COUNTY OF MARIN

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June 2, 2015

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

SUBJECT: Proposed County and Special District Budget

Dear Supervisors,

RECOMMENDATION

1. Accept the Administrator's Proposed FY 2015-16 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 2015-16 County Budget to begin on Monday June 15, 2015 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 (Attachments A-B); and
    b. other technical adjustments as necessary to accurately reflect the budget - including position and required labor agreement adjustments, the roll forward of existing designations, and Budget Change Proposals and other one-time allocations outlined in the Proposed Budget.
4. Approve the allocation of current year, one-time funds as summarized on Attachment C and in staff report regarding one-time $11.6 million for pre-2004 state mandate reimbursements.

OVERVIEW

Fiscal Year 2015-16 is the second year of our two-year budget and the proposed budget is largely consistent with our approved plan. The improved economy gives us an opportunity to focus on long-term trends, maintain current service levels, pay down our unfunded retiree obligations, increase investments in our road and facility infrastructure, and set aside reserves for future uncertainties. Overall, the budget is increasing by just over six percent.

Recommended Allocation of Current Year, FY 2014-15 One-Time Revenues

As we discussed at the April budget workshop, we are recommending that the one-time state reimbursement for past mandates be allocated to reserves for roads, pensions, capital improvements and future uncertainties.

The Governor's May Revise budget included sufficient statewide revenue to trigger a repayment of pre-2004 SB90 mandate reimbursements to local governments this fiscal year. Marin County is expected to receive $11.6 million. In accordance with our practice of allocating one-time sources for one-time uses, we are recommending the one-time repayments be allocated as follows:

- $4.1 million for a facility improvement reserve;
- $3.5 million for the General Fund contingency reserve;
- $2.0 million for pension rate stabilization reserve;
- $2.0 million for road and bridge improvement reserve; and

BUDGET SUMMARY

The FY 2015-16 Proposed General Fund budget is $414 million, a 5.4% increase versus the prior year. The budget is balanced and reflects sound financial practices. The FY 2015-16 All Funds Budget increases by 6.1% from the FY 2014-15 Approved Budget, totaling $519.4 million next year (see chart below). Including special districts under the Board, the County's all funds budget for FY 2015-16 is $547.9 million, a 6.5% increase from the prior year. A schedule of special district sources and uses is attached (Schedule 12 in State Auditor-Controller format).

All Funds: Proposed Sources

Revenue Type	FY 2013-14 Approved	FY 2014-15 Approved	FY 2015-16 Proposed	% Change
General Fund:				
Revenues	$295,245,919	$312,008,838	$329,315,535	5.5%
Prior Year Fund Balance	25,832,462	28,046,088	28,049,060	0.0%
Net Transfers	50,574,101	52,863,011	56,657,647	7.2%
Total General Fund Sources	**$371,652,482**	**$392,917,937**	**$414,022,242**	**5.4%**
All Funds:				
Revenues	$432,459,529	$455,562,382	483,541,482	6.1%
Prior Year Fund Balance	$30,079,287	$33,987,938	35,896,502	5.6%
Total All Funds Sources	**$462,538,816**	**$489,550,320**	**$519,437,984**	**6.1%**
Special Districts Sources	$28,443,095	$24,911,036	$28,524,712	14.5%
Total Sources Including Special Districts	**$490,981,911**	**$514,461,356**	**$547,962,696**	**6.5%**

All Funds: Proposed Uses

Fund	FY 2013-14 Approved	FY 2014-15 Approved	FY 2015-16 Proposed	% Change
General Fund Uses	**$371,652,482**	**$392,917,937**	**$414,022,242**	**5.4%**
Other Funds	90,886,334	96,632,383	105,415,742	9.1%
Total All Funds Uses	**$462,538,816**	**$489,550,320**	**$519,437,984**	**6.1%**
Special Districts Uses	$28,443,095	$24,911,036	$28,524,712	14.5%
Total Uses Including Special Districts	**$490,981,911**	**$514,461,356**	**$547,962,696**	**6.5%**

A BALANCED BUDGET

Because of our past decisions to reduce ongoing spending, the budget is balanced and structurally sound. As the economy has improved, property tax and sales tax revenues have rebounded. Overall, we are recommending a six percent increase in expenditures over the prior year. Increases in revenues are fully offset by increases in the cost of maintaining current service levels.

Property taxes are the largest single source of discretionary revenue for the County's General Fund. With median single family home prices again near $1 million, our annual revenue property tax growth projections have increased to 6.8 percent, or 2.8 percent above our plan. However, the cost of workers' compensation and required pension contributions offset the additional gains in property tax revenue. Annual workers compensation costs have increased by $3 million compared to last year's budget. Earlier this year, the MCERA Board reduced the future earnings assumption by 0.25 percent, from 7.50 percent to 7.25 percent and implemented updated actuarial mortality assumptions. Because of these changes, our annual required pension contribution is increasing by more than $2 million compared to last year's budget.

FOCUS AREAS

Over the long-run, to maintain a balanced budget, new ongoing spending will need to be offset with reduced spending in other areas or with increased ongoing revenue sources. As we return to fiscal stability, we must also continue to stay ahead of the curve by responding to emerging community needs, understanding major trends, and encouraging a culture of innovation.

Unfunded Liabilities

We continue to make progress on reducing our long-term retiree liabilities. Over the past three years, our total unfunded retiree liabilities have decreased by $233 million due to strong investment earnings and over $75 million in accelerated payments. This budget includes an additional $14 million above the required annual retiree contributions. This past year, all three independent bond rating agencies affirmed Marin County's AAA rating, citing a strong local economy, sound fiscal management and a proactive approach to reducing unfunded liabilities.

Addressing Equity Gaps

As the County's safety net, we know all too well that not everyone is sharing in the benefits of an improving economy. The County has responded to the gaps in equity in various ways over the past few years. Increasing the living wage, working with community partners such as Marin Kids and Marin Promise, and reducing Park and Library fees have all been positive steps in the right direction. Expanding access to quality healthcare has also been a considerable success. In the coming year, we will be working with our community partners to make investments in early childhood education and college readiness for high school students.

Changing Workforce and Technology
Over the past year, County employees have been engaged in the creation of a Five Year Business Plan designed to improve our services and better support our workforce. The plan will identify strategies to respond to expected retirements of 1 in 3 employees over the next five years and will also help inform technology investments so that we can meet the rapidly changing expectations of our residents and our workforce for modern customer service practices.

Aging Road and Building Infrastructure
Maintaining infrastructure for all modes of public mobility is an essential service and affects nearly every county resident. Our recent investments have yielded results as we have improved our Pavement Condition Index from 49 to 60. Nonetheless, to make further progress we will need to increase our annual investment. We are allocating an additional $7 million above our General Fund requirement for road maintenance and improvements.

The Civic Center roof and several of our fire stations are in need of repair. Your Board recently authorized County staff to pursue debt-financing options that would provide the up-front funding for repairs at these and other locations. In addition, we are recommending that $4.1 million be placed into a reserve for future building improvements.

ATTACHMENTS
This letter includes several attachments. The attached Schedule 12 summarizes special district sources and uses in State Auditor-Controller format. We are also 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 2015-16.

Attachments A-B detail carry forward administrative designations and designations of fund balance. Consistent with Governmental Accounting Standards Board (GASB) Statement No. 54, these carry forward 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. The Commitments category includes reserves for economic uncertainty, a state/federal budget reserve, and one-time project set-asides, for instance.

Attachment C includes a summary of the budget and balance sheet transactions required regarding the allocation of current year, one-time funds as summarized in Recommendation No. 4 of this letter to allocate $11.6 million in SB90 state mandate reimbursements.

CONCLUSION

For a more detailed overview of the FY 2015-16 Proposed Budget, please refer to the Administrator's Budget Message contained within the Proposed Budget document. Copies of the Proposed 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. 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, Public Works 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 our budget preparation process.

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

Respectfully submitted,

Matthew H. Hymel
County Administrator

Roy Given, CPA
Director of Finance

FMBB Doc. No. 600002483