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Lafayette City council tackles budget deficit

By Lou Fancher

Administrative Services Director Tracy Robinson, in presenting the Fiscal Year 24-25 proposed budget resolution for council's consideration at the meeting June 10, opened her comments with a budget 101-style report. "This may be remedial to some members of the council," Robinson said, "but we want to make sure members of the community really understand how our budget works, what our limitations are, (and) why we're having the fiscal sustainability issues we're having now. We think that's a very important base to have as you continue this conversation and continue it in the coming weeks."

Municipal money often comes with strings attached in the form of rules governing how funds can be spent. Money is segregated by the city into three "buckets" labeled General Fund, Gas Tax, and Impact Fees. The General Fund is most flexible, but also suffers the greatest shortfalls, Robinson said.

Outlining revenue sources, she first focused on property taxes. Robinson said the median selling price of Lafayette homes is \$2 million and from that many people mistakenly assume significant tax property payments are received. Lafayette receives only 6% of the 1% collected, meaning a \$1 million home will generate only \$600 for the city.

Lafayette's sales tax is 8.75% and of that, the city receives only 1%. Robinson said revenues also go toward funding police, public works, planning, administration, and parks and recreation maintenance expenses.

The General Fund holds approximately 60% of its funds as reserves for emergencies, such as fires, floods, earthquakes, and other events. American Rescue Plan Act (FEMA) federal relief reimbursements require long time frames, which means the reserves need to be maintained and depleting them could place the city at risk in the event of a catastrophic disaster emergency.

Robinson said during her 25 years with the city, the budget balance has always been met, but increasingly, that successful history is unsustainable. Broadly speaking, municipality expenses are trending up, with revenues remaining flat or declining.

In addition to detailed information further explaining expenditures and forces driving the projected budget deficit, Robinson outlined mitigation strategies proposed by the Fiscal Sustainability Subcommittee, such as a freeze put on new staff hires, among other, more impactful, actions.

Staff recommended the Council consider a sales tax increase of up to 1%, which would bring the rate up to 9.75%. This is the same as current sales tax rates in Moraga and Orinda. While the council considers the increases, the staff recommended the remaining \$1.99 million in ARPA funds be directed to General Fund projects in Fiscal Year (FY) 24-25. This action would allow the General Fund to sustain the reserve requirement this fiscal year and through FY 25-26.

In a recent poll, 93% of respondents indicated satisfaction with the level of services currently provided and quality of life. Staff recommended not making any immediate reductions to the budget or tax changes without providing more opportunities for community input about potential cuts and whether they would be willing to support a sales tax measure instead.

Robinson said staffing freezes, increased city fees, cutting services, and other measures would still not be enough to correct the structural problems causing a projected deficit. However, the projected \$2.3 million imbalance for FY 24-25 could be mitigated by applying the \$1.99 million in remaining ARPA funds that must be committed by December 2024 and spent by December 2026. The one-time money will extend "the runway" for the city while structural elements are addressed, according to Robinson.

Following an extended discussion and public comments, council member Wei-Tai Kwok summarized the forecasted budget profile and asked for confirmation that the council was being asked by staff to vote on deficit spending of \$2.461 million in uses which would reduce the reserve to lower levels but preserve the 60% target for two fiscal years, among other measures.

Mayor Gina Dawson concluded the budget discussion saying it was "exactly the exercise that Vice Mayor Kwok and I were hoping to go through" and emphasized the subcommittee and staff work, as well as public comments received, were appreciated. The council voted unanimously to apply ARPA funds to the budget gap, freeze staff hiring, and authorize staff to update data within the budget report. They will continue to consider the proposed tax increases and other actions as more information and community feedback becomes available before formally adopting the budget plan.

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