

September 28, 2021

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Marin County Board of Supervisors
3501 Civic Center Drive
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SUBJECT: First Quarter Budget Update

Dear Supervisors:

RECOMMENDATION:

1. Accept the Administrator's report

OVERVIEW

The County has a well-established history of strong fiscal management practices and bond ratings agencies have cited sound fiscal management and a proactive approach to reducing unfunded liabilities as primary reasons for the County's AAA rating. Your Board's adopted Fiscal Policies reflect key long-term financial stability principles such as matching one-time revenues with one-time expenses and maintaining adequate reserve levels.

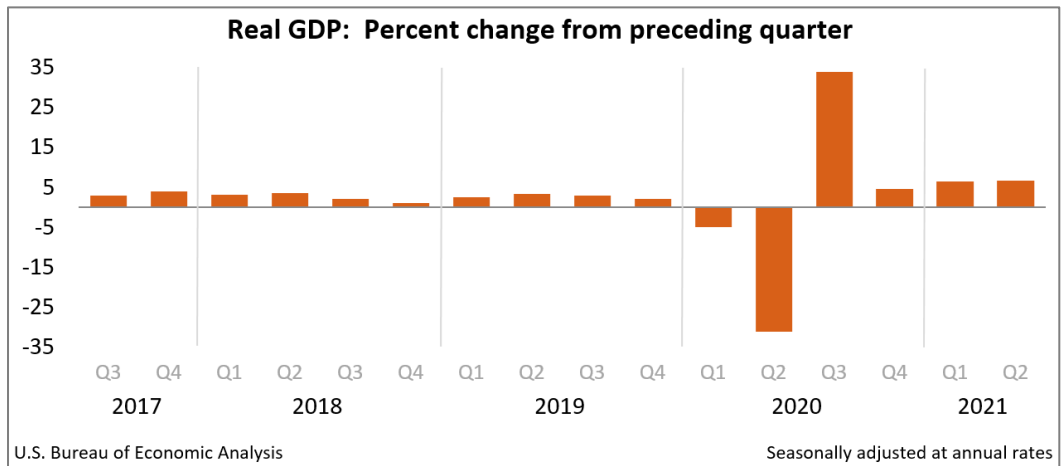
In June, your Board approved the at \$682 million countywide budget for FY 2021-22 that made significant investments in the community's highest priorities. The budget included new going staff for homelessness, equity and climate change as well as over \$25 million in one-time funding for emergency response, affordable housing and county infrastructure.

As part of the FY 2021-22 Budget, your Board approved an initial spending plan for the half of the County's federal stimulus funds, known as the American Rescue Plan Act (ARPA). The \$25.1 million spending plan, which includes the repurposed use of reimbursable funds within the Treasury guidelines, included funding for permanent supportive housing, racial equity initiatives, climate change projects, and enhanced emergency response capacity. Over the past few months, we have been working to develop specific one-time expenditure proposals from within these categories for your Board's consideration in December 2021.

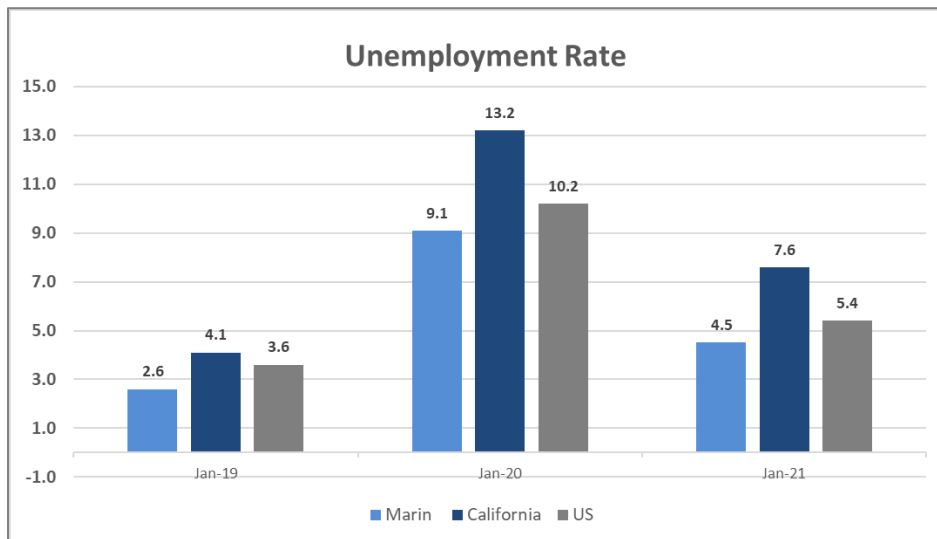
We are also working to develop proposals for the second half of the federal funds and will present specific recommendations as part of the March Budget Hearings in 2022. It is expected that the majority of spending proposals from the remaining funds will need to qualify under the Treasury Department's guidelines which include COVID-19 response activities, public health improvements, economic stabilization efforts, equity-focused services and investments in water, sewer and broadband infrastructure.

ECONOMIC OUTLOOK

COVID-19 caused millions of jobs to be lost and had a significant impact on national economic output as measured by Gross Domestic Product (GDP). Through historic levels of federal intervention and economic stimulus spending, the economy was able to withstand the short-term recession and has now experienced four consecutive quarters of growth as shown below.

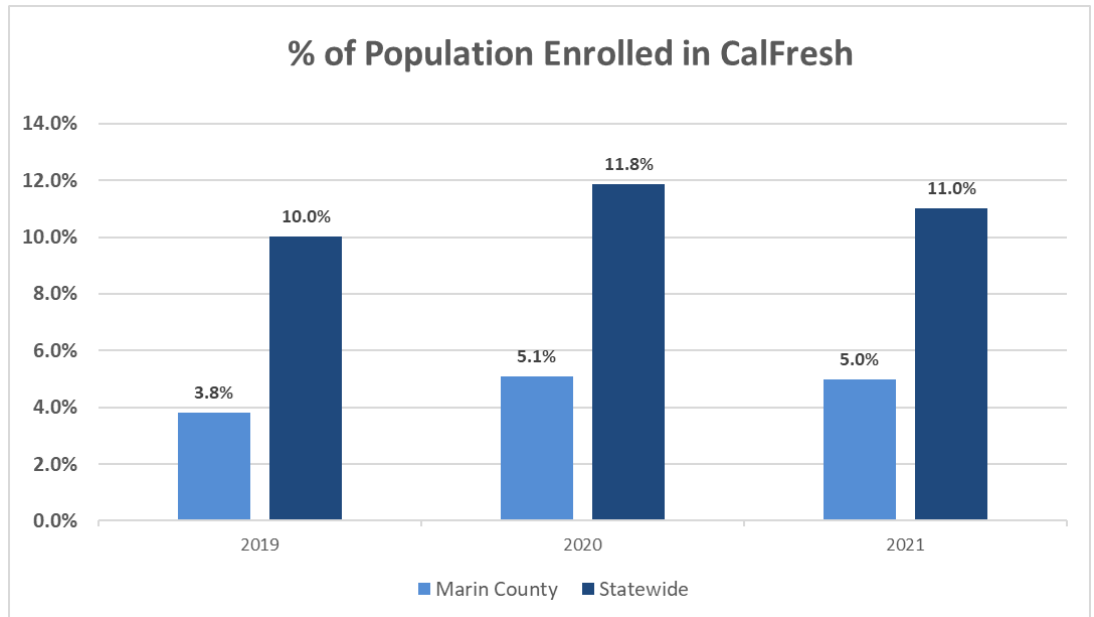


In addition to monitoring economic output, much of the focus has been on unemployment data, which reached record levels in the Spring of 2020 when the nation saw over 6 million new unemployment claims being filed each week. As shown below, unemployment rates have improved at the local and national level since last summer. As of July, Marin County had 6,100 unemployed residents, which is an improvement from last July’s figure of 11,700, but still significantly higher than the number of unemployed residents in July 2019 when Marin’s total was 3,600.



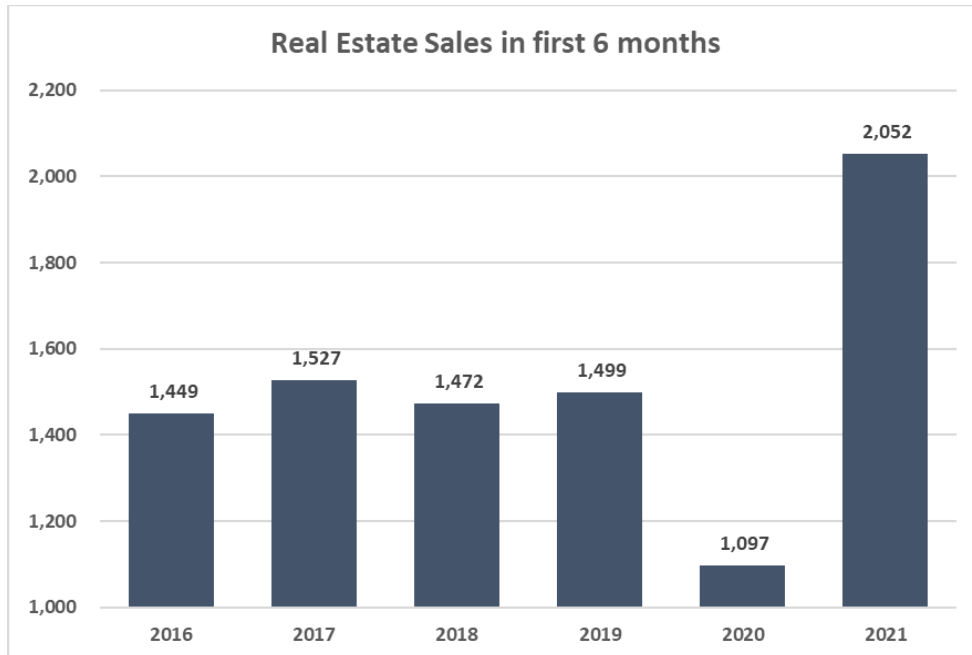
Another indicator of overall economic health is the number of low-income residents receiving state and federal assistance. As shown in the table below,

there has been a sustained increase in the number of residents enrolled in CalFresh at both the statewide and local level. In Marin, overall percentage is lower than the state, however the percentage of population has not decreased in recent months and represents an additional 2,900 people, which is a 30% increase since 2019.



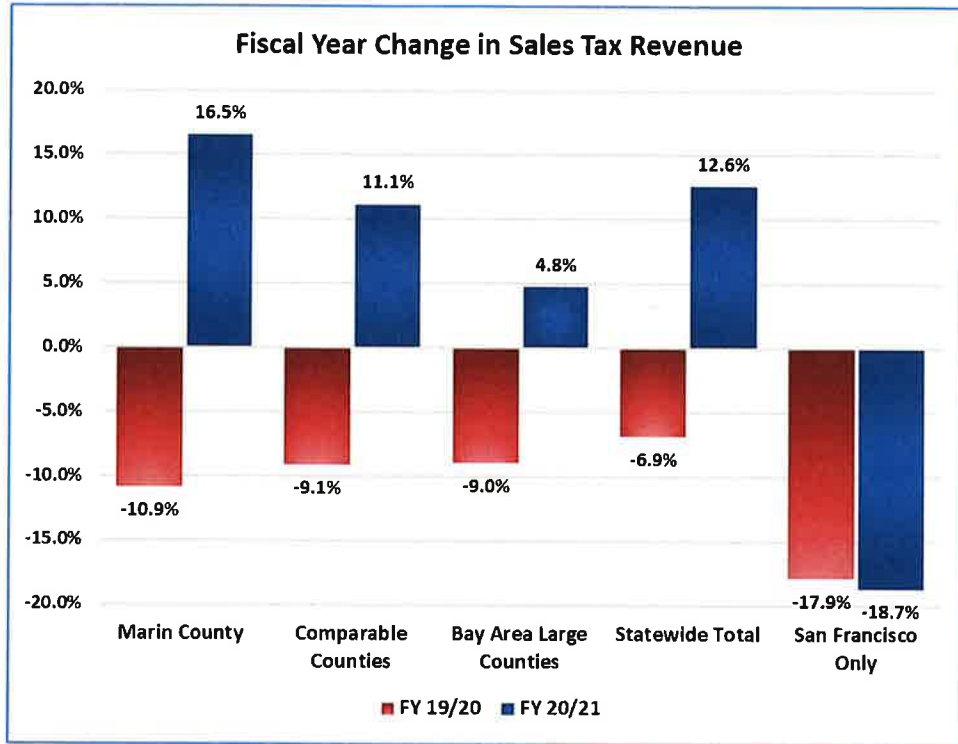
COUNTY BUDGET INDICATORS ARE IMPROVING

As we begin the planning process for the next two-year budget cycle, two of the most significant inputs to the County’s General Fund budget, property tax and pension costs, are trending in a positive direction. Property tax is the largest source of discretionary revenue for county governments and accounts for about 40 percent of the County’s General Fund budget. In June 2021, the Marin County Assessor reported that the annual growth in assessed value was four percent for FY 2021-22, which was consistent with the budget forecast. While it is too early in the calendar year to draw definitive conclusions regarding future growth rates, recent sales transaction trends (as shown on the next page) are likely to indicate an upward revision to next year’s growth projections.



Pension costs, which account for nearly 10 percent of the County’s expense budget, are largely driven by investment market performance. Last year, the Marin County Employee Retirement Agency (MCERA) Board implemented a number of changes to economic and demographic assumptions, including the reduction of the long-term investment return assumption from 7.00% to 6.75%. The net effect of the changes was expected to increase the County’s costs for employer contributions by approximately \$3 million per year on an ongoing basis. As of June 2021, the broader investment markets have seen returns exceeding 30 percent and CalPERS reported a 21.3 percent return for the fiscal year. This level of investment return will reduce the County’s annual pension costs, however the full extent of the fiscal impact will not be known until MCERA adopts its annual actuarial report in early 2022.

Sales tax is another input to the County budget, although the General Fund only receives one percent of taxable sales in unincorporated areas and therefore the total revenue amounts to less than one percent of the General Fund budget. However, countywide sales tax, which includes all taxable sales in cities and towns as well as the unincorporated areas, has a direct impact on Parks Measure A revenues and Transportation Authority of Marin (TAM) allocations. Countywide taxable sales also factor into the statewide allocations of Proposition 172 Public Safety Sales tax and 1991 Realignment, both of which are allocated by the State to support mandated health and safety functions within the County. As shown on the following page, nearly every county in the state experienced significant declines in taxable sales for FY 2019-20 and then saw sizeable growth in FY 2020-21 as the economy rebounded from the pandemic. Marin County has generally fared better than larger Bay Area counties and our comparable counties, while San Francisco has seen two consecutive years of declining sales tax revenues.



Although many economic indicators have been strong over the past several months, there remain uncertainties that can substantially impact budget projections. First, we do not know whether the pandemic will continue to produce outbreaks and/or variants and we are expecting FEMA funding to expire at the end of the year. Second, we do not know whether the economy and investment markets will be able to sustain the recent rebound on an ongoing basis. We will continue to monitor these trends and will provide additional updates to your Board in December.

NEXT STEPS

Our next steps in the budget process are to develop spending proposals for federal stimulus funds and prepare budget instructions for the next two-year budget cycle. We plan to bring specific recommendations for the first \$25 million in stimulus funds to your Board in December 2021 and we will bring initial proposals for the second \$25 million to your Board as part of the March Budget Hearings in 2022. Budget instructions and an updated five-year General Fund projection will be brought to your Board in early December.

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

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator