COUNTY OF MARIN

OFFICE OF THE
COUNTY ADMINISTRATOR

Matthew H. Hymel
COUNTY ADMINISTRATOR

Daniel Eilerman
ASSISTANT COUNTY ADMINISTRATOR

Angela Nicholson
ASSISTANT COUNTY ADMINISTRATOR

Marin County Civic Center
3501 Civic Center Drive
Suite 325
San Rafael, CA 94903
415 473 6358 T
415 473 4104 F
CRS Dial 711
www.marincounty.org/cao

December 15, 2015

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

SUBJECT: Report from the County Administrator on budget planning for FY 2016-18

Dear Supervisors:

RECOMMENDATION:

1. Accept the Administrator's report; and
2. Approve next steps for the FY 2016-17 budget process.

OVERVIEW

We are now beginning to plan for our two-year budget for FY 2016-18. Budget instructions have been distributed and departments are beginning to develop their operating budgets. We will be updating your Board over the next few months and recommending formal adoption of the budget in June.

Last June, your Board approved a $414 million General Fund budget and a $519 million all funds budget. The General Fund budget included over $12 million in discretionary payments to the county's retiree health trust as well as increased personnel expenses related to cost of living salary adjustments and healthcare contributions. One-time expenditures for high priority items included investments in road infrastructure, technology and equipment upgrades. In accordance with our practice of allocating one-time revenues for one-time uses, your Board also set aside over $11 million in reserves for future uncertainties.

In recent years, all three independent bond rating agencies have affirmed Marin County's AAA rating, citing a strong local economy, sound fiscal management and a proactive approach to reducing unfunded liabilities. Over the past three years, our unfunded retiree liabilities have declined by over $230 million as a result of strong investment earnings and over $75 million in discretionary payments to reduce our unfunded obligations.

BUDGET PRIORITIES

To be a responsive government, we must continue to understand major trends, adapt to new community needs, and plan ahead for future uncertainties. Over the past few years, your Board has articulated its guiding principles for a creating a sustainable future in Marin, which include focusing on our environment, economy, equity and education.

As we prepare for the upcoming planning period, your Board has identified several high priorities, including:

- Investing in County road infrastructure
- Addressing climate change and adapting to sea level rise
- Mitigating the effects of income inequality
- Implementing the County's 5 year business plan, and
- Preserving affordable housing.

These priorities will help inform our recommended allocation of ongoing and one-time resources for next year's budget. We will hold a planning session to discuss potential funding options at our February budget workshop.

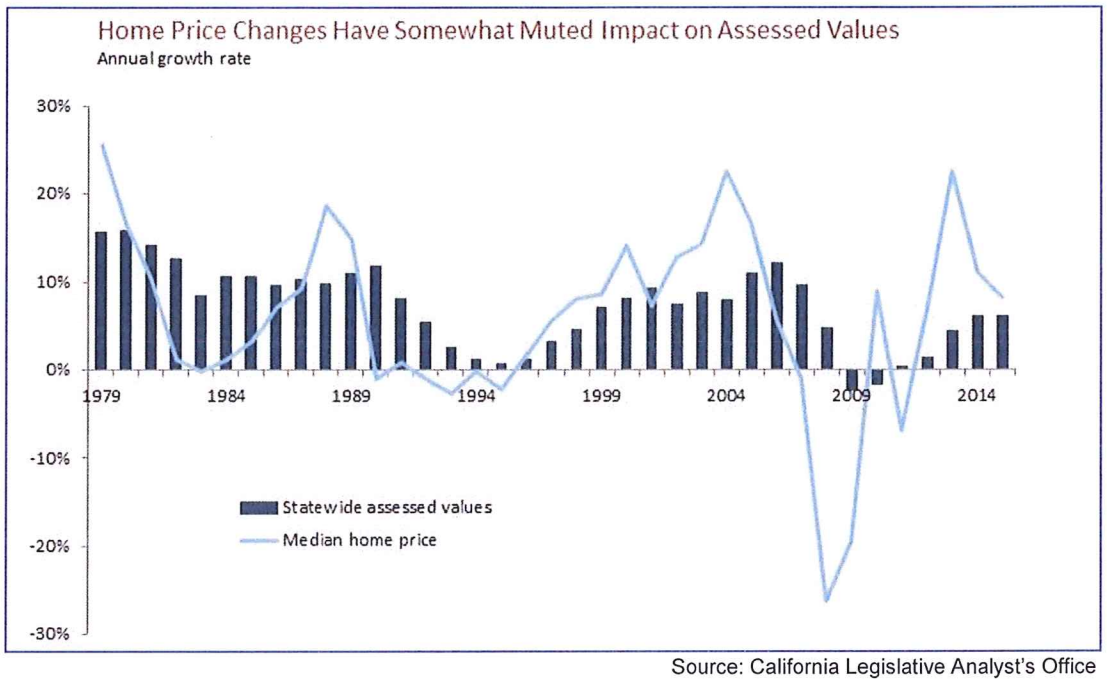
BUDGET OUTLOOK FOR FY 2016-18

Early reports from the California Legislative Analyst's Office indicate that the State budget will be strong and stable for the next two years. This is largely due to the strong economy that has produced increased income and sales tax revenues for the state. Personal income and employment are projected to remain strong through 2018, and under current expenditure levels the state budget is expected to remain in surplus through FY 2019-20. Although County budgets are not funded by income tax, and sales tax revenues are a very minor percentage of our overall budget, the statewide economic forecast is a positive sign for Marin and means that our state funding sources are likely to be stable for at least the next two years.

Despite a positive statewide outlook, the County of Marin still faces potential budgetary risks with respect to personnel costs. Preliminary actuarial reports indicate that retiree health (OPEB) and workers' compensation insurance costs have leveled off and are expected to remain relatively flat for the foreseeable future. However, healthcare costs and workplace injuries can be difficult to predict and the County has experienced volatility in both areas over the past few years. Moreover, the County's contribution for FY 2016-17 pension costs, which are primarily based on investment earnings and demographic assumptions, will not be known until at least February 2016. Despite MCERA's decision to adopt more conservative long-term earnings assumptions, investment performance or changes to demographic or other assumptions can have significant impacts on the County budget.

The County of Marin is primarily dependent on property tax receipts for discretionary spending in the General Fund. Although median housing prices are nearing record highs in Marin, property tax revenue tends to be moderated by low turnover and a lack of developable land. Due to a statewide inflation factor of just 1.5% for 2015, Marin County's assessed value is not projected to increase by more than 6.0% in FY 2016-17.

As shown in the following chart, statewide assessed values are more stable than housing prices, which often means that increased housing prices do not necessarily result in corresponding increases to local property tax revenues.



Source: California Legislative Analyst's Office

RECOMMENDED BUDGET STRATEGIES

Due to the limited projected increases in discretionary revenue sources, the County of Marin is not expected to have sufficient capacity to increase service levels across the board or supplement existing investments in infrastructure without corresponding offsets in other areas. As such, the recommended goals for the FY 2016-18 budget are to:

- Maintain current services
- Allocate one-time and limited ongoing funds toward high priority programs
- Adjust fee schedules to keep pace with inflation
- Build reserves during good economic times
- Reboot the Managing for Results program to be more meaningful, and
- Successfully implement the new financial system in July 2016.

The majority of County employees are now covered by new labor contracts that guarantee salary increases and increased county health insurance contributions over the two-year planning period. As such, and in accordance with financial management policies, we are recommending that departments update fee schedules to keep pace with inflation and recover associated costs where reasonable.

Discretionary revenue will be limited in FY 2016-17, however, preliminary projections indicate that up to $2 million (or 0.6% of the General Fund

revenue sources), may be available to increase service levels. Consistent with your Board's policy direction, we are initially recommending that $1 million be dedicated to ongoing road infrastructure investments and $1 million be allocated to other high priority programs as determined by your Board. Finally, we are recommending that any property tax revenues beyond our planned 6.0% growth rate be dedicated to road maintenance to get us closer to your Board's goal of increasing annual road maintenance by $10 million over the next 5 years.

NEXT STEPS

Staff will continue to refine ongoing revenue and expenditure projections. We will discuss your Board's budget priorities in early February as part of a budget planning workshop and we will present revised General Fund projections and departmental performance plans at our March Budget Workshops. In June, we will ask your Board to consider the recommended FY 2016-18 two-year budget for approval.

Please let us know if you have any questions or concerns.

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator