COUNTY OF MARIN

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June 4, 2013

Marin County Board of Supervisors
3501 Civic Center Drive
San Rafael, CA 94903

SUBJECT: Proposed County Budget for FY 2013-14

Dear Supervisors,

RECOMMENDATION

1. Accept the Administrator's Proposed FY 2013-14 County Budget for public review, including special districts under the Board (see Schedule 12 attached), pending your Board's formal adoption of the County Budget;
2. Schedule public hearings on the Proposed FY 2013-14 County Budget to begin on Monday June 17, 2013 in the Board of Supervisors Chambers at 9:00 a.m.; and
3. Authorize the County Administrator and Director of Finance to make technical and other carry forward adjustments as necessary to properly budget and account for grants, projects and year-end fund balances, including:
   a. designation of unrestricted year-end fund balances and the carry-forward of prior year administrative designations (Attachment A); and
   b. other technical adjustments as necessary to accurately reflect the budget - including position and required labor agreement adjustments, as well as the roll forward of existing designations, and Budget Change Proposals and other one-time allocations outlined in the Proposed Budget.
4. Designate $2.0 million from the existing one-time reserve (Account 3121250) to establish a pension rate stabilization reserve to mitigate fluctuations in required contributions due to the volatility of market earnings.

OVERVIEW

General Fund Budget Flat for FY 2013-14

The FY 2013-14 Proposed General Fund budget, the primary fund for most County programs and services, is $371.6 million, a 0.01% decrease versus the prior year. The budget is balanced and reflects sound financial practices; for example, ongoing revenues are used for ongoing expenditures while one-time revenues support one-time spending.

The FY 2013-14 All Funds Budget increases by 3.9% from the FY 2012-13 Approved Budget (see chart below). The new Parks Measure A fund accounts for approximately 40% of this all funds increase, funded with new voter-approved sales tax proceeds for park and open space purposes.

Including special districts under the Board, the County's all funds budget for FY 2013-14 is $491 million, a 3.7% increase from the prior year. A schedule of special district sources and uses is attached to this memorandum (Schedule 12 in State Auditor-Controller format).

All Funds: Proposed Sources

Revenue Type	FY 2012-13 Approved	FY 2013-14 Proposed	% Change
General Fund:			
Revenues	$293,960,260	$295,245,919	0.4%
Prior Year Fund Balance	24,959,711	25,832,462	3.5%
Less: Transfers	52,780,977	50,574,101	-4.2%
Total General Fund Sources	**$371,700,948**	**$371,652,482**	**0.0%**
All Funds:			
Revenues	$414,562,720	$432,459,529	4.3%
Prior Year Fund Balance	$30,577,505	$30,079,287	-1.6%
Total All Funds Sources	**$445,140,225**	**$462,538,816**	**3.9%**
Special Districts Sources	$28,236,175	$28,443,095	0.7%
Total Sources Including Special Districts	**$473,376,400**	**$490,981,911**	**3.7%**

All Funds: Proposed Uses

Fund	FY 2011-12 Approved	FY 2012-13 Proposed	% Change
General Fund Uses	**$371,700,948**	**$371,652,482**	**0.0%**
Other Funds	73,439,277	90,886,334	23.8%
Total All Funds Uses	**$445,140,225**	**$462,538,816**	**3.9%**
Special Districts Uses	$28,236,175	$28,443,095	0.7%
Total Uses Including Special Districts	**$473,376,400**	**$490,981,911**	**3.7%**

Like most local governments, due to the economic downturn, the County has faced many budget challenges over the past five years. We are pleased to report that our long-term restructuring efforts and the hard work of our employees has paid off. The budget we are submitting for your consideration is balanced and structurally sound. As we return to fiscal stability, we must also continue to stay ahead of the curve. We need to make sure that we respond to emerging community needs, understand major trends, and encourage a culture of innovation.

A Balanced Budget

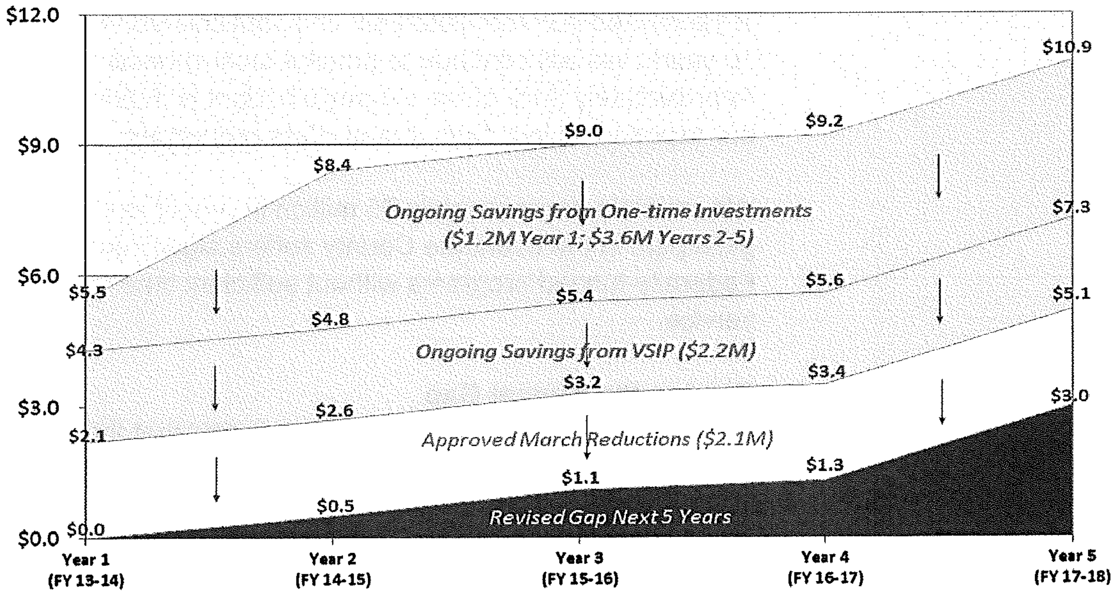
The Board has already taken three separate budget actions since last summer to balance next year's budget. They include:

1. Accelerating payments to pay down our unfunded retiree liability by $46 million, which reduces our ongoing costs by over $3 million annually;
2. Approving $2.2 million in ongoing savings by eliminating 14.80 FTE General Fund positions through the Voluntary Separation Incentive (VSIP) Program; and

3. Approving budget adjustments of $2.1 million to close our remaining budget gap for FY 2013-14, including the elimination of an additional 1.50 FTE General Fund vacant positions.

The chart below illustrates our budget projections over the next five years, including the estimated ongoing savings of the above budget actions:

Projected 5-Year General Fund Operating Gap
FY 2013-14 to 2017-18 ($ Millions)*



**Salary and benefit projections assume known COLA's FY 2013-14 and FY 2014-15 consistent with annual Consumer Price Index (CPI) adjustments per California Dept of Finance forecasts. Most bargaining unit agreements expire June, 2015. Approximately 2.0% CPI projections beyond FY 2014-15 are for planning purposes only and do not indicate a commitment or ability to fund. Projections do not include any state or federal budget reductions, assume continued slow growth in the economy, and do not include PEPRA savings.*

State and Federal Risk Remains

Not included in our multi-year projections are yet unknown impacts of future State and Federal revenue reductions. Many of the County's safety net services are largely supported by State and Federal funds. Because more than 30% of County services are funded by the State, any additional budget cuts are likely to result in a reduced level of safety net and other services that the County is able to provide to residents. While the County's budget is now more structurally balanced than it has been for some time, the County simply does not have the capacity to backfill the portfolio of programs currently funded by, and often performed on behalf of, the State, while continuing to maintain that structural balance.

The Governor's May Revision was released May 14th, which outlines the Governor's plan to redirect 1991 health realignment funds from counties via a mechanism that identifies anticipated savings associated with implementation of the Federal Affordable Care Act (ACA). While the Governor intends to implement the ACA through Medi-Cal expansion in a State-based approach, Federal health care reform could have important consequences to the County's budget. Current estimates are that, as proposed, the Governor's plan would result in a revenue loss of $2.9 million ongoing next year; $8.7 million in year 2; and $12.6 million annually in year 3. No offsetting savings in County health care obligations in year one is anticipated, and there are unknown savings in the out years. We will continue to monitor these efforts in Sacramento and will update your Board as we learn new information. We will join with the California State Association of Counties (CSAC) in advocating that the State not withhold realignment revenues from counties until savings are actually achieved.

It has also become clear that Federal reductions are likely in coming years as pressure builds to address the nation's growing debt burden. The President and Congress earlier this year allowed $85 billion in Federal reductions to be implemented via 'sequestration' cuts, anticipated to save over $1 trillion over the next 10 years. We will continue to monitor local impacts of these sequestration cuts. Approximately 10% of the County's budget is dependent upon federal revenues, thus our exposure is less than that of State reductions.

We maintain approximately $5 million in one-time reserves to help us establish a glide path in the event the County suffers significant cuts to critical State or Federally-funded programs without sufficient time to transition to a lower level of service.

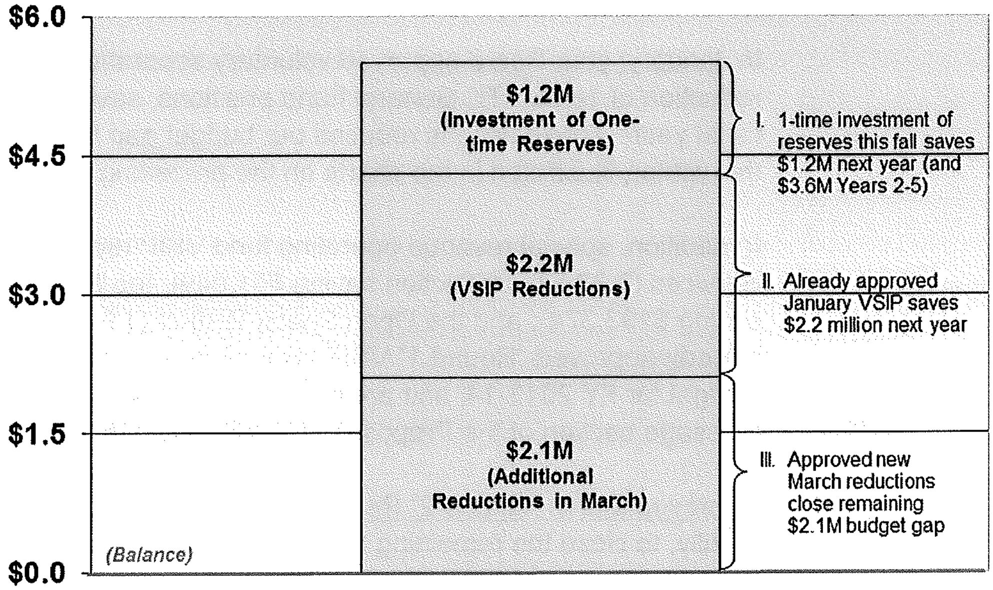
Closing the Budget Gap

To briefly review, we estimated last summer that the County faced a $5.5 million General Fund operating gap for FY 2013-14, or approximately 1.5% of the General Fund Budget – driven largely by slowed property tax growth and increased benefit costs, particularly employer pension costs. We now forecast slow but steady growth in property tax collections ahead as the housing market gradually recovers, as well as flattening to reduced employer pension costs in future years. Despite the slowness of the economic recovery since 2008, because of your Board's proactive efforts we can anticipate greater stability going forward.

At your Board's direction, we began exploring several strategies last summer to reduce the budget gap. We had successfully implemented some of them before your Board's budget and planning workshops in March to narrow our projected gap first to $4.3 million this past fall, then to $2.1 million by March (or approximately 0.5% of General Fund budget). With your Board's approval of an additional $2.1 million in March budget reductions, the County closed its $4.3 million fall operating gap with a total of $2.9 million in expense reductions (or approximately 70% of the overall budget solution) and the remaining $1.35 million (or 30%) in added revenues.

The graphic on the following page illustrates at a high level the steps taken since the summer of 2012 toward balancing our initial $5.5 million FY 2013-14 budget gap:

Closing the FY 2013-14 Budget Gap ($ Millions)
Total $5.5 Million in Solutions since Summer, 2012



Ongoing Savings from FY 2012-13 One-Time Investments

Your Board will recall in November the investment of one-time reserves and set-asides to save ongoing costs in a countywide effort to reduce our future year operating gaps. These included the following investments:

- Paying down approximately $32 million of our unfunded pension liability this year to reduce the County's required pension contribution by an additional $2.4 million effective FY 2014-15;
- Paying down retiree health unfunded liability by approximately $14 million this fiscal year to reduce the County's annual required contribution by an estimated $0.6 million effective FY 2013-14; and
- Finally, utilizing one-time reserves to facilitate new ongoing revenues to the County from private lessees at the new Marin Commons facility will generate an additional $0.6 million to the General Fund.

The investment of these one-time reserves set aside over the course of the past five years represents a savings of $1.2 million next year and $3.6 million ongoing in years two through five of our five-year forecast. These actions reduced our FY 2013-14 budget gap to $4.3 million this fall.

Ongoing Savings from Voluntary Separation Incentive (VSIP) Program – Approved "Round 1" Reductions

In October, your Board authorized a 5th phase of the VSIP program to incent voluntary attrition. In recognition that departments have been reducing their budgets for the past several years, the VSIP program was modified to allow departments to utilize the VSIP as long as the reduction achieved an ongoing savings of at least 50% of the value of the separating employee's position. This modification to the program guidelines provided more flexibility in ensuring a successful program, as well as better enabling reorganization or restructuring opportunities for departments.

In January, your Board approved voluntary separations that ultimately resulted in the reduction of 14.80 FTE General Fund positions, saving $2.2 million beginning next fiscal year. These actions reduced our budget gap from $4.3 million to $2.1 million this winter, illustrated in the charts on the preceding pages.

In addition, special revenue operating fund VSIP reductions included Child Support Services (0.38 FTE reduction saving $51,049); the Marin County Library (2.60 FTE saving $193,374); and the Open Space District (1.0 FTE saving $111,232). These already-approved "Round 1" VSIP reductions are incorporated into the Proposed Budget for FY 2013-14, and are summarized in attachments following the Budget Message section of the Proposed Budget document.

Approved March "Round 2" Reductions

Finally, to close the remaining $2.1 million FY 2013-14 General Fund budget gap, departments submitted various options that we studied in February and March. At your budget and planning workshops in late March, your Board approved additional net county cost reductions of $2.1 million, including $1.5 million in new ongoing revenue and $0.6 million in reduced expenditures – including 1.50 FTE net vacant position reductions. No layoffs are recommended to balance the FY 2013-14 Proposed Budget.

These March "Round 2" budget reductions are incorporated into the Proposed Budget for FY 2013-14, and are also summarized in attachments following the Budget Message section of the Proposed Budget. The $4.3 million in total "Round 1" and "Round 2" budget reductions is comprised of approximately 70% expenditure reductions and 30% in new ongoing revenues.

ATTACHMENTS

This letter includes several attachments. We are again requesting your Board's approval to make technical adjustments as necessary to properly budget and account for grants, projects and other financial allocations, including properly accounting for authorized position allocation adjustments and unspent purchase orders, associated requisitions and related appropriation authority to open the new fiscal year as part of the Final Budget for FY 2013-14.

The attached Schedule 12 summarizes special district sources and uses in State Auditor-Controller format. Attachment A details carryforward administrative designations and designations of fund balance. Consistent with Governmental Accounting Standards Board (GASB) Statement No. 54, these carryforward designations are categorized as either "Commitments," which require your Board's approval to establish, change or utilize - or "Assignments," which require County Administrator management approval. The Assignments category includes administrative designations, and some operating reserve accounts – such as the vehicle replacement or radio replacement accounts, for instance. The Commitments category includes reserves for economic uncertainty, the State budget reserve, and one-time project set-asides, for instance.

CONCLUSION

For a more detailed overview of the FY 2013-2014 Proposed Budget, please refer to the Administrator's Budget Message contained within the Proposed Budget document. Copies of the Proposed FY 2013-14 County Budget are available for public review on the County's website (www.marincounty.org). Detailed information is available from the Department of Finance relating to special districts under the Board, and will be published on-line as well.

The County is on more stable footing because of the actions taken by your Board over the past several years. This stability allows the County to refocus our efforts on the many challenges we are facing as a community. Over the next year, we need to continue our efforts to innovate and to improve how we provide critical community services. We look forward to working with your Board, our employees and the public to achieve our shared goal of making our community safer, healthier and more sustainable.

We want to thank your Board and all of our employees for their leadership, collaboration and support. The development of the County budget is a significant Administrative Services Team project. In particular, we want to recognize the efforts of the Department of Finance, Information Services and Technology, and the Human Resources Department for their assistance in the preparation of this budget. Most importantly, we would like to recognize the staff of the County Administrator's Office for their significant contributions, thoughtfulness and dedication throughout this year-long budget preparation process.

Please feel free to contact me or my staff with any questions or concerns.

Sincerely:

Matthew H. Hymel County Administrator	Roy Given, CPA Director of Finance