



TOWN OF FAIRFAX

STAFF REPORT

March 2, 2022

TO: Mayor and Town Council

FROM: Michael Vivrette, Finance Director

SUBJECT: Receive 2021-22 Mid-Year Budget Review Report

RECOMMENDATION

Receive 2021-22 Mid-Year Budget Review Report

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY21-22 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on actual Town expenditures and revenues received through January 31st and historical expenditure patterns.

The FY21-22 adopted budget projected that the Town would need to draw down on General Fund reserves to balance the budget. However, instead of reducing reserves by \$615,000, we are now anticipating a lower draw-down of \$495,000 due to better than expected revenues offset by lower than expected increases to General Fund expenditures.

General Fund revenues are projected to increase by a net \$499,000, which allows the Town to avoid dipping into reserves as much as initially forecasted. While the extended duration of COVID-19 and its variants did result in some revenue decreases, this was offset by large increases in revenues (property & sales tax) totaling an estimated \$527,000. 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 increases of approximately \$379,000 primarily due to emergency repairs related to the October storms which can be absorbed into the current budget with no additional reserves required. We conservatively estimate that the Town will reduce its projected draw on General Fund (GF) reserves by approximately \$120,000 at the end of the year. As is prudent, 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.

Overall, the General Fund (01) is expected to have additional expenditures which are primarily in increased transfers for capital expenditures (+\$490,000) including transition of the Community Center building (+\$60,000) and the Sir Frances Drake sinkhole (+\$430,000). Exclusive of the transfers, General Fund departments are expected to have net expenditures of (-\$111,000) less than budgeted by fiscal year end.

Departments with the biggest savings include Police (-\$181,000); Non-Departmental (-97,000); Town Clerk (-\$24,000); and Finance (-29,000).

Those departments projected to exceed budget include Town Attorney (+\$170,000); Street Maintenance (+\$71,200); and Recreation (+\$32,800). Although total expenditures are projected to exceed budget by \$378,000 (3.2%) the net increase in revenues of \$499,000 (4.4%) should be sufficient to cover the increase without requiring additional appropriations.

ATTACHMENT

FY21-22 Mid-Year Budget Review Report

FY21-22 Mid-Year Budget Review Report

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 (03), (05), (08).

Revenues in the General Funds are projected to exceed budget by approximately \$499,000 (4.4%) primarily due to higher-than-projected property taxes and sales tax revenues.

Table A: Projected Year-End Revenues – General Funds

Source:	Projected Variance:
Property Taxes, ERAF, VLF Swap	\$ + 123,500
Sales Taxes	+ 258,800
User Taxes (UUT & Hotel)	+24,800
Franchise Fees	+6,700
Fines & Licenses	-(36,700)
Rents & Interest	- (17,800)
Revenues from other Agencies	+10,700
Charges for Current Services	+9,000
Building & Planning Fees – Fund 04	+100,000
Retirement - Fund 06	+20,000
Projected Additional Revenue	+499,000

Property Taxes

Total property tax revenues are projected to exceed budget by \$67,800 (+2.0%) this fiscal year. Several factors contribute to the higher revenues. Budgeted revenues were based on county estimates which were exceeded as we continue to experience a robust housing market increasing property values overall. Property Tax in Lieu of VLF (Vehicle License Fees) from the state is projected to exceed budget by \$55,700. ERAF Excess revenues (Educational Revenue Augmentation Fund) are very close to the estimates made when the budget was put together. *(Note: ERAF is a mechanism enacted in July of 1992 by the State Legislature to shift local property tax revenues from cities, counties, and special districts to an Educational Revenue Augmentation Fund. These funds are allocated by the State to schools to help meet minimum funding requirements.)*

Sales Taxes

Contrary to our original expectation, sales tax revenues is projected to exceed budget by an estimated \$258,800 (+15.8%). The estimate of Sales Tax revenues to be received are based on the projections of Avenu – the Town’s sales tax consultants. Original estimates were that the lockdown and the impact of COVID would reduce or stall sales tax revenues. This did happen in some sectors of the economy in Fairfax, most notably in hospitality businesses such as restaurants, bars and hotels.

The base 1% sales tax, Bradley Burns, is estimated to exceed budget by \$116,000. The $\frac{3}{4}$ cent District Tax (Measure C) is estimated to be \$154,000 over original estimates. Consumers have more spendable funds - in part boosted by higher available funds from government programs and higher wages. This has, in turn, increased online purchasing (Amazon, Target etc.) in preference to buying at stores out of town, capturing sales tax that would have gone to neighboring areas. Inflation, too, has contributed to higher prices for goods which in turn generates more sales tax revenue.

User Taxes

Revenue from user taxes (UUT from Energy & Telecom) are projected to come in better than projected adding an additional \$20,000 (5.9%) in revenue. Hotel Tax will likely be higher than projected.

Franchise Fees

Franchise fees are collected from Garbage, Gas & Electric and Cable. Staff projects that the revenues will be \$6,700 more than budgeted due to higher rates and inflation. Cable fee revenues have been lower than expected. Gas & Electric is all paid in April, and is projected to be close to budget.

Interest revenues

Interest revenue will again come in below projections. LAIF Interest rates which had been steadily increasing since 2014, peaked in June 2019 at 2.428% have fallen steadily since. The current rate in January is .234%, about half of the rate of one year before.

While our balance at LAIF has increased by \$1.8 million year-over-year, in large part due to the receipt of ARPA funds, the net interest income has fallen. Actual interest is projected to be below budget by \$5,000 (25%). Rental facility income is projected to be under budget by up to \$12,000 due to the extended lockdown and closure of facilities for repairs.

Building & Planning Fees

As of January 2022, the Building & Planning revenues from permits and fees were at 64% of budget, which is better than projected. Building & Planning revenues are estimated to be over budget by \$100,000.

Retirement Fund Revenues

The Retirement Fund (06) receives revenues from the Pension Obligation Parcel Tax which is based on assessed valuations. Higher than estimated assessed valuations result in additional tax revenues of \$20,000 this year.

Expenditures

The General Fund is projected to end the year with expenses over budget by approximately \$378,500 (+3.2%) primarily due to anticipated costs of \$430,000 for the SFD sinkhole and \$60,000 for improvements to facilitate the transition to the Community Center. Exclusive of those transfers, departmental expenditures are projected to be \$111,000 (.9%) under budget.

General Fund (GF) expenditures are on track as of January 2022 with \$6,200,000 (52.2%) of budgeted expenditures for the fiscal year. The seven-month GF total also does not include any transfers, which are posted in June.

Personnel Costs

Personnel costs, the largest component of expenditures, are tracking on budget with 57.6% of budgeted spent as of January 31, 2022 (within 1% of expected). Costs will likely increase in the last five months with the addition of staff positions after January 31 which have necessitated higher costs than originally calculated.

Health insurance costs will have some savings. We budgeted an increase of 6% in January, which ended up only increasing 5.3% on Kaiser which 92.8% of the employees are participating in.

Departmental Expenditures

The year-end projection anticipates most departments, with some exceptions, to be within budget. Departments projected to be over budget by over \$10,000 or 4% of budget include:

- Town Attorney – Projected expenses will be over budget by \$170,000. This is due to the increased need for legal services for the housing element, personnel issues, and increased participation in council and staff meetings. None of the increased expenditures are associated with reimbursable developer agreements.
- Street Maintenance – Projected expenses will exceed budget by \$71,200. The biggest contributors to this were the Broadway sinkhole and higher than expected outside services, primarily tree services.
- Recreation – Department expenditures are projected to be over by \$32,800, which is partially offset by a projected increase in recreation revenues of \$25,700 for class fees partnerships. Activities in this department have been hampered by the extended COVID restrictions and the unavailability of the Pavilion and Community Center for programs,

while staff costs have remained necessarily the same. Some of the class activities, especially for adult programs, are funded by Measure F, or are free to residents.

There is less than \$10,000 in estimated overage in all other General Fund departments with overages (less than 4% of department budget or \$10,000), which is deemed to be within the margin of error for the projections.

The General Fund is expected to be under budget for all departments, and we recommend the any budget adjustments for Town Attorney (121), Street Maintenance (511) and Recreation (621) to come from expense savings in other General Fund departments and projected increased revenues at the discretion of the Town Manager.

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 SFD Sinkhole project.

Through January 2022, the Town has spent approximately \$485,400 on CIP projects. The adopted FY21-22 CIP is approximately \$5.4 million for Funds 51, 52 and 53. CIP projects that are not completed in FY21-22 are carried over and re-budgeted in the following fiscal year.