COUNTY OF MARIN

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February 2, 2016

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

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

Dear Supervisors:

RECOMMENDATION:

1. Accept the Administrator's report

OVERVIEW

We are now preparing to submit 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 seeking formal adoption of the budget in June.

Last June, your Board approved a $519 million all funds budget. One-time expenditures for high priority items included investments in road infrastructure, technology and equipment upgrades. Your Board also set aside over $11 million in reserves for future uncertainties, including $2 million for our pension rate stabilization reserve, and the General Fund budget allocated over $12 million in discretionary payments to the county's retiree health trust.

BUDGET PRIORITIES

Over the past few years, your Board has identified several high priority areas within our community. These priorities help inform our allocation of ongoing and one-time resources for next year's budget.

- 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
- Preserving affordable housing
- Reducing unfunded retiree obligations

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.

Despite a positive statewide outlook, the County of Marin still faces potential budgetary risks with respect to personnel costs. Updated actuarial reports indicate that retiree health (OPEB) and workers' compensation insurance costs have leveled off and are expected to remain flat for the next two years. However, the County's pension obligations for the second year of the planning period are largely based on investment earnings in the current fiscal year. Despite MCERA's decision to adopt more conservative long-term earnings assumptions, lower investment earnings 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, the annual assessment increase for Marin County is expected to be about 6% in FY 2016-17. We recommend that any property tax revenues beyond our planned 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 five years.

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 up reserves for future uncertainties

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

Discretionary revenue will be limited in FY 2016-17. Our preliminary projections indicate that about $2 million will available for new ongoing program enhancements. Consistent with your Board's policy direction, we are

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. Potential ongoing service level enhancements include:

- Road maintenance and improvements
- Technology upgrades
- Homeless service enhancements
- Expanded psychiatric emergency services
- Public transportation incentives

Over the next few months the County Administrator's staff is meeting with departments to refine our current year revenue and expenditure projections. We will return to your Board in April with final FY 2015-16 projections. We are currently anticipating that approximately $10 million will be available to allocate toward one-time investments. Potential one-time investments include:

- Increasing the pension rate stabilization reserve
- Preserving affordable housing units
- Climate action plan implementation projects
- Mental health service enhancements
- Landlord incentive programs
- Road infrastructure investments
- Other department budget change proposals

NEXT STEPS

Staff will return to your Board in March to present revised General Fund projections, budget recommendations and departmental performance plans. In June, your Board will consider formal adoption of the FY 2016-18 two-year budget.

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

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator