



ALAMEDA COUNTY BUDGET UPDATE

Presented to the Alameda County Budget Workgroup
March 13, 2019

Susan S. Muranishi, County Administrator

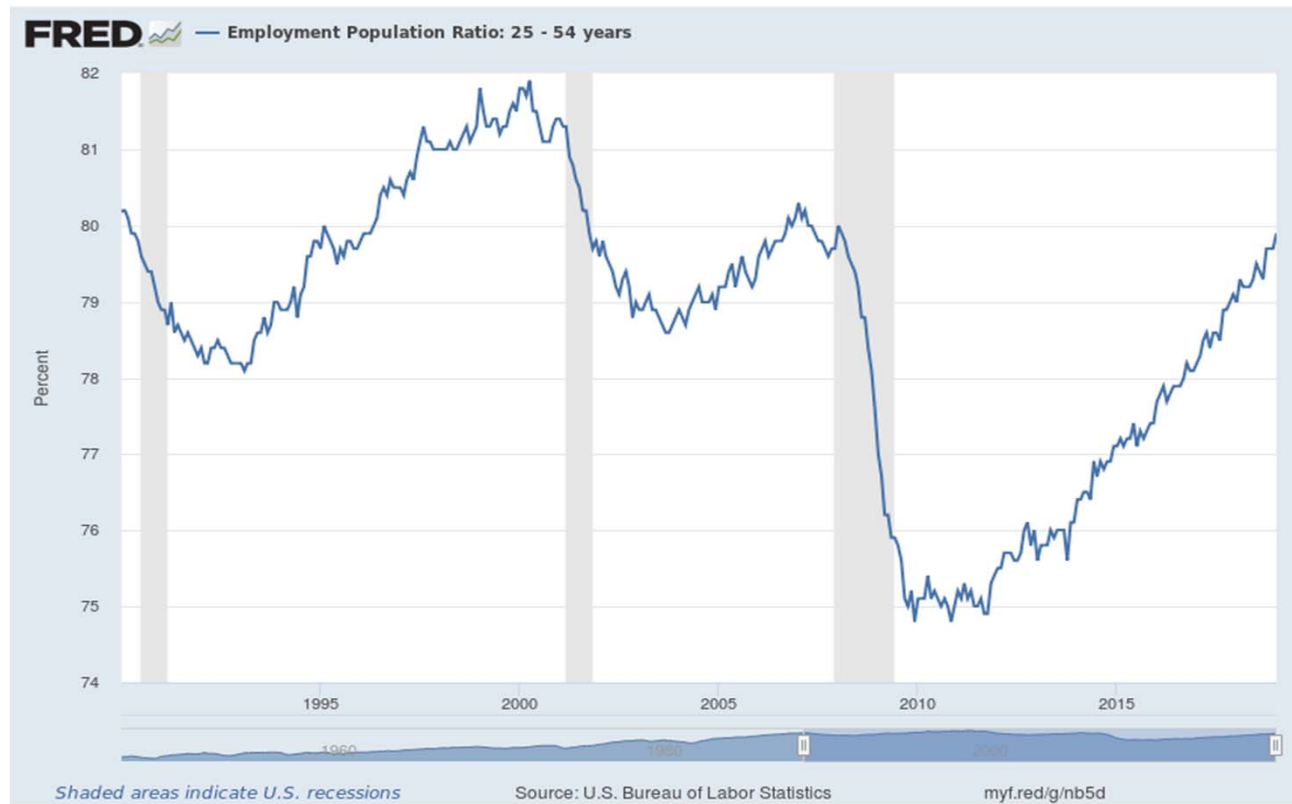
Melanie Atendido, Principal Analyst

Pete Coletto, Principal Analyst

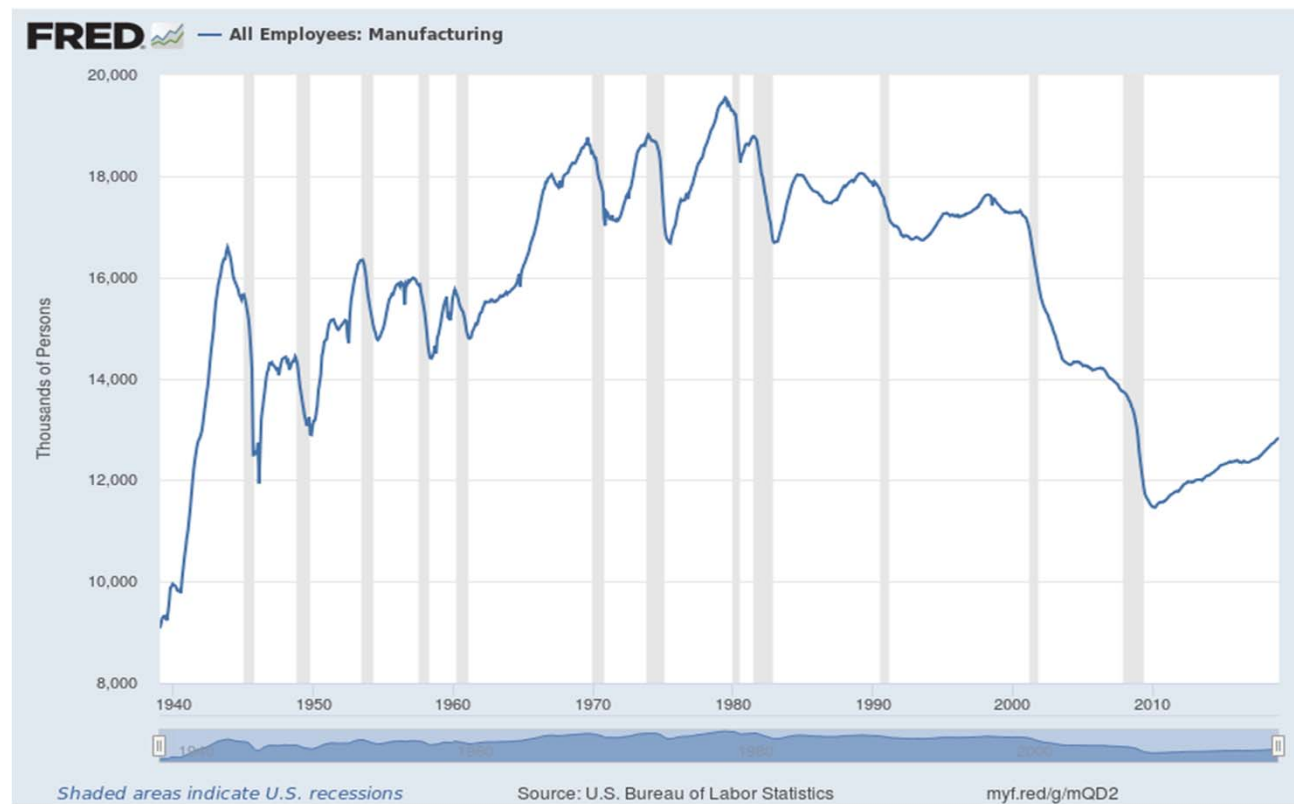
Economic Trends - National



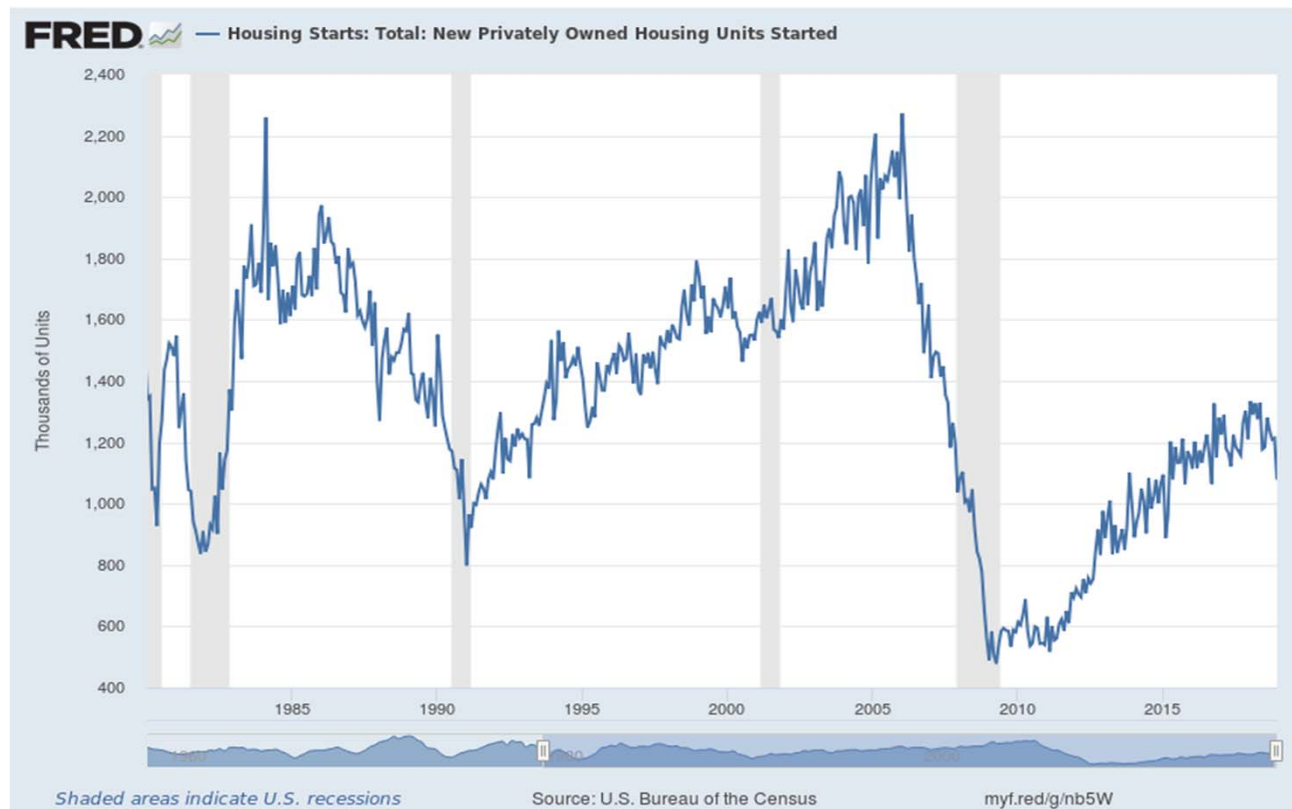
Prime Age (25-54) Employment to Population Ratio



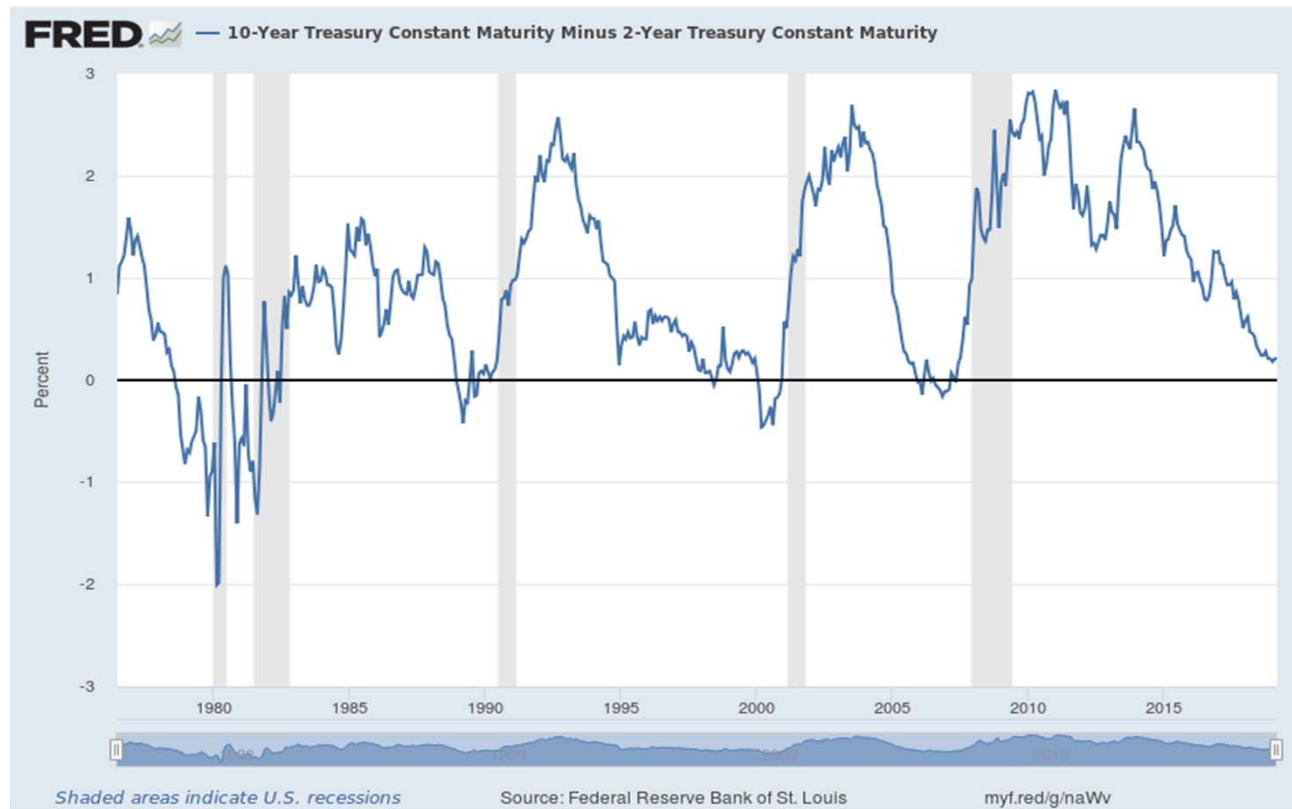
Manufacturing Employment



National Housing Starts



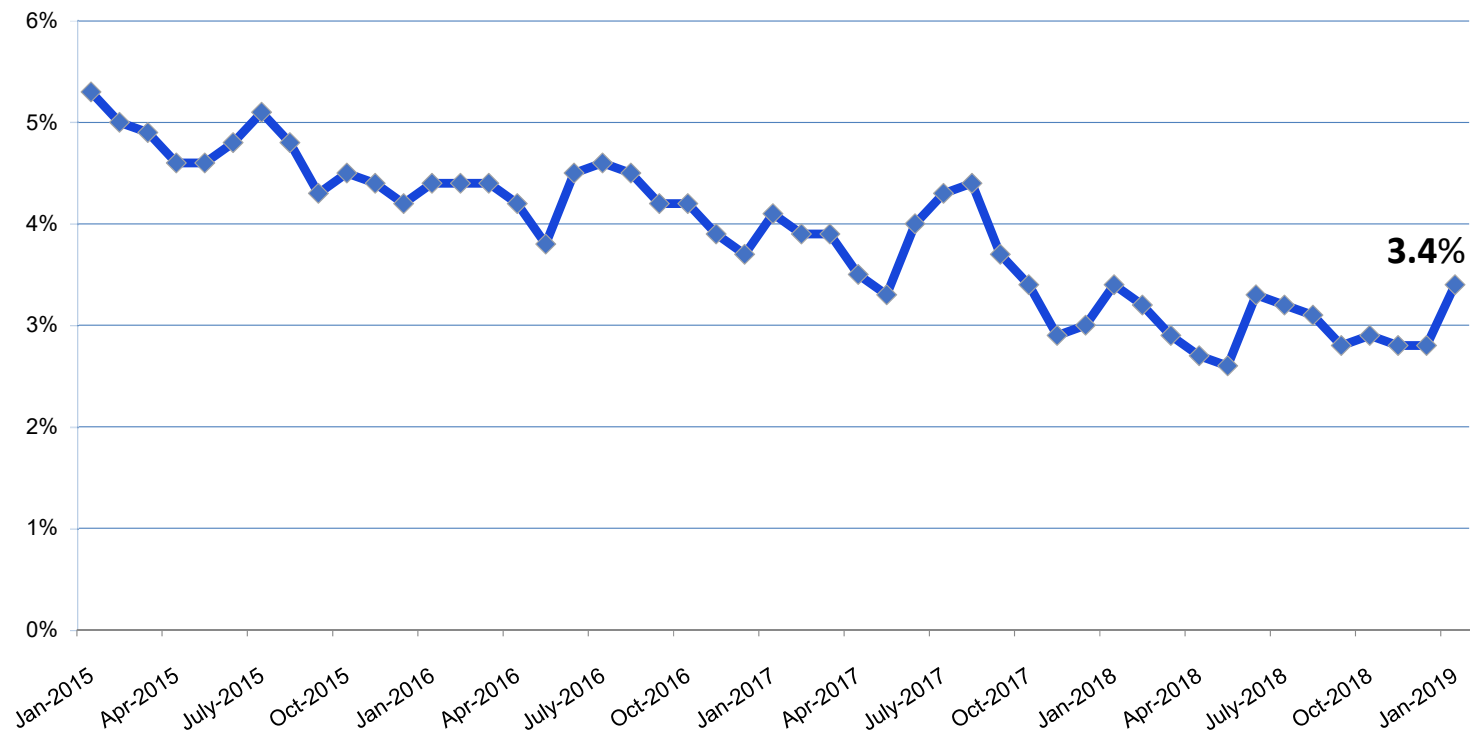
10-Year less 2-Year Treasury Yield Curve



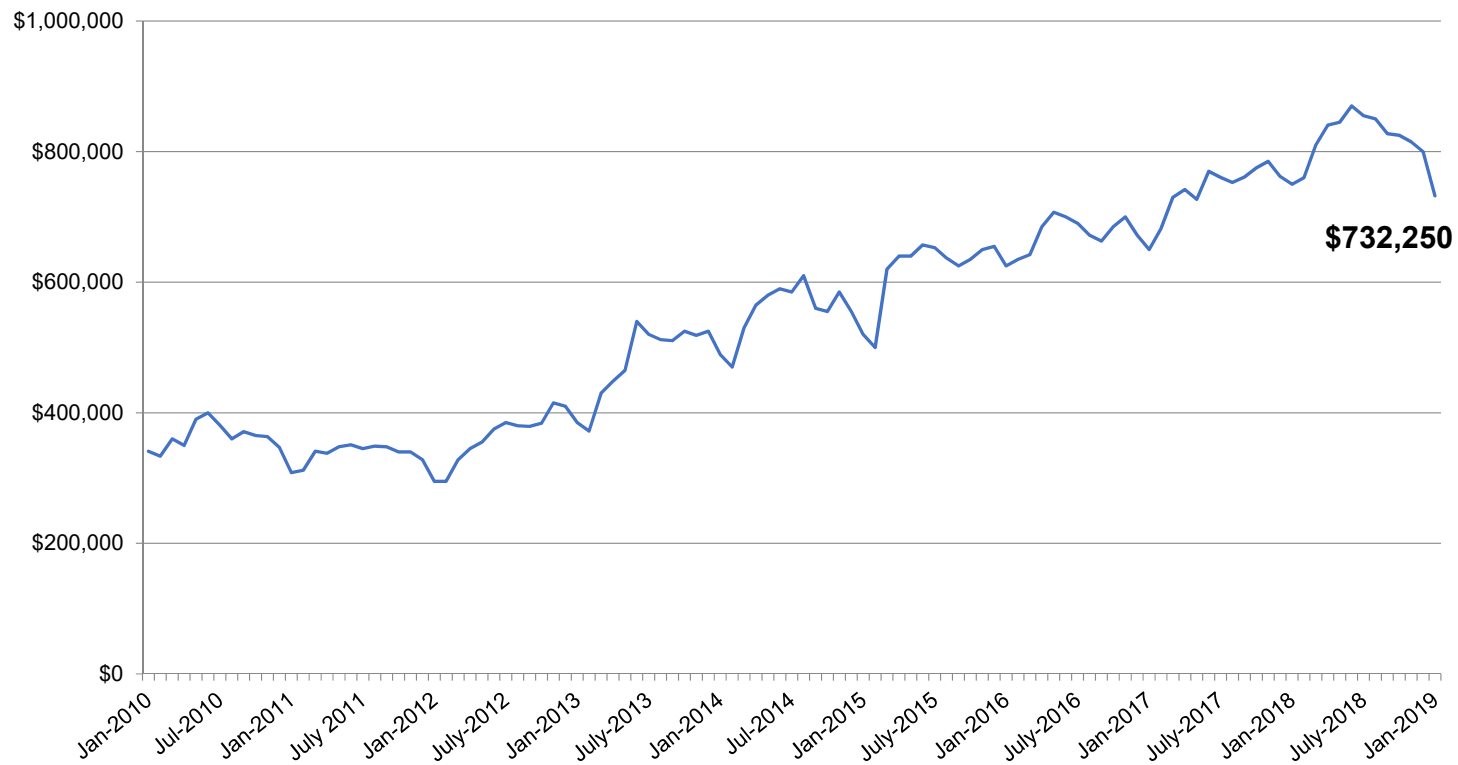
Economic Trends - Local



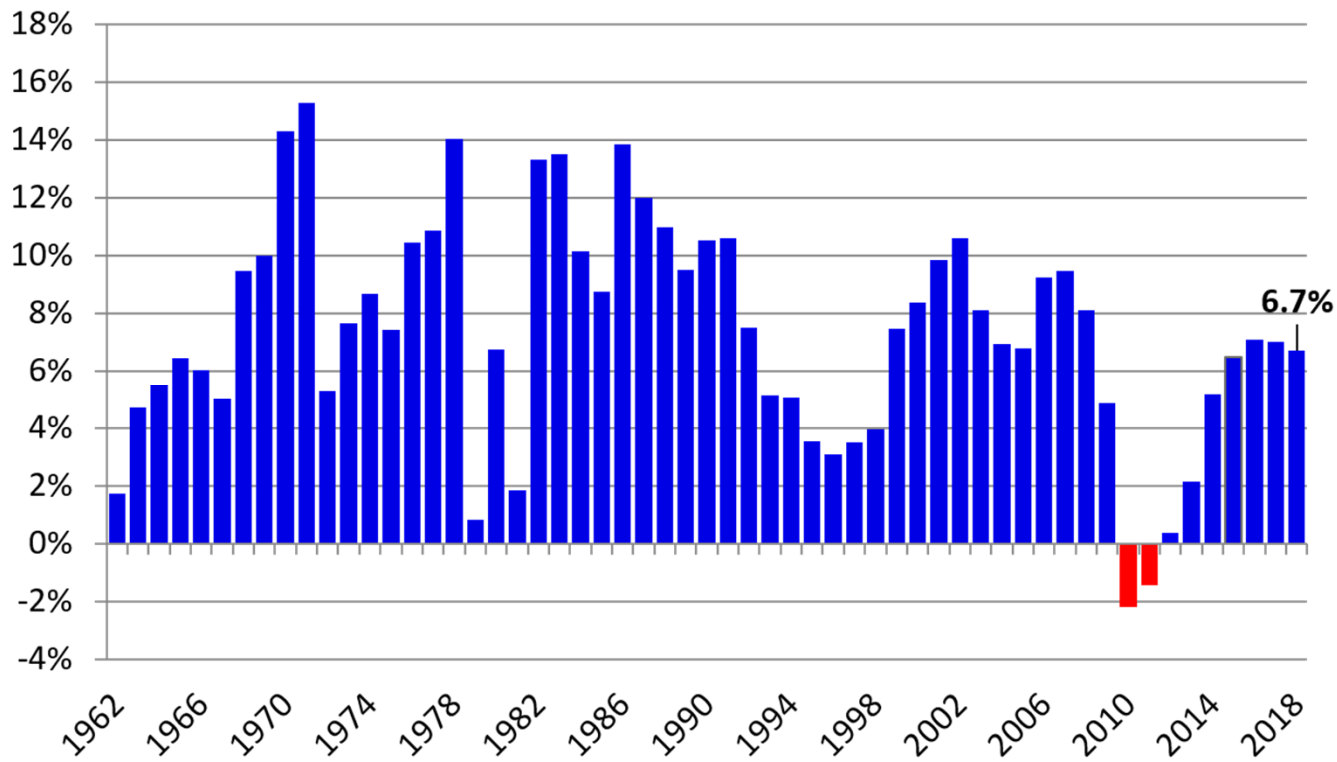
Alameda County Unemployment Rate



Alameda County Median Home Value



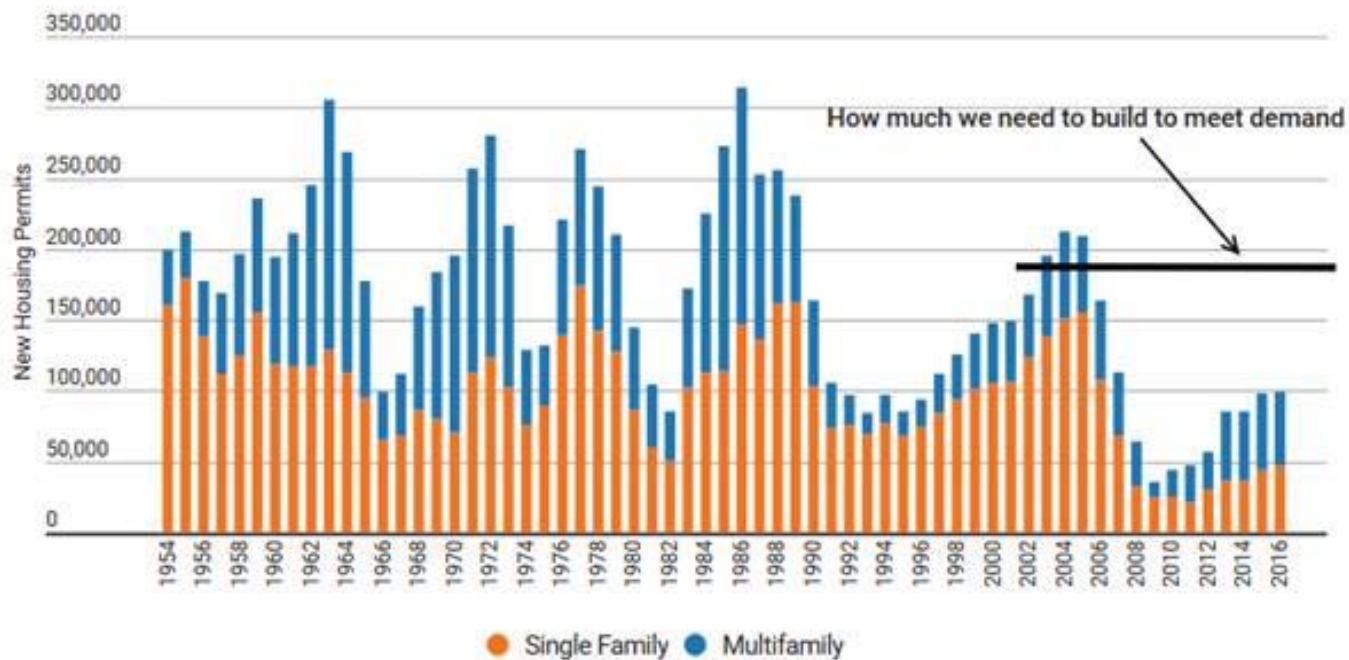
Alameda County Assessment Growth



County Administrator's Office

Source: Alameda County Assessor's Office

California Housing Permits vs Demand

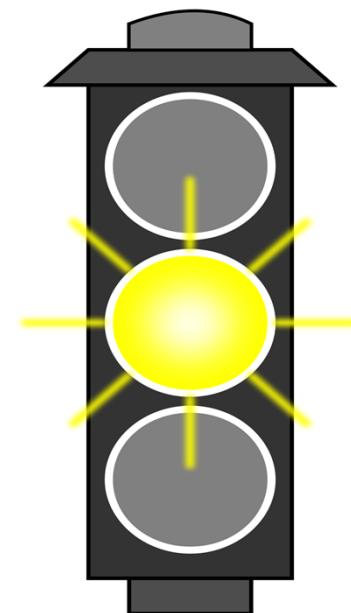


Source: California Department of Housing and Community Development



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
 - National housing market softer
 - Economic data out of Europe & China suggests their economies are slowing – U.S. / China trade talks ongoing
 - Some major cyclical corporations cut growth forecasts
 - 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

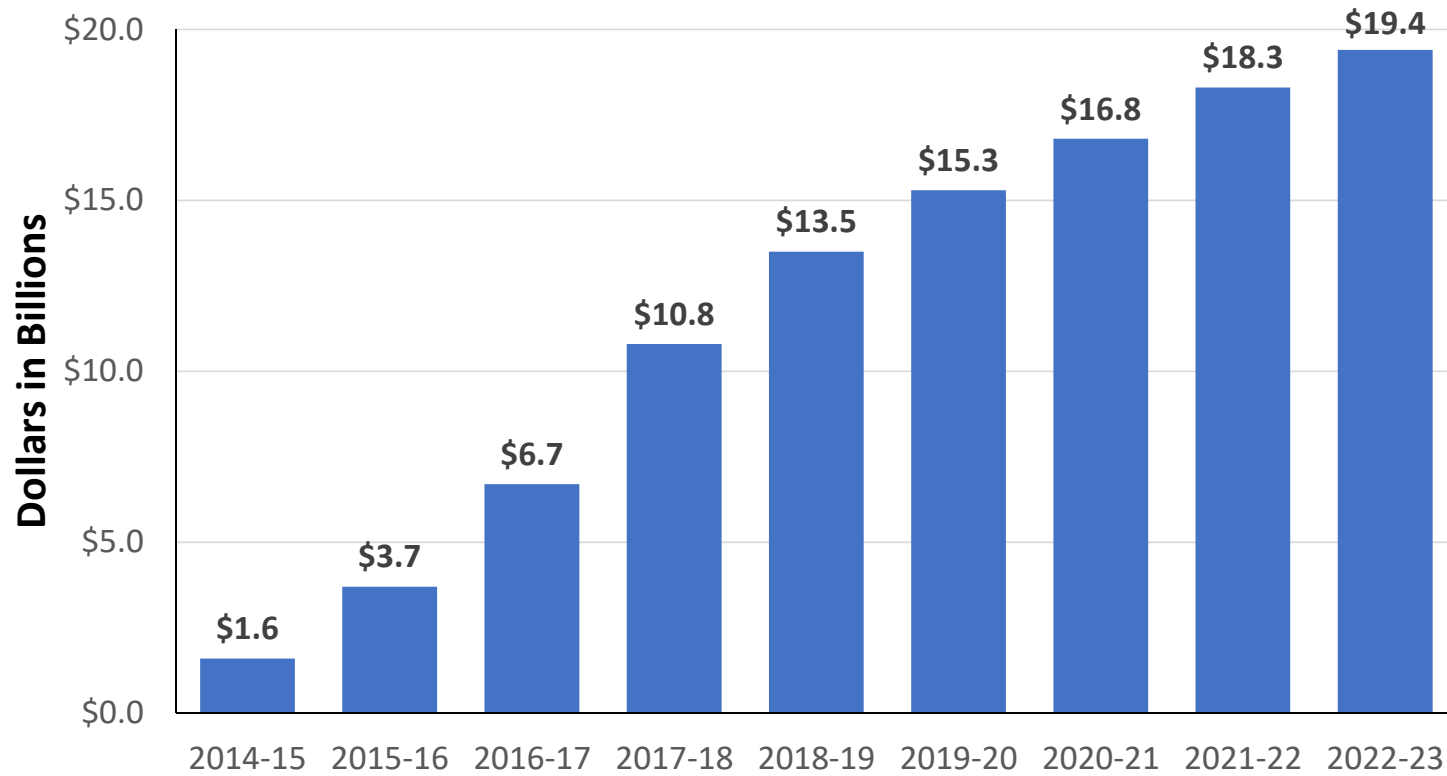
- Governor proposed \$209 billion budget (\$144 billion general fund)
- Invests \$13.6 bil in ‘budgetary resiliency’ (\$4.8 bil to unfunded pension liabilities, \$4.8 bil to build reserves including ‘rainy day fund’, \$4 bil to pay outstanding debt)
- Most new funding one-time
- Emphasis on housing and healthcare



[This Photo](#) by Unknown Author is licensed under [CC BY-NC-ND](#)



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**



[This Photo](#) by Unknown Author is licensed under [CC BY-SA-NC](#)

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*



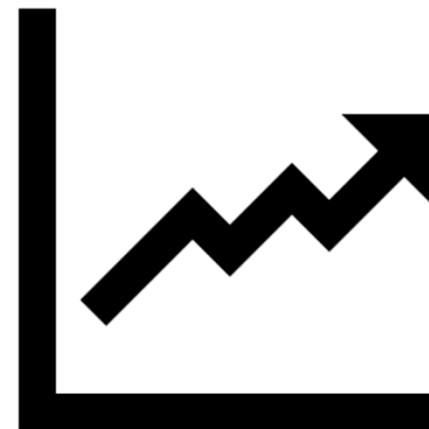
5 Year Forecast Assumptions & Drivers

Assumptions:

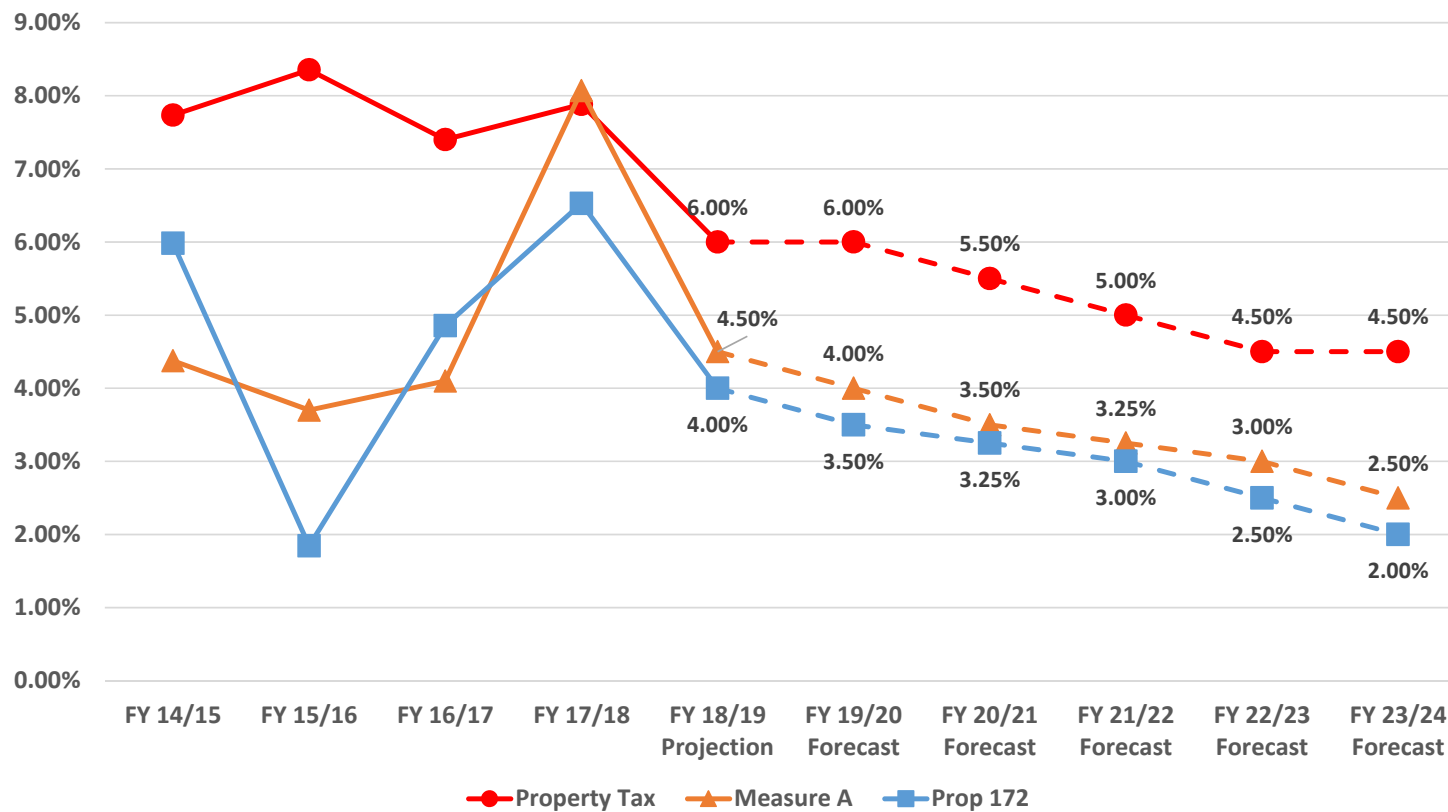
- Continued Strong Economy
- No Major Federal or State Policy Changes
- No New Unfunded Programs
- \$1.35 IHSS Wage Supplement starting Jan 1, 2019
- \$0.40 IHSS Wage Supplement starting Jan 1, 2020
- No Other Major Changes to Labor Agreements
- Elimination of Adult Public Protection Fees

Major Drivers:

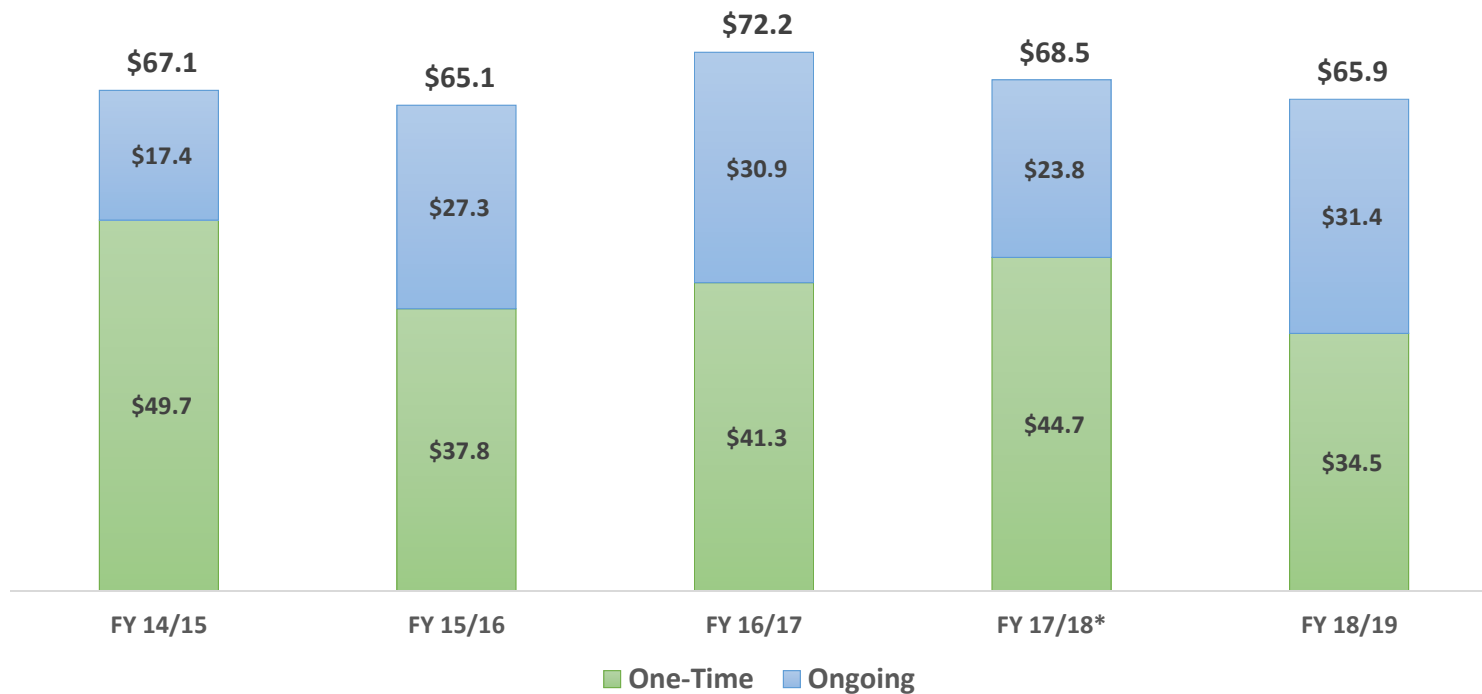
- Labor Costs – Salary, Benefits & Pension (S&EB)
 - Increased Operating Costs Outpacing Revenue Growth
- IHSS Costs



Key Revenue Growth Rates



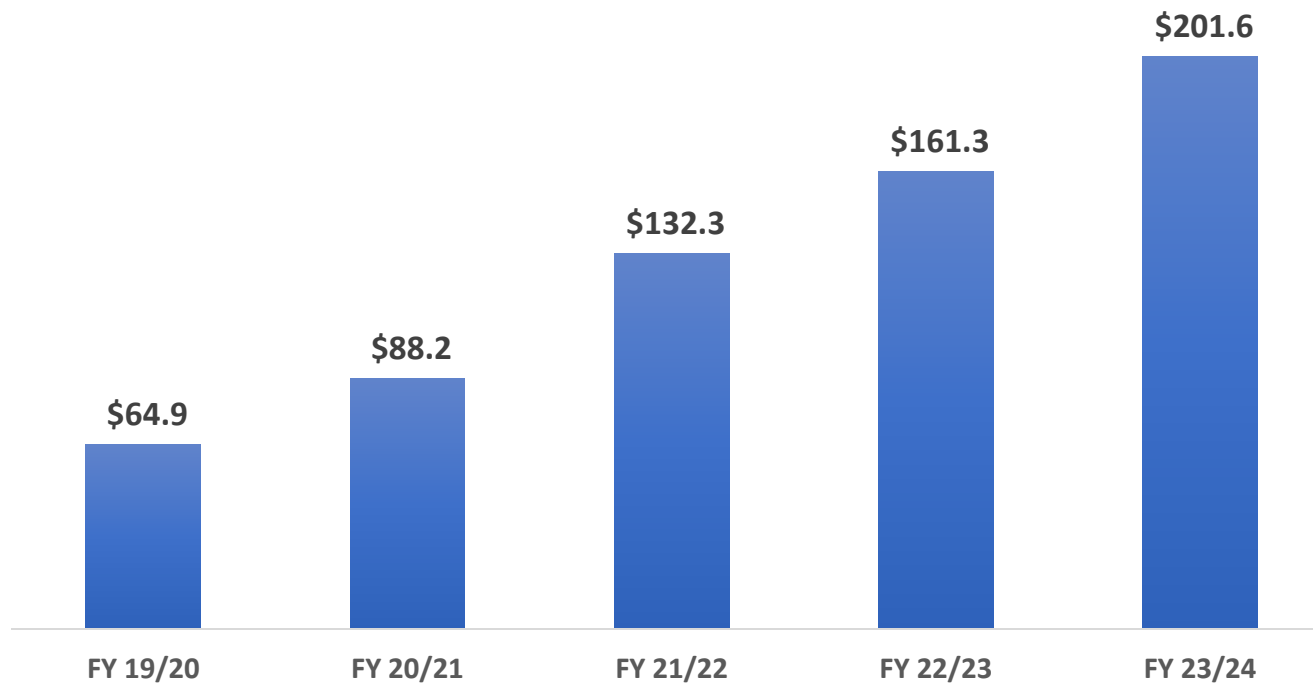
Budget Gaps & Balancing Strategies (millions)



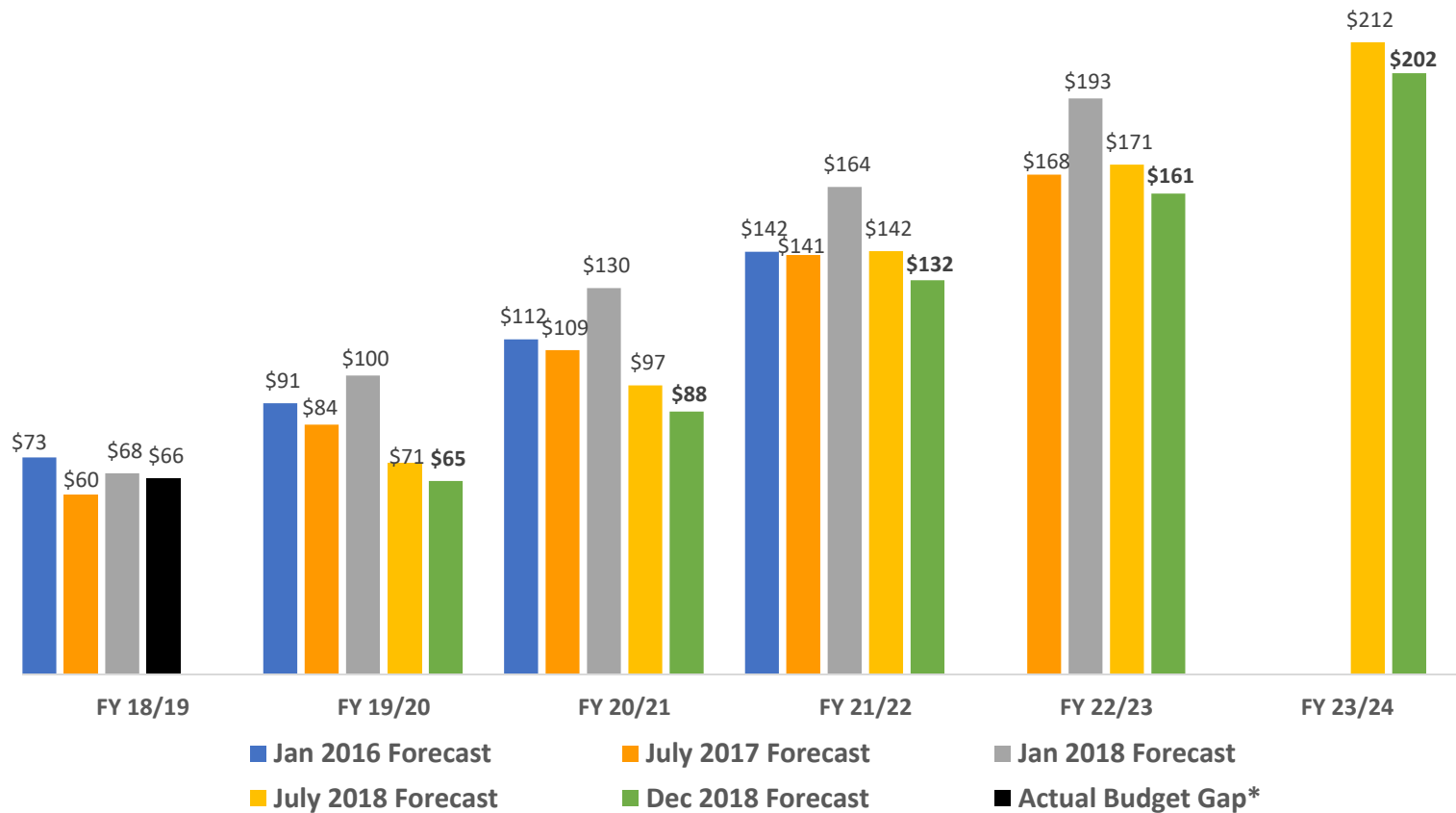
*FY 17/18 Budget Gap excludes the \$40 million estimated IHSS cost shift that was restored in VBB as part of new MOE arrangement



5 Year Forecast – Projected Budget Gap (millions)



Budget Gap - Forecast Comparisons



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:

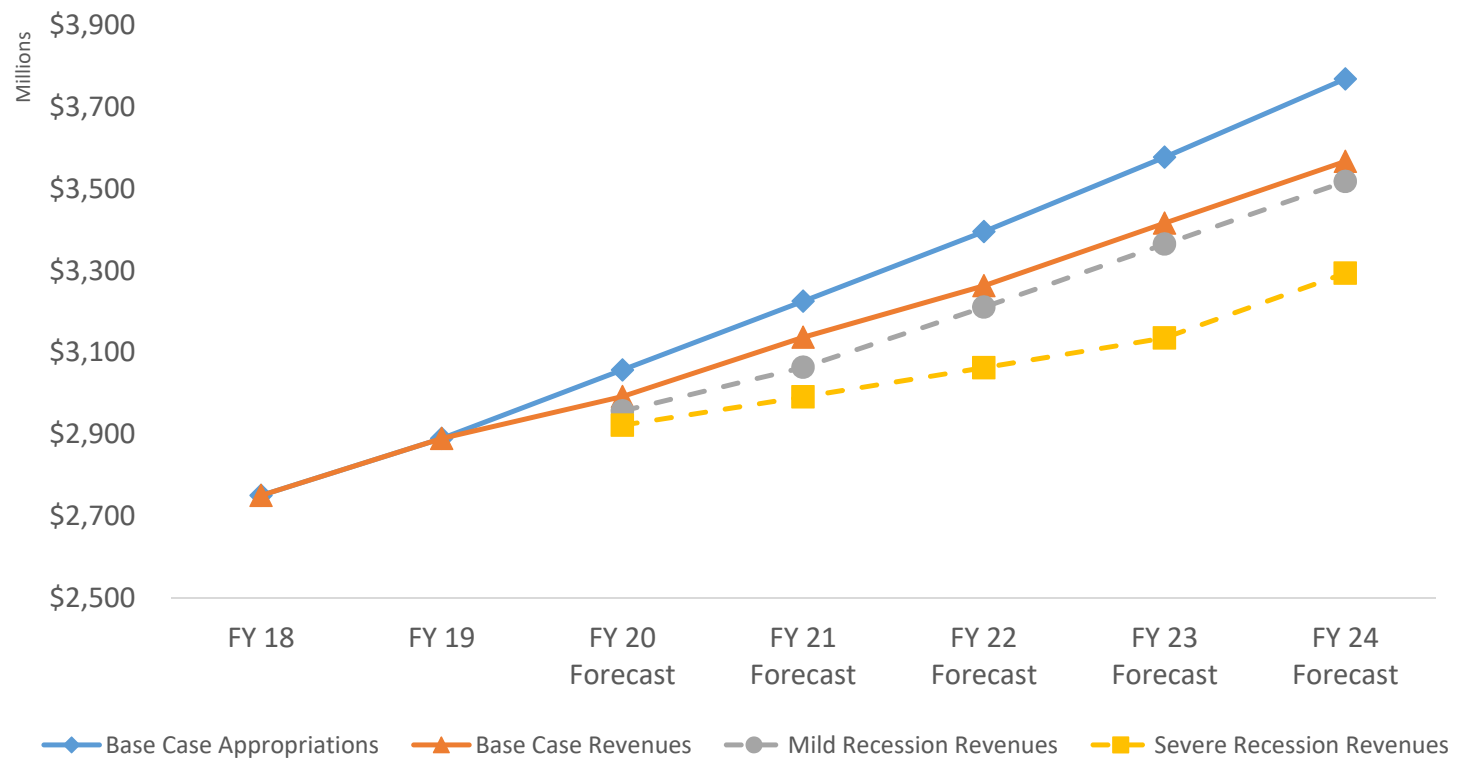
- Recession begins FY 19/20
- Revenue deviation from trend modeled after “Great Recession” on revenue actuals
- Deviation from trend lasts 4 years
- Spending at “Base Case” forecast level



[This Photo](#) by Unknown Author is licensed under [CC BY-SA](#)



Recession Scenarios



Recession Scenarios Budget Gap (millions)

Fiscal Year	Base Case	Mild Recession	Severe Recession
2019-20	\$64.9	\$100.2	\$135.1
2020-21	\$88.2	\$161.8	\$233.9
2021-22	\$132.3	\$184.7	\$332.8
2022-23	\$161.3	\$212.7	\$442.2
2023-24	\$201.6	\$251.1	\$475.1



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



[This Photo](#) by Unknown Author is licensed under [CC BY-SA](#)



Governor's Budget Overview – Areas of Concern

State Budget Architecture

- Aggressive Revenue Assumptions
 - Current & budget year revenue projections very close to LAO
 - 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
 - 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.

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.

Healthy Environment

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

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

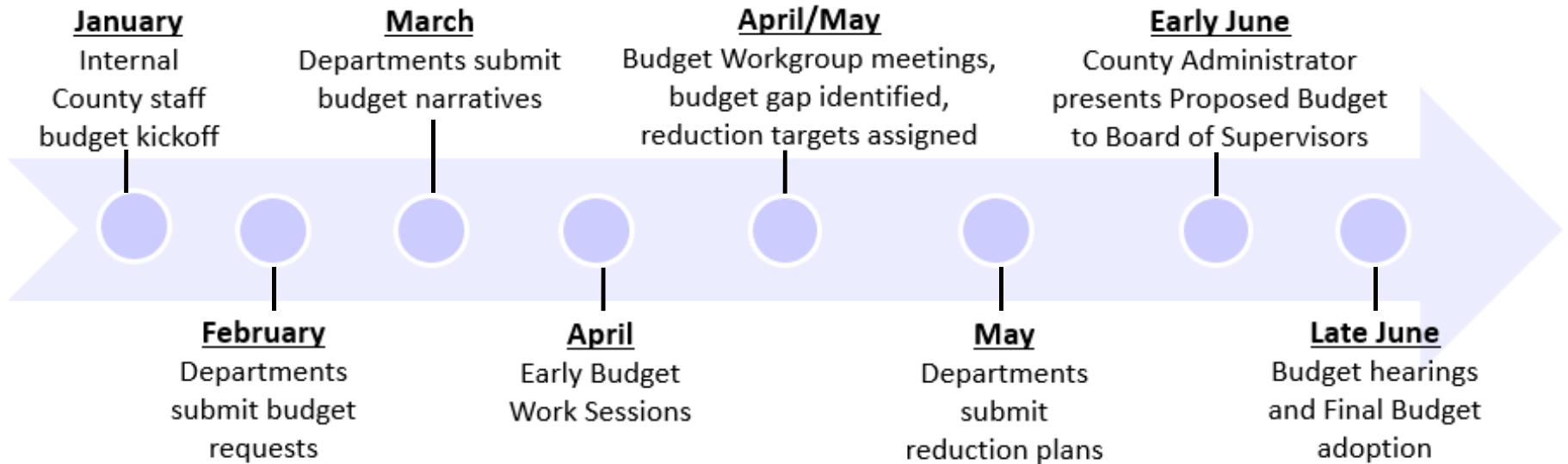
- All Departments to submit a Maintenance of Effort budget
- Departments to include a 3.5% Cost-Of-Living Adjustment for eligible contracts with Community-Based Organizations
- Departments to identify funding that supports the Homelessness Action Plan
- Budgets to align with Vision 2026



County Budget Schedule



County Budget Schedule



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 |

