



TOWN OF FAIRFAX

STAFF REPORT

March 17, 2021

TO: Mayor & Town Council

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

SUBJECT: Discuss/consider the 2020-21 Mid-Year Budget Review Report and direct staff, as appropriate

RECOMMENDATION

Receive 2020-21 Mid-Year Budget Review Report

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY20-21 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 impacts of COVID-19 on the Town's General Fund revenues were less adverse than initially anticipated. The FY20-21 budget projected that the Town would need to dip into General Fund reserves to balance the budget. Specifically, we projected a 20% decrease in sales tax revenues and reduced other revenues due to COVID-19. However, instead of reducing reserves by \$380,000, we are now anticipating a surplus.

General Fund revenues are projected to increase by a net \$475,000, which allows the Town to avoid dipping into reserves as initially forecasted. While COVID-19 did result in some revenue decreases of approximately \$155,000, this was offset by large increases in property and sales tax revenues, totaling approximately \$650,000. It should be noted that the COVID-19 relief received from the State is not included in the General fund revenues, but rather designated to a special fund (Fund 52) along with the associated expenses.

We also anticipate expenditure savings of approximately \$300,000 and no mid-year budget adjustments. We conservatively estimate that the Town will add approximately \$400,000 to General Fund (GF) reserves at the end of the year. An increase of \$400,000 would increase General Fund reserves to over 30% 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 FY21-22 begins before considering the allocation of any projected GF surpluses, including the forthcoming funding under the American Rescue Plan Act. This would allow for a few more months of actual revenue and expenditure data to support the GF surplus forecast.

ATTACHMENT: FY20-21 Mid-Year Budget Review Report



TOWN OF FAIRFAX

FY20-21 MID-YEAR BUDGET REVIEW REPORT

SUMMARY

The Mid-Year Budget Report (Report) reviews key FY20-21 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.

Fortunately, the impacts of COVID-19 on the Town's General Fund revenues were less adverse than initially anticipated. The FY20-21 budget projected that the Town would need to dip into General Fund reserves to balance the budget. Specifically, we projected a 20% decrease in sales tax revenues and reduced other revenues due to COVID-19. However, instead of reducing reserves by \$380,000, we are now anticipating a surplus. General Fund revenues are projected to increase by a net \$475,000, which allows the Town to avoid dipping into reserves as initially forecasted. While COVID-19 did result in some revenue decreases of approximately \$155,000, this was offset by large increases in property and sale tax revenues, totaling approximately \$650,000. Table A below shows the increases by source.

We also anticipate expenditure savings of approximately \$300,000 and no mid-year budget adjustments. We conservatively estimate that the Town will add approximately \$400,000 to General Fund reserves at the end of the year. The FY20-21 budget projected a year-end General Fund balance of approximately 28% of expenditures. An increase of \$400,000 would increase General Fund reserves to over 30% of expenditures, 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 \$475,000 or 4.9% (based on approx. \$9,664,000 in projected general fund revenues) primarily due to higher-than-projected property taxes and sales tax revenues. While Table A does show a projected \$635,000 increase in total revenue, for projection purposes we apply a 25% contingency of approximately \$160,000 to revenue projections as a cushion to account for possible fluctuations in the forecast.

Table A: Projected Year-End Revenues – General Funds

Source:	Projected Variance:
Property Taxes, ERAF, VLF Swap	\$ + 300,000
Sales Taxes	+ 350,000
User Taxes (UUT & Hotel)	+50,000
Franchise Fees	+50,000
Fines & Licenses	- (50,000)
Rents & Interest	- (35,000)
Charges for Current Services	- (70,000)
Building & Planning Fees – Fund 04	+ 30,000
Retirement - Fund 06	+ 10,000
Subtotal (approx.)	\$ + 635,000
Adjustment: reduce 25% for estimate*	<u>- (160,000)</u>
Say (Surplus Revenue)	<u>\$ 475,000</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 \$300,000 (7.0 %) this fiscal year. Several factors contribute to the higher revenues. The County has experienced a robust housing market with an exodus from the City to surrounding areas as more workers are working from home. Budgeted revenues were based on county estimates which were exceeded. ERAF (Educational Revenue Augmentation Fund) Excess revenues should exceed estimates by \$113,000 and Property Tax in Lieu of VLF (Vehicle License Fee) from the state is projected to exceed budget by \$90,000.

Sales Taxes

The estimate of Sales Tax revenues to be received are based on the projections of Avenu – the Town’s sales tax consultants. Contrary to our original expectation, sales tax revenues are projected to exceed budget by an estimated \$350,000. The FY20-21 budget projected that the lockdown and the impact of COVID-19 would reduce sales tax revenues by 20% compared to adopted FY19-20 budget. This did happen in some sectors of the economy in Fairfax, most notably in restaurants and bars.

Overall, the impacts of COVID-19 on sales tax revenue did not materialize. We forecasted the Town would receive approximately \$1,200,000 for FY20-21. However, we are estimating the Town will receive \$1,550,000. In essence, this amount would be similar to the sales tax forecast we would have made for FY20-21 but for COVID-19.

The base 1% sales tax, Bradley-Burns Uniform Sales and Use Tax law, is estimated to exceed budget by \$100,000. The ¾-cent District Add-On Tax (Measure C) is estimated to be \$200,000 over the budget estimate. Residents increased online purchasing (e.g., Amazon, Target) in preference to buying at stores out of town, capturing sales that would have gone to neighboring areas. County pool sales tax revenues are estimated to exceed budget by \$40,000 – almost 80% over budget. County Pool sales tax revenues are those revenues not attributed to a specific jurisdiction and are distributed to jurisdictions in proportion to the ratio of sales.

User Taxes

Revenue from user taxes is projected to come in better than projected adding an additional \$50,000 (20%) to revenue. Approximately 98% of this revenue comes from the Utility User Tax (UUT). For FY20-21, we estimated \$300,000 in UUT revenues, but we now forecast the Town will receive \$350,000. Telecom UUT revenue is coming in below budget, while energy UUT is coming in higher. UUT is 4% of the utility bill. As the residents had to shelter in place, presumably they used more energy.

Franchise Fees

Franchise fees are collected from Garbage, Gas & Electric, and Cable. Staff projects that the revenues will be \$50,000 more than budgeted primarily from the Garbage fees, which increased approximately 5% in January 2020. Cable fee revenues have been lower than expected. Gas & Electric is all paid in April and is projected to be close to budget.

Fines & Licenses

This includes business licenses, parking/vehicle code fines and other fines. This revenue is down by approximately \$50,000 (19%) due to COVID-19, as business owners did not renew their licenses and stay-home orders reduced vehicle traffic into the Town.

Rents/Interest Revenues

Interest revenue will again come in significantly below projections. LAIF (Local Agency Investment Fund) interest rates, which had been steadily increasing since 2014, peaked in June 2019 at 2.428% and have fallen steadily since. The current rate in February is .407%. While our balance at LAIF has increased by \$300,000 year-over-year, the net interest income has fallen. Actual interest is projected to be below budget by \$25,000. Rentals have decreased as the extended lockdown has impacted rental facility income adversely by about \$10,000.

Charges for Other Services

This includes police dispatch and recreation fees for programs and partnerships such as gymnastics. Recreation fees are estimated to be down by approximately \$50,000 (60%) due to COVID-19 restrictions. The forecast assumes some level of recreation revenue based on reduced COVID-19 restrictions.

Building & Planning Fees

These revenues are collected by Planning and Building. As of January 31, 2021, the Building & Planning revenues from permits and fees were at 62.3% of budget, which is consistent with projections. Building & Planning revenues are projected to be over projections by \$30,000. Activity should improve as COVID restrictions ease.

Retirement Fund Revenues

The Retirement Fund (06) is projected to realize additional revenues of \$10,000 as of June 30, 2021. 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.

Expenditures

The General Fund is projected to end the year with expenses below budget by approximately \$300,000. These are one-time savings because the anticipated services were either deferred or carried over to the next year or we spent less than anticipated for specific outside services (e.g., janitorial, tree contractors).

All departments are projected to end the year under budget. We are pleased to report that the Police Department should end the year within budget. You may recall the Police Department budget was reduced by \$100,000 to provide one-time seed funding for the Racial Equity Social Justice Committee (RESJ) to cover the cost of its activities (e.g., facilitator) and future programs. The combination of Chief Morin's retirement and staff vacancies and turnovers have resulted in salary savings to offset the significant increase in overtime costs incurred to cover vacancies, training, vacations, and other leave.

The approximate \$300,000 in expenditure savings can be attributed to the following:

- \$120,000 (01-311,321 Planning and Building)- The Planning and Building Services budget included \$200,000 in professional services to assist with development of such policies as the Housing Element, Objective Design Standards, and ADU standards. However, much of the work will occur next fiscal year. As result, the budget savings will be carried over to next year.
- \$40,000 (01-625, 911 Rental Facilities/Building Maintenance)- We doubled the janitorial budget to reflect COVID-19 protocols and increased cleaning of Town facilities. However, these costs were offset by lower facility maintenance costs, lower energy usage, and reduced need for janitorial services due to stay home orders which significantly reduced the use of Town facilities.
- \$40,000 (01-510,511,512 Public Works)- We annually budget approximately \$180,000 combined in Public Works (DPW) for outside/professional services. These costs include

streetlight/traffic signal maintenance, engineering services, tree contractors, fees for TAM and other County services, landscape maintenance, and street repairs. The actual expenses fluctuate year to year usually based on the winter weather. The mild winter weather has resulted in lower outside/professional services costs (e.g., tree contractors).

- \$100,000 (01-715 Non-Departmental)- These expenses reflect costs not associated with a specific department's activities such as insurance premiums, loan repayments, and retiree health contributions. We anticipate there the RESJ will have approximately \$60,000 remaining from its \$100,000 budget to carry-over to next year. The balance of the savings will come from lower worker compensation/claims costs.

Other Special Funds

It should be noted that many of the Special funds, such as the special municipal services tax are transfers into the General Fund to offset costs. However, those funds such as Measure A park or building improvements that have expenditure budgets are also projected to be within 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 specific projects. We anticipate in Spring the Town will bid out one or two road improvement projects.