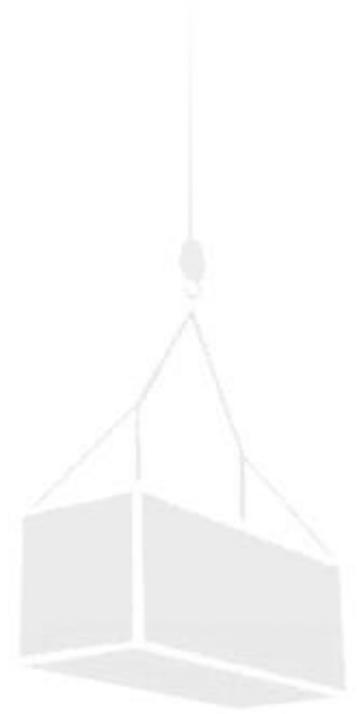




Alameda County Fiscal Year 2023-24 Budget Briefing to Labor Representatives

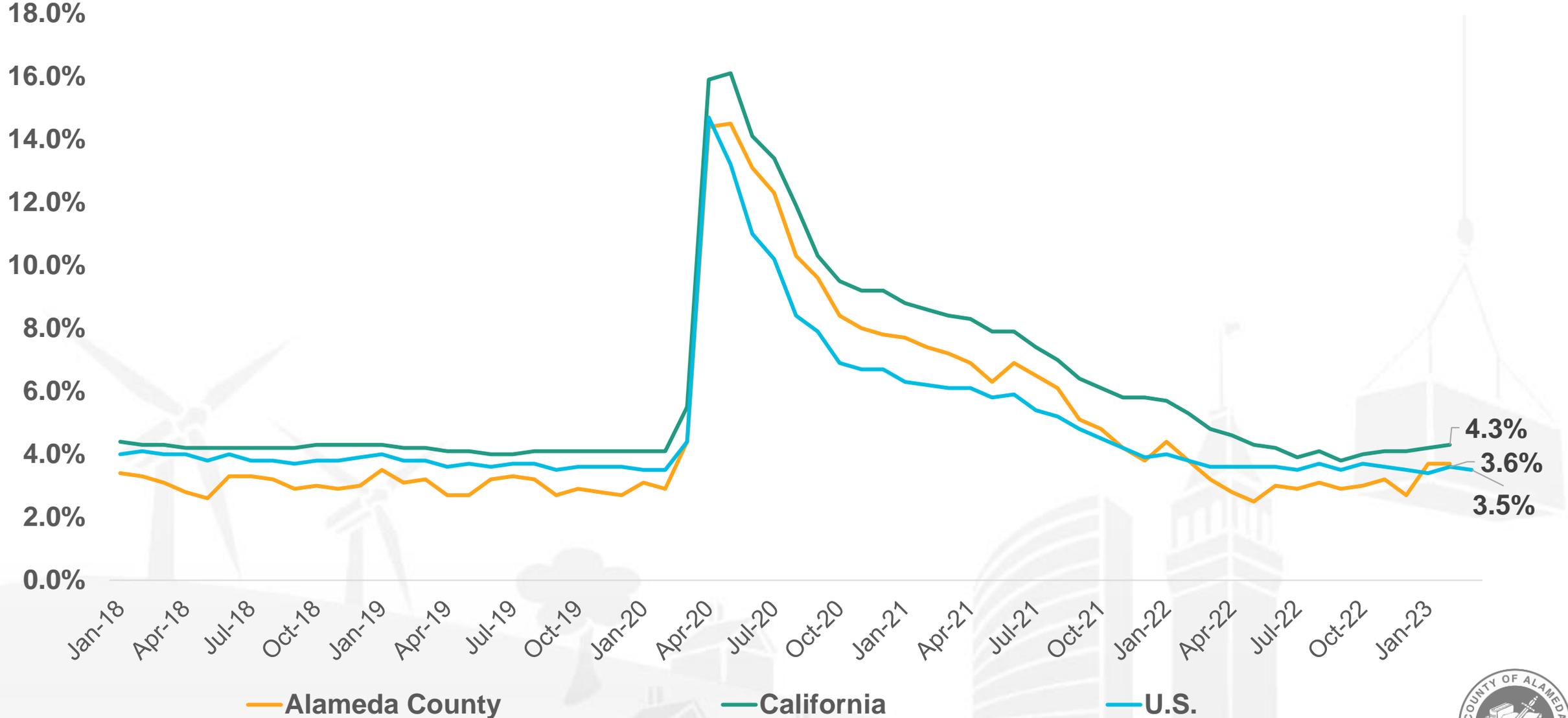
April 20, 2023



Economic Context



Unemployment

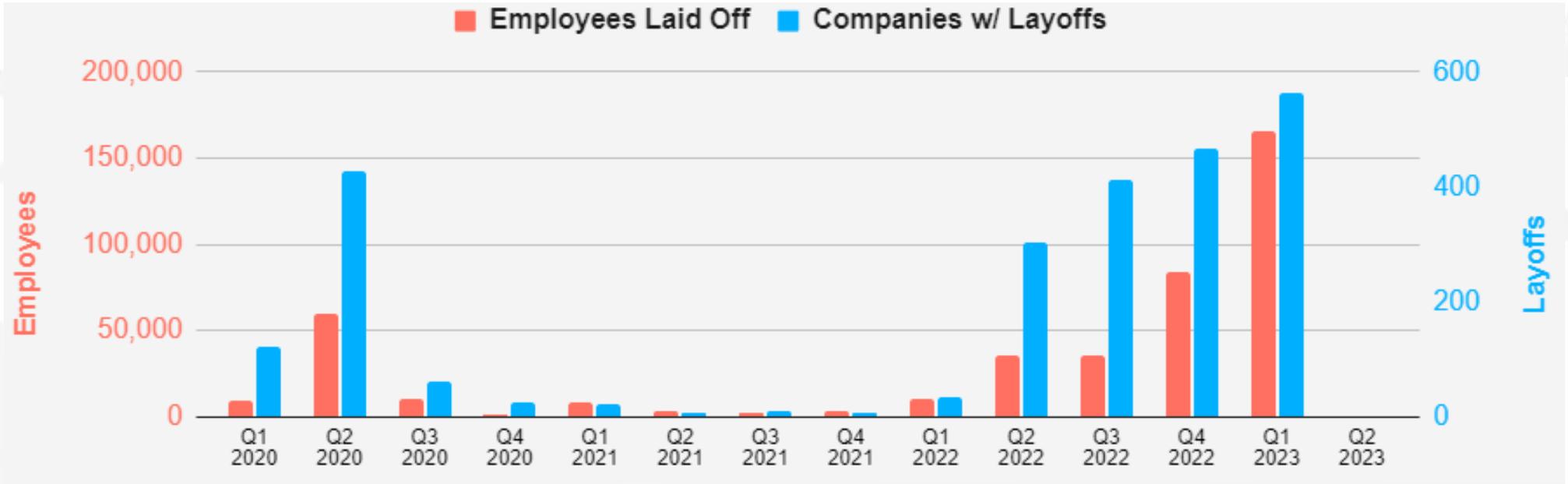


Tech Sector Layoffs Through March 2023

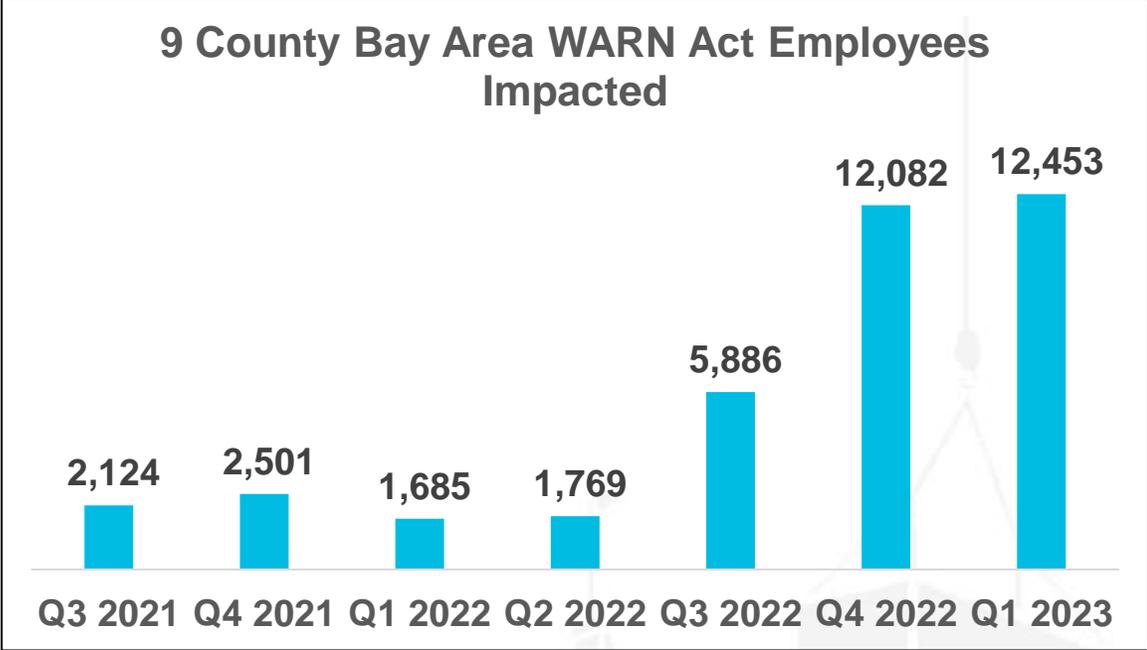
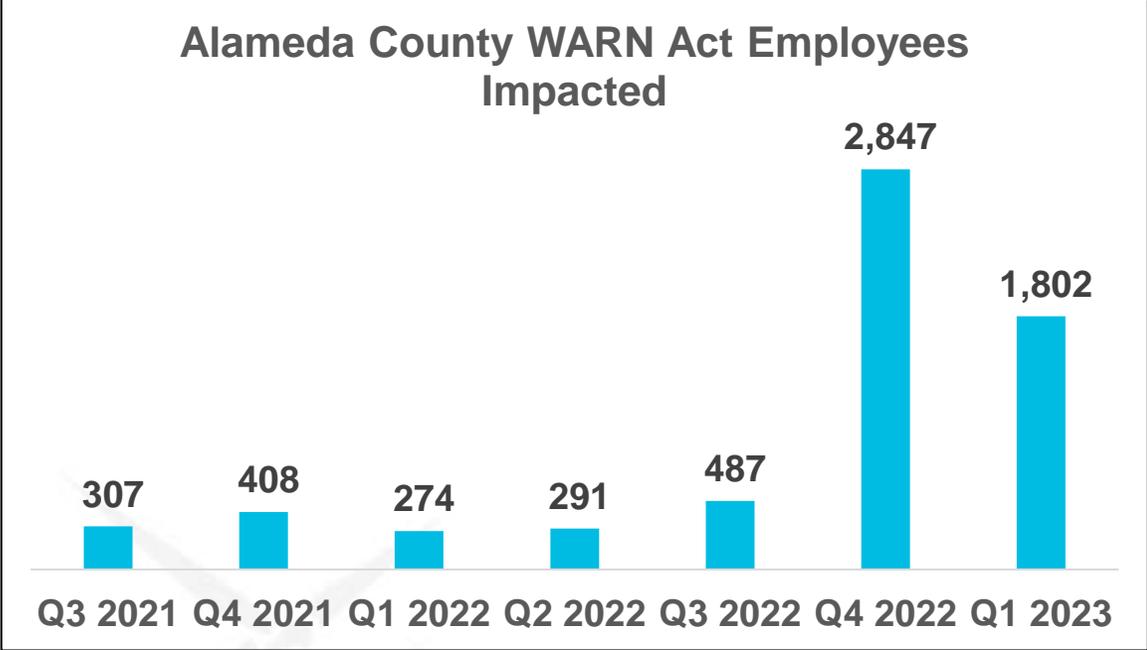
Recent Bay Area based tech company large-scale layoffs include:

- 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



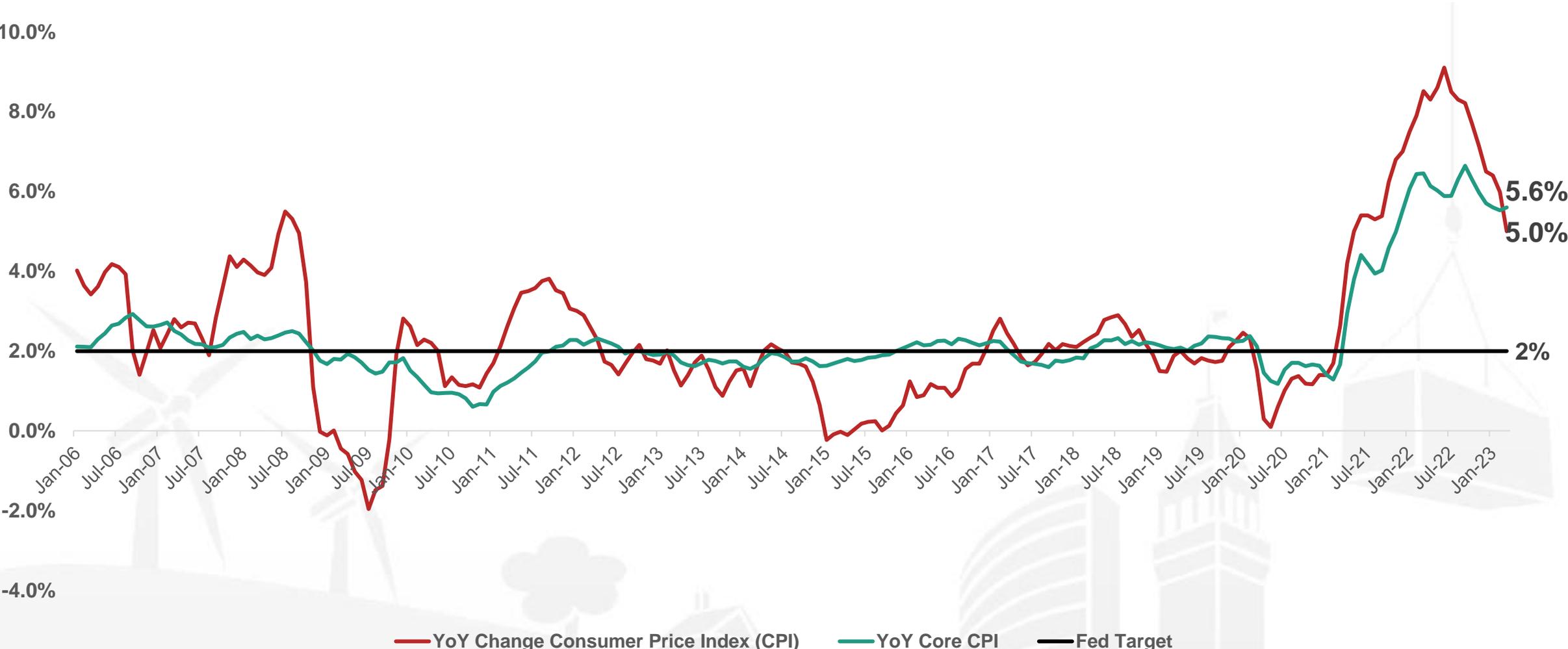
WARN Act Data Through March 2023



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.



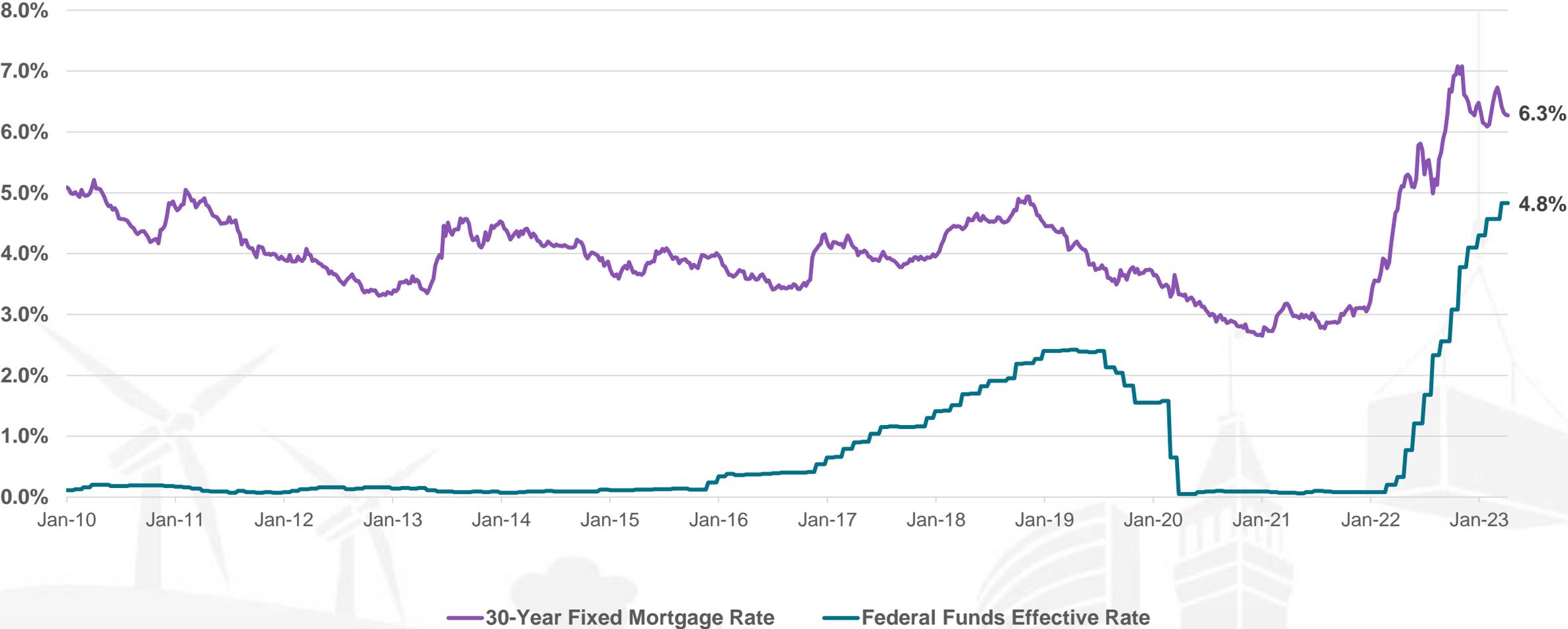
Inflation



— YoY Change Consumer Price Index (CPI) — YoY Core CPI — Fed Target



Interest Rates



March 2023 Bay Area Housing Snapshot

-35.5% YTY

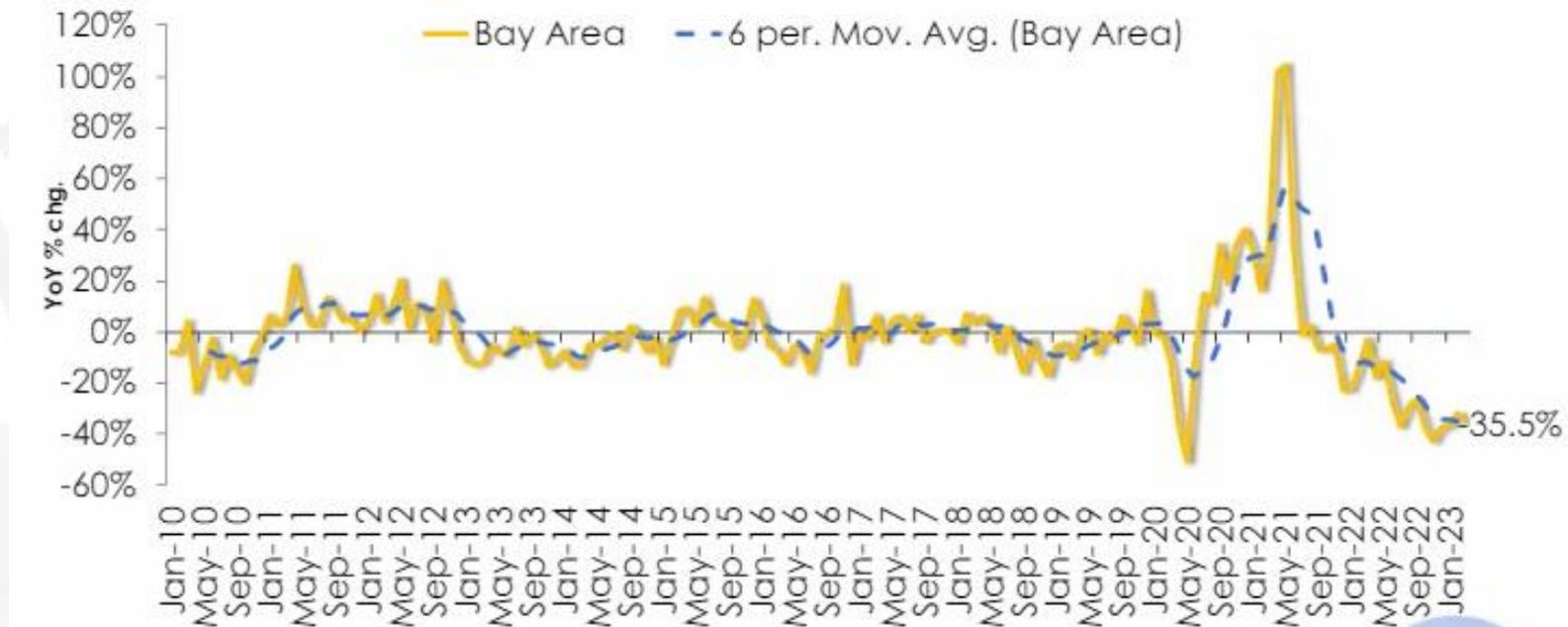
-34.9% YTD

\$1,228,000

-12.8% YTY

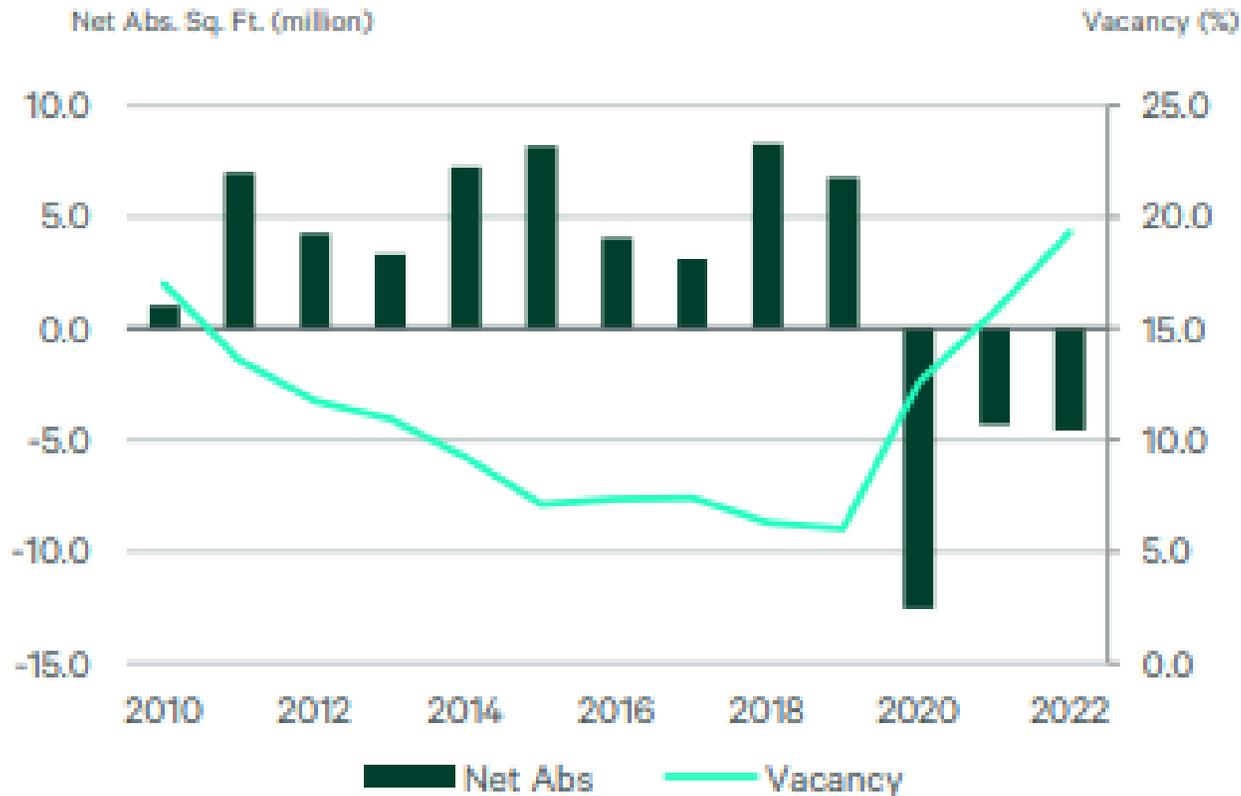
Existing Home Sales
% change

Existing Home Price
% change



Commercial Real Estate Market

Figure 3: Net Absorption & Vacancy



Market	Net Rentable Area	Total Vacancy %
San Francisco	86,902,388	27.6
Class A	58,526,015	25.0
Class B	22,870,963	33.8
SF Peninsula ¹	33,821,589	14.2
Class A	20,462,005	14.2
Class B	9,141,344	14.6
Silicon Valley ²	103,468,705	14.1
Class A	71,406,463	14.4
Class B	23,039,884	15.9
Oakland ³	30,380,133	18.6
Class A	13,126,753	21.4
Class B	12,262,384	20.3
I-680 Corridor	35,497,754	19.5
Class A	22,313,431	23.0
Class B	12,166,533	13.9
Total Bay Area Market	290,070,569	19.3
Class A	185,834,667	19.2
Class B	79,481,108	21.3

¹ Excludes Palo Alto

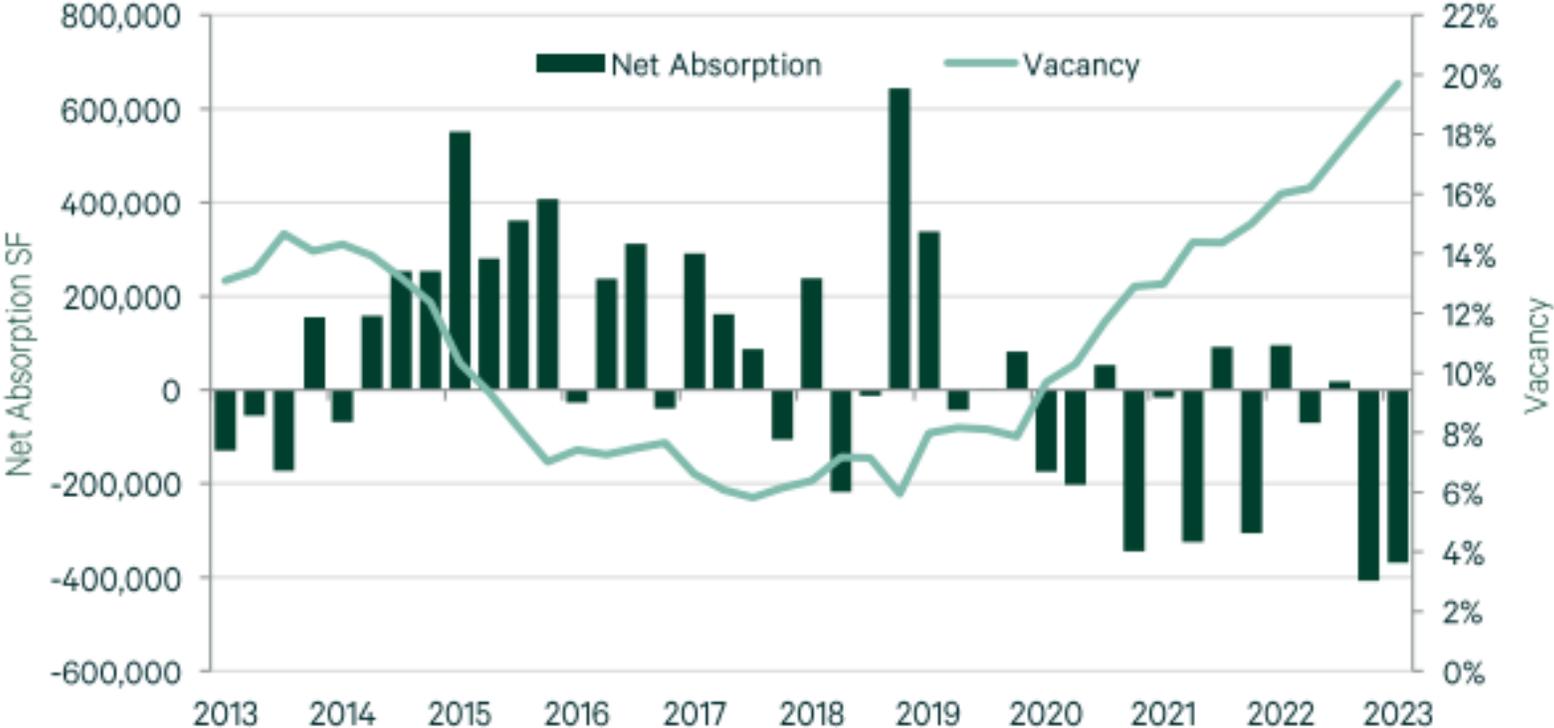
² Includes Fremont/Newark and Palo Alto

³ Excludes Fremont/Newark



Commercial Real Estate Market

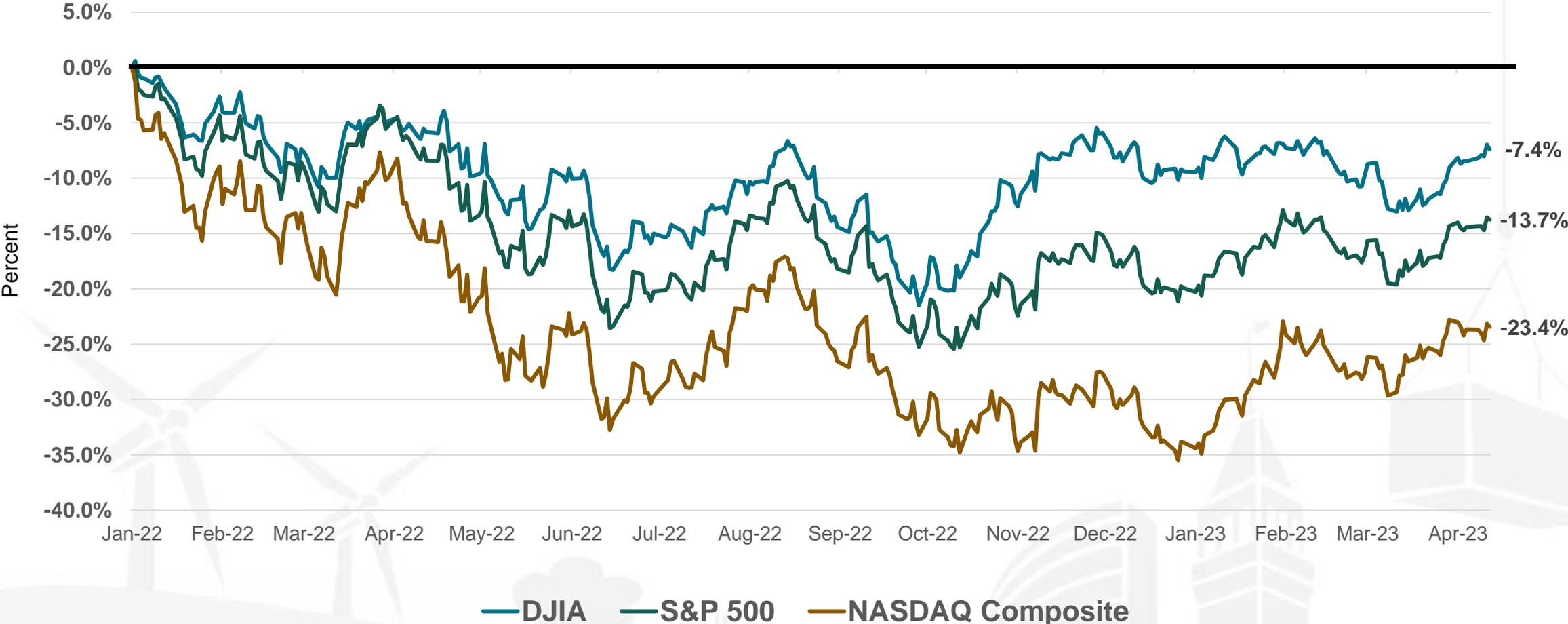
FIGURE 1: Vacancy & Net Absorption Trend



The inner East Bay office market has seen an increasing vacancy rate – 19.7% at the end of Q1 2023



Stock Market Returns 1/1/22 Through 4/14/23



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

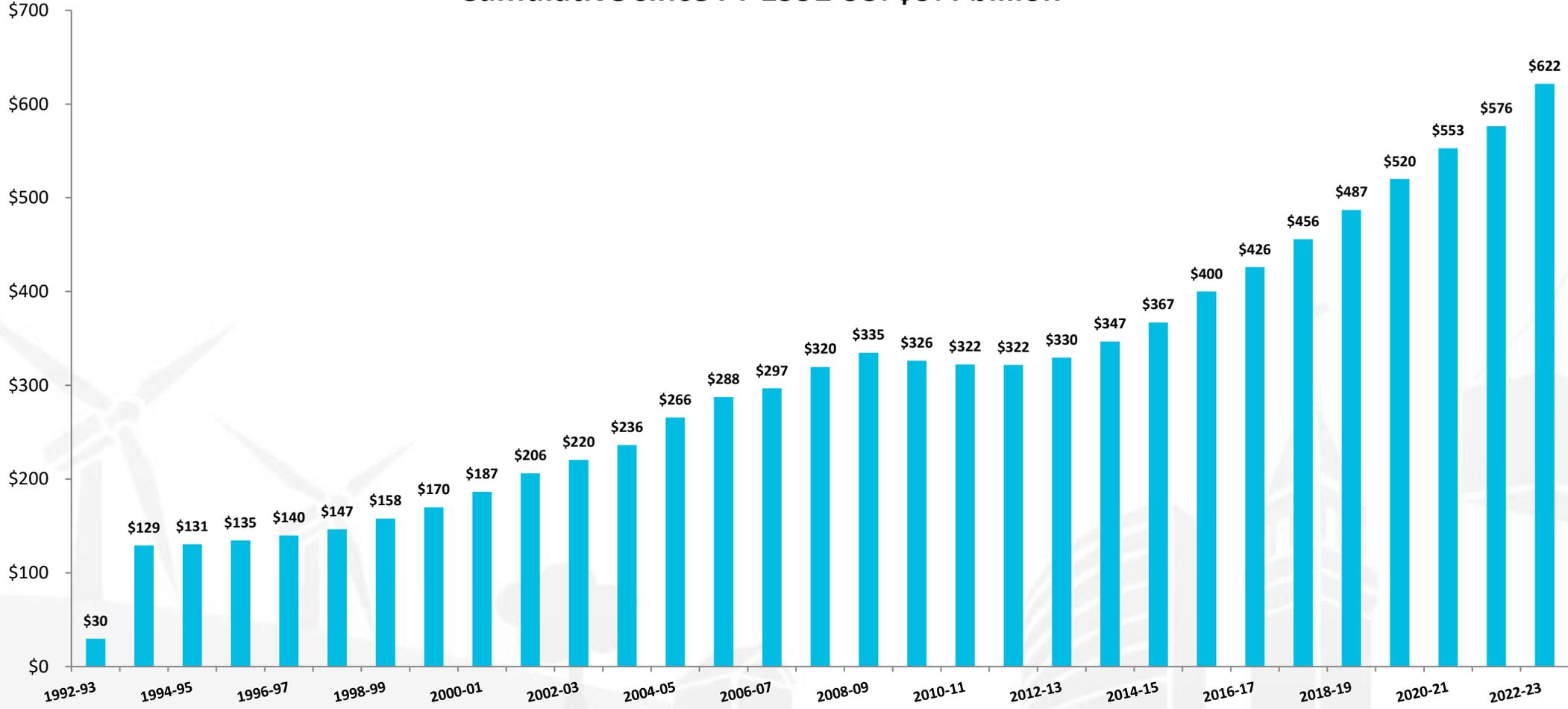


*Education Revenue Augmentation Fund

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)

All Funds	\$3,798.4
------------------	------------------

General Fund	\$3,489.9
---------------------	------------------

<i>Increase from FY 2021-22</i>	<i>\$174.9</i>
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Full-Time Equivalent Positions (FTEs)	10,370.33
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<i>Increase from FY 2021-22*</i>	<i>292.02</i>
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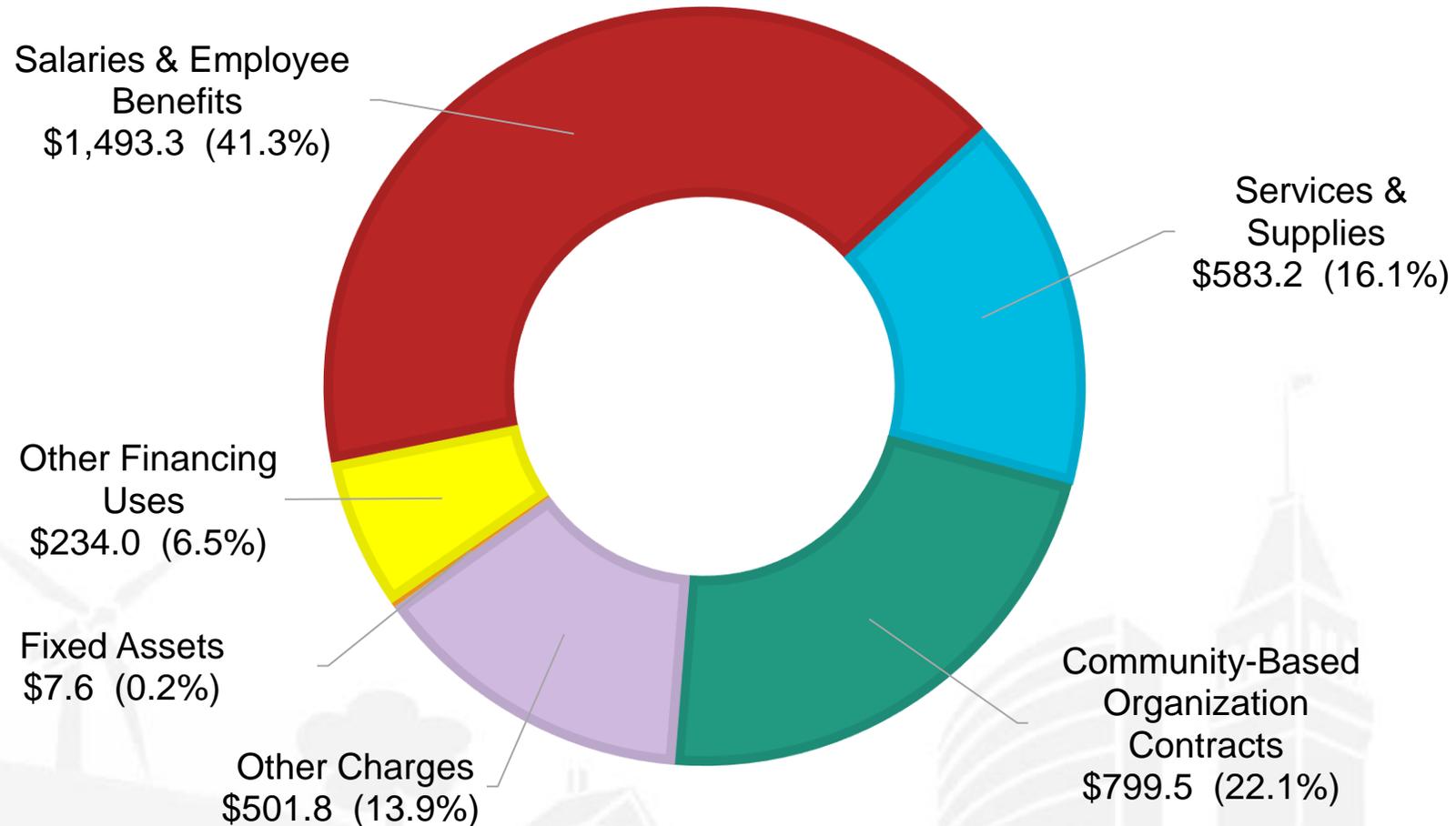
**The majority of the FTE increases were for Behavioral Health and the Sheriff's Office to augment staffing and care coordination at Santa Rita Jail.*



FY 2022-23 Final Budget

Appropriation by Major Object – General Fund

(\$ in millions)



Intra-Fund Transfers: \$-129.5 million

Total General Fund: \$3,489.9 million



Community-Based Organization (CBO) Contracts

FY 2022-23 Final Budget Funding (\$ in millions)

246 CBO Contractors Total

Program Area	FY 22-23 Contracts
General Government	\$43.6
Health Care Services*	\$505.7
Health Care – Alameda Health System	\$93.6
Public Assistance	\$110.9
Public Protection	\$45.7
CBO Contracts Total	\$799.5

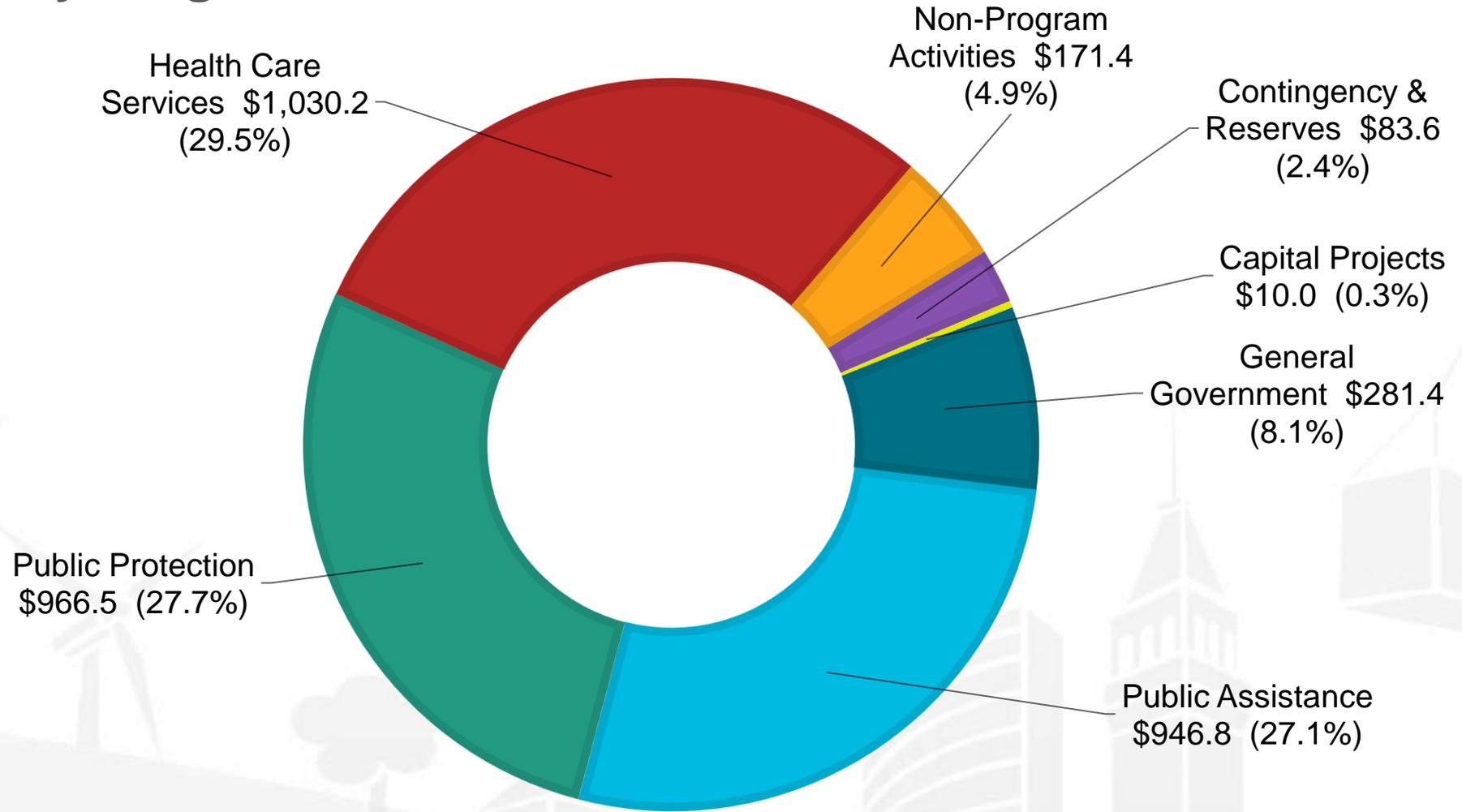
* excludes Alameda Health System contracts



FY 2022-23 Final Budget

Appropriation by Program – General Fund

(\$ in millions)



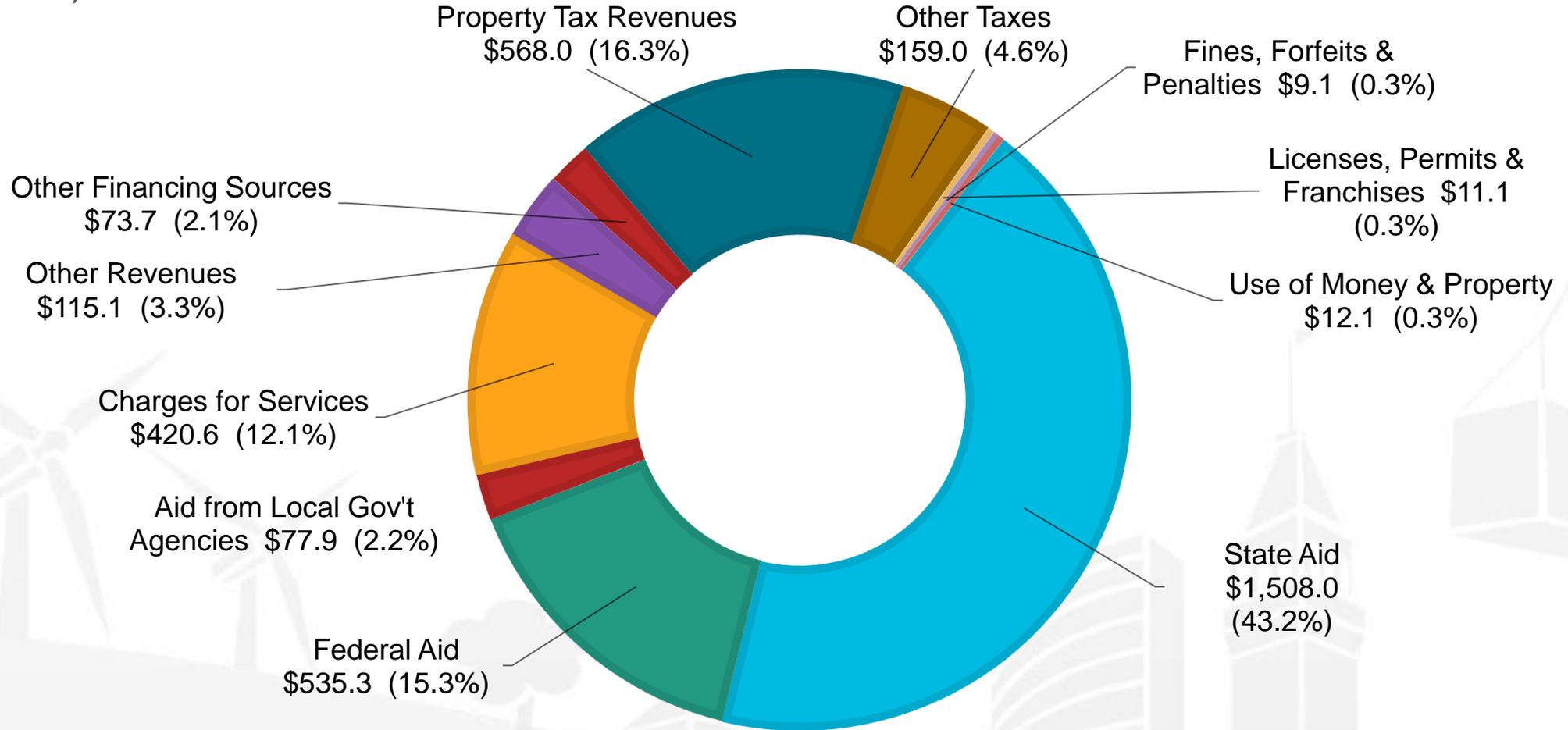
Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Available Financing by Source – General Fund

(\$ in millions)



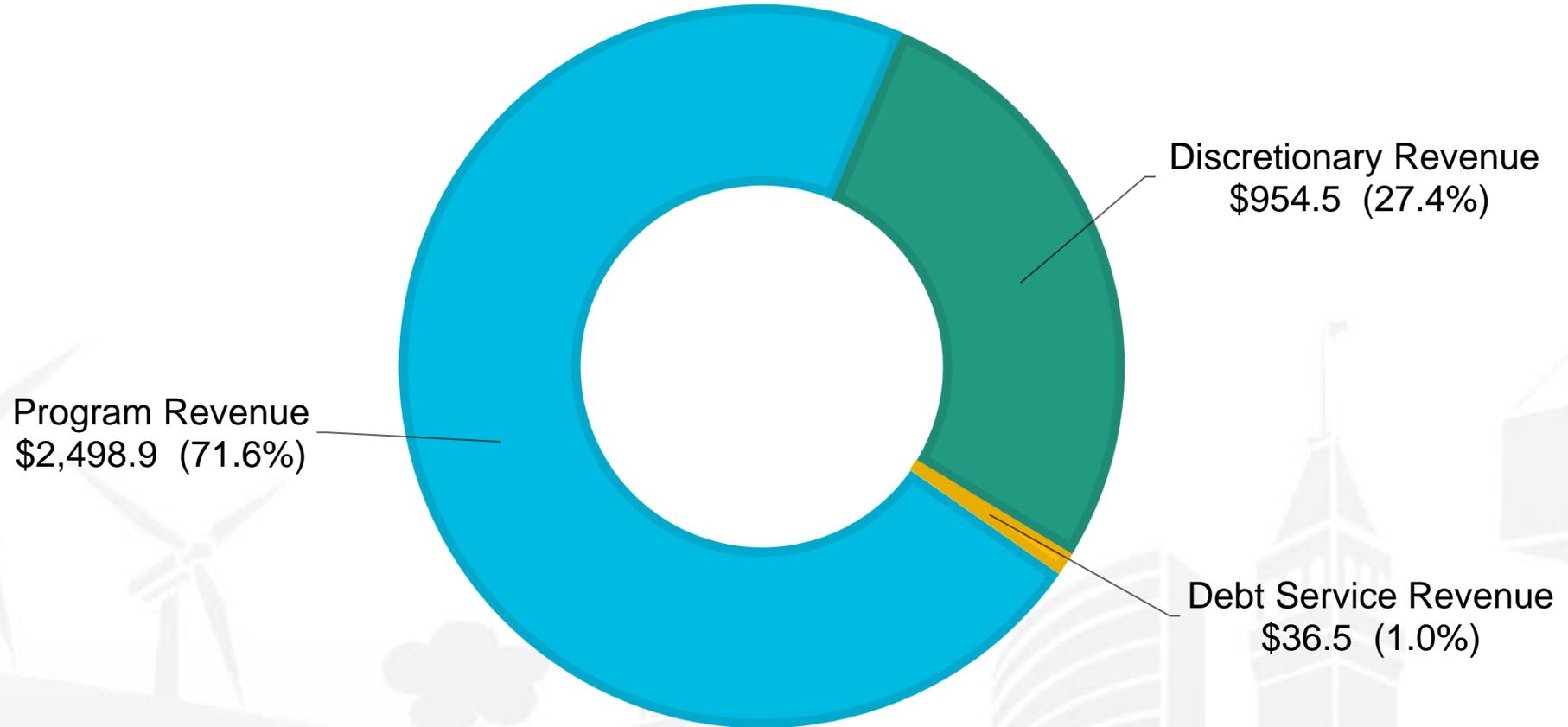
Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Discretionary Revenue – Share of Total General Fund

(\$ in millions)



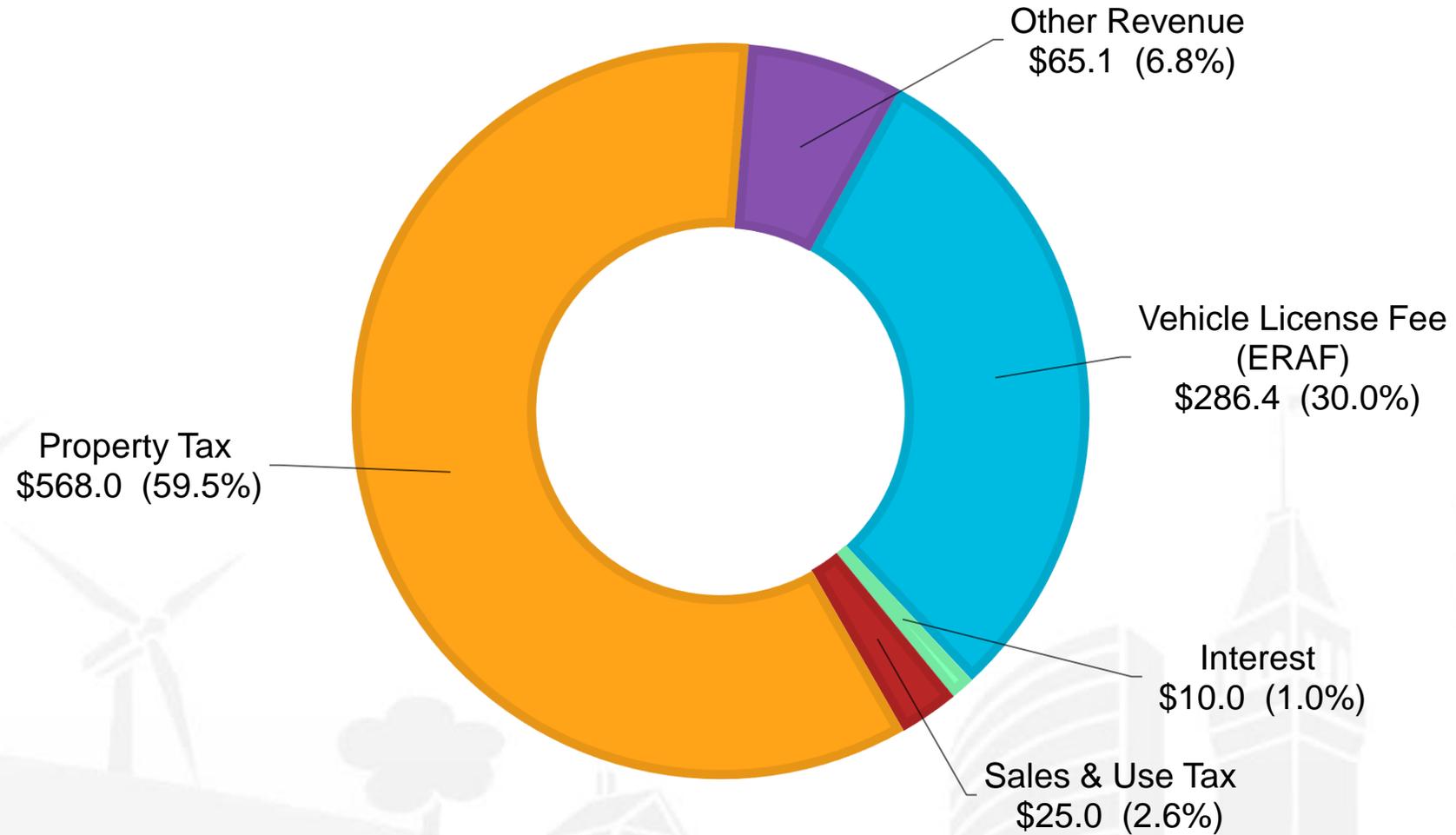
Total General Fund: \$3,489.9 million



FY 2022-23 Final Budget

Discretionary Revenue by Source

(\$ in millions)



Total Discretionary Revenue: \$954.5 million

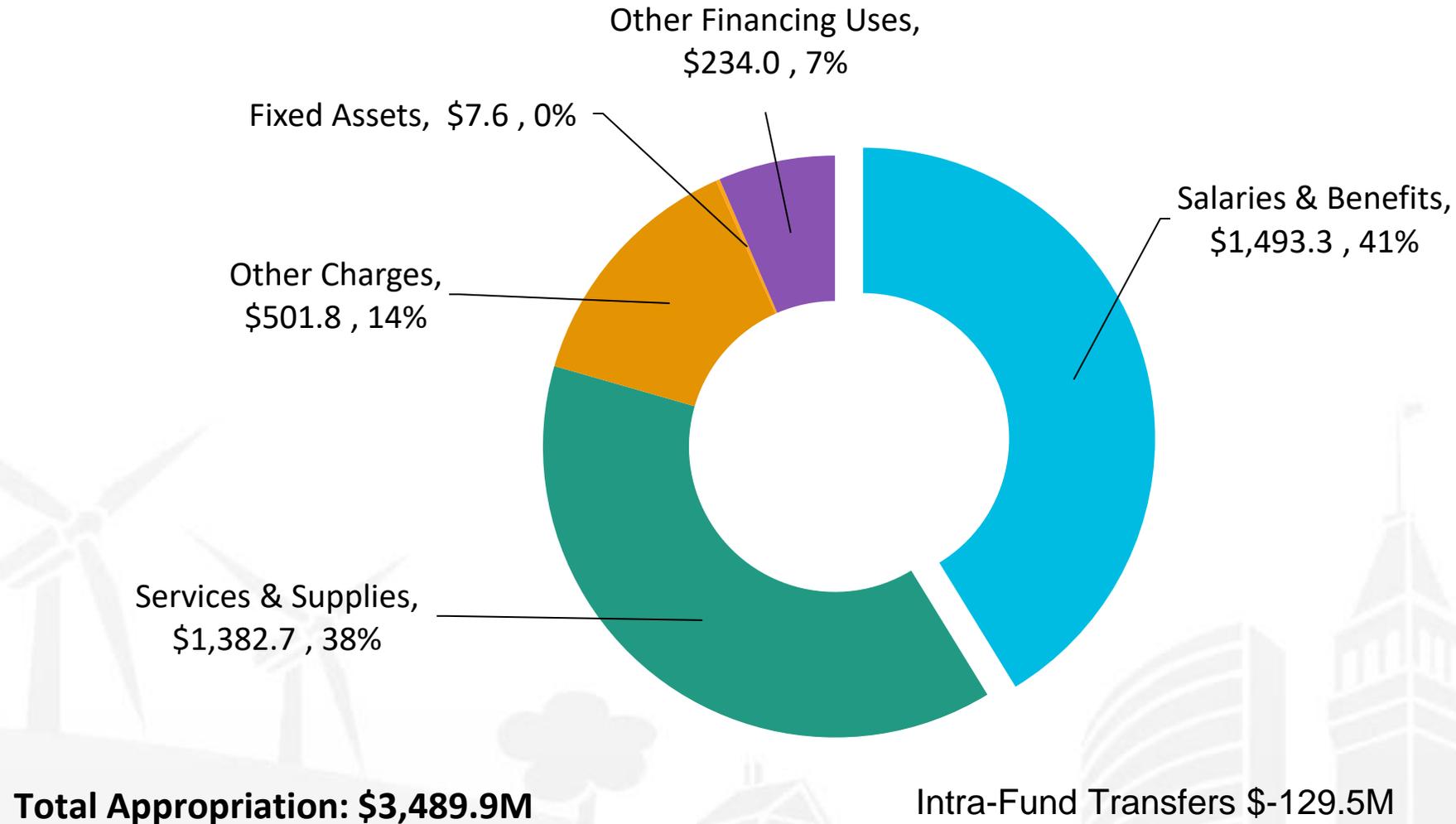


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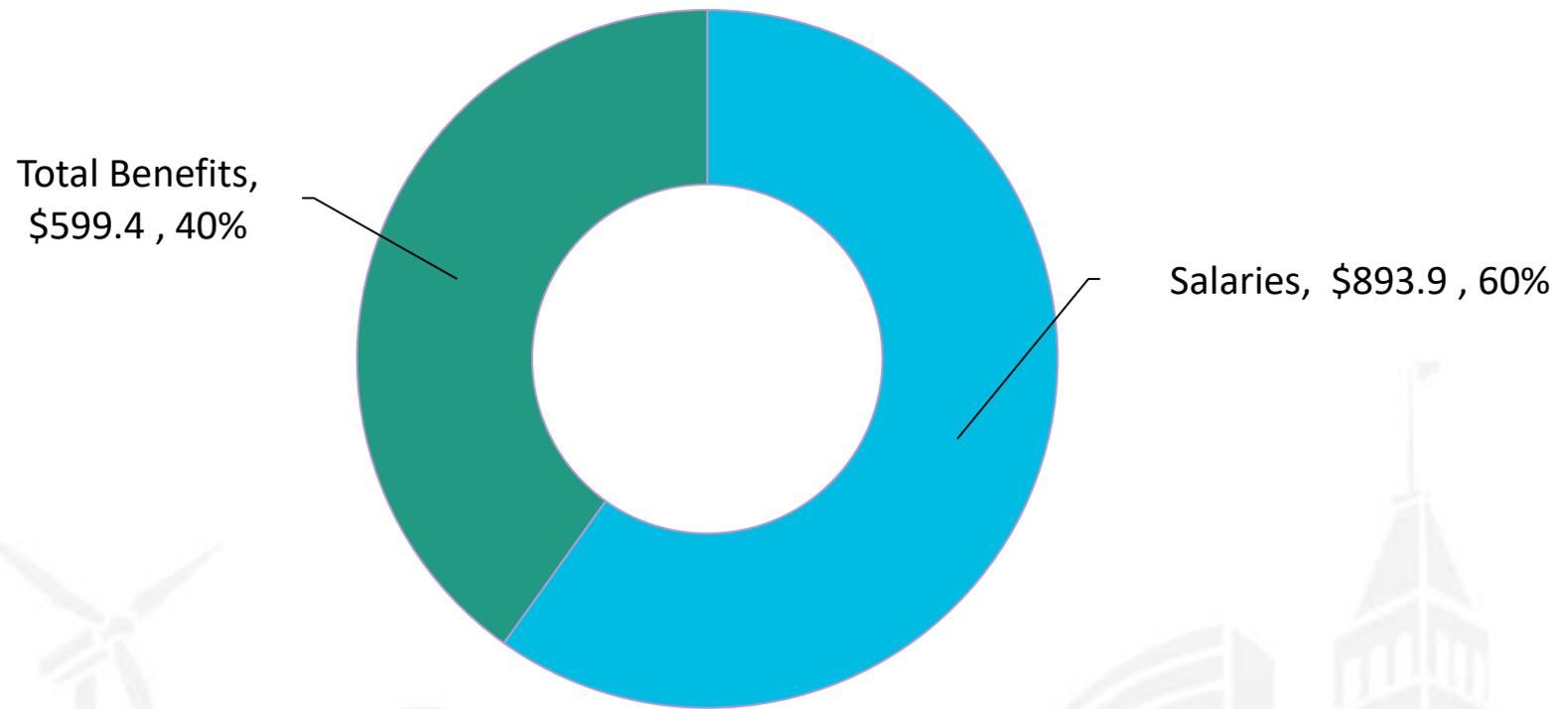
Salary & Employee Benefits



FY 2022-23 Budget Salaries & Benefits (in millions) DRAFT



FY 2022-23 Budget Salaries & Benefits (in millions) **DRAFT**

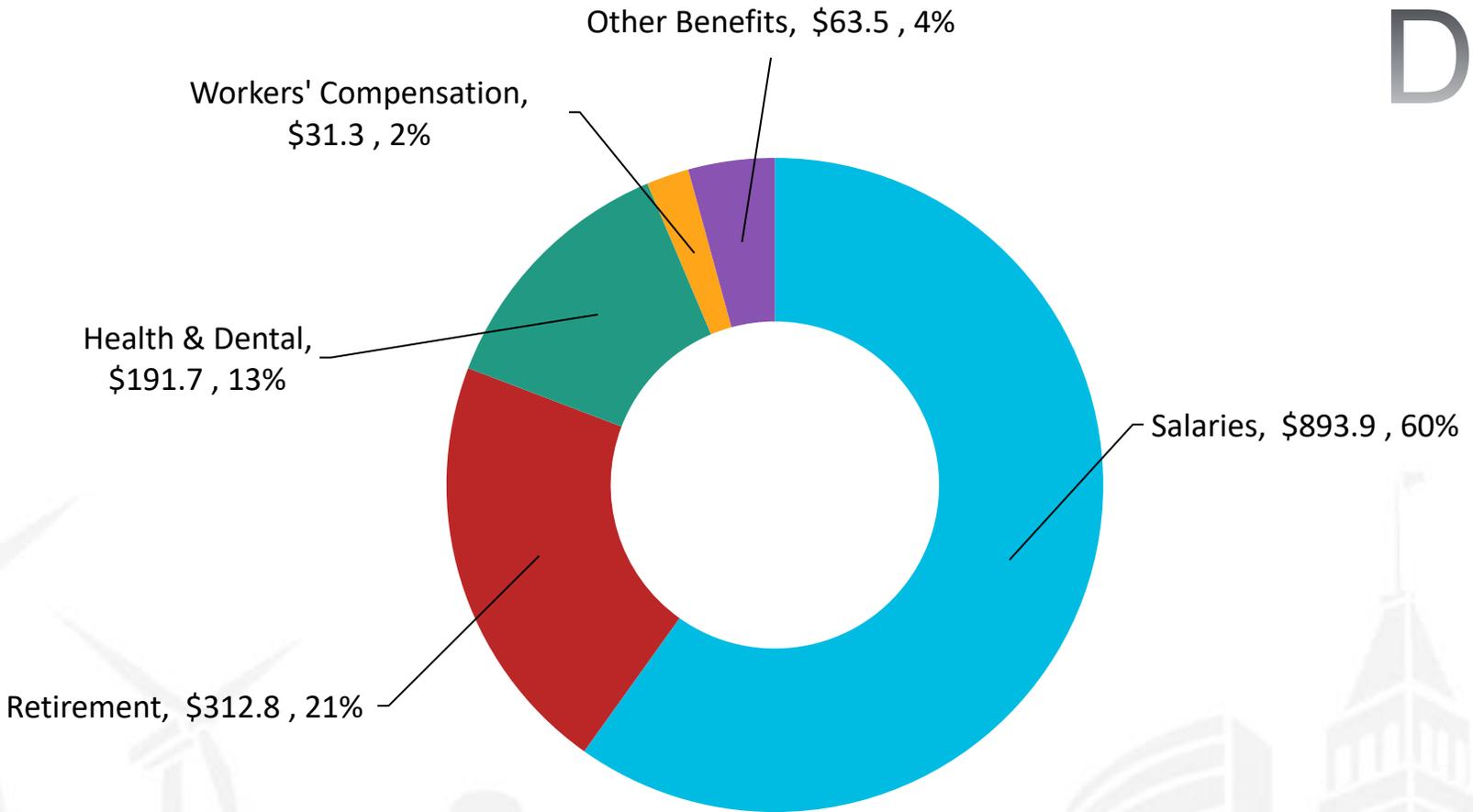


Total S&EB budget: \$1,493.3 M



Salary and Benefits FY 2022-23 General Fund (in millions)

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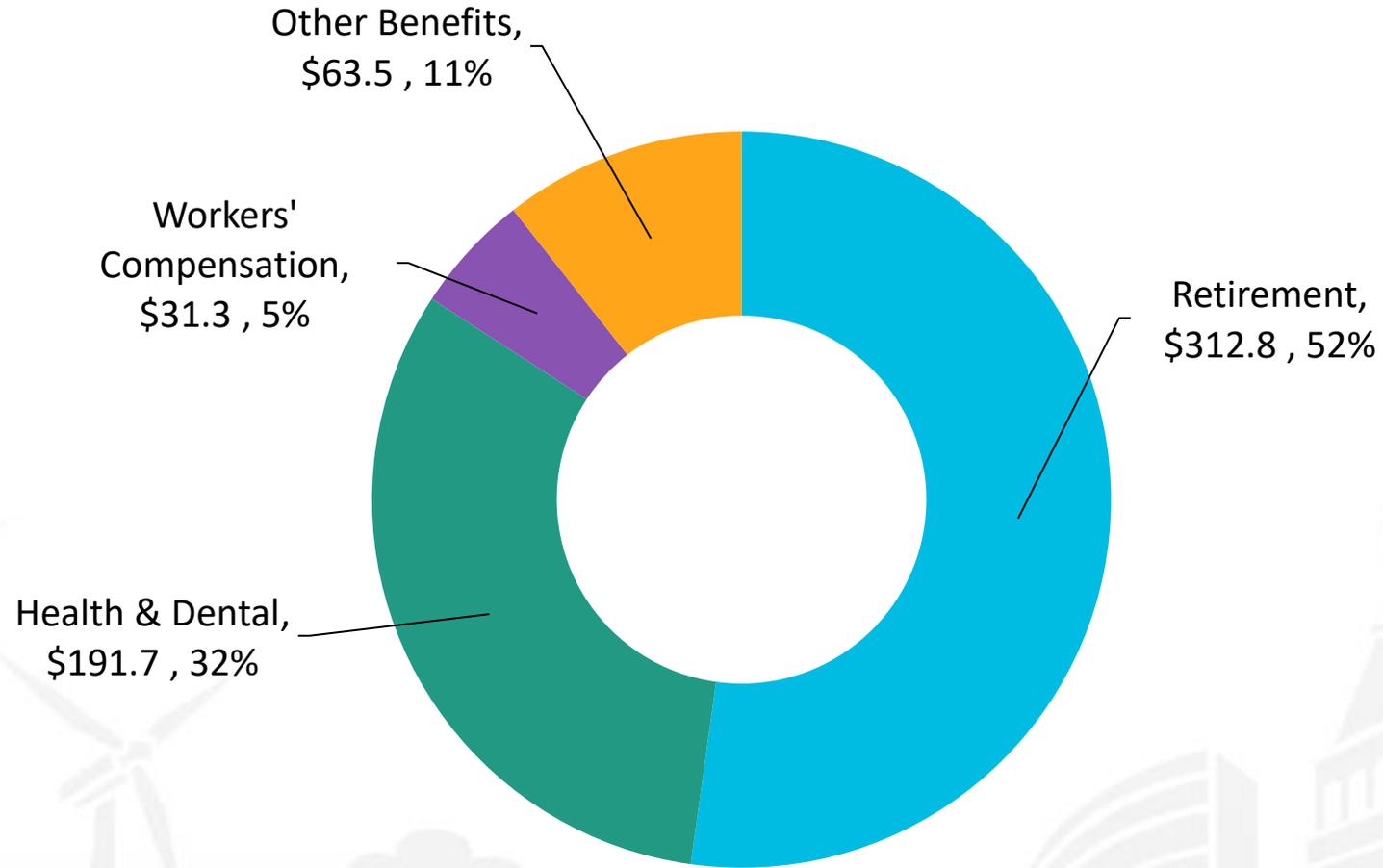


Total S&EB budget: \$1,493.3M



FY 2022-23 Benefits (in millions)

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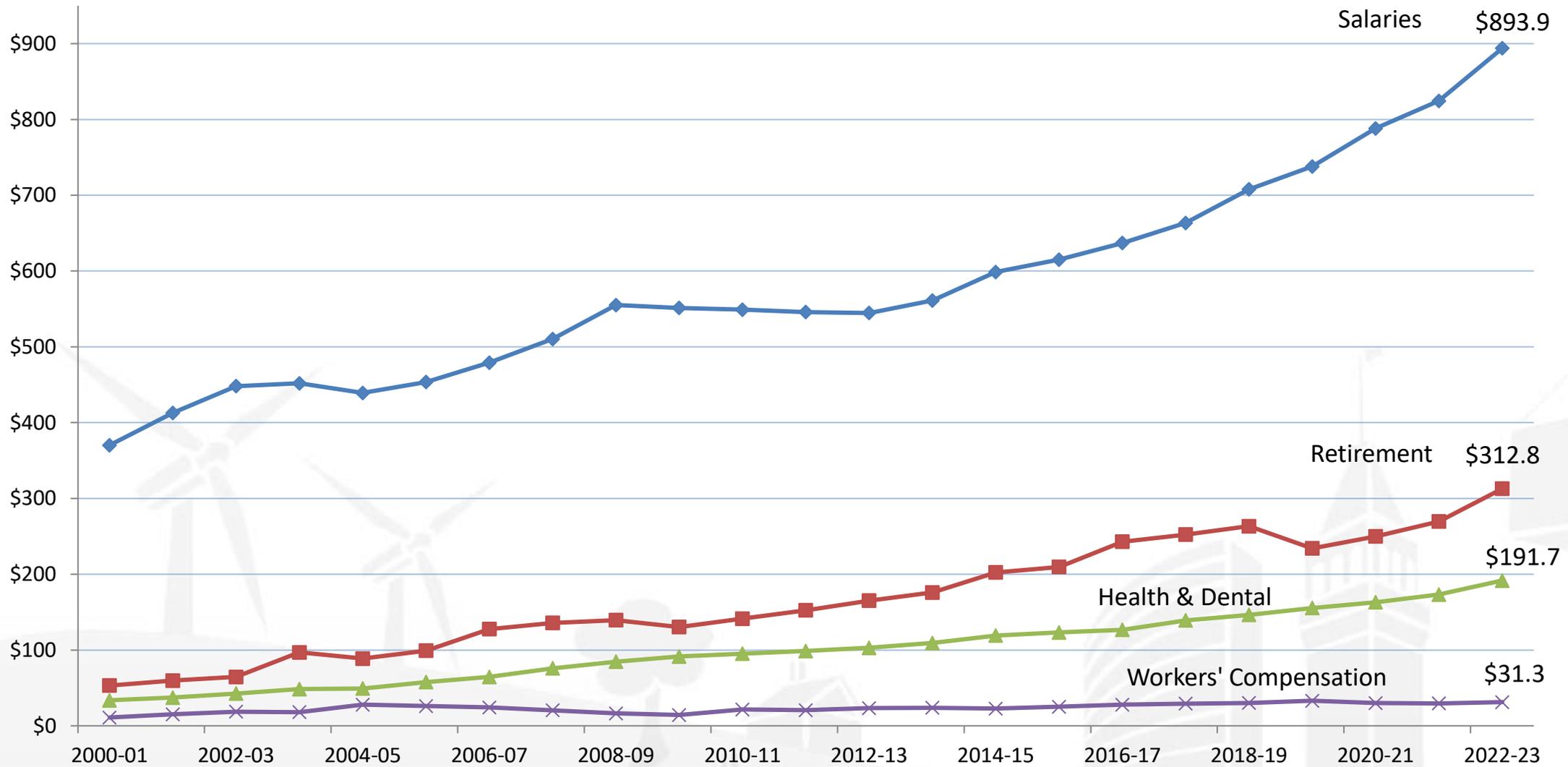


Total Benefits \$599.4M



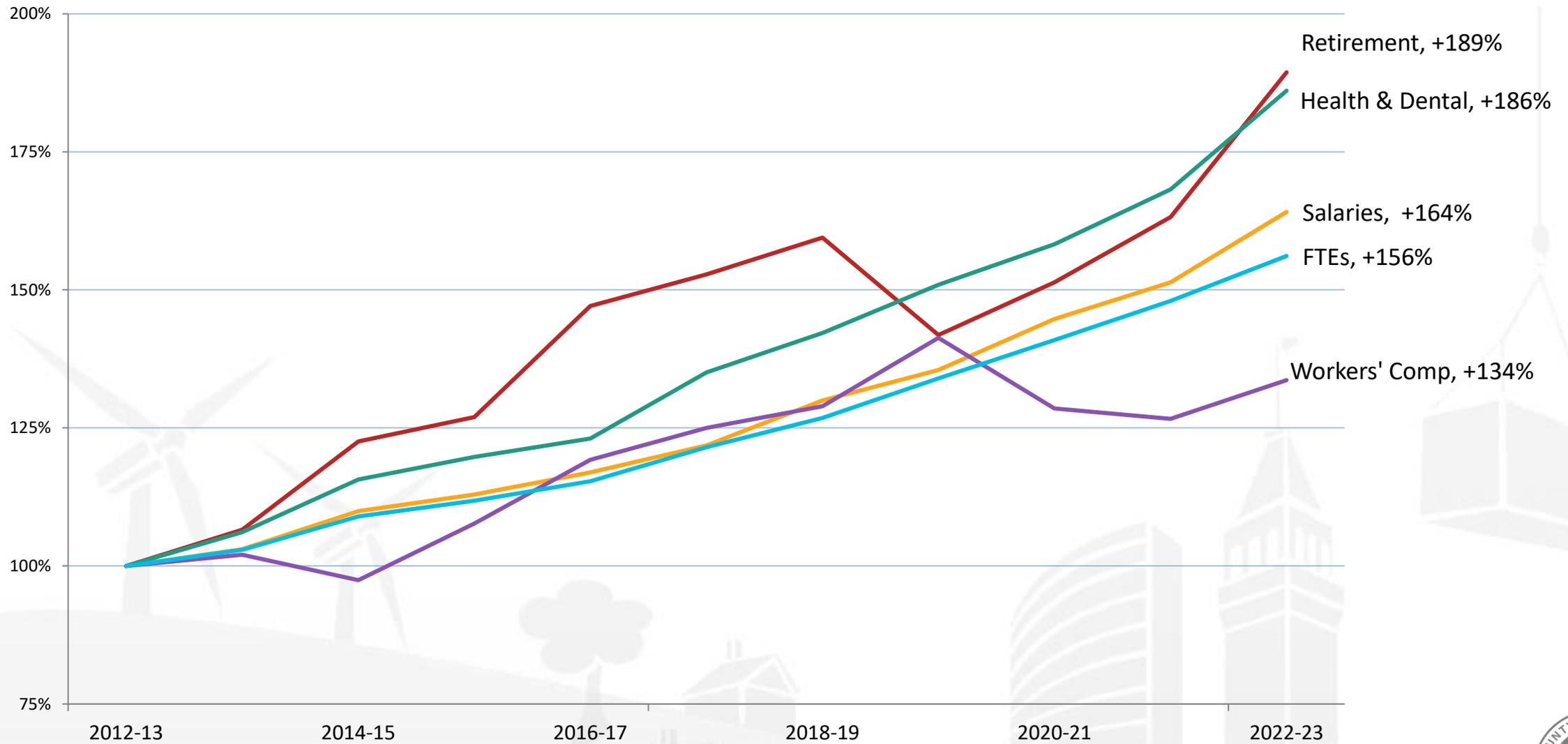
Salary and Benefits Budget (in millions)

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FY 2022-23 Salary, Benefits and FTE % Increase

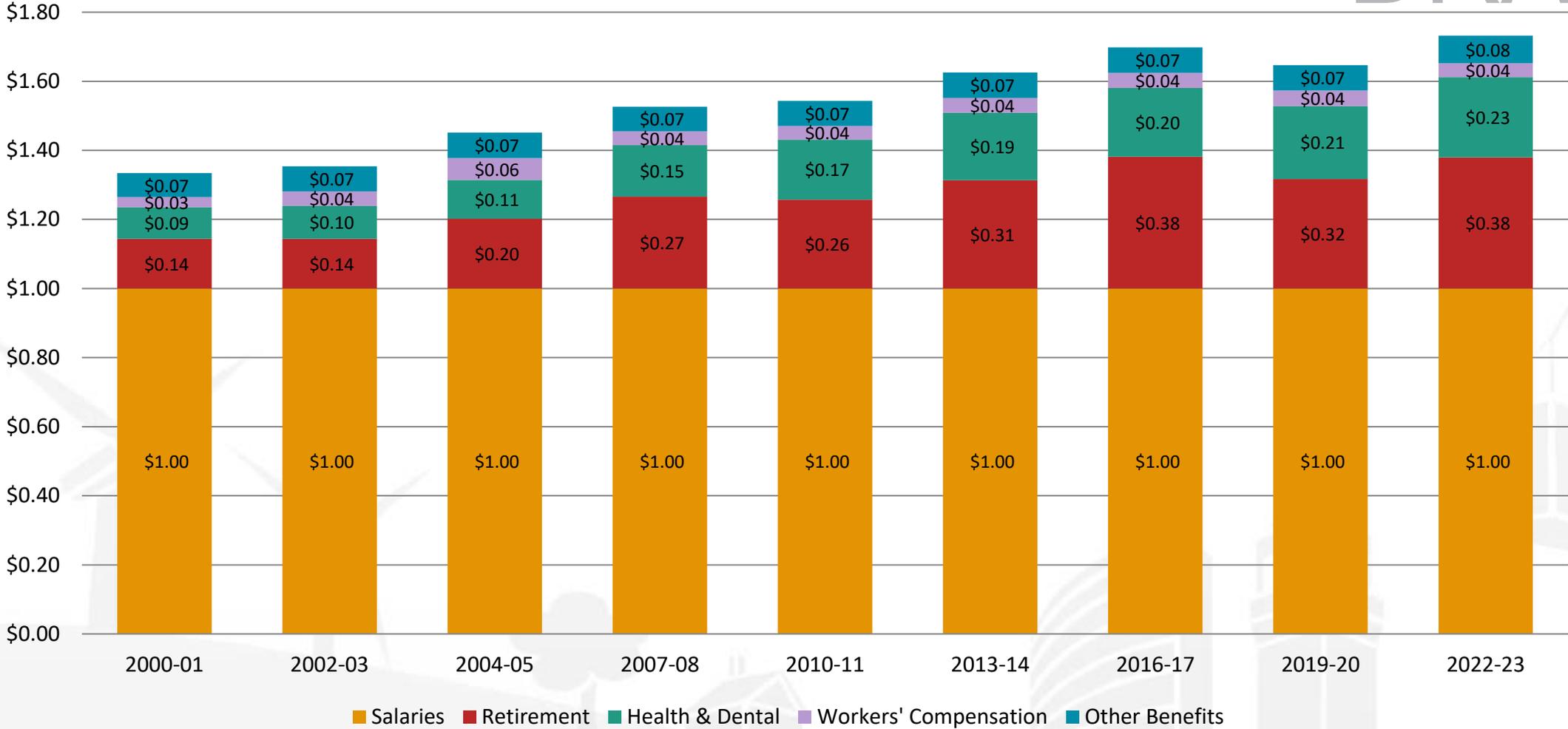
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Employee Benefits per Dollar of Salary FY 2001 to FY 2023

General Fund

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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*

- ✓ Department MOE submissions February, 2023
- ✓ Early Budget Work Session April 11, 2023
- Budget Workgroup Meetings April/May 2023
- Reduction targets to departments April/May 2023
- Governor's Revised Budget May 2023
- Reduction plans submitted by departments May 2023
- Proposed Budget submitted to Board Early June 2023
- Budget Hearings and Budget Adoption Late June 2023

**Dates subject to change*



Our Shared Vision



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



