



# TOWN OF FAIRFAX

## STAFF REPORT

### May 1, 2019

**TO:** Mayor and Town Council

**FROM:** Garrett Toy, Town Manager <sup>GT</sup>

**SUBJECT:** Discuss/consider the renewal of the existing Special Municipal Services Tax of \$195 per business occupancy and dwelling unit (Measure J)

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### RECOMMENDATION

Direct staff as appropriate.

### BACKGROUND

In March of 2005 voters approved Measure F, a five-year special municipal services tax of \$125 per dwelling unit and business occupancy. In November 2009, the voters approved Measure I, which was a five-year extension of Measure F. In November 2014, the voters approved Measure J, a five-year extension of the special municipal tax. Measure J consolidated an existing general municipal tax of \$50 per unit and the Measure F \$125 per unit into a new, slightly higher \$195 per unit special tax. The Town receives approximately \$710,000 per year from Measure J.

While the Town's financial position has improved significantly since 2009, the special municipal services tax (Measure J) remains a key financial component of the Town's revenue sources. Measure J provides funding to:

- Keep our local Police Station open 24/7
- Maintain Fire Department services
- Fund Public Works/safety projects such as pedestrian trails and matching grants for capital projects such as street repaving
- Enhance Youth and Senior programs

Without an extension, the Town would face major impacts to service levels (See Attachment D for details).

The current five-year extension will expire in June 2020. As the special tax is a significant source of revenue (i.e., 6% of general fund revenue) to the Town, the Council should begin discussions regarding the placement of an extension of the tax on the November 2019 ballot.

### DISCUSSION

At its April 3<sup>rd</sup> meeting, the Council requested some alternatives to consider regarding proposed uses, allocation of the funds, length of the extension, exemptions, and/or the amount of the tax including annual adjustments.

## Uses

The Town uses the special municipal tax for the following:

- Police
- Fire
- Youth & Senior Programs
- Public Works Improvements including pedestrian trails and Parkade
- Matching funds for grants (capital projects such as streets)

Attachment A provides the details on the uses of the funds over the past year.

The Council may want to expand the list of potential uses. Fire prevention, vegetation management, and inspections have been mentioned as additional uses to support an increase to the tax. While fire prevention and inspection services are provided by the Ross Valley Fire Department and are currently an eligible cost under Measure J, the Council could expand the uses to specifically include vegetation management and/or specifically dedicate a portion of the increase to vegetation management and/or fire prevention/inspection services.

## Length of Extension

The past renewals were for five-year terms. In comparison, the renewal of Measure C, the 0.5% add-on sales tax, was extended for 10 years. Two key advantages of a longer extension are that it provides more revenue predictability and stability for Town budgetary purposes and saves on election costs and Town resources to place the matter on the ballot. A special tax must be placed on the ballot during a general election, unless specific findings are made. The Town's general election, per State law, will be held every even year starting in 2020. Table A shows the general election years in bold. Above each general election year is the corresponding number of years for the extension.

## **TABLE A**

Number of Years of Extension	Begin	1	2	3	4	5	6
Year	<b>2020</b>	2021	<b>2022</b>	2023	<b>2024</b>	2025	<b>2026</b>
Amount Per Unit	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195
Annual Amount Received	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750

For example, a five-year extension would mean the tax would expire in June 2025 (June 2020 to June 2025) which would mean the Town Council would need to place another renewal on the ballot in November 2024 if it did not want to see a lapse in the revenue. Obviously, this assumes the Council's desire to renew the tax and voter approval. Attachment B shows Table A extended over a 15-year period.

## Amount of Special Tax

The current tax is \$195 per residential/commercial unit. There are no exemptions under Measure J. For estimating purposes, the tax is applied to approximately 3,650 units in Town

which generates approximately \$710,000 per year. Measure J represented the first time since 2005 that the Town increased the tax (\$20 increase from \$175/unit to \$195/unit). The Council may want to consider one-time or incremental increases over time. Table B shows the annual revenue generated by each incremental \$5 increase to the existing \$195/unit in the special tax.

**TABLE B**

Special Municipal Tax	\$ 200	\$ 205	\$ 210	\$ 215	\$ 220	\$ 225
Incremental Increase	\$ 5	\$ 10	\$ 15	\$ 20	\$ 25	\$ 30
Approximate number of units	3,650	3,650	3,650	3,650	3,650	3,650
Annual Amount Received	\$ 18,250	\$ 36,500	\$ 54,750	\$ 73,000	\$ 91,250	\$ 109,500
Increase in %	2.6%	5.1%	7.7%	10.3%	12.8%	15.4%

Annual Increases

Past renewals did not include any adjustments for inflation. While the Council could continue this practice, one option to consider is to phase-in annual increases similar to the Ross Valley Paramedic Authority (RVPA). For example, the Council could provide \$5 per year incremental increases starting the end of year one. Table C below shows the effect of an initial \$5 increase and subsequent \$5/year increases over time. The increase averages a little less than 2.5% per year over the 5 year period. Attachment B shows Table C extended over a 15 year period.

**TABLE C**

Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025
Amount Per Unit	\$ 200	\$ 205	\$ 210	\$ 215	\$ 220	\$ 225
Annual Amount Received	\$ 730,000	\$ 748,250	\$ 766,500	\$ 784,750	\$ 803,000	\$ 821,250
Annual Total Increase	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250
Annual Increase in %	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%
Per unit increase Per Yr	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
Cummulative Annual Increase	\$ -	\$ 10	\$ 15	\$ 20	\$ 25	\$ 30

Table D shows the effects of a \$10 per year increase in the tax.

**TABLE D**

Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025
Amount Per Unit	\$ 205	\$ 215	\$ 225	\$ 235	\$ 245	\$ 255
Annual Amount Received	\$ 748,250	\$ 784,750	\$ 821,250	\$ 857,750	\$ 894,250	\$ 930,750
Annual Increase	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500
Annual Increase in %	5.1%	4.9%	4.7%	4.4%	4.3%	4.1%
Per unit increase Per Yr	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10
Cummulative Annual Increase	\$ 10	\$ 20	\$ 30	\$ 40	\$ 50	\$ 60

Attachment B contains Table D extended over a 15-year period, and Table E which shows the effect of \$7 per year increase.

**NEXT STEP**

Based on the Council's direction, staff would return in June with the proposed ordinance and resolution calling for the election. The resolution must include the ballot language. In the past, the Council has assigned a subcommittee to work on the ballot language, which is a yes or no question limited to 75 words. Attachment E contains the ballot language used for the previous extensions.

**FISCAL IMPACT**

There is a significant impact to the budget of \$710,000 each year. Measure J represents approximately 6% of the Town's total general fund revenues of \$10.5 million and is used to cover 6% of the Town's operating budget

**ATTACHMENTS**

- A. Uses of Measure J funds over 5 years
- B. Tables A, C, D & E
- C. Life without Measure J
- D. November 5, 2019 Election Timetable
- E. Ballot Language for Measures I and J

## USE OF MEASURE J FUNDS

Services	FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	5yr Total
<b>BUDGETED</b>						
Police	\$ 148,000	\$ 384,099	\$ 360,600	\$ 272,100	\$ 322,100	\$ 1,486,899
Fire	150,000	150,000	250,000	250,000	262,000	1,062,000
Youth & Senior Programs	25,000	28,000	28,000	38,000	38,000	157,000
Public Works Improvements	69,000	132,000	40,000	100,000	40,000	381,000
Matching funds for grants	68,000	68,000	63,000	81,500	60,000	340,500
Total Budgeted	\$ 460,000	\$ 762,099	\$ 741,600	\$ 741,600	\$ 722,100	\$ 3,427,399
<b>ACTUAL FUNDS RECEIVED</b>						
	456,384	714,576	714,576	704,255		
	99.2%	93.8%	96.4%	95.0%		
<b>DISTRIBUTION:</b>						
Police	\$ 158,300	\$ 384,099	\$ 360,600	\$ 322,100	\$ 322,100	\$ 1,547,199
Fire	150,000	150,000	250,000	262,000	262,000	1,074,000
Youth & Senior Programs	18,000	28,000	28,000	38,000	38,000	150,000
Public Works Improvements	20,000	20,000	40,000	50,000	40,000	170,000
Matching funds for grants	57,000	117,000	63,000	81,500	60,000	378,500
Total Actual *	\$ 403,300	\$ 699,099	\$ 741,600	\$ 753,600	\$ 722,100	\$ 3,319,699

\* May include Meas J Reserves

Capital Projects Detail - Budget	\$ 137,000	\$ 200,000	\$ 105,000	\$ 136,500	\$ 100,000
51-875 Bike Spine		13,000	13,000		
51-841 Misc Parks & Trail Imp	7,000	36,000	50,000	60,000	60,000
53-804 Sidewalk Replace & Repair	10,000	30,000	30,000	35,000	30,000
53-894 Parkade Improvements		14,255	12,000	20,000	10,000
51-871 BPMP - Spruce, Marin...	56,000	28,000		21,500	
51-856 Meadowway Bridge	24,000	14,000			
51-873 Creek Rd Bridge	20,000	16,000			
51-820 Park Facility Imp/WC	10,000	18,745			
53-887 Street Resurface & Repair	10,000	30,000			

**MEASURE J OPTIONS TABLES**

**TABLE A**

Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025	6 2026	7 2027	8 2028	9 2029	10 2030	11 2031	12 2032	13 2033	14 2034	15 2035
Amount Per Unit	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195	\$ 195
Annual Amount Received	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750	\$ 711,750

**TABLE C**

Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025	6 2026	7 2027	8 2028	9 2029	10 2030	11 2031	12 2032	13 2033	14 2034	15 2035
Amount Per Unit	\$ 200	\$ 205	\$ 210	\$ 215	\$ 220	\$ 225	\$ 230	\$ 235	\$ 240	\$ 245	\$ 250	\$ 255	\$ 260	\$ 265	\$ 270	\$ 275
Annual Amount Received	\$ 730,000	\$ 748,250	\$ 766,500	\$ 784,750	\$ 803,000	\$ 821,250	\$ 839,500	\$ 857,750	\$ 876,000	\$ 894,250	\$ 912,500	\$ 930,750	\$ 949,000	\$ 967,250	\$ 985,500	\$ 1,003,750
Annual Total Increase	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250	\$ 18,250
Annual Increase in %	2.6%	2.5%	2.4%	2.4%	2.3%	2.3%	2.2%	2.2%	2.1%	2.1%	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%
Per unit increase Per Yr	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5	\$ 5
Cummulative Annual Increase	\$ -	\$ 10	\$ 15	\$ 20	\$ 25	\$ 30	\$ 35	\$ 40	\$ 45	\$ 50	\$ 55	\$ 60	\$ 65	\$ 70	\$ 75	\$ 80

**TABLE D**

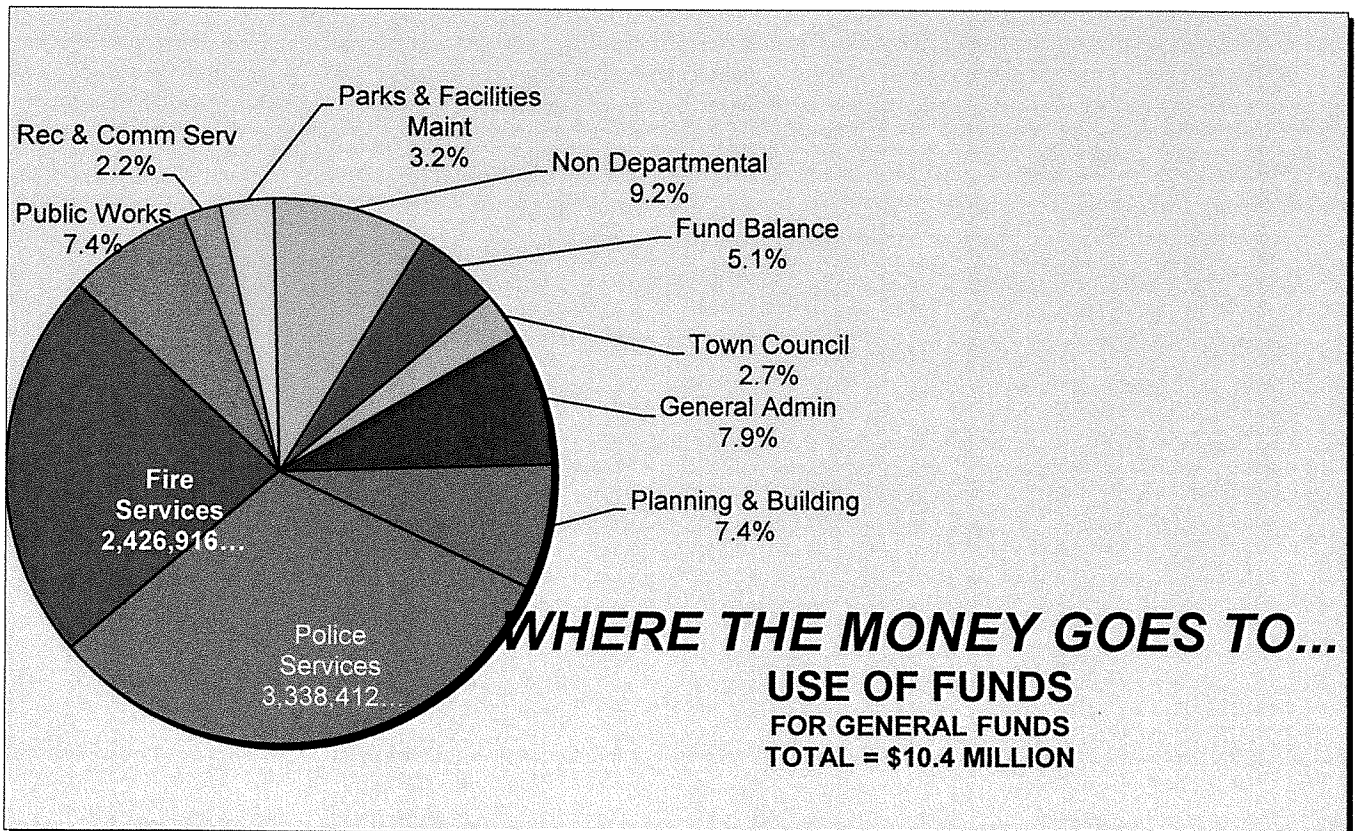
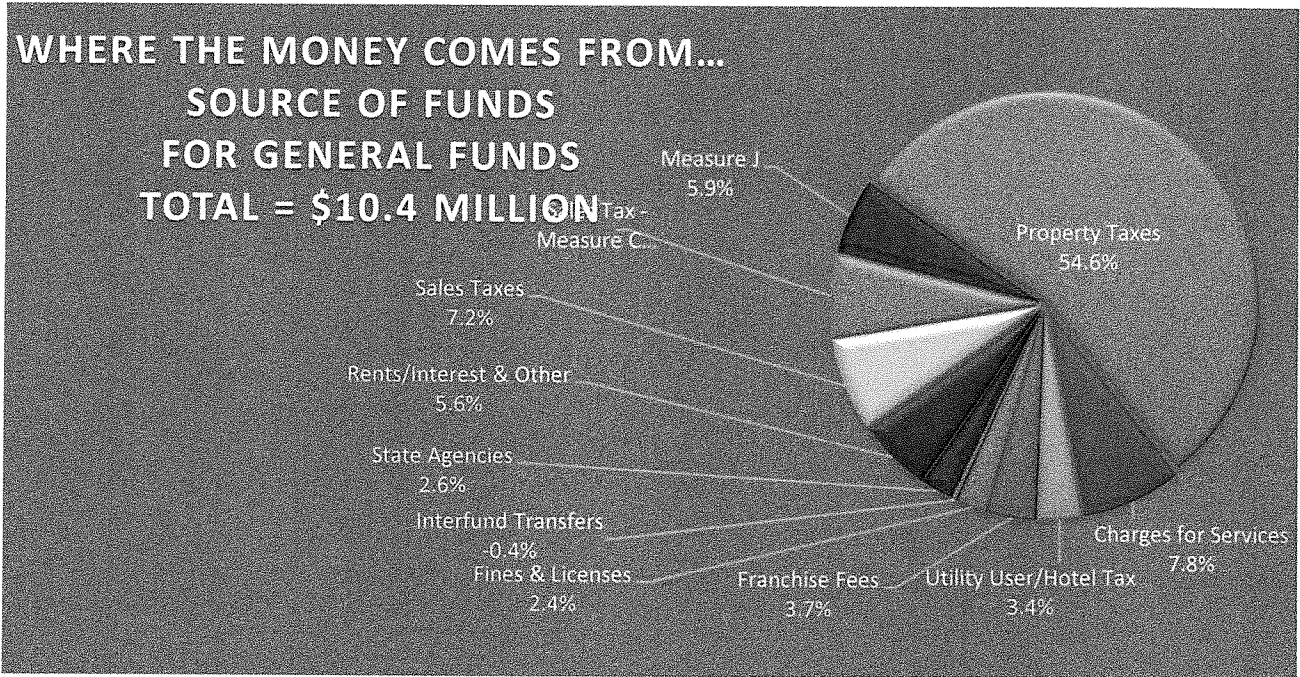
Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025	6 2026	7 2027	8 2028	9 2029	10 2030	11 2031	12 2032	13 2033	14 2034	15 2035
Amount Per Unit	\$ 205	\$ 215	\$ 225	\$ 235	\$ 245	\$ 255	\$ 265	\$ 275	\$ 285	\$ 295	\$ 305	\$ 315	\$ 325	\$ 335	\$ 345	\$ 355
Annual Amount Received	\$ 748,250	\$ 784,750	\$ 821,250	\$ 857,750	\$ 894,250	\$ 930,750	\$ 967,250	\$ 1,003,750	\$ 1,040,250	\$ 1,076,750	\$ 1,113,250	\$ 1,149,750	\$ 1,186,250	\$ 1,222,750	\$ 1,259,250	\$ 1,295,750
Annual Increase	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500	\$ 36,500
Annual Increase in %	5.1%	4.9%	4.7%	4.4%	4.3%	4.1%	3.9%	3.8%	3.6%	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%	2.9%
Per unit increase Per Yr	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10	\$ 10
Cummulative Annual Increase	\$ 10	\$ 20	\$ 30	\$ 40	\$ 50	\$ 60	\$ 70	\$ 80	\$ 90	\$ 100	\$ 110	\$ 120	\$ 130	\$ 140	\$ 150	\$ 160

**TABLE E**

Number of Years of Extension Year	Begin 2020	1 2021	2 2022	3 2023	4 2024	5 2025	6 2026	7 2027	8 2028	9 2029	10 2030	11 2031	12 2032	13 2033	14 2034	15 2035
Amount Per Unit	\$ 202	\$ 209	\$ 216	\$ 223	\$ 230	\$ 237	\$ 244	\$ 251	\$ 258	\$ 265	\$ 272	\$ 279	\$ 286	\$ 293	\$ 300	\$ 307
Annual Amount Received	\$ 737,300	\$ 762,850	\$ 788,400	\$ 813,950	\$ 839,500	\$ 865,050	\$ 890,600	\$ 916,150	\$ 941,700	\$ 967,250	\$ 992,800	\$ 1,018,350	\$ 1,043,900	\$ 1,069,450	\$ 1,095,000	\$ 1,120,550
Annual Total Increase	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550	\$ 25,550
Annual Increase in %	3.6%	3.5%	3.3%	3.2%	3.1%	3.0%	3.0%	2.9%	2.8%	2.7%	2.6%	2.6%	2.5%	2.4%	2.4%	2.3%
Per unit increase Per Yr	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
Cummulative Annual Increase	\$ 7	\$ 14	\$ 21	\$ 28	\$ 35	\$ 42	\$ 49	\$ 56	\$ 63	\$ 70	\$ 77	\$ 84	\$ 91	\$ 98	\$ 105	\$ 112

**ATTACHMENT C: LIFE WITHOUT MEASURE J**

One major assumption of the Five-Year Forecast (see FY18-19 adopted budget message) is the renewal of Measure J, the Special Municipal Tax of \$195 per residential/commercial unit, in 2019. The pie charts below show the sources of revenue and expenditures for the Town. Measure J represents approximately 6% of the Town's total revenue, which covers 6% of the Town's expenditures.



Without a renewal, the tax would expire June 2020, which is reflected in Table D below. Please note all the tables and graphs shown are from the FY18-19 adopted budget message. More significantly, Table D indicates that in FY20-21 the Town would need to fill an estimated \$713,000 gap in revenue which represents approximately 6% of General Fund expenditures. Without a replacement revenue source, this would necessitate a major restructuring of how the Town provides services such as police and public works.

Table D shows that unless the Town adopted major budget cuts, it would need to dip into GF reserves at an unsustainable pace beginning in FY20-21.

TABLE D

Revenue Scenarios Five Year Forecast

	Est. Yr. End					
	FY17-18	FY18-19	FY19-20	FY20-21	FY21-22	FY22-23
Total GF Appropriations	\$ 9,224,341	\$ 9,948,400	\$ 10,121,620	\$ 10,411,874	\$ 10,562,954	\$ 10,869,852
Total GF Revenues and Transfers	\$ 9,877,561	\$ 10,027,300	\$ 10,215,442	\$ 10,430,127	\$ 10,645,165	\$ 10,873,531
Surplus (Deficit)	\$ 653,220	\$ 78,900	\$ 93,822	\$ 18,253	\$ 82,211	\$ 3,678
Less Special Municipal Tax (Measure J)	\$ -	\$ -	\$ -	\$ (713,000)	\$ (713,000)	\$ (713,000)
Adjusted Surplus(deficit)	\$ 653,220	\$ 78,900	\$ 93,822	\$ (694,747)	\$ (630,789)	\$ (709,322)
Proj. GF Fund Balance	\$ 3,692,536	\$ 3,771,436	\$ 3,865,258	\$ 3,170,511	\$ 2,539,722	\$ 1,830,401
In % of GF Exp	40.0%	37.9%	38.2%	30.5%	24.0%	16.8%

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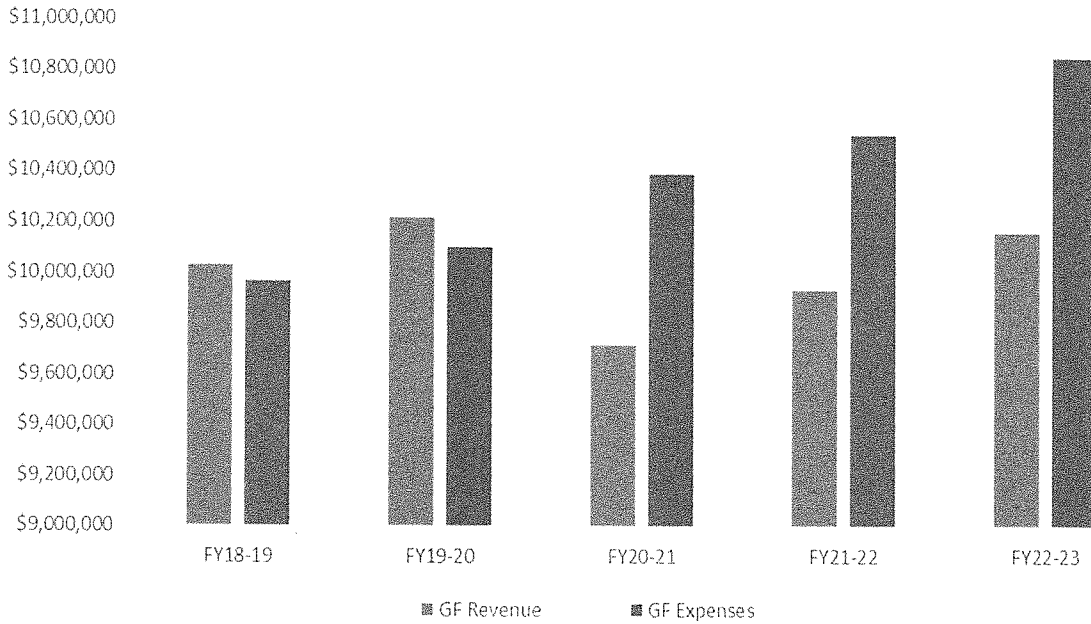
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Graph B shows the shortfall beginning in FY20-21 between forecasted revenues and expenditures if the Town did not revise its budget to reflect the loss of Measure J revenues.

Graph B: Impact on General Fund Budget if Measure J is NOT Renewed



In FY22-23, if forecasted expenditures did not change (highly unlikely), Table D above indicates that General Fund reserves would be approximately 16%, which is well below the Town policy of maintaining a 25% fund balance reserves and would begin to adversely impact the Town's cash flow and operations. Ideally, communities should maintain a minimum 15% fund balance for cash flow purposes.

Graph C below shows the precipitous drop in GF reserves without the renewal of Measure J.

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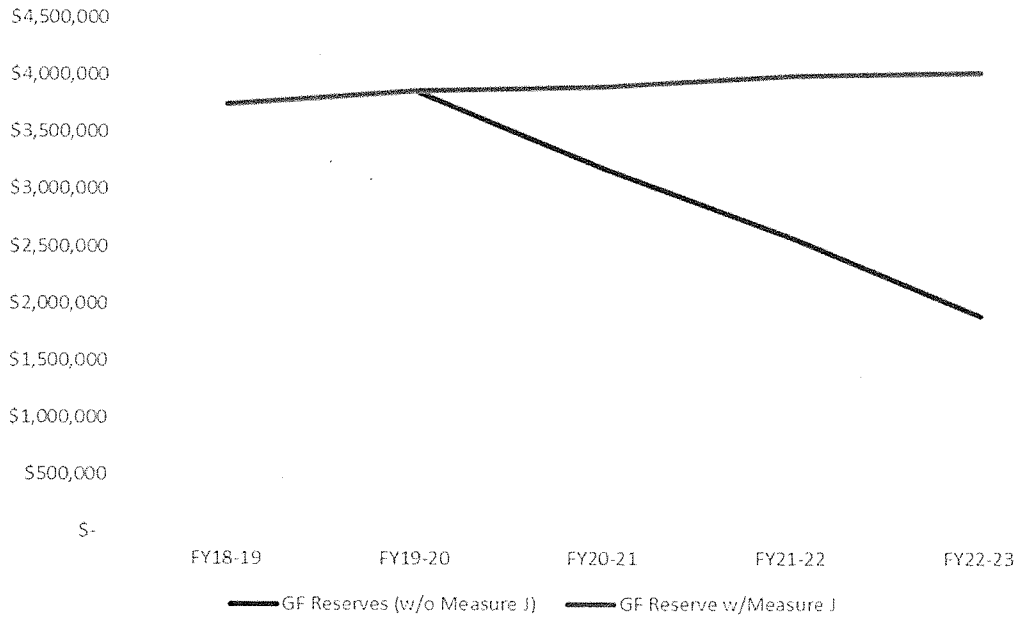
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Presumably, the reductions in service levels would need to be in place prior to FY22-23 before the Town began to dip below its minimum GF reserve policy of 25%.

Graph C: General Fund Reserves w/o Measure J



Overall, with the renewal of Measure J, the Five-Year Forecast indicates the Town will be able to manage its resources to maintain a stable financial position with significant reserves to weather downturns in the economy.

**NOVEMBER 5, 2019, ELECTION TIMETABLE FOR MEASURES**

<b>March/April</b>		Concept of Special Municipal Tax (Measure J) renewal
<b>April / May</b>		Discuss concept; discuss at budget workshop
<b>May / June</b>		Proposed ordinance and resolution calling for election – ballot language, arguments/rebuttals
<b>August 9, 2019</b>	<b>88</b>	Last day (by 4:30pm) to submit Resolution to the Board of Supervisors and Registrar of Voters calling election and requesting consolidation. Measure question is limited to 75 words. EC §1405, §9401, §10002, §13247
<b>August 10 thru August 19, 2019</b>	<b>87 - 78</b>	Ten (10) day public examination period of measures. EC §9190, §9380, §9509
<b>August 12, 2019</b>	<b>85</b>	Measure letters assigned by Registrar of Voters. EC §13116
<b>August 14, 2019</b>	<b>83</b>	Last day to withdraw a measure from the ballot. Written notification must reach Elections Dept. by 4:30 p.m. or the measure will remain on the ballot. EC §9605
<b>August 19, 2019</b>	<b>78</b>	Last day to submit or withdraw ballot arguments (300-word limit) to the Town Clerk. Attorney impartial analysis due. EC §9161-9166, §9601, §9280-9286
<b>August 20 through August 29, 2019</b>	<b>77 - 68</b>	Ten (10) day public examination period of arguments. EC §9190, §9380, §9509
<b>August 26, 2019</b>	<b>71</b>	Last day to submit rebuttals (250-word limit) to the arguments for or against a measure, filed with all documents required by the Elections Office. EC §9167
<b>August 27 through September 5, 2019</b>	<b>70 - 61</b>	Ten (10) day public examination period of rebuttals. EC §9190

**\*\*\*Deadlines that fall on a weekend or holiday move to the next business day.\*\*\***

### **BALLOT LANGUAGE OF MEASURE J (2014)**

"Shall an ordinance combining Fairfax's existing \$50 annual general tax with our \$125 special tax and a \$20 increase be adopted approving a five-year renewal of the special Fairfax municipal services tax of \$195 annually for each business occupancy and dwelling unit, in order to:

Keep our local Police Station open 24/7;  
Maintain Fire Department services;  
Provide funding for Public Works/safety projects;  
Enhance Youth and Senior programs; and  
Continue the Citizen's Oversight Committee?"

### **BALLOT LANGUAGE OF MEASURE I (2009)**

"Shall an ordinance be adopted approving the renewal of a special Fairfax municipal services tax of \$125 per year for each business occupancy and dwelling unit, for a period of five years to:

Maintain 24-hour, 7 days per week staffing of Police and Fire Services  
Perform Public Works safety improvements  
Provide matching funds for state and federal grants  
Revitalize Youth Programs  
and continue citizens' oversight committee that monitors the use of revenues from this tax?"