



FAIRFAX TOWN COUNCIL MEETING STAFF REPORT

MEETING DATE: March 6, 2024
PREPARED FOR: Mayor and Town Council
PREPARED BY: Michael Vivrette, Finance Director
SUBJECT: Receive 2023-24 Mid-Year Budget Review Report

RECOMMENDATION

Receive 2023-24 Mid-Year Budget Review Report

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY23-24 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 FY23-24 Adopted Budget projected that the Town planned to draw down \$2,171,000 of its General Fund reserves to fund additional CIP. Based on projections using January 31st income statements and reasonable estimates of financial activity through June 30th, staff estimates revenues will exceed budget by \$837,500 (6.7%) and expenditures will likely be under budget by \$512,300 (3.5%). The net effect is that the reserves may only be reduced by \$821,600.

Projected revenues will exceed budget in part due to:

- Continued favorable real estate market activity impacting property tax revenue,
- Inflation (increasing sales tax revenues due to higher prices),
- Increasing interest rates (due to Fed Funds & LAIF rate increases),
- Grant revenues received from sources not budgeted for in the current year – including \$160,000 in SB 2 planning expense recovery, and
- Post Covid demand for services especially in hospitality and building.

Key factors affecting original budget expenditure estimates include:

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

Expenditures in the General Fund are expected to be under budget overall. 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

- A. FY24 Midyear Summary
- B. Midyear Budget Report for Fiscal 2023-24



Projected FY24 Income Statement

Town of Fairfax, CA
at January 31, 2024

| | JUL-JAN | FEB | MAR | APR | MAY | JUN | ADJ/CLOSE | PROJECTED FY24 | CURRENT FY24 Budget | ▲\$ | ▲% |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|---------------------|------------------|--------------|
| Fund: 01 - GENERAL FUND | | | | | | | | | | | |
| Revenue | | | | | | | | | | | |
| 010 - TAXES | 4,563,360 | 315,361 | 200,452 | 200,452 | 2,697,989 | 200,452 | 100,465 | 8,278,530 | 7,718,600 | 559,930 | 7.3% |
| 020 - FRANCHISE FEES | 213,688 | 49,400 | 19,300 | 99,300 | 49,200 | 19,300 | 48,800 | 498,989 | 468,477 | 30,512 | 6.5% |
| 030 - LICENSES | 36,566 | 19,100 | 9,324 | 46,401 | 5,600 | 6,600 | - | 123,591 | 100,000 | 23,591 | 23.6% |
| 040 - FINES | 24,050 | 6,196 | 6,196 | 6,196 | 6,196 | 6,196 | - | 55,030 | 80,000 | (24,970) | -31.2% |
| 050 - INTEREST & RENTS | 161,008 | 1,000 | 500 | 51,000 | 2,500 | 1,300 | 60,000 | 277,308 | 135,500 | 141,808 | 104.7% |
| 060 - REVENUES FROM OTHER AGENCIES | 177,363 | - | - | - | 4,400 | - | - | 181,763 | 36,450 | 145,313 | 398.7% |
| 070 - GRANTS FROM OTHER AGENCIES | 4,000 | - | - | - | - | 43,932 | - | 47,932 | 81,000 | (33,068) | -40.8% |
| 080 - CHARGES FOR CURRENT SERVICES | 136,683 | 2,097 | 2,097 | 2,097 | 2,097 | 2,097 | - | 147,170 | 156,320 | (9,150) | -5.9% |
| 090 - OTHER FEES | 30,814 | 4,350 | 3,928 | 7,560 | 5,700 | - | 26,598 | 78,950 | 75,420 | 3,530 | 4.7% |
| Revenue Before Transfers Total: | 5,347,533 | 397,504 | 241,797 | 413,006 | 2,773,682 | 279,877 | 235,863 | 9,689,263 | 8,851,767 | 837,496 | 9.5% |
| 100 - TRANSFERS IN | - | - | - | - | - | 3,651,800 | - | 3,651,800 | 3,651,800 | - | 0.0% |
| Revenue Total: | 5,347,533 | 397,504 | 241,797 | 413,006 | 2,773,682 | 3,931,677 | 235,863 | 13,341,063 | 12,503,567 | 837,496 | 6.7% |
| Expense | | | | | | | | | | | |
| 111 - TOWN COUNCIL | 21,277 | 1,592 | 1,592 | 1,592 | 1,592 | 5,363 | 796 | 33,802 | 29,013 | (4,789) | 16.5% |
| 112 - TOWN TREASURER | 2,210 | 329 | 329 | 329 | 329 | 329 | 164 | 4,018 | 4,475 | 457 | -10.2% |
| 116 - INDEPENDENT AUDITOR | 38,967 | - | - | - | - | - | 27,371 | 66,338 | 66,338 | - | - |
| 121 - TOWN ATTORNEY | 195,587 | 27,941 | 27,941 | 27,941 | 27,941 | 27,941 | - | 335,291 | 325,000 | (10,291) | 3.2% |
| 211 - TOWN MANAGER | 152,335 | 19,628 | 19,628 | 19,628 | 19,628 | 29,643 | 3,375 | 279,901 | 274,142 | (5,759) | 2.1% |
| 221 - TOWN CLERK | 212,729 | 19,698 | 19,698 | 19,698 | 19,698 | 24,888 | 11,563 | 327,970 | 366,946 | 38,976 | -10.6% |
| 222 - ELECTIONS | 811 | - | - | - | - | - | - | 811 | - | (811) | - |
| 231 - PERSONNEL | 73,144 | 9,195 | 9,195 | 9,195 | 9,195 | 35,195 | 4,568 | 176,390 | 198,907 | 22,517 | -11.3% |
| 241 - FINANCE | 229,321 | 23,034 | 23,034 | 23,034 | 23,034 | 33,198 | 20,652 | 375,309 | 404,763 | 29,454 | -7.3% |
| 311 - PLANNING | 455,557 | 44,570 | 44,570 | 44,570 | 44,570 | 71,259 | 318,861 | 1,023,958 | 1,045,728 | 21,770 | -2.1% |
| 321 - BLDG INSP & PERMITS | 150,732 | 16,871 | 16,871 | 16,871 | 16,871 | 37,703 | 6,580 | 278,931 | 262,335 | (16,596) | 6.3% |
| 411 - POLICE | 2,363,796 | 255,602 | 255,602 | 255,602 | 319,934 | 699,172 | 87,849 | 4,256,786 | 4,276,678 | 19,892 | -0.5% |
| 418 - DISASTER PREP | 3,637 | 429 | 429 | 429 | 429 | 429 | 8,628 | 14,408 | 14,078 | (330) | 2.3% |
| 421 - ROSS VALLEY FIRE SERVICE | 1,721,151 | 240,597 | 240,597 | 240,597 | 240,597 | 254,760 | - | 2,938,298 | 2,954,275 | 15,977 | -0.5% |
| 510 - PUBLIC WORKS ADMIN | 310,396 | 18,137 | 18,137 | 18,137 | 18,137 | 24,930 | 45,200 | 355,756 | 368,451 | 12,695 | -3.4% |
| 511 - STREET MAINTENANCE | 226,967 | 27,137 | 26,162 | 26,162 | 25,927 | 40,432 | 47,806 | 434,009 | 521,958 | 87,949 | -16.8% |
| 512 - STREET LGHT & TRAF SIGNALS | 55,743 | 7,461 | 7,461 | 7,461 | 7,461 | 13,947 | - | 99,536 | 125,000 | 25,464 | -20.4% |
| 514 - CLIMATE & ENVIRON | 51,496 | 10,872 | 10,872 | 10,872 | 10,872 | 7,360 | 4,442 | 106,786 | 262,105 | 155,319 | -59.3% |
| 611 - PARK MAINTENANCE | 193,019 | 19,383 | 19,383 | 19,383 | 19,383 | 27,292 | (6,802) | 291,041 | 281,055 | (9,986) | 3.6% |
| 616 - COMMUNITY SERVICES | 25,164 | 2,718 | 2,718 | 2,718 | 2,718 | 4,654 | - | 40,690 | 44,055 | 3,365 | -7.6% |
| 617 - RECREATION | 46,100 | 4,272 | 4,864 | 4,864 | 4,864 | 8,533 | 771 | 74,268 | 94,330 | 20,062 | -21.3% |
| 621 - FAIRFAX RECREATION | 73,309 | 7,652 | 8,070 | 8,070 | 8,070 | 8,070 | 8,080 | 121,319 | 122,228 | 909 | -0.7% |
| 622 - SUMMER CAMPS | 10,112 | 293 | 293 | 293 | 293 | (7,766) | 8,245 | 11,765 | 13,642 | 1,877 | -13.8% |
| 625 - RENTAL FACILITIES | 39,927 | 5,885 | 5,885 | 5,885 | 5,884 | 11,385 | 1,254 | 76,105 | 71,668 | (4,437) | 6.2% |
| 715 - NON DEPARTMENTAL | 522,589 | 43,475 | 8,557 | 8,557 | 8,557 | 456,455 | 122,785 | 1,170,976 | 1,260,695 | 89,719 | -7.1% |
| 725 - TRANSFERS OUT | - | - | - | - | - | 1,287,063 | - | 1,287,063 | 1,287,063 | - | - |
| 911 - BUILDING MAINTANANCE | 0 | 0 | 0 | 0 | 0 | 0 | (18,896) | (18,896) | - | 18,896 | - |
| Expense Total: | 7,176,078 | 806,771 | 771,887 | 771,887 | 835,985 | 3,102,235 | 703,291 | 14,162,629 | 14,674,928 | 512,299 | -3.5% |
| Fund: 01 - GENERAL FUND Surplus (Deficit): | (1,828,545) | (409,266) | (530,090) | (358,881) | 1,937,698 | 829,442 | (467,427) | (821,566) | (2,171,361) | 1,349,795 | |

Midyear Budget Report for Fiscal 2023-24

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 three equipment replacement funds Field & Vehicle (03), Building (05), and Office (08).

Revenues in the General Fund (01) are projected to exceed budget by \$837,500 (6.7%) primarily due to higher-than-projected property taxes and sales tax revenues, higher interest income from LAIF, and revenues from unbudgeted sources. Revenues in the Building & Planning Fund (04) are projected to exceed the budget by \$88,000. Retirement Fund (06) revenues are projected to closely match the budgeted total.

Table A: Projected Year-End Revenues – General Fund (01)

| Source: | Projected Variance: |
|-------------------------------------|---------------------|
| Property Taxes, ERAF, VLF Swap | \$ + 351,000 |
| Sales Taxes | + 70,000 |
| Other Taxes | + 139,000 |
| Rents & Interest | + 142,000 |
| Revenues from Other Agencies | + 145,000 |
| Other categories | - 9,500 |
| Projected Additional Revenue | +837,500 |

Property Taxes

Total property tax revenues are projected to exceed budget by \$351,000 (+6.7%) 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 FY23-24 predated most of the effects of rising interest rates which may dampen the market in future years. Secured Property Tax will exceed budget by \$160,000 (4.6%). Property Tax in Lieu of VLF (Vehicle License Fees) from the state is projected to exceed budget by \$120,000. ERAF Excess revenues (Educational Revenue Augmentation Fund) will be \$80,000 higher than the estimates made when the budget was adopted.

Sales Taxes

When the budget was prepared, there was some expectation that there might be a downturn in the economy which has not materialized. Sales tax revenues have been robust and are projected to exceed the budget by an estimated \$70,000 (+3.5%). The estimate of Sales Tax revenues to be received are based on the projections of Avenu – the Town’s sales tax

consultants. The most recent report for the 3rd quarter of 2023 shows sales tax decreasing in the overall Bay Area by 4.1% quarter-over-quarter but only decreasing in Fairfax by **-.2%**. Avenu uses this information in their quarterly estimates.

The base 1% sales tax (Bradley Burns) is estimated to exceed the budget by \$68,000. The ¾ cent District Tax (Measure C) is estimated to be \$9,000 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 increased revenues, although key prices for some goods, notably in gasoline, have leveled out.

User Taxes

Utility User Tax (UUT) revenues from Energy & Telecom are projected to come in \$120,000 higher than budgeted due to significant increases in utility rates. Hotel User Tax (HUT) will likely be slightly lower 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 \$30,000 higher than budgeted due to higher rates and inflation. Cable fee revenues have been higher 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 for 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 4.012% in January 2024 (compared to 2.425% in January 2023 and .234% in January 2022). The projected additional interest will be about \$139,000 more than the budget projection of \$120,000. We expect the LAIF interest rate to continue to increase with further Fed Fund interest increases. Our current balance in LAIF has decreased by slightly less than \$2.0 million year-over-year, to \$5.2 million. ARPA funds (\$1.8M) represent the largest portion of the LAIF balance.

Rental facility income is projected to exceed the budget by \$3,000 due to the end of extended lockdown and closure of facilities for repairs.

Building & Planning Fees (Fund 04)

As of January 2022, the Building & Planning revenues from permits and fees were at 76.9% of budget, which is better than projected. Building & Planning revenues are estimated to be over budget by \$88,000 which will be transferred to the General Fund to help offset the cost of planning projects.

Expenditures

The General Fund is projected to end the year with expenses under the adjusted budget by approximately \$512,300 (-3.5%).

General Fund (GF) expenditures are on track as of January 2024 with \$7,499,000 (48.9%) 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, 2024. With the filling of several positions in Police, Public Works and Planning, 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 cost calculations.

CalPERS Health insurance costs increased this year by an average of 9.4%. However, the Delta Dental rates decreased in January which helped soften the impact. 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. Most departments projected to be within budget overall, though there are some notable exceptions including:

- Town Clerk (221) – Expenses are projected to be under budget by \$39,000 (10.6%) due to the retirement of the principal employee. There are cost savings as the position is vacant currently.
- Street Maintenance (511) – Projected expenses will be under budget by \$88,000 (16.8%). One maintenance worker position remained vacant for half the year which resulted in some personnel cost savings.
- Fairfax Recreation (621) – Though the expenses are anticipated to be \$20,000 under budget (21.3%), recreation revenues are projected to be slightly higher than budget by \$3,500. This indicates there was higher participation in recreation programs than originally projected.

Expenses in the General Fund are 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). 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 2024, the Town has spent approximately \$1,632,200 (39.2%) on CIP projects. The adopted FY23-24 CIP budget has approximately \$4.16 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.