



Contra Costa County Update Budget & Key Issues

**Presentation to
Board of Supervisors
January 29, 2019**

Contra Costa County Familiar Budget Drivers and Challenges for 2019 and Beyond

- Economic Forecast
- State & Federal Budgets
- Labor Negotiations
- Strategic Use of Reserves
- Fund Infrastructure Needs (Repair & Maintenance)
- Fund System Infrastructure
- Adequately Fund Public Safety & Health Departments

Bay Area Unemployment Rate November, 2018 (Unadjusted)

• San Mateo	2.0%
• Marin	2.2%
• San Francisco	2.2%
• Santa Clara	2.4%
• Sonoma	2.5%
• Napa	2.7%
• Alameda	2.8%
• Contra Costa	2.9%
• Solano	3.6%
• 9 County Average	2.6% (2.8% Last Year)

2018/2019 Achievements

- We have new contracts with most of our bargaining unions resulting in substantially improved health insurance benefits and increased wages.
- Virtually all county employees are currently under contract with the exception of PDOCC. (Approximately 9,164 of our 9,500 permanent FTEs have contracts in place).
- Budget structurally balanced for 8th year in a row, built on assumption of 5^o% increase in assessed valuations, actual AV was 6.34%
- The successor agency oversight boards consolidated into one countywide oversight board effective July 1, 2018. The countywide oversight board staffed by the Auditor-Controller via Conservation and Development Department was established.

2018/2019 Achievements

- Assessed Value, on which general purpose revenue is based, was up 5.78% for FY 2017/18 and 6.34% in 2018/19, projected to grow 5% in FY 2019/20
- General Fund for 2018/19 - \$1.77 B - (total adjusted budget, excluding fire and special districts, for 2018/19 - \$3.77 B)
- Over 800 new employee positions added in past 5 years
- OPEB managed (unfunded liability reduced from \$2.6 B in 2008 to current \$662.5 m)
- Pension costs projected to be fairly stable for next 5 years (assuming no recession ☹️), although CCCERA did not make the assumed investment rate for 2018

2018/2019 Achievements

- Maintained our AAA bond rating from Standard & Poor's, and on lease bonds from Moody's (currently AA3) with both agencies commenting on fact that Contra Costa County was "fundamentally sound, and had a stable outlook for the future."
- S&P also rated the county's existing lease revenue bonds and pension obligation bonds at its "AA+" and "AAA" respectively.
- Moody's currently rates the county's issuer rating at a high investment grade of "AA2" and rates the county's existing lease revenue and pension obligation bonds at "AA3" and "A1", respectively.

New Buildings and Infrastructure Projects

- The county is constructing two significant capital projects, a new 72,000 square foot administration building to replace the existing 651 Pine Street facility and a new 38,000 square foot EOC and administration building for the Sheriff.
- In 2020 the new administration building and the new EOC will come on line and will reduce the current \$272 million deferred maintenance backlog by over \$30 million
- To significantly reduce the remaining \$242 million cannot be addressed at the current funding of \$10 million per year

New Buildings and Infrastructure Projects

- The county is continuing to design and plan for the West County Re-entry, Treatment and Replacement Housing project (WRTH). This project will partially replace space in the older Martinez Detention Facility and will designate 96 beds to treat detainees with mental health issues in a more appropriate setting
- The West County Jail project is expected to be completed in 2022

New Buildings and Infrastructure Projects

- A new 5-year Capital Improvement/Management Plan will concentrate on reducing the number of buildings currently owned by the county and consolidating as many of the remaining buildings as possible, including increasing the number of buildings leased as opposed to owned
- In 2018 we completed the upgrade to our PeopleSoft system at a cost of over \$13.6 million
- In 2019/20 we will evaluate replacement of the finance and tax systems with the likely cost to exceed \$18 million each

County Property Tax

- Property taxes declined by over 11% between 2009 and 2012. There were significant increases between 2014 and 2016. Now returning to a more normal increase of around 5% going into the next few years.

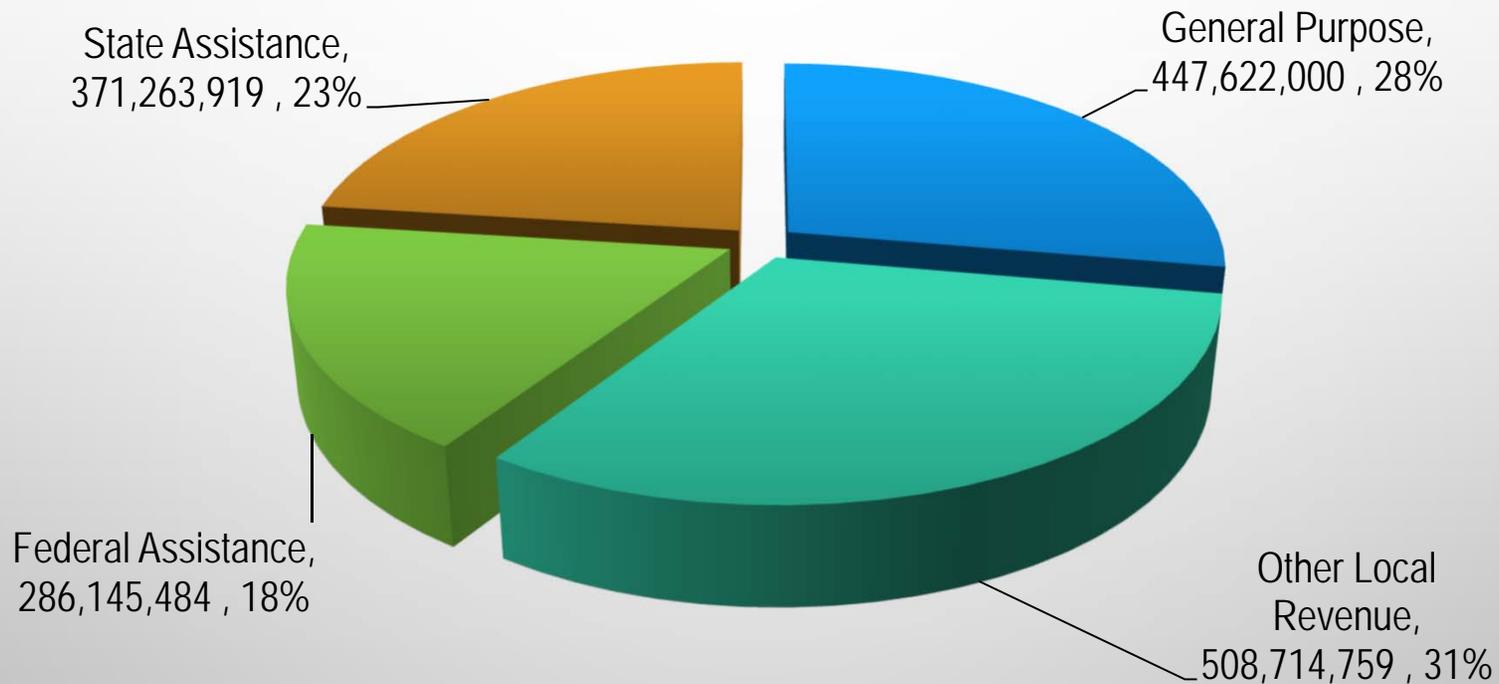
- Actual Contra Costa County experience:

• 2009/10	(7.19% decline)
• 2010/11	(3.38 decline)
• 2011/12	(0.49% decline)
• 2012/13	0.86% increase
• 2013/14	3.45% increase
• 2014/15	9.09% increase
• 2015/16	7.53% increase
• 2016/17	6.01% increase
• 2017/18	5.78% increase
• 2018/19	6.34% increase
• 2019/20	5.00% increase projected

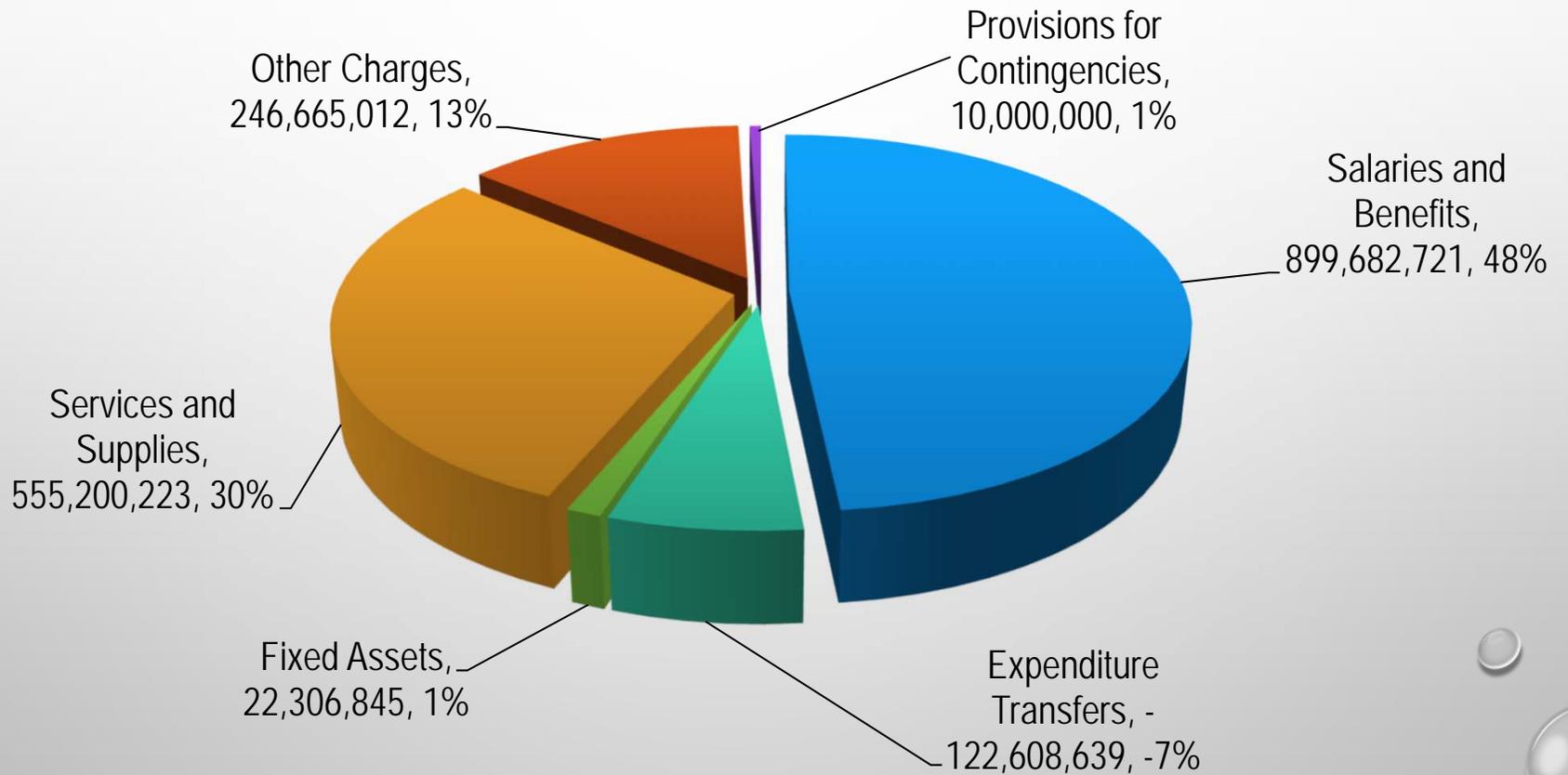
Contra Costa Fire District Property Tax

- For fire, property taxes declined by over 13% between 2009 and 2013. These taxes then significantly increased between 2014 and 2016. Now returning to a more normal increase of around 5% going into the next few years.
- Actual District experience:
 - 2009-10 (7.8%)
 - 2010-11 (2.4%)
 - 2011-12 (1.9%)
 - 2012-13 (1.2%)
 - 2013-14 5.9%
 - 2014-15 9.3%
 - 2015-16 6.9%
 - 2016-17 6.32%
 - 2017-18 5.53%
 - 2018-19 6.44%
 - 2019-20 5.00% Increase projected

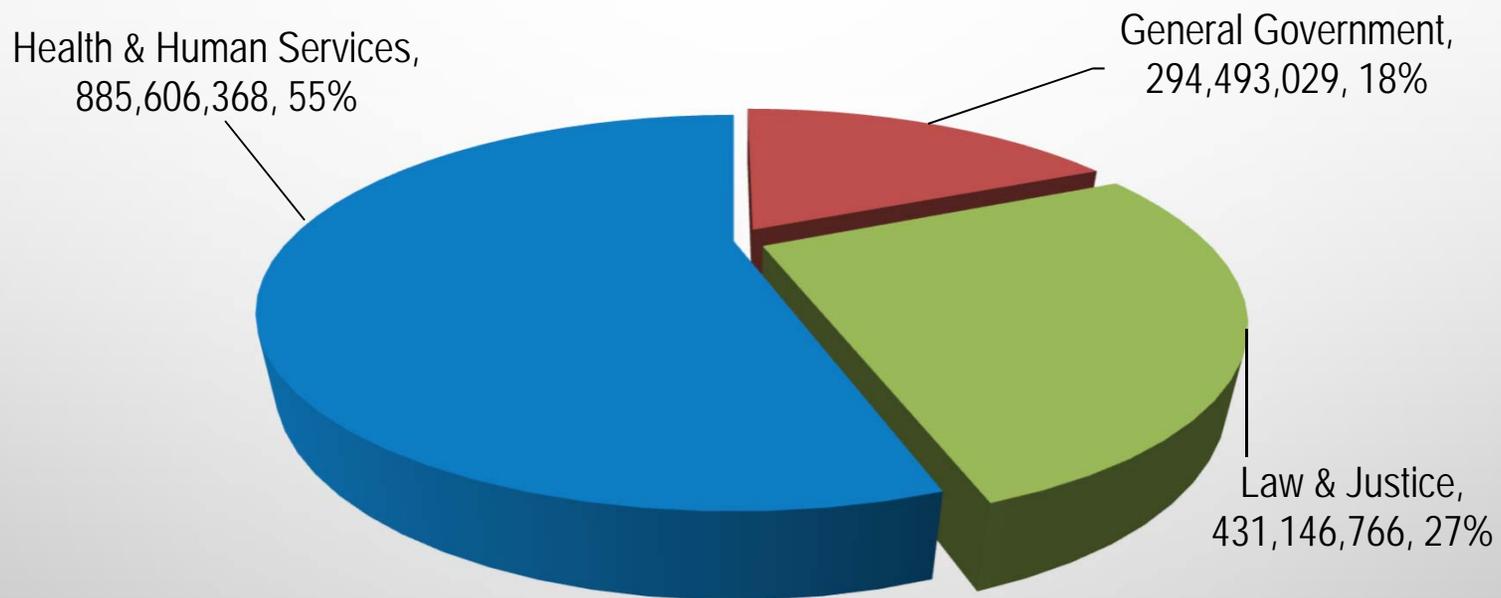
Fiscal Year 2018-19 General Fund Budgeted Revenue \$1.613 Billion



FY 2018-19 General Fund Appropriations \$1.611 Billion



FY 2018-19 Distribution General Fund Appropriations



FY 2018/19 Mid-year Preliminary Stats

Budget Performing As Expected

			Mid-Year 18-19	Mid-Year 17-18	Mid-Year 16-17	Mid-Year 15-16
ALL FUNDS	Budget	Actual	Percent	Percent	Percent	Percent
Expenditures	3,769,956,855	1,547,327,992	41.0%	41.6%	43.5%	40.8%
Revenues	3,580,228,965	1,585,960,657	44.3%	43.6%	42.9%	44.1%
GENERAL FUND	Budget	Actual	Percent	Percent	Percent	Percent
Expenditures	1,767,958,344	729,216,503	41.2%	37.5%	42.5%	41.6%
Revenues	1,645,291,605	665,788,588	40.5%	40.4%	38.6%	38.2%
Wages & Benefits	899,380,597	413,076,133	45.9%	46.0%	45.8%	46.0%
Services & Supplies	602,817,080	232,466,968	38.6%	38.3%	40.3%	38.5%
Other Charges	247,425,012	108,682,811	43.9%	40.4%	46.7%	46.4%
Fixed Assets	130,944,625	30,213,732	23.1%	14.4%	14.1%	8.5%
Inter-departmental Charges	-120,608,971	-55,223,141	45.8%	46.5%	41.2%	48.1%
Contingencies	8,000,000	0				
Total Expenses	\$1,767,958,344	\$ 729,216,503	41.2%	40.4%	42.5%	41.6%
Fund Balance	30,148,442					
Taxes	409,780,000	261,403,861	63.8%	59.7%	63.4%	63.7%
Licenses, Permits, Franchises	10,518,588	3,334,320	31.7%	31.2%	21.2%	28.0%
Fines, Forfeitures, Penalties	13,839,710	1,528,831	11.0%	7.6%	8.5%	7.8%
Use of Money & Property	7,078,550	5,871,586	82.9%	48.8%	621.1%	10.3%
Federal/State Assistance	584,811,474	218,400,539	37.3%	33.0%	31.9%	28.3%
Charges for Current Services	257,574,361	97,528,580	37.9%	38.8%	41.8%	40.9%
Other Revenue	331,540,479	77,720,871	23.4%	22.4%	20.4%	28.4%
Total Revenues	\$ 1,645,291,605	\$ 665,788,588	40.5%	38.0%	38.6%	38.2%

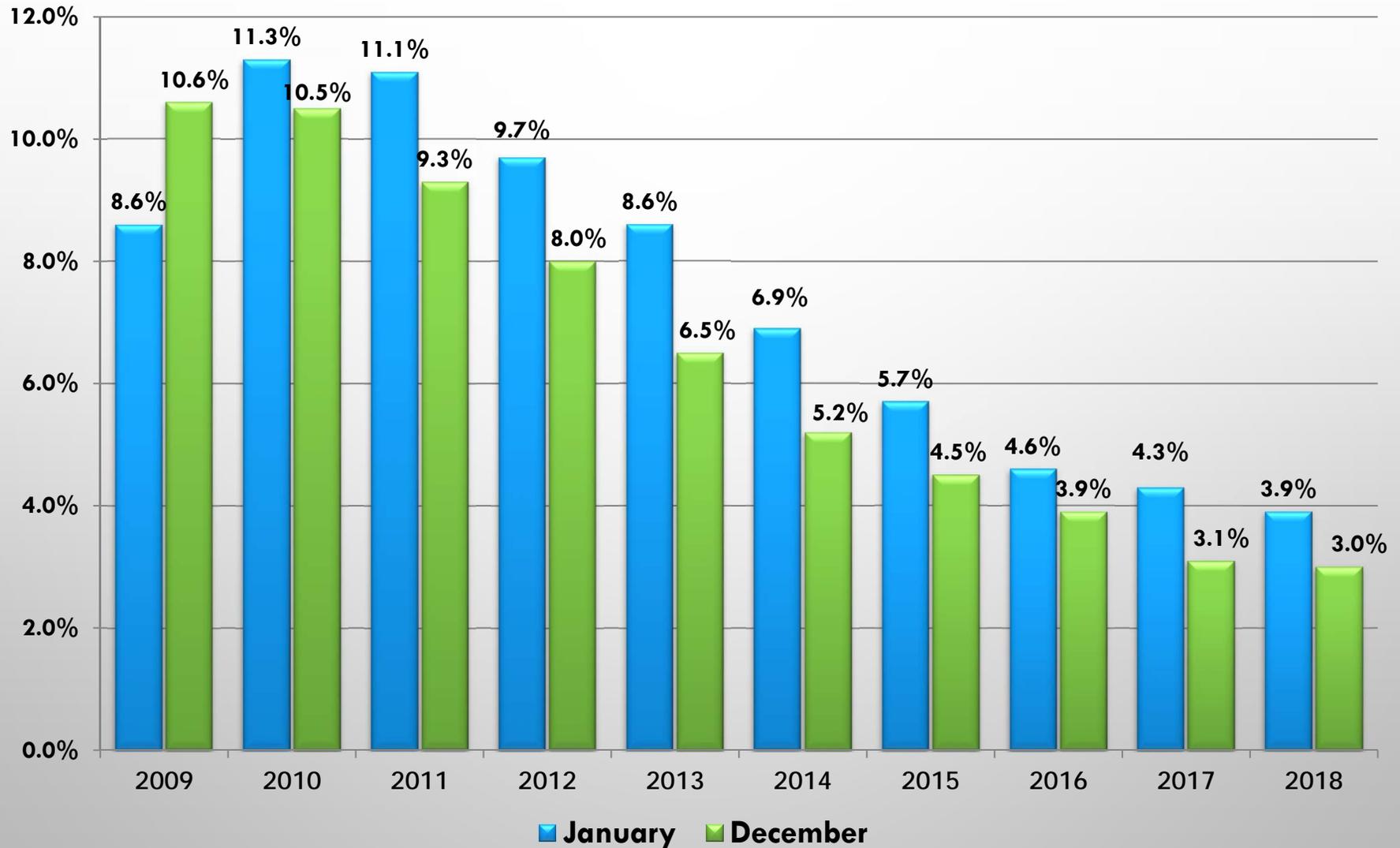
Contract Status

<u>Bargaining Units</u>	<u>Total Number of Permanent Employees</u> ¹	<u>Contract Expiration Date</u>
AFSCME Local 2700, United Clerical, Technical and Specialized Employees	1,574	6/30/2022
AFSCME Local 512, Professional and Technical Employees	223	6/30/2022
California Nurses Association	1,078	9/30/2021
CCC Defenders Association	76	6/30/2022
CCC Deputy District Attorneys' Association	85	6/30/2022
Deputy Sheriff's Association, Mgmt Unit and Rank and File Unit	832	6/30/2019
Deputy Sheriff's Association, Probation Peace Officers Association	230	6/30/2019
District Attorney Investigator's Association	18	6/30/2019
IAFF Local 1230	323	6/30/2020
IHSS SEIU - 2015		6/30/2018
Physicians and Dentists of Contra Costa	276	12/31/2017 ²
Professional & Technical Engineers – Local 21, AFL-CIO	1,107	6/30/2022
Public Employees Union, Local One & FACS Site Supervisor Unit	546	6/30/2022
SEIU Local 1021, Rank and File and Service Line Supervisors Units	838	6/30/2022
Teamsters, Local 856	1,781	6/30/2022
United Chief Officers' Association	12	6/30/2020
Western Council of Engineers	23	6/30/2022
Management Classified & Exempt & Management Project	456	n/a
	Total	
	9,478	

¹ Permanent number of filled Positions as of December 2018 (not FTE)

² Currently in Negotiations

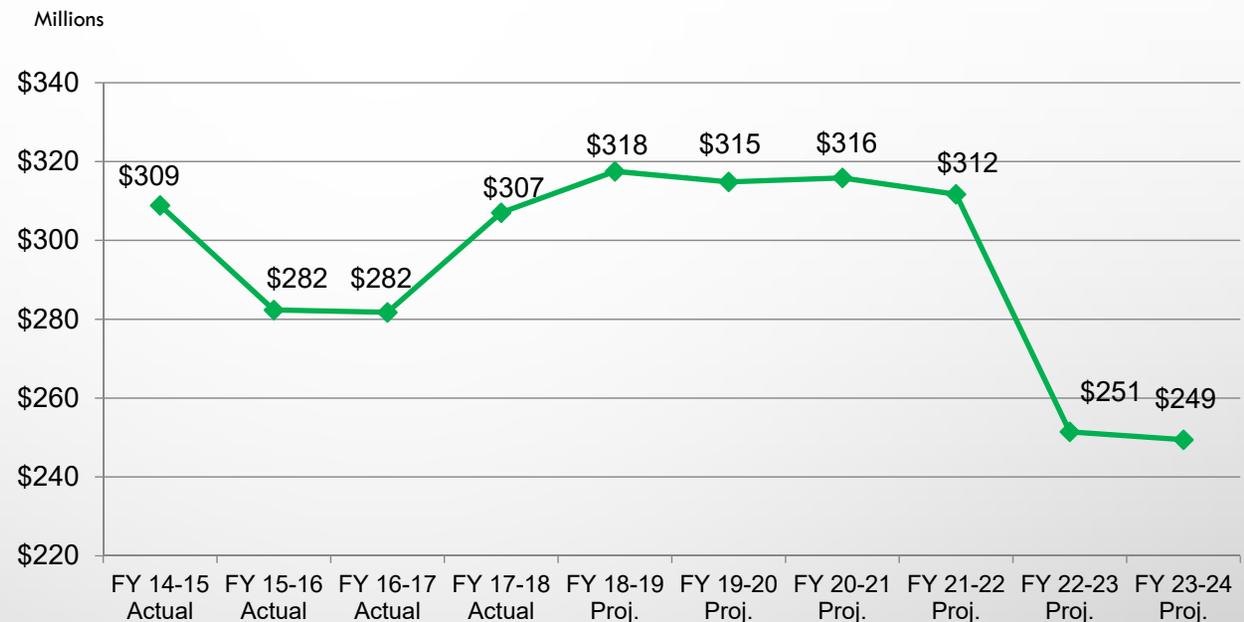
Contra Costa County Unemployment Rate 2008 - 2018



Pension Cost Management

- Following carefully
- Monitoring changes by state and CCCERA board
 - New PEPRA tiers as of 1/1/2013
 - No extension of amortization
 - No change in 5-year smoothing
 - No change in pooling
 - Assumed rate of return 7.00%
 - Active payroll growth of 3.25% per annum
- Updates:
 - FY 2018-19 Recommended Budget - \$342 M
 - Chart includes the final year, 2022, of debt service for County and Fire District Pension Obligation Bonds. [Fire final transfer from operations is in 2022 and payment is June 2023]

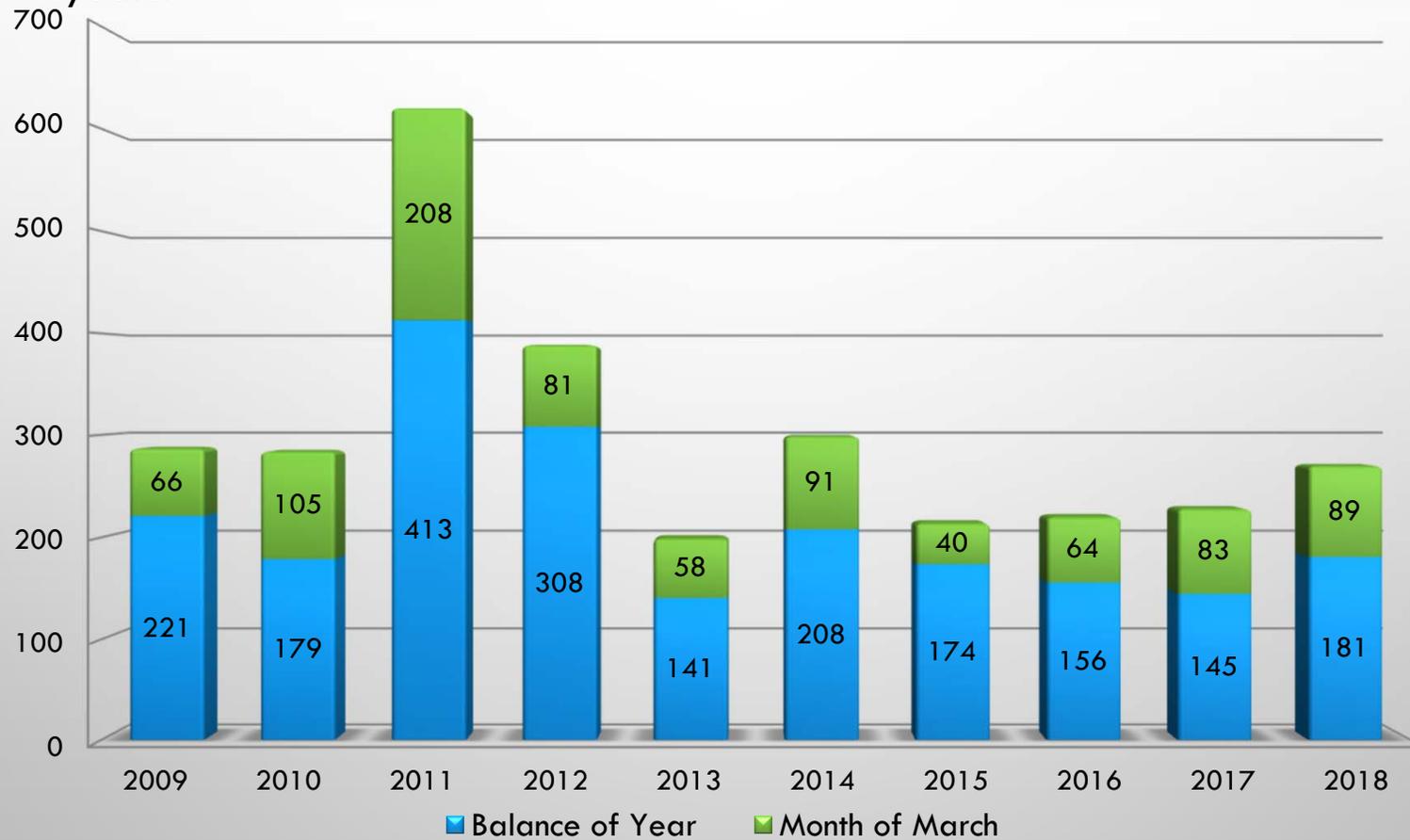
Actual and Projected* Retirement Expense



The chart includes four years of actual data, straight-line projection of current year (based upon six months of actual data), and projection of future years based upon current year wages and actuarial data provided by CCCERA's actuary (letter dated September 4, 2018) assuming that CCCERA achieves its assumed rate of return each of these years. Note that CCCERA did not achieve its AR for 2018. This data will be updated in March for the FY 2019/20 budget based upon 12/31/2018 CCCERA market impacts.

Retirements

High numbers of vacant positions due to unprecedented numbers of retirements during calendar year 2011 and 2012 are being filled or eliminated. Historically March retirements are the highest. 2018 retirements were higher than the last three years.



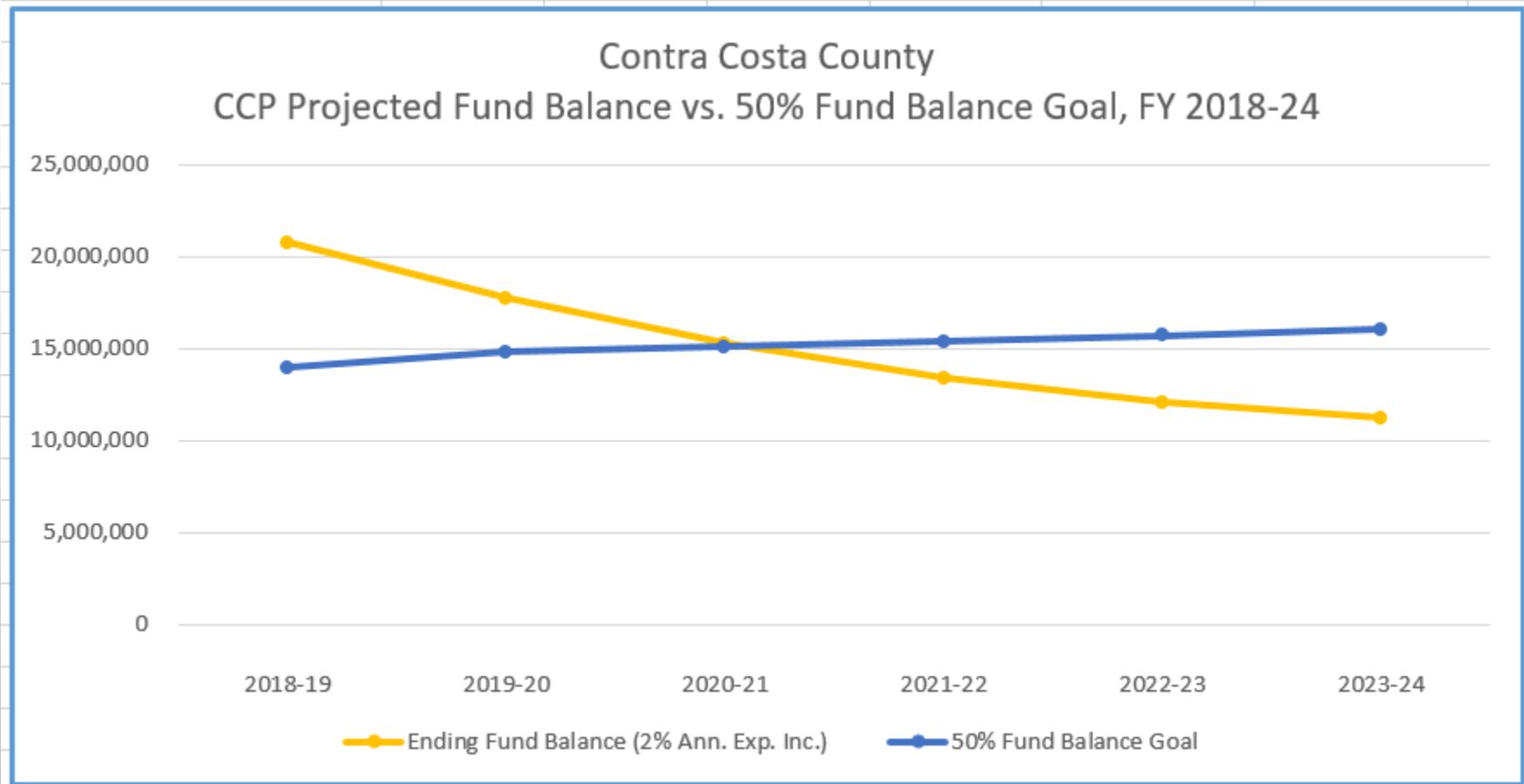
PRELIMINARY EMPLOYEE DATA FY 2019/20

- 9,801 FTE (11 FTE Increase over 2018)
- Total salary and benefit cost of \$1,475,271,591
 - (\$71.5 million increase over 2018)
- Average budgeted wages of \$92,601
- Average retirement cost of \$34,491
- Average health insurance cost \$14,250
- Average total cost of a position \$150,516

Community Corrections Partnership

- CCP passed a FY 19/20 Budget Recommendation of \$29,599,550 in December 2018, an increase of 6% over the current year.
 - PPC to consider in early February 2019
 - Includes continuation of the Office of Reentry and Justice (Year 4)
 - Uses \$500k in fund balance for Year 3 of the Stand Together CoCo, Immigration Rapid Response Program (3 year pilot)
- CCP budget continues to rely on approximately \$3 million in 19/20 of CCP fund balance (expenses exceed base revenues)
- Assuming just a 2% increase each year to expenditures over the next 5 years, the County would be required to draw \$9.5 million from CCP fund balance to fund AB109 programs over that period
- Assuming a FY 18/19 estimated fund balance of \$20.7 million, fund balance would be reduced to \$11.2 million at the close of FY 23/24
- At \$11.2 million, fund balance would be at 35% of FY 23/24 projected expenditures. **Goal is 50% of expenditures** (*Approx. 6 months of operations*)

Community Corrections Partnership



Contra Costa Fire Protection District

- **Reasons For Optimism**

- Settled with Local 1230 and UCOA through June 30, 2020
- Employer share of pension costs stable (for now)
- “Alliance” ambulance program stable (for now)
- Station 16 (Lafayette) to be completed in FY 2019/20; staffing funded starting March 2019
- Station 70 (San Pablo) construction request for proposals to be released this month

- **Reasons For Concern**

- Property Tax revenue increases anticipated to slow
 - Will continue assumption of 5% in 19/20
 - Decrease likely in 20/21 and beyond
- Cost of labor contracts
 - \$11.3 million in 19/20 (total three year cost of \$23.1 million)
- Continued strain on operating fund
 - Scheduled debt service payments increasing approx. \$700k/yr. through 2022

Contra Costas Fire – EMS Transport Fund

- **Reasons For Optimism**

- “Alliance” ambulance program stable; Operating revenues exceeding projections (for now)
- EMS Transport Fund balance accruing; Goal remains at 50% of annual costs to provide ambulance services

- **Reasons For Concern**

- Future of healthcare funding continues to be uncertain
 - How does a California single payer system impact ambulance transport revenues?
 - Federal Administration efforts to defund and destabilize Affordable Care Act continue
- First Ground Emergency Medical Transportation (GEMT) allocation received \$761k (original projection at \$5 - \$6 million); GEMT not a budgeted revenue source

- **EMS Transport Reserve Recommendation**

- CAO recommends continuing the practice of budgeting annual reserve contributions of \$2 million /yr. to fund the 50% goal (Approx. \$21 million).
- This recognizes that the District has ongoing receivables of approx. \$10 million at any given time.

Continued Reasons For Optimism

- **Positive Economic Outlook**

- California economic outlook stable for next year
- State Proposed Budget would address some of County Concerns
- AV Revenue up 6.34% for FY 2018/19 and projected to grow by 5% in 2019/20

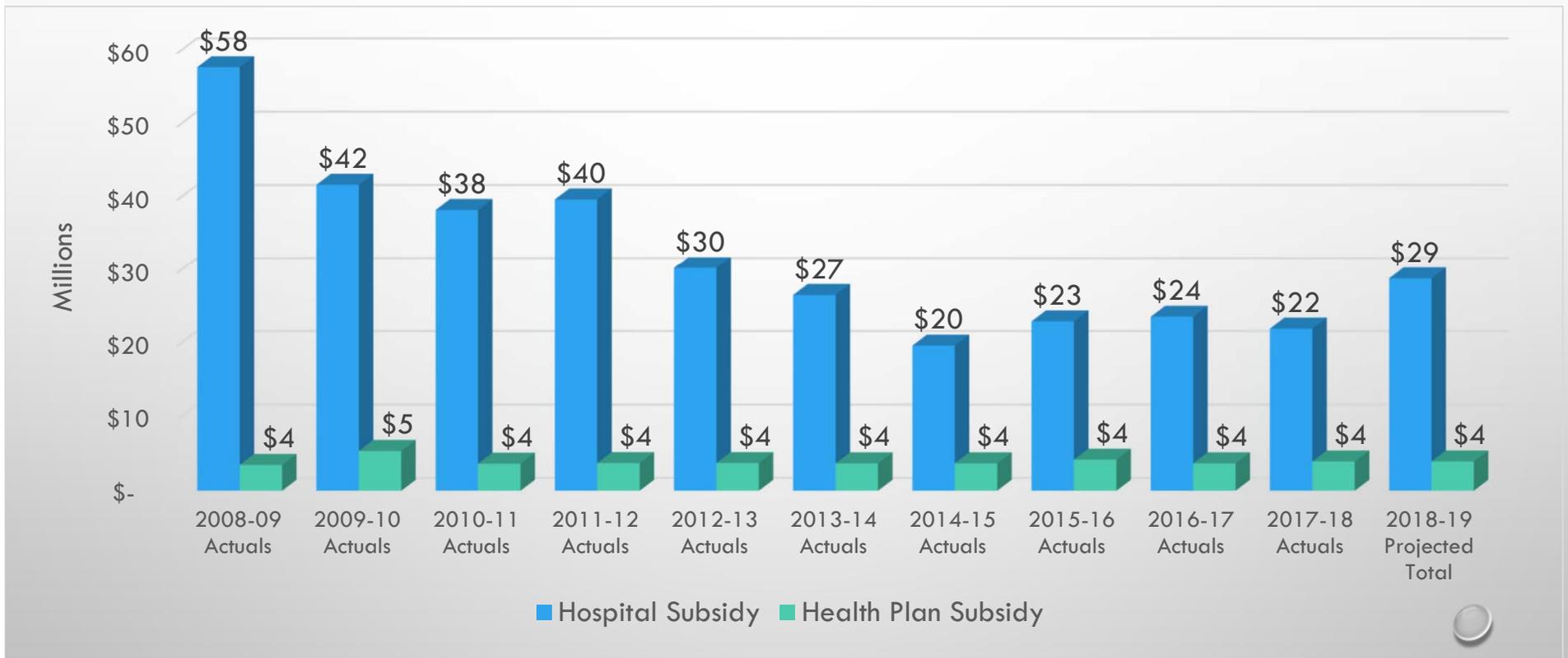
- **Positive County Results**

- Budget structurally balanced for eight year in a row
- Employee wages are increased and their Health Insurance Cost increases are addressed for 2020 - 2022
- OPEB managed
- Have begun pre-funding infrastructure needs
- Maintained our AAA bond rating from Standard & Poor's, and received upgrade on lease bonds from Moody's (from A1 to aa3) with both agencies commenting on fact that Contra Costa County was "fundamentally sound, and had a stable outlook for the future."
- Pension Obligation Bond matures 6/1/2022 (\$47,382,000)

Reasons For Concern

- Revenues will not keep up with expenditures for 2019/20 nor are they likely to do so for 2020/21 and beyond
- Aging Technology – Finance & Tax Systems
- Increased costs of benefits – pension assumed rate of return is 7.00% - actual returns for 2015 were 2.6%, 2016 returns were 7.4%, 2017 returns were 14.2%, exact figures for 2018 too early to report, but we believe actual returns were less than 1%
- Economy is driven by technology not labor, social systems are changing, and institutions and leaders struggling to meet the needs of the 21st century
- Federal government not likely to respond to counties needs
- **Future of the County Hospital, Clinics, and Health Plan** - it continues to be difficult to support a stand-alone county hospital. We continue to reduce programs in other areas to support Hospital needs. We must consider alternatives
- **Unreasonable** expectations given funding available

General Fund Subsidy to Hospital and Health Plan



Continue Focus On

- Focus on current needs but look for long term solutions – five year minimums
- Developing staff
- Continuing to harness our organizational discipline and innovation
- Providing public services that improve the quality of life of our residents and the economic viability of our businesses

FY 2019/20 Budget Hearing Format

- Draft agenda for discussion purposes
 - Introduction/summary by County Administrator
 - Departmental presentations:
 - Sheriff-Coroner
 - District Attorney
 - Public Defender
 - Health Services Director
 - Employment and Human Services Director
 - Public Works Director
 - **Suggested changes for this year?**
 - Deliberation
- Budget Hearing on April 16th (hearing can be continued if needed)
- Beilenson Hearings may be required
- Budget Adoption on May 7th
 - The Fire Board will receive a budget presentation on the District's budget on April 09. Per the norm the Fire Budget Hearing and Adoption will occur along with the Countywide Budget.



**“IF WE HAD BACON, WE COULD
HAVE BACON AND EGGS, IF WE HAD
EGGS**

Author unknown