



Alameda County Fiscal Year 2023-24 Budget Workgroup Meeting

May 11, 2023



Overview

- Economic Updates
- County Financing
- FY 23-24 Maintenance of Effort (MOE) Budget
- FY 23-24 Funding Gap
- Balancing Options
- Pending Factors
- Looking ahead



Economic Updates

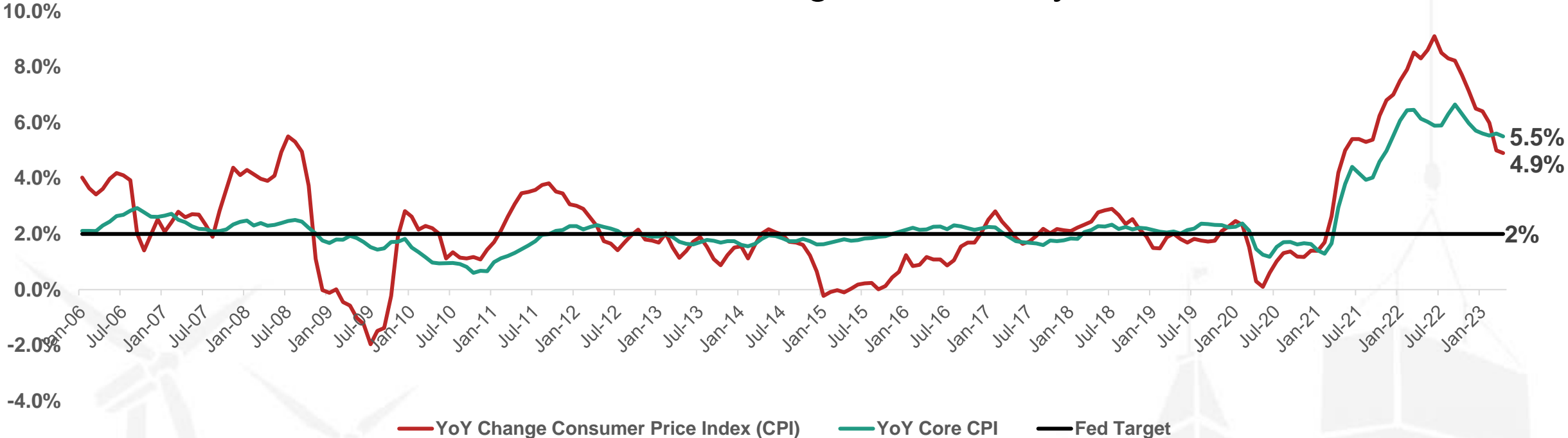


April 6 Meeting - Key Economic Takeaways

- Tight labor market, but increasing tech layoffs
- Bank failures (Silicon Valley Bank, Signature Bank, & Credit Suisse)
- Tightening monetary policy / Inflation above target
- Weakness in commercial & residential real estate markets
- Falling asset prices – impacts on State budget & pension systems
- Recession forecasts

Economic Events Since April 6 Meeting – Inflation & Interest Rates

Inflation remains well above target with ‘sticky’ core inflation



Interest rates continue to rise in response – Federal Reserve increased interest rates an additional 25bpts at their May 2023 meeting



Economic Events Since April 6 Meeting – Real Estate

Bay Area residential real estate remains weak

March Bay Area Housing Snapshot

-35.5% YTY
-34.9% YTD

Existing Home Sales
% change

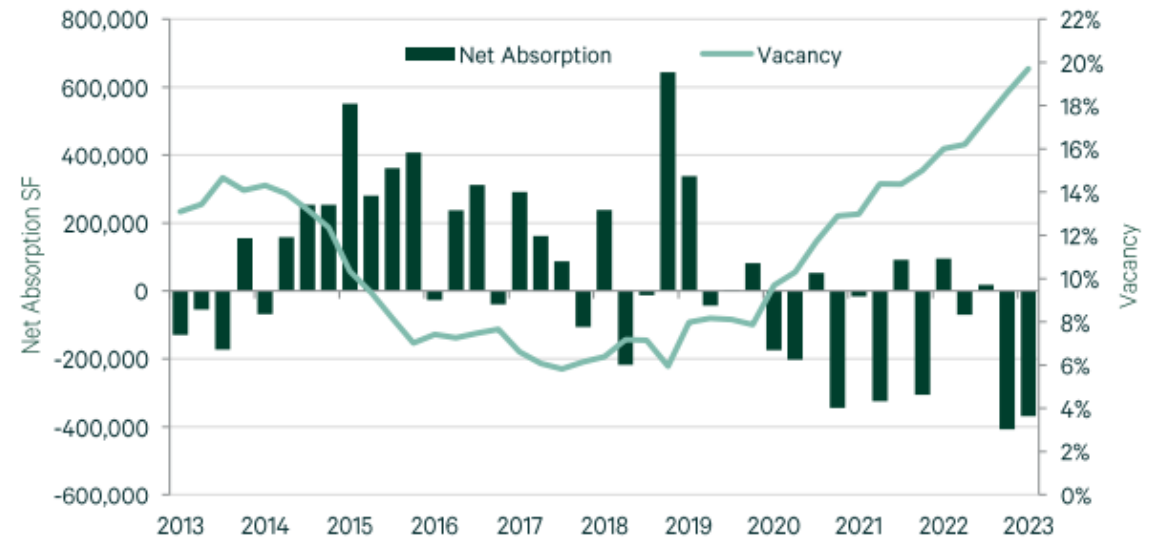
\$1,228,000
-12.8% YTY

Existing Home Price
% change

Inner East Bay commercial occupancy rates deteriorated

Vacancy has risen from ~6% in 2019 to 19.7% at the end of Q1 2023

FIGURE 1: Vacancy & Net Absorption Trend



Current Economic Situation

- Employment remains tight – tech layoffs continue
- Inflation & interest rates remain elevated
- Continued pressure on real estate and other assets
- Another major bank failure – First Republic Bank

Federal Update

Debt ceiling negotiations underway

- Dept of Treasury has given early June deadline to raise or suspend the debt ceiling.
- House passed debt ceiling package containing spending cuts, work requirements for benefit programs, takeback of unspent COVID relief funds, and future year spending caps.
- President and Senate Majority Leader have said they will reject the House proposal and want a clean debt ceiling increase.

Congressional Budget Office reported April tax receipts came in lower than expected

State Budget Update

On January 10, 2023, Governor Newsom presented his \$297B (\$224B General Fund) Fiscal Year 2023-24 Budget Proposal which closed a \$22.5B shortfall driven by lower than projected revenues.

The Governor will release his May Revision tomorrow & expectations are that the budget gap has grown.

The Governor's Budget did NOT provide additional funding for CARE Court & the County continues to be concerned about funding shifts such as 'juvenile justice realignment'.

County Financing



County Fiscal Dilemma

- Increasing demand for safety net services during economic downturns
- County revenue raising authority limited by:
 - Proposition 13 - restricted property tax growth
 - Proposition 218 - voter approval for tax increases
 - ERAF* - State shifted property taxes to schools
- Progressive loss of control over local spending
- Most services are mandated by State/federal government
- Mandates have continued to increase; reimbursements delayed
- Transfer of responsibility from the State to counties
 - Realigned programs with inadequate ongoing funding

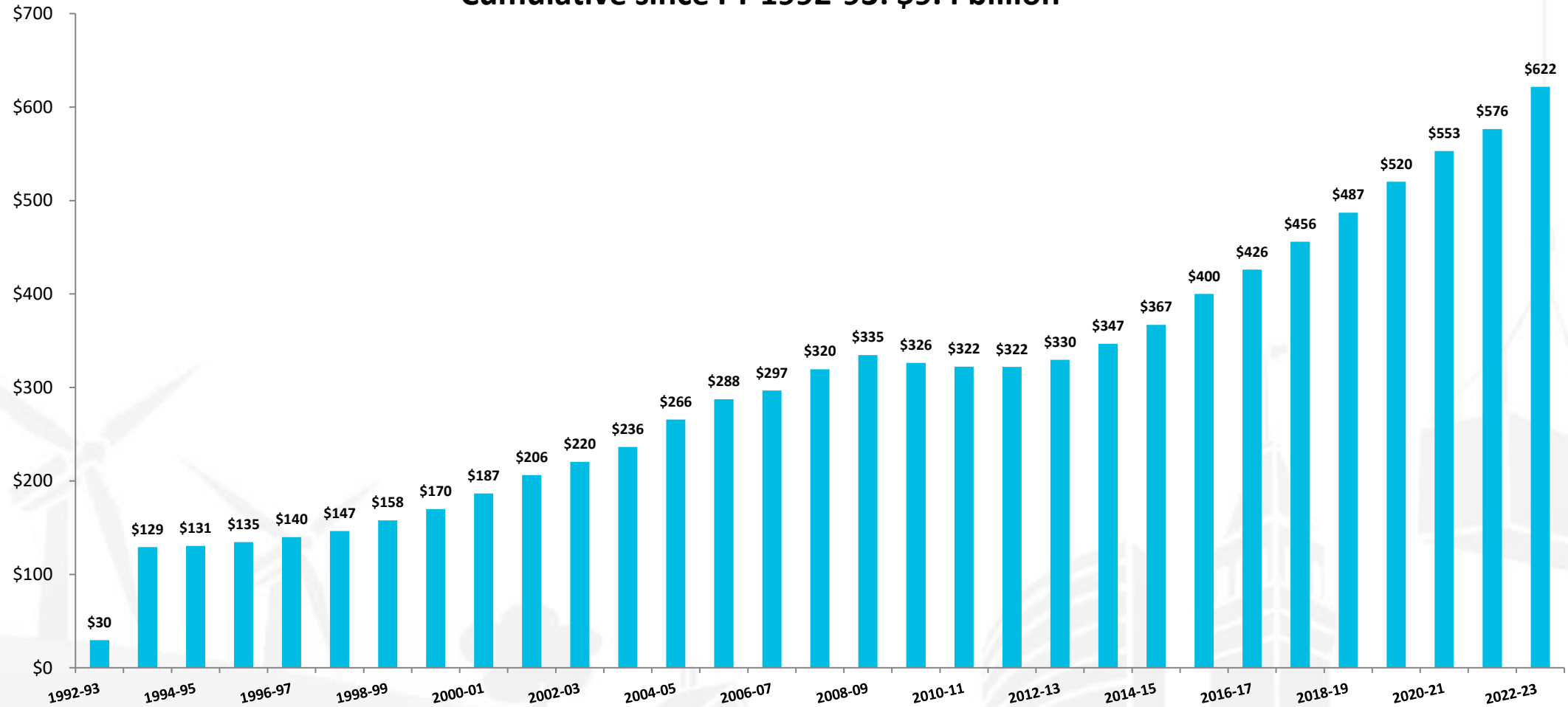


*Education Revenue Augmentation Fund

Alameda County ERAF Losses by Year

(\$ in millions)

Cumulative since FY 1992-93: \$9.4 billion



Alameda County Funding Gaps since ERAF

(\$ in millions)

Total since FY 1993-94: \$2.5 billion



Discretionary Revenue

- Discretionary revenue is approximately 27% of the General Fund, and nearly 90% is property tax-based.
- Alameda County receives **only 15 cents for every property tax dollar** collected in the County.



* Over time, redevelopment agencies' share of property taxes should be distributed to the other entities

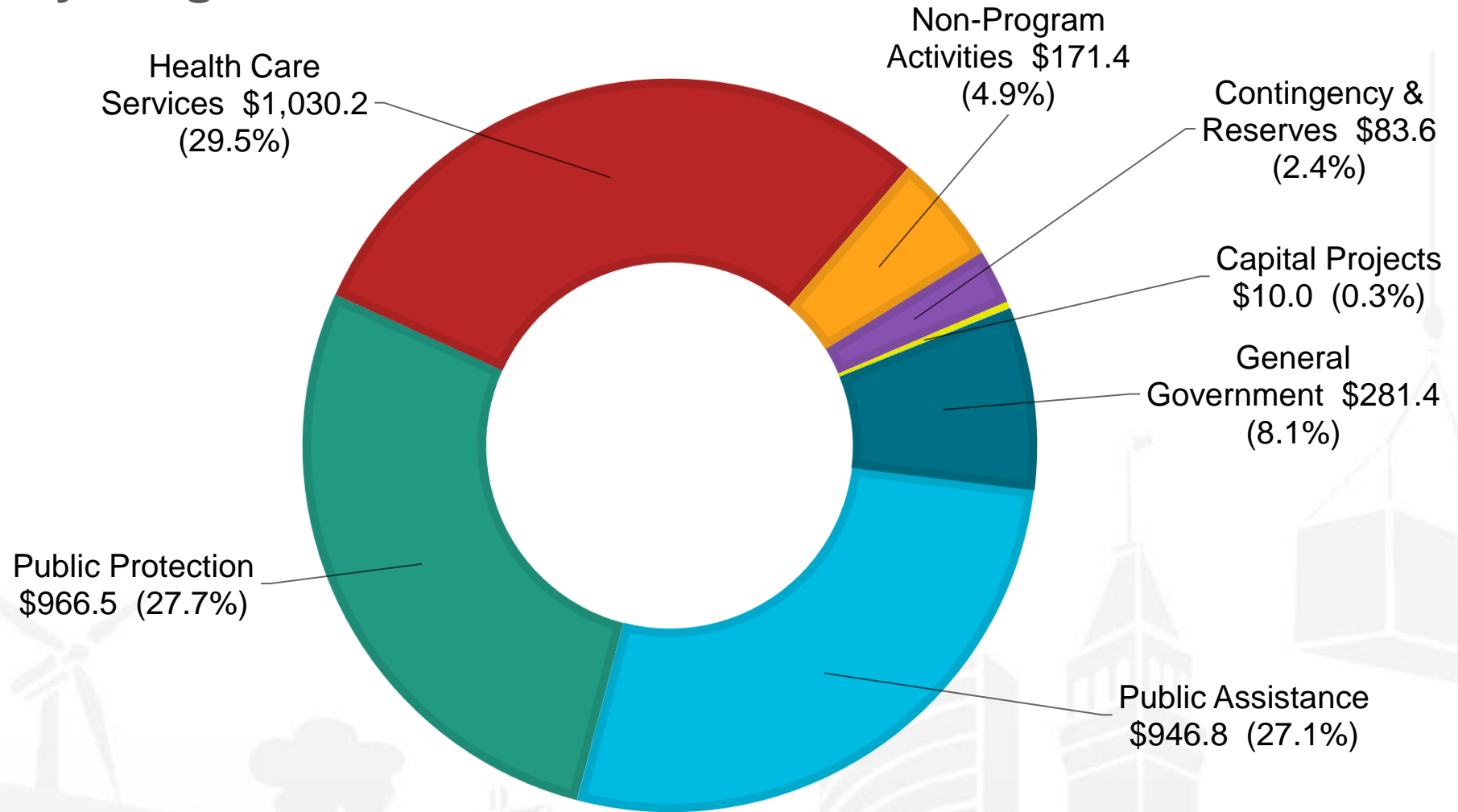
Current Year Approved Budget



FY 2022-23 Final Budget

Appropriation by Program – General Fund

(\$ in millions)

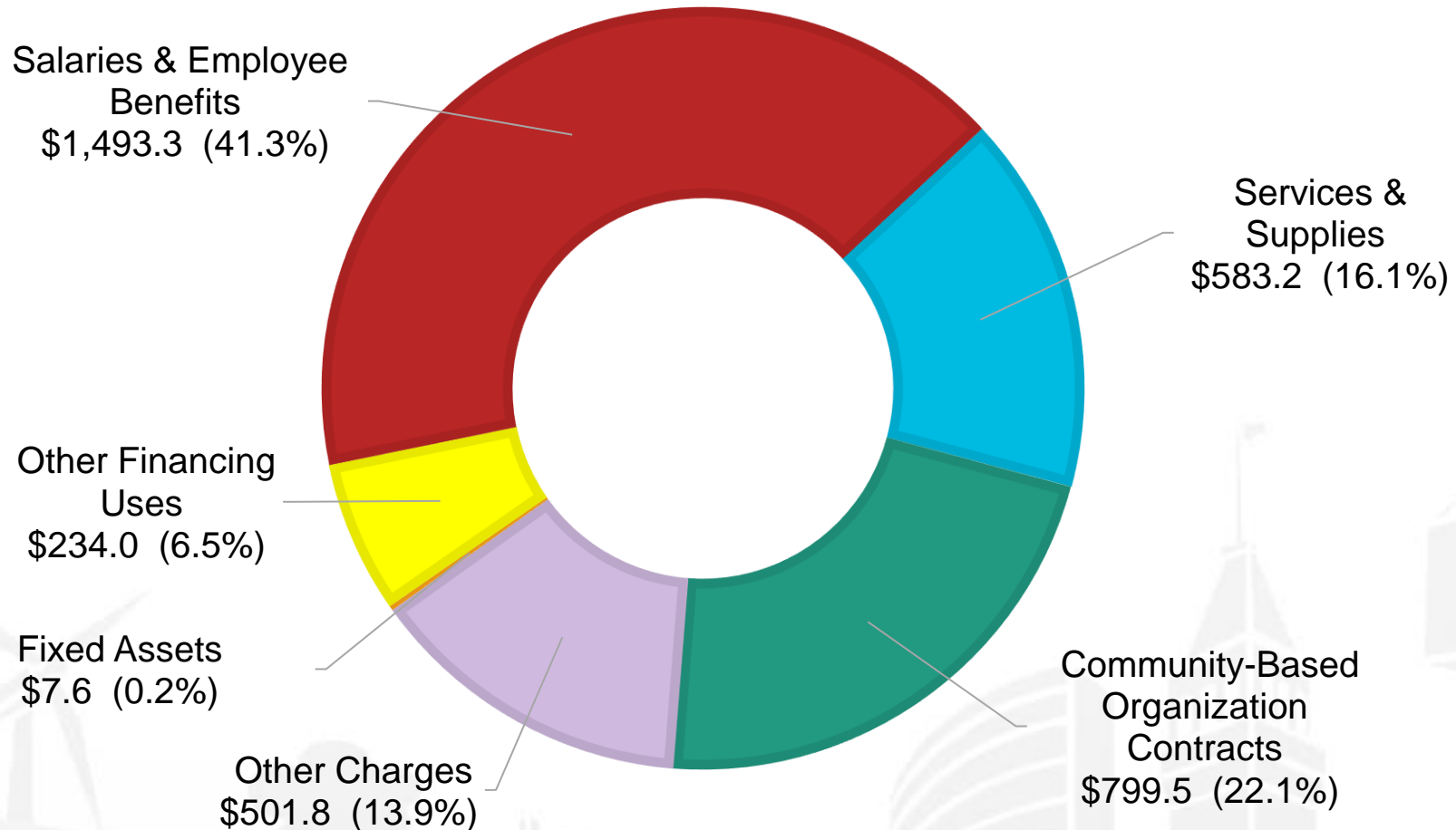


Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Appropriation by Major Object – General Fund (\$ in millions)



Intra-Fund Transfers: \$-129.5 million

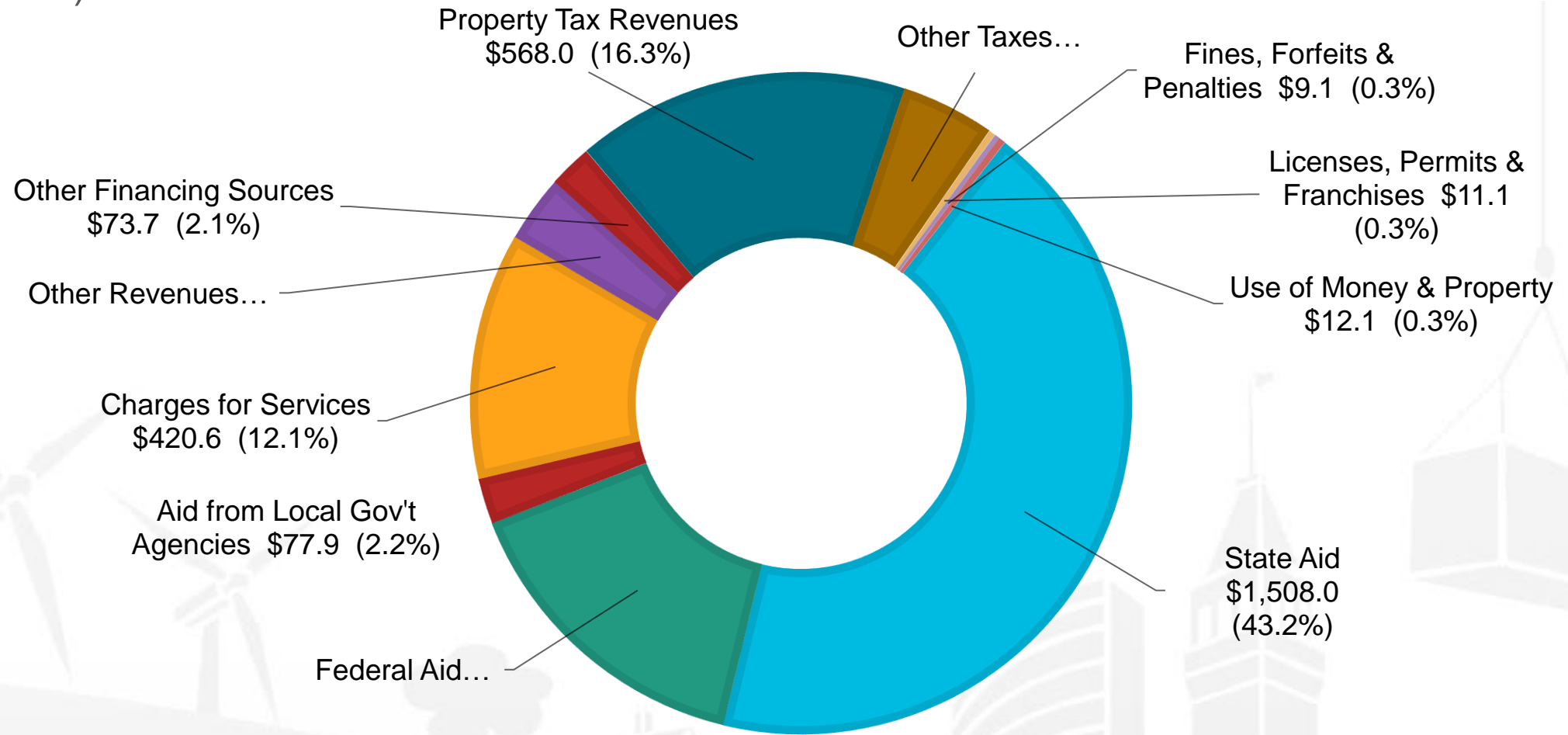
Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Available Financing by Source – General Fund

(\$ in millions)



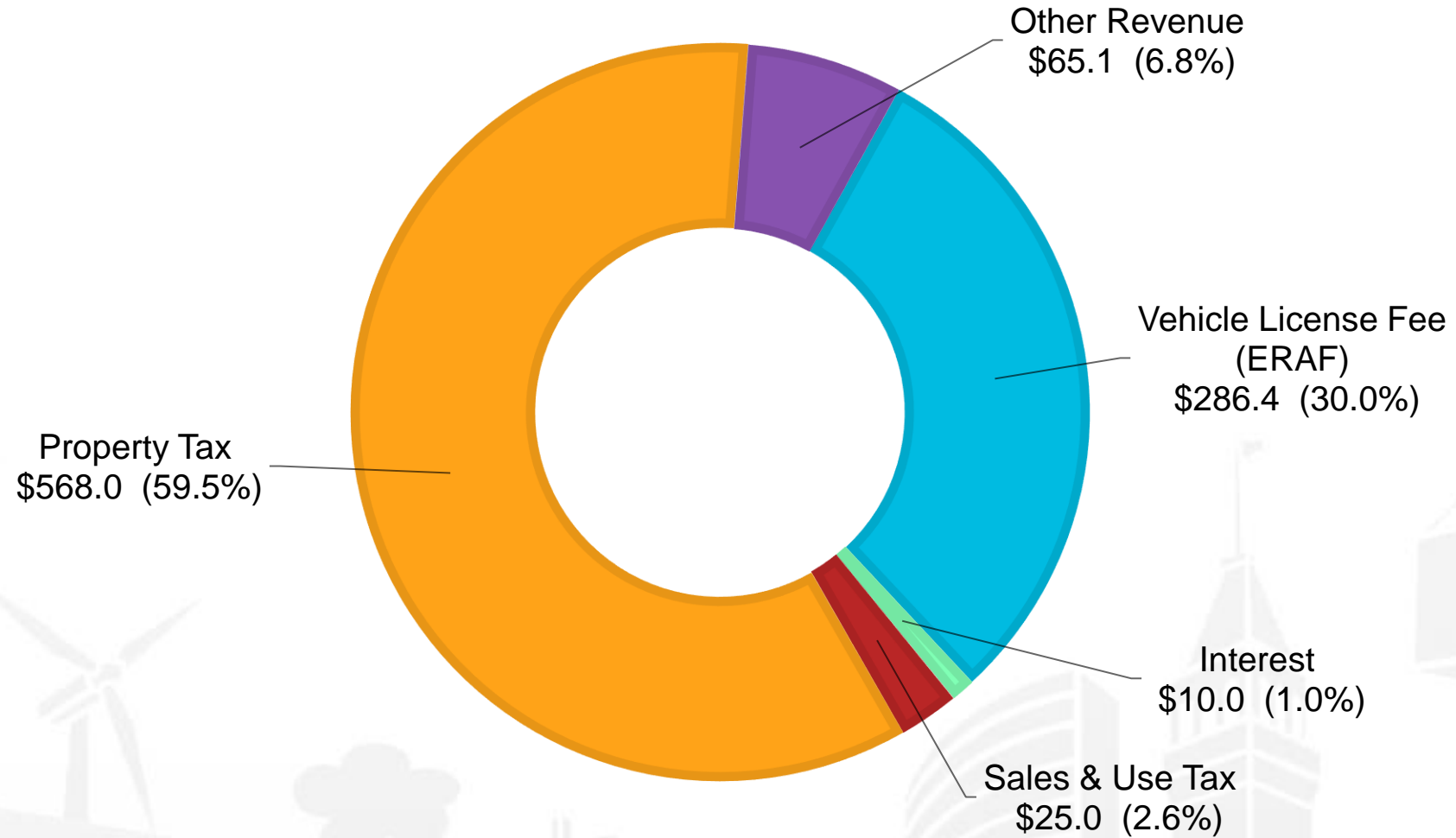
Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Discretionary Revenue by Source

(\$ in millions)



Total Discretionary Revenue: \$954.5 million



FY 2022-23 Final Budget Overview (\$ millions)

	FY 2021-22 Approved	FY 2022-23 Proposed	FY 2022-23 Final Budget	Change from FY 2021-22 Approved
All Funds				
Budget	\$3,607.9	\$3,755.3	\$3,798.4	\$190.4
FTEs	10,078.31	10,337.33	10,370.33	292.02
General Fund*				
Budget	\$3,315.0	\$3,446.9	\$3,489.9	\$174.9
FTEs	8,210.64	8,454.49	8,486.49	275.85

*General Fund FTE changes are all Board-approved and fully offset by revenue or other one-time funding.



FY 2023-24 MOE Budget



MOE Budget Guidelines

Maintenance of Effort: The funding level needed by agencies/departments to continue existing programs, staffing and service levels.

- Known salary/benefits, operational and internal service fund adjustments
- Current revenue projections
- 3.5% cost-of-living adjustment for eligible contracts with community-based organizations
- Mid-year Board approved adjustments
- MOE does not generally include COVID-19 impacts
- Alignment with Vision 2026



Program Area Summary

(\$ in millions)

Subtotal Program	22-23 FINAL Approved	2023-24 MOE	Change from FY 22-23 Approved	% Change
Appropriations	\$3,256.5	\$3,416.1	\$159.6	4.9%
Revenue	\$2,464.2	\$2,548.3	\$ 84.1	3.4%
Net County Cost	\$ 792.3	\$ 867.8	\$75.5	9.5%

NOTE: Totals may vary slightly due to rounding



FY 2023-24 MOE Budget

Program Summary

(\$ in millions)

Program	Appropriation	Revenue	Net Cost	FTE
General Government	\$ 300.2	\$ 197.2	\$103.0	962.5
Public Protection	\$1,022.8	\$ 521.4	\$501.4	3,132.1
Public Assistance	\$ 999.9	\$ 927.6	\$ 72.3	2,573.9
Health Care Services	\$1,093.2	\$ 902.1	\$191.1	1,802.5
Subtotal Programs	\$3,416.1	\$2,548.3	\$867.8	8,470.8

NOTE: Totals may vary slightly due to rounding



FY 2023-24 MOE Budget

Net Cost Change by Program (\$ in millions)

Program	2022-23 FINAL Approved Net Cost	2023-24 MOE Net Cost	Change	% Change
General Government	\$82.6	\$ 103.0	\$ 20.4	24.7%
Public Protection	\$460.2	\$501.4	\$41.1	8.9%
Public Assistance	\$69.0	\$ 72.3	\$ 3.4	4.9%
Health Care Services	\$180.5	\$191.1	\$10.6	5.9%
Subtotal Programs	\$792.3	\$867.8	\$75.5	9.5%

NOTE: Totals may vary slightly due to rounding



FY 2023-24 Program Net County Cost Changes

(partial list, \$ in millions)

Appropriation changes

	Net County Cost Change
• Salary & Benefit increases	\$57.0
• Health & Dental	\$20.0
• Internal Service Fund increases	\$24.7
• 3.5% COLA for CBOs	\$ 4.7
• 3.5% COLA for AHS	\$ 2.2
• IHSS MOE	\$ 6.9
• Property Tax modernization	\$ 1.2
• Jail Health Costs	\$ 3.5
• Increased Litigation Costs	\$ 5.0
• Trial Court Security mandate	\$ 4.7

Revenue changes

• Property Transfer Tax reduction	\$ 2.2
• Federal contract revenue reduction	\$ 2.1
• Prop. 172 increase	(\$4.7)
• Realignment revenue adjustments	(\$25.1)
• SSA One-time closeout revenue	(\$ 5.4)
• <u>Other program revenue changes</u>	<u>(\$ 23.5)</u>

26 **TOTAL**

\$ 75.5

COUNTY ADMINISTRATOR'S OFFICE



FY 2023-24 MOE Budget Non-Program Summary

(\$ in millions)

Non-Program	Appropriation	Revenue	Net Cost
Capital Projects	\$ 15.0	-	\$ 15.0
Contingency / Reserves	\$ 133.6	\$15.0	\$ 118.6
Debt Service / Designations	\$ 139.4	\$73.8	\$ 65.6
Non-Program Revenue	-	\$1,013.1	(\$1,013.1)
Total Non-Program	\$288.0	\$1,101.9	(\$813.9)

NOTE: Totals may vary slightly due to rounding

FY 2023-24 MOE Budget

Net Cost Change Non-Program (\$ in millions)

Non-Program	2022-23 FINAL Net Cost	2023-24 MOE Net Cost	Change	% Change
Capital	\$10.0	\$ 15.0	\$ 5.0	50.0%
Contingency / Reserves	\$66.1	\$ 118.6	\$52.5	87.0%
Debt Service / Designations	\$86.1	\$ 65.6	(\$20.5)	(23.8%)
Non-Program Financing	(\$954.6)	(\$1,013.1)	(\$58.5)	6.1%
Total Non-Program	(\$792.3)	(\$ 813.9)	(\$21.5)	2.7%

NOTE: Totals may vary slightly due to rounding



FY 2023-24 Non-Program Net County Cost Change

(partial list, \$ in millions)

▪ Capital	\$ 5.0
▪ Debt Service	(\$ 20.5)
▪ Contingency	\$ 42.5
▪ 1.5% for Capital/Reserves	\$ 10.0

Total Non-Program Expenditures **\$ 37.0**

▪ Property Taxes	(\$28.4)
▪ Motor Vehicle - ERAF	(\$14.3)
▪ Sales & Use Taxes	(\$ 1.3)
▪ Other revenue	(\$14.5)

Total Non-Program Financing **(\$58.5)**

29 TOTAL NON-PROGRAM (\$21.5)



FY 2023-24 MOE Budget Summary

(\$ in millions)

	Appropriation	Revenue	Net Cost	FTE
General Government	\$ 300.2	\$ 197.2	\$103.0	962.5
Public Protection	\$ 1,022.8	\$ 521.4	\$501.4	3,132.1
Public Assistance	\$ 999.9	\$ 927.6	\$ 72.3	2,573.9
Health Care Services	\$ 1,093.2	\$ 902.1	\$191.1	1,802.5
Subtotal Program	\$ 3,416.1	\$2,548.3	\$867.8	8,470.8
Capital Projects	\$ 15.0	\$0	\$ 15.0	
Contingency / Reserves Debt Service / Designations	\$ 273.0	\$ 88.8	\$ 184.2	
Non-Program Revenue	\$0	\$1,013.1	(\$1,013.1)	
Subtotal Non-Program	\$ 288.0	\$1,101.9	(\$ 813.9)	
TOTAL	\$3,704.1	\$3,650.2	\$ 54.0	

NOTE: Totals may vary slightly due to rounding



FY 2023-24 MOE Budget Summary

Net Cost Change (\$ in millions)

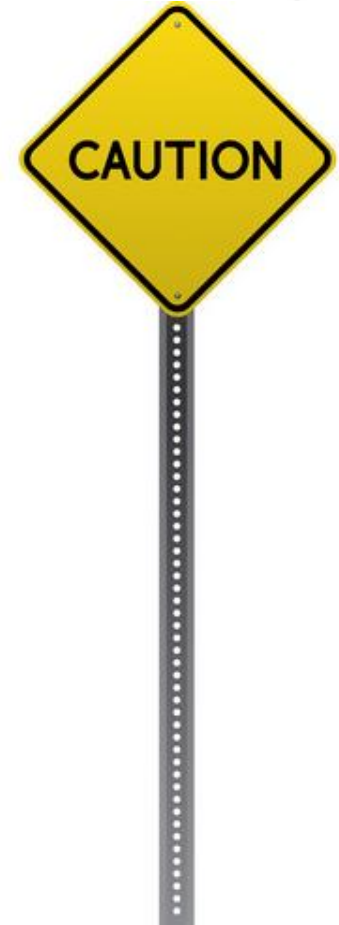
Program	2022-23 FINAL Net Cost	2023-24 MOE Net Cost	Change
Total Program	\$792.3	\$867.8	\$75.5
Total Non-Program	\$792.3	(\$813.9)	(\$21.5)
Funding Gap	\$0	\$ 54.0	\$54.0

NOTE: Totals may vary slightly due to rounding



Pending Factors

- Economic Downturn
- Labor negotiations & workforce challenges
- Pending litigation, settlements, and rising insurance costs
- Retirement
- Unfunded capital needs
- Ongoing homelessness crisis
- State mandates and program realignment
- Alameda Health System financing



FY 2023-24 MOE Budget Balancing Options



Recap and Recommended Budget Balancing Approach

- Consistent approach: close the funding gap by identifying reduction targets for each program area that consider respective net cost increases and use of one-time funding; and require departments to identify proposed reduction strategies to meet those targets
- CAO to work with County Agency/Department Heads to close the structural funding gap through a combination of strategies that will include:
 - Review of all program revenues to identify additional ongoing adjustments
 - Review program budgets to identify further cost reductions
 - Review non-program revenue and expenses based on more current data
 - Consider other countywide strategies to reduce expenses and/or increase financing

Next Steps

- Continue to update revenue projections and implement cost containment and reduction strategies
- Review and analyze the impact of the Governor's May Revision
- Identify strategies to close the current \$54.0M funding gap and develop a balanced FY 2023-24 Proposed Budget
- Consider technology solutions and other efficiency initiatives to streamline operations
- Continue to collaborate with labor and community partners to identify strategies to maintain a balanced budget and continue providing critical services to our diverse communities

