OFFICE OF THE
COUNTY ADMINISTRATOR

COUNTY OF MARIN

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

November 17, 2020

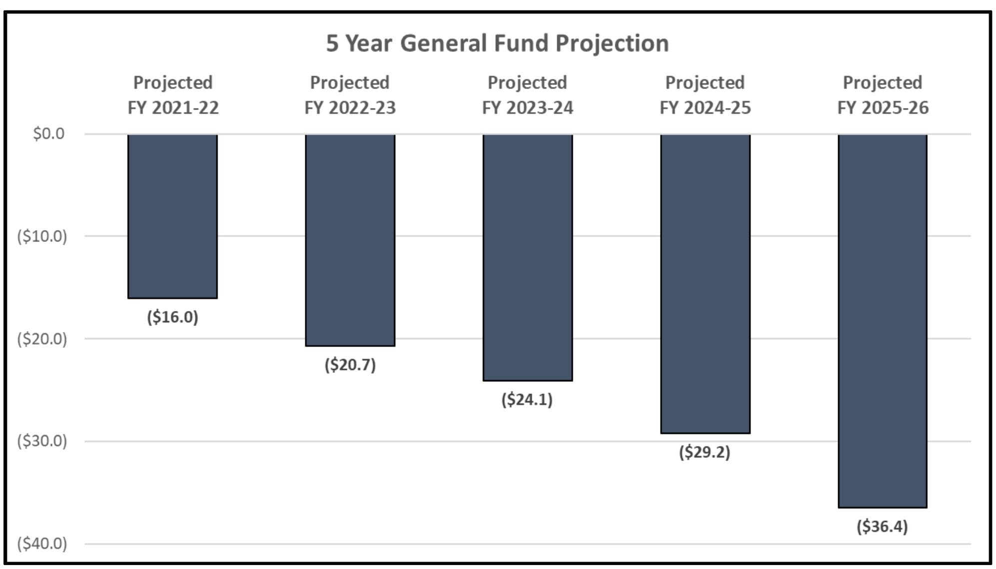
Marin County Board of Supervisors
3501 Civic Center Drive
San Rafael, CA 94903

SUBJECT: Recommended Budget Adjustments and Planning for FY 2021-22

Dear Supervisors:

RECOMMENDATION:
1. Approve the recommended budget adjustments and direct staff to incorporate the adjustments into the FY 2021-22 Proposed Budget as outlined in the fiscal impact and Attachment A;
2. Approve the recommended elimination of 22.05 vacant positions as outlined in Attachment B; and,
3. Approve next steps for the FY 2021-22 budget process

OVERVIEW
Last June, your Board approved the County's budget with the understanding that we would work with each department to balance our budget on an ongoing basis by FY 2021-22. In September, staff provided an updated fiscal outlook, shown below, which included a General Fund shortfall of $16 million in the coming year and increasing ongoing deficits over the next five years.



As part of the budget balancing effort, departments were directed to submit reduction proposals equal to five percent of their respective net county cost and that minimized adverse impacts on underserved communities. Over the past five months, County departments identified over $11 million in reduction options and today we are recommending that your Board take action to approve the first round of $7.88 million in ongoing General Fund budget adjustments as summarized in the fiscal impact and detailed in the attachments. In total, the adjustments increase revenues by $2.19 million and reduce expenditures by $5.69 million on an ongoing basis.

Service Area	Revenue Enhancement	Expense Reduction	Net County Cost Impact
Public Safety	$ 1,090,000	$ 2,182,702	$ 3,272,702
Health and Human Services	$ 1,000,000	$ 833,301	$ 1,833,301
DPW and CDA	$ -	$ 783,214	$ 783,214
Community Services	$ -	$ 334,744	$ 334,744
Administrative Services	$ 100,000	$ 1,556,150	$ 1,656,150
General Fund Total	**$ 2,190,000**	**$ 5,690,111**	**$ 7,880,111**

Today's recommended reductions do not include layoffs and have minimal impacts on direct services to our residents. Over the next several months, we will work with departments and return to your Board in March with additional recommendations to address the remaining $8.2 million budget shortfall.

ECONOMIC OUTLOOK

In September, we presented your Board with an updated Five-Year General Fund projection. At that time, the biggest question impacting our long-term budget projection was how long the economy will continue to be adversely impacted by the COVID-19 emergency. As we prepare for the winter months, we have seen the beginnings of an economic recovery, but we still face a high degree of uncertainty due to the potential impacts of the COVID-19 virus on the economy.

The data that is currently available has confirmed that the economic damage caused by COVID-19 was of historic proportions, although there are some indications that the economy has begun to rebound. Sales tax was among the revenue sources most directly impacted by social distancing efforts, and the second quarter data, summarized on the next page, shows that Marin County and the greater Bay Area were impacted more than other counties in California.

Although sales tax in unincorporated areas comprises only one percent of the County's General Fund budget, it is a major component of General Fund revenues for cities and towns in Marin. It is also the primary funding source for County park improvements and a significant source of local transportation funding.

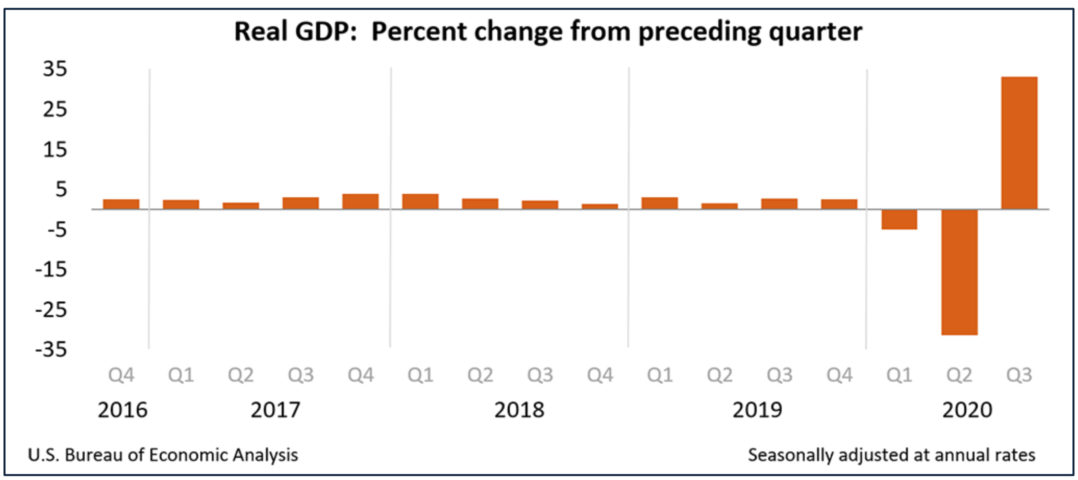
Furthermore, statewide sales tax revenues are used as the basis for calculating realignment revenue and Proposition 172 Public Safety, both of which provide the County with funding for mandated health and safety programs across multiple departments.

2nd Quarter Sales Tax Revenue:

Category	Marin County	San Francisco	Bay Area	California
Autos and Transportation	-22.6%	-22.3%	-28.6%	-17.0%
Building and Construction	-7.5%	-24.9%	-12.6%	-3.3%
Business and Industry	-22.4%	-47.1%	1.2%	-2.9%
Food and Drugs	-1.9%	-9.2%	2.6%	8.2%
Fuel and Service Stations	-55.6%	-74.4%	-53.6%	-46.9%
Consumer Goods	-50.3%	-64.8%	-50.1%	-38.3%
Restaurants and Hotels	-52.3%	-64.6%	-53.2%	-45.2%
Other	30.3%	-42.6%	-20.0%	6.1%
County and State Pool	30.5%	1.0%	19.1%	28.9%
Total	**-23.4%**	**-42.9%**	**-21.6%**	**-16.3%**

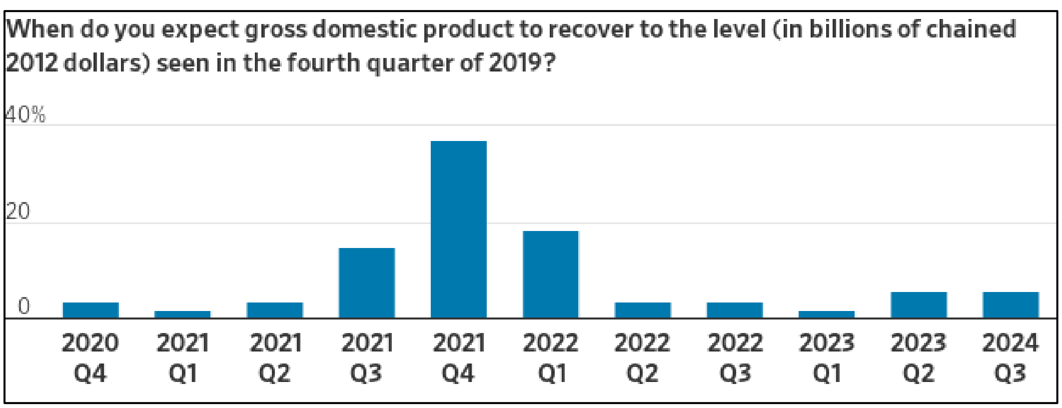
Source: HdL Companies 2Q10 Statewide Results, adjusted for economic data

Another key economic indicator is GDP, which measures total economic output in the United States. The graphic below shows that the nation's GDP experienced a record level of decline in the second quarter (-31.4%) and then saw a substantial recovery in the third quarter (+33.1%). The third quarter recovery was largely driven by increased personal consumption expenditures and increased private inventory investments.



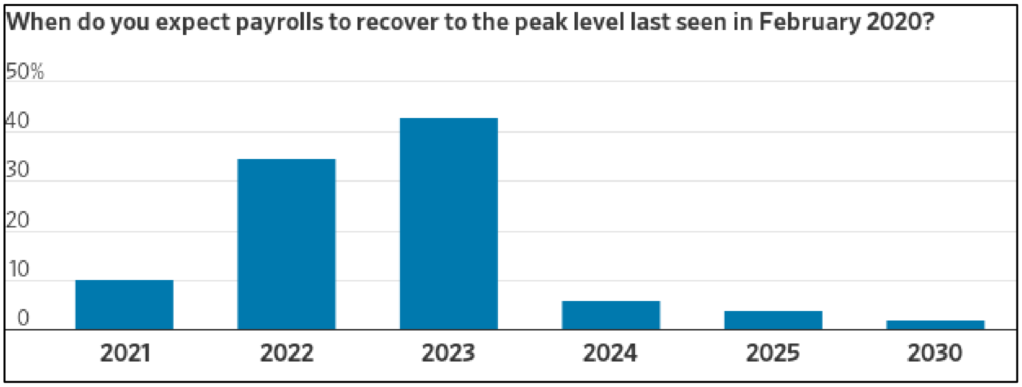
The quarterly changes in GDP may seem to indicate a swift recovery in the national economy. However, in terms of total economic output, the United States is still approximately three percent below GDP levels seen in the third quarter of 2019, as shown in the following graphic. The national economy would need to grow by an annualized rate of approximately 20 percent in the fourth quarter of 2020 in order to return to the pre-COVID trajectory.

Over the past few months, economists have debated how long the recession may last and what the economic recovery will look like. In the most recent version of the monthly polls conducted by the Wall Street Journal, the consensus expectation for a gradual recovery over the next few years where GDP returns to prior levels by late 2021.



Source: Wall Street Journal Monthly Economic Forecasting Survey (October)

Similarly, the Wall Street Journal poll showed that most economists do not expect a return to full employment levels until at least 2022, with the majority of respondents indicating a likelihood of recovery in 2023 or later.



Source: Wall Street Journal Monthly Economic Forecasting Survey (October)

Although the County's fiscal outlook does not have a direct correlation to national economic indicators, these recent data points further emphasize the depths of economic impacts caused by COVID-19 and also further underscore the need to plan for a slow but gradual recovery in the regional economy.

SIGNIFICANT UNCERTAINTIES REMAIN

This first round of budget adjustments only partially offsets our projected budget shortfall and there are several uncertainties that can make our budget shortfall worse. First and foremost, the COVID-19 virus needs to stay under control in our region. We have been fortunate not to see the surge in COVID-19 cases that are currently being experienced at the national level. If we do see increases in COVID-19 transmission rates locally, we are at risk for business restrictions that will reduce our revenue sources and hinder our economic recovery. Secondly, although our local priority remains our response to the public health crisis, we do not know how much state/federal funding we will receive beyond December to effectively respond to the COVID-19 emergency.

In addition to COVID-19 uncertainties, we do not know how pension costs will be impacted by investment markets or long-term earnings assumptions. We do know that the County will incur additional annual costs for pensions, as investment returns fell short of the seven percent annual target in FY 2019-20. Furthermore, the Marin County Employee Retirement Association (MCERA) Board will be considering a reduction to the long-term earnings assumptions later this year. The current earnings assumption is seven percent, and if the MCERA Board decides to lower the rate to 6.75 percent, the County's annual contributions will increase by approximately $3 million next year, and will increase by $6 million in 2023 when the changes are fully phased in.

Finally, the County's property tax revenues may be negatively impacted if housing sales volume remains below recent trends or if the commercial real estate sector is unable to recover when the economy is fully reopened. Property tax revenues may also be impacted if the Proposition 13 inflation factor, which is a statewide measure based on October to October CPI, ends up being less than the two percent annual limit.

FISCAL IMPACT

Your Board's approval of the recommended budget reductions will reduce general fund net county costs by $7.88 million on an ongoing basis beginning July 2021. As shown below, and detailed in Attachment A, the recommended reductions are comprised of $2.19 million in new revenues and $5.69 million in expenditure reductions, including a reduction of 22.05 vacant FTE.

Department	Revenue Enhancement	Expense Reduction	Net County Cost Impact	FTE Reduction
AGRICULTURE WEIGHTS MEASURES	$ -	$ 70,000	$ 70,000	0.50
ASSESSOR RECORDER COUNTY CLERK	$ -	$ 245,250	$ 245,250	2.00
BOARD OF SUPERVISORS	$ -	$ 100,000	$ 100,000	-
COMMUNITY DEVELOPMENT AGENCY	$ -	$ 133,000	$ 133,000	-
COUNTY ADMINISTRATORS OFFICE	$ -	$ 110,000	$ 110,000	0.25
COUNTY COUNSEL	$ -	$ 200,000	$ 200,000	1.00
CULTURAL SERVICES	$ -	$ 67,500	$ 67,500	-
DEPARTMENT OF FINANCE	$ 100,000	$ 157,000	$ 257,000	-
DEPARTMENT OF PUBLIC WORKS	$ -	$ 650,214	$ 650,214	5.00
DISTRICT ATTORNEY	$ -	$ 400,000	$ 400,000	2.00
ELECTIONS	$ -	$ 68,000	$ 68,000	-
HEALTH AND HUMAN SERVICES	$ 1,000,000	$ 833,301	$ 1,833,301	0.95
HUMAN RESOURCES	$ -	$ 200,000	$ 200,000	-
INFORMATION SVC AND TECHNOLOGY	$ -	$ 475,900	$ 475,900	2.00
MARIN COUNTY FIRE	$ 335,000	$ -	$ 335,000	
MARIN COUNTY PARKS	$ -	$ 185,000	$ 185,000	-
PROBATION	$ -	$ 424,381	$ 424,381	2.00
PUBLIC DEFENDER	$ -	$ 260,502	$ 260,502	1.35
SHERIFF CORONERS OFFICE	$ 755,000	$ 1,097,819	$ 1,852,819	5.00
UCCE FARM ADVISOR	$ -	$ 12,244	$ 12,244	-
General Fund Total	**$ 2,190,000**	**$ 5,690,111**	**$ 7,880,111**	**22.05**

Your Board's approval will adjust department position allocations in FY 2020-21 as detailed in Attachment B and will help to achieve necessary salary savings as part of our current year attrition management savings target. We will return to your Board in March with an updated fiscal outlook and additional recommendations to close the remaining $8.2 million FY 2021-22 budget shortfall.

NEXT STEPS

Budget instructions for FY 2021-22 will be distributed to departments in December. As a result of the ongoing budget shortfalls, ongoing adjustments to the department budgets will need to be cost-covered by new revenue or a reallocation of expenditures. In addition, due to the uncertain fiscal outlook, departments may be asked to develop additional budget reduction options equal to 2.5 percent of their respective net county costs depending on our ability to close the remaining budget gap. The County Administrator will meet with each department this winter and we will return to your Board in March with proposed budget workplans and additional budget balancing recommendations.

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

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator