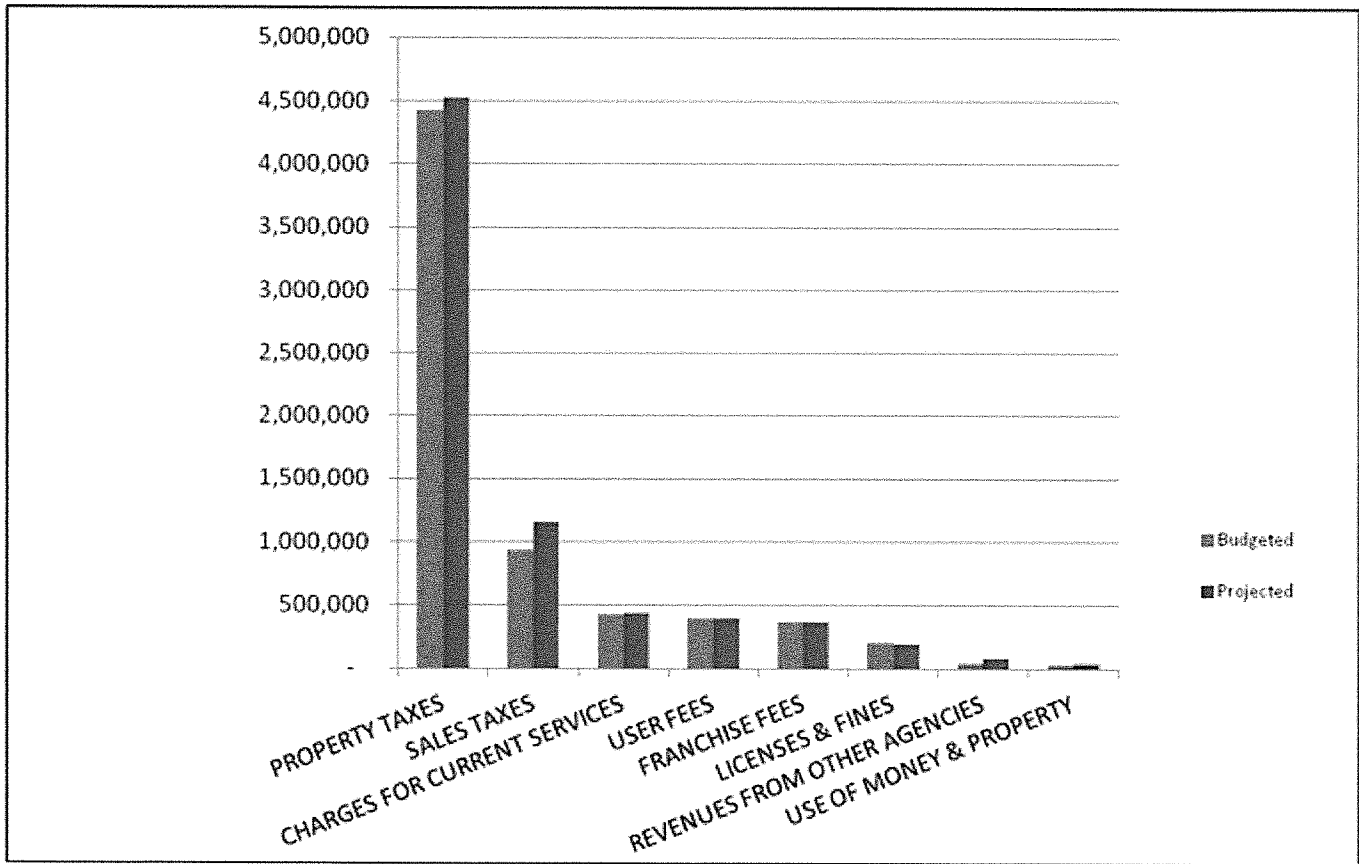
Overall, sales tax is projected to be approximately \$222,000 higher than budgeted . Staff believes this revenue increase represents an “on-going” trend and has adjusted its baseline revenue estimates in the Five Year Forecast.

Building & Planning Fees

At December 31st, the Building & Planning revenues from permits and fees were at 76.7% of budget. Staff projects the revenues could exceed the budgeted amount by \$ 18,000 or more. We anticipate collecting \$381,000 in fee and permit revenues compared to the budget estimate of \$363,000. Fees from current charges on building activity account for 4.4% of the General Funds revenue.

The graph below shows the comparison between the budgeted and projected revenues by type.

FY14 GENERAL FUNDS Midyear Revenue Projections (Funds 1, 2, 3, 4, 5, 6 & 8)



EXPENDITURES

Department activity is projected to be under budget with projected savings at year-end of \$100,000 (4.1%). However, cost overruns in Capital Projects of \$130,000 (i.e.,Pastori Outfall Pipe) will offset the savings in General Fund expenditures. As a result, the General Fund budget is projected to end the year with expenses exceeding the budgeted amount by \$31,000. Attached is a mid-year expense projection.

General Fund

At mid-year, through December 2013, General Fund expenditures were \$3,621,038 which is 48.1% of budgeted expenditures for the fiscal year. While some departments currently exceed 50% of their budget at the six month mark, we anticipate all departments staying within their budget by year end and not requiring any Mid-Year adjustments at this time. The one exception is the Town Attorney Department which is projected to need an additional \$30,000 through year end, but can be absorbed by cost savings in other General Fund departments. An additional \$12,000 will be allocated from the General Fund Unreserved Fund Balance to cover one CIP project.

Personnel

The costs of personnel salary and benefits are very close to the budget projections for FY 2014. Negotiations were concluded with bargaining units at the beginning of the year and remained within the budgeted projections. Salaries for permanent and temporary employees are \$1,108,961 of the \$2,267,814 budgeted (48.9%) through December 2013. Health insurance is at 48.9% of budget at December, but rate increases averaging 11% effective January exceed the budgeted increase 6% which will result in higher than budgeted cost for the year.

A recent decision by CalPERS will result in pension rate increases for The Town in future years. In response to actuarial studies showing longer life expectancies for retirees, the CalPERS board is implementing higher rates for cities beginning July 1, 2016. Rates will be phased in over five years for cities rather than three years as the State agencies will be implementing.

Debt Service Funds (Fund 44)

The Town recently received a check for \$90,870 from US Bank which was overbilled to the Town on debt service for the 2008 bond refunding. The refund will mean the Town will need less for debt service from the taxpayers on future property tax billings.

Capital Improvement Funds

The Capital Improvement Plan (CIP) budgeted \$3.5 million in project costs for FY13-14. However, expenditure for capital projects will be significantly lower than budgeted with a corresponding reduction in revenues received as many projects are grant funded. All the grants only reimburse the Town for costs incurred. Specifically, the Bridge projects are progressing slower than anticipated due to the time needed for the community input process and for additional assessments. The Pavilion seismic retrofit project is delayed due to the processing time required for FEMA to approve the agreements between the Town and FEMA. Similarly, as staff will be just starting the process to develop the Town Center Plan in the spring, which includes the design of the Parkade, we do not anticipate expending significant funds for the Parkade this year.

Staff is cautiously optimistic the Town will receive additional reimbursement from FEMA for previous storm related projects based on CalEMA's recommendations as a result of their recent audits to close out project expenses. It would be premature to indicate an amount as FEMA could disallow the request.

TOWN OF FAIRFAX
MIDYEAR REVENUE PROJECTION
FOR FISCAL YEAR 13/14

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	JUL-DEC 13	FY14 TOTAL	FY14 BUDGET	VARIANCE	% Budget
GENERAL FUNDS (1,2,3,4,5,6,8)					
PROPERTY TAXES	1,897,436	4,521,764	4,426,800	94,964	102.1%
SALES TAXES	460,536	1,157,084	934,500	222,584	123.8%
USER FEES	158,653	393,151	393,500	(349)	99.9%
FRANCHISE FEES	138,901	365,000	365,000	-	100.0%
LICENSES & FINES	49,981	195,615	200,000	(4,385)	97.8%
USE OF MONEY & PROPERTY	16,151	36,679	33,500	3,179	109.5%
REVENUES FROM OTHER AGENCIES	40,865	81,502	39,600	41,902	205.8%
CHARGES FOR CURRENT SERVICES	332,791	440,641	422,100	18,541	104.4%
TOTAL REVENUES	3,095,315	7,191,435	6,815,000	376,435	105.5%
TOTAL TRANSFERS	-	588,721	588,722	-	100.0%
TOTAL GENERAL FUNDS (1,2,3,4,5,6,8)	3,095,315	7,780,156	7,403,722	376,435	105.1%
 SPECIAL POLICE FUND (7)	 58,301	 100,000	 100,000	 -	 100.0%
RECREATION FUND (11)	29,783	78,785	71,000	7,785	111.0%
FAIRFAX FESTIVAL 12)	6,134	36,000	36,000	-	100.0%
SPECIAL PURP - MEASURE I (20)	255,052	463,732	460,000	3,732	100.8%
GASTAX FUND (21)	115,456	228,912	224,018	4,894	102.2%
DEBT SERVICE FUNDS (42-45)	482,225	517,891	491,300	26,591	105.4%
CAPITAL IMPROVEMENT FUNDS (49-55)	200,771	1,513,120	3,509,623	(1,996,503)	43.1% **
OPEN SPACE FUND (73)	24,740	28,336	24,596	3,740	115.2%
TOTAL - ALL FUNDS	4,267,777	10,746,931	12,320,259	(1,573,327)	87.2%
 Revenues			11,174,791		
Transfers - in			1,145,468		
			<u>12,320,259</u>		

NOTES:

- Revenues include Revenues and Transfers-in
- General Funds includes activity from seven funds:
 - 01 - General Fund
 - 02 - Dry Period Fund
 - 03 - Equip Replacement
 - 04 - Building & Planning
 - 05 - Communication Equip Repl
 - 06 - Retirement Fund
 - 07 - Office Equip Repl
- Interfund Transfers within General Funds are removed
- Capital Improvements are budgeted based on best case scenerio. Revenues are primarily reimbursement for expenditures

TOWN OF FAIRFAX
MIDYEAR EXPENSE PROJECTION
FOR FISCAL YEAR 13/14

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	JUL-DEC	PROJECTED	FY14		
	13-14 Amt	FY14 TOTAL	BUDGET	VARIANCE	% BUDGET
FUND 01 GENERAL FUND					
111 TOWN COUNCIL	13,210.84	26,421.68	27,450.00	1,028.32	96.3%
112 TREASURER	1,826.10	2,276.10	4,152.00	1,875.90	54.8%
116 AUDITOR	-	40,000.00	52,500.00	12,500.00	76.2%
121 TOWN ATTORNEY	44,199.53	130,000.00	100,000.00	(30,000.00)	130.0%
211 TOWN MANAGER	75,898.41	151,796.82	161,123.00	9,326.18	94.2%
216 VOLUNTEERS FOR FAIRFAX	10,805.74	22,407.88	25,319.00	2,911.12	88.5%
217 RECREATION	19,607.10	39,214.20	47,836.00	8,621.80	82.0%
218 DISASTER PREP & EOC	4,322.00	8,644.00	8,700.00	56.00	99.4%
221 TOWN CLERK	46,888.40	95,971.58	104,313.00	8,341.42	92.0%
222 ELECTIONS	136.27	12,136.27	13,250.00	1,113.73	91.6%
231 PERSONNEL	9,768.06	19,536.12	23,600.00	4,063.88	82.8%
241 FINANCE	122,579.35	275,158.70	303,133.00	27,974.30	90.8%
311 PLANNING	212,429.95	387,167.89	381,203.00	(5,964.89)	101.6%
321 BUILDING SERVICES	76,637.11	158,272.33	149,912.00	(8,360.33)	105.6%
411 POLICE	1,410,076.68	2,779,572.00	2,816,240.00	36,668.00	98.7%
421 FIRE	905,057.88	1,806,703.92	1,803,292.00	(3,411.92)	100.2%
510 PUBLIC WORKS ADMIN	87,857.16	175,714.32	186,908.00	11,193.68	94.0%
511 STREET MAINTENANCE	123,640.70	279,241.00	279,241.00	-	100.0%
512 STREET LIGHTING	51,122.98	69,352.48	56,600.00	(12,752.48)	122.5%
611 PARK MAINTENANCE	66,473.67	142,810.17	151,568.00	8,757.83	94.2%
625 RENTAL FACILITIES-WOMEN S CLUB	16,952.39	33,904.78	58,747.00	24,842.22	57.7%
626 RENTAL FACILITIES-PAVILION	(329.18)	0.00	-	(0.00)	
715 MISCELLANEOUS	318,087.33	569,700.00	569,700.00	-	100.0%
715 TRANSFERS	-	329,565.00	199,565.00	(130,000.00)	165.1%
911 BUILDING MAINTENANCE	3,789.59	(539.00)	(539.00)	-	100.0%
FUND 01 GENERAL FUND	3,621,038.06	7,555,028.24	7,523,813.00	(31,215.24)	100.4%
FUND 03 EQUIPMENT REPLACEMENT	55,613.23	88,718.00	88,718.00	-	100.0%
FUND 04 BUILDING & PLANNING	-	400,000.00	363,000.00	(37,000.00)	110.2%
FUND 05 COMMUNICATION EQUIP REPLACE	4,032.27	25,257.00	25,257.00	-	100.0%
FUND 06 RETIREMENT FUND	-	1,059,703.35	1,107,000.00	47,296.65	95.7%
FUND 07 SPECIAL POLICE REVENUE	-	125,000.00	125,000.00	-	100.0%
FUND 08 OFFICE EQUIPMENT REPLACEMENT	7,193.51	10,000.00	10,000.00	-	100.0%
FUND 11 RECREATION	39,515.75	64,628.98	63,860.00	(768.98)	101.2%
FUND 12 FAIRFAX FESTIVAL	659.25	37,000.00	37,000.00	-	100.0%
FUND 20 MEASURE I TAX FUND	-	463,731.62	460,000.00	(3,731.62)	100.8%
FUND 21 GAS TAX FUND	-	230,912.00	259,000.00	28,088.00	89.2%
FUND 43 DEBT SERVICE 2006 SERIES	106,795.00	143,350.00	143,350.00	-	100.0%
FUND 44 DEBT SERVICE 2008 SERIES	128,147.75	167,991.00	167,991.00	-	100.0%
FUND 45 DEBT SERVICE 2012 SERIES	137,882.50	177,812.00	177,812.00	-	100.0%
FUND 51 CAPITAL PROJECTS - GRANTS	373,029.97	764,029.97	2,792,503.00	2,028,473.03	27.4%
FUND 52 CAPITAL PROJECTS - STORM	334,330.38	337,330.38	200,000.00	(137,330.38)	168.7%
FUND 53 CAPITAL PROJECTS - TOWN	7,815.25	156,815.25	571,120.00	414,304.75	27.5%
FUND 54 PAVILION RENOVATION FUND	-	10,000.00	150,000.00	140,000.00	6.7%
FUND 73 OPEN SPACE FUND	44,550.46	50,958.00	50,958.00	-	100.0%
TOTAL	4,860,603.38	11,868,265.78	14,316,382.00	2,448,116.22	82.9%

FIVE YEAR GENERAL FUND FORECAST (FY13-14 to FY17-18)

Table A reflects an update to the General Fund 5 Year Forecast (Forecast) shown in the FY13-14 budget. The purpose of the forecast is to allow the Town Council an opportunity to plan for the future based on projected revenues and expenditures.

Over the 5 year period, the revised Forecast shows the Town will net an additional \$328,000 in revenue based on current revenue and expenditure patterns. Of course, this assumes the Town does not alter its expenditures in Year 5 which is highly unlikely. Although if the Town kept to the expenditure projections, the GF reserve would still meet the 25% reserve requirement in FY17-18.

The bottom line is that the Town will most likely see significant revenue surpluses (\$520,000 total) over the next 2-3 years. However, as with any forecast, any changes in the base assumptions could significantly alter the Forecast. One key assumption that did not change was the extension of Measure I. With this in mind, staff recommends the Town Council only consider one-time or short-term uses for these surplus revenues to avoid significant impacts to on-going operational costs.

One of the key differences between this Forecast and the previous Forecast is that Town will no longer need to slightly dip into General Fund (GF) reserves annually to balance the budget. The revised forecast shows the Town will be adding to GF reserves, increasing general fund reserves above the desired level of 25% of GF expenses for the entire 5 year period.

While staff made revisions to the base assumptions, revenues are still only projected to increase by 1.1% to 2.3% per year from FY14-15 to FY17-18 (see Tables B & C). In comparison, General Fund appropriations/expenditures are projected to increase from 1.0%-4.3% per year over the same period. This is much higher rate than previously estimated. These expenditures changed drastically due to three cost factors: Fire, health care, and retirement costs. The Forecast assumes an annual increase of 10% and 9% for health care and retirement costs, respectively. The previous Forecast used 6% and 7% for health and retirement costs, respectively. Fire costs reflect the current MOU for Fire and projected increases in operating costs including health and retirement.

TABLE A

Five Year General Fund Forecast

	Projected YR				
	End Budget	Projected	Projected	Projected	Projected
	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Total GF Appropriations	\$ 7,555,028	\$ 7,614,324	\$ 7,892,809	\$ 8,076,906	\$ 8,412,880
GF Revenue (taxes, fees)	\$ 5,669,434	\$ 5,731,889	\$ 5,842,212	\$ 5,945,419	\$ 6,082,527
Other GF Rev*	\$ 1,522,000	\$ 1,522,000	\$ 1,522,000	\$ 1,522,000	\$ 1,522,000
Transfers In**	\$ 588,722	\$ 590,000	\$ 595,000	\$ 610,000	\$ 615,000
Subtotal GF Revenue	\$ 7,780,156	\$ 7,843,889	\$ 7,959,212	\$ 8,077,419	\$ 8,219,527
5 yr Total					
Net Surplus(Deficit) to GF reserves	\$ 225,128	\$ 229,565	\$ 66,403	\$ 513	\$ (193,353)
In % of GF Exp	3.0%	3.0%	0.8%	0.0%	-2.3%
Ending GF Bal	\$ 1,981,051	\$ 2,210,616	\$ 2,277,020	\$ 2,277,533	\$ 2,084,180
In % of GF Exp	26.2%	29.0%	28.8%	28.2%	24.8%
Target 25% of GF Exp	\$ 1,888,757	\$ 1,903,581	\$ 1,973,202	\$ 2,019,227	\$ 2,103,220
Surplus(Deficit) for GF reserves	\$ -	\$ -	\$ 303,817	\$ 258,306	\$ (19,040)

* contributions from Planning and Building revenues and retirement fund

** Measure I, COPS Grant, Gas Tax, Festival; increase of \$70,000 in Measure I to \$300,000 from \$230,000 which reflects past practice or reduction in transfer out of GF to CIP projects

Expense Assumptions

Salaries in FY15-16 increase by 1%/yr

Salaries/benefits assume new employee savings of \$50,000 in FY15-16 and \$100,000 in savings in FY16-17

Health benefits increase by 10%/yr

Retirement increase by 9%/yr

Assumes renewal of Measures D and I

All other expenses increase by 1%/yr; non payroll/benefits expenses reduced by \$25,000/yr in FY14-15 and FY15-16, reduce an additional \$55,000 in FY16-17 and an additional \$25,000 in FY17-18; Fire increased by MOU and increases in Fire health and retirement.

TABLE B

GENERAL FUND REVENUE AND EXPENDITURE FORECAST INCREASES (DECREASES)

	Adopted Budget FY12-13	Est Yr End FY12-13	Projected FY13-14	Projected FY14-15	Projected FY15-16	Projected FY16-17	Projected FY17-18
Total GF Revenue	\$ 4,955,100	\$ 5,188,771	\$ 5,669,434	\$ 5,731,889	\$ 5,842,212	\$ 5,945,419	\$ 6,082,527
Revenue Increase	\$	\$ 233,671	\$ 714,334	\$ 62,455	\$ 110,323	\$ 103,207	\$ 137,108
Increase in %		4.7%	14.4%	1.1%	1.9%	1.8%	2.3%
Total GF Expenses	\$ 7,092,578	\$ 6,821,037	\$ 7,555,028	\$ 7,614,324	\$ 7,892,809	\$ 8,076,906	\$ 8,412,880
Expenditure Increase	\$	\$ (271,541)	\$ 462,450	\$ 59,296	\$ 278,485	\$ 184,098	\$ 335,974
Increase in %		-3.8%	6.5%	0.9%	3.7%	2.4%	4.3%

Note: FY13-14 is compared to the Adopted Budget FY12-13

GENERAL FUND REVENUE ACTUAL AND 5 YEAR FORECAST

Rentals increase by 5% in FY14-15

SUMMARY OF FY14 MID-YEAR BUDGET ADJUSTMENTS

- (1) Transfer \$130,000 from General Fund (01) to Capital Improvement Fund (52) to cover expenses for Pastori Outfall Pipe. The Council specifically approved the expenditures in 2013 and authorized the use of the General Fund Dry Period fund to cover the costs. However, staff is now recommending that the savings (estimated \$100,000) in General Fund expenditures be used to help cover project costs with the balance coming from the Dry Period Fund.
- (2) Appropriate \$30,000 to the Town Attorney Department. The Town has experienced the need to use the contractual Town Attorney more than anticipated for a variety of land use issues. The source of funding will be the anticipated savings in General Fund expenditures.
- (3) Appropriate \$54,350 in Capital Improvement Fund (53) to cover road repairs on Scenic Drive to be financed by \$42,000 from unbudgeted receipts from City of San Rafael and \$12,350 transfer from the General Fund unreserved fund balance. This project was previously approved by the Council in November 2013. As the funding source is monies received from TAM in a previous fiscal year, this adjustment reflects the budget action required for the project in this fiscal year.