



SUSAN S. MURANISHI
COUNTY ADMINISTRATOR

C O U N T Y A D M I N I S T R A T O R

December 5, 2024

Honorable Board of Supervisors
County of Alameda
1221 Oak Street, Suite 536
Oakland, California 94612

Dear Board Members:

**SUBJECT: PROPOSED FISCAL YEAR 2025-26 BUDGET DEVELOPMENT
STRATEGY AND POLICIES**

RECOMMENDATION

Approve the Fiscal Year 2025-26 Budget Strategy, policies, and preliminary schedule.

Economic Outlook

The return of the former President to the White House along with the Republican control of both houses of Congress may result in significant federal policy changes, many of which will directly impact the County's budget. Despite increased public support for the Affordable Care Act (ACA), anticipated changes that would scale back subsidies and consumer protections put millions at risk of losing health insurance. Other significant areas of concern include an imposition of work requirements in Medicaid, funding cuts to the safety net, as well as challenges to decades of public health policies. Congressional Republicans have a history of proposing budgets with major spending cuts to safety net programs. If the new administration enacts these types of cuts, the County's revenues and ability to provide services to residents will be negatively impacted.

For a second consecutive time, the Federal Reserve lowered interest rates as inflation continues to cool. The potential of broader tariffs with the new administration, however, may raise prices of goods from overseas which could impact overall inflation. While recent economic data show signs of strength, the job market is showing signs of softening. The U.S. economy only added 12,000 jobs in October, marking the slowest growth since 2020. The nation's unemployment held steady at 4.1%, and wage growth has continued to outpace inflation. Alameda County's unemployment rate was 4.9% in October, compared to the State's 5.4%.

Available inventory on the housing market has remained low with homeowners opting to hang on to historically low interest rates rather than sell. Limited inventory and higher valuations continue to impact the larger affordability crisis and those looking to enter the housing market.

In its Fiscal Outlook for the State's 2025-26 Budget, the Legislative Analyst's Office noted that proactive Legislative Action taken last year to identify budget solutions has helped address the budget problem that was anticipated for 2025-26. Revenues appear to be running ahead of the broader economy largely due to income tax revenues from high-income earners who have benefited from the recent stock market rally. The LAO also cautions that the volatility of this revenue calls into question its sustainability in the absence of improvements to the State's broader economy. Additionally, given the multiyear forecast of deficits around \$20 billion, the LAO warns that the State has no capacity for new commitments given the uncertainty of out-year estimates and the likelihood that the Legislature will need to address deficits in the future by reducing spending or increasing taxes.

The County's budget is highly reliant on State and federal revenue with over 60% of the current year Approved General Fund budget coming from State aid, federal aid, and Medicaid and Medicare charges for services. Due to uncertainties with regards to federal budget policies as well as potential risks in the economy, it is critical that we continue to control costs and maximize revenues in the current and upcoming year so as to ensure that the County can maintain vital services for its residents. I recommend that your Board continue the prudent budget policies that have been effective in past years, enabling the County to continue providing essential services to residents, support cost of living adjustments for our employees and community partners, and maintain excellent credit ratings. Additionally, I will review the results of our cost savings efforts as part of mid-year forecasting and will recommend additional mid-year budget balancing strategies to your Board if needed.

Proposed Budget Strategy and Policies

I recommend that your Board approve the Proposed Budget Development Strategy to achieve a balanced budget while incorporating the principles articulated in your Board's Vision 2036. As in prior years, the Proposed Budget Development Strategy will instruct County agencies and departments to submit Maintenance of Effort (MOE) budget proposals which identify spending and revenues needed to continue existing programs, staffing, and service levels.

In recent years, as part of the budget development process, we have researched and highlighted the "Human Impacts" of proposed and enacted State and federal budget reductions on our communities. We will continue our efforts to analyze and convey how State and federal funding and policy decisions impact Alameda County residents through special budget reports, including Unincorporated Area Services, that will be included in the Proposed and Final Budget documents.

Agencies and departments will continue to align accomplishments and goals with our shared vision, 10X goal pathways, and operating principles in pursuit of your Board's Vision 2036. We will also be reinstituting tracking and reporting of performance metrics. With your Board's approval of the recommended policies for development of the FY 2025-26 County Budget, my office will develop and issue updated procedures to County agencies and departments.

Budget Development Policies and Maintenance of Effort (MOE) Framework

- Proceed with the Proposed 2025-26 Budget Calendar (Attachment A) and adopt the Final Budget no later than June 30, 2025.
- Identify known and projected revenues from all sources as early in the budget development process as possible. Revenues estimates must be justified based on an analysis of historical trends and other current data and should be first applied to existing services where appropriate. The most restrictive revenue source should be used before using general purpose revenues.
- Include a 5.0% cost-of-living adjustment (COLA) for community-based organization (CBO) contracts funded with County General Funds and/or matching funds.
- Designate up to 7% of the County's General Fund budget to partially offset the cost of the County's capital projects and major facility maintenance requirements to help address the unfunded capital costs identified in your Board's latest 5-year Capital Improvement Plan.
- Continue to designate 1.5% of the County's discretionary revenue for the general reserve.
- Suspend the current Fiscal Management Program (FMR) that identifies year-end net savings by department. While the concept of providing departments with incentives to achieve year-end net savings has merit, significant adjustments to major funding sources and program financing by the federal and State government have impacted the initial purpose of the program. Year-end savings will now accrue to the countywide Fund Balance to address significant unfunded capital/infrastructure needs and other one-time investments. As previously approved, fifty percent of the year-end FMR fund balance will be designated for countywide capital improvements with the remaining net savings earned through FY 2023-24 maintained in a separate designation by the Auditor-Controller for departmental one-time capital projects and/or other infrastructure investments consistent with county policies and subject to Board approval.

The Proposed Budget Development Strategy for FY 2025-26 includes Board-approved budget policies and practices that have been used effectively in past years. Once again, the strategy calls for enhanced efforts to increase and maximize revenues to ensure the FY 2025-26 budget is supported by a sustainable financing plan for the budget year and beyond. We will also continue to review and analyze the use of trust funds, designations and encumbrances. As part of the effort to maximize revenue, all departments should continuously re-evaluate and adjust existing fees annually to ensure full cost recovery and identify new permanent revenue opportunities.

We will continue our ongoing review of the County's budget policies and consider changes and new approaches during the coming year. In consideration of high vacancy rates, we will review salary savings including evaluation of positions that have been vacant for extended periods. Multi-year forecasting will continue to enhance our longer-term financial planning efforts, and we will work closely with federal and State legislative advocates to preserve local revenues and safety net programs.

Budget Workgroup

The Budget Workgroup will continue to provide input and advice on budget balancing strategies as we develop the proposed budget. The proposed membership list for the Budget Workgroup appears as Attachment B and is consistent with prior years.

SUMMARY

Given the significant uncertainty ahead at State and federal levels, Agency and Department Heads must continue to be vigilant in their current year cost control and revenue enhancement efforts. The County faces significant long-term challenges that will impact the budget and our ability to deliver services, including unfunded capital needs, reimagining criminal justice, the ongoing homelessness crisis, and the future of employment and safety net programs. With your Board's leadership and the efforts of Agency and Department Heads, the Budget Workgroup, legislative advocates, and other stakeholders I am optimistic that by continuing to exercise fiscal prudence and careful stewardship of our County's limited resources, we will achieve a balanced budget for FY 2025-26 that continues to serve the diverse needs of our communities.

Very truly yours,



Susan S. Muranishi
County Administrator

Attachments

- c: Agency and Department Heads
- Budget Workgroup Members
- Federal and State Legislative Advocates

**ATTACHMENT A
PROPOSED 2025-26 BUDGET CALENDAR***

Action	Due Date
Budget Strategy Adopted by the Board	December 10, 2024
Budget Call Letter Distributed to Departments	December 17, 2024
Budget Preparation Workshop for Department Budget and Finance Staff (Tentative)	January 10, 2025
Submission of Departmental Fee Schedules, Including Board-Approved Fee Increases	January 10, 2025
Cut-Off for Board Approval of Mid-Year Adjustments and New Fees/Fee Increases (Tentative)	February 4, 2025
Submission of Departmental Budget Requests for FY 2025-26: Internal Service Fund Departments All Other Departments	February 7, 2025 February 21, 2025
Submission of Departmental Narratives (aligned with Vision 2026): Mission Statement, Mandated/Discretionary Services Goals and Objectives for 2025-26 Major Accomplishments in 2024-25 Align Performance Measures with Vision 2036	February 21, 2025
Submission of CBO Contracts Data	February 26, 2025
Board of Supervisors' Early Budget Work Sessions	Early April 2025
Submission of Human Impacts Reports and Children's Services and Unincorporated Services Budgets	April 18, 2025
CAO Identifies Funding Gap	April 2025
Budget Workgroup Meetings	Ongoing
Reduction Targets Provided to Departments	April/May 2025
Budgeting Balancing Adjustments Submitted by Departments	May 2025
Cut-Off for Board Approval of Final Budget Adjustments (Tentative)	June 3, 2025
Proposed Budget Submitted to the Board	Early June 2025
Budget Hearings	Mid to Late June 2025
Final Budget Adoption	Late June 2025

* Dates subject to change

ATTACHMENT B
PROPOSED 2025-26 BUDGET WORKGROUP MEMBERSHIP

Number	Organization
2	Board Members
1	County Administrator
1	Sheriff
1	District Attorney
1	Auditor-Controller
1	Director, Alameda County Health
1	Director, Social Services Agency
1	Director, Public Works Agency
1	Director, General Services Agency
1	Chief Probation Officer
2	Labor Representatives (one selected by the Labor Coalition and one by the management unions)
2	Community-Based Organizations (one North County and one South County representative selected by the Emergency Services Network and the Alameda County Health Consortium)
1	Unincorporated Area Representative (designated by Board of Supervisors)
1	Tri-Valley Area Representative (designated by Board of Supervisors)
1	Tri-City Area Representative (designated by Board of Supervisors)
2	Community Members (one each League of Women Voters and Taxpayers Association)
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20	Total