ALAMEDA COUNTY
BUDGET UPDATE

Presented to the Alameda County Budget Workgroup
March 13, 2019

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Economic Trends - National
Prime Age (25-54) Employment to Population Ratio
Manufacturing Employment
National Housing Starts
10-Year less 2-Year Treasury Yield Curve
Economic Trends - Local
Alameda County Unemployment Rate

Economic Trends: Local

3.4%
Alameda County Median Home Value

$732,250
Alameda County Assessment Growth

Source: Alameda County Assessor’s Office
California Housing Permits vs Demand

How much we need to build to meet demand

Source: California Department of Housing and Community Development
Key Economic Takeaways

• Near-term economy remains robust, driven by a strong labor market
• More ‘dovish’ guidance from Federal Reserve on Jan 29-30 meeting providing support to markets
• Longer-term concerns remain
  o National housing market softer
  o Economic data out of Europe & China suggests their economies are slowing – U.S. / China trade talks ongoing
  o Some major cyclical corporations cut growth forecasts
  o Yield curve close to inverting (inversion is a reliable indicator of a future recession)

**Bottom Line:** Economy at the moment remains strong, but risks look larger than this time last year. We know the next inevitable recession is coming, we just do not know when it will arrive.
Federal & State Budget Update
Federal Update

• Split control in Congress
  • House priorities include ethics & election reform, infrastructure, drug pricing, voting rights, immigration, and climate change
  • Senate is expected to prioritize nominations

• Health & Human Services Title X family planning rule change – California and 18 other States have filed suit to block changes in the grant program

• Debt ceiling re-imposed March 2 after 1-year suspension ended - Preliminary estimate of the Bipartisan Policy Center is that unless the debt ceiling is raised, the Treasury Department will no longer to meet all the country’s financial obligations in full and on time in fall 2019

• President released $4.7 trillion proposed budget
  • Sharp cuts to domestic spending, increases to defense
  • $8.6 billion in wall funding
State Update – Governor’s Budget

• Governor proposed $209 billion budget ($144 billion general fund)

• Invests $13.6 bil in ‘budgetary resiliency’ ($4.8 bil to unfunded pension liabilities, $4.8 bil to build reserves including ‘rainy day fund’, $4 bil to pay outstanding debt)

• Most new funding one-time

• Emphasis on housing and healthcare
Governor’s Budget Overview – ‘Rainy Day Fund’
Governor’s Budget Overview – IHSS Proposal

• Invests State General Fund to ‘re-base’ county Maintenance of Effort (MOE) payments to be lower than what they would be under current law

• Lowers MOE inflator from 7% to 4%

• Ends realignment growth transfer from Mental Health to IHSS

• Permanently restores 7% IHSS hours cut

• Increases county share of cost for locally negotiated wage increases once State minimum wage hits $15/hr (currently scheduled for Jan 1, 2022)

New MOE arrangement could be unwound by State in future budgets
Governor’s Budget Overview – Impacts On Counties

**Housing/Homelessness**
- $500 mil to local governments to site and build emergency shelters, navigation centers, and/or supportive housing
- $500 mil to expand State Housing Tax Credit program
- $750 mil for short term planning and production grants for housing
- $500 mil to expand mixed income loan program to develop housing
- $100 mil to augment Whole Person Care (requires local match)
- **Revamping Regional Housing Needs Assessment process & tying SB 1 transportation funding to meeting housing goals**

**Other Targeted Investments:**
- Immigration rapid response
- Census count
Governor’s Budget Overview – Impacts On Residents

**Health Care**
- Expands Medi-Cal to undocumented young adults
- Leverages State buying power through Medi-Cal to lower prescription drug costs
- Institutes State individual health insurance mandate
- Uses fines from mandate non-compliance to augment subsidies on Covered California exchange
- Alzheimer’s Care
- Health care workforce development

**Other Safety Net Programs**
- Doubles State Earned Income Tax Credit from $500 mil to $1 bil
- Increase CalWORKS grants to 50% of the federal poverty level
- SSI Advocacy

**Child Care & Early Education**
- Universal pre-school for 4 year olds (200k slots by FY 22)
- 6 months paid parental leave (not funded in budget)
- $750 mil for facility development to promote full-day kindergarten
- $50 mil for pilot child savings accounts
5-Year Budget Forecast

Presented at December 11, 2018 Alameda County Board of Supervisors Retreat
5 Year Forecast Assumptions & Drivers

Assumptions:
• Continued Strong Economy
• No Major Federal or State Policy Changes
• No New Unfunded Programs
• $1.35 IHSS Wage Supplement starting Jan 1, 2019
• $0.40 IHSS Wage Supplement starting Jan 1, 2020
• No Other Major Changes to Labor Agreements
• Elimination of Adult Public Protection Fees

Major Drivers:
• Labor Costs – Salary, Benefits & Pension (S&EB)
  o Increased Operating Costs Outpacing Revenue Growth
• IHSS Costs
Key Revenue Growth Rates

5-Year Budget Forecast
Budget Gaps & Balancing Strategies (millions)

*FY 17/18 Budget Gap excludes the $40 million estimated IHSS cost shift that was restored in VBB as part of new MOE arrangement
5 Year Forecast – Projected Budget Gap (millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budget Gap (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 19/20</td>
<td>$64.9</td>
</tr>
<tr>
<td>FY 20/21</td>
<td>$88.2</td>
</tr>
<tr>
<td>FY 21/22</td>
<td>$132.3</td>
</tr>
<tr>
<td>FY 22/23</td>
<td>$161.3</td>
</tr>
<tr>
<td>FY 23/24</td>
<td>$201.6</td>
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</table>
Budget Gap - Forecast Comparisons

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 18/19</th>
<th>FY 19/20</th>
<th>FY 20/21</th>
<th>FY 21/22</th>
<th>FY 22/23</th>
<th>FY 23/24</th>
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<tbody>
<tr>
<td>Jan 2016</td>
<td>$73</td>
<td>$91</td>
<td>$112</td>
<td>$142</td>
<td>$193</td>
<td>$212</td>
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<tr>
<td>July 2017</td>
<td>$60</td>
<td>$84</td>
<td>$109</td>
<td>$141</td>
<td>$168</td>
<td>$202</td>
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<tr>
<td>Jan 2018</td>
<td>$68</td>
<td>$71</td>
<td>$97</td>
<td>$132</td>
<td>$171</td>
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<tr>
<td>July 2018</td>
<td>$66</td>
<td>$65</td>
<td>$88</td>
<td>$142</td>
<td>$161</td>
<td></td>
</tr>
<tr>
<td>Dec 2018</td>
<td>$73</td>
<td>$71</td>
<td>$97</td>
<td>$132</td>
<td>$161</td>
<td></td>
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<tr>
<td>Actual</td>
<td>$73</td>
<td>$91</td>
<td>$112</td>
<td>$142</td>
<td>$193</td>
<td>$212</td>
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Recession Scenarios

**Mild Recession Scenario Assumptions:**
- Recession begins FY 19/20
- Revenue deviation from trend approximately half of “Great Recession” impact on revenue actuals
- Revenue deviation from trend lasts 2 years
- Spending at “Base Case” forecast level

**Severe Recession Scenario Assumptions:**
- Recession begins FY 19/20
- Revenue deviation from trend modeled after “Great Recession” on revenue actuals
- Deviation from trend lasts 4 years
- Spending at “Base Case” forecast level
Recession Scenarios

<table>
<thead>
<tr>
<th></th>
<th>FY 18</th>
<th>FY 19</th>
<th>FY 20 Forecast</th>
<th>FY 21 Forecast</th>
<th>FY 22 Forecast</th>
<th>FY 23 Forecast</th>
<th>FY 24 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions</td>
<td>$2,500</td>
<td>$2,700</td>
<td>$2,900</td>
<td>$3,100</td>
<td>$3,300</td>
<td>$3,500</td>
<td>$3,700</td>
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</table>

5-Year Budget Forecast

- **Base Case Appropriations**
- **Base Case Revenues**
- **Mild Recession Revenues**
- **Severe Recession Revenues**
Recession Scenarios Budget Gap (millions)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Base Case</th>
<th>Mild Recession</th>
<th>Severe Recession</th>
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</thead>
<tbody>
<tr>
<td>2019-20</td>
<td>$64.9</td>
<td>$100.2</td>
<td>$135.1</td>
</tr>
<tr>
<td>2020-21</td>
<td>$88.2</td>
<td>$161.8</td>
<td>$233.9</td>
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<tr>
<td>2021-22</td>
<td>$132.3</td>
<td>$184.7</td>
<td>$332.8</td>
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<tr>
<td>2022-23</td>
<td>$161.3</td>
<td>$212.7</td>
<td>$442.2</td>
</tr>
<tr>
<td>2023-24</td>
<td>$201.6</td>
<td>$251.1</td>
<td>$475.1</td>
</tr>
</tbody>
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County Budget Drivers
Major Budget Drivers

• Increasing health and retirement costs

• Program costs rising faster than revenues

• A greater share of State revenues to counties being directly tied to sales tax and vehicle license fees means counties will feel an immediate impact during an economic downturn

• Exposure to State and federal budget and/or policy changes
Governor’s Budget Overview – Areas of Concern

State Budget Architecture

• Aggressive Revenue Assumptions
  o Current & budget year revenue projections very close to LAO
  o Major change from previous Governor who presented much lower than LAO projections in his January budget

• Economic Slowdown – Finance Director projecting $70 bil revenue drop over 3 years in recession scenario

• Future year caseload growth assumptions optimistic - especially for MediCal

Specific Policies

• Homelessness funding retaining large city carve-out despite support for local collaboration
  o Administration has testified new homeless funding will not go out like HEAP

• IHSS lower inflation factor welcome, but IHSS is still a large County general fund cost that is compounding at a high rate. New inflation factor (4%) is still higher than inflation factor under old MOE (3.5%). Counties will take a higher share of cost in future locally negotiated wage increases. State can always unwind arrangement if caseload comes in higher than expected
Pending Factors

- Expiration of federal waivers (Title IV-E and Medicaid) that provide significant revenue to the County and its partners
- Rising pension and health benefit costs
- Infrastructure costs
- Pending litigation
- Disaster Costs ($18 billion impact Statewide from 2017 fires)
- Economic downturn
- State & federal actions – 60-65% of County General Fund Budget is from State & federal sources when including Medicaid Charges for Services
Vision 2026
Vision 2026
Shared Vision

**Thriving and Resilient Population**
Individuals and communities are empowered to overcome adversities and supported so they can grow, flourish and be self-sufficient.

**Healthy Environment**
Comprehensive utilization of environmentally sustainable practices that conserve natural resources while reducing pollution and harm to the environment.

**Safe and Livable Communities**
Safe and secure communities with accessible infrastructure including open space and recreational facilities, and facilitates the availability of diverse and affordable housing.

**Prosperous and Vibrant Economy**
Emergence, robust growth and profitability of all businesses across a diversity of sectors, that also create employment opportunities for all residents.

The County Budget, along with all other County activities, will be guided by Vision 2026
County Budget Guidelines
Budget Strategy & Guidelines

• All Departments to submit a Maintenance of Effort budget

• Departments to include a 3.5% Cost-Of-Living Adjustment for eligible contracts with Community-Based Organizations

• Departments to identify funding that supports the Homelessness Action Plan

• Budgets to align with Vision 2026
County Budget Schedule
County Budget Schedule

**January**
- Internal County staff budget kickoff

**February**
- Departments submit budget requests

**March**
- Departments submit budget narratives

**April**
- Early Budget Work Sessions

**April/May**
- Budget Workgroup meetings, budget gap identified, reduction targets assigned

**May**
- Departments submit reduction plans

**Early June**
- County Administrator presents Proposed Budget to Board of Supervisors

**Late June**
- Budget hearings and Final Budget adoption
Key Budget Dates

- ISF budget requests due: January 25, 2019
- Last Board meeting for mid-year adj.: February 5, 2019
- Non-ISF budget requests due: March 1, 2019
- Budget narratives due: March 1, 2019
- CBO and Human Impacts due: March 15, 2019
- Children’s Svcs and Unincorp. budgets due: March 27, 2019
- Early Budget Work Session: Early April 2019
- Reduction targets to depts.: April 2019
- VBB plans submitted by depts.: May 2019
- Proposed Budget submitted: Early June 2019
- Final Budget adopted: Late June 2019