



TOWN OF FAIRFAX

STAFF REPORT

March 6, 2019

TO: Mayor & Town Council

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

SUBJECT: Receive 2018-19 Mid-Year Budget Review Report and approve mid-year budget adjustment for the Town Attorney services

RECOMMENDATION

Receive 2018-19 Mid-Year Budget Review Report and approve mid-year adjustment to increase the budget for the Town Attorney department by \$80,000 from \$190,000 to \$270,000 for anticipated legal services.

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY18-19 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 and historical expenditure patterns. 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 property taxes and sales tax.

General Fund expenditures are projected to be approximately \$150,000 less than budgeted including the proposed mid-year expenditure adjustment. The year-end projection anticipates all departments, with a couple of exceptions, to be within budget. The Capital Improvement Program (CIP) budget does not require any mid-year adjustments.

With regard to departments, the Recreation and Community Services (RCS) Department may exceed its budget (total of \$227,000) by upwards of 5% (approx. \$11,000). This is based on increased staff hours to provide RCS services and programs (e.g., Peri Park renovation, communications/website). We are not recommending any revisions to the RCS budget at this time due to the potential nominal increase. The Council could approve any RCS appropriation increase as part of its year-end review during the FY19-20 budget approval process.

The department that will need an appropriation increase is the Town Attorney's budget. Expenditures thru December (approx. \$108,000) are approximately 57% of budget (\$190,000). However, for the remainder of the fiscal year, the Town Attorney will be needed to work on numerous ordinances and land use issues such as wireless cell facilities (i.e., 5G) and adult-use cannabis. We anticipate the need for the Town Attorney's office to continue to attend Planning

Commission as well as Council meetings. In addition, due to limited staff resources, the Town Attorney's Office is often needed to prepare staff reports and presentations in addition to their assistance in preparing/reviewing ordinances and staff reports.

Staff recommends a mid-year budget adjustment of \$80,000 to the Town Attorney budget (Fund 01-121) which would increase the budget from \$190,000 to \$270,000. In FY17-18, the Town Council approved a mid-year adjustment which increased the Town Attorney budget from \$180,000 to \$245,000. The increase was primarily for legal services required for Victory Village and numerous other ordinances. Staff believed that perhaps that was an anomaly and that the level of legal service would return to the lower level. However, this fiscal year the Town Attorney has been working on more ordinances and attending more Planning Commission meetings. This higher level of service may be required in the future and will be a topic of discussion during the FY19-20 budget approval process.

The projected net General Fund expenditure savings of \$150,000 already reflects this proposed mid-year budget adjustment. In essence, savings in other departments will be used to fund the adjustment.

With regard to the \$400,00 budget surplus, the Council may recall that the Parkade Improvement project required an additional allocation of \$281,276 from General Fund reserves: \$146,276 for additional project costs and \$135,000 for a 20% project contingency. At the meeting to consider the Parkade project, staff reported that for the past several years the Town has experienced year-end budget surpluses. The projected surplus of \$400,000 would cover the costs of the Parkade while still adding \$120,000 to GF reserves. This would increase GF reserves to approximately 39% of expenditures, which is well-above the Town's policy of maintaining a 25% reserve. The FY18-19 budget projected a year- end General Fund balance of approximately 38% of expenditures.

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. Staff recommends that the Council wait until the budget approval process for FY19-20 begins before considering the allocation of any projected GF surpluses. This would allow for a few more months of actual revenue and expenditure data to support the GF surplus forecast.

ATTACHMENTS

FY18-19 Midyear Budget Review Report



TOWN OF FAIRFAX

FY18-19 MID-YEAR BUDGET REVIEW REPORT

SUMMARY

The Mid-Year Budget Report (Report) reviews key FY18-19 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on seven months of actual Town revenues & expenditures as well as past budgetary experiences.

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 again add approximately \$400,000 to General Fund reserves at the end of the year. The FY18-19 budget projected a year end General Fund balance of approximately 37.7% of expenditures. An increase of \$400,000 would increase General Fund reserves to 41.7% of expenditures, which is well-above the Town's policy of maintaining a 25% reserve.

However, the Council may recall that the Parkade project required an additional allocation of \$281,276 from General Fund reserves: \$146,276 for additional project costs and \$135,000 for a 20% project contingency. At the meeting to consider the Parkade project, staff reported that for the past several years the Town has experienced year-end budget surpluses. Any surplus could be used to fund the Parkade. The projected surplus of \$400,000 would cover the costs of the Parkade while still adding \$120,000 to GF reserves. This would increase GF reserves to approximately 39% of expenditures.

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.

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 (2.8%) primarily due to higher-than-projected Property Taxes, Education Revenue

Augmentation Fund (ERAF) revenues, sales tax revenues, and interest earnings. While Table A does show a projected \$333,000 increase in revenue, for projection purposes we apply a 25% contingency of approximately \$83,000 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	\$ + 190,000
Sales Taxes	+ 65,000
User Taxes (UUT & Hotel)	+ 20,000
Franchise Fees	+ 10,000
Fines & Licenses	+ 6,000
Rents & Interest	+ 70,000
Revenues from other Agencies	+ 12,000
Charges for Current Services	no change
Building & Planning Fees – Fund 04	(- 110,000)
Retirement - Fund 06	+ 70,000
Subtotal (approx.)	\$ + 333,000
Adjustment: reduce 25% for estimate*	- 83,000
Say (Surplus Revenue)	\$ <u><u>250,000</u></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 exceed budget by 5.5 % this fiscal year. The County has increased its estimate for revenues to be received this fiscal year reflecting a robust real estate market and recovery of property tax base lost to post recession write-downs of assessed valuation. The original projected property tax increase of +6.7 % over the budget for the prior year (based on county projections) is closer to 9.5%. The typical expected annual increase under Prop 13 is +2.0% adjusted slightly by increases of real property. Supplemental Property tax revenues is higher by \$56,000.

Education Revenue Augmentation Fund (ERAF) revenues will exceed initial estimates by \$58,000, 11.7% higher than budget.

Sales Taxes

Sales Tax revenues are expected to come in approximately \$68,000 over projections as the economy continues to improve. This includes an increase in base (“Bradley Burns 1%”) sales tax of \$31,000 (+4.5%) and an increase in special district sales tax (“Measure C”) of \$32,000 (4.7%).

User Taxes

Staff estimated User tax revenue to be lower this year following prior year trends. This includes Utility User taxes (UUT) and Hotel Tax. Revenue from user taxes have come in slightly better than projected adding an additional \$20,000 to revenue.

Interest revenues

The Town is benefitting from the increase in interest rates – due to increases in Federal Reserve rates and the improving position of LAIF rates which has seen steady increases since mid-2014. The interest rate in December (2.291%) was 85% higher than 12 months earlier (1.239%). At the same time our balance in LAIF is nearly \$1 million higher (+13%) than 12 months earlier. Actual interest is projected to exceed budget by \$70,000 based on maintaining the current balance in LAIF.

Building & Planning Fees

As of January 31, 2019, the Building & Planning revenues from permits and fees were at 48% of budget. Approximately \$150,000 of additional revenues have been collected and classified as unearned revenue in deposits which will increase building revenues as they are recognized. In addition, certain road and building permit fees have been deferred for the Victory Village Affordable Senior Housing project and will be recognized in the future. As a result of the unearned revenue and deferral of fees, Building & Planning revenues are projected to be under budget by \$110,000, assuming the permit activity in the last half of the year continues as in the first half. Even with this reduction, net revenues are projected to be \$250,000 higher than budgeted.

Retirement Fund Taxes

The Retirement Fund (06) is projected to realize additional estimated revenues of \$70,000 as of June 30, 2019. The Town receives revenues from the Pension Obligation Parcel Tax which is based on assessed valuations. Higher than estimated assessed valuations result in additional tax revenues to be received.

Expenditures

The General Fund is projected to end the year with expenses below budget by approximately \$150,000 inclusive of the proposed mid-year adjustment. Most departments are under budget as of January 31st. Personnel costs, the largest component of expenditures, are within budget as of January 2019. It should be noted that most of these are considered one-time savings from a budget perspective. While actual expenditures savings may exceed the \$150,000 estimate, similar to revenue projections, we prefer to use a more conservative savings estimate. The expenditures savings are a compilation of cost saving from various departments.

At mid-year, through January 2018, General Fund (GF) expenditures were \$4,642,527 which is 50.9% of budgeted expenditures for the fiscal year. However, it should be noted that year end projects reflect those expenditures (e.g., MGSA) that are only paid in the first half of the fiscal year. The current GF total also 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 2018-19. As of June 30th, the Town is projected to expend 93.4% of its salary budget, which includes salary, benefits & retirement. The total current retirement costs which includes the UAL (Unfunded Accrued Liability) is approximately 15% or \$103,000 higher than the budget. The FY18-19 budget used the CalPERS UAL estimate available at the time which did not reflect the higher amount. However, staff will endeavor to ensure the FY19-20 budget reflects the most current CalPERS's UAL estimate available during the budget process. Please note this UAL expense is separate and distinct from the Town's CalPERS side fund and pre-2013 UAL payments which were financed by Town and included in a separate line item in the current budget. This amount is fixed and was budgeted properly.

The good news is that this increased expenditure can be absorbed within the current budget. The year-end projection of a net \$150,000 in expenditure savings reflects the added UAL cost.

Departmental Expenditures

The year-end projection anticipates all departments, with a couple of exceptions, to be within budget. The Recreation and Community Services (RCS) Department may exceed its budget (total of \$227,000) by upwards of 5% (approx. \$11,000). This is based on increased staff hours to provide RCS services and programs (e.g., Peri Park renovation, communications/website). We are not recommending any revisions to the RCS budget at this time due to the potential nominal increase. The Council could approve any RCS appropriation increase as part of its year-end review during the FY19-20 budget approval process.

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Attorney has been working on more ordinances and attending more Planning Commission meetings. This higher level of service may be required in the future and will be a topic of discussion during the FY19-20 budget approval process.

The year-end net expenditure savings of \$150,000 reflects this increase to the Town Attorney's budget.

CAPITAL IMPROVEMENT PROGRAM (CIP)

We do not require any mid-year budget adjustments for the Capital Improvement Program (CIP). 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 Parkade Improvement project. Through January 2019, the Town has spent \$390,000 on CIP projects. The adopted FY18-19 CIP is approximately \$2.5M. CIP projects that are not completed in FY18-19 are carried over and re-budgeted in the following fiscal year.