

**CLERK OF THE BOARD OF SUPERVISORS  
EXHIBIT/DOCUMENT LOG**

**MEETING DATE & AGENDA NO. 10/11/2022 #16**

**STAFF DOCUMENTS (Numerical)**

No.	Presented by:	Description:
1	Staff	39 page PowerPoint Presentation

2

3

4

**PUBLIC DOCUMENTS (Alphabetical)**

No.	Presented by:	Description:
A	N/A	

B

C

D

E

F

G

# Economic Update

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October 11, 2022

Item 16



COUNTY OF SAN DIEGO



# Agenda Highlights

<b>Dr. Ryan Ratcliff</b> Associate Professor of Economics (USD)	<b>Back to the Future: The Fight to Tame Inflation</b>
<b>Ray Major</b> Chief Economist (SANDAG)	<b>Regional Economic Update</b>
<b>Ebony Shelton</b> DCAO/CFO (County)	<b>County Finance &amp; Operations Update</b>



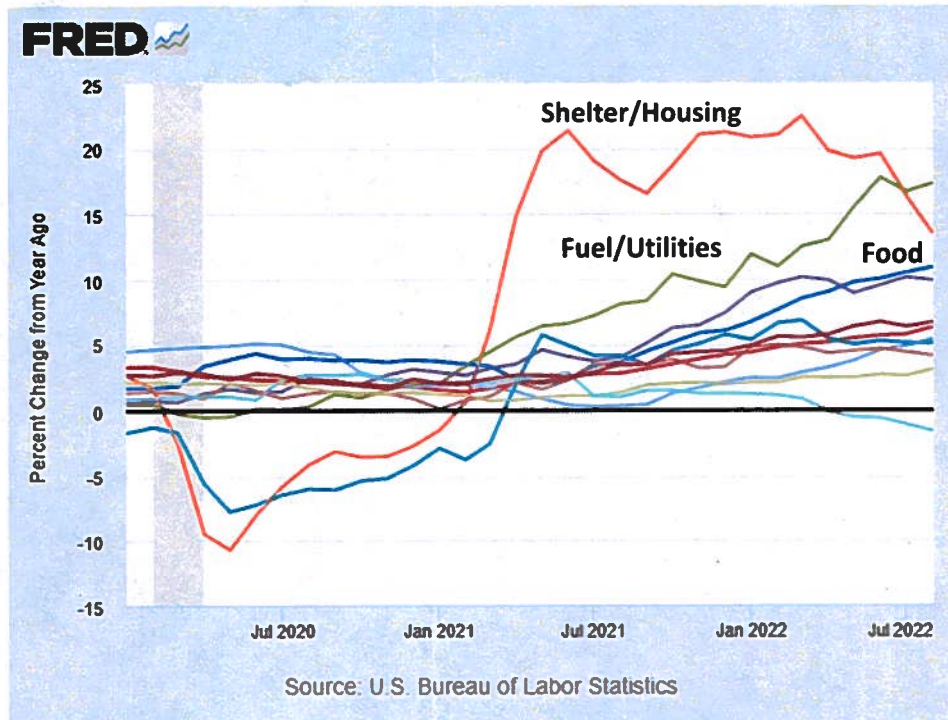
# Back to the Future: The Fight to Tame Inflation

**Dr. Ryan Ratcliff**  
Associate Professor of Economics  
University of San Diego



COUNTY OF SAN DIEGO

% Chg. in CPI Components vs Year Ago



## Back to the Future: The Fight to Tame Inflation

Dr. Ryan Ratcliff  
Associate Professor  
of Economics



# Why Do Prices Rise? An '80s Take...

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**Too much demand: Post-Pandemic Consumer Surge**

+



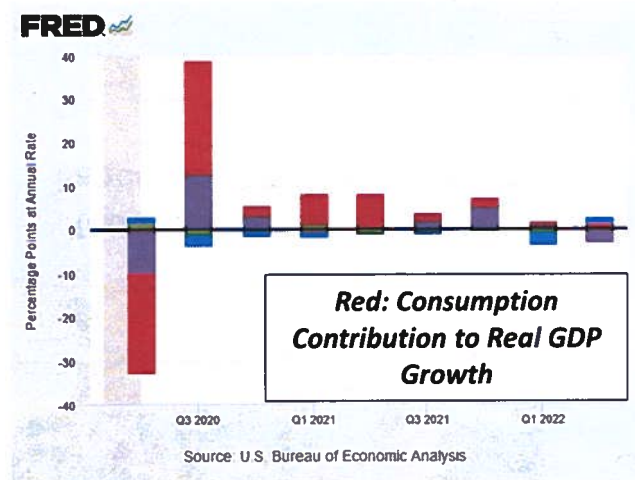
**Not enough supply: Worker & Supply Chain Snarls**

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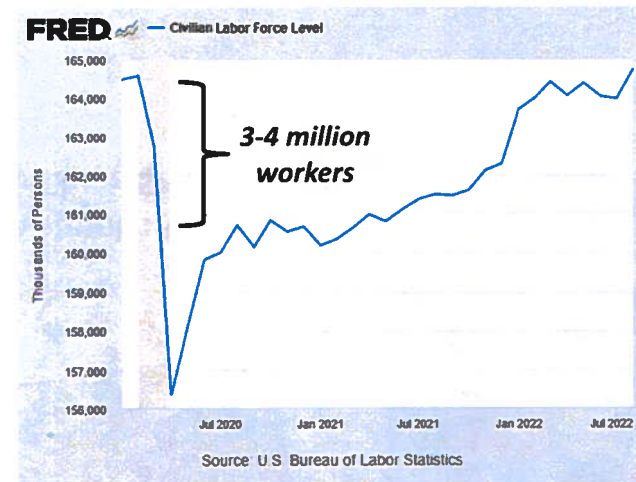
**Big Price Increases**

# Strong Demand + Supply Problems = Inflation



Pent up **demand** from lockdowns + stimulus and low interest rates = super charged consumers, home buying spree, etc.

Typical contribution is ~2%

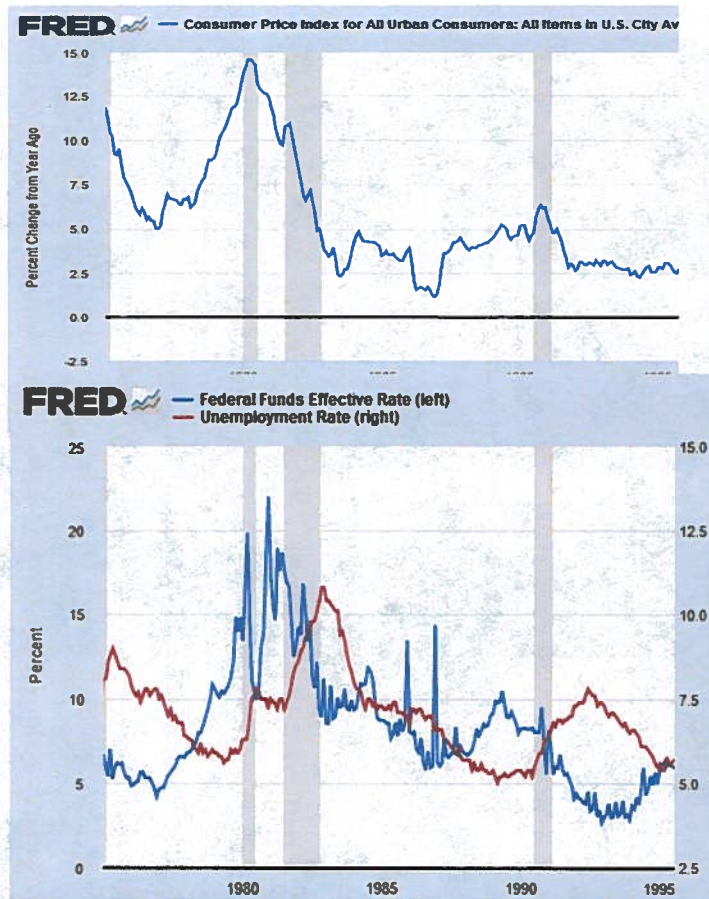


Lockdown and restart created lingering **supply** difficulties:

- “Missing Workers”
- Rethinking work/life balance
- Supply Chain snarls



# Back to the Future with the Fed



- Limited ability to fix supply issues, so gov't (Fed Reserve) has to combat rising prices by reducing demand via higher interest rates.
- To tame '70s inflation, Fed raised its target rate 17% over 4 years, causing a 5% increase in unemployment. It took 6 years of higher interest rates and 3 years of high unemployment to bring inflation down.
- Today, inflation is ~9%, and Fed has increased the same interest rate ~3% over 6 months. Some signs of slower spending but no unemployment spike. Fed has vowed to keep increasing the pressure.
- Fed induced recession in 2023. How bad? Can we get some help from supply on prices, or is it all fixed with lower demand?



# Regional Economic Update

**Ray Major**  
Chief Economist  
San Diego Association of Governments (SANDAG)



COUNTY OF SAN DIEGO

# State of the Economy

# San Diego's Economy Post-COVID

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## Industry Recovery

- **Tourism** – Visitor spending in first half of 2022 is up 130% from 2021 levels
- **Innovation and Military** (driving sectors) are strengthening
- **Healthcare** (supporting sector) was resilient and is growing

## Employment Restored

- All 250,000 jobs lost during the initial stage of the pandemic have been recovered
- Civilian labor force contains 13,000 fewer participants than pre-pandemic levels

## Housing Affordability Still Challenging

- Rising mortgage rates offset recent easing of housing prices

## Inflation Persists

- Rising inflation in 2022 is moderating demand for discretionary items



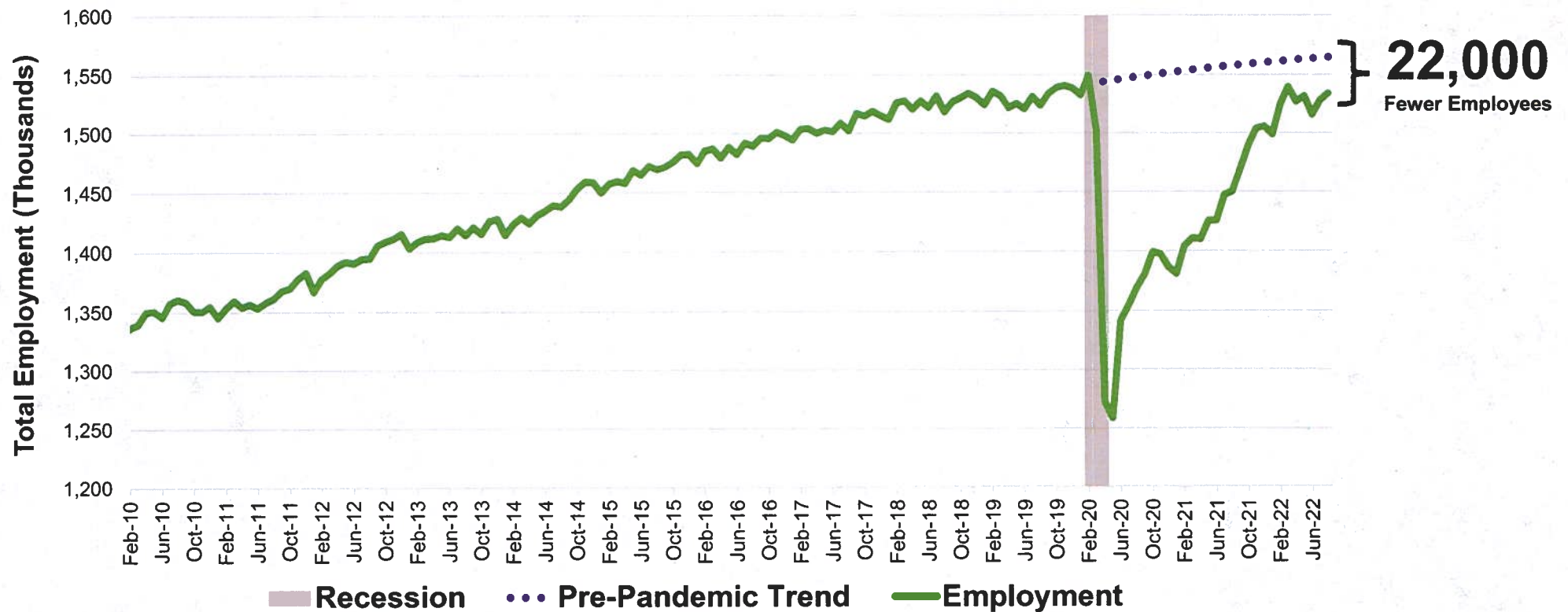
# Employment



# San Diego Regional Labor Market

Evidence of returning to pre-COVID levels

12



Source: US Bureau of Labor Statistics (BLS), Local Area Unemployment Statistics

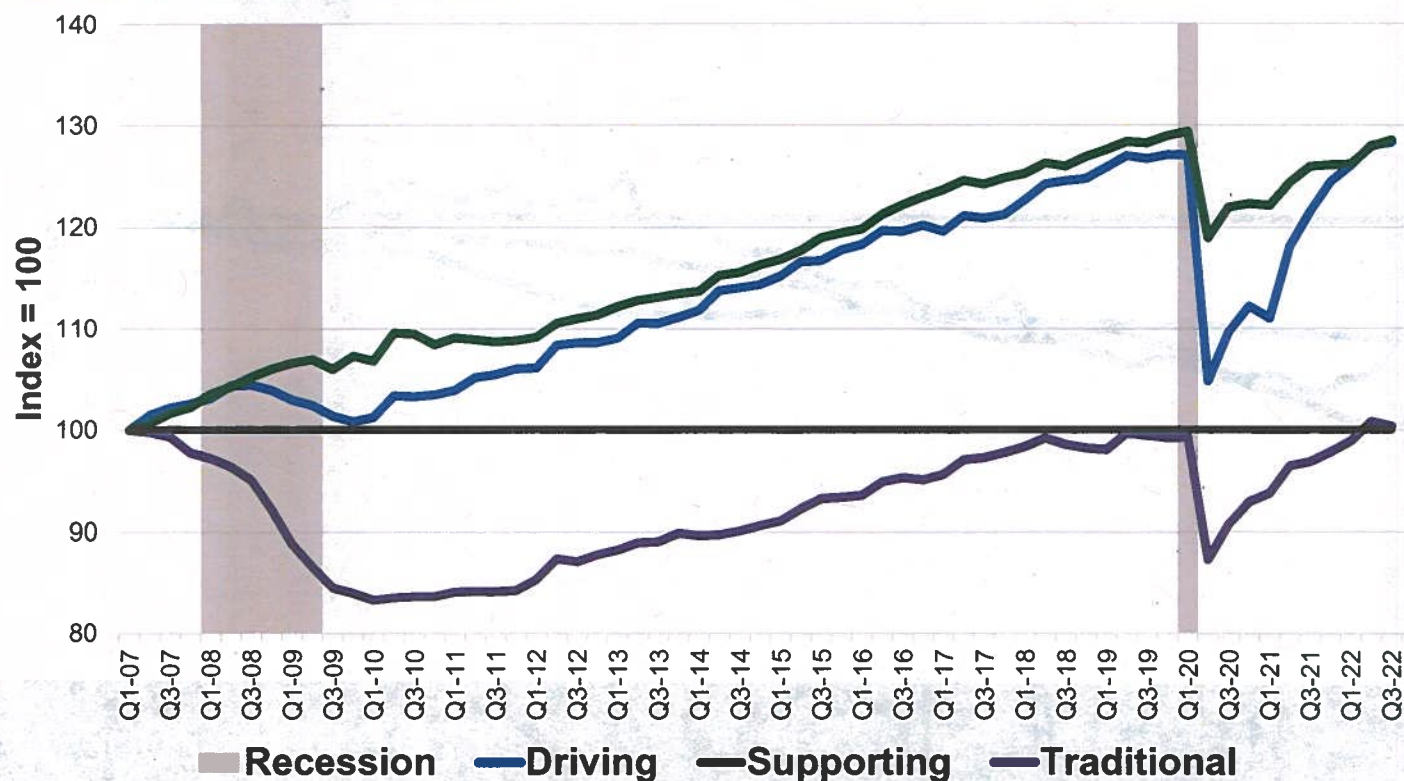
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# Employment Growth by Sector

## Q1 2007 – Q3 2022

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DRIVING SUPPORTING TRADITIONAL



### Driving Sectors

- Tourism
- Innovation
- Military

### Supporting Sectors

- Healthcare
- Education
- Government

### Traditional Sectors

- Trade
- Professional
- Construction
- Manufacturing
- Transportation & Utilities

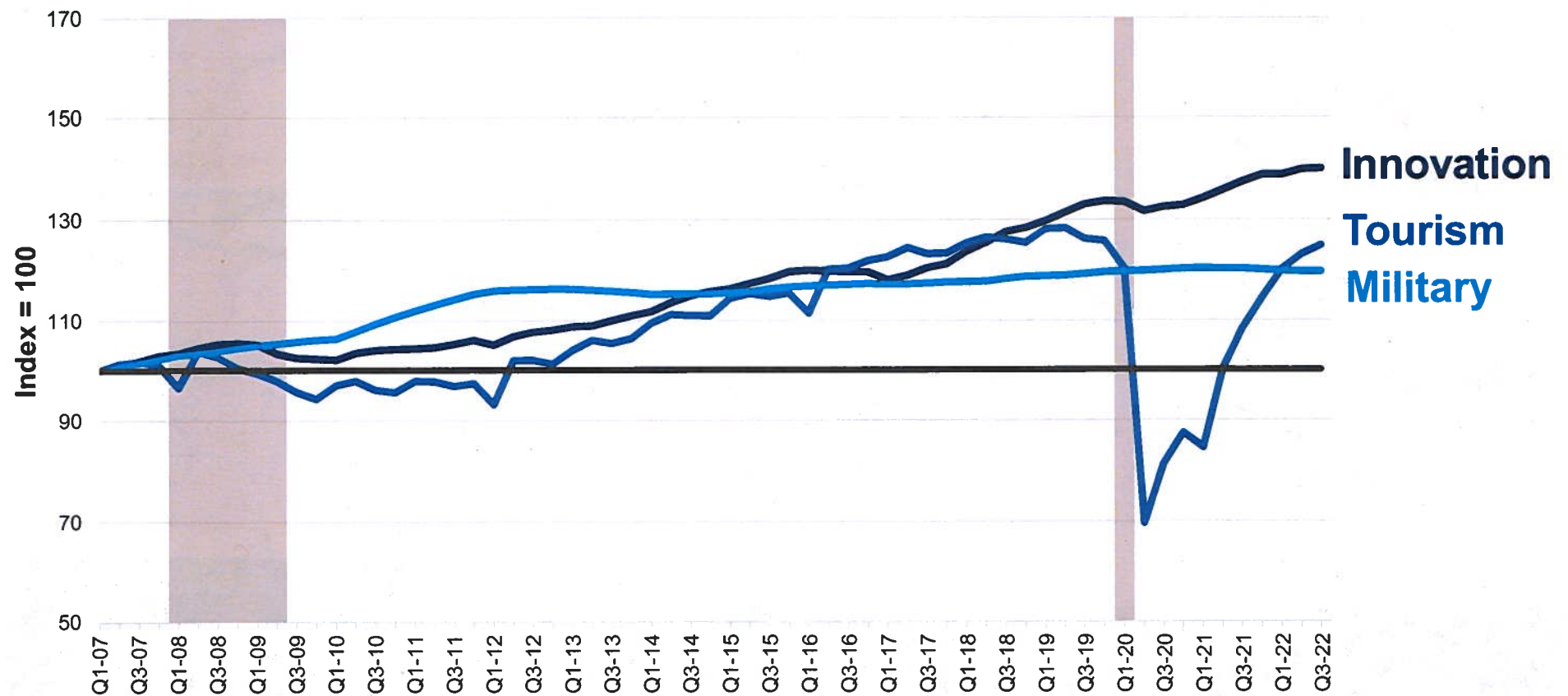
Source: CA Employment Development Department (EDD), Labor Market Information Division, Quarterly Census of Employment and Wages; SANDAG

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# Driving Sectors

Q1 2007 – Q3 2022

14



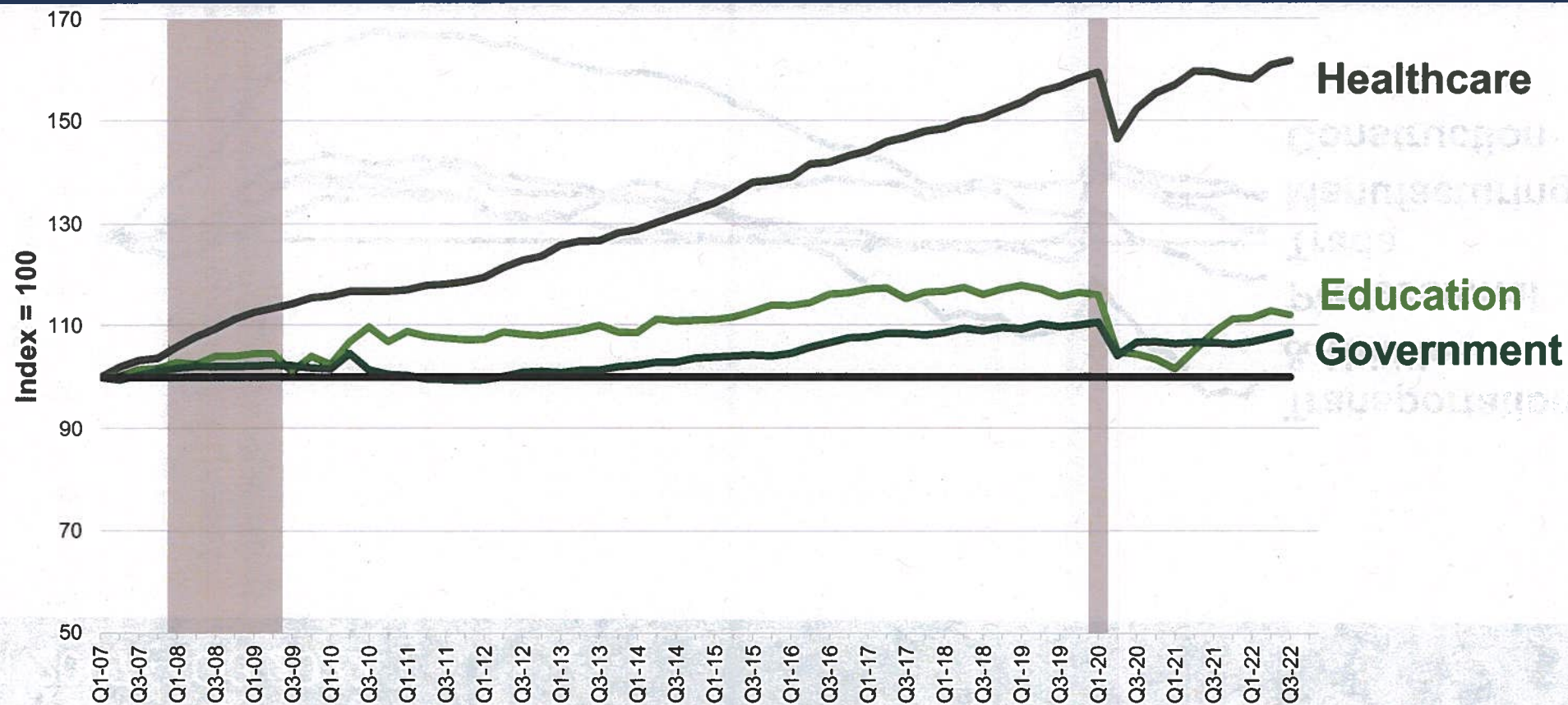
Source: CA Employment Development Department (EDD), Labor Market Information Division, Quarterly Census of Employment and Wages; SANDAG

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# Supporting Sectors

## Q1 2007 – Q3 2022

15



Source: CA Employment Development Department (EDD), Labor Market Information Division, Quarterly Census of Employment and Wages; SANDAG

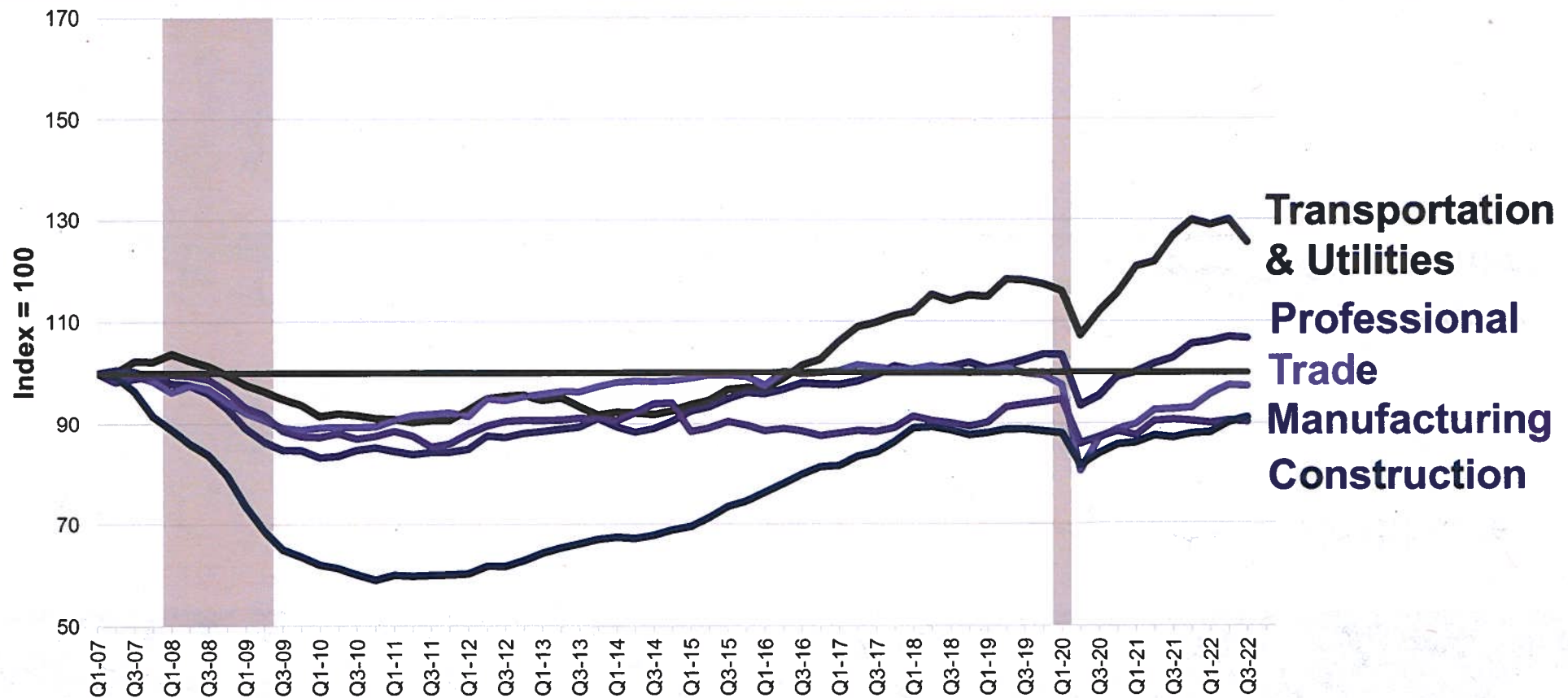
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# Traditional Sectors

Q1 2007 – Q3 2022

16



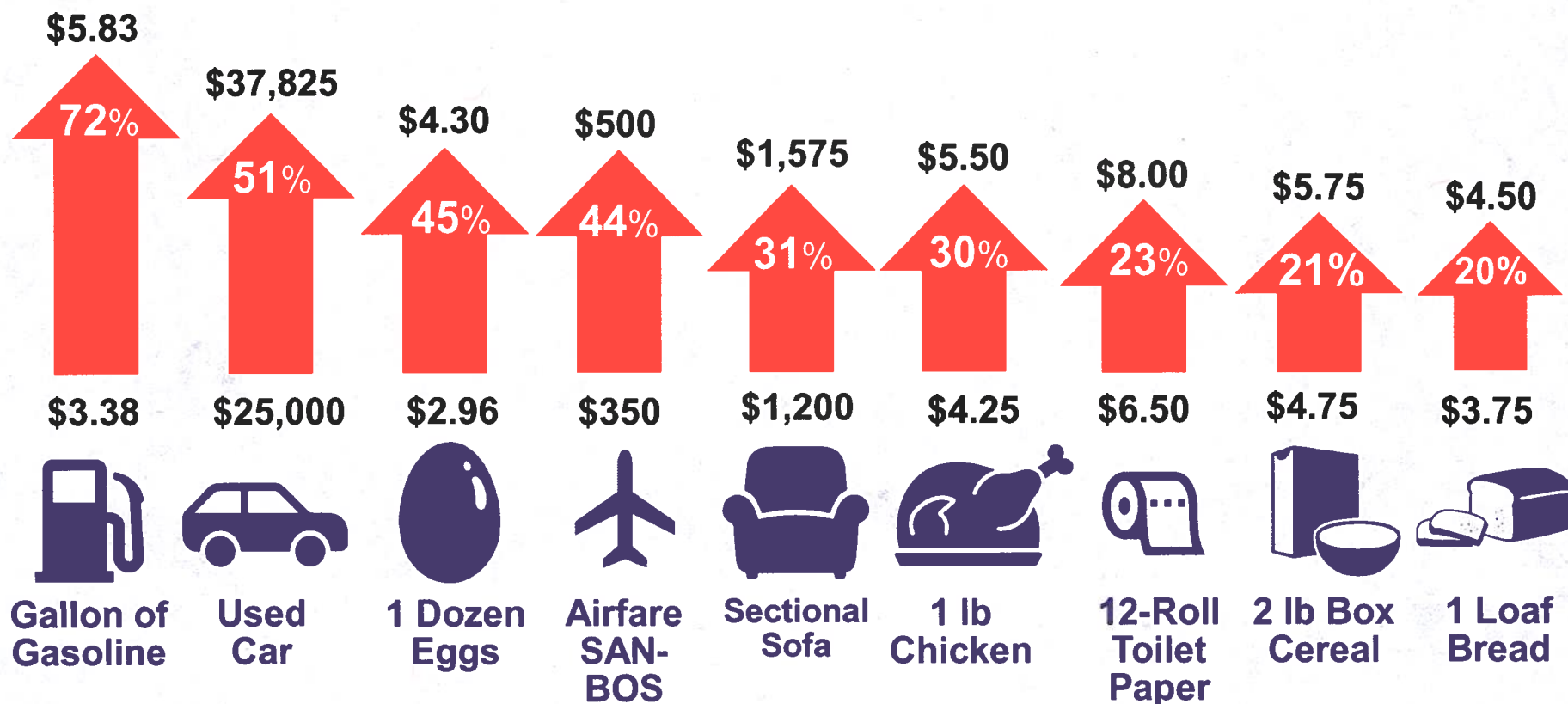
Source: CA Employment Development Department (EDD), Labor Market Information Division, Quarterly Census of Employment and Wages; SANDAG

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# Inflation

# Inflation Affects Everyday Items

Percent change from March 2020 to August 2022



Source: Bureau of Labor Statistics, Not Seasonally Adjusted

Note: U.S. inflation rates are used.

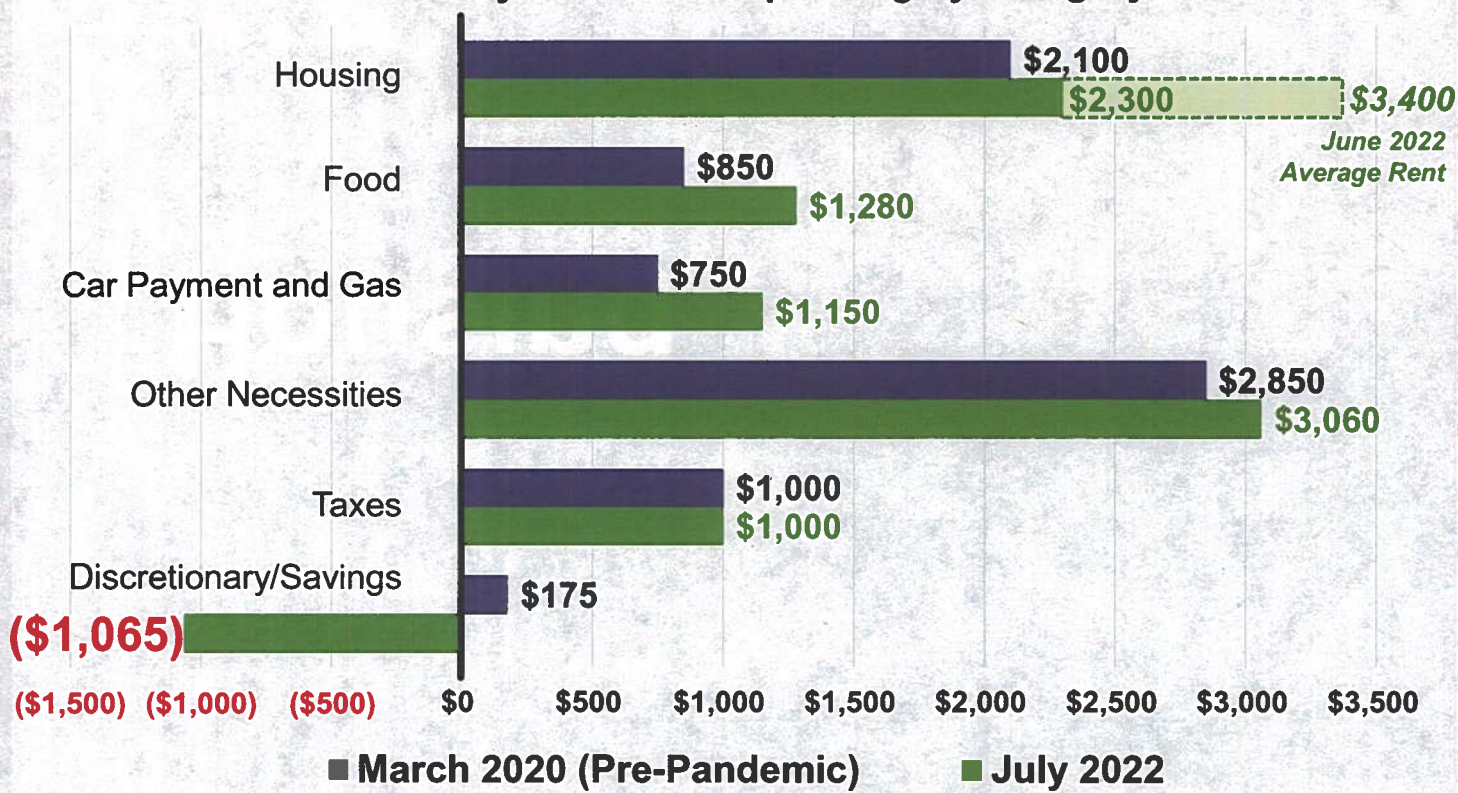
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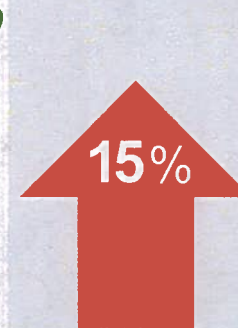
# Impact of Inflation and Cost of Living

## For a median-income household

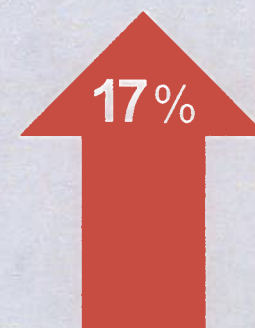
Monthly Household Spending by Category



Inflation and Cost of Living increased



Inflation



Cost of Living

Average household in the region is short \$1,065 each month

Source: U.S Bureau of Labor Statistics, HUD, Covered California, USDA, SANDAG Calculations

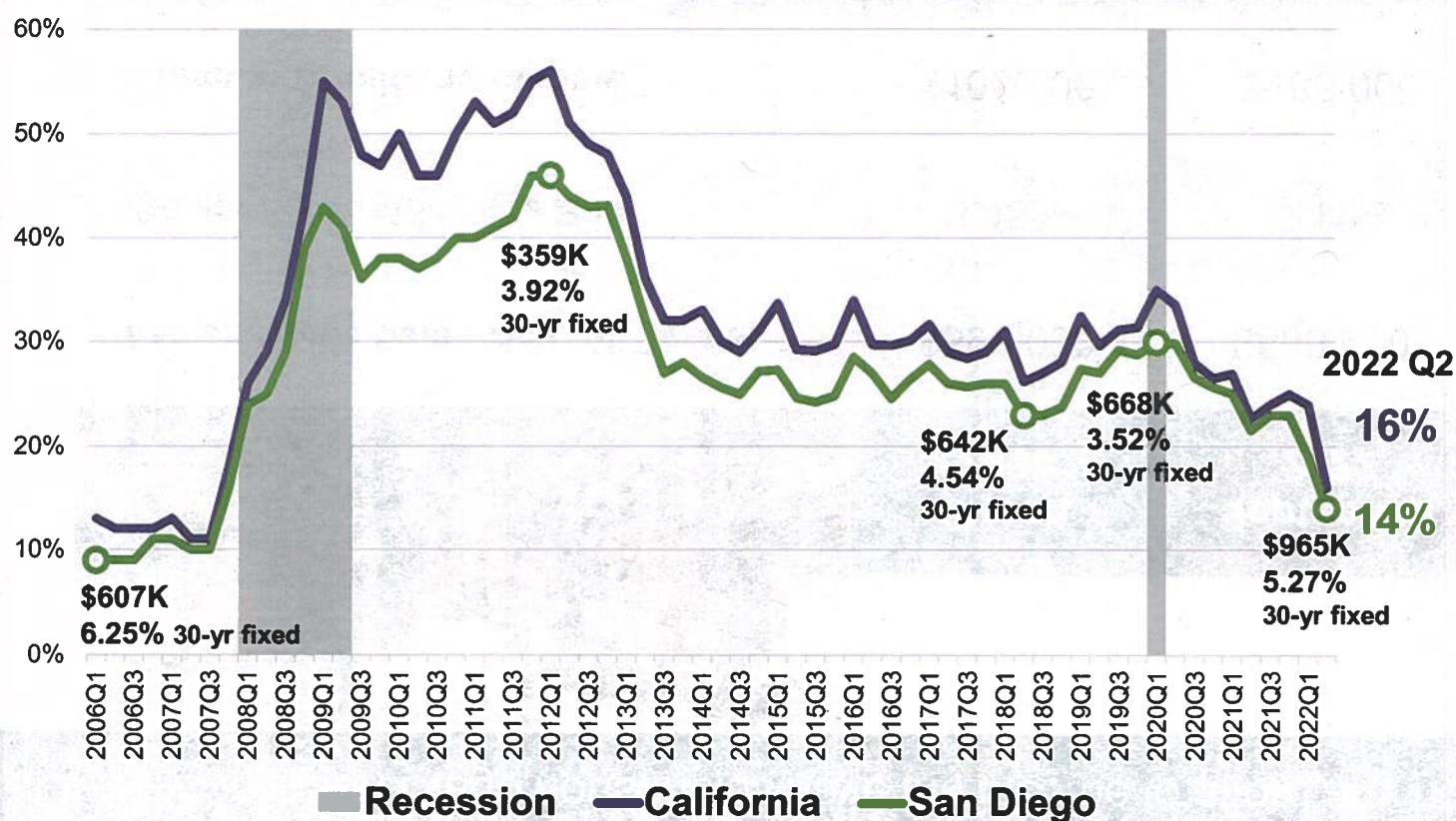
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# Housing

# Housing Affordability Declines Starting in 2020

Percent of households who can afford to purchase median-priced, single-family home



\$950K  
\$900K  
\$850K  
\$800K  
\$750K  
\$700K  
\$650K  
\$600K  
\$550K  
\$500K  
\$450K  
\$400K  
\$350K  
\$300K  
\$250K  
\$200K  
\$150K  
\$100K  
\$50K  
\$0

**\$900K**  
**Median price**  
(Aug 2022, San Diego)  
**\$208K Household income**  
(Sept. 2022, 6.11% 30-yr fixed)

**\$460K**  
**Home price**  
**\$107K Median household income**

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Source: California Association of Realtors (2022 Q2), Redfin (Aug. 2022), Freddie Mac (Sept. 2022), IPUMS-CPS (2021), Traditional Housing Affordability Index, SANDAG calculations



# Home Sale Price, Mortgage Rate, and Affordability

Only 17% of San Diego households have the income to afford any home



	March 2020	September 2022	29-Month Change
<b>Median Home Sale Price (All Types)</b>	\$599,000	\$800,000*	<b>33%</b>
<b>30-Year Fixed Mortgage Rate</b>	3.45%	6.11%	<b>+2.66</b>
<b>Minimum Qualifying Income</b>	\$108,000	\$185,000	<b>71%</b>
<b>Monthly Payment</b>	\$2,700	\$4,600	<b>71%</b>

Source: Redfin Data Center (Aug 2022), Freddie Mac (Sept 2022), IPUMS-CPS (2021), CAR Traditional Housing Affordability Index, SANDAG calculations.

\*Median home sale price for August 2022.

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**SANDAG.org**

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**@SANDAGregion @SANDAG**

✉ Email: **ray.major@sandag.org**

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# County Finance & Operations Update

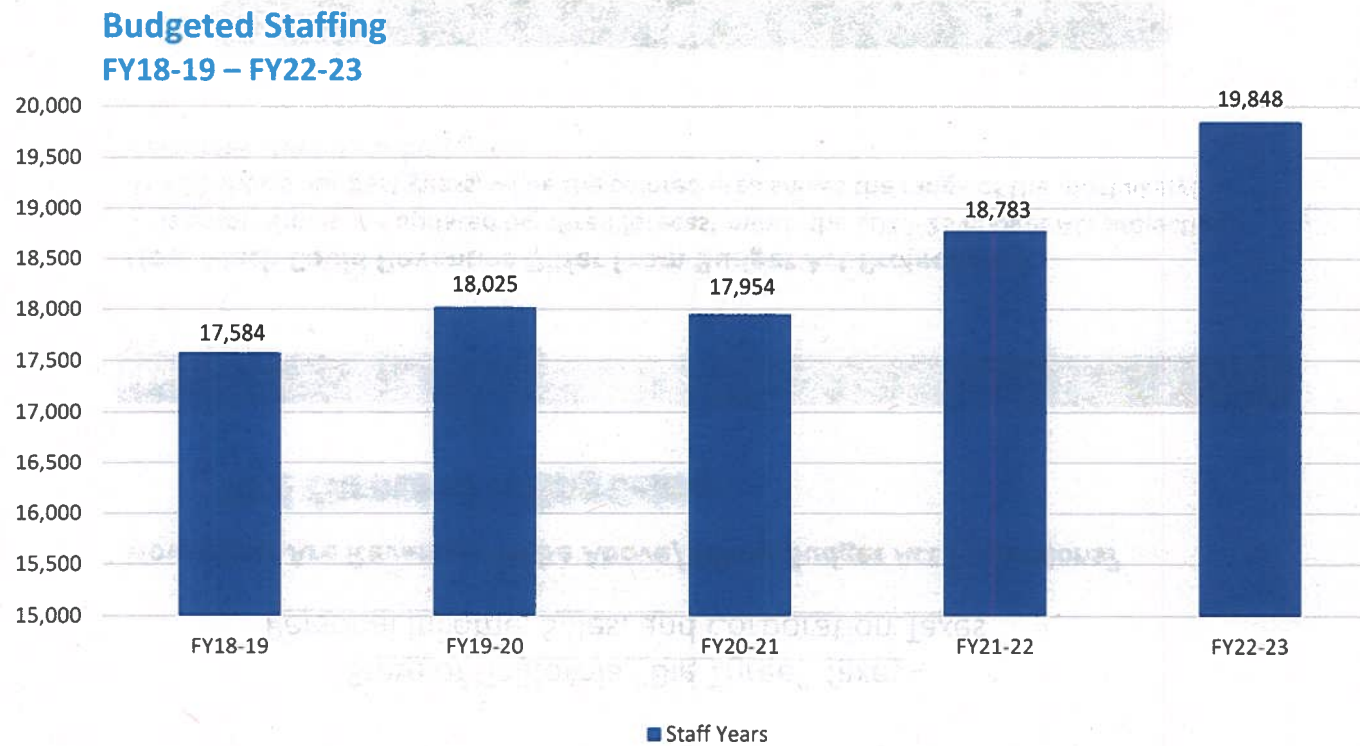
**Ebony Shelton**

Deputy Chief Administrative Officer/Chief Financial Officer  
County of San Diego



COUNTY OF SAN DIEGO

# New Investments and Service Expansion



# LAO: Updated 2022-23 “Big Three” Revenue Outlook

## State of California “Big Three” Taxes Personal Income, Sales, and Corporation Taxes

**How Likely Are Revenues To Be Above/Below Budget Act Projections?**

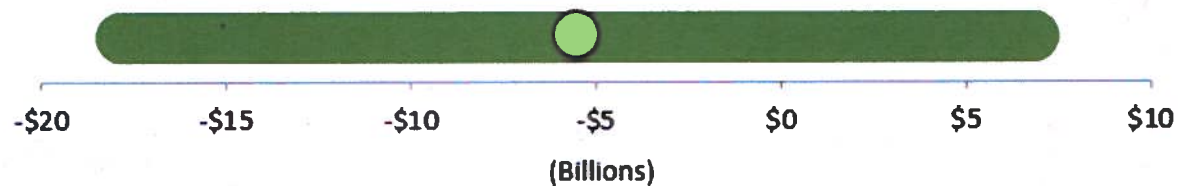
**70% Chance of Falling Below**



**How Much Could Revenues Differ From Budget Act Projections?**

This graph shows our updated big three forecast minus the 2022-23 Budget Act projection.

The ● shows our best guess, while the colored area shows the range of the most likely outcomes around our best guess.



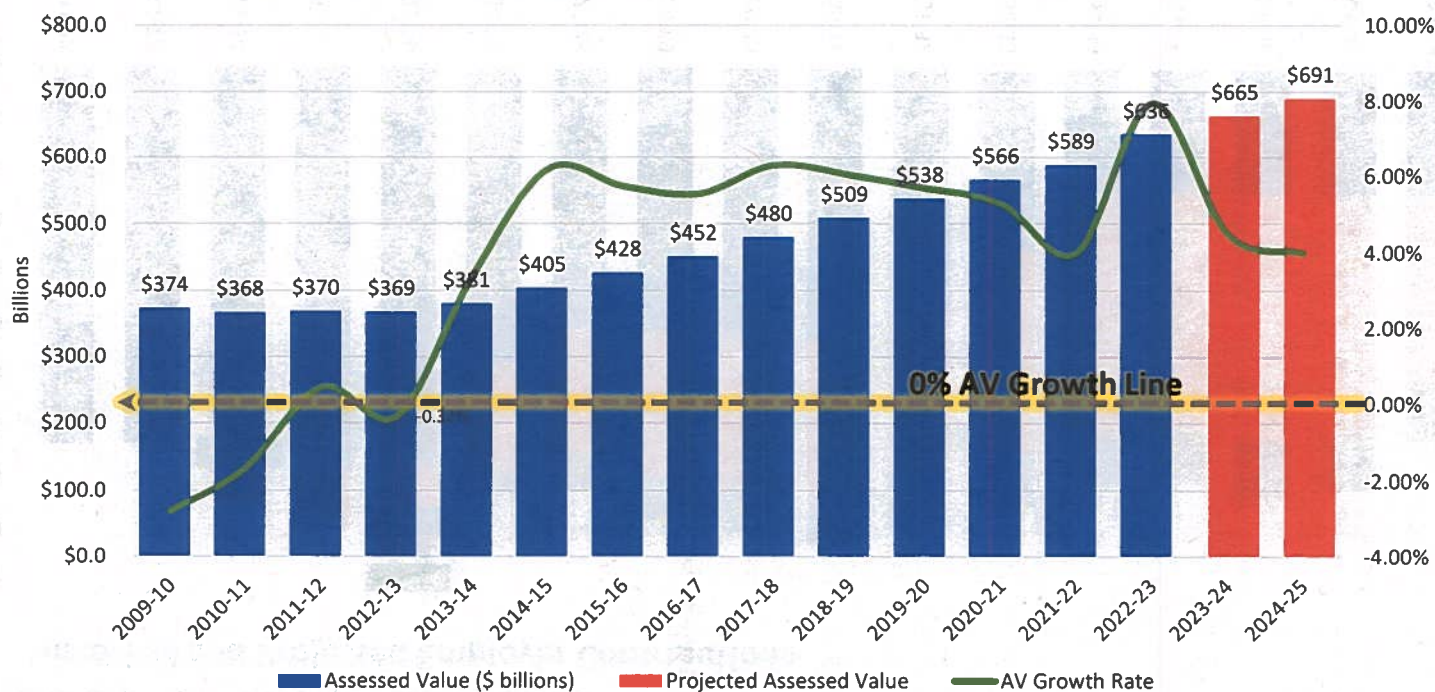
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Updated September 14, 2022



# Locally Property Values

**Assessed Value Growth**  
Fiscal Years 2009-10 through 2024-25



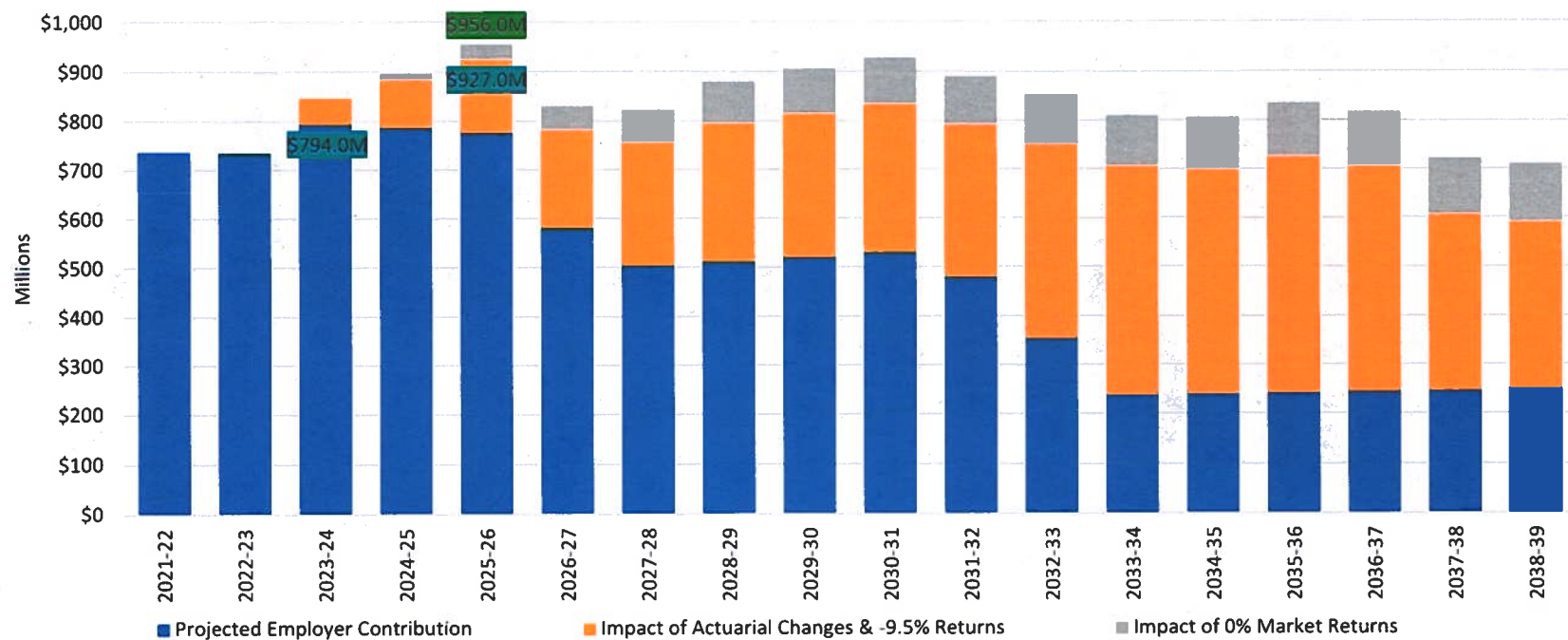
Source: County of San Diego Auditor & Controller, Property Tax Services annual report ending June 30, 2022



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# Total Cost of Retirement

## Historical and Projected Employer Contributions



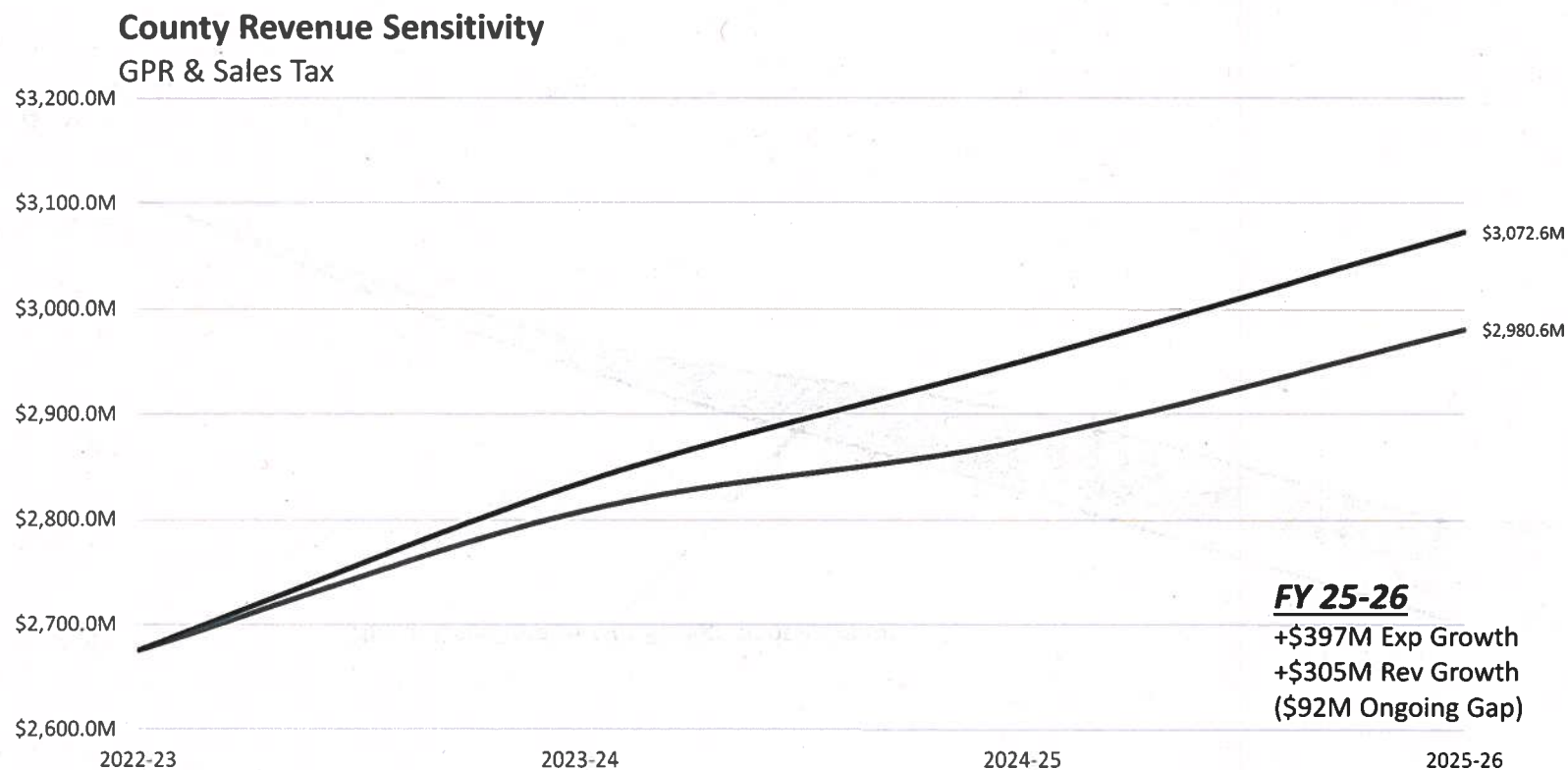
(1) Notes: Projections based on estimated market return of -9.5% in FY 21-22, 0% in FY 22-23, and an assumed rate of return (ARR) of 6.50% for FYs 23-24 and all future years; in addition, inflation rate is assumed to be 2.50%, cost of living assumption for Tiers with 3% COLA is assumed to be 2.75%, and cost of living assumption for Tiers with 2% COLA is assumed to be 2.00% for FYs 23-24 and all future years. Employer Contribution includes amounts for all employers including Employer Offsets and Pension Obligation Bonds

Sources: San Diego County Employees Retirement Association and Segal Consulting memo dated September 19, 2022, Scenarios 1 & 3; Segal Consulting memo dated November 16, 2021, Scenario 4.



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# Select General Fund Revenues Sensitivity Analysis



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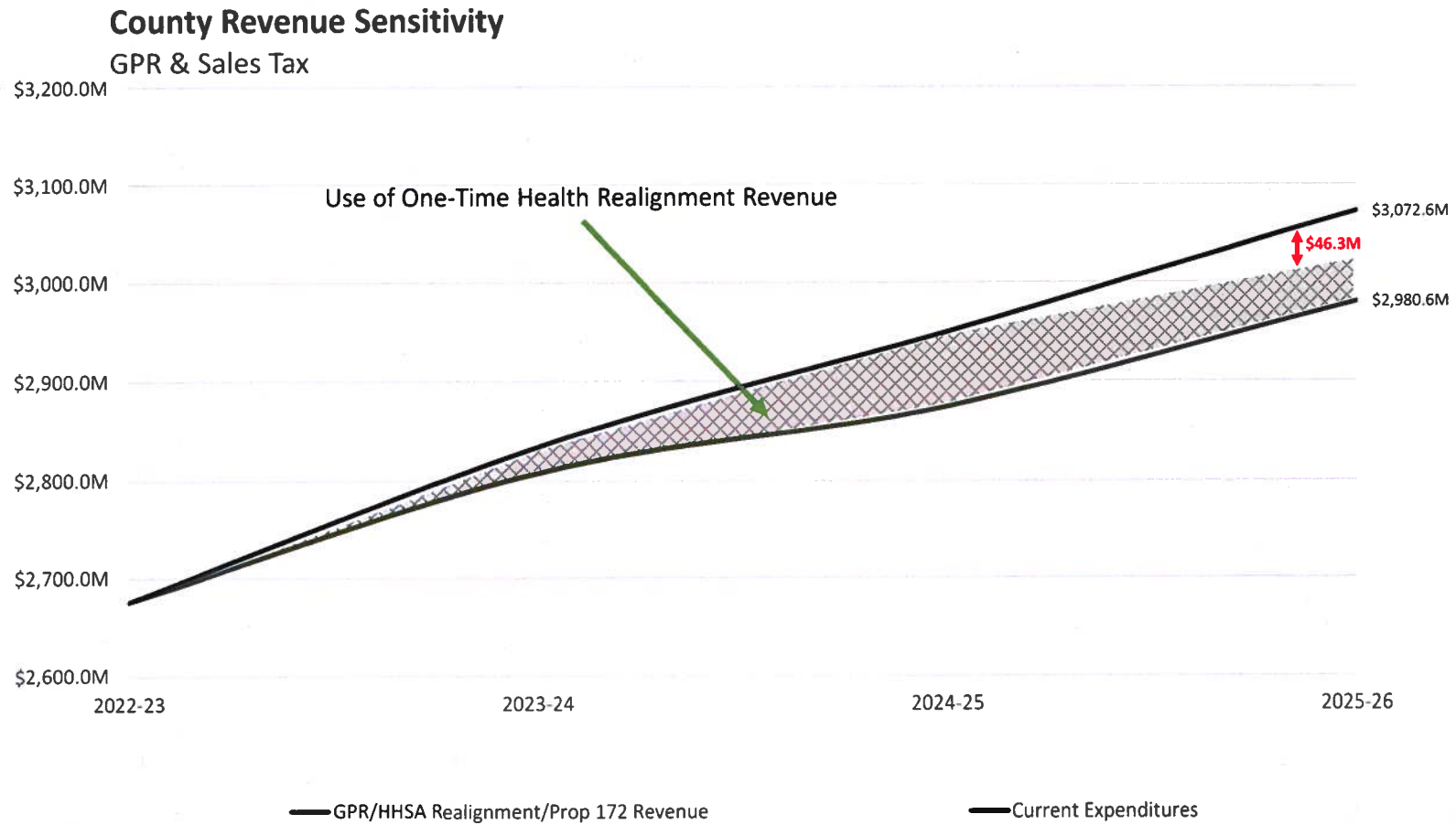
— GPR/HHSA Realignment/Prop 172 Revenue

— Current Expenditures

Note: Projections are based on preliminary data and are for illustrative purposes only.



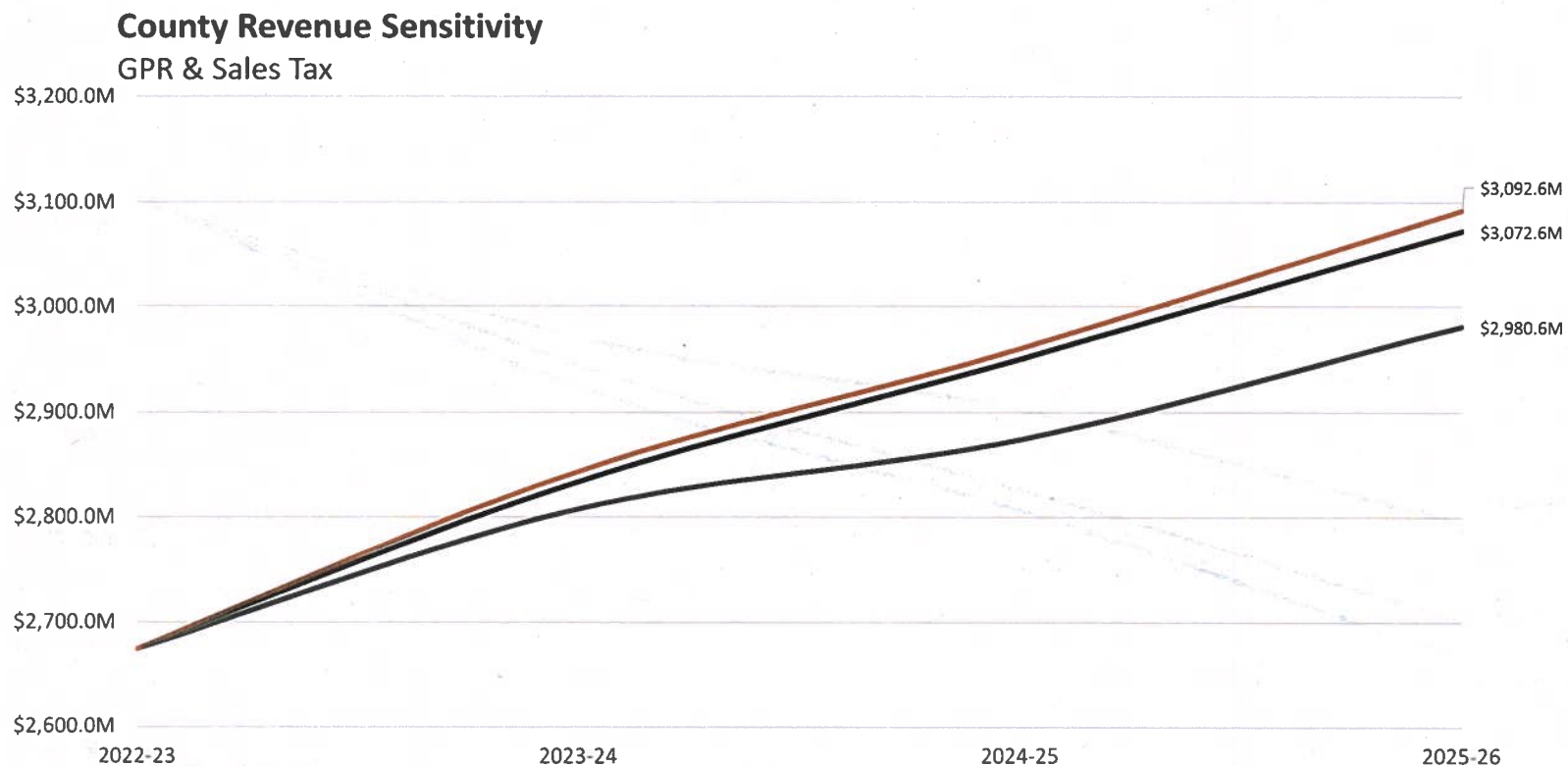
# Select General Fund Revenues Sensitivity Analysis



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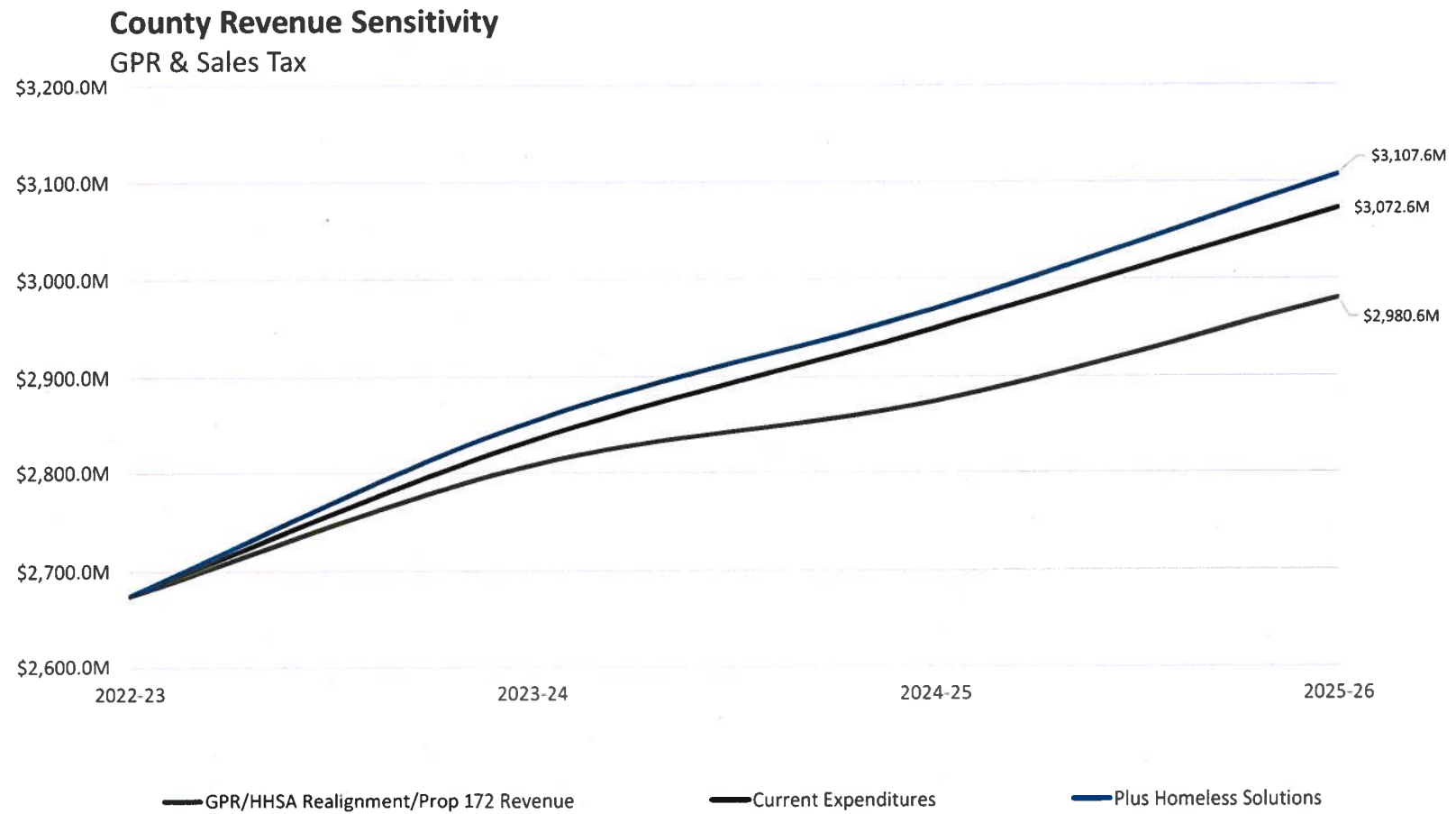
# Select General Fund Revenues Sensitivity Analysis



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# Select General Fund Revenues Sensitivity Analysis

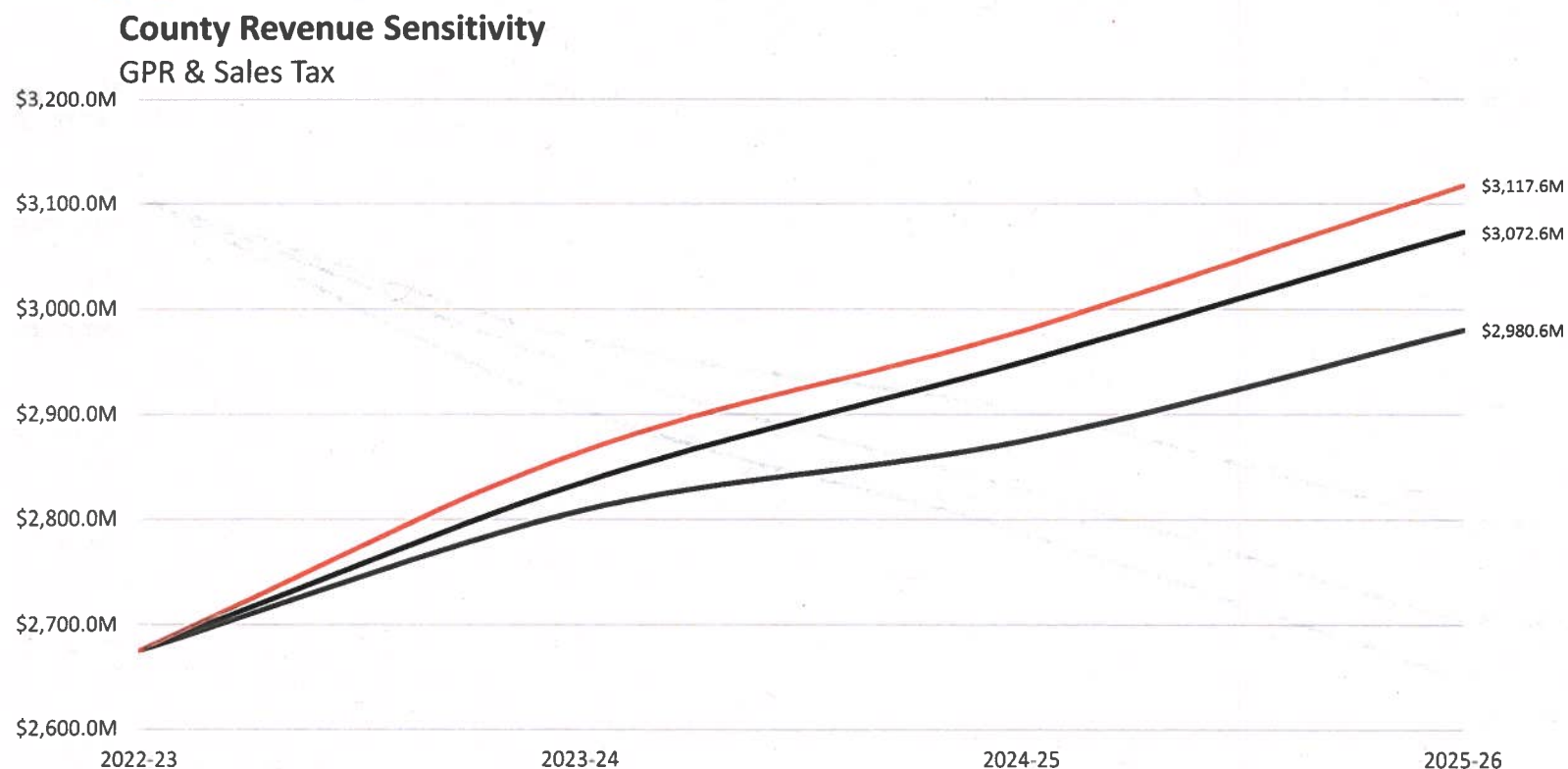


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# Select General Fund Revenues Sensitivity Analysis



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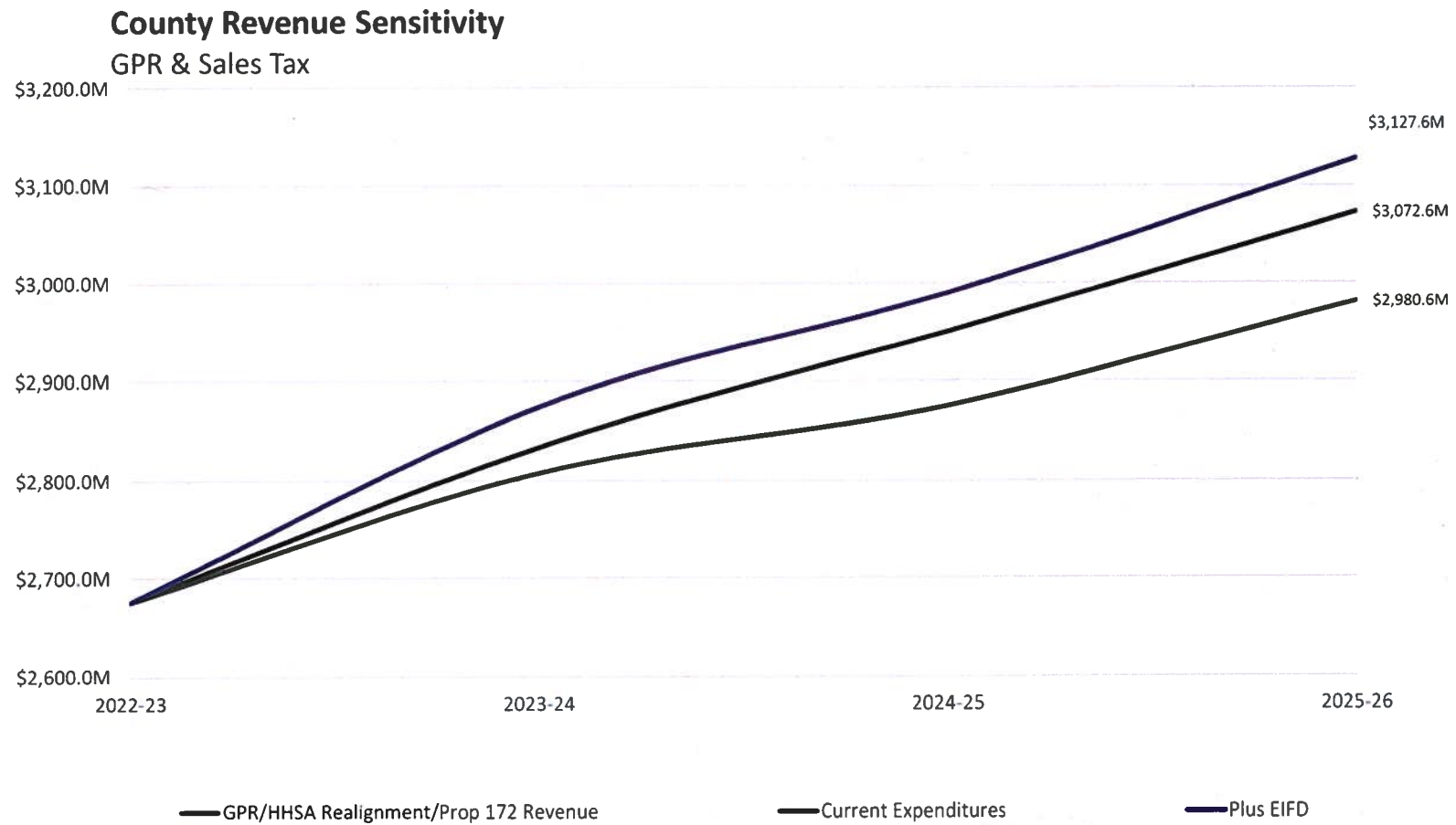
— GPR/HHSA Realignment/Prop 172 Revenue

— Current Expenditures

— Plus Sustainability

Note: Projections are based on preliminary data and are for illustrative purposes only.

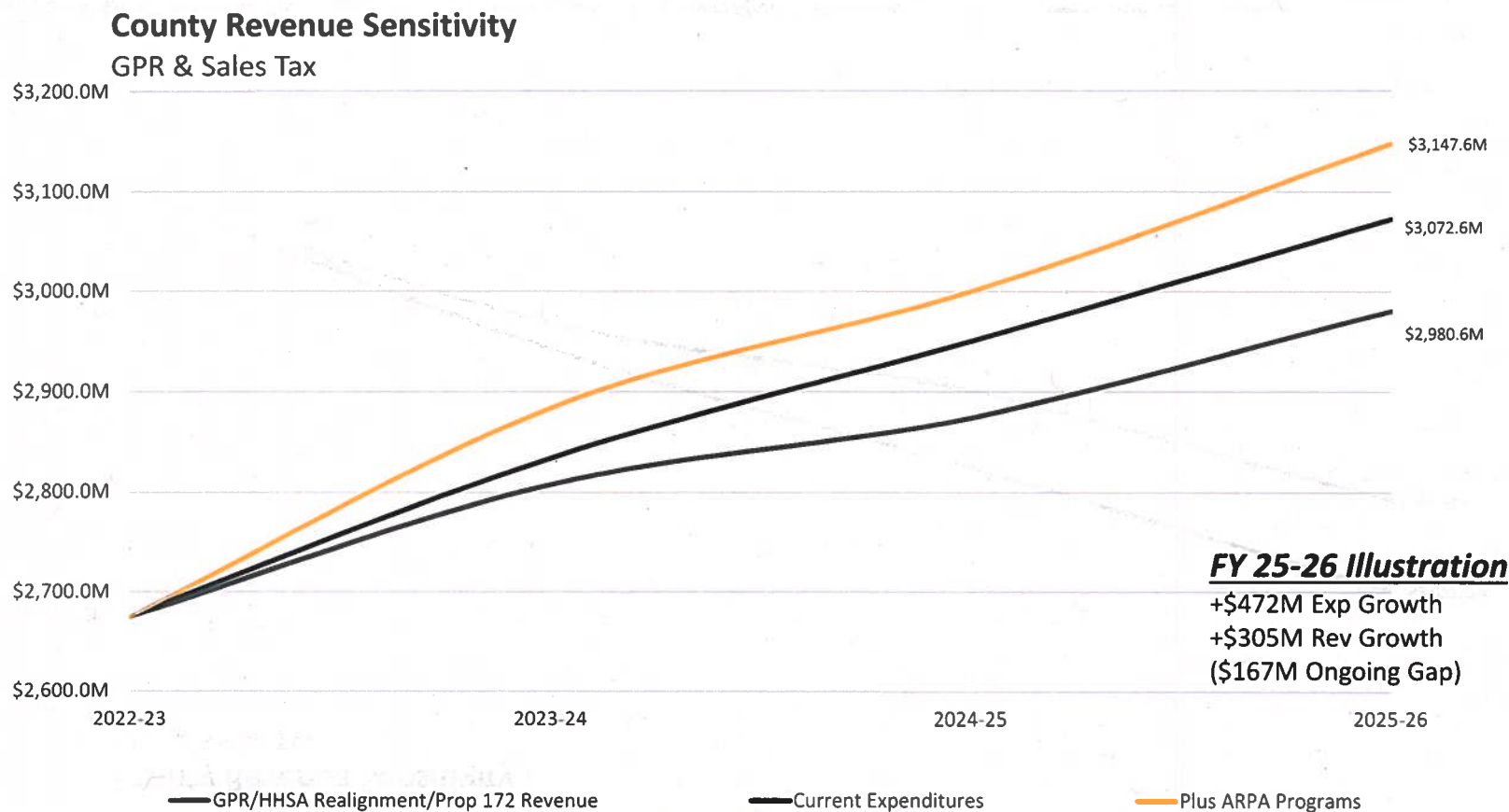
# Select General Fund Revenues Sensitivity Analysis



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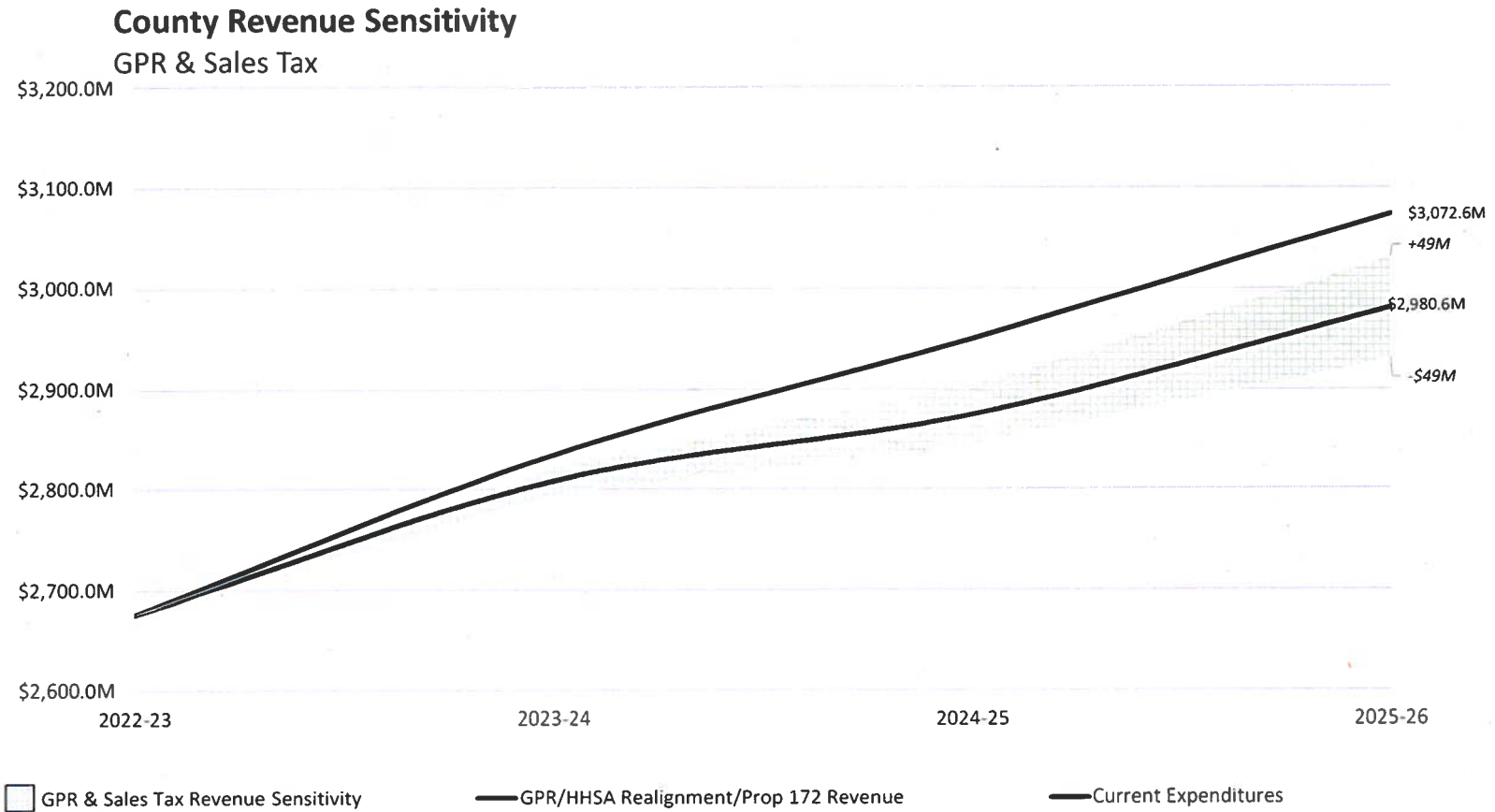
# Select General Fund Revenues Sensitivity Analysis



COUNTY OF SAN DIEGO

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# Select General Fund Revenues Sensitivity Analysis



COUNTY OF SAN DIEGO

Note: Projections are based on preliminary data and are for illustrative purposes only.



## General Fund FY 2021-22 Status Update

- In April 2020 due to COVID-19, the Board of Supervisors temporarily suspended the County's minimum General Fund reserve requirement.
- \$840.9M – Projected General Fund Minimum Reserve as of June 30, 2022 (unaudited)
- \$838.8M – Projected Unassigned Fund Balance as of March 30, 2022
  - Revised projections indicate that General Fund Reserve will be materially below minimum target



## Looking Ahead

- Inflation
- Federal Reserve Actions/Economic Environment
- Retirement
- State Revenue



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Q + A



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