

# **CSAC Government Finance and Administration (GFA) Policy Committee**

*County Budgets: Past, Present and Future*



November 21, 2024

**HdL**  Companies



# Quick Rewind

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- Post-Pandemic “Growth” suddenly turned into ‘Too Much, Too Fast’
- Manufactured by Federal Economic Response
  - Multiple stimulus and relief packages including unemployment, child cash, mortgage forbearance, rent relief and ARPA Funding
- Economic Inflation followed by Monetary Policy



# Income vs Spending

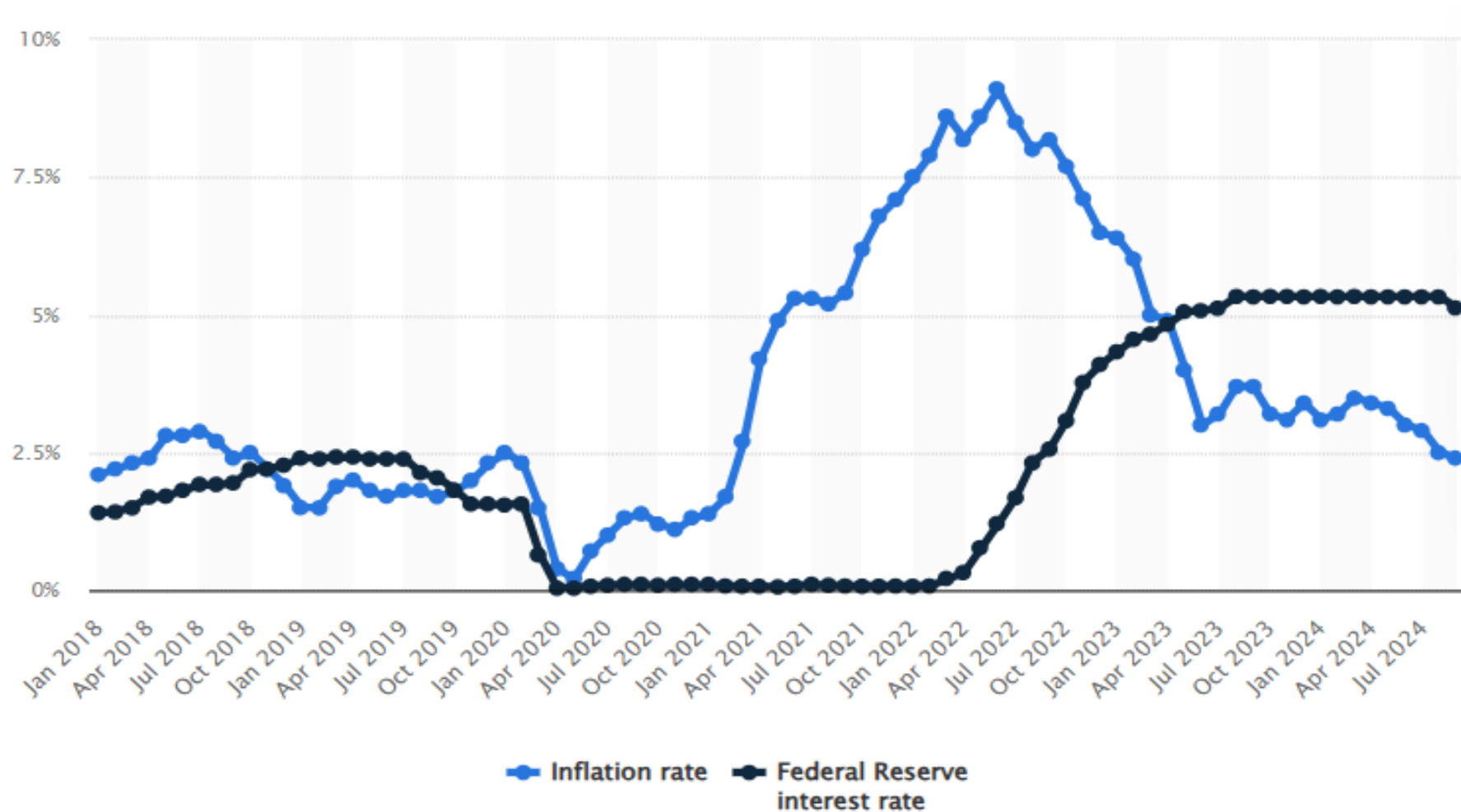
## Income vs. Spending Quarterly YoY Change (%)



Source: [fred.stlouisfed.org](https://fred.stlouisfed.org)



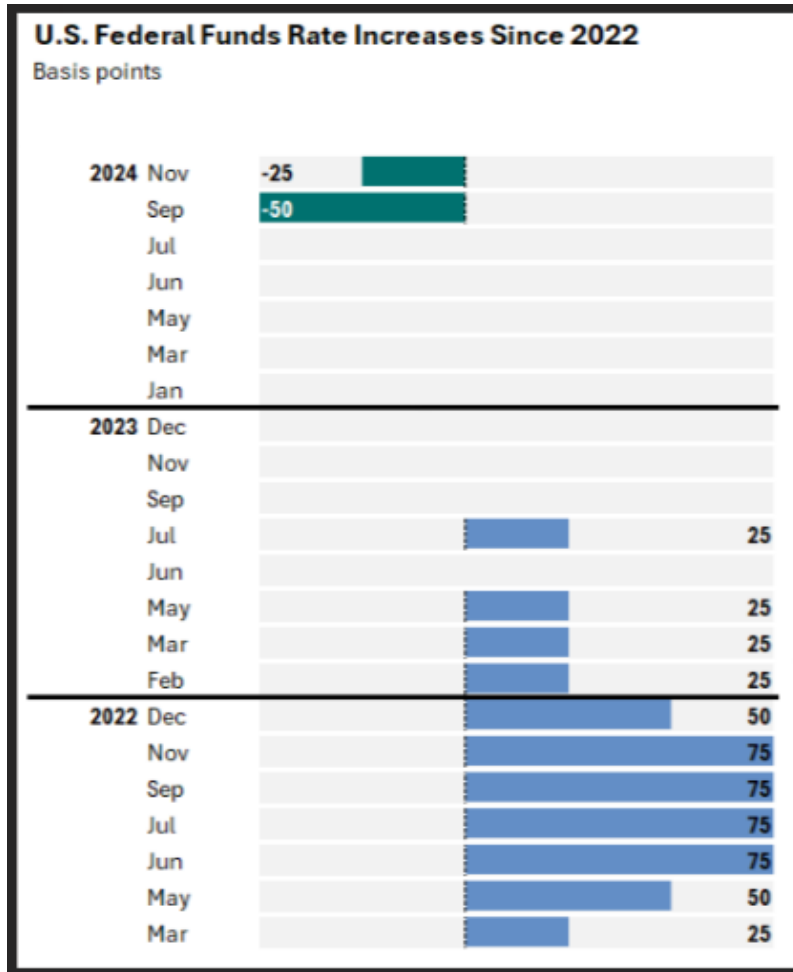
# Interest Rates





# Interest Rates Changes

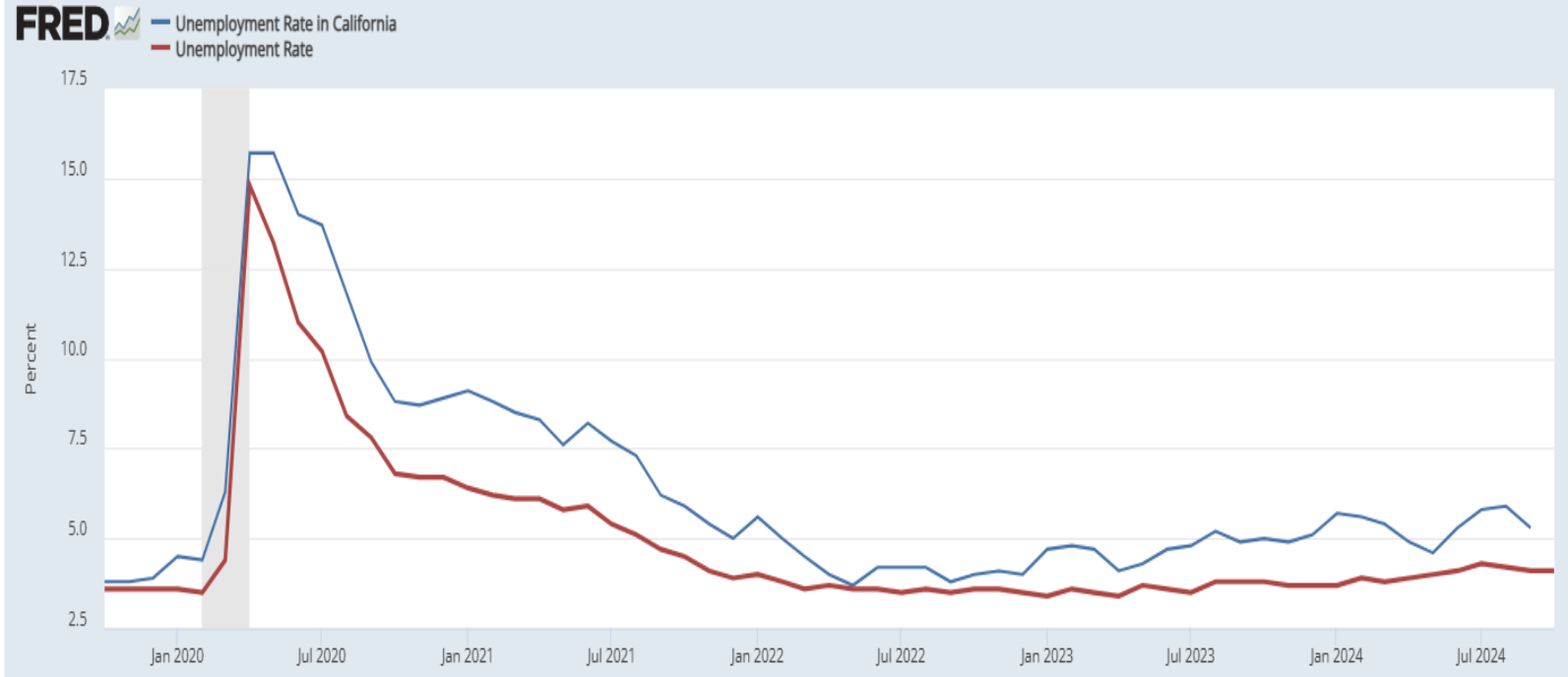
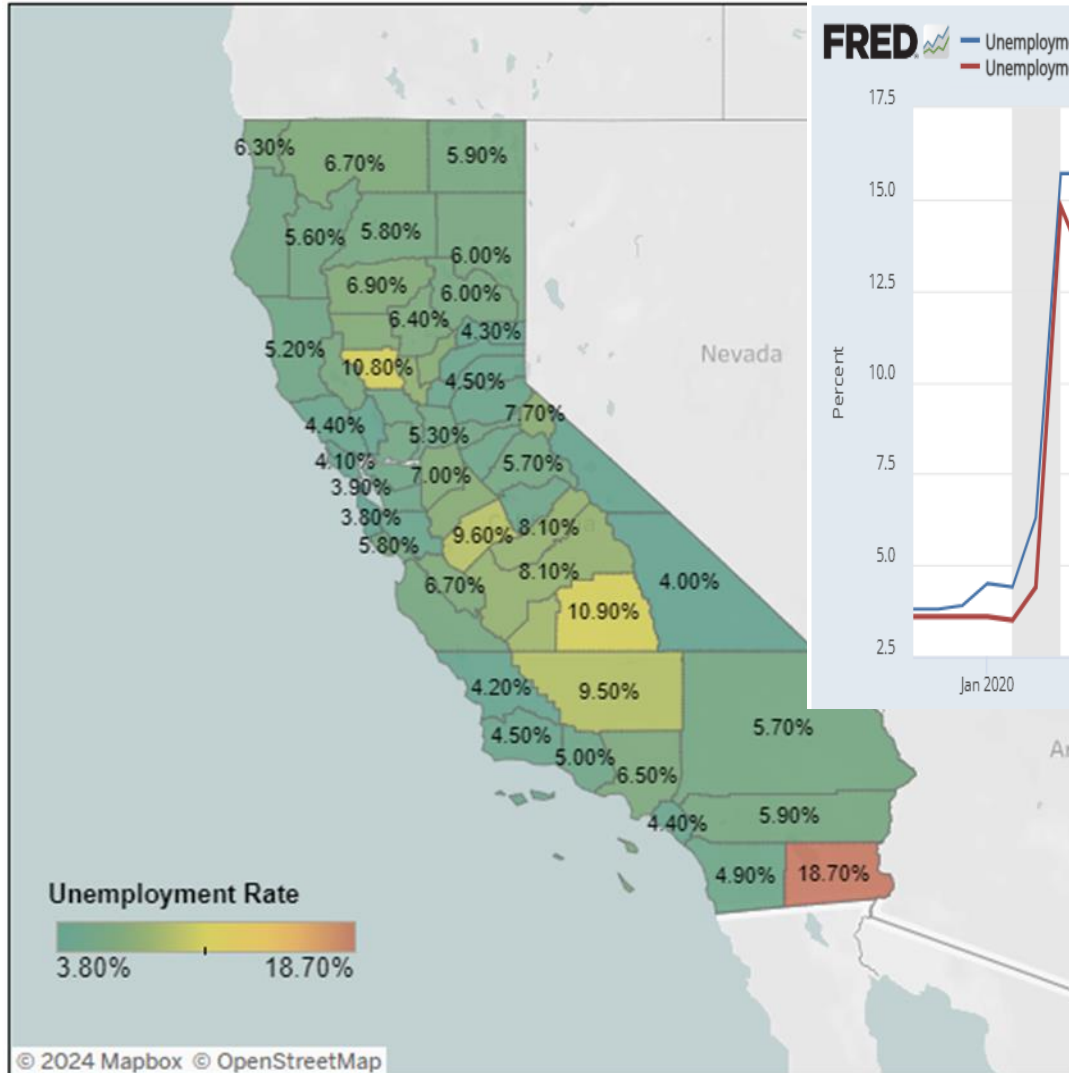
Federal Reserve reduced federal funds rate by 50 bps then 25 bps



- Latest reductions are the first in the post-Covid era and follows 11 increases since March 2022.
- Focused on keeping the labor market solid.
- Rate cuts will trickle down through economic segments eventually
- More to come?



# Unemployment – US & CA





# Savings & Disposable Income



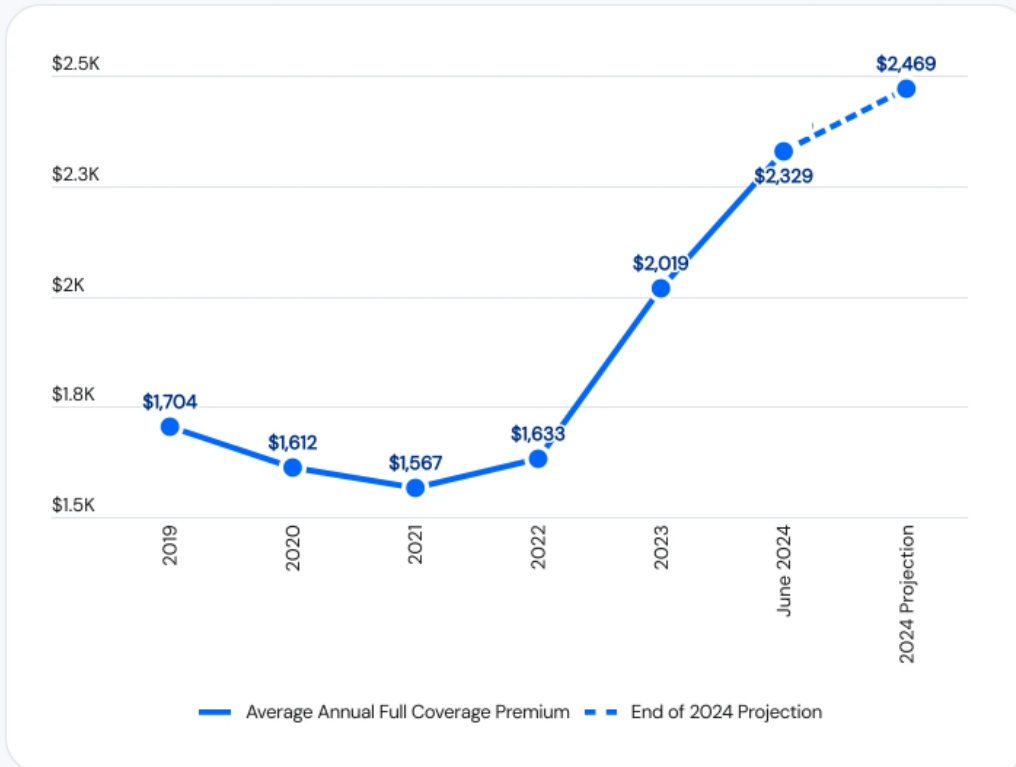
## Personal Savings Rate

- **Q3 2024: 4.8%**
- Q2 2024: 5.2%
- Q1 2024: 5.4%
- Q4 2023: 4.5%
- Q3 2023: 4.6%
- Q2 2023: 5.1%
- Q1 2023: 4.7%



# Rising Household Costs

## Average Annual Cost of Full Coverage (2019–2024)



Source: Insurify

INSURIFY

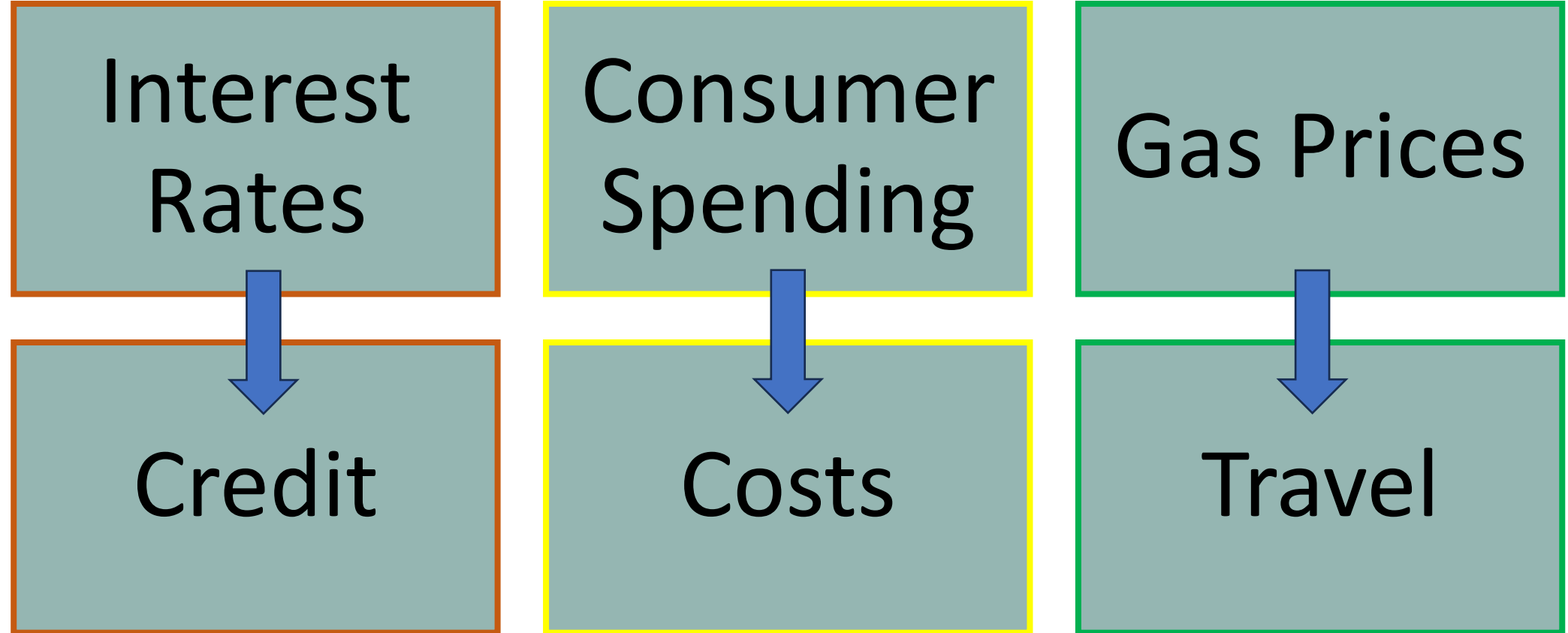
### Headlines related to Home Insurance

- Limited home insurance options in California as major carriers pull back
- California Homeowners Face an Insurance Crisis. What Will It Mean for Home Prices in the State?
- One of California's largest home insurance companies is raising rates by 15% on average
- California's Homeowner Insurance Market Freefall: Regulatory Folly Run Amok
- Researchers reveal a hidden factor in California's insurance crisis: The 'winner's curse'





# Economic Considerations





# What Happened(ing)... Property Taxes

- Home prices didn't fall during Covid period, as people moved out of Metro areas into suburbs and rural areas causing values to increase there as well
- **Statewide median home values increased as homes sold quickly given low interest rate environment**
- Recently, comparative home sales have increased slightly from 2023 and with persistent demand
- **California residential building permits remain steady as shortage of available housing continues**
- More dramatic growth could be expected in rural/less developed regions with legislative housing mandates and demand for affordability





# Median Home Values – So Cal

Year	Average +9.5%						
	Los Angeles County	Orange County	Ventura County	San Bernardino County	Riverside County	San Diego County	Santa Barbara County
	+7%	+15%	+10%	+9%	+6%	+7%	+13%
2023	\$853,340	\$1,300,000	\$899,000	\$506,000	\$607,500	\$911,500	\$1,190,000
2022	\$799,670	\$1,131,760	\$818,000	\$464,940	\$575,000	\$850,000	\$1,055,000
2021	\$826,500	\$1,182,500	\$850,000	\$460,000	\$586,000	\$836,700	\$937,500
2020	\$660,000	\$950,000	\$740,000	\$378,500	\$488,250	\$730,000	\$970,000
2019	\$641,340	\$840,000	\$657,000	\$320,000	\$420,000	\$655,000	\$770,000

Source: Los Angeles Almanac



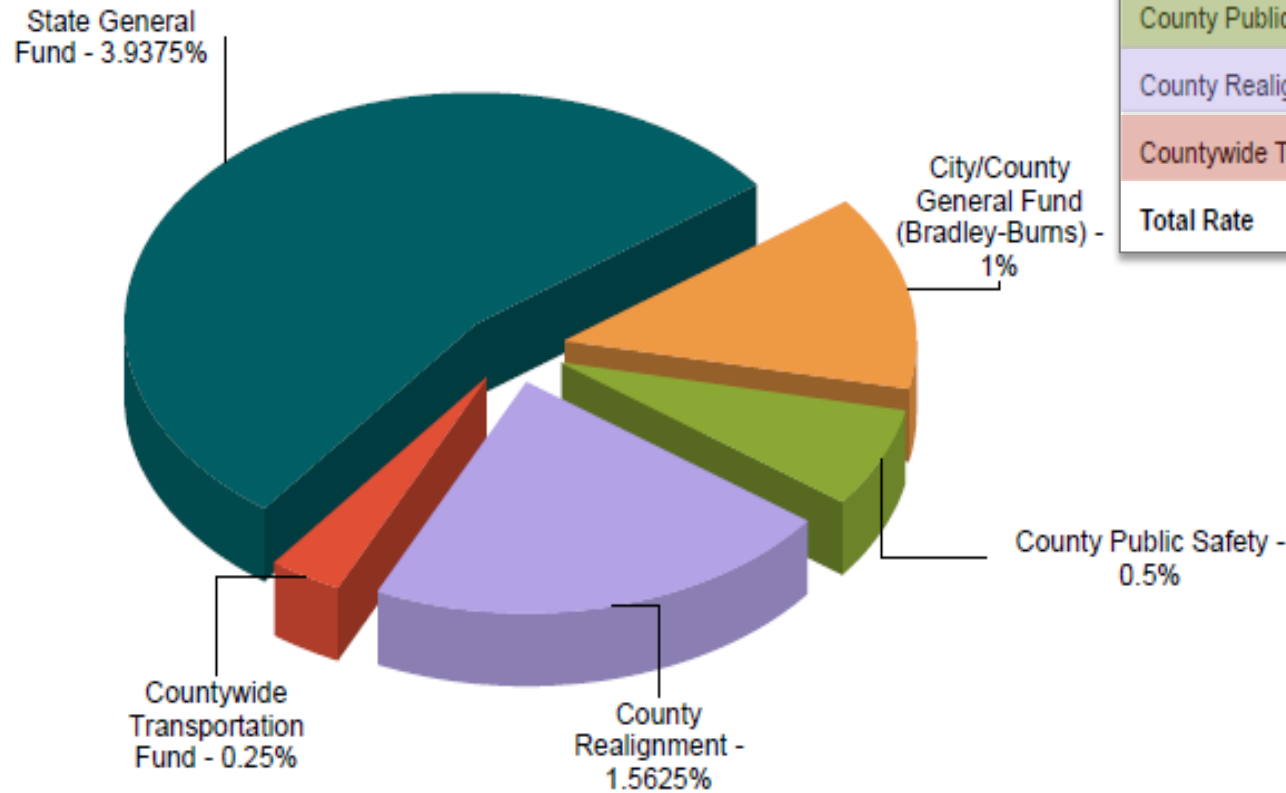
# FY 25-26 Property Tax Considerations

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- Assessed values that were enrolled on January 1, 2024 reflecting Calendar Year 2023 activity have now been set for FY 24-25
- **Anticipated 2025 Prop 13 Annual inflation factor 2.0%**
  - Based on *Oct 2023 to Aug 2024* – estimated +2.5%
  - Oct 2022 to Oct 2023 was 3.18%
- YTD Existing Home Sales +1% over 2023 (except Far North)
- Median Sales Prices +3% (except Bay Area & Far North)



# Base Sales Tax Rate Breakdown



State General Fund	3.9375%
City/County General Fund (Bradley-Burns)	1.0000%
County Public Safety (Prop 172)	0.5000%
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%
Countywide Transportation Fund	0.2500%
<b>Total Rate</b>	<b>7.2500%</b>

**Plus Voter-Approved  
Transaction & Use Taxes  
Up to an additional 2%**

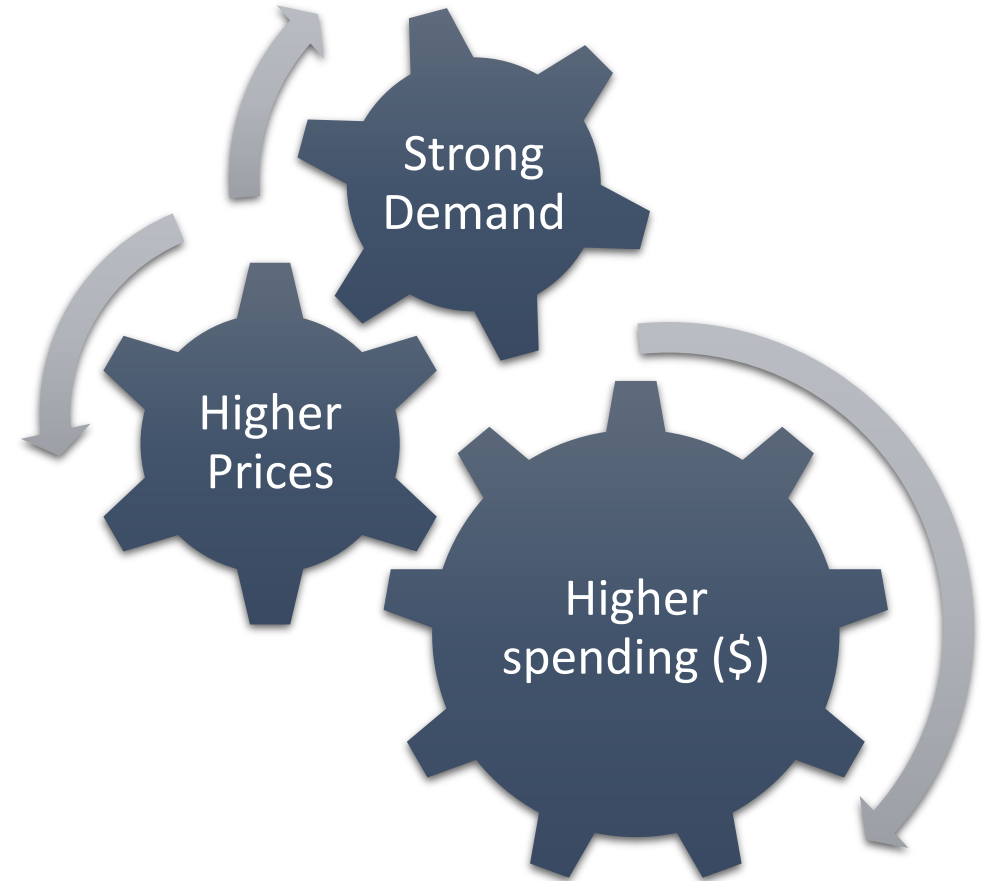
Except in Alameda = 3.5%, LA = 3%,  
San Mateo = 2.625%, Santa Cruz = 2.5%,  
Contra Costa = 2.5%, Sonoma = 2.25%  
& Santa Clara 2.125%



# Inflation & Sales Tax

## Current Conditions

- Strong demand for consumer goods → upward pressure on **prices** → upward pressure on **spending & sales tax**
- Supply chain bottlenecks and labor shortages → downward pressure on **supply** → upward pressure on **prices** → upward pressure on **spending & sales tax**





# Statewide 13 Year Trend

## State & County Pools

## Business And Industry

Count: 356,763

## General Consumer Goods

Count: 414,503

## Autos And Transportation

Count: 82,918

## Restaurants And Hotels

Count: 152,898

## Fuel And Service Stations

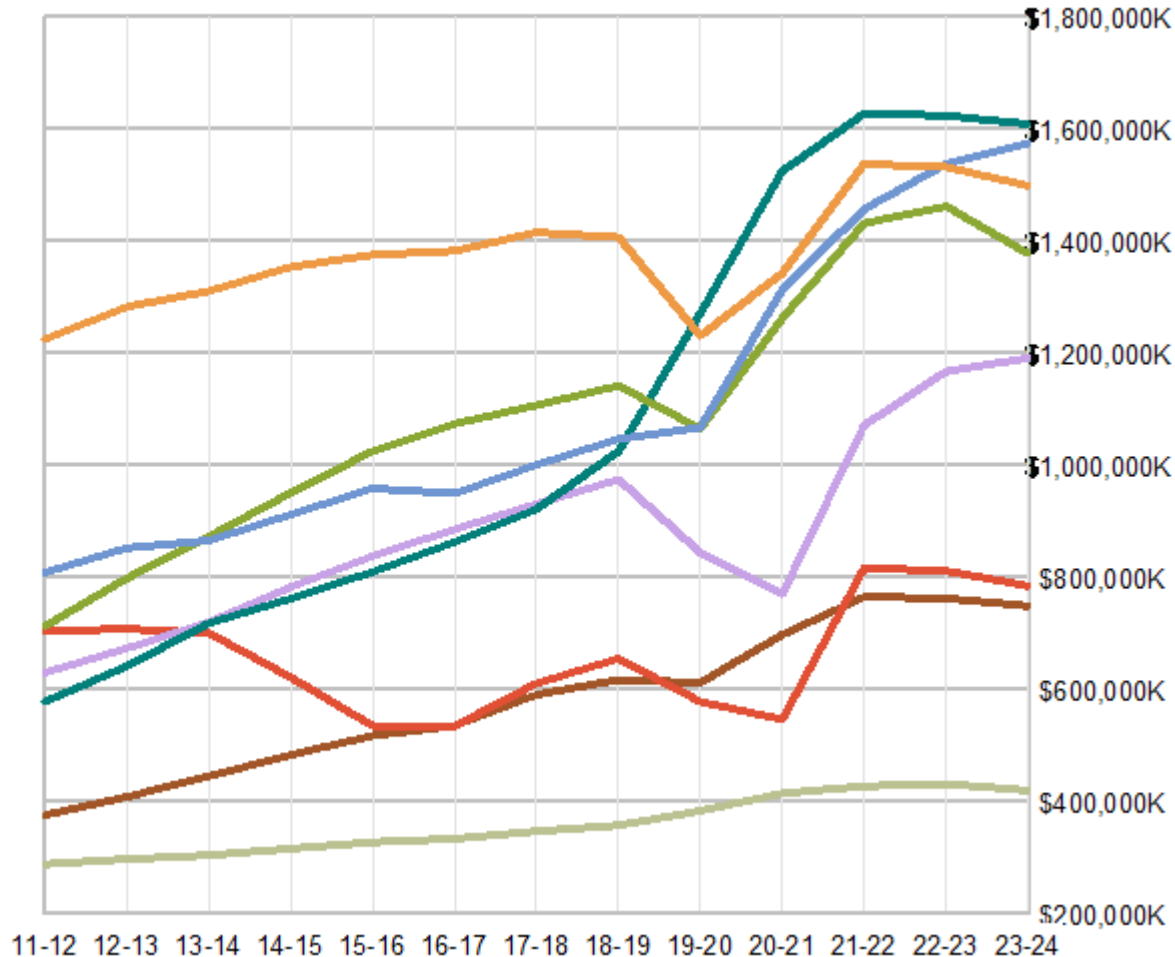
Count: 15,043

## Building And Construction

Count: 35,614

## Food And Drugs

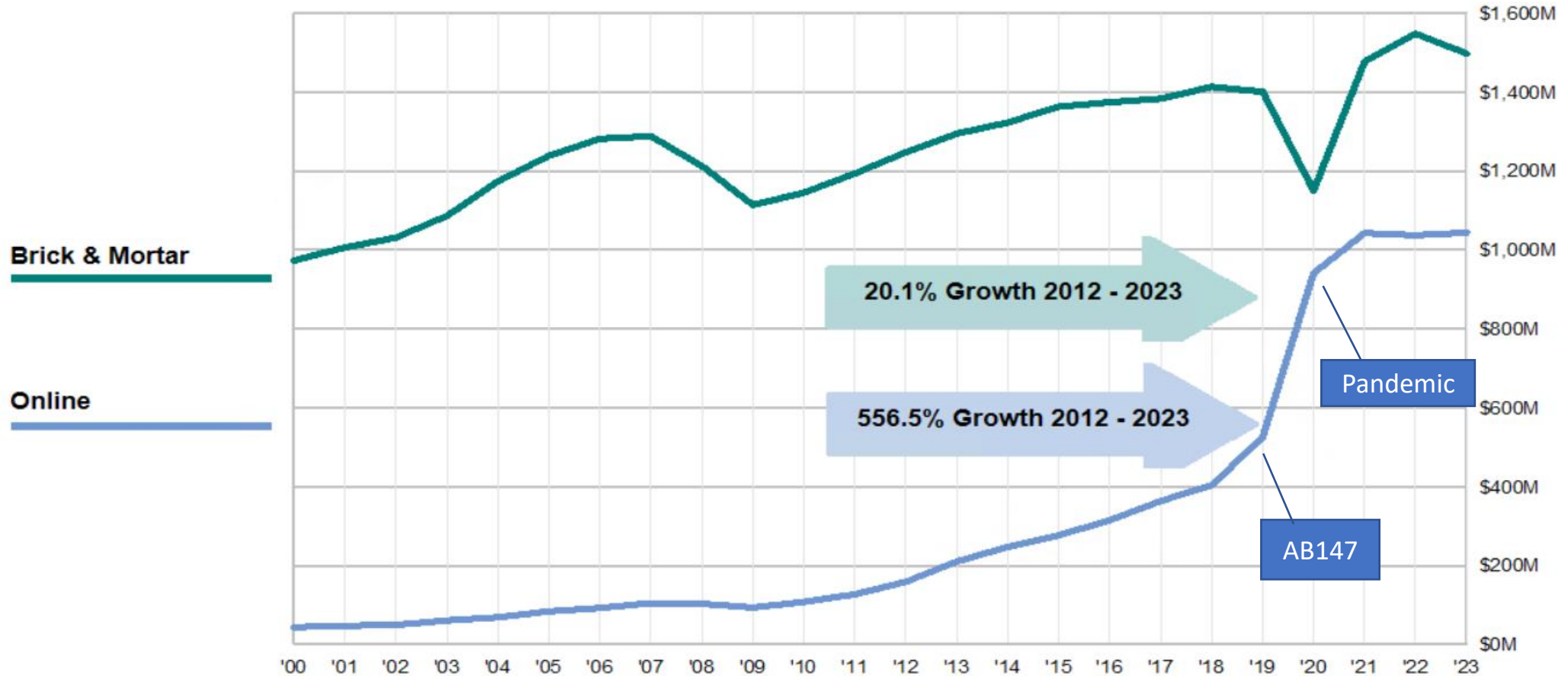
Count: 40,997



- Autos and GCG impacted the most by high interest rates
- B&I and Pools influenced by Online Retailers
- Cannabis has cooled
- Restaurants remain steady (AB 1228)



# Online vs Brick & Mortar: Allocation



**Legend:**

Brick & Mortar - Statewide General Consumer Goods from Place-of-Sale locations

Online - Statewide General Consumer Goods from Fulfillment Centers and County Use-Tax Pool Allocations







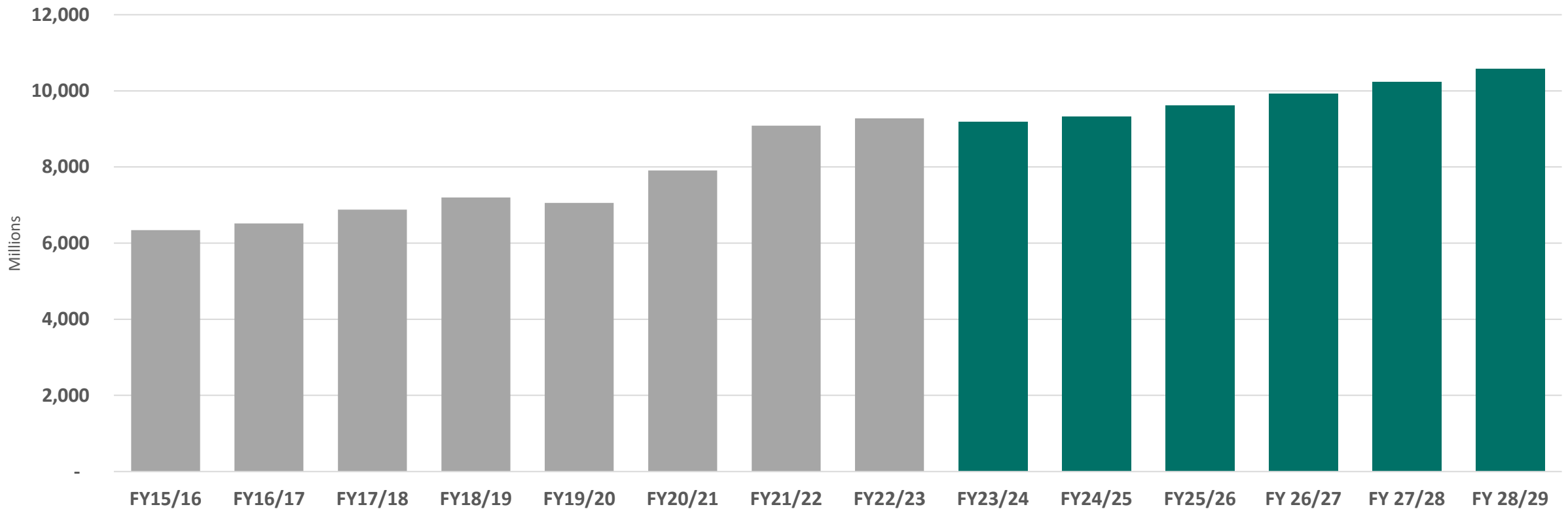
# Almost The Same Everywhere

Region	FY21-22	FY22-23	FY23-24
Sacramento	\$618m +12%	\$623m +1%	\$615m -1%
San Joaquin Valley	\$1.0b +13%	\$1.04b +2%	\$1.04b 0%
Central Coast	\$318m +15%	\$321m +1%	\$323m 0%
Far North	\$201m +4%	\$193m -4%	\$190m -2%
Sierras	\$28m +14%	\$28m 0%	\$29m +2%
Bay Area	\$1.9b +16%	\$2.0b +3%	\$1.9b -3%
Southern California	\$5.0b +18%	\$5.1b +2%	\$5.07b -1%
Statewide	\$9.1b +16%	\$9.3b +2%	\$9.2b -1%



# HdL Statewide Trend – Annual Outlook (FY)

% Change YoY	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30
	5.6%	4.4%	-2.4%	12.3%	16.1%	2.1%	-1.3%	0.3%	2.7%	3.1%	3.2%	3.3%	3.3%





# What Happened(ing)... TOT & STR

## Transient Occupancy Tax (TOT) & Short Term Rentals (STR)

- Lack of foreign & business travelers, minimal vacation travel – all greatly impacted the industry
- Hotels not able to stay open taken over by local governments to house homeless (continues)





# TOT & STR Considerations

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- 2024 Travel spending exceeds 2019 levels and expected to be 3% higher than 2023
- Business and International travel closer to 2019 levels
- YTD Room Demand flat with 2023



# Post Election Considerations

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- New White House Administration
  - Federal Monetary Policy (Taxes & Economy)
  - Federal Immigration and Education Policies
  - Relationship with States – especially CA
- CA = Over 700 measures on ballot, including 539 local tax and bond measures (most ever) - approx. 70% passed!
  - 293 School, 80 G.O. Bonds, 166 General/Special Tax



# Additional Considerations

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- SB 1 - Road Funding with more electric vehicle sales
- State Mandated Costs & Reimbursement Timing
- Labor Costs & Minimum Wage Impacts
- Preparation for 2028 Olympic Games, although in LA – economy may be perfect for statewide tourism

*Thank you!*



HdL<sup>®</sup> Companies