

TO: BOARD OF SUPERVISORS
FROM: DAVID TWA, COUNTY ADMINISTRATOR
DATE: January 20, 2009
SUBJECT: ECONOMIC UPDATE



Contra Costa County

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

RECOMMENDATION(S)

ACCEPT report regarding national and local economic impacts on Contra Costa County and
ACKNOWLEDGE Department Head Summit scheduled for January 30, 2009.

FISCAL IMPACT

This report is informational and will be used for planning purposes. There are no recommended fiscal impacts.

BACKGROUND

Prior to the County Administrator's Office finalizing the budget development process/plans for FY 2009/10/11, it is important that the Board and community receive local and national economic impact information. A continuous update on the economy and potential impacts on services to Contra Costa County residents, although painful, is important for a variety of reasons. The magnitude of loss of revenue and increased service level demand in Contra Costa is more easily understood in the context of the National and local economy.

CONTINUED ON ATTACHMENT: YES

SIGNATURE:

RECOMMENDATION OF COUNTY ADMINISTRATOR RECOMMENDATION OF BOARD COMMITTEE
 APPROVE OTHER

SIGNATURE(S):

ACTION OF BOARD ON _____

APPROVED AS RECOMMENDED OTHER

VOTE OF SUPERVISORS:

___ UNANIMOUS (ABSENT _____)

AYES: _____ NOES: _____

ABSENT: _____ ABSTAIN: _____

Contact: Lisa Driscoll (335-1023)
cc: County Administrators Office
All County Departments

I HEREBY CERTIFY THAT THIS IS A TRUE AND
CORRECT COPY OF AN ACTION TAKEN AND
ENTERED ON THE MINUTES OF THE BOARD OF
SUPERVISORS ON THE DATE SHOWN.

ATTESTED: January 20, 2009

DAVID TWA, CLERK OF THE BOARD OF
SUPERVISORS AND COUNTY ADMINISTRATOR

By: _____ Deputy

National Economy

As has been clear for some time, the National economy is experiencing severe downturns. Consumer spending was down 1.8% in October, 2.1% more in November, and 2.7% further in December. Figures for January are expected to show an additional decrease. Jobs lost in 2008 were 2.6 million – the highest since 1945. These jobs have impacted unemployment, which is currently 7.2% – the highest level in 16 years.

California Economy

The California economy is following that of the Nation. Over 41 thousand jobs were lost in November. These jobs have impacted unemployment, which is currently 8.2% – higher than that of the Nation as a whole. The State's structural deficit exceeds \$41 billion over the next 18 months. Sales tax receipts are down, income tax receipts are down, and property tax receipts are down. Median Home Price has declined State wide by 40%. Beacon Economics expects property taxes in California to decline by nearly 11% over the next three years, with the largest declines coming in fiscal year 2009/10.

Contra Costa County Economy

Contra Costa's economy is following that of the Nation and State. Our homes prices were the hardest hit in the Bay Area with a drop of 50% (SF Chronicle December 18, 2008). Median Home Prices in 2006 were \$578,000 and are now \$265,000. These drops have dramatically reduced assessed valuation and thus property related revenues such as current secured property tax and supplemental property taxes. Assessed valuation growth fell to 0.21% in FY 2008/09 compared to a prior annual average of 8%. Most, if not all, revenues are down. Expenses, on the other hand, are up. The sharp downturn in the economy has impacted our County expenses through increased demand for services. For instance, caseloads for entitlement programs such as In-home Supportive Services (IHSS) have increased significantly – 7.5% projected growth in hours in the current year and over 21% growth since FY 2005/06. The chart below shows the actual increases in hours and costs over the last three years and the projection for the current fiscal year. The current year budget is \$14 million.

	<u>Total Hours</u>	<u>Total Expenses</u>	<u>County Share</u>
FY 08/09	7,987,412	108,075,983	20,533,105
FY 07/08	7,430,244	84,145,557	17,132,992
FY 06/07	6,782,643	76,022,222	14,345,275
FY 05/06	6,575,486	68,378,313	15,080,909

These increases in expenses and decreases in revenue affect not only the current fiscal year but future fiscal years as well. There is a projected current year budget gap of approximately \$30 million in addition to the over \$90 million already reduced. This gap consists of both expenditure and revenue items.

Expenses FY 08/09

There is a projected \$21.4 million expense gap remaining in the current year. This expenditure gap consists of: \$4 million in countywide January 1, 2009 health care premium increases, which were not budgeted in the current year; \$6.5 million in IHSS budget overruns; \$4 million in as yet unachieved health department operational savings; and \$6.9 million in planned budget overruns for two departments to smooth the impact of their FY 2008/09 reductions over a two-year period (soft landing).

Revenues FY 08/09

There is a projected \$9 million revenue gap remaining in the current year. This revenue gap consists of: \$5 million in budgeted Supplemental Property Taxes and \$4 to \$5 million in local revenue decreases for Realignment. The projection assumes that the entire decreases in all other revenues are absorbed within individual departments. For example, it assumes that the \$7 million revenue decrease currently projected in Proposition 172 revenue (1/2 cent sales tax for public safety) is entirely absorbed by the Sheriff and District Attorney.

Assuming that the entire \$30 million gap is closed in the current fiscal year, there is a minimum additional projected FY 2009/10 straight-line budget gap of approximately \$26 million. This gap number is a work in progress and will change as economic impacts continue to unfold. It is especially important to note that the gap does not include any additional State reductions. This gap also consists of both expenditure and revenue items.

Expenses FY 09/10

There is a \$12.9 million expense gap projected for FY 2009/10. This expenditure gap consists of: \$4 million for the second half of the countywide January 1, 2009 health care premium increases; \$5.5 million in one-time adjustments made in FY 2008/09, which has to be re-cut in FY 2009/10; and \$3.4 million in wage adjustments granted in previous contracts.

Revenues FY 09/10

There is a projected \$13.5 million revenue gap projected for FY 2009/10. This revenue gap assumes flat supplementals and a negative Assessed Valuation growth of approximately 5% (each 1% growth or decrease in revenue amounts to approximately \$2.7 million in the General Fund).

Reserves

As of June 30, 2008, the County had \$143.3 in Total General Fund Reserves. Of this amount, \$93.6 million were 'undesignated' and \$16.3 million were available per the County's Reserve Policy (above policy minimums). Available reserves are insufficient to solve the problem.

State Budget

The looming State Budget Crisis contributes to our County's budget uncertainties. The State has a huge deficit and a dire cash situation. Eventually, significant reductions will impact the County. Once these impacts are known, additional reductions must be made. It is the County's policy not to backfill State cuts with General fund dollars.

Net County Cost

The known budget gap of over \$56 million represents significant service reductions to our citizens over the \$90 million already reduced this fiscal year. The level of service/program reductions required to achieve such a savings will be even higher. This is because a large part of the problem is a loss in General Purpose Revenue and many departments use these revenues to match Federal and State revenues. For example, if we were to cut \$1 in the County Administrator's Office - \$1 is 'saved' in net County cost. If we were to cut \$1 in a department such as Building Inspection, there is no net County cost savings. If we were to cut \$1 from Employment and Human Services Department the net County cost savings is in the \$0.20 range. Our office, working in concert with departments, will make every effort to maximize State and Federal revenues and service delivery throughout the County.

Conclusion

The severity of the economic downturn will continue to challenge Contra Costa County not only in the current year, but for several years to come. The County Administrator has planned a Department Head Summit for the end of the month to begin to address the current year's issues and those of future fiscal years. Department heads have been asked to work with all of their employees during the month to come up with ideas to streamline operations and develop a list of core service for the County. Although likely to be painful, a solution to our structural imbalances must and will be found.

For a variety of reasons including the economic situation, the County Administrator will be recommending a two year budget for fiscal years 2009/10 and 2010/11. It is anticipated that the budget will be adopted in early spring with program reductions and lay-offs effective in the current fiscal year. Every attempt will be made during current Labor Negotiations to achieve savings to save services and jobs in Contra Costa.