



TOWN OF FAIRFAX

STAFF REPORT

March 1, 2023

TO: Mayor & Town Council

FROM: Michael Vivrette, Finance Director

SUBJECT: Receive 2022-23 Mid-Year Budget Review Report

RECOMMENDATION

Receive 2022-23 Mid-Year Budget Review Report

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY22-23 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on actual Town expenditures and revenues posted through January 31st and historical expenditure patterns.

The FY22-23 adopted budget projects that the Town will need to draw down on General Fund reserves by \$1,388,750 to balance the budget. Based on projections using January 31st income statements and reasonable estimates of financial activity through June 30th, staff estimates revenues will exceed budget by \$575,000 (4.9%) and expenditures will likely be under budget by \$265,000 (1.9%). The net effect is that the drawdown of reserves may only be \$548,750.

Projected revenues will exceed budget in part due to:

- Continued favorable real estate market activity affecting property tax revenue,
- High inflation (increasing sales tax revenue due to higher prices),
- Higher interest rates (from Fed Funds Rate & LAIF increases),
- Government stimulus programs, such as expanded unemployment eligibility, various stimulus payment programs which increased consumer spendable funds, and
- Post Covid demand for services including hospitality and building.

Key factors affecting original budget expenditure estimates include:

- Higher inflation, increasing costs for materials and services,
- Supply chain issues affected by the war and political actions,
- Inefficiencies due to staff and contractor turnover,
- Tight labor market reflected in unfilled positions and higher salary costs for key positions.

Departments projected to exceed budget by \$10,000 or 4% include:

- Street Maintenance (511) by \$142,000 (32.1%)
- Ross Valley Fire Dept (421) by \$38,000 (1.4%)
- Street Lighting & Traffic Signals (512) by \$34,000 (36.8%)
- Recreation (621) by \$32,000 (23.1%) partially offset by additional revenues of \$10,000.

The General Fund is expected to be under budget overall for all departments. We recommend the budget adjustments for the listed departments come from expense savings in other General Fund departments and projected increased revenues at the discretion of the Town Manager.

ATTACHMENT

FY22-23 Mid-Year Budget Review Report

Midyear Budget Report for Fiscal 2022-23

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 \$475,000 (4.0%) primarily due to higher-than-projected property taxes and sales tax revenues and higher interest income from LAIF.

Table A: Projected Year-End Revenues – General Funds

Source:	Projected Variance:
Property Taxes, ERAF, VLF Swap	\$ + 250,000
Sales Taxes	+ 280,000
Rents & Interest	+80,000
Fines & Licenses	-70,000
Other categories	-65,000
Building & Planning Fees – Fund 04	+100,000
Projected Additional Revenue	+575,000

Property Taxes

Total property tax revenues are projected to exceed budget by \$150,000 (+4.6%) 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 assessments for FY22-23 predated most of the effects of rising interest rates which may dampen the market in future years. Property Tax in Lieu of VLF (Vehicle License Fees) from the state is projected to meet budget. ERAF Excess revenues (Educational Revenue Augmentation Fund) are very close to the estimates made when the budget was adopted.

Sales Taxes

Sales tax revenues have been robust and are projected to exceed budget by an estimated \$280,000 (+15.6%). 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 reduced on the expectation of a recession which may still materialize. The most recent report for the 3rd quarter of 2022 shows sales tax increasing in the overall Bay Area by 10.4% quarter-over-quarter but **decreasing** in Fairfax by **-8.3%**. Avenu uses this information in their estimates.

The base 1% sales tax, Bradley Burns, is estimated to exceed budget by \$150,000. The $\frac{3}{4}$ cent District Tax (Measure C) is estimated to be \$120,000 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, notably in gas and food prices which in turn generates more sales tax revenues.

User Taxes

Utility User Tax (UUT) revenues from Energy & Telecom are projected to come in close to budget. Lower-than-budgeted UUT telecom revenue is offset by UUT energy revenue. Hotel User Tax (HUT) will likely be slightly higher than projected. The Town may also see an increase when the short-term rentals (STR) start paying HUT.

Franchise Fees

Franchise fees are collected from Garbage, Gas & Electric and Cable. Staff projects that the revenues will be higher than budgeted due to higher rates and inflation. Cable fee revenues have been lower than expected. Gas & Electric fees are all paid in April and are projected to be close to budget, though higher rates may result in higher revenues to the Town.

Interest revenues

Interest revenue has benefitted by Fed Fund rate increases which result in higher LAIF rates. In January 2023, the LAIF interest rate was 2.425% while the January 2022 rate was .234%. The projected additional interest will be about \$80,000 higher than the budget projection of \$18,000. We expect the LAIF interest rate to continue to increase with further Fed Fund interest increases. Our balance at LAIF has increased by \$460,000 year-over-year, in large part due to the receipt of the ARPA funds which also has contributed to higher interest earnings.

Rental facility income is projected to be under budget 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 67.5% of budget, which is better than projected. Building & Planning revenues are estimated to be over budget by \$100,000 which will be transferred to the General Fund to help offset the cost of planning projects.

Retirement Fund Revenues

The Retirement Fund (06) receives revenues from the Pension Obligation Parcel Tax which is based on assessed valuations. Revenues are expected to be in the range budgeted this year.

Expenditures

The General Fund is projected to end the year with expenses under the adjusted budget by approximately \$378,500 (+2.7%). Council has increased budgeted expenditures this year by \$765,000 with the approval of agenda items related to Police MOU approved in August (+\$125,042), and the housing element and interim Planning Director services in the Planning Department (+\$640,000) adjusted to the amount expected to be spent before June 30th.

General Fund (GF) expenditures are on track as of January 2023 with \$7,220,000 (54.7%) of budgeted expenditures for the fiscal year. The seven-month GF total also does not include any actual transfers, which are posted in June.

Personnel Costs

Personnel costs, the largest component of expenditures, are tracking on budget as of January 31, 2023. Costs will likely increase in the last five months depending on the timing of additional staff positions unfilled as of January 31 which will affect originally cost calculations.

CalPERS Health insurance costs increased this year by an average of 6.5%. However, the Delta Dental rates remained the same as the prior year. We budgeted for an overall increase of 6.0% in January, which may even out across all health insurance costs.

Departmental Expenditures

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

- Street Maintenance (511) – Projected expenses will exceed budget by \$142,000 (32.1%). Some of this is due to storm damage costs, though there may also be reclassifications necessary for expenses that should be charged to street projects.
- Ross Valley Fire (421) – Projected expenses exceed budget by \$38,000 (1.4%)
- Street Lighting & Traffic Signals (512) – Projected expenses exceed budget by \$34,000 in part due to replacement of in-pavement Traffic Detection Devices.
- Fairfax Recreation (621) – Though the expenses are anticipated to exceed budget by \$32,000 (23.1%) there are partially off-setting revenues of \$10,000. This indicates there was higher participation in recreation programs than originally projected.

The General Fund is expected to be under budget overall for all departments. Staff recommends the budget adjustments for the listed departments 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). Revenue & Expenditures will be less than budgeted in part due to the decision to not proceed with the Pavilion project. 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.

Through January 2023, the Town has spent approximately \$1,168,000 on CIP projects. The adopted FY22-23 CIP is approximately \$5.8 million for Funds 51, 52 and 53. CIP projects that are not completed in FY22-23 can be carried over and re-budgeted in the following fiscal year.