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COUNTY OF MARIN

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April 16, 2019

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

SUBJECT: Report from the County Administrator regarding current year general fund budget projections and related budget and reserve adjustments.

Dear Supervisors:

RECOMMENDATION:

1. Receive report regarding current year general fund projections
2. Approve one-time allocations of excess ERAF revenues
3. Approve adjustments to general fund contingency and litigation reserves

OVERVIEW

The County has as well-established history of strong fiscal management practices and all three independent bond rating agencies have affirmed Marin County's AAA rating, citing a stable local economy, sound fiscal management and a proactive approach to reducing unfunded liabilities. One of the key principles of long-term financial stability is the practice of matching one-time revenues with one-time expenses and maintaining adequate reserve levels.

As part of the annual budget process, the County Administrator meets with each department to identify expenditure and revenue trends that impact the available year-end General Fund budgetary savings in the current fiscal year. This process includes the requirement to identify at least $20 million in current year budgetary savings to fund next year's ongoing budget. At your Board's discretion, savings of more than $20 million are available for one-time allocations in next year's budget. We will be returning to your Board on April 22nd to provide a more comprehensive update to the 5 Year Budget projections as part of the FY 2019-20 Budget Hearings.

SUMMARY OF CURRENT YEAR GENERAL FUND PROJECTION

As a result of greater than anticipated one-time countywide revenues and departments spending at or below their budgeted expenditures, we are projecting a $33.8 million year-end fund balance in FY 2018-19. Of this balance, $20 million will be used to support next year's operating budget and $13.8 million will be recommended for one-time allocations in the FY 2019-20 Proposed Budget.

As detailed in Attachments A-C and summarized in the table below, the projected year-end fund balance is comprised of the following sources:

Table 1: Projected Variance from FY 2018-19 Revised Budget

Expenditure savings	$14.6 million
Excess revenues	$16.4 million
Previously approved net county cost reductions	$2.7 million
Projected Year-End Fund Balance	$33.8 million

Summary of General Fund Revenue Projections
Countywide and department revenue sources were analyzed based on year-to-date receipts and historical trends. Adjusting for previously approved adjustments, FY 2018-19 revenues are projected to be $16.4 million better than the revised budget. This is largely due to better than expected countywide tax revenues, including excess ERAF property tax, supplemental property tax, property transfer tax, sales tax and transient occupancy tax. Reimbursements for Marin County Fire assistance-by-hire services have also been a significant source of revenue in FY 2018-19, as have increased state realignment revenues for mandated health and welfare programs.

Transient occupancy taxes (TOT), which are remitted by lodging establishments within the unincorporated areas of Marin County have continued to increase as a result of enhanced enforcement and a strong local economy. Sales taxes in the unincorporated areas are also steadily increasing. Combined, TOT and Sales Tax are projected to exceed the adopted budget by $1.6 million. Similarly, statewide Proposition 172 public safety sales tax revenues, which are apportioned to each county based on the proportionate share of statewide taxable sales, are projected to exceed the adopted budget by $750,000.

The General Fund revenue projections also include reduced expectations for various department revenues such as Public Defender and Probation fees, as these fees are no longer collected for individuals who cannot afford to pay; recording revenues in the Assessor's Office that are correlated with slowing housing sales volume and declining refinancing activity; and declining parking fine revenues in the Sheriff's Office. State and federal revenues are projected to be lower than originally budgeted for Sheriff and Probation because of ongoing shortfalls in Title IVe, SCAAP and POST revenues.

Summary of General Fund Expenditure Projections
Updated expenditure projections were developed through an analysis of both salary and non-salary spending levels over the first nine months of the fiscal year. Overall, the General Fund is projected to end the year with $14.6 million in expenditure savings. The majority of Countywide expenditure savings are typically attributable to salary savings, and this year's salary savings of $12.6 million has exceeded recent trends as a result of higher than expected

turnover and retirements among county staff. Increased budget expenditures were needed for the Marin County Fire Department because of mutual aid activities in 2018, and these were fully cost-covered by corresponding state reimbursements. All other departments are projected to end the year within their current expenditure budget.

One-time allocation of Education Revenue Augmentation Fund (ERAF)
The County of Marin is one of a handful of California counties that receives excess ERAF funds after State-mandated school funding levels are satisfied. The state-shifted property taxes are returned to local government entities each year as part of the excess ERAF calculation. Due to the volatility inherent in the State's budget, these excess property taxes can fluctuate from year to year. As such, the County of Marin has traditionally budgeted this source conservatively for ongoing operations.

In recent years, countywide property tax growth was relatively similar to the annual growth in the State's Proposition 98 funding formula for education. As a result, excess ERAF revenues for Marin County were relatively stable over the past 5 years. In consultation with the Director of Finance, we are now projecting an increase of approximately $8 million annually for the next few years. This increase is primarily attributable to the State fully funding the Local Control Funding Formula (LCFF) as part of the FY 2018-19 budget. Now that the LCFF is fully funded, we expect future allocations to schools to grow at a slower rate than our current property tax growth assumptions.

Consistent with your Board's previous policies to address County infrastructure, we are recommending that your Board approve a one-time allocation of $8 million in current year excess ERAF revenues to the Facility Reserve ($4 million), the Road and Bridge Capital Fund ($2 million) and the Road Maintenance Fund ($2 million). As part of the FY 2019-20 Proposed Budget, we will be recommending that the $4 million of the increased excess ERAF revenue base be dedicated to ongoing maintenance of roads, with the remaining $4 million to be used as annual contributions to the facility reserve to the extent that the General Fund is not in an operating shortfall. This recommended strategy is expected to provide $8 to $10 million for deferred facility needs over the next three years.

Recommended General Fund Reserve Adjustments
In addition to the recommended road and facility allocations outlined above, we are recommending one-time adjustments to the General Fund litigation and contingency reserves as outlined below.

1. Increase the Litigation Reserve by $1 million to address long-term litigation expenses. This will bring the balance of the litigation reserve to approximately $10.7 million.

2. Increase General Fund Contingency Reserve by $2 million. Industry best-practices recommend that General Fund contingency reserves be

maintained between 5 and 15 percent of the annual operating budget. Last year, your Board approved adjustments to General Fund reserve levels to bring contingency reserves up to $28 million, which represents approximately 8 percent of the core General Fund operating expense[1]. Given the growing General Fund budget, we are recommending a $2 million one-time increase to the General Fund Contingency Reserve (320555) to increase the reserve to 8.5 percent of anticipated core General Fund operating expenditures in FY 2019-20. The contingency reserve is an account that would primarily be used for natural disaster recovery or for unanticipated economic fluctuations. Given the experience of our neighboring counties affected by fires, floods and earthquakes, we will be recommending that your Board adopt a policy to make annual adjustments to this reserve to keep pace with the annual growth in County expenditures. Based on current trends, the recommended policy to maintain an 8.5% contingency reserve would require an annual adjustment of approximately $1 million per year after FY 2020-21.

Table 2: Summary of General Fund Reserve Adjustments

Title	Object	Current Balance	Recommended Balance	Recommended Change
Litigation Reserve	320520	$9,690,000	$10,690,000	$1,000,000
Contingency Reserve	320555	$28,000,000	$30,000,000	$2,000,000
Total		**$37,690,000**	**$40,690,000**	**$3,000,000**

FISCAL IMPACT

The recommended actions in this report do not increase net county costs in the current year. Projected savings identified in this report are one-time in nature and do not impact the ongoing budget for the General Fund. The recommended allocation of one-time excess ERAF property tax revenues would increase general fund transfer appropriations by a total of $4 million to support road infrastructure and maintenance, and would also increase the facility reserve (330312) by $4 million, bringing the total facility reserve to $11.1 million. Other recommended reserve adjustments totaling $3 million would result in a $30 million general fund contingency reserve, which is 8.5% of core general fund expenditures, and a $10.7 million general fund litigation reserve.

[1] In 2017-18, total General Fund Expenditures included General Fund and Health and Human Services Operating Fund. Beginning in FY 2018-19, we define the contingency reserve percentage using a denominator of General Fund Expenditures plus the annual transfer to the HHS Operations Fund and Whole Person Care Fund (2800 and 2900, respectively).

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

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator

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