



TOWN OF FAIRFAX

SPECIAL MEETING STAFF REPORT

August 5, 2020

TO: Mayor and Town Council

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

SUBJECT: Adopt a resolution adopting the Fiscal Year 2020-21 Proposed Operating and Capital Improvement Budget

RECOMMENDATION

Adopt the Resolution adopting the Operating and Capital Improvement Budgets for Fiscal Year July 1, 2020 through June 30, 2021 (FY20-21) and Providing for the Appropriation of Expenditures in Said Budgets and Repealing All Resolutions in Conflict Herewith

BACKGROUND

On May 15th, the Council conducted a budget workshop to discuss the draft FY20-21 Operating and Capital Improvement budget. On June 17th, the Council conducted the public hearing for the budget.

The proposed FY20-21 Operating and Capital Improvement Budget is approximately \$13.4 million of which \$11.1 million is allocated for General Fund Operations, \$1.3 million for the Capital Improvement Program (CIP), and \$1.0 million for Special Fund Expenses/Debt Service. Attachment A contains a summary of General Revenues and Expenditures.

This Proposed Operating Budget is in essence a “baseline” budget, until we have better data on the financial effects of COVID-19. Specifically, the proposed budget does not fund any new programs and only includes known increases for items such as CalPERS retirement, health costs, and employee MOU’s. The budget also eliminates/reduces known one-time expenses from FY19-20, such as the higher cost of the 2019 election. We have also made cuts in discretionary expenditures, when appropriate, and have delayed any major vehicle or equipment purchases, unless absolutely necessary.

With regard to the Capital Improvement Program (CIP), we only included projects with identified grant funding and any matching requirements. We did not use General Fund reserves to fund capital projects. You may note that this budget has a brief budget message which also serves as the Budget Executive Summary. It also does not include a Five-Year forecast.

As mentioned at the budget workshop and public hearing, we recommend the Town Council conduct a mid-year budget review workshop in Fall 2020 (October/November) to evaluate revenues and expenditures. In the fall, the Council would hopefully be better informed regarding any required budget adjustments, including implementing any priorities and programs or, making additional budget cuts, if warranted. A Five-Year General Fund Forecast and Five-Year CIP would be included as part of this mid-year budget workshop.

This fiscal year, we anticipate the Council having two mid-year budget reviews. The first in October/November and the second in March 2021. The March 2021 review is the typical schedule for the mid-year budget review which includes any needed budget adjustments.

DISCUSSION

Typically, the budget adoption staff report focuses on the revisions the Council made during the public hearing for the budget. However, due to the level of interest in the budget, Attachment A includes the following information previously presented to the Council:

- Summary of General Fund Revenues
- Summary of General Fund Expenditures
- General Reserves
- Information on the Police budget and staffing

The budget message also includes detailed information on the FY20-21 Operating and Capital Budget.

It is important and imperative for the Council to adopt a FY20-21 budget to provide financial parameters for Town operations. Currently, we are operating under last year's (FY19-20) budget authority and have limited ability to proceed with capital projects or programs. This may be acceptable for a short period if there are few differences between the two budgets, but the FY20-21 budget has significant differences in projected revenues, transfers, and some departmental expenses. The budget can be the basis for grants and is reviewed by third parties such as banks, for financial evaluations. In addition, continual revisions to the budget is very time consuming for staff and, takes away time from working on other important tasks. With the installation and change over to the new financial software, we also need to input the budget numbers so we begin accurately tracking revenues and expenditures.

At the budget public hearing, the Council heard comments primarily related to the police services budget. In recognition of those comments and, with the recent formation of a Racial Equity and Social Justice (RESJ) Committee with a subcommittee to explore police services/activities, we are recommending that a \$100,000 be reallocated from the Police budget to be used to fund the activities of the RESJ Committee activities. Below is a brief analysis of the proposed source and potential uses of the \$100,000.

Proposed Revision to the Police Budget

The \$100,000 consist of \$25,000 in reduced outside professional service, a majority of the savings is from the recent dissolution of the Countywide Major Crimes Task Force, and a \$75,000 reduction in the Police overtime budget. The use of the Police overtime budget depends on staff vacancies and extended leaves. If vacancies and extended leave are minimal, the remaining police overtime budget should be adequate.

The \$100,000 would be reallocated from the Police budget into Fund 01-715 Non-Departmental operating expenses.

The funds could be used to pay for the professional facilitator to be retained for the RESJ, studies/surveys that may be requested, and/or future recommended programs/services.

Other Budget Adjustments

At the public hearing, staff reported on the administrative revisions to the budget as well as those based on Council direction. The proposed final budget reflects the Town Council's direction provided at the June 17th public hearing for the budget:

- Disaster Prep & EOC, Fund 01-418-821, pg.34: Increased budget by \$2,500 from \$12,000 to \$14,500 to reflect the inclusion of a part-time Neighborhood Resource Group (NRG) coordinator and disaster preparedness materials. The NRG is estimated to cost \$5,000. The proposed EOC budget initially included \$5,000 to print the evacuation maps. However, the Marin Wildfire Prevention Authority (MWPA) has indicated it will pay for the evacuation maps and, as a result, that funding is now available for the NRG. The additional \$2,500 is for any additional disaster preparedness materials we may need during the course of the year.
- Town Building Improvements, Fund 05-905-932, pg. 59: Appropriated an additional \$15,000 from building improvement reserves for a total of \$25,000 for the installation of the Pavilion Battery Back-up System. In essence, we re-budgeted the \$15,000 from FY19-20 to FY20-21.

At the budget hearing, Vice-Mayor Ackerman reported that the CAC is interested in purchasing a newer technology that will not be available until later in FY20-21. He also indicated that MCE (Marin Clean Energy) has expressed interest in providing a grant to cover the cost of this new technology as a demonstration project. As a result, there may only be a minimal cost to the Town. Initially, Fund 05 had budgeted \$10,000 for miscellaneous building improvement needed during the course of the fiscal year. We anticipate a portion of the battery system cost will be offset by grants which would free up funds for other building improvements needed during the course of the year.

- Measure A Park Funds (Fund 23, pg. 67)- We include the recommended allocation of annual Measure A Park funds received from the County. This has no impact on operational funds since it is used for capital expenditure.

- No other programmatic revisions were made. As stated above, we recommend the Council wait to consider any additional revisions such as the CAC carbon offset program at its October/November mid-year budget review.

We will continue to update budget narratives and notes prior to the final printing of the budget, but no approved budgetary expenditures will be revised.

ATTACHMENTS

- A. Budget summaries
- B. Resolution with Proposed FY20-21 Operating and Capital Budget attached

ATTACHMENT A

SUMMARY OF GENERAL FUND REVENUES

Table A below shows the comparison between FY20-21 General Fund (Fund 01) revenue projections and the adopted FY19-20 budget.

TABLE A- REVENUE COMPARISON				
REVENUE DETAIL	FY 2019-20	FY 2020-21	VARIANCE	In %
	Adopted	PROPOSED		
Total Property Taxes	\$ 4,369,900	\$ 4,741,300	\$ 371,400	8.5%
Total Sales Taxes	\$ 1,480,300	\$ 1,184,200	\$ (296,100)	-20.0%
Total User Taxes	\$ 361,000	\$ 304,000	\$ (57,000)	-15.8%
Total Franchise Fees	\$ 430,000	\$ 404,000	\$ (26,000)	-6.0%
Total Fines and Licenses	\$ 262,000	\$ 262,000	\$ -	0.0%
Total Rental & Maintenance Fees	\$ 25,000	\$ 14,300	\$ (10,700)	-42.8%
Total Investment Earnings	\$ 126,300	\$ 51,300	\$ (75,000)	-59.4%
Total Revenue from other Agencies	\$ 50,700	\$ 207,200	\$ 156,500	308.7%
Total Charges for Current Services	<u>\$ 240,100</u>	<u>\$ 223,000</u>	<u>\$ (17,100)</u>	-7.1%
Grand Total	7,345,300	7,391,300	\$ 46,000	0.6%

There are only two categories of revenue that are projected to increase: Property Tax and Revenue from other Agencies. The Property Tax increase are based on the following: 1) a modest 4% increase (\$120,000) in secured and unsecured property taxes, 2) Excess ERAF (Education Revenue Augmentation Fund) based on the actual amount collected in FY19-20 which was \$60,000 higher than estimated, and the inclusion of \$192,000 from the recently passed Marin Wildfire Prevention Authority (MWPA) tax. Revenue from other Agencies reflects the one-time SB2 state grant for planning studies.

The largest significant revenue decrease is a 20% drop (approx. \$300,000) in sales tax revenue due to COVID-19 impacts on the economy. For a more detailed comparison of revenues by line item, please refer to the Budget Message.

The Town also receives operating revenue from other General and Special Revenue funds:

- Building & Planning (Fund 04)
- Retirement Fund (Fund 06)
- Measure F/J (Fund 20)
- Gas Tax (Fund 21)
- Special Police/COPS grant (Fund 07)

The net contributions of approximately \$3.375 million from these funds to FY20-21 General Fund operations is approximately the same as FY19-20. The budget message includes detailed information on these revenue sources.

Overall, the “true” impact of COVID-19 on General Fund revenues is an approximate decrease of \$480,000 or 6.6% when compared to the FY19-20 adopted budget (note: add up all the negative revenue numbers). In essence, the increase in property taxes, the new MWPA tax, and the one-time SB2 grant mask the losses of General Fund revenues due to COVID-19.

SUMMARY OF GENERAL FUND EXPENDITURES

General Fund operational expenses are estimated to be approximately \$436,000 higher (4.1%) than the adopted FY19-20 budget. The increases can be generally categorized as follows:

- Approximately \$206,000 for contractual payroll costs, retirement obligations, and health/medical benefits across all departments.
- Approximately \$291,000 for professional service costs for planning studies per the SB2 grant, Fire and MWPA activities, and additional janitorial costs to regularly disinfect town facilities due to COVID-19 (see below for more detail).
- An approximate reduction of \$62,000 combined in the supplies and other operating expense categories.

Table B below shows a comparison between the adopted FY19-20 budget and the proposed FY20-21 budget by department/division.

TABLE B - EXPENDITURE COMPARISON				
	FY 2019-20	FY 2020-21	Budget	
	Adopted	PROPOSED	Variance	In %
Town Council	289,097	291,889	2,791	1.0%
General Administration	835,211	854,402	19,191	2.3%
Development Services	797,228	961,057	163,829	20.5%
Public Safety	6,175,946	6,446,081	270,135	4.4%
Public Works	803,271	801,547	(1,724)	-0.2%
Recreation & Community Services	263,707	269,335	5,628	2.1%
Parks & Facility Maintenance	339,547	349,572	10,025	3.0%
Non-Departmental	<u>1,009,026</u>	<u>974,860</u>	<u>(34,166)</u>	<u>-3.4%</u>
TOTAL	10,513,034	10,948,742	435,708	4.1%

Table B shows that the majority of the increase is in two departmental categories: Development Services and Public Safety (Police and Fire). Development Services consist of Planning and Building Services. The increase is primarily due to the one-time \$160,000 SB2 grant received from the state to prepare planning studies such as objective development standards. Fire reflects a 3% increase in operational costs and defensible space inspections/vegetation management activities paid for by MWPA. A more detailed comparison of expenditures by department/division is contained in the Budget Message.

GENERAL FUND RESERVES

Overall, the budget anticipates dipping into General Fund Reserves by approximately \$390,000. The Dry Period Fund (Fund 02) is contributing the lion's share (\$200,000). It should be noted that this fund was created for this specific purpose. The other General Fund reserves, such as the equipment fund, were also established to fund expenditures such as vehicle leases and purchases. Over the past several years, we have been building up all General Fund reserves in the event of a major downturn in the economy.

POLICE BUDGET

The police budget is currently based on the community's desire for a 24-hour, 7 days/week, 365 days per year operation. The proposed FY20-21 PD budget, as revised, is approximately \$3,673,000, which reflects \$3,348,000 for personnel costs (90% of total) and \$324,000 (10%) for non-personnel costs. The proposed above revision reflects the proposed \$100,000 reduction (approx. 2.6%).

The Police Department (PD) has the following staffing:

11 Sworn Officers

1 frozen Sworn Officer position

4 Dispatchers

1 Police Service Technician (parking enforcement mainly)

Part-time staff, such as Cadets

The above staffing allows PD to maintain a 24/7 operation so that we have one dispatcher on duty at all times and a minimum staffing of two officers at all times except in the early morning, when there is only one officer on duty. The above staffing model takes into account staff training, vacation, and sick leave.

We have one officer that is paid for by the COPS grant and one of our dispatchers is basically paid for due to our two dispatching contracts with Ross and the College of Marin.

Public Safety (Police and Fire departments) typically represents 60-70% of a small town's budget. In Fairfax, Police and Fire are approximately 60% (35% and 25%, respectively) of the Town's budget. If we provided more services in other departments such as a library, then public safety would represent a smaller percentage of the budget.