

Contra Costa County Update Budget & Key Issues

**PRESENTATION TO
Board of Supervisors
January 31, 2017**

Revised 1-31-17

Contra Costa County Familiar Budget Drivers and Challenges for 2017 and Beyond

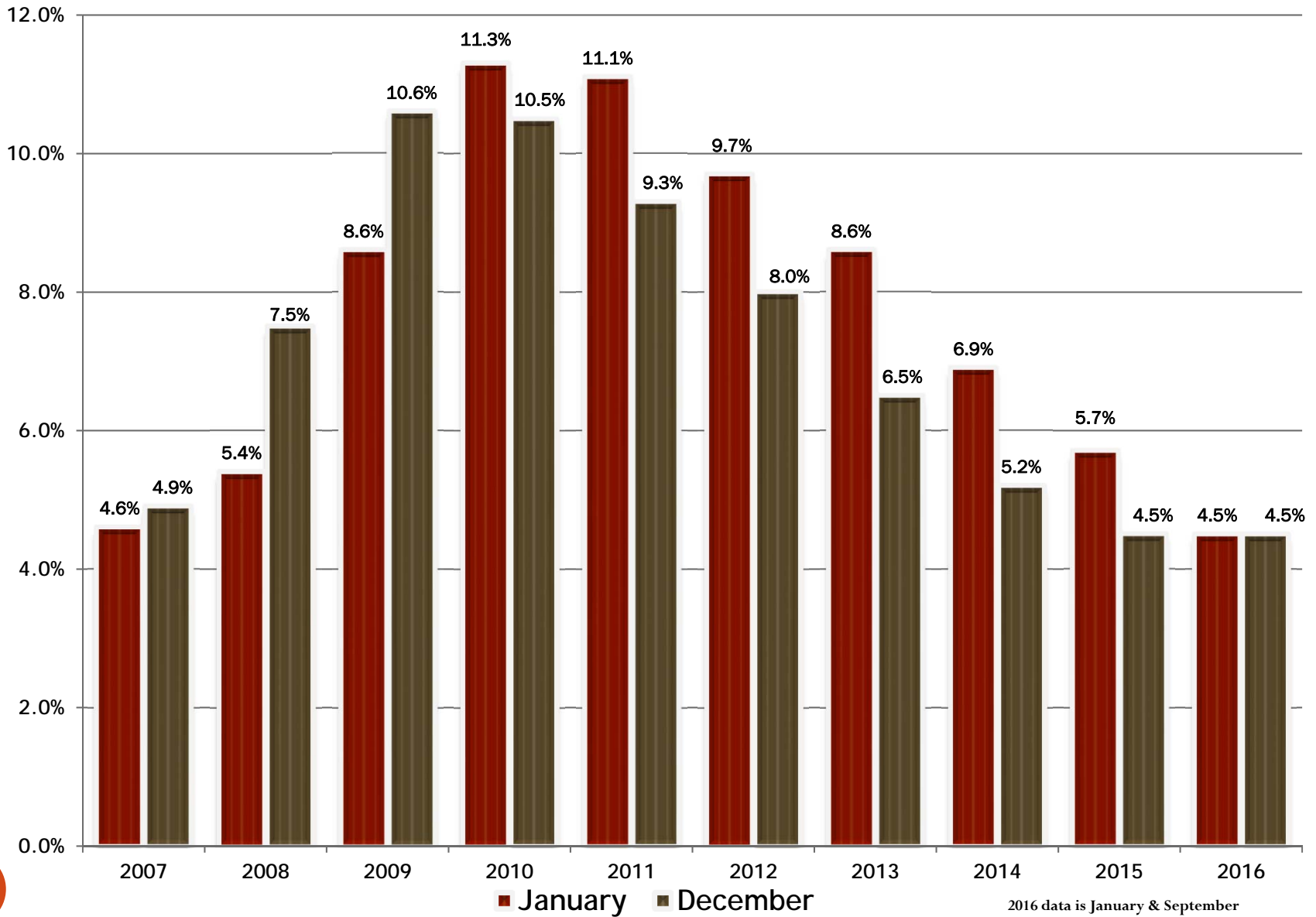
- Economic Forecast
- State & Federal Budgets
- Labor Negotiations
- Build Reserves
- Fund Infrastructure Needs (Repair & Maintenance)
- Adequately Fund Public Safety Departments
- Public Safety Realignment; AB 109 & Prop 47
- Reduce hospital dependency on General Fund

Bay Area Unemployment Rate December, 2016 (unadjusted)

- San Mateo 2.7%
- Marin 2.9%
- San Francisco 3.0%
- Santa Clara 3.3%
- Sonoma 3.7%
- Alameda 3.8%
- **Contra Costa 4.0%**
- Napa 4.4%
- Solano 5.1%

- 9 County Average 3.7%

Unemployment Rate 2007 - 2016



2016 Achievements

- New Department Heads and key staff
 - Two new Chief Deputies – Allison Picard and Eric Angstadt
 - County Probation Officer, Todd Billeci
 - County Librarian, Melinda Cervantes
 - Director of Human Resources, Dianne Dinsmore
 - Director of Child Support Services, Melinda Self
 - Labor Relations Manager, Jeff Bailey
- Settled labor contracts with all Bargaining Units providing for significant wage increases and paying 100% of increased Health Insurance Costs for 2016
- Budget structurally balanced for 6th year in a row, built on assumption of 6% increase in Assessed valuations, actual AV was 6.01%

2016 Achievements

- Settled Retiree Support Group (RSG) law suit resolving significant issues with 4,200 retirees without significant increase to Other Post-Employment Benefits Liability
- Reduced Other Post-Employment Benefits Unfunded Liability to \$764.3 Million as of January 01, 2016 valuation (was \$2.6 Billion in 2006) and current Other Post-Employment Benefits Trust Assets exceed \$214 Million.
- 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."
- Reissued \$52 M in existing Bonds, realizing net present value savings of \$4.5 M (8.17%)

2016 Achievements

- Created Sustainability Coordinator Position to coordinate the development and integration of the County's sustainability activities and to obtain new funding to support the County's sustainability efforts.
- Created Office of Reentry & Justice (ORJ) as a pilot project of the CAO, beginning in January 2017, to build on, align and formalize a cohesive structure for the work currently being provided by the CAO and the contracted Reentry Coordinator in advancement of public safety realignment and justice initiatives.

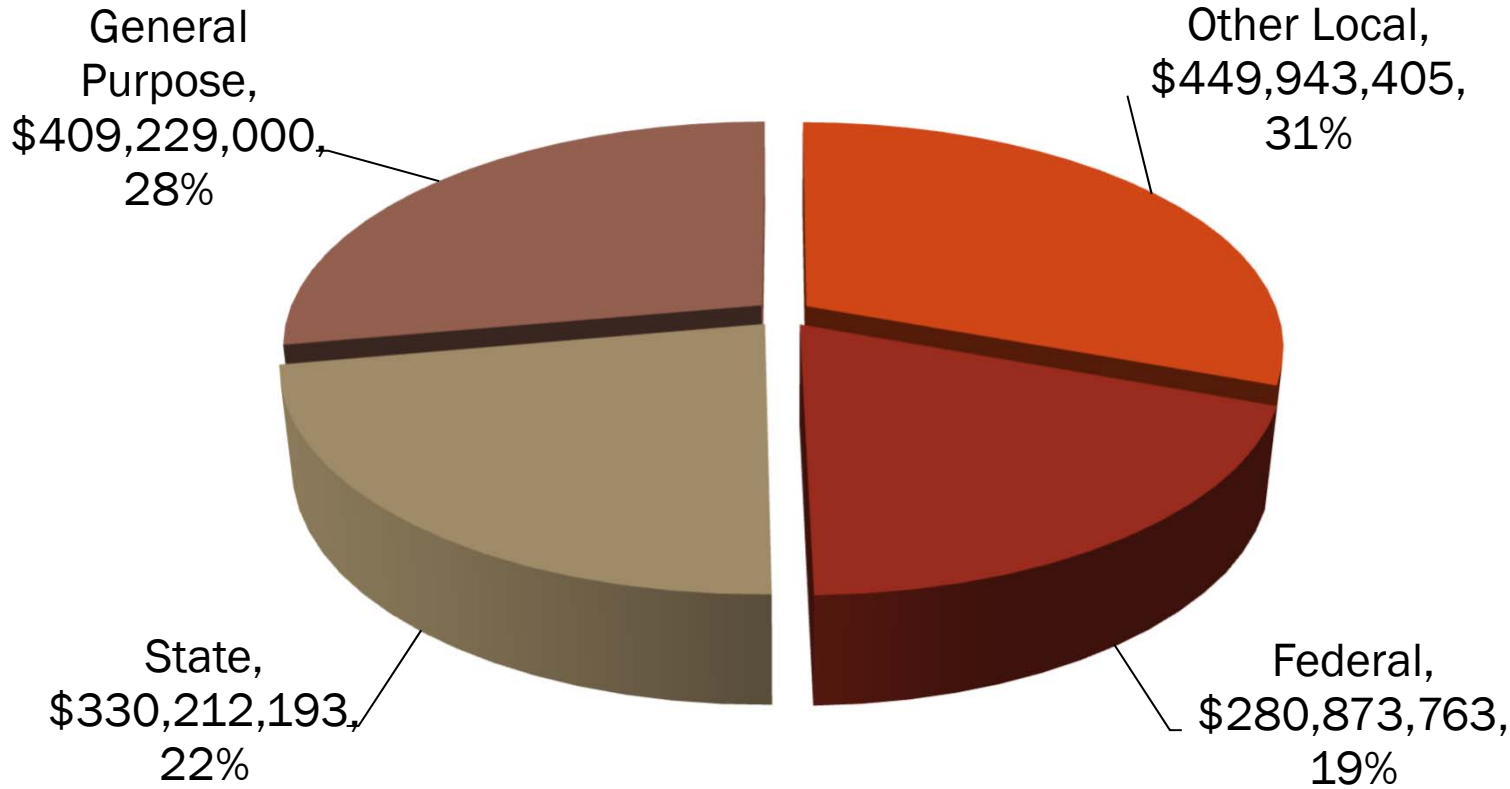
County Property Tax

- Property taxes declined by over 11% between 2009 and 2012. There were significant increases between 2014 and 2016. Now appears to be returning to a more normal increase of between 5% and 6% 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 5.00% increase projected

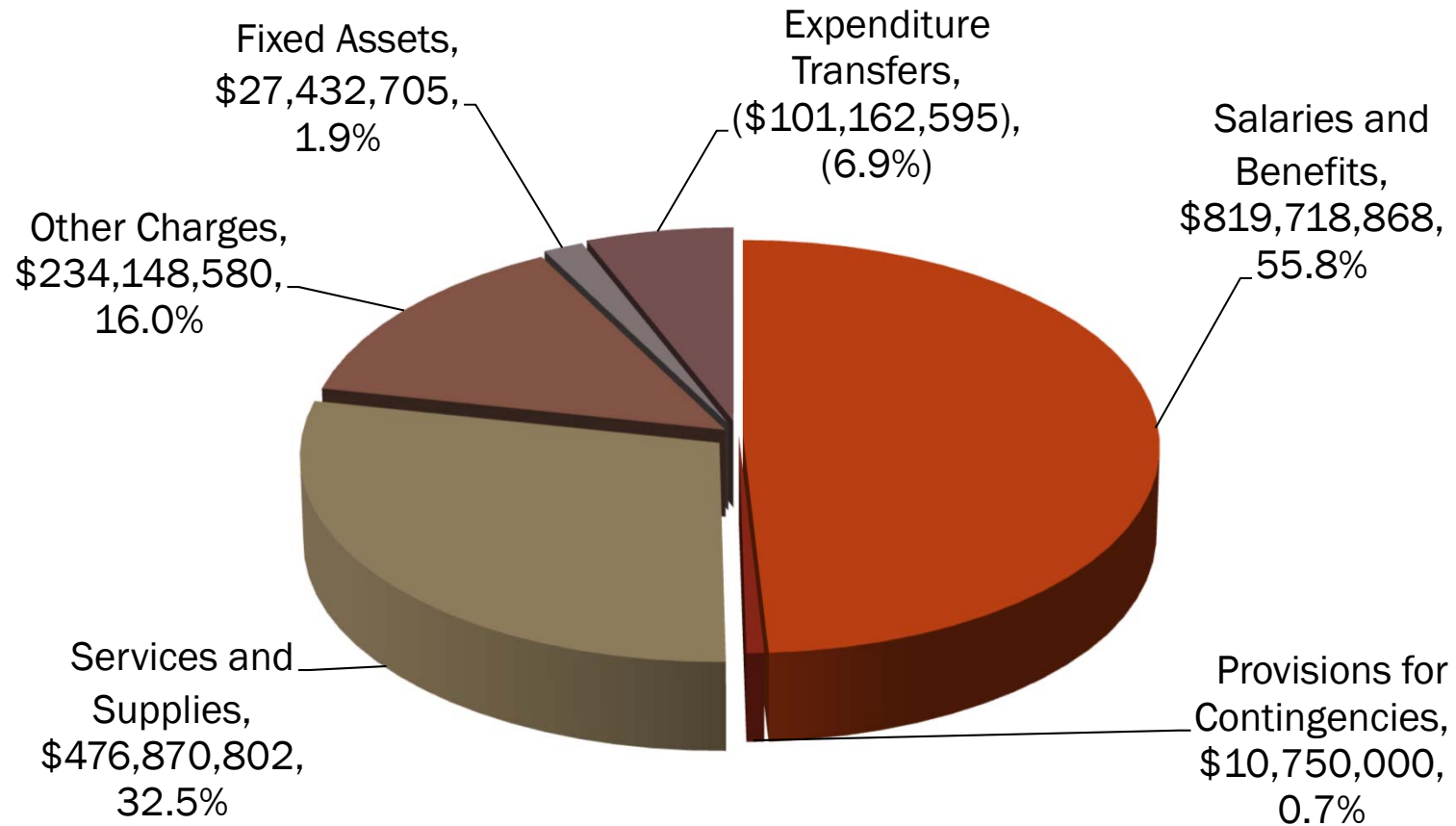
ConFire Property Tax

- For Fire, property taxes declined by over 13% between 2009 and 2013. These taxes then significant increased between 2014 and 2016. Likely to continue to increase by 6% or better for next few years as Redevelopment Zones continue to unwind.
- Actual CCCFPD 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 6.00% increase projected

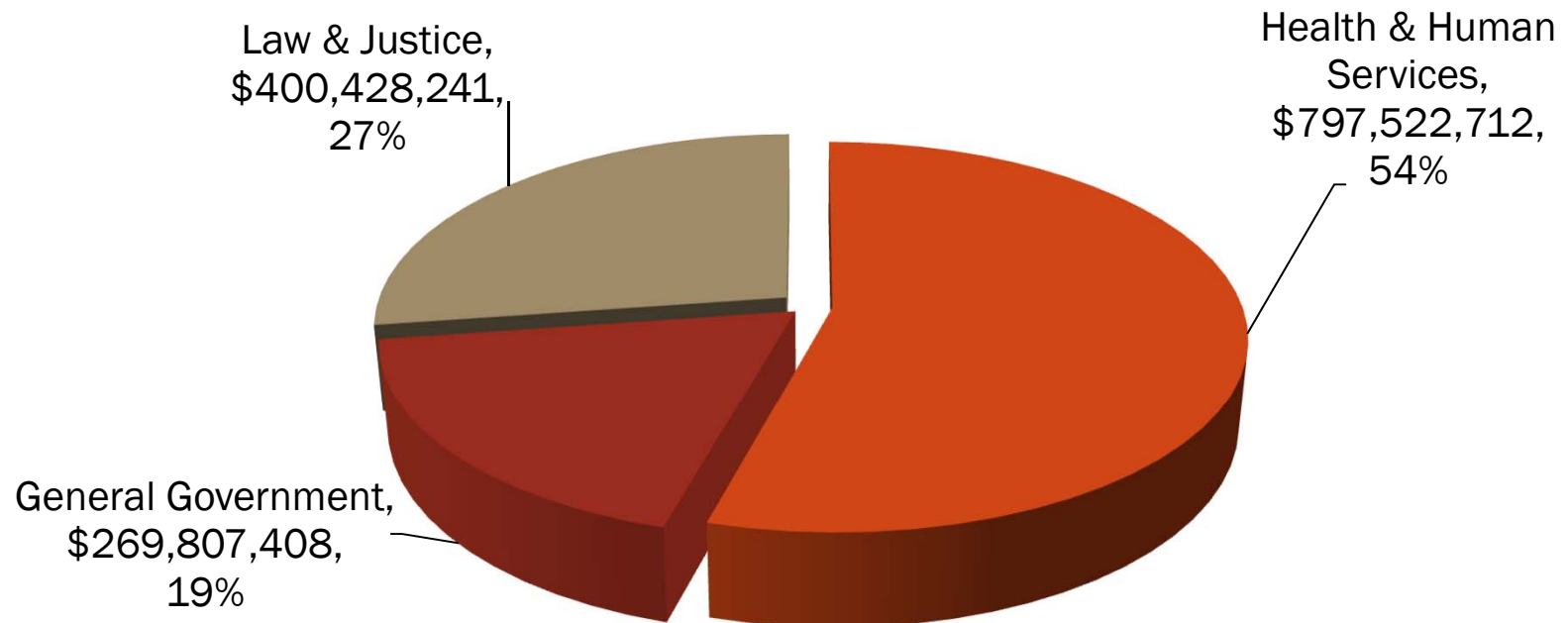
Total FY 16-17 Revenue \$1.470 Billion



Total FY 16-17 Expenditures \$1.468 Billion



FY 16-17 Distribution of Expenditures



FY 2016/17 Mid-Year Preliminary Stats

Budget Performing as Expected

ALL FUNDS	Budget	Actual	Mid-Year 16-17 Percent	Mid-Year 15-16 Percent	Mid-Year 14-15 Percent	Mid-Year 13-14 Percent
Expenditures	3,234,153,761	1,406,467,968	43.5%	40.8%	43.5%	43.6%
Revenues	3,392,248,278	1,454,970,376	42.9%	44.1%	44.0%	38.1%
GENERAL FUND	Budget	Actual	Percent	Percent	Percent	Percent
Expenditures	1,557,245,599	661,433,864	42.5%	41.6%	43.7%	43.0%
Revenues	1,463,298,882	565,197,072	38.6%	38.2%	37.1%	34.4%
Wages & Benefits	816,162,179	373,703,086	45.8%	46.0%	45.9%	44.8%
Services & Supplies	521,983,114	210,190,080	40.3%	38.5%	41.3%	40.9%
Other Charges	230,924,427	107,855,910	46.7%	46.4%	51.0%	49.1%
Fixed Assets	79,514,132	11,218,888	14.1%	8.5%	15.1%	7.3%
Inter-departmental Charges	(100,703,588)	(41,534,101)	41.2%	48.1%	53.2%	50.1%
Contingencies	9,365,335	0	0.0%	0.0%	0.0%	0.0%
Total Expenses	\$ 1,557,245,599	\$ 661,433,864	42.5%	41.6%	43.7%	43.0%
Taxes	364,474,000	231,084,214	63.4%	63.7%	65.5%	63.4%
Licenses, Permits, Franchises	10,828,498	2,298,758	21.2%	28.0%	27.0%	22.9%
Fines, Forfeitures, Penalties	26,212,754	2,230,847	8.5%	7.8%	7.0%	11.8%
Use of Money & Property	3,259,444	2,023,892	62.1%	10.3%	59.9%	54.0%
Federal/State Assistance	544,849,272	173,534,913	31.9%	28.3%	29.3%	22.7%
Charges for Current Services	229,560,096	96,056,192	41.8%	40.9%	31.6%	0.8%
Other Revenue	284,114,818	57,968,256	20.4%	28.4%	26.7%	30.8%
Total Revenues	\$ 1,463,298,882	\$ 565,197,072	38.6%	38.2%	37.1%	34.4%

Contract Status

	<u>Total Number of Permanent Employees</u>	<u>Contract Expiration Date</u>
<u>Settled</u>		
AFSCME Local 2700, United Clerical, Technical and Specialized Employees	1,534	6/30/2019
AFSCME Local 512, Professional and Technical Employees	269	6/30/2019
California Nurses Association	991	12/31/2017
CCC Defenders Association	69	6/30/2018
CCC Deputy District Attorneys' Association	93	6/30/2018
Deputy Sheriff's Association, Mgmt Unit and Rank and File Unit	810	6/30/2019
District Attorney Investigator's Association	16	6/30/2019
IAFF Local 1230	280	6/30/2017
IHSS SEIU - 2015	0	6/30/2018
Physicians and Dentists of Contra Costa	269	2/28/2017
Probation Peace Officers Association	243	6/30/2018
Professional & Technical Engineers - Local 21, AFL-CIO	990	6/30/2019
Public Employees Union, Local One & FACS Site Supervisor Unit	531	6/30/2019
SEIU Local 1021, Rank and File and Service Line Supervisors Units	967	6/30/2019
Teamsters, Local 856 (New Contract)	1,572	6/30/2019
United Chief Officers' Association	11	6/30/2017
Western Council of Engineers	23	6/30/2019
Management Classified & Exempt & Management Project	320	n/a
Total	8,988	

Infrastructure

- On March 31, 2015 the Board of Supervisors received an updated Comprehensive building condition assessment which identified a total of \$272.2 million in deferred facilities maintenance needs and capital renewal requirements
- \$5 Million was Budgeted in FY 2012/13
- \$10 Million in FY 2013/14, FY 2014/15, and FY 2015/16
- \$10 Million in current fiscal year 2016/17
- Recommending \$10 million for FY 2017/18
- Continue to fund facility lifecycle on a by-building cost-per-square foot basis – increase target from 1% to 3% total of \$2.55 million set by Finance Committee
- Continue to explore ‘cloud’ IT opportunities-
 - PeopleSoft ; Finance; Tax Systems all need upgrading
- County Administration Building
- Emergency Operations Center

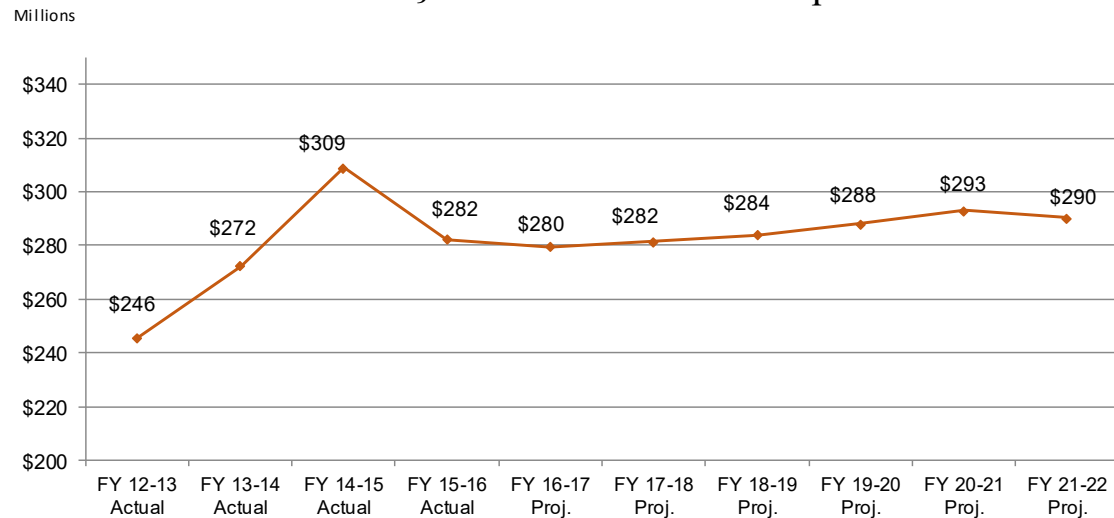
Cost Avoidance

- Contribution to Hospital/CCHP Enterprise Funds:
 - 2008/09 \$61,349,686
 - 2013/14 \$30,408,776 (50% decrease)
 - 2014/15 & 2015/16 no further reduction – Affordable Care Act (ACA) Implementation
 - 2016/17 reduce by additional \$3.2 Million to \$27,163,075
 - 2017/18 no further reduction, awaiting impact of changes to ACA
 - 2018/19 reduce by additional \$10 Million
 - 2019/20 and beyond – Expected Annual Contribution = \$10 Million
- New Federal Administration plans to eliminate Affordable Care Act (ACA) and replace it with ????????? Assumption is that we are likely to see Uncompensated Care burden increase over next 2-3 years as Affordable Care Act (ACA) unwinds

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
 - Change in assumed rate of return from 7.25% to 7.00% on 4/27/16
- Updates:
 - Negotiated 2% PEPRA COLAs with all bargaining groups
 - FY 2016-17 Recommended Budget - \$306 M
 - Chart now includes the final year of debt service for the County and Fire pension obligation bonds, both of which pay off in FY 2021-22

Actual and Projected* Retirement Expense



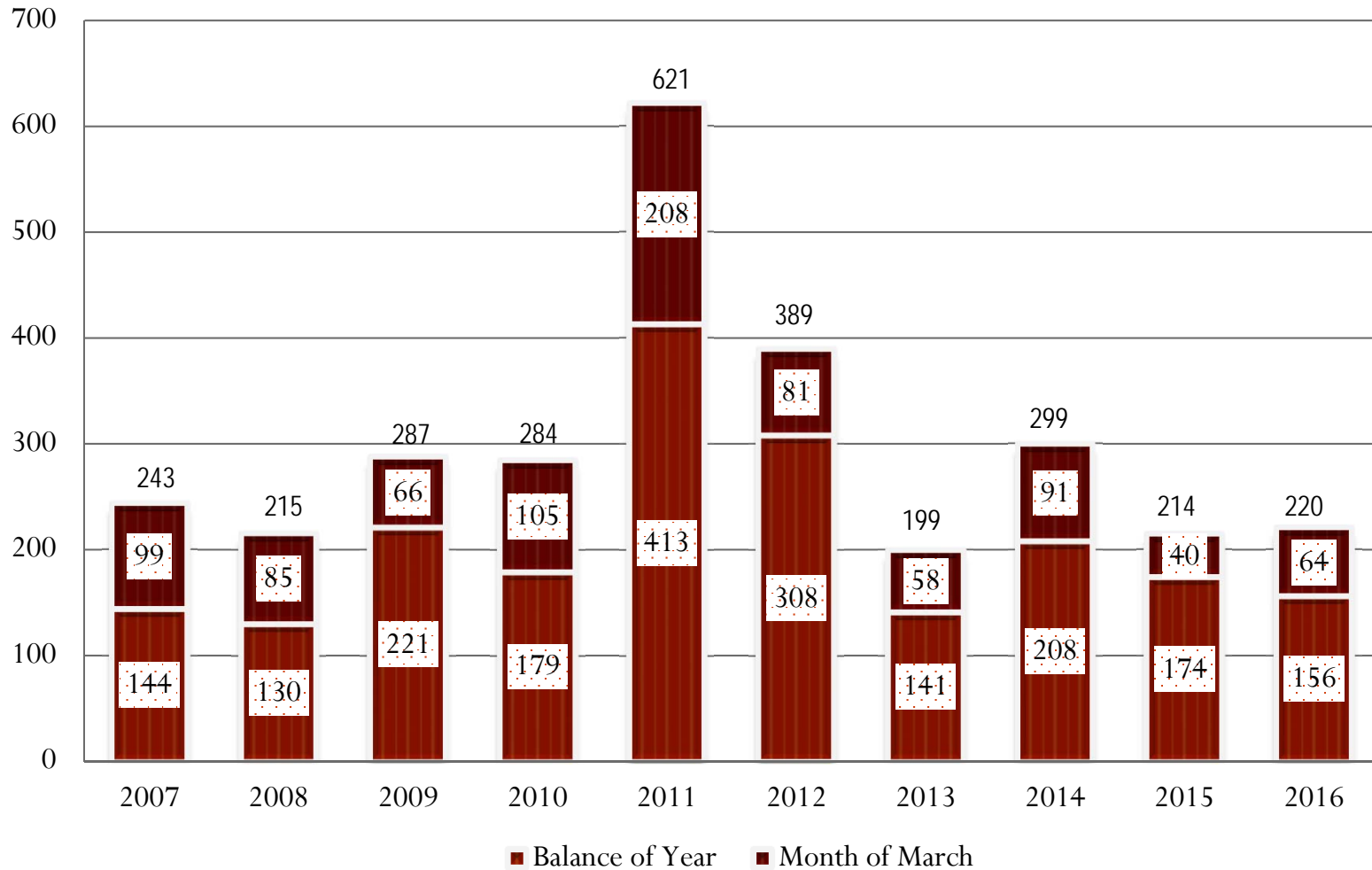
The chart includes four years of actual data, straight-line projection of current year (based upon six months of actual data), and projection of future years based upon current year wages and actuarial data provided by CCCERA's actuary (letter dated January 3, 2017) assuming that CCCERA achieves its assumed rate of return each of these years. This data will be updated in March for the FY 2017/18 budget based upon 12/31/2016 CCCERA market impacts.

Positive Changes in General Fund Balance

	Beginning Fund Balance June 30, 2012	Beginning Fund Balance June 30, 2013	Beginning Fund Balance June 30, 2014	Beginning Fund Balance June 30, 2015	Beginning Fund Balance June 30, 2016	% Change	Budgeted Fund Balance FY 2016-17	% Change
Nonspendable	16,474,000	6,103,000	7,946,000	10,764,000	9,807,000	-8.9%	9,807,000	0.0%
Restricted	6,388,000	6,798,000	7,254,000	9,013,000	9,869,000	9.5%	9,869,000	0.0%
Committed	711,000	1,335,000	1,575,000	1,508,000	1,440,000	-4.5%	1,440,000	0.0%
Assigned	47,246,000	57,754,000	78,136,000	94,169,000	116,089,000	23.3%	116,089,000	0.0%
Unassigned	<u>81,541,000</u>	<u>115,518,000</u>	<u>142,293,000</u>	<u>179,883,000</u>	<u>232,953,000</u>	<u>29.5%</u>	<u>235,453,000</u>	<u>1.1%</u>
Total	152,360,000	187,508,000	237,204,000	295,337,000	370,158,000	25.3%	372,658,000	0.7%

Retirements

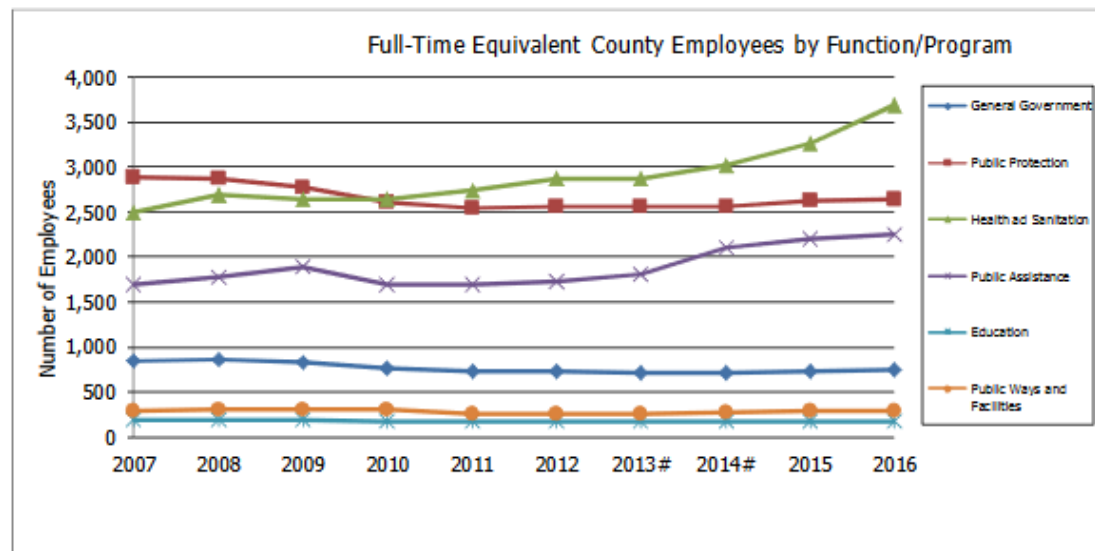
Abnormally high number of vacant positions due to unprecedented numbers of retirements during calendar year 2011 and 2012. Historically March retirements are the highest. Normal year would see approximately 260 Retirements.



Increase to Full-Time-Equivalent Positions

- After several years of no growth – steady increase has begun
- Increase of 1500 FTE in last five years

	ACTUAL 2011-2012	ACTUAL 2012-2013	ACTUAL 2013-2014	ACTUAL 2014-2015	ACTUAL 2015-2016	Budgeted 2016-2017
General Government	728	707	712	728	739	748
Public Protection	2,565	2,565	2,566	2,624	2,637	2,668
Health and Sanitation	2,876	2,866	3,014	3,259	3,693	3,693
Public Assistance	1,722	1,815	2,106	2,203	2,245	2,246
Education	175	175	175	178	180	180
Public Ways and Facilities	263	263	279	281	284	287
Total	8,329	8,391	8,852	9,273	9,778	9,822



Recruitments

- 2016 New Department Heads and key staff
 - Two new Chief Deputies – Allison Picard and Eric Angstadt
 - County Probation Officer, Todd Billeci
 - County Librarian, Melinda Cervantes
 - Director of Human Resources, Dianne Dinsmore
 - Labor Relations Manager, Jeff Bailey
 - Child Support Services Director, Melinda Self
- 2017 Recruitments:
 - Agriculture Commissioner/Weights & Measures
 - Health Services Director

Contra Costa County Fire Protection District

- CCC Fire Protection District budget stable; FY 16/17 - AV Growth 6.32%
- EMS ambulance contract implemented
 - Billing policies and procedures adopted
 - Insurance reimbursements began March 2016
 - First Quarterly Financial Report to the Board May 2016
- Capital project planning underway
 - Lafayette (Station 16) rebuild
 - San Pablo station rebuild in collaboration with the City of San Pablo
- Continuing financial concerns with East Contra Costa Fire Protection District (ECCFPD)

East Contra Costa Fire Protection District

- Brentwood and Oakley Cities Utility Tax failed
- Voters For Equal Protection – ECCFPD Funding Workshop on February 23, 2017 – 1 – 5 PM
- Chief Carman proposal to contract with CCCFPD to provide one Administrative “Chief”
- Unincorporated Area – Byron Bethany Irrigation District transfer of funds to Fire = \$730,000 per year

Fourth Station in Knightsen opened with One time funding:

	<u>1st Year</u>	<u>2nd Year</u>	<u>Total</u>
ECCFPD	399,352	\$474,626	\$873,978
Brentwood	\$190,485	\$475,515	\$666,000
Oakley	\$109,315	\$272,887	\$382,202
County	<u>\$ 89,127</u>	<u>\$222,490</u>	<u>\$311,617</u>
Totals	\$788,279	\$1,445,518	\$2,233,797

Contra Costa County Rodeo/Hercules Fire District

- Currently has 2 Stations
- One funded by SAFER Grant due to expire June of 2017 (\$1.3 M)
- Special Tax passed with 77.2% and will raise \$2.5 M starting in July 2017
- Chief Carman will contract with Pinole & Rodeo/Hercules to provide one Administrative “Chief” for both Districts

Beacon Economics – Dr. Thornberg

The Trump Factor

Positives

- *Something* will get done in Washington DC
- Institutions should be able to control worst impulses
- Infrastructure investment: stimulative if done right
- Tax cuts: stimulative if done right
- Financial deregulation good for housing, banks
- Americans hate Obamacare, but they tend to like the Affordable Care Act

Negatives

- Federal deficit likely to explode
- Potential for major trade war / strain on global relations
- Increase in wealth inequality
- Federal Reserve to cede control to Congress
- Corruption factor, personal baggage
- Backwards steps in immigration policies / skilled labor issues
- Backwards steps in environmental policies
- Revenge of the Left

State of California FY 17/18 Governor Brown's Budget Proposals

Positives

- Rainy Day Fund higher
- Projects that Cities and Counties will receive \$1.4 B from the Dissolution of Redevelopment Agencies

Negatives

- Projects Budget Revenues to be lower by \$1.5 B
- Coordinated Care Initiative (CCI) eliminated and costs returned to Counties
- Cap & Trade Revenues over estimated
- Projects Sales Tax Revenues to be flat for FY 17/18

Continued Reasons for Optimism

● Positive Economic Outlook

- California Economic Outlook Stable for next 2 – 3 Years
- AV revenue up 6% for FY 2016/17 and Projected to grow 5% in 2017/18

● Positive County Results

- Budget structurally balanced for sixth year in a row
- 3 year contracts with most bargaining units
- Employee Wages increased by 10% or more over next three years
- 1,500 new employee positions added in past 4 years
- Most Departments fully staffed
- OPEB managed
- Have begun pre-funding Infrastructure needs
- Fund Balance Increased
- 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

- “WINTER IS COMING” – Most economists are predicting the next Recession to occur in late 2019 or early 2020
- Prop 172 Sales Tax Revenues dropping for 2016/17 – currently predicted to be \$1 M less
- Revenues are not projected to keep up with expenditures for 2016/17 nor are they projected to do so for 2017/18 and beyond
- East County Fire District struggling
- Aging Technology – PeopleSoft; Finance ; & Tax Systems
- Labor Negotiations
- Pension Unfunded Liability = \$1.5 B
- Increased costs of benefits – Pension Assumed Rate of Return reduced from 7.25% to 7.00% - Actual Returns for 2015 = 2.4% & 2016 may not reach 7%
- Recreational and Medical Marijuana Regulation
- Unreasonable expectations given funding available

Focus On

- Focus on Current Needs but look for Long term solutions
- Increasing Wages to remain competitive as revenues increase
- 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
- Remember “there be dragons out there”



FY 2017-18 Budget Hearing Format

- Draft Agenda for Discussion Purposes
 - Introduction/Summary by County Administrator
 - Departmental Presentations last year:
 - Sheriff-Coroner
 - District Attorney
 - Chief Probation Officer
 - Health Services Director
 - Employment and Human Services Director
 - Specify changes for this year
 - Deliberation
- Recommend holding all hearing on April 18th
- Budget Adoption on May 9th

**“The Challenge is to solve today’s
problems without making those of
tomorrow even worse.”**

— Governor Jerry Brown, 2016 State of the State Address