COUNTY OF MARIN

OFFICE OF THE
COUNTY ADMINISTRATOR

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

April 28, 2020

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 budget planning for FY 2020-22.

Dear Supervisors:

RECOMMENDATION:

1. Receive report regarding current year and updated 5 Year General Fund projections
2. Approve revised budget instructions for the FY 2020-22 budget

OVERVIEW

The County has a 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.

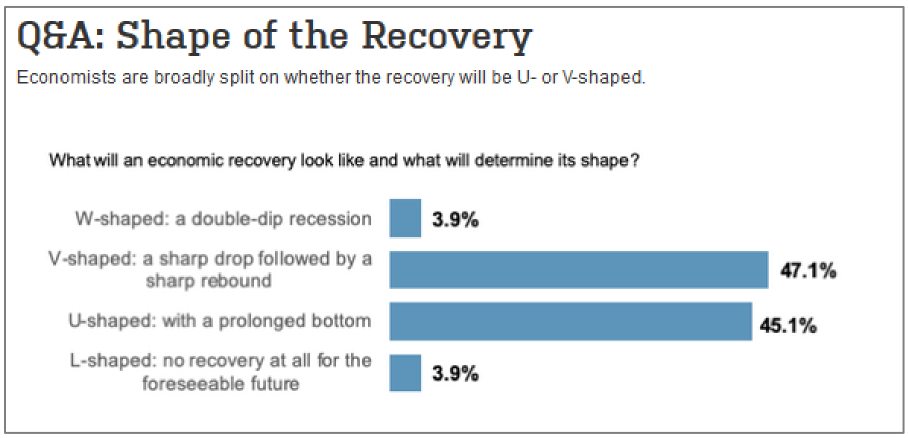
The County's response to COVID-19 has a significant impact in many areas of the budget. County governments are uniquely situated as the primary providers of health and safety services for our communities, and we are working on multiple levels across all departments to adapt to community needs and to utilize state and federal reimbursements for emergency response activities. Social distancing and shelter in place orders will have a significant impact on local revenue streams for all counties, however, the full extent of the fiscal impact will not be known for several months.

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. Initial estimates and recommendations are included in this report and we will be returning to your Board on June 23rd to provide a more comprehensive update to the 5 Year Budget projections as part of the FY 2020-22 Budget Hearings.

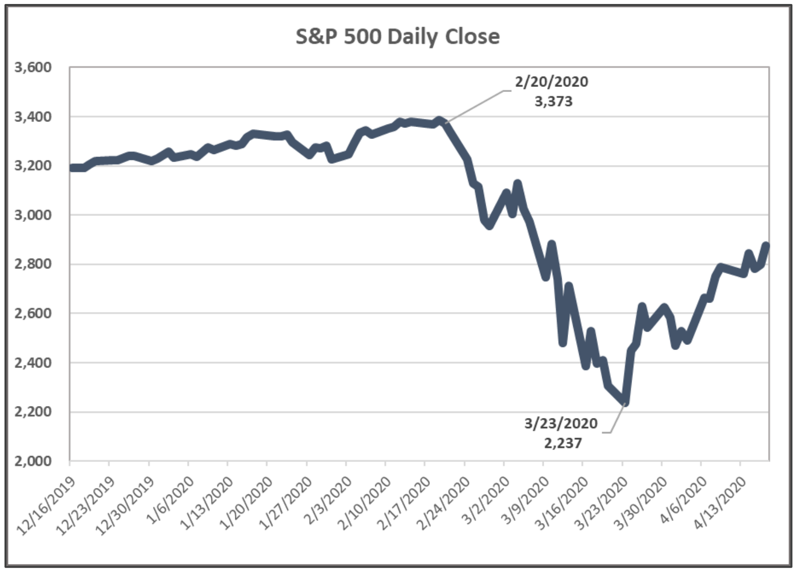
ECONOMIC OUTLOOK

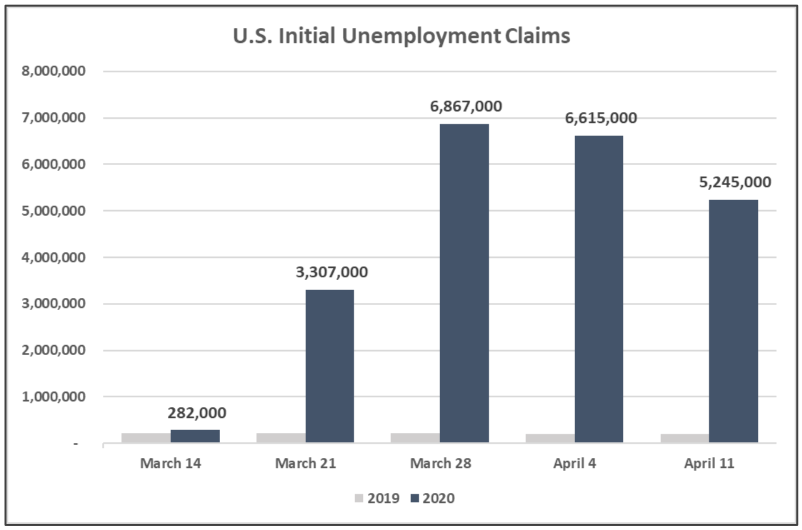
Just a few months ago, the primary debate among economists was when we might see an end to the record economic growth trend that was nearing an eleven-year run. Now, the question is not whether the country will be in a recession, but how deep the recession will be and how quickly we might rebound.

According to a poll conducted by the Wall Street Journal in late March, there is not a consensus on the type of recession or recovery that is expected. As shown in the chart below, about half of economists predict a V-shaped recovery, which means the economy will rebound relatively quickly, but a similar percentage expect a U-shaped or prolonged recovery. Therefore, we need to plan for both contingencies.

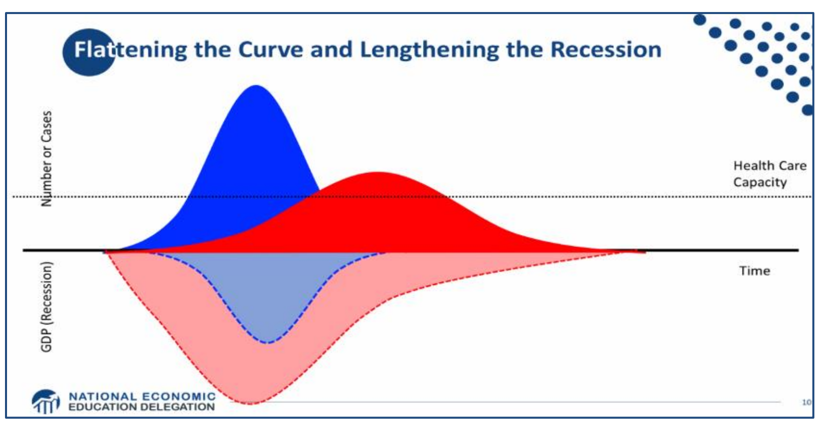


With economic data and leading indicators just beginning to be released, it is already clear that we are facing an extraordinary budgetary challenge. Never before have the local, regional, national and global economic balances been so abruptly altered. The stock market declined over 30% from its all-time peak in late February, initial unemployment claims in the U.S. have averaged 5.5 million per week since mid-March, and economists are now projecting a high likelihood of global recession.





As states and counties make decisions on how to best protect the health care system, there is an inherent tradeoff between public health and economic health. The chart below shows how efforts to 'flatten the curve' (shown in red) will impact the length and depth of the resulting economic recession.

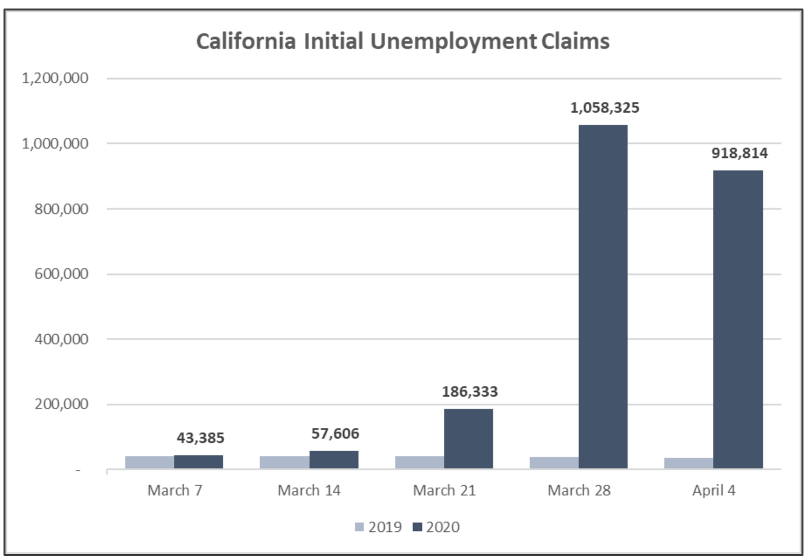


STATE BUDGET IMPACTS

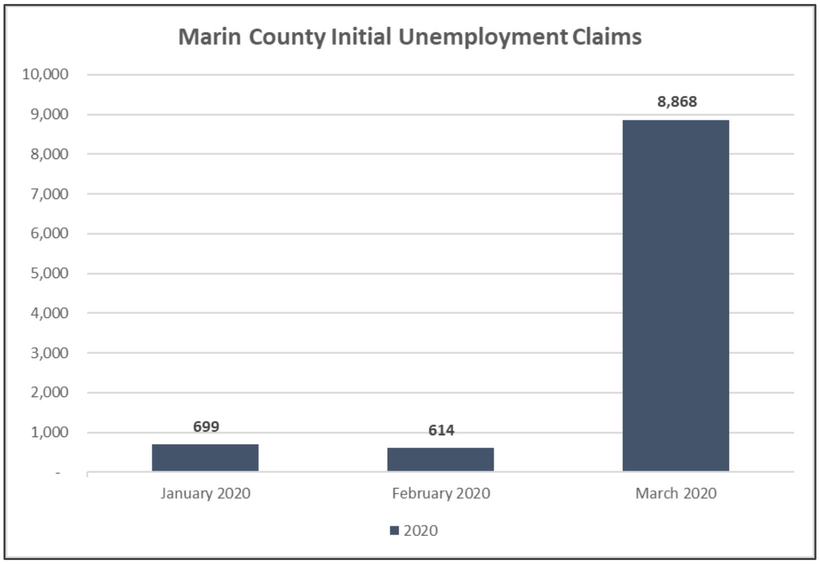
The Governor's January Proposed Budget aimed to build reserves, address the housing affordability crisis, tackle the root causes of homelessness and reduce the risks caused by climate change. Even with a $21 billion reserve fund, the Governor acknowledged that managing a recession would be challenging. After declaring a state of emergency on March 2, 2020, the State has issued several executive orders and appropriated more than $1 billion in emergency response and support efforts. The Legislative Analyst's Office noted that the state is on strong footing as a result of the large reserves, but also cited the increased risks to key state revenues as a result of stock market losses and unemployment.

On March 24, the California Department of Finance revised it guidance to State agencies and is now preparing a workload budget that limits budget changes to basic adjustments for caseload, enrollment or statutory cost of living adjustments. The Governor's May Budget Revision will provide more insight into the level of deficit the State faces, but the full picture will not be known until after the revised income tax deadline this summer. Due to falling tax revenues resulting from lower sales and income taxes, it is likely that statewide allocations for mandated health and safety services will be negatively impacted.

As shown below, California's workforce was immediately impacted by the Governor's stay at home order issued on March 19th. Over 2 million people filed initial unemployment claims in the ensuing three weeks, which is nearly 20 times more than the same period last year.



Similarly, data from Marin County shows a spike of more than 8,000 initial unemployment claims in March. Prior to March, Marin had the second lowest unemployment rate in the state at 3%. The new claims are likely to increase the local unemployment rate to nearly 10%.



With nearly 40% of the County's revenue coming from state and federal sources, we will be closely monitoring the State budget and economic data to determine what impacts they have on local programs. It has been your Board's long-standing policy not to backfill state or federally funded programs, however the County does maintain a $4.8 million reserve that can be used to maintain critical services in the short-term.

The Governor's May Revision is also likely to inform local jurisdictions with populations of less than 500,000 of their respective shares of the Coronavirus Relief Fund, which was part of the federal CARES Act. This allocation is expected to provide temporary relief, but is unlikely to fully offset the budget impacts, particularly those associated with revenue losses.

UPDATED 5 YEAR PROJECTION

Many of the County's core revenue streams support mandated health and safety functions, including many of the services provided by Health and Human Services, Sheriff, District Attorney, Fire and Probation. Two of the largest revenue streams are Proposition 172 Public Safety Sales Tax and Realignment, both of which are dependent on statewide sales tax revenues. Together, these two revenue sources account for $50 million annually, which is 15 percent of the revenue needed to support the County's health and safety programs.

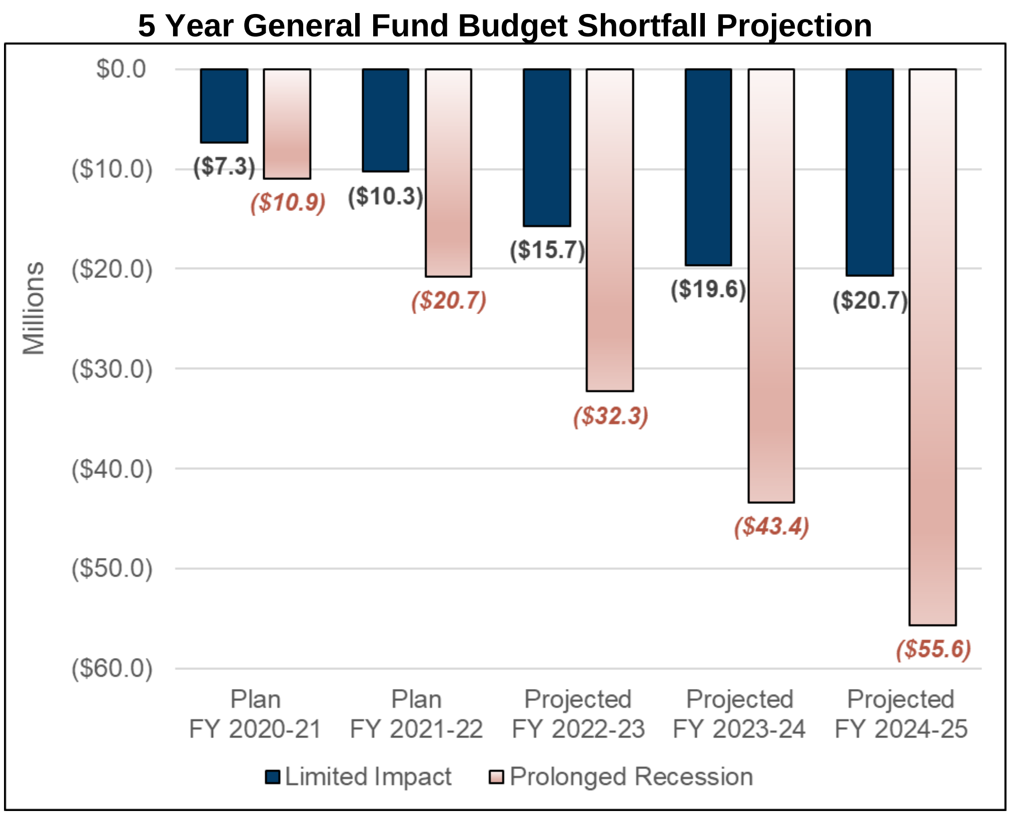
The table below represents an initial estimate of the revenue losses resulting from shelter in place orders. These revenue losses span multiple departments and special revenue funds.

Estimated Monthly Revenue Losses

Type	Impacted Services	Source	Monthly Loss
HHS Realignment	Social Services, Public Health, Behavioral Health	Statewide sales	$1,400,000
Public Safety Sales Tax	Sheriff, District Attorney, Probation, Fire	Statewide sales	$1,325,000
Gas Taxes	Road Maintenance and Rehab Projects	Local and Statewide fuel consumption	$700,000
Parks and Open Space Measure A	Park improvements, preservation, vegetation management	Countywide sales	$725,000
TOT (Hotel Tax)	Countywide, Fire, CDA	Unincorporated lodging	$450,000
Sales Tax	Countywide	Unincorporated sales	$250,000
Property Transfer Taxes	Countywide	Countywide real estate transactions	$275,000
Permit Fees	CDA and DPW	Unincorporated construction activity	$350,000
Rentals and Box Office Fees	Parks, Marin Center	Facility and event rentals	$325,000
Recording Fees	Assessor	Countywide	$35,000
Parking Fines	Sheriff	Unincorporated	$30,000
Unclaimed Gas Tax	Agriculture, Weight and Measures	Statewide fuel consumption	$50,000
		Monthly Total	**$5,915,000**

In addition to revenue losses, County expenditures for emergency response, community support and medical surge preparations have also increased in the past few weeks. The majority of these expenditures are expected to be reimbursed by FEMA or through state grants, however, there will be both one-time and ongoing fiscal impacts as a result of the changing public health landscape and the evolving needs of our community.

As shown below, the County is facing General Fund budget shortfalls in each of the next five years. The chart shows two different scenarios and the ranges of future shortfalls become much wider in future years, which is indicative of the potential economic impacts that we are facing.



In both scenarios, we are assuming current services levels, cost of living adjustments in each year, reduced revenue in year 1 and increased pension costs beginning in year 2. We have also removed the assumption of increasing ongoing funding for the summer road program ($4 million) and we are assuming that we will not contribute to the Facility Reserve ($5 million).

Under the ‘Limited Impact’ scenario, we are assuming that economic activity returns to a degree of normalcy by the fall of 2020. Under this scenario, most revenues return to their current levels within two years and the local property tax growth rates stay within their current range of 4% to 5% annually.

Under the ‘Prolonged Recession’ scenario, we are assuming longer term economic impacts caused by COVID-19 and response measures over the next year. Pension costs increase more rapidly, local property tax growth rates decline to levels similar to the Great Recession, and most other revenue sources do not return to their current levels over the next five years.

The figures above do not incorporate anticipated federal stimulus funds for California counties. The Governor's May Budget revision is expected to include an allocation of CARES Act funds for local jurisdictions and we will return to your Board in June with a revised 5 Year Projection that incorporates those funds.

Revised Budget Instructions
Due to the uncertainty regarding the future budget outlook we are recommending that your Board approve the following adjustments to the budget process for FY 2020-22:

1. Prepare a 'rollover' budget for FY 2020-21 budget that maintains current service levels, but defers one-time and ongoing budgetary commitments
2. Reconsider one-time and ongoing budget allocations in November, once more is known about the economic outlook and state budget impacts
3. Prioritize countywide recruitments for existing vacancies in programs that directly support emergency response efforts, for departments that have high vacancy rates, and for positions with underlying revenue sources that are sustainable over the next three years
4. Defer inflation-based fee increases until October 2020

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 $31.1 million year-end fund balance in FY 2019-20. Of this balance, $20 million will be used to support next year's operating budget, $6.0 million will be recommended for enhanced reserves, $4.6 million will be recommended for future allocations in the FY 2020-22 Proposed Budget, and $500,000 will be used to extend project-based positions.

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 2019-20 Revised Budget

Expenditure savings	$14.7 million
Excess revenues	$14.8 million
Previously approved net county cost reductions	$1.6 million
Projected Year-End Fund Balance	$31.1 million

Summary of General Fund Revenue Projections
Countywide and department revenue sources were analyzed based on year-to-date receipts and historical trends. The local shelter in place orders have begun to impact a variety of revenue streams, including transient occupancy tax, sales tax, recording fees, parks permits, Marin Center rentals, parking fines and engineering review fees. However, due to the timing of most tax receipts, the impacts of shelter in place orders will be much more significant in the next fiscal year.

Due to a strong local economy throughout the first 8 months of the year, FY 2019-20 revenues are projected to be $14.8 million better than the revised budget. This is largely due to better than expected interest earnings and countywide tax revenues, including excess ERAF property tax, supplemental property tax and property transfer tax. General Fund revenue projections also include reduced expectations for Public Defender and Probation fees, as these fees are no longer collected for individuals who cannot afford to pay, and for Sheriff and Probation for ongoing shortfalls in federal allocations.

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 $14.7 million in expenditure savings. Consistent with prior years, the majority of Countywide expenditure savings are attributable to salary savings. This year's salary savings of $12.7 million is similar to last year and is the 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 2019, and these were fully cost-covered by corresponding state reimbursements. All other departments are projected to end the year within their current expenditure budget.

Next Steps
In preparation for the upcoming budgetary shortfalls, we are planning to recommend increasing the Budget Stabilization Reserve (330355) by $6.0 million as part the Proposed FY 2020-21 budget. This would bring the balance of the budget stabilization reserve to approximately $12.3 million and would help mitigate service reductions in future years. We will also include an update on the State budget and federal stimulus allocations as part of the June budget hearings.

FISCAL IMPACT
In June, if your Board approves the recommended $6 million increase in reserves, there will be approximately $5.1 million in one-time revenues to be considered for allocation in the fall, depending on how our budget picture looks once the economy stabilizes. The increased reserve balances will be used to offset or mitigate service reductions in the short-term while we

consider rebalancing options in November when we issue our FY 2021-22 budget instructions.

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

Sincerely,

Bret Uppendahl
Budget Manager

Reviewed by,

Matthew H. Hymel
County Administrator