



TOWN OF FAIRFAX

STAFF REPORT

March 4, 2020

TO: Mayor & Town Council

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

SUBJECT: Receive 2019-20 Mid-Year Budget Review Report and approve mid-year budget adjustments for Police and Fund 03- Field Equipment replacement

RECOMMENDATION

Receive 2019-20 Mid-Year Budget Review Report and approve mid-year adjustments to increase the budget for the Police Department by \$90,000 and Fund 03 by \$27,623.90.

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY19-20 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 \$250,000 to General Fund reserves at the end of the year.

We are projecting revenues to come in higher than budgeted by approximately \$150,000. 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 \$100,000 less than budgeted including the proposed mid-year expenditure adjustments. The Capital Improvement Program (CIP) budget does not require any mid-year adjustments.

The year-end projection anticipates all departments, with a few exceptions, to be within budget. Our internal policy is to not request mid-year adjustments for a department or capital project if the projected year-end estimate is less than \$10,000 or 4% over budget, whichever is lower. As this is a mid-year projection based on 7-month actuals, the possibility exists that year-end expenses may be within the department's budget. The budget approval process for next fiscal year includes any needed year-end adjustments for expenditures. This internal policy saves significant staff time to input and track the mid-year adjustments.

Currently, with the exception of Police, there are three General Fund departments that fall within this category of potential year-end "overages" of less than 4% of department budget or \$10,000. The combined total of the overages is projected to be less than \$12,000. This estimate is already accounted for in the net operational savings of \$100,000. The \$12,000 is approximately 0.10% of the FY19-20 \$10.5 million General Fund budget and is well within an acceptable margin of error for the projections.

Police overtime expenses are projected to be approximately \$90,000 higher than anticipated (2.7% of total personnel costs) because of current vacancies and turnover in the department, which result in higher costs for overtime and temporary labor costs to cover shifts. We believe this is an anomaly and that overtime expenses will return to normal next fiscal year. The Police Department is in the process of filling its vacancies and anticipates completing its efforts over the next few months.

Overall, the General Fund (01) is expected to have a net savings of \$100,000 which already reflects the \$90,000 adjustment for the Police Department (Fund 01-411) and the \$12,000 nominal total adjustment for the other departments. In essence, savings from the other General Fund departments will be used to fund the total \$102,000 in projected expenditure increases.

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 FY20-21 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.

ATTACHMENT

FY19-20 Mid-Year Budget Review Report



TOWN OF FAIRFAX

FY19-20 MID-YEAR BUDGET REVIEW REPORT

SUMMARY

In accordance with the accounting rules provided by the State of California, the Town has a fiscal year which begins in July and ends on June 30th. We adopt an annual budget which estimates the appropriations (expenses) and estimated revenues (revenues) for the current fiscal year and in a more general manner, the next five years. The FY19-20 budget is reviewed at midyear to determine where actual revenues & expenses are in relation to the estimates and recommend adjustments, if required.

The Mid-Year Budget Report (Report) reviews key FY19-20 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on seven months of actual Town financial activity with projections for the remainder of the year based on previous year patterns and staff estimates of departmental and capital project activity.

Overall, the Report indicates the Town's General Fund continues to experience financial stability with steady revenues and expenditures. Specifically, we are projecting revenues to come in higher than budgeted (approximately \$150,000 after adjustment for contingency) and General Fund expenditures to be also approximately \$100,000 less than budgeted including any mid-year expenditure adjustments. Specifically, we are recommending a mid-year adjustment to the Police Department which will be offset using savings in other departments.

We conservatively estimate that the Town will add approximately \$250,000 to General Fund reserves at the end of the fiscal year. The FY19-20 budget projected a year-end General Fund balance of approximately 36% of expenditures. The \$250,000 surplus will ensure the Town meets its 36% projection, which is well above the Town's policy of maintaining a 25% reserve.

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 the three equipment replacement funds.

Revenues in the General Funds are projected to exceed budget by approximately \$150,000 (2.8%) primarily due to higher-than-projected property taxes and sales tax revenues. While Table A does show a projected \$200,000 increase in revenue, for projection purposes we apply

a 25% contingency of approximately \$50,000 to revenue projections as a cushion to account for possible fluctuations.

Table A: Projected Year-End Revenues – General Funds

| Source: | Projected Variance: |
|--------------------------------------|--------------------------|
| Property Taxes, ERAF, VLF Swap | \$ + 120,000 |
| Sales Taxes | + 85,000 |
| User Taxes (UUT & Hotel) | + 5,000 |
| Franchise Fees | - (30,000) |
| Fines & Licenses | - (5,000) |
| Rents & Interest | - (35,000) |
| Revenues from other Agencies | + 4,000 |
| Charges for Current Services | - (18,000) |
| Building & Planning Fees – Fund 04 | + 30,000 |
| Retirement - Fund 06 | + 44,000 |
| Subtotal (approx.) | \$ + 200,000 |
| Adjustment: reduce 25% for estimate* | <u>- (50,000)</u> |
| Say (Surplus Revenue) | <u>\$ 150,000</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 \$120,000 (2.8 %) this fiscal year. The County has increased its estimate for revenues to be received this fiscal year reflecting the continuation of 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 +3.1% over the budget for the prior year (based on county projections) is closer to 5.9%. The typical expected annual increase under Prop 13 is +2.0% adjusted slightly by increases from real property sales. Supplemental property tax revenues are projected to be higher by \$40,000.

Sales Taxes

Sales Tax revenues are expected to come in approximately \$85,000 over projections as the economy continues to improve. This includes an increase in base (“Bradley Burns 1%”) sales tax of \$ 6,000 (+.9%) and an increase in special district sales tax (“Measure C”) of \$54,000 (7.5%). To our benefit, the State of California continues to audit out-of-state & internet vendors to collect sales tax on in-state sales. On the other hand, many local businesses have closed this year which may have a short-term effect on sales tax revenues.

User Taxes

Revenue from user taxes is projected to come in slightly better than projected adding an additional \$7,000 (2%) to revenue. This includes Utility User taxes (UUT) and the Hotel Tax. Telecom UUT revenue is coming in under budget, while energy UUT is coming in higher.

Franchise Fees

Franchise fees are collected from Garbage, Gas & Electric and Cable. Garbage fees increased 4.94% in January. Cable fees have been lower than expected. Gas & Electric is all paid in April, and is projected to be close to budget. Franchise fees are projected to be short of budget by \$30,000 primarily due to a reduction in the cable franchise fees.

Interest revenues

Interest revenue will come in significantly below projections. LAIF Interest rates, which have been steadily increasing since 2014, have fallen 16.5% from January 2019 to January 2020. Cash outflows have been heavy in the first half of the year, reducing cash available for investment. This includes \$550,000 in capital improvement outlays such as for bridges and payments for the new accounting software. Many of the capital projects will be reimbursed from various state/federal funding sources later this fiscal year. The Finance staff also opted to pay the annual CalPERS UAL payment (\$307,000) up front in July rather than in monthly payments thus saving \$10,400 in premiums (3.4%). Actual interest is projected to be below budget by \$39,000 based on maintaining the current balance in LAIF.

Building & Planning Fees

As of January 31, 2020, the Building & Planning revenues from permits and fees were at 72% of budget. Building & Planning revenues are estimated to exceed projections by \$30,000, assuming the permit activity in the last half of the year continues as in the first half.

Retirement Fund Revenues

The Retirement Fund (06) is projected to realize additional revenues of \$44,000 as of June 30, 2020. 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.

General Fund Expenditures (Fund 01)

The General Fund is projected to end the year with expenses below budget by approximately \$100,000 net of the proposed mid-year adjustments. At January 31, 2020, General Fund (GF) expenditures were on track at \$5,854,873 which is 55.0% of budgeted expenditures for the fiscal year. However, it should be noted that year-end projections reflect those expenditures (e.g., MGSA) that are only paid in the first half of the fiscal year. The seven-month GF total also does not include transfers, which are posted in June.

While actual expenditures savings may exceed the \$100,000 estimate, similar to revenue projections, we prefer to use a more conservative savings estimate. The expenditures savings are a compilation of cost savings from various departments.

Personnel Costs

Total Personnel costs, the largest component of expenditures, are likely to exceed budget as of June 30, 2020 by \$60,000 (1.0%) primarily due to higher than anticipated overtime and temporary labor costs due to vacancies and turnover in the police department. Personnel costs, including salary, benefits and retirement, overtime and temporary labor represent 54% of General Fund expenditures. The costs of personnel salary and benefits excluding overtime are within the budget projections for FY 2019-20. Total retirement costs which includes the UAL (Unfunded Accrued Liability) are projected to be \$14,000 under budget, in part due to the staff decision to pre-pay the annual UAL in July saving \$10,400.

Departmental Expenditures

The year-end projection anticipates all departments, with a few exceptions, to be within budget. Our internal policy is to not request mid-year adjustments for a department or capital project if the projected year end estimate is less than \$10,000 or 4% over budget, whichever is lower. As this is a mid-year projection based on 7-month actuals, the possibility exists that year end expenses may be within the department's budget. The budget approval process for next fiscal year includes any needed year-end adjustments for expenditures. This internal policy saves significant staff time to input and track the mid-year adjustments.

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As stated above, police overtime expenses are projected to be approximately \$90,000 higher than anticipated (2.7% of total personnel costs) because of current vacancies and turnover in the department, which result in higher costs for overtime and temporary labor costs to cover shifts. We believe this is an anomaly and that overtime expenses will return to normal next fiscal year. The Police Department is in the process of filling its vacancies and anticipates completing its efforts over the next few months.

Overall, the General Fund (01) is expected to have a net saving of \$100,000 which includes the \$90,000 adjustment for the Police Department (Fund 01-411) and the \$12,000 nominal total adjustment for the other departments. In essence, savings from the other General Fund departments will be used to fund the total \$102,000 in projected expenditure increases.

Field Equipment Replacement (Fund 03)

This fund is used for vehicle and equipment replacement. It also includes the lease for the solar panels on the Pavilion. In April 2019 (FY18-19), the Council approved the purchase of the police truck and the appropriation of funds. However, the delivery of the vehicle was delayed and payment was not made until July 2019. Although the funds carried over from FY18-19, the Council will technically need to make a budget adjustment of \$27,623.90 in Fund 03 for FY19-20.

CAPITAL IMPROVEMENT PROGRAM (CIP)

We do not require any mid-year budget adjustments for the Capital Improvement Program (CIP). However, it should be noted that CIP 53-887, Street Resurfacing & Repair, has spent or will spend as of February 28th approximately 82% of its \$101,000 budget. The work included the following projects:

- Repaving of portion of Frustuck Ave
- Replacement of traffic detectors at SFD/Oak Manor
- Cascade restriping project
- Repaving of large portion of Maple Ave
- Miscellaneous road repairs (Toyon, Live Oak, Scenic, Vanni Lane, and Tamalpais)

Also, in December 2019, the Council appropriated \$70,000 for the bus shelter project from General Fund reserves. At that time, staff stated that there may be Mid-Year budget savings that would offset the cost of the project to the General Fund.

Through January 2020, the Town has spent approximately \$550,000 on CIP projects. The adopted FY19-20 CIP is approximately \$2 million. CIP projects that are not completed in FY19-20 are carried over and re-budgeted in the following fiscal year.