

Town of Fairfax
Strategic Financial Plan

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Overview – Why a Strategic Financial Plan

In 2005, the Town found itself facing a fiscal structural deficit, wherein expenditures exceeded revenues. Steps were taken to reduce expenditures where possible, and the Town Council asked the residents to make an investment to sustain their community by supplementing the Town's general fund budget with a per unit tax. The tax was adopted as Measure "F" in June of 2005 at \$125 per living unit or business occupancy, for a five-year period, as a stop-gap measure to allow the Town to continue to provide the existing compliment of services to the community. The \$125 tax was designated to be used "exclusively to maintain 24-hour 7 days per week staffing of the Fairfax Police Station and Fire House, to maintain Fairfax's 911 Emergency Dispatch, to perform Public Works Safety improvements, and to restore funding for Youth Services," per Ordinance 711. These were services typically provided for in the Town's General Fund, and in years past, revenues were adequate to provide these services.

The Town Council determined that during this Measure F five-year period, it would formulate a plan with strategies and options for enhancing the Town's financial condition and/or making structural changes to expenditures. This Strategic Financial Plan was envisioned to provide the basis for a greater understanding of the Town's financial future and a guide for applicable policies and actions to bring to fruition a sustainable budget strategy.

The Town Council has acknowledged that the Town has a limited and relatively fixed General Fund revenue base, yet the cost of providing services to residents increases each year, and the Town Council wishes to continue to maintain, at the least, the current level of service that our residents enjoy. Thus, revenue enhancement, including augmentation of current revenue sources and identifying potential new revenue sources, is crucial to the future of the Town and its ability to continue to provide current Town services to its residents, merchants, and visitors. Similarly, the Town has a responsibility to continue to seek out means of reducing its operating costs while not compromising the integrity of the services provided.

No addressing the challenges presented is not an option. The fiscal situation of Fairfax is real, and it must be addressed if the community's priorities for and expectations of services and governance are to be met. The Town Council is responsible for establishing policies that meet community needs and that lead to balanced budgets; it is the responsibility of Town staff to implement those policies in a manner that achieves the desired results and prepares us for the future. Fulfilling these responsibilities requires a strategy that will lead to financial sustainability.

This Plan discusses the very real fiscal challenges faced by the Town, possible trends for the future based on past experience and known conditions, principles to guide the strategy, policy options, implementation issues, and future budget scenarios. The purpose of this Plan is to set forth the basic elements of the Town's financial situation, explain revenue constraints, cost control options, inform the community of the risks and

opportunities available to us as we move forward, and establish strategies and policies for the Council to work toward a sustainable budget.

It is anticipated that this document will serve to guide budget choices and policy as the Town Council reviews the annual draft budgets for the coming years. As such, this Plan presents data, analysis, and recommendations for the Town as we plan for the sunset or renewal of Measure F in June of 2010.

Fiscal Environment of Town

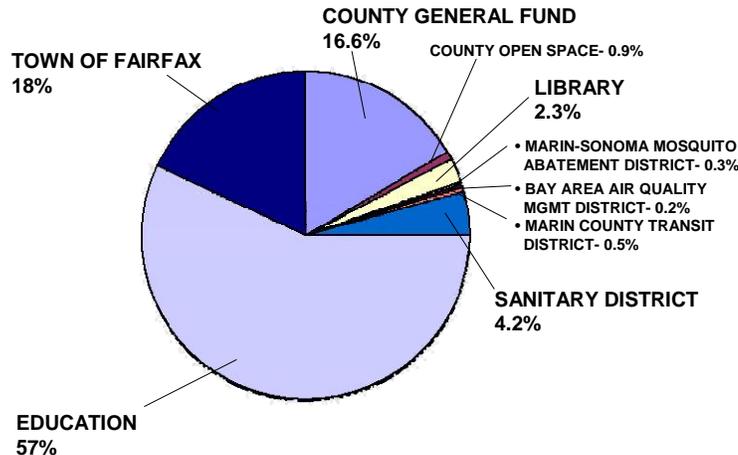
How the Town is financed

The Town's budgeting structure, in accordance with generally accepted accounting principles for local governments, contains a general fund, capital projects funds, reserve fund, and other funds which are restricted by law. The general fund is the major fund of the Town and is considered the "operating fund;" it consists of the discretionary revenue spent on providing for services that the Town is mandated, obligated, and expected to provide. The general fund is the source of most employees' salaries and benefits, supplies and services needed to operate the Town government and serve the residents.

Because the general fund is core to the ability to provide services and operate as a Town, this Plan focuses on the general fund.

Ever since Proposition 13 was adopted by the California voters in 1978, municipalities have been struggling to replace the property tax revenue that was reduced as a result of this tax reform measure. The Town currently receives 18% of the basic property taxes paid by the average property owner within the Town's limits; the balance goes to elementary, secondary, and college educational funding, State, County, and various other special districts. Basic property taxes paid by a typical Fairfax resident are allocated as follows in accordance with State law:

Property Tax Revenue Distribution - Fairfax



Since this revenue, combined with other general fund revenue sources, is not enough to sustain the basic services provided by the Town, Fairfax has had to rely on other sources of revenue which include voter-approved assessments on the property tax bill, as well as Pre-Prop. 13 assessments. These include:

- A \$50 general purpose per unit tax
- A pension tax to fund the employee retirement system (.0910% of assessed valuation)
- A \$15 storm water runoff fee (fee is per "runoff unit," typically \$15 per home)
- The recent Measure F (2005) per unit tax of \$125 and Measure I adding an additional 5 years to the per unit tax of \$125 to sunset June 30, 2015
- Measure K bond assessment for capital projects

The Town also imposes a Utility Users Tax (UUT) of 4% on energy usage on residents' and businesses' gas, electric and telephone bills. Fairfax is the only town in Marin with a UUT.

Other property tax assessments, in addition to the base assessment, supplement the Ross Valley Paramedic Authority, the Mosquito and Vector Control District, school bonds, and the Water District's fire flow program. The Town receives 24% of the entire property tax bill a typical resident pays (based on an assessed valuation of \$500,000) while the school district receives 50%.

Comment [LIA1]: Is this the right percentage?
Thought 18%?

Marin County Flood Zone 9, which includes Fairfax, held an election in 2007 which added an assessment not to exceed \$180 for a single-family home to provide for flood protection and watershed improvements. The election outcome is currently being challenged in the courts.

Fiscal Constraints, What's Unique and What's Not:

The Town is not unique in its fiscal constraints when compared to other towns in Marin County. The Town of San Anselmo, for instance, was not able to pass its supplementary general fund tax in 2006 and had to face employee layoffs and service reductions in order to sustain its budget. The City of San Rafael, with a diverse revenue base, found itself in the position of taking a one-half cent sales tax to its voters to augment its general fund in 2006. Most Marin municipalities rely on some voter-imposed assessments to fund core city services. See Exhibit A - Municipal Taxes Survey.

The Town's location, geography, and the community's choices are constraints affecting the options available for revenue enhancement. The Town is located far from the freeway and major employment centers, conditions which do not attract large employers or retail establishments. The Town's geography with a small downtown surrounded by hillside areas does not lend itself to large scale economic developments which would bring in significant numbers of shoppers or a large workforce. Thus, the retail base

which generates sales tax is rather limited; sales tax only provides for 7% of the general fund budget. Furthermore, the Town has not chosen to have a redevelopment agency, which in some cities is used to enhance economic development and stimulate sales tax and property tax growth. In addition, the Town is built-out residentially, surrounded by protected open space, and is not likely to experience any major housing developments that would impact the Town economically.

Factors Resulting in this Plan

The Town Council began a series of Strategic Planning Workshops in January 2006, to focus attention on mutually agreed-upon goals and to review strategies for fiscal sustainability. This Plan is an outgrowth of those meetings which were conducted to assess the impact of balancing the needs of the Town against its resources, and consider alternatives for enhancing our revenue base. The goal of this Plan is to provide the Council and the community with the knowledge to understand options available to gain financial sustainability and preserve Town services.

Town Services Provided

The Town of Fairfax government provides a “no frills” modest level of basic services to its residents. Demand for responsiveness just to meet these basic services, plus frequent requests for enhanced services, always exceeds the staff and resources available based on the Town’s revenue limitations.

It is important to acknowledge the services which are currently provided so that if discussions regarding where services can be reduced or if the community is interested in where Town funding is currently being allocated, the information may be included as part of that conversation.

Police

The Police Department handles approximately 14,000 incidents per year and provides a full-range of services including routine patrol services, accident investigation, juvenile support programs, alcohol enforcement, traffic enforcement, domestic violence and drug investigations as well as other complex criminal investigations. They are the primary agency responsible for commercial parking enforcement and have a seat on the Traffic Safety Committee, the Disaster Council as well as coordinating enforcement of tree regulations within the Town.

The Department has 16 full-time employees, including 11 sworn employees, five non-sworn employees and ~~four~~two part-time/reserve employees. They maintain a 24/7 state of the art dispatch center, handling all 9-1-1 and non-emergency calls, all while providing an around the clock walk-in lobby for residents. The Department is committed to providing high visibility service for the unique, vibrant nightlife that draws many visitors to the various bars that host live entertainment.

Fire

Since 1982, the Town has been in a Joint Powers Authority for fire services with the Town of San Anselmo. The Ross Valley Fire Service is funded by the two towns, and has achieved efficiencies of service delivery and is a more viable and efficient method of providing fire services than for each town to maintain their own fire department. The two towns own the fire station buildings and are responsible for capital improvements to the facilities. The Town of Fairfax is responsible for 30.4% of the Ross Valley Fire budget each year, which represents approximately ~~48~~25% of the Town’s general fund expenditures.

Public Works

The Public Works Department is staffed by ~~six~~five employees, the Public Works Director, ~~two~~one ~~Lead~~Senior Maintenance Workers and three Maintenance Workers. The array of services provided with this small staff include managing the capital

improvement program and Measure K-funded infrastructure improvements, public street maintenance and repair, storm drain and disaster related repairs, storm water program management, plans and specifications for bidding procedures, cleaning and maintaining all parks, public landscaping, and Town facilities management.

Planning and Building

Planning and Building Services are provided by four staff members, the Planning and Building Director, Building Official and Senior Planner, with staff assistance from an Administrative Assistant who is shared with Finance. Services provided include facilitating a comprehensive update of the General Plan, which has been a priority articulated by Council, processing planning and building permit applications, building inspection, processing variances and Planning Commission items, supporting the Planning Commission, Design Review Board, General Plan Advisory Committee, and the newly created Affordable Housing Committee assuring project compliance with the environmental review process.

Recreation/Volunteers

The Town's Volunteer Program and Parks and Recreational Program are supported by one half-time Community Resources Coordinator. Services provided include staff support of the Volunteer Board and the Parks and Recreation Commission and coordination of the programs and priorities of each board. The Coordinator also provides administrative support to the Citizens' Disaster Council.

Administration and Finance

Administration and Finance consists of ~~three and a half~~ ~~four~~ employees, down from five since September 2006. The employees are the Town Manager, ~~Senior Accountant~~ ~~Finance Director~~, Assistant to the Town Manager/Town Clerk, and one-half Administrative Assistant. Services provided include management of the Town and the staff, support of the priorities of the Council (which includes disaster management and preparedness, major projects such as the creation of an RDA, Economic Sustainability, and Partnering with the Chamber of Commerce), all mandated financial responsibilities and reporting requirements, budget development, payroll and personnel functions, technology and website management, building rentals, government code mandates such as local elections, plus Brown Act compliance (agendas and minutes) and customer service.

Financial Impact of 12/31/05 Flood Disaster

Flood Cost to the Town

The impact of what can be considered a 100-year flooding event on the Town cannot be underestimated with respect to planning for the Town's financial future. The 12/31/05 flood disaster only served to make the Town's financial situation even worse.

Approximately \$1.83 million of flood damage occurred to Town properties and infrastructure (this estimate is from the approved project worksheets from FEMA).

As of July 2008, the Town had received \$1.264 million in reimbursements and project advances from the State Office of Emergency Services (OES), the Federal Emergency Management Agency (FEMA), and the National Flood Insurance Program. The Town is still owed ~~\$566,000~~ 116,000 or about ~~5.23%~~ 34% of the total damage.

Not accounted for in the actual dollar "cost" to the Town are the numerous staff hours spent by all departments on Town FEMA projects and working with the State and Federal government for reimbursement. ~~In January of 2008 the Town Council approved the hire of a temporary Management Analyst position to work directly with OES and FEMA to expedite the money owed. Since January of 2008 the Town has received an additional \$300,000 in reimbursements from OES and FEMA.~~

ADA Repairs

At this time, the Town has received a denial from FEMA and OES for including Americans with Disabilities Act (ADA) upgrades to Town buildings as part of the flood restoration. The invoices for the building repairs will separate out the ADA upgrades and we will be in a position to determine the extent of the upgrades and the costs involved. ~~The Town received a second denial from FEMA on the appeal very real chance that the Town does not receive full funding will be a which has strained on~~ the Town's general fund in order to compensate for the lost revenue.

Flood Claims

As a result of the flood disaster, class action flood lawsuits were filed, naming the Town of Fairfax as one of several government agency defendants who were, according to the claims, allegedly negligent in flood control and thus responsible for the financial impact of the flood disaster. The total of the flood lawsuits is approximately \$800 million. The Town is a member of the Bay Cities Joint Powers Insurance Authority, which has several layers of coverage. A specialist attorney is representing the Town and other entities in this legal battle. The Town's self-insured retention (deductible) through Bay Cities is \$50,000. At this time, the flood lawsuits are pending and their potential outcome and financial impact on the Town is not known. Aside from the class action suit, the Town has other claims that were filed as a result of the disaster and those are also in process with the Bay Cities claims adjusters.

Like the FEMA projects, not accounted for in the dollar cost is the amount of staff time spent handling issues related to the flood claims.

Flood Zone 9 Proposed property tax

Ever since the flood, the Town has been actively involved in the Ross Valley Watershed and Flood Protection Program. One outcome of the program was Fairfax rejoining Flood Zone 9. In order to provide investment funding for the many projects that are needed to bring the Ross Valley to an optimal level of creek restoration and flood protection, a mail ballot was administered in the Summer of 2007, to assess property owners a storm drainage user fee. The fee passed, but is being challenged in court, with the outcome pending. The tax is capped at \$180 per single family residence with a 3% inflator over a 20-year period.

While the effort is certainly needed to protect our community, it is important to point out that one more taxing entity in Fairfax results in an increasing competition for scarce property tax dollars, yet is a reflection of the willingness of the people to fund community priorities.

Meeting Rising Community Expectations

Since the 12/31/05 flood disaster, there has been increasing public pressure and expectations on the Town to provide more disaster preparedness services. The Town Council has responded by taking the actions that it could, based on available resources. Some of the extra projects absorbed in the past year, with no additional Town staff, include:

- Staffing, support, and publicity for a new Citizens' Disaster Council
- Staff participation in the Ross Valley Watershed and Flood Control program and in Flood Zone 9
- Installation of a two siren warning systems and a creek water level gauge
- Wider distribution of emergency preparedness materials
- Emergency Operations Center upgrades
- More staff time (mandatory annual training for key staff) in participating in regional disaster preparedness efforts and training
- Assisting residents with Emergency Watershed Projects

Being a small Town with the desire to respond to changing community needs, the Town will always have to deal with new challenges such as those brought about by the flood. The Town's fiscal situation makes responding to these changing needs even more difficult, as the community expects all other services to continue to be provided, while adding new services, without adding to the total cost of service provision. What this adds up to is "doing more with less" for the Town staff.

The Reality of being a Service Agency – Personnel Costs

Like most municipal agencies, the Town is in the business of providing “service.” We exist to serve the public and to help solve community problems. The people who provide this service are our employees, and this results in personnel costs being the largest expenditure in our budget (approximately 83% of the general fund budget in any given year).

The Town currently has budgeted 289 full-time employee positions. In comparison to other small Marin municipalities, Fairfax has the one of the lowest employee/population ratios in the County when compared to the other smaller cities in Marin. Some of the other cities offer a different array of services, such as their own library or separate fire department but nonetheless, the numbers below are still educational.

Municipality	FTEs*	Population	FTE/Capita	Library	Fire	Police
Belvedere	20	1,000	50.00	X	TFPD	X
Sausalito	77.17	7,300	94.60	X	SMFPD	X
Mill Valley	140.89	13,600	96.53	X	X	X
Ross	20	2,300	115.00	None	X	X
Larkspur	96	12,000	125.00	X	X	Twin Cities
Corte Madera	54.28	9,400	173.16	MCFL	X	Twin Cities
Tiburon	44.75	8,600	192.18	X	SMFPD/TFPD	X
San Anselmo	50.5	12,400	245.54	X	RVFD	X
Fairfax	28.759.75	7,400	257.3948.74	MCFL	RVFD	X

*FTE: Full-time equivalent employees. RVFD: Ross Valley Fire Department JPA. SMFPD: Southern Marin Fire Protection District. TFPD: Tiburon Fire Protection District.

FTE/Capita – Represents the ratio of number of residents per each staff member.

The Town has taken steps to provide competitive salaries and benefits in order to attract and retain the quality of employees so essential to service delivery with such a small staff. For most of the organization, salaries and benefits are established as a result of collective bargaining. The Town, while continuing to be the lowest paying city agency in Marin County for all positions, still recognizes that providing fair compensation for work performed is essential in order to attract and retain quality staff. The high cost of living in Marin County and the Bay Area makes our task of staff recruitment and retention that much more difficult.

In order to work toward a sustainable budget, while saving money in order to still provide for fair compensation and benefits for our existing employees, one Administrative Assistant and one Police Officer position has been frozen since September 2006, with the workload being absorbed by current employees.

The Town staffing numbers have declined over the past five years:

Fiscal Year 01-02	31.5
02-03	31.5
03-04	31.5
04-05	30.75
05-06	30.75
06-07	29.75
07-08	30.75
08-09	30.75
09-10	28.75

Thus, the rising costs ~~of benefits in labor~~ and decreasing revenue from both property and sales taxes over the last two years and projected for at least another year required ~~deleting two more positions and cutting benefits for current and future employees.~~ ~~were not due to adding more personnel but to benefit costs increases, primarily due to the increases in the amount the Town must pay to fund employee retirement benefits.~~ For many years, the California Public Employees Retirement System (CalPERS) earned substantial returns on its investment portfolio and, as a result, the Town was able to afford the annual contributions needed to fund the retirement benefit levels negotiated. In recent years, the Town's CalPERS contribution has risen substantially with lower stock market performance, and leveled off in the past year with the institution of mandated risk pooling by CalPERS. In addition, health care costs continue to rise every year at a pace of about 10% per year. A health benefits committee has been formed and will have recommendations to present to the Finance Committee (which will be considered by the Town Council as part of new labor agreements) in June of 2010 on ways to maintain health care for current and future employees but also controlling costs. This may result in changes to the current Cal PERS health care plan.

The Town recognizes that personnel costs will always be its largest expenditure ~~category, and~~ category and the Town Council must strike an appropriate balance between providing fair wages and benefits and living within a sustainable budget.

Strengths, Weaknesses, Opportunities and Threats

As part of the Town Council's strategic planning process started in January 2006, the Town Council in a brainstorming session, identified all of the relevant strengths, weaknesses, opportunities, and threats (SWOT) to the organization. The resulting SWOT analysis with respect to financial issues is presented here to indicate that the Council took these factors into its planning in considering the "big picture," and did not embark upon strategic financial planning in a vacuum.

Strengths:

- Finances should be the major emphasis of any plan developed
- Process should involve Measure "F" oversight committee
- Town is fiscally responsible
- Want to sustain the same level of service
- Use of volunteer resources
- Town accountability
- Town fiduciary responsibility
- Town has some fiscal constraints, but is not a failed community
- Measure F in place as vision to keep police and small town character
- Rebuild town in the event of a disaster
- Market forces will determine future if we don't plan
- Measure F passage with respect to maintaining public safety services

Weaknesses:

- Need mission statement, statement of purpose – [Adopted Vision, Mission and Core Values Statement in August 2009](#)
- Economic solvency
- Financial impact of recent flooding
- Town does not have adequate tax base
- Tax dollars run small towns
- Want to sustain the same level of service
- Impression Town does not provide good services
- Develop and retain staff
- Education of public / difficult to make informed decisions on issues because we are all overwhelmed with keeping up with information

Opportunities:

- Sustainable economy
- Set long term financial goals
- Possible joint efforts with San Anselmo
- Police cost per citizen, consolidation and cost savings
- Five Year plan
- Where does Council want to be in 20 years
- Develop a plan to avoid going back to the voters for another tax in five years

- New economics are needed for sustainable town
- What services does Council want to provide
- Evaluate existing service for strengths and weaknesses
- Fairfax has strong enough tax base to sustain it
- Town could generate income by providing (extra) services such as internet as other towns
- Goals summary: fiscal responsibility, sustainability of services provided and operating at a funded level
- How to grow community in a sustainable way
- Continue to provide service so efficiently
- Assess commercial district and how it is being cared for
- Look at cost of services provided
- Public opportunities for money – broadband: look at Burlington, Vt., SF, Philadelphia
- Some don't want town to change

Threats:

- State keeps taking money
- Town didn't get full money from FEMA for previous storms
- Rebuild town in the event of a disaster
- Some don't want town to change
- Market forces will determine future if we don't plan
- PERS employee pension costs-Created second tier for new hires and require some employees to pay a portion of the employee share of PERS
- State tax revenue loss
- Staff benefits costs
- Mixed merchant performance on tax based goods
- Natural disasters – fire, flood, earthquake, etc.

Note: Some items are in more than one category based on varying viewpoints.

Economic Development Advisory Committee (EDAC) Recommendations

In October 2006, the Town Council formed Fairfax's first Economic Development Advisory Committee (EDAC), recognizing that input from the Town's business community was essential to formulating a plan for the future. The EDAC is made up of five local businesspeople, a representative of the Fairfax Chamber of Commerce, plus the Town Council, and meetings have been held in conjunction with the Town Council's strategic planning meetings since November 2006.

The charge of the Committee was set out in Resolution No. 2461 as follows:

- a. Review and identify economic development activities which would assist in the fiscal stability of the Town, while not compromising our Town's unique culture and sense of community.
- b. Identify constraints and incentives to economic development, provide direction and outreach on business recruitment and retention, and educate the community on the importance of economic development appropriate to Fairfax.
- c. Serve as a focal point for the community and Town government on economic development projects and issues, and work cooperatively with the Planning Commission and community groups on economic issues of mutual interest.
- d. Bring together resources to achieve the vision of a diverse, sustainable community with a vibrant commercial core, a variety of retail and business opportunities that fulfill resident needs, and a strong economic base to sustain Town services.
- e. Formulate and recommend policies and strategies for consideration by the Town in support of the goals stated herein.

EDAC recommendations were formally presented to Council on 3/24/07; the Town's responses are included as Exhibit B.

Five-Year Expenditure and Revenue Projection

Any projection of a future financial scenario must take into consideration past experience with revenues and expenditures. The following chart shows the Town's revenue and expenditure history since 2000.

Fiscal Year	General Fund Revenue	Change from Previous Year	General Fund Expenditures	Change from Previous Year	Comments	Retirement Fund expenditures (as part of General Fund expenditures)
FY 07-08	6,510,478	-.07%	6,291,464	1.6%	Actual	1,033,362
FY06-07	6,555,546	-1%	6,193,528	-4%	Estimated actual	\$965,544
FY05-06	6,612,373	21%	6,435,972	18%	Actual (flood year – unplanned expenditures of \$948,000); plus first year of Measure "F"; some flood insurance revenue included in General Fund.	879,521
*** Measure "F" approved June 2005 ***						
FY04-05	5,451,874	11%	5,438,901	10%	Actual	842,566
FY03-04	4,902,197	11%	4,954,679	5%	Actual	538,785
FY02-03	4,422,665	4%	4,703,101	0%	Actual	395,824
FY01-02	4,254,039	-5%	4,704,117	16%	Actual	389,021
FY00-01	4,466,869		4,039,086		Actual	386,262

As is shown above, it is difficult to draw a revenue and expenditure trend; however, one can make some statements about the Town's revenue and expenditure history.

Revenue history:

- ~~Since~~ In Fiscal Years 2002-03, general fund revenue has experienced growth, with two years, 03-04 and 04-05 at an 11% growth rate. However, in Fiscal Years 2008-10 general fund revenue has experienced a negative growth rate due to declining property and sales tax revenues and state raids of property tax revenues. Planned revenue growth for 05-06 was budgeted at 7.2%; by removing the flood-related reimbursements, the actual general fund revenue growth was 9.6%, higher than planned
- Fiscal Year 2005-06 was an unusual year due to the flood. Many capital improvement projects planned for the second half of 2005-06 were set aside, and the general fund had to pick up more expenditures than planned. The Town

spent approximately \$948,000 in unplanned flood-related clean-up and repairs. To date the Town has expended approximately \$ 621,000 of general fund revenues that will NOT be reimbursed by FEMA for the flood related clean-up and projects from the fateful December 31, 2005 event.

Expenditure history:

- Starting in FY02-03, expenditures grew less than revenues (discounting the flood year of 05-06).

As we look at a projection for the next five years, the following assumptions are made:

- Staff will plan for, and Council will expect, that in accordance with sustainable budgeting principles, expenditures will grow slower than revenues. A 42% expenditure growth assumption is used.
- A conservative revenue growth rate assumption of 53% will be used. (For reference, the Fiscal Year 2007-08 budget used a 5.5% growth assumption for property tax based revenue).

Five Year Projection:

Fiscal Year	General Fund Revenue	Change from Previous Year	General Fund Expenditures	Change from Previous Year	Net Surplus/ Deficit	Comments
FY11-12	6,928,373	-2%	7,537,792	4%	(609,418)	
FY10-11	7,041,308	-2%	7,247,877	4%	(206,569)	First year after Measure F sunset
FY09-10	7,148,865	5%	6,969,112	4%	179,752	
FY08-09	6,808,443	5%	6,701,069	4%	107,373	First year of projections
FY07-08	6,484,231*		6,443,336*		40,895	

*FY07-08 excludes \$362,018 carryover (not new revenue) and \$114,000 for energy efficiency retrofit (from UUT tax).

It is acknowledged that the above is a straight-line projection method, and does not take into account any of the following:

- Funding needed to supplement the Town's flood repair projects where FEMA does not allocate enough money.
- Future disasters that may befall the Town.
- Placing any of the "net surplus" into reserves.

- Any potential unpredictable spikes in employee retirement contributions or health insurance.
- Additional general funds may be needed to be used as matching funds for grants.

The core of this Strategic Financial Plan is “how to address projected shortfall” that is foreseen once Measure F tax revenue sunsets in Fiscal Year 10-11. For the purpose of presenting budget scenarios, the above five-year projection model will be used.

Why a Sustainable Budget Strategy

For the budget to be sustainable, it must provide a “balance” of revenue and expenditures, while simultaneously maintaining an appropriate level of reserves. The sustainable budget strategy must take steps to reduce costs and generate more revenue. The strategy presented in this Plan calls for a combination of revenue and expenditure policies and actions.

No one Solution

What should be made clear to the Council and community is that there is no one “magic solution” to solve the Town’s budgetary problems. A successful strategy must entail a realistic view of the challenges and recommend reasonable plans to overcome them. At this point in the Town’s financial history, the “easy choices” have already been made, and thus bringing about a sustainable budget involves facing difficult choices.

Principles to Guide a Sustainable Budget Strategy

In order to guide future budget choices, the following pages recommend revenue and expenditure policies that would enable the Town to move forward systematically, in a way that reflects Council direction.

In addition, it is important as we move forward that the Council set forth guiding principles for future budgets. The following principles are recommended:

- a. The Council desires to maintain the existing complement of services provided to the residents.
- b. No new services will be promised to the community without an identifiable and sustainable source of funding.
- c. The Town will continue an aggressive approach to seeking grant monies, also understanding that grants management takes staff time and resources away from other basic service provisions.
- d. Administrative and operational efficiencies should be maximized before pursuing new or continued tax revenue.
- e. ~~The Pension Override Tax needs to be self-supporting. -This will require further reductions in retirement benefits to all current and future employees.~~
- d.f. ~~The cost of health care benefits for employees will be examined and recommendations will be made by a health benefits committee, comprised of key staff members to determine the best way to move forward with containing the sharp increase in health care costs.~~
- e.g. Town policies that may be inhibiting economic development, including new retail development, should be reviewed regularly and modified as needed while still allowing a reflection of Fairfax’s culture and community values.

- | f.h. Community-wide tax resources should be allocated first to support community-wide services (i.e. Measure F supporting public safety, a community-wide benefit).
- | g.i. Special services benefiting the individual should be paid for by user fees and charges (i.e. facility rental fees, building plan checks).

Revenue Challenges

The majority of revenue sources for the Town are set by forces outside of the control of the Town. For instance, property tax receipts are driven by the real estate market and economy. Sales tax receipts are a result of local business activity, which the Town can encourage and affect to a limited extent.

Specific Revenue Challenges currently faced by the Town

Retail turnover: In 2006, one of the Town's top five sales tax generating businesses, Albertson's grocery, closed and has not yet been replaced. In addition, that same year, Bank Pharmacy closed. This lost sales tax revenue has not been replaced (approximately \$20-25,000). The Town has been fortunate to have other sales tax generating businesses that have been performing well and have made up the revenue loss.

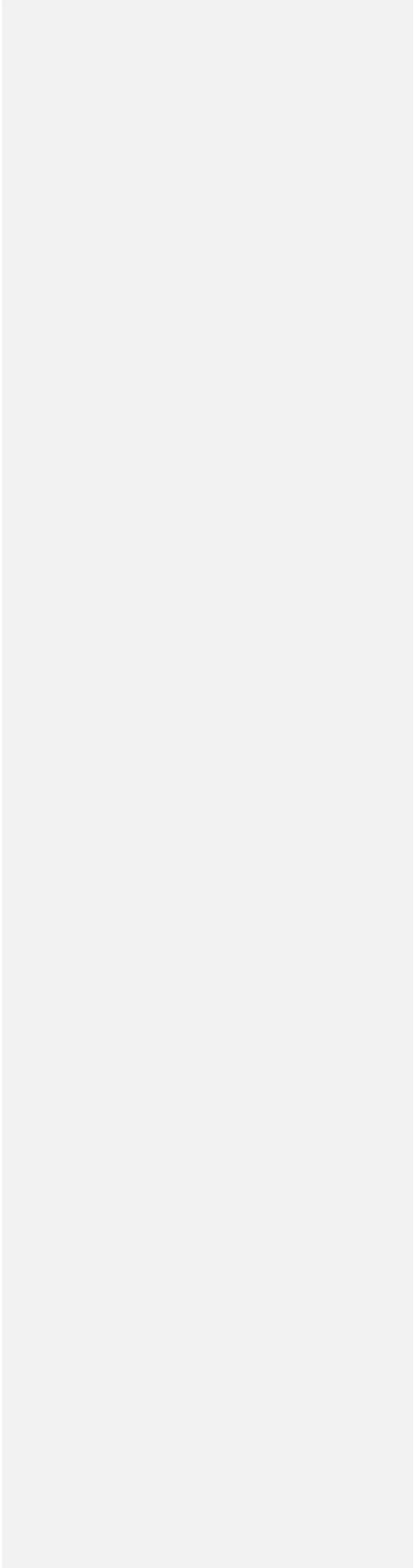
Marin Town and Country Club: The Marin Town and Country Club has been described by some as an "underperforming asset" of the Town. The Town Council has been engaged in the process of discussing future development scenarios with the owner of the Club. It appears that any development, based on the history of the property and the zoning, could take a few to several years to occur. Development has the potential of increasing the property tax, sales tax, utility users tax and transient occupancy tax to the Town. Given the probability for controversy surrounding any development proposal, a facilitated community engagement process is encouraged as one recommendation for approaching this project.

Property tax: With the current slow down in real estate sales, the ~~cost of homes are~~cost of homes is remaining high but there is less turnover. Staff continues to monitor information regarding the local real estate market.

Utility Users' Tax: The Town's Utility Users' Tax (UUT) has been steadily decreasing – although with an increase for 06-07 - one reason presumably as a result of more residents utilizing cellular phones or internet based phone service, at a lower rate than traditional phone service. The Town can no longer rely on UUT as a stable revenue source and this exists as a threat to our general fund.

Excess Educational Revenue Augmentation Fund (ERAF): The "Excess ERAF" refund to the County is the result of the local tax base increasing at a rate faster than the increase in the State funding limits for schools and community colleges. The "excess" is proportional to each city's contribution as set forth by state statute. The excess ERAF only applies to two counties in the state: Marin and San Mateo, due to their significant property tax wealth. We are grateful that Senator Migden successfully carried SB 418 in 2007, which provided \$187,000 in one-time ERAF revenue to the Town. Legislation is occasionally proposed to eliminate Excess ERAF but the two counties successfully fight it, arguing that since it is locally-produced money, it should be returned to the

localities where it came from. However, this is a threat that the Town should continue to monitor.



Recommended Revenue Policies

Town staff prepared a detailed document listing all of the Town's general fund revenue sources (See Exhibit C). This resource provides an overview of each revenue and explains whether and how the revenue can be increased. Restraints on revenue growth are readily apparent through the information provided in the Exhibit.

This section is meant to explain 10 of the Town's significant revenue sources and recommend policies and an action plan for each revenue source for the next five years.

1. Property Tax

A. Definition

The base allocation of property tax distributed by the County to the Town, which represents approximately 18% of the property tax on an average property tax bill. The amount is set by the State as a result of Proposition 13. Property tax grows with the growth in assessed valuation, which in recent years has remained at 7.5 to 8.5 percent in Marin County. Property tax represents approximately 27% of all Town General Fund revenue. Property tax growth is a function of new construction and turnover of properties that have increased in value.

Previous five-year property tax revenue (Includes property tax in lieu of Vehicle License Fee swap):

Fiscal Year 02-03	\$1,370,968
03-04	\$1,460,559
04-05	\$1,998,994
05-06	\$2,229,449
06-07 (Estimated, unaudited)	\$2,348,672
<u>07-08</u>	<u>\$2,565,415</u>

B. Town Council Policy

As the largest, most stable, and historically increasing General Fund revenue, property tax will continue to be relied upon to fund the provision of core services provided by the Town. As a service-oriented organization, this means that most property tax revenue will fund personnel costs since our services are provided by our personnel.

C. Five-Year Action Plan

The Town recognizes that as one small entity, we have limited influence on affecting changes to the base property tax. During the next five years, as the opportunity arises, the Town will support efforts by the League of California Cities and other governmental-related organizations with respect to advocating that the property tax allocation percentage to Fairfax

be maintained or increased. For budgeting purposes, growth assumptions for property tax will remain conservative, in conformance with past practice.

2. Pension Override Tax

A. Definition

Applied as .0910% of assessed valuation on all properties in Town. Is a pre-Prop. 13 tax assessment.

Previous five-year pension override tax revenue:

Fiscal Year 02-03	\$443,322
03-04	\$538,785
04-05	\$815,375
05-06	\$885,670
06-07 (Estimated, unaudited)	\$959,024
<u>07-08</u>	<u>\$918,839</u>

See also attached Exhibit D – Retirement Fund Expenses.

B. Town Council Policy

The pension override tax is restricted by law to be used to fund the employees' pension program for police, general employees, and as a contribution towards the Ross Valley Fire employees' retirement costs. As such, the funds are restricted and cannot be used for other purposes.

C. Five-Year Action Plan

The Town recognizes that we are one of two cities in Marin with a pension override tax, and we do not wish to increase the tax. The Town will take steps in the next five years to decrease our reliance on the pension override tax through pursuing the adoption of a two-tiered retirement system for both Safety (police) and Miscellaneous (general) employees.

3. Utility Users Tax (UUT)

A. Definition

~~A-4A~~ 4% tax on utilities, including gas, electricity and telephone. A General Fund revenue that has been in place since 1986. Any increase would have to be taken to the voters for approval. Recent case law in the area of utility users tax as applied to cellular phone bills has called this application into question.

Previous Five-Year UUT Revenue:

Fiscal Year 02-03	\$384,363
03-04	\$342,368
04-05	\$330,540
05-06	\$344,527
06-07 (Estimated, unaudited)	\$386,366
07-08	\$419,244

B. Town Council Policy

The Town is not interested in proposing an increase to the UUT and desires to maintain the UUT at its current rate. The UUT has been decreasing, and the Town will not rely on it as a stable revenue source.

C. Five-Year Action Plan

Town recognizes that with changing energy delivery systems and changing telecommunications developments, the UUT as a revenue source is not stable over the past five years. Over the next five years, The Town will monitor legislative developments with respect to challenges to UUT.

4. Sales Tax

A. Definition

The Town receives one cent on every purchase of a taxable item within Town limits. The allocation formula is set by State statute. Sales tax can be increased through an election, in increments of .25 cents not to exceed a maximum of two cents. Sales tax represents approximately 7% of the Town's general fund budget.

Previous Five-Year Sales Tax Revenue:

Fiscal Year 02-03	\$344,117
03-04	\$351,445
04-05	\$306,750
05-06	\$308,479
06-07 (Estimated, unaudited)	\$321,772
07-08	\$312,361

B. Town Council Policy

The Town Council has maintained the current sales tax rate, and has not considered raising the sales tax rate, as was recently done in San Rafael.

C. Five-year Action Plan

Since 2003-04, sales tax revenue has been decreasing and the Town has not been able to rely upon this as a stable and growing revenue source. The Town will work with the Chamber of Commerce in implementing, to the extent practical and within current staffing resources, programs to encourage shopping locally to support our businesses. The Town will also encourage the location of new viable businesses in Town.

5. Special Municipal Tax Measure “F”

A. Definition

Enacted by the voters in 2005, a \$125 tax on each dwelling unit and business occupancy in Town.

Previous Five-Year Special Municipal Tax Revenue:

Fiscal Year 02-03	N/A
03-04	N/A
04-05	N/A
05-06	\$466,500
06-07 (Estimated, unaudited)	\$465,000
<u>07-08</u>	<u>\$445,019</u>
<u>08-09</u>	<u>\$459,751</u>
<u>09-10</u>	<u>\$465,000</u>
<u>10-11</u>	<u>\$465,000</u>
<u>11-12</u>	<u>\$465,000</u>
<u>12-13</u>	<u>\$465,000</u>
<u>13-14</u>	<u>\$465,000</u>
<u>14-15</u>	<u>\$465,000</u>

B. Town Council Policy

As specified in Ordinance No. 711, to be used "exclusively to maintain 24-hour 7 days per week staffing of the Fairfax Police Station and Fire House, to maintain Fairfax's 911 Emergency Dispatch, to perform Public Works Safety improvements, and to restore funding for Youth Services."

C. Five-year Action Plan

The Measure F Special Municipal Services tax will sunset ~~on~~ June 30, 2010. The successful renewal of Measure F – now known as Measure I begins July 1, 2010 and sunsets on June 30, 2015. One of the purposes of this financial plan is to consider alternatives to renewing this tax. Since this is a relatively new tax, the Town may engage the services of a financial consultant to audit the per unit tax receipts to ensure that all monies owed are being remitted.

6. Excess ERAF

A. Definition

ERAF is a mechanism enacted in 1992 by the State, to shift local tax revenues from cities, counties, and special districts to a state ERAF fund. The State uses this fund to help school and community college districts meet minimum funding requirements. The "Excess ERAF" refund to the County is the result of the local tax base increasing at a rate faster than the increase in the State funding limits for schools and community colleges. The "excess" is proportional to each city's contribution as set forth by state statute.

Previous Five-Year Excess ERAF Revenue:

Fiscal Year 02-03	\$150,364
03-04	\$166,719
04-05	\$331,122
05-06	\$420,659
06-07 (Estimated, unaudited)	\$341,940
07-08	\$546,961

B. Town Council Policy

The Town will continue to use Excess ERAF as a fund to supplement the General Fund.

C. Five-year Action Plan

The Town will support legislative efforts to maintain Excess ERAF as a revenue source. In 2007, Senator Carole Migden introduced SB 418, which has been adopted. SB 418 further secures Excess ERAF to the Marin County cities, and allows the release of ERAF reserves from the County to the cities.

7. General Municipal Services Tax \$50

A. Definition

A general property tax of \$50 on each residential unit and business unit in Town, enacted in 1983. The tax does not sunset.

Previous Five-Year Revenue:

Fiscal Year 02-03	\$186,350
03-04	\$186,150
04-05	\$186,100
05-06	\$183,158
06-07 (Estimated, unaudited)	\$186,450
07-08	\$177,912

B. Town Council Policy

The general tax will continue to supplement the General Fund.

C. Five-year Action Plan

Unless there is Council direction to the contrary, the Town will not seek an adjustment to this tax. The Town may engage the services of a financial consultant to audit the per unit tax receipts to ensure that all monies owed are being remitted.

8. Franchise Fees

A. Definition

Franchise fees are paid to the Town for the exclusive right to operate a utility or service in the Town, and are collected in lieu of “rent” for the use of the public rights-of-way to provide services. The Town currently collects franchise fees on garbage service, cable, gas and electric services, typically set as a percentage of the service’s revenue.

Previous Five-Year Franchise Fee Revenue:

Fiscal Year 02-03	\$241,855
03-04	\$223,933
04-05	\$260,437
05-06	\$246,029
06-07 (Estimated, unaudited)	\$300,703
07-08	\$290,609

B. Town Council Policy

The Town expects franchise fees to the Town of Fairfax from the service providers to be equitable with respect to the amounts paid by the franchisees to other cities within Marin.

C. Five-year Action Plan

As opportunities arise in contract negotiations with its franchisees, the Town will seek to increase its franchise fee revenue.

9. Building and Planning Fees

A. Definition

These fees are set in order to recoup the Town’s cost for providing this service to the property owners who request these services. Fee revenue history shows steady increases with a steady sharp downturn in the last four fiscal years06-07-.

Previous Five-Year Building and Planning Fee Revenue:

Fiscal Year 02-03	\$295,964
03-04	\$266,906
04-05	\$328,171
05-06	\$463,009
06-07 (Estimated, unaudited)	\$270,184
07-08	\$247,318

B. Town Council Policy

As is required by law, all Planning and Building fees are collected and allocated in support of the Planning and Building Department and activities related to the department. Fees cannot exceed the cost to provide the service.

C. Five-year Action Plan

The Town will seek full cost recovery on all Planning and Building Fees, as is allowed by law, and as such, will review Planning and Building Fees on an annual basis.

10. Business License Fees

A. Definition

Business License fees are a tax on each business entity operating in the Town, and were most recently set by Resolution No. 2352 (2004). The fee varies based on business type, number of employees, and certain types of businesses are subject to a gross receipts fee and/or a valuation fee.

Previous Five-Year Revenue:

Fiscal Year 02-03	\$107,772
03-04	\$98,593
04-05	\$113,490
05-06	\$139,791
06-07 (Estimated, unaudited)	\$118,213
07-08	\$117,504

B. Town Council Policy

The Town wishes to encourage new and existing businesses since they contribute to the economic vitality of the Town, and thus, does not wish to overburden businesses with taxes. However, staff is to periodically assess Fairfax's fees in comparison to neighboring jurisdictions and make any recommendations for adjustment to the Town Council as appropriate. Staff will be making recommendations to the Town Council regarding outsourcing the business license program. A private firm specializing in business license revenue recovery will generate more revenue for the Town and allow for the private firm to be paid from a portion of new revenue generated.

C. Five-year Action Plan

Staff will monitor the Town's business license fees and seek greater collection compliance. Within the next five years, it is recommended that a business license tax audit be conducted in order to ensure that all

businesses are being accounted for, in order to enhance fairness of application of the business license tax and also to increase Town revenue.

Expenditure Challenges

The expenditure challenges of the Town can be summarized as follows:

- Fairfax has a small staff providing a modest level of basic services. There is no “fat” in the budget ~~nor~~ extra “frills” to eliminate.
- Staffing levels have ~~remained stagnant and have~~ decreased. As was explained under Section 5, the Town has reduced staff over the past five years. There is not much room for further decrease without negatively impacting Town services and/or staff morale; however, that does not rule out the possibility of considering limited contracting out for some limited Town services as staff turnover occurs.
- Demands of the community continually outpace resources to fund them. The Town must keep expenditures in check with the level of services that are sustainable.
- Public safety expenditures (Police and Fire) represent more than 63% of the total general fund budget. About ~~48~~25% of the general fund budget is allocated to Ross Valley Fire.
- Personnel costs account for approximately ~~80%77 to 83%~~ of the general fund budget.
- The Town will always have competing expenditure priorities and pressure to meet expanding and changing community needs with limited resources.
- If OES and FEMA do not fully meet their obligations to the Town, the Town may have to look to the general fund to pick up extra disaster-project expenditures.
- As Measure K funding is expended over the next three years, there will be pressure to seek new revenue sources for infrastructure improvements, some of which may require matching funds from the general fund. In addition, should the Town wish to assist financially with non-Town maintained road improvements, this could be another impact to general fund expenditures.
- As a requirement of Governmental Accounting Standards Board Statement No. 45 (GASB 45), retiree health expenditures ~~are now will need to be~~ reported on the Town’s financial statements. ~~The Town now budgets for retiree health expenditures on a pay-as-you-go basis.~~ With the new reporting requirement, the Town will need to consider future budgeting scenarios for retiree health and how to fund the liability. ~~A GASB 45 study is now underway.~~

Recommended Expenditure Policies – Strategies for Cost Control

Budgeting Strategy

Unless there are reasons for unforeseen circumstances, the Town should typically budget projected expenditures less than projected revenues. In the Five-Year Expenditure and Revenue Projection, it is projected that expenditures will be kept at one percent below revenues.

Reserves Policy

The general fund reserves are those monies which exist as a balance in our general fund, called the Dry Period Fund. There has not in the past been a consistent policy with respect to Town reserves, and there is a desire on the Council to adopt a reserves policy. Since the Town does not have a significant reserve level, each year, the Town borrows a Tax and Revenue Anticipation Note (TRAN) which assists the Town in meeting its cash flow needs throughout the year, since the majority of property tax revenue is allocated by the County twice a year.

A recommended Dry Period Fund (reserves) policy could include the following:

- Any budgeted and unspent general fund monies remaining at the end of the fiscal year, unless restricted or carried over for uncompleted projects, shall be added to the Town's reserves.
- Use of Town's reserves shall only be under extraordinary circumstances, and this requires a majority Council vote.
- No more than 20% of the annual general fund projected revenues shall be placed in the Dry Period Fund (reserves). For example, if the Council placed the maximum amount in the Dry Period Fund today that figure would be \$1.4 million. The Town currently has ~~\$551,4654 million~~ in the Dry Period Fund. Another \$215,426 will be added to the Dry Period Fund once the securitized loan of Prop 1A funds (Town property tax revenue the State borrowed) are paid in May 2010 which will give the Dry Period a balance of \$766,891.

The Town has two accounts that may be considered the "General Fund reserves." One is the balance contained in the "Dry Period Fund," and the other is the year-end balance of the General Fund. The following data was taken from adopted Town budgets, and the format of Fiscal Year 01-02 and 02-03 budgets did not report fund balances.

Previous five-year "reserves":

	Dry Period Fund	General Fund balance	Contingency Account**
Fiscal Year 01-02	Unknown*	\$40,000	\$16,846
02-03	Unknown*	Unknown*	\$1,000

03-04	\$930,454	\$235,409	\$20,000
04-05	\$858,053	\$327,071	\$0
05-06	\$858,053	\$505,765	\$0
06-07	\$858,053	\$867,784	\$0
07-08	\$858,053	\$365,261	\$0

*These amounts would be included in the audited financial statements; however, due to the inaccessibility of Town records at the present time, the audits are not available.

**It appears the "Contingency Account" was discontinued in FY04-05.

Retirement and Benefit Strategies

During the negotiations with each of the employee groups in 2006, the issue of jointly exploring cost saving alternatives in the areas of retirement and health benefits was discussed. In each of the memoranda of understanding (MOU) adopted by Council, there are re-opener provisions regarding the implementation of a two-tiered retirement system for employees covered by the CalPERS' Safety and Miscellaneous retirement plans, for the purpose of reducing the Town's retirement costs. All new hires will be on the second tier retirement system by July 2010 as approved in all MOUs. All new hire miscellaneous staff will have the 2% at 55 formula and all new hire sworn officers already have the 3% at 55 formula. The Town has hired two sworn officers since the new tier started, saving \$40,000 per year.

In 2007, the Town requested and received the actuarial reports from CalPERS for two-tiered retirement systems for both Safety (police) and Miscellaneous (all non-police) employees. The reports identify the potential cost savings of converting to a two-tiered retirement system for Safety, currently at the 3% at 50 formula (a new tier would be for new hires at 3% at 55), and Miscellaneous, currently at the 2.5% at 55 formula (a new tier would be for new hires at 2% at 55). Discussions with Police union representatives employee groups regarding the implementation of a two-tiered retirement system are currently ongoing. Discussions with Miscellaneous representatives have not yet commenced.

The potential cost savings as identified in the actuarial reports are as follows:

- Example of a Police Officer at top step in salary range, hired at new tier: approximate savings of \$19,000 per year. Because of increasing costs the savings is now \$20,000 per year.
- Example of a mid-management non-safety employee at top step in salary range, hired at new tier: approximate savings of \$4,000 per year. Because of increasing costs the savings is now \$6,000 per year.

Employee Health Plans

Also identified in the MOUs were reopener provisions regarding alternative health care plans to CalPERS, which could be less-costly to the Town. Discussions with health care brokers are pending as are discussions with employee groups. It is not known what level of cost savings could be achieved at this time. A Health Benefits Committee has been formed and started meeting at the end of February 2010. The charge of this Committee is to come to a consensus as to the best health care plan that will reduce ever increasing costs to the Town. The Committee is comprised of one member from the SEIU, one from the POA and one from the Management Unit. The Finance Director also participates.

Retiree Health

The Governmental Accounting Standards Board Statement No. 45 (GASB 45) requires that retiree health liabilities be reported on the Town's financial statements starting with the Fiscal Year that begins July 1, 2009. In order that the Town ~~gain~~gains an understanding of our liability for retiree health benefits, the Town has contracted for a GASB 45 actuarial study in Fiscal Year 2007-08. This study has been completed and the Town shows this liability in its financial statements and in the budget.

Consolidation/Cost-sharing efforts: Fire

In 06-07, Ross Valley Fire engaged in consolidation discussions with four other local fire agencies for the purpose of determining the financial feasibility of consolidating into a larger regional agency, whether a Joint Powers Agreement (JPA) or a Fire District. The findings of the study indicated that given the criteria set out in the consultant study, using a three-person engine company (as opposed to Ross Valley Fire's two-person model), ~~such and such~~ a consolidation would not save money. However, this does not rule out the possibility of an expansion of the existing JPA to include other Ross Valley communities. Potential savings from a JPA expansion has not been analyzed. Since the Town is responsible for 30.4% of the Ross Valley Fire budget each year, which represents approximately ~~25.48~~25.48% of the Town's general fund expenditures, an expanded cost-sharing arrangement could have a positive impact on the Town's contribution.

Consolidation/Cost-sharing Efforts: Police

In January 2007, the Town Councils of Fairfax and San Anselmo received a report of the Commission on Peace Officer Standards and Training (POST) on the feasibility of consolidating police services, all or in part, between the two towns. One of the recommendations of the report was for an independently facilitated consolidation workshop to be held for key decision-makers with the goals of identifying the issues that need to be resolved to make informed decisions about consolidation, and identifying the necessary steps that must be taken to successfully accomplish planning and implementation of consolidation. The two Towns held a joint meeting in June 2007 and agreed on parameters.

The POST study was an initial study to consider the opportunities available for consolidation. POST is not a financial consultant and there were many questions that arose regarding the potential cost savings identified in the report, which included a potential \$250,000 savings for the Town of Fairfax but that was based on per resident cost (and the POST report did not carry the correct population numbers for Fairfax). Going forward, any serious look at consolidation will need to identify the mutual goals of each Town in this process, and then perform a more rigorous financial analysis to inform decision-making. It is recommended that cooperative, cost-sharing efforts of the two departments be considered at least at a level that the two Town Councils and community could support. Potential savings from cooperation/consolidation cannot be projected at this time.

The issue is being studied by a Joint Shared Services Subcommittee of Fairfax and San Anselmo. The current status as of November 2007 is that the Subcommittee has directed staff to prepare a request for proposals to secure a consultant to study the cost savings of a consolidated dispatch operation.

A consultant was secured and a report issued. The report recommended the consolidation location be in Fairfax. The two towns were not able to reach agreement on this consolidated location and the Shared Services Subcommittee is inactive at this time.

Consolidation/Cost-sharing Efforts: Other Departments - Collaborations with other Ross Valley Communities

As part of the conversation that the Town Council is engaged in with the Town of San Anselmo, the exploration of consolidation and/or cost-sharing efforts to increase efficiencies in other Town departments should also be included. As the talks move forward, any potential areas can be identified by the applicable staff, and the Town will explore those areas where appropriate for any efficiencies and cost-savings.

As the communities in the Ross Valley are small, each with limited staff and their own budget issues, it is recommended that the Town reach out as opportunities arise to enter into cooperative arrangements with other Ross Valley communities, including but not limited to San Anselmo. Considering such cost saving collaborations will require out-of-the-box thinking on the part of all parties involved, and any plans to collaborate in this manner should involve increased efficiencies and realizing economies of scale. Potential savings from possible collaborative efforts cannot be projected at this time.

In 2007, the Town considered any possibility for merging or sharing Public Works management with San Anselmo Public Works management. This consideration concluded that since both Towns are so leanly staffed in Public Works ~~management,management~~ and since Fairfax's Public Works Director is a very hands-on position that handles many customer service requests, a consolidation or sharing of positions is not feasible without a serious detriment to the Public Works Department.

Consider Alternative Organizational Staffing Models/Contracting out as Turnover Occurs

As has been stated, the Town operates with a small staff and cutting staff would put essential and basic services at risk. The Town Council has adopted a de facto no lay-off policy. As staff turnover occurs in the course of the coming years, in those areas where and if practical without sacrificing the integrity of services provided, the Town should explore any opportunities to implement new staffing models and/or contracting out of services if cost savings can be achieved. Any proposals for changes would be accomplished by working together with staff and the applicable unions if appropriate, and would be taken to Council for approval.

Augment with Volunteers Where Possible

The Town is very fortunate to have a large number of volunteers who run programs, and put on events and activities that the Town is unable to support with staffing. Unfortunately, the configuration of Town Hall, being so limited in space, is not conducive to having volunteers help with many projects. However, staff believes that there are opportunities to use volunteers to augment Town staff in certain limited and defined project areas, and staff will seek greater use of volunteers when such use can reduce the ongoing operational costs of the Town.

Risk Management

Some of the Town's liability risks are more preventable than others. In the area of risk management, employees have risks of being injured at work, which can create a liability for the Town as the employer. As a whole, the Town's recent workers' compensation history has been relatively stable. It is recommended that as we move forward, the Town continue to implement best practices in terms of safe working conditions so that we can maintain our workers' compensation premiums at a reasonable level. Improved workers' compensation experience results in lower premiums. Some effective personnel risk management techniques include updated safety training, proper safety equipment and an ergonomically correct work environment. These are small investments compared to the cost of a workers' comp injury.

Five-year Action Plan and Recommendations

Year 1 - 2007-08

- Adopt Five-Year Strategic Financial Plan, and implement revenue and expenditure policies as detailed in the Plan
- Consider and implement, where there is Council concurrence, the EDAC recommendations
- Continue to work with the Town of San Anselmo to identify mutually achievable financial and services goals that could result in consolidation/service sharing efforts.
- Work with Marin Town and Country Club owner on encouraging a viable development plan for the Club property (should continue until a plan is submitted)
- Implement any audit recommendations to enhance Town's financial reporting.
- Contract for a GASB 45 actuarial study on retiree health benefits liability

Year 2 - 2008-09

- Continue to implement budget strategies, revenue and expenditure policies of Strategic Plan
- Implement recommendations of per unit tax audit to capture all revenue due to the Town.
- Implement two-tiered retirement system. (subject to unions' approval)
- If possible, implement a less-costly health care plan as an alternative to CalPERS (subject to unions' approval)

Year 3 - 2009-10

- Continue to implement budget strategies, revenue and expenditure policies of Strategic Plan
- Consider contracting for business license tax audit and per unit tax audit
- Conduct assessment of success of strategies and policies and consider adjustments where appropriate

(Last year of Measure F funding)

Year 4 - 2009-10

- Continue to implement budget strategies, revenue and expenditure policies of Strategic Plan
- Continue to conduct assessment of success of strategies and policies and consider adjustments where appropriate

Year 5 - 2010-11

- Consider formulating plan for the next five years

Budget Scenarios for Consideration

The following [tablepage](#) contains a matrix of predicted budget scenarios, based on known probable revenue and expenditure adjustments and unknown impacts.

The predictions made are based on past experience in each of the revenue and expenditure areas, and applying best case, mid-range case and worst-case scenarios using probability estimates based on known information.

Estimates of Budget Scenarios as a Result of Policy Implementation and Actions

	<u>Policy/Action/Scenario</u>	<u>Category: Revenue (R) Expenditure (E)</u>	<u>Best case</u>	<u>Mid-range</u>	<u>Worst case</u>
A	<u>Sales Tax - Replacement, or not, of lost retail</u>	<u>R</u>	<u>+\$30,000</u>	<u>+\$15,000</u>	<u>-\$50,000</u>
B	<u>Property tax: increase, decrease or stable (includes property tax in lieu of Vehicle License Fee swap)</u>	<u>R</u>	<u>+\$177,229 (8% growth)</u>	<u>+\$155,000 (7% growth)</u>	<u>-\$132,921(0% growth)</u>
C	<u>Utility Users Tax – continued decline</u>	<u>R</u>	<u>+\$10,000</u>	<u>-\$10,000</u>	<u>-\$30,000</u>
D	<u>Excess ERAF</u>	<u>R</u>	<u>+\$50,000</u>	<u>(no change)</u>	<u>-\$100,000 (due to change in State allocation)</u>
E	<u>Franchise Fees – seek increase</u>	<u>R</u>	<u>+\$25,000</u>	<u>+\$5,000</u>	<u>-\$10,000</u>
F	<u>Building and Planning Fees – cost recovery (and growth based on past experience)</u>	<u>R</u>	<u>+\$60,000</u>	<u>+\$30,000</u>	<u>-\$55,000</u>
G	<u>Business License Fees – audit for compliance</u>	<u>R</u>	<u>+\$5,000</u>	<u>+\$2,000</u>	<u>-\$5,000</u>
H	<u>Audit of Per Unit Taxes</u>	<u>R</u>	<u>+\$7,500</u>	<u>+\$2,500</u>	<u>(no change)</u>
I	<u>Two-tier retirement system – Implement (Predictions of cost savings based on moderate level of staff turnover – more turnover = more savings)</u>	<u>E</u>	<u>-\$30,000 (Implemented for both Safety & Misc.)</u>	<u>-\$15,000 (only implemented for one bargaining group)</u>	<u>(no change)</u>
J	<u>Employee health plan – implement less costly plan</u>	<u>E</u>	<u>-\$35,000</u>	<u>-\$15,000</u>	<u>+\$35,000 (remaining with PERS health and rate increases)</u>
K	<u>Cost-sharing/collaboration</u>	<u>E</u>	<u>-\$75,000</u>	<u>-\$25,000</u>	<u>(no change)</u>

	<u>with other communities</u>				
<u>M</u>	<u>Risk Management – lowering workers comp premiums</u>	<u>E</u>	<u>-\$10,000</u>	<u>-\$5,000</u>	<u>+\$10,000</u>
	TOTALS				
	Impact to Revenue		+\$364,729	+\$199,500	-\$322,921
	Impact to Expenditures		-\$265,000	+\$95,000	+\$525,000

Conclusion

This Plan has led to the following conclusions regarding the Town's financial condition and future:

- The Town has a very small staff, the size of which has decreased over the past five years as a result of revenue limitations and rising personnel and benefit costs.
- The Town is just able to provide the basic services to our residents and the Town does not wish to reduce or compromise the integrity of those services.
- Community expectations are rising and the Town cannot afford to provide significant new services without the means to pay for them.
- Many other cities are in similar situations with respect to fiscal solvency.
- Steps can be taken – and should be adopted by the Council as policies – to stabilize our revenues and expenditures. The revenue and expenditure policies and actions specified here are basic steps the Town can take now to exert more control over our financial future.
- Many of the revenues which supplement our general fund are outside the direct control of the Town government, e.g. property tax, ERAF, Vehicle License Fees.
- The ultimate cost of flood repairs and flood claims are unknown at this time and exist as a threat to our financial stability over the next five years.
- There are inherent limitations to growing our revenue base, and this includes our geographical limitations and our choice to remain a small town.
- The Town has already taken steps, prior to implementing Measure F, to reduce expenditures. The variety of remaining choices for the Town is limited, and requires thorough analysis and planning.

Overall, the Town needs to proceed over the next five years with caution and consider the mid-range budget scenario presented as a guide while being mindful of the threats to our financial stability.

