



TOWN OF FAIRFAX

STAFF REPORT

March 2, 2016

TO: Mayor, Town Council

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

SUBJECT: Accept 2015-16 Mid-Year Budget Review Report and discuss/consider budget revisions

RECOMMENDATION

Accept the 2015-16 Mid-Year Budget Review Report and discuss/consider budget revisions, as appropriate.

DISCUSSION

The attached Mid-Year Budget Report (Report) reviews key FY15-16 revenue and expenditure activities for the Town. The Report provides year-end budget estimates based on six months of actual Town expenditures and revenues received to date. While no mid-year budget adjustments are being requested at this time, the Council may reallocate funds as they deem appropriate.

Overall, the Report indicates the Town's General Fund will continue to experience financial stability with stable revenues and solid controls over expenditures. Specifically, we are projecting revenues to come in higher than budgeted (net \$239,000 after adjustment for contingency) and General Fund expenditures to be approximately \$120,000 less than budgeted. General Fund Reserve is projected to have a net increase of approximately \$359,000 or 4.3% of budget expenditures. This increase in fund balance will provide the Council more flexibility in its on-going discussions regarding financing options for capital projects.

Revenues:

Revenues are projected to exceed budget estimates by \$239,000 (3.3%) in the General Fund primarily due to higher than projected property taxes (+\$125,500) and sales taxes (+\$70,200). This includes some one-time revenues such as "Triple Flip" true up (\$76,000) and SB90 reimbursements (\$23,500). Planning and Building fees are projected to be approximately \$17,000 more than originally anticipated.

Expenditures:

The General Fund is projected to end the year with expenses below budget by \$120,000. Most departments are under budget as of December 31st. Personnel costs, the largest component of expenditures, are within budget as of December 2015. Capital Improvement costs (\$392,000) are 27.2% spent after six months and are expected to end the year at \$1,442,700 expended of \$2,180,638 budgeted (approx. 66.2%). A majority of the cost savings are attributed to one-time savings.

ATTACHMENT

FY16 Midyear Budget Review Report

AGENDA ITEM # 11



Town of Fairfax FY16 Midyear Budget Review

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 three equipment replacement funds. Revenues in the General Funds are projected to exceed budget by \$239,000 (+3.3%) primarily due to higher-than-projected property taxes & sales taxes (\$195,700) and unanticipated revenues from state SB90 reimbursements (\$23,530). In addition, revenues from building activity are projected to exceed budget

Property Taxes:

Total property tax revenues are projected to exceed budget by \$125,500 for this fiscal year. Property values have benefitted by the improving economic conditions in the Bay Area. The original projected property tax increase of +6.3% (based on county projections) has been closer to 8.8% over Property Tax revenues for the prior year. The increase-over-budget will be \$51,600 (+2.3%). This may reflect the Assessed Valuation catching up to normal after several years of lowered assessments. The normal expected annual increase under Prop 13 is +2.0% adjusted slightly by increases of real property. Property Tax in lieu of VLF ("VLF Swap") is projected to be \$666,500 exceeding budget by \$86,500 (+14.9%). Total VLF Swap revenues in the prior year were \$616,000. ERAF revenues, budgeted to be \$400,000, may come in at \$2,000 (+.5%) over budget, while real estate transfer tax will probably fall short of budgeted by \$5,900 as will supplemental property taxes. These trends may reflect slowing sales in Fairfax and a limited inventory of houses for sale.

Sales Taxes:

Sales Tax revenues are expected to come in approximately \$70,200 more than projected. This includes an increase in base ("Bradley Burns 1%") sales tax of \$66,800 (+14.0%) and a decrease in special district sales tax ("Measure D") of \$12,800 (-3.0%). The In-Lieu Sales Tax ("Triple Flip") is ending with a final "true up" payment in FY16 of \$76,000. This will put Triple Flip revenues at \$124,800 for the year, \$14,500 (+13.1%) over the budget. This number is tempered by loss of sales tax from several restaurant closures and falling gas prices which have reduced revenues. Sales tax is projected to be less in FY17 due to the end of the "Triple Flip" true-up payment.

User Taxes:

User tax revenue includes Utility User taxes and Hotel Tax. Revenue from Telecom UUT, budgeted to bring in \$125,000 has brought in \$42,000 through December 31st. This is projected to result in a \$44,000 (-35.5%) shortfall by June 30th based on 6 month actuals. This could be an on-going trend as residents eliminate land-lines and the cost of providing such services continues to be reduced. Energy UUT is projected to be \$241,600 (+7.4%) by June 30th which would put the Town \$16,600 over budget at this rate. Hotel tax is expected to exceed budget by \$6,800 based on receipts for the first six months.

Building & Planning Fees

At December 31, 2015, the Building & Planning revenues from permits and fees were at 60.8% of budget. Based on trends from prior years this could put total Building & Planning revenue over budget by \$17,000 (+4.0%).

Retirement Fund Taxes

Consistent with the increase in property tax revenues, the Retirement Fund (06) will realize additional estimated revenues of \$50,900 as of June 30, 2016. The Town receives revenues from the Pension Obligation Parcel Tax which is based on assessed valuations.

Table A shows the increases and decreases for the Town's revenue sources.

Table A: Projected Year-End Revenues

Source:	Projected Variance:
Property Taxes, ERAF, VLF Swap	\$ + 125,500
Sales Taxes	+ 70,200
User Taxes (UUT & Hotel)	- 20,900
Franchise Fees	+ 15,000
Fines & Licenses	+ 9,600
Rental & Maintenance Fees	- 5,700
Revenues from other Agencies	+ 18,400
Charges for Current Services	+ 19,000
Building & Planning Fees – Fund 04	+17,000
Retirement Fund – 06	+50,900
Subtotal	\$ + 299,000
Adjustment: reduce 20% for estimate*	- 60,000
Available Funds	\$ <u>239,000</u>

*Note: As these estimates are based on 6 months actual data, it is prudent to build some cushion into the estimates to account for fluctuations.

Expenditures

General Fund

At mid-year, through December 2015, General Fund expenditures were \$3,865,900 (compared with \$3,733,800 in the same prior year period) which is 46.4% of budgeted expenditures for the fiscal year. The total does not include transfers which are posted in June. General Fund expenditures are projected to be under budget by approximately \$120,000 for FY16-17 (budget \$8.36M- projected \$8.24M).

Some of the key highlights are:

- The Town saved approximately \$13,000 by canceling the local election (Fund 01-222)
- Planning will be deferring approx. \$28,000 in consulting costs to FY16-17 due to the timing of various studies and plans (Fund 01-311).
- The Non-Departmental division will save approximately \$50,000 for some expenditures not incurred this year (Fund 01-715).

It should be noted that these are considered one-time savings from a budget perspective.

As of December 31, 2015, the following departments had exceeded 50% of budget:

- Building Services	51.2%
- Fire	57.7% (due to prepayment of January services)
- Camp Fairfax	89.3% (due to timing of the Camp)

However, we anticipate all departments staying within budgeted expenditures or experiencing cost savings by the end of FY15-16.

Personnel Costs

The costs of personnel salary and benefits are very close to the budget projections for FY 2016. As of December 31st the Town has expended 49.7% of its salary budget and 42.6% of the part-time salaries budget. Overtime costs are at 50.0%. Health insurance costs are at 52.3% of budget as of the end of December. The budget did include an anticipated 5% increase in health care rates effective January 2016. In comparison, health care rates increased an average of 3.3%. Surprisingly, dental rates decreased by approximately 11%. Overall, health care costs are projected to be within the budgeted amount. PERS retirement costs are at 48.7% as of December 2015.

Capital Improvement Funds

As of December 31st, \$392,000 was expensed on capital projects. Major projects worked on during the period included: Meadow Way Bridge (\$170,575), Creek Rd Bridge Repair (\$94,918), and Manzanita Rd Slide Repair (\$75,210). An additional \$1,050,500 is projected to be expended by June 30th for Capital Improvement Program (CIP) projects. A summary of CIP expenditures is shown in Table B.

Table B: Projected Year-End CIP Expenditures

Capital Project	Spent To Dec 31	Projected to June 30
Women's Club Rehab	\$ 1,744	\$ 28,700
Misc Park & Trail Improv	11,608	80,000
Azalea Ave Bridge	9,710	45,000
Meadow Way Bridge Repairs	170,575	290,000
BPMP-Spruce, Marin, Canyon	13,109	150,000
Pavilion Roof	-0-	40,000
Creek Rd Bridge Repair	94,918	193,000
Class I Bike Lane- Bike Spine	897	363,000
Pavilion Seismic Retrofit	420	20,000
Sidewalk Program/Trees	1,500	33,000
Manzanita Rd Slide Repair	75,210	115,000
Pavement Rehab Non K	12,513	75,000
Parkade Improvements	50	10,000
Net Total	\$ 392,254	\$ 1,442,700

Project descriptions are available in the Town's FY15-16 Capital Improvement Budget (CIP). Most of the projects are funded with grant funds such as the Class I Bike Lane and bridge projects.

Some highlights are as follows:

- All the bridge projects are proceeding as scheduled.
- The Pavilion roof was repaired.
- We anticipate the contract for the Class I bike lane project will be awarded this fiscal year and, thus, we have encumbered all the funds.
- The Manzanita road repair project was completed. We anticipate the project will be approximately \$30,000 under budget.
- The sidewalk repair program has seven participants to date. The Council may want to consider allocating more funds to this program. This program line item also includes the cost for the recently purchased new recycling and trash stations for downtown.

Five Year Forecast

This Report does not include a revised Five Year Forecast. Staff will provide the revised Five-Year Forecast as part of the proposed budget in Spring 2016.