Alameda County
Fiscal Year 2023-24
Budget Briefing
to Community-Based Organization Representatives

April 26, 2023
Economic Context
Unemployment

Recent Bay Area based tech company large-scale layoffs include:

- Google – 12,000 employees – Jan 20, 2023
- Meta Rd 1 – 11,000 employees – November 9, 2022
- Meta Rd 2 – 10,000 employees – March 14, 2023
- Salesforce – 8,000 employees – January 4, 2023

Other tech companies with Bay Area presence, such as Microsoft and Amazon, have also conducted large layoffs.

Source: Layoffs.fyi through 3/31/23
Bay area wide layoffs are concentrated in the tech sector, but County layoffs are more spread over a number of sectors including manufacturing, healthcare, tech, transportation, and food/beverage.

Source: State of California Employment Development Department through 3/31/23
Inflation

Interest Rates

Source: Freddie Mac Primary Mortgage Market Survey
March 2023 Bay Area Housing Snapshot

-35.5% YTY
-34.9% YTD

Existing Home Sales
% change

$1,228,000
-12.8% YTY

Existing Home Price
% change

Source: California Association of Realtors
Commercial Real Estate Market

Figure 3: Net Absorption & Vacancy

<table>
<thead>
<tr>
<th>Market</th>
<th>Net Rentable Area</th>
<th>Total Vacancy %</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Francisco</td>
<td>86,902,388</td>
<td>27.6</td>
</tr>
<tr>
<td>Class A</td>
<td>58,526,015</td>
<td>25.0</td>
</tr>
<tr>
<td>Class B</td>
<td>22,870,963</td>
<td>33.8</td>
</tr>
<tr>
<td>SF Peninsula</td>
<td>33,821,589</td>
<td>14.2</td>
</tr>
<tr>
<td>Class A</td>
<td>20,462,005</td>
<td>14.2</td>
</tr>
<tr>
<td>Class B</td>
<td>9,141,344</td>
<td>14.6</td>
</tr>
<tr>
<td>Silicon Valley</td>
<td>103,468,705</td>
<td>14.1</td>
</tr>
<tr>
<td>Class A</td>
<td>71,406,463</td>
<td>14.4</td>
</tr>
<tr>
<td>Class B</td>
<td>23,039,884</td>
<td>15.9</td>
</tr>
<tr>
<td>Oakland</td>
<td>30,380,133</td>
<td>18.6</td>
</tr>
<tr>
<td>Class A</td>
<td>13,126,753</td>
<td>21.4</td>
</tr>
<tr>
<td>Class B</td>
<td>12,262,384</td>
<td>20.3</td>
</tr>
<tr>
<td>I-680 Corridor</td>
<td>35,497,754</td>
<td>19.5</td>
</tr>
<tr>
<td>Class A</td>
<td>22,313,431</td>
<td>23.0</td>
</tr>
<tr>
<td>Class B</td>
<td>12,166,533</td>
<td>13.9</td>
</tr>
<tr>
<td>Total Bay Area Market</td>
<td>290,070,569</td>
<td>19.3</td>
</tr>
<tr>
<td>Class A</td>
<td>185,834,667</td>
<td>19.2</td>
</tr>
<tr>
<td>Class B</td>
<td>79,481,108</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Source: CBRE Research Q4 2022

\(^{1}\) Excludes Palo Alto

\(^{2}\) Includes Fremont/Newark and Palo Alto

\(^{3}\) Excludes Fremont/Newark
The inner East Bay office market has seen an increasing vacancy rate – 19.7% at the end of Q1 2023

Source: CBRE Research Q1 2023
Since the Federal Reserve tightened monetary policy early in 2022, asset prices have declined.
Bank Failures

- On March 10, 2023, the California Department of Financial Protection and Innovation issued an order to take possession of Silicon Valley Bank (SVB) citing inadequate liquidity and insolvency and appointed the FDIC as the receiver. This was the second largest bank failure in U.S. history.

- On March 12, 2023, the FDIC took over Signature Bank and federal regulators announced plans to ensure all depositors in SVB & Signature banks had access to their funds to prevent a “run” on regional banks.

- On March 19, 2023, it was announced that UBS is intending to acquire Credit Suisse to prevent the latter bank’s collapse following negotiations with the Swiss government.

Bank failures can precipitate a financial crisis and have a major impact on the macroeconomy if central banks and governments are not able to contain them.
Key Economic Takeaways

- Labor market remains tight, but pace of tech sector layoffs has increased
- Concerns with the banking system – FDIC takeovers of banks
- Federal Reserve has significantly tightened monetary policy since the beginning of 2022
  - Inflation remains above 2% target
  - At their March 22nd meeting, the Fed increased interest rates by 25 basis points
- Weakness in commercial & residential real estate markets
- Economists increasingly predicting recession
  - Goldman Sachs upped recession chances in the next 12-months on March 15
  - National Association for Business Economics survey had 58% of panelists forecasting that a recession is likely to occur in 2023.
Federal Update

- On December 29, 2022, President Biden signed a $1.7 trillion federal spending package funding the government through September 2023

- On January 3, 2023, the 118th U.S. Congress convened with a shift in control in the House of Representatives
  - Debt ceiling fight
  - Gridlock expected

- On March 9, 2023, President Biden released the President’s Budget for FY 2024 with key components including:
  - Focus on deficit reduction via tax increases and tougher negotiation on pharmaceutical prices
    - 25% minimum tax on billionaires
    - Increase in corporate tax rate (21% to 28%)
    - Increase in tax on share buybacks (1% to 4%)
  - Increases in defense spending, restoration of expanded child tax credit, and green energy initiatives
State Budget Update

On January 10, 2023, Governor Newsom presented his $297B ($224B General Fund) Fiscal Year 2023-24 Budget Proposal. Major highlights include:

- State has shifted from surplus to deficit as the Governor’s proposal closed a $22.5B shortfall (a smaller deficit than projected by the Legislative Analysts Office)

- Budget deficit driven by lower revenues – especially taxes on capital gains for high income earners

- Homelessness funding to local governments not cut, but the Governor is pushing for new accountability measures

- No additional funding for CARE Court implementation

In its February 15, 2023 Multiyear Assessment, the LAO warned the budget gap may be $7B larger and that the State faces operating deficits in future Fiscal Years. The LAO advises holding off on using reserves as State revenues are not consistent with recessionary levels and use of reserves now would result in the inability for the State to maintain core services in the event of a recession.
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.
FY 2022-23 Budget Overview
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
## FY 2022-23 Final Budget
($ in millions)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>All Funds</strong></td>
<td>$3,798.4</td>
</tr>
<tr>
<td><strong>General Fund</strong></td>
<td>$3,489.9</td>
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<tr>
<td><em>Increase from FY 2021-22</em></td>
<td>$174.9</td>
</tr>
<tr>
<td><strong>Full-Time Equivalent Positions (FTEs)</strong></td>
<td>10,370.33</td>
</tr>
<tr>
<td><em>Increase from FY 2021-22</em></td>
<td>292.02</td>
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</table>

*The majority of the FTE increases were for Behavioral Health and the Sheriff’s Office to augment staffing and care coordination at Santa Rita Jail.*
FY 2022-23 Final Budget
Appropriation by Major Object – General Fund
($ in millions)

Total General Fund: $3,489.9 million

- Salaries & Employee Benefits: $1,493.3 (41.3%)
- Services & Supplies: $583.2 (16.1%)
- Community-Based Organization Contracts: $799.5 (22.1%)
- Other Charges: $501.8 (13.9%)
- Fixed Assets: $7.6 (0.2%)
- Other Financing Uses: $234.0 (6.5%)

Intra-Fund Transfers: $-129.5 million
## Community-Based Organization (CBO) Contracts
### FY 2022-23 Final Budget Funding ($ in millions)

<table>
<thead>
<tr>
<th>Program Area</th>
<th>FY 22-23 Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$43.6</td>
</tr>
<tr>
<td>Health Care Services*</td>
<td>$505.7</td>
</tr>
<tr>
<td>Health Care – Alameda Health System</td>
<td>$93.6</td>
</tr>
<tr>
<td>Public Assistance</td>
<td>$110.9</td>
</tr>
<tr>
<td>Public Protection</td>
<td>$45.7</td>
</tr>
<tr>
<td><strong>CBO Contracts Total</strong></td>
<td><strong>$799.5</strong></td>
</tr>
</tbody>
</table>

* excludes Alameda Health System contracts

### 246 CBO Contractors Total
FY 2022-23 Final Budget
Appropriation by Program – General Fund
($ in millions)

- Health Care Services: $1,030.2 million (29.5%)
- Public Protection: $966.5 million (27.7%)
- Public Assistance: $946.8 million (27.1%)
- Non-Program Activities: $171.4 million (4.9%)
- Contingency & Reserves: $83.6 million (2.4%)
- Capital Projects: $10.0 million (0.3%)
- General Government: $281.4 million (8.1%)

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

- Property Tax Revenues
  $568.0 (16.3%)
- Other Taxes
  $159.0 (4.6%)
- Fines, Forfeits & Penalties
  $9.1 (0.3%)
- Licenses, Permits & Franchises
  $11.1 (0.3%)
- Use of Money & Property
  $12.1 (0.3%)
- State Aid
  $1,508.0 (43.2%)
- Federal Aid
  $535.3 (15.3%)
- Aid from Local Government Agencies
  $77.9 (2.2%)
- Charges for Services
  $420.6 (12.1%)
- Other Revenues
  $115.1 (3.3%)
- Other Financing Sources
  $73.7 (2.1%)
FY 2022-23 Final Budget

Discretionary Revenue – Share of Total General Fund

($ in millions)

- Program Revenue: $2,498.9 (71.6%)
- Discretionary Revenue: $954.5 (27.4%)
- Debt Service Revenue: $36.5 (1.0%)

Total General Fund: $3,489.9 million
FY 2022-23 Final Budget

Discretionary Revenue by Source

($ in millions)

Total Discretionary Revenue: $954.5 million

- **Vehicle License Fee (ERAF)**: $286.4 (30.0%)
- **Interest**: $10.0 (1.0%)
- **Sales & Use Tax**: $25.0 (2.6%)
- **Property Tax**: $568.0 (59.5%)
- **Other Revenue**: $65.1 (6.8%)
Long-Term Obligations

- Maintain the “triple-triple” - the highest possible AAA ratings from the “Big 3” rating agencies—Standard & Poor’s Global Ratings, Fitch Ratings and Moody’s Investors Service (since 2018)

- Capital Improvement Plan - $1.3 billion of unfunded capital costs over the next five years as identified in the Capital Improvement Plan

- County’s pension liability
  - ACERA Dec 31, 2021 actuarial valuation showed a $1.5B unfunded actuarial accrued liability
  - It is probable this amount will grow in the coming actuarial valuation through Dec 31, 2022 due to asset prices falling
  - Pending 3 Year Actuarial valuation study may result in further reduction in discount rate resulting in higher employer costs
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 23-24 Budget Calendar*

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department MOE submissions</td>
<td>February, 2023</td>
</tr>
<tr>
<td>Early Budget Work Session</td>
<td>April 11, 2023</td>
</tr>
<tr>
<td>Budget Workgroup Meetings</td>
<td>April/May 2023</td>
</tr>
<tr>
<td>Reduction targets to departments</td>
<td>April/May 2023</td>
</tr>
<tr>
<td>Governor’s Revised Budget</td>
<td>May 2023</td>
</tr>
<tr>
<td>Reduction plans submitted by departments</td>
<td>May 2023</td>
</tr>
<tr>
<td>Proposed Budget submitted to Board</td>
<td>Early June 2023</td>
</tr>
<tr>
<td>Budget Hearings and Budget Adoption</td>
<td>Late June 2023</td>
</tr>
</tbody>
</table>

*Dates subject to change*
Our Shared Vision

Operating Principles
- Fiscal Stewardship
- Sustainability
- Collaboration
- Access
- Equity
- Innovation

Strategic Focus Areas
- Safe and Livable Communities
- Thriving and Resilient Population
- Healthy Environment
- Prosperous and Vibrant Economy

ACGOV Vision 2026