



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

Board Meeting Date: 1/28/2020

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Michael P. Callagy, County Manager/Clerk of the Board
Subject: FY 2019-20 Mid-Year Budget Update

RECOMMENDATION:

Recommendation to:

- A) Accept the FY 2019-20 County Mid-Year Budget Update, including key revenue and expenditure projections and budget assumptions; and
- B) Accept the Proposition 172 Maintenance of Effort Certification; and
- C) Accept the FY 2019-21 Children, Youth, and Families Budget; and
- D) Authorize an Appropriation Transfer Request transferring Reserves (\$700,000) and appropriations (\$500,000) from the Facilities Budget Unit to Non-departmental Services to be appropriated to an operating transfer out; and
- E) Authorize an Appropriation Transfer Request recognizing \$1,200,000 in unanticipated revenue in the Capital Projects Budget Unit and appropriating to two mid-year project additions: Implementation of Facilities Asset Management & Operations System (\$700,000) and Countywide Elevator Replacement RFP-Programming Phase (\$500,000).

BACKGROUND:

Thomas Jefferson once said, "The care of human life and happiness is the first and only object of good government."

We are pleased to report this Board remains well positioned to continue to provide for the health and happiness of those we serve through the FY 2019-20 budget which continues to focus on people and

services. We ended FY 2018-19 with a surplus of \$47 million in the General Fund Reserve. We have been fortunate to experience years of property tax growth, with the latest growth slowing slightly at 7.1 percent. The combined reserves in all funds are currently \$521.4 million, \$321 million General Fund, which positions us well to pivot during any unexpected short-range downturn. General purpose revenues are forecasted to increase by approximately \$20 million next year, and \$121 million over the next five years, a growth rate of three to four percent per year. Although commercial construction is still found in all corners of the county, we are seeing a softening in the real estate markets due to stabilizing job growth and new commercial and residential projects coming online. The volatility created by the pressure and uncertainty of tariffs and federal policy remains high, yet the equity markets have managed to grow to record highs despite that volatility. This Board continues to lead the future in securing the retirement of employees with the reduction of our unfunded liability, expected in 2023. Once accomplished, this will give this Board more flexibility to address our core objectives that directly impact those most in need of the services we offer.

The challenges that remain ahead can be considered daunting, but as Anne Frank once wrote, "How wonderful it is that nobody need wait a single moment before starting to improve the world." We endeavor every day to continue to take these challenges head on in a transparent manner to bring about better opportunities for those who utilize our services.

Overcoming the County Health deficit will be one of these challenges, but great thought and collaboration has been put into the process to close that deficit in a way that will not compromise County Health's core mission to help everyone in San Mateo County live longer and better lives. By addressing this ongoing deficit now, we will be better positioned to maintain services while navigating through the constantly shifting structure of reimbursements and demands. I want to thank the Health staff for their outstanding efforts to address this deficit in a comprehensive way that minimizes the impacts to our clients. Although we continue to have work to do to ensure the long-term financial structure of Health, the work to date has put us on a course to success.

To our employees and non-profit partners, who have chosen a professional life of service in order to achieve our mission, thank you. You are the greatest assets we have in providing all the vital services to those most in need in our County. You are the reason we are proud to identify ourselves as County of San Mateo employees and our partners.

Our budgeting process is a reminder of what is most important to the function of county government: people. The County of San Mateo remains committed to creatively and collaboratively serving the residents of this county and those who are in need of our safety net services. Every day we must continue to ask ourselves if our efforts today are leading to a brighter future tomorrow for those in need. John F. Kennedy once said, "Every accomplishment starts with the decision to try." So now is the time to be bold in our dreams and in our actions. Although we continue to face challenges at the federal and state levels, we know that through strategic planning, vision, and collaboration we can achieve great things locally. We should not let the limitations of where we are today, stifle our desire for a better tomorrow. In order to achieve that goal, some questions we need to ask ourselves daily:

- How can we bring about true equity for all those that live, work, and play in San Mateo County?
- How do we continue to address the health, welfare, and safety of our evolving society?

- How can we better leverage collaborations with our neighbors to bring about a shared vision of excellent service in a fiscally responsible way?
- How do we work together to achieve functional zero homelessness?
- How do we create permanent supportive housing for those most vulnerable in our county?
- How do we transform local government to become more inclusive and transparent?
- How do we continue to value and recognize our employees for the outstanding work they perform?
- How do we continue to *Create A Remarkable Experience (C.A.R.E.)* internally and externally for our customers and employees?

We will be judged in the future by what we do to close the gaps for those most vulnerable in our society today. As we head into the new decade, let us never forget our collective commitment and our collaborative power to work together for the common good.

PROGRESS UPDATE ON MAJOR COUNTY INVESTMENTS

- **Criminal Justice**

In the area of Criminal Justice, departments have made notable progress towards a number of initiatives and programs introduced to your Board during calendar year 2019.

- Sheriff's Office: The expanded Psychiatric Emergency Response Team began developing an Enhanced Crisis Intervention Training program for sworn staff. The body-worn camera program and video management system has been implemented and over 500 cameras are now in use by all sworn staff members both in the field and in County correctional facilities. Additionally, an agency-wide training on implicit bias has been initiated which will train staff on the effects of implicit bias and how to reduce and manage their biases.
- District Attorney's Office: The Elder Abuse Prosecution Team provided training to 540 local law enforcement officers, firefighters, dispatchers, and social workers, and consulted on more than 150 potential elder abuse situations involving residents of the County in 2019. The movement to a file-less case management system has been successful, allowing the District Attorney's Office to handle over 47,000 digital files from law enforcement in calendar year 2019, resulting in substantial savings in time and cost. Finally, Clover, the four-year-old facility Labrador continues to be a positive asset in victim support for individuals, including children, who experience emotional turmoil and distress as the result of traumatic crime.
- Probation Department: The Pretrial Pilot Program which is focused on implementing bail reform began on January 24, 2020. The existing Pretrial Services Unit overseeing the pilot will now include a validated pre-arraignment risk assessment tool that will assist in determining whether booked persons should be released or detained until arraignment.

- **Capital Projects**

The County Manager's Office released its updated Five-Year Capital Improvement Plan (CIP) for FY 2019-24 as part of the FY 2019-21 Recommended Budget. Several projects identified in the CIP have progressed since the last update in September. These include:

- Regional Operations Center (ROC): The new 37,000 square-foot, two-story facility located on the Government Center campus opened in September. The 9-1-1 dispatch services are successfully operating in the state-of-the-art operations center.
- Animal Shelter: Construction of the Animal Shelter continues to progress smoothly with permanent power installed, exterior siding completed, and interior work nearing completion. The ribbon-cutting and occupancy for the new shelter is anticipated for March 2020. Phase 2 of the project, which includes demolition of the 1950s era shelter, is anticipated for completion in June 2020.
- County Office Building 3 (COB3): The new office building broke ground with the demolition of buildings on the project site. The space is now being prepped for the next stage of construction.
- County Government Center Parking Structure II: The new parking structure is well underway. The connection to the existing storm drains on Brewster Avenue and grading for ground improvement have been completed, and aggregate piers are currently being installed.
- Skylonda Fire Station: Construction of the new fire station is nearly complete, with final completion scheduled for May 2020.

- Housing

The County has continued its commitment to produce affordable housing to respond to the severe housing burdens facing our residents. In the FY 2019-21 budget, the County allocated \$50 million (\$25 million each year) of Measure K funds to the Affordable Housing Fund for the new construction, preservation, or acquisition/rehabilitation of affordable units. Since FY 2013-14 through the current fiscal year, the County has invested \$154.5 million (including Measure K, HOME, and CDBG funds) resulting in 3,161 units that are in predevelopment, under construction, or have been completed across the county.

Through the Home for All initiative, the County has devoted significant resources to promote second units which include: creation of the Home for All Second Unit Center, which provides information and tools to make it easier for homeowners to build second units; the Second Unit Amnesty and Loan Program, to address health and safety issues in existing units without displacing current tenants; and the Second Unit One Stop Shop to provide free project management to homeowners building second units in the pilot communities of East Palo Alto, Redwood City, Pacifica, and the unincorporated county.

- Homelessness

The Human Services Agency (HSA) conducted the 2019 San Mateo County Biennial One Day Homeless Count on January 31, 2019, in collaboration with County and community partners. The results were released in June 2019. The data showed a 21 percent increase between 2017 and 2019 in the number of people experiencing homelessness, and that the increase is entirely attributable to the unsheltered homeless population (41 percent increase). Among the unsheltered homeless population, the increase is driven primarily by a 127 percent increase in people living in RVs. For other groups in the unsheltered population, after experiencing a decrease of 54 percent between 2013 and 2017, the number of people experiencing homelessness has remained fairly constant between 2017 and 2019. These trends reflect the extremely high costs and low vacancy rates in the housing market. To learn more about community members living in RVs and how best to engage and connect them to homeless and housing services, HSA conducted a survey and is utilizing the data to help tailor existing

services and inform future strategies to serve this population. Below are some of the initial findings from the RV surveys:

- The primary reasons given for living in an RV were related to the housing market, specifically the high cost of rent and evictions.
- Most households were employed and the average monthly income for employed households was \$2,270.
- 57 percent of households surveyed are looking for housing, three percent are planning to move in with family or friends, and 18 percent are planning to live in their RV long-term and are looking for an RV park.
- 69 percent of respondents resided in the County of San Mateo prior to living in their RV.

To address these trends and assist people experiencing homelessness with moving back into housing as quickly as possible, HSA and its community partners have implemented several new programs and enhancements to programs, many of which focus on serving the growing number of people living in vehicles.

One of these is a new rapid re-housing program that will provide financial assistance, housing search support, and case management and expanded homeless outreach. Additional new services include a rapid rehousing program for transition-aged youth, a housing voucher navigation program, and the expansion of the WeHOPE shelter operations to 24 hours a day, 7 days a week. HSA is also planning to launch a 100-Day Challenge as part of a new state initiative, to identify and partner with landlords to rent units to households exiting homelessness.

These new services are being funded with new one-time state Homeless Emergency Aid Program (HEAP) funding, which can be utilized through June 2021. The state is releasing another one-time funding source, Homeless Housing, Assistance and Prevention (HHAP) funding that can be utilized through June 2025. The County is closely monitoring state and federal policies around homelessness.

In addition to these new services, shelter capacity is being added as shelters with case management are a key part of a cohesive homeless crisis response system. Over the past few years, HSA has expanded the shelter capacity at Maple Street Shelter, from 75 beds to 141 beds. In addition, HSA and the Department of Public Works are in the planning phase to expand the Safe Harbor shelter by 15 beds to reach a capacity of 105 beds.

- County Workforce

The County is making significant investments in its employees. Through September Revisions to the FY 2019-20 Budget, the County Manager approved the conversion of 64 limited term positions to permanent positions, and the addition of 26 new positions. The purpose of converting and adding these positions is to better address the County's ongoing workforce needs and increasing resident demand for County services.

The Retiree Health Committee, formed as a result of this past year's labor contract negotiations will review and evaluate the County's existing retiree health program and develop

recommendations as needed. The shared goal is participants working together collaboratively within a transparent process that is considerate of all stakeholders' interests.

As agreed with AFSCME, SEIU, and UAPD during the 2018-2019 negotiations, the Human Resources Department hired a consultant to conduct a review of the County's compensation philosophy and recommend changes specifically to the comparable agencies and survey methodology currently used to establish market data and labor market placement. Human Resources is currently meeting with the labor organizations to discuss the impact of the proposed changes as a result of this study.

The County's 2019 Employee Engagement Survey closed on September 18 with a countywide response rate of 73 percent—a record-high and two percent increase from the 2017 survey. The results of the survey have been shared with department leaders, supervisors, and managers. Workshops and trainings on engagement are being offered for all levels in the organizations through the Human Resources Department.

- Parks

In partnership with the Department of Public Works and the Project Development Unit, Parks is pursuing a number of capital projects to improve visitor experience, safety, accessibility, and resource protection in the park system. Construction on the new Sanchez Adobe Visitor Center is nearing completion. In preparation for the 100-year anniversary of the dedication of Memorial Park in 2024, the park is undergoing major improvements that include new restroom and shower buildings, resurfaced park roads, improved paths, and ADA-compliant accessible features. Efforts to maintain vegetation and reduce fire fuels underway in numerous County parks will protect the public and enhance sensitive resources. Finally, the Department is planning and designing the Flood Park Landscape Plan, Tunitas Creek Beach Improvement Project, and two new ranger houses.

- Census 2020 Preparations

The County of San Mateo is committed to ensuring an accurate count of all residents. The County's Office of Community Affairs is collaborating with all levels of government: federal, state, surrounding counties, cities, community-based organizations, and county residents to ensure a complete count for Census 2020.

The Office of Community Affairs has completed the work of eight Complete Count Committee work groups that developed localized strategies, messaging, and tools for encouraging and supporting residents to participate in Census 2020. Additionally, the Office of Community Affairs released three requests for proposals:

1. Proposals for the formation of Community Action Teams that will work together to educate, motivate, and activate residents to participate in Census 2020 in areas of the county that are expected to be hard to count/least likely to respond based on California state metrics.
2. Proposals for outreach projects to be implemented by local, trusted community groups to encourage Census 2020 participation.

3. Proposals for hosting Questionnaire Assistance Centers (QAC) across the county. These centers will provide digital, language, and disability support to residents participating in the Census.

- Work with Community-Based Organizations (CBOs)

On July 17, 2019, County staff and CBOs convened a summit to strengthen the working partnership between the County and the nonprofit organizations with whom it contracts to deliver services to county residents. As a result of this summit, two work groups, comprised of County staff and CBO leaders, met in October and November. One work group focused on contract structure and reporting requirements, while the other work group focused on communication and coordination of services. A County/CBO planning team is working on a report outlining issues, recommendations, and potential solutions. This report was distributed in December. A second summit has been scheduled for February 26, 2020 for County staff and CBO leaders to report out regarding a plan of action to implement solutions toward the original goal of strengthening the working partnership.

- Transportation

The Planning and Building Department is recruiting to hire a transportation planner that is expected to begin leading transportation planning and design efforts in the Spring 2020. In addition, the Office of Sustainability has a variety of alternative and active transportation programs underway. These programs include completion of a Bike and Pedestrian Master Plan for unincorporated County, promotion of active transportation through educational programs, and development of policies for shared transportation and Vision Zero. In January 2020 the Office of Sustainability established a multi-departmental transportation work group to align County efforts and identify a strategic transportation vision through updates to the County's Legislative Program and General Plan policies.

The Office of Sustainability recently implemented an enhanced employee commute program that promotes and rewards all alternatives to driving to work alone including public transit, car and vanpools, walking, biking, and telework. Since July 2019, the expanded program rebranded as "Shift" has seen participation increase by almost 70 percent, which is about 625 additional employees who are not commuting to work alone in their cars.

- Environmental Resilience

In the past year, the County has pursued a number of significant projects and policies to prevent, address, and adapt to environmental emergencies and the threat of climate change, including impacts from wildfires, sea level rise, storm surges, coastal erosion, and flooding.

In 2018, the County, C/CAG, and the 20 cities and towns initiated the process of creating a new independent flood control agency to better compete for state and federal funds to address sea level rise and other flood control projects, and to promote cross-jurisdictional solutions. This new agency, the Flood and Sea Level Rise Resiliency District, took effect January 1, 2020, will initiate new countywide efforts to address sea level rise, flooding, coastal erosion, and stormwater infrastructure improvements through integrated regional planning, project implementation, and long-term maintenance. In support of this new agency the County is contributing \$750,000 each year for the next three years, in addition to a one-time \$500,000 in district-discretionary Measure K funds for a total contribution of \$2,750,000.

In September 2019, your Board approved the Green Infrastructure (GI) Plan for the Unincorporated County and County Facilities, as required by the San Francisco Bay Regional Water Quality Control Board under its Municipal Regional Permit. The purpose of the GI Plan is to show how the County plans to shift from traditional “gray” storm drain infrastructure to GI, which uses natural processes to treat stormwater, reduce flooding, and recharge groundwater to improve water quality and reduce pollutants in the San Francisco Bay.

In December 2019, your Board passed the Sea Level Rise Policy for County-Owned Assets, which requires all new facility projects or renovations funded by the County to be sited, designed, constructed, and adaptively managed to minimize sea level risk over the life of the project.

- Elections
The County of San Mateo has continued to invest in its elections infrastructure and outreach efforts to improve the voting experience, strengthen election security, and increase voter turnout. The County recently conducted local elections in the November 5, 2019 Consolidated Municipal, School, and Special District Election, and has funded \$425,000 in targeted voter outreach in advance of the 2020 Presidential Primary and General elections. This program will ensure that historically low-turnout populations are prioritized in outreach efforts so that they participate in what is expected to be an especially high-turnout election cycle.

In order to both improve voter experience and ensure the integrity of our democracy; the County’s Registration and Elections Division procured a new voting system. The new infrastructure will improve ease of access for people of all physical abilities, enhance analytic capabilities, and provide a paper ballot for every vote cast, rather than recording the vote electronically.

CURRENT COUNTY FINANCIAL CONDITIONS

Each year the Board reviews the current fiscal year budget at Mid-Year to ensure revenues and expenditures are in accordance with estimates and to provide direction to the County Manager regarding preparation of the next budget. This section includes year-end Fund Balance, revenue, and expenditure projections.

FY 2019-20 Year-End Fund Balance Projections

Year-End Fund Balance is estimated at Mid-Year in order to provide the Board of Supervisors with an update on anticipated available resources for the upcoming year, including the portion of the departments’ Fund Balance that will be returned to the General Fund. It also gives departments better information to inform their future budgets.

The variance shown in the table below calculates the difference between the updated Year-End Fund Balance estimate and the current year (FY 2019-20) budgeted Reserves. This variance captures any unanticipated or over-realized revenues and/or unspent appropriations. This variance is used to update the department estimates of the FY 2020-21 starting Fund Balance.

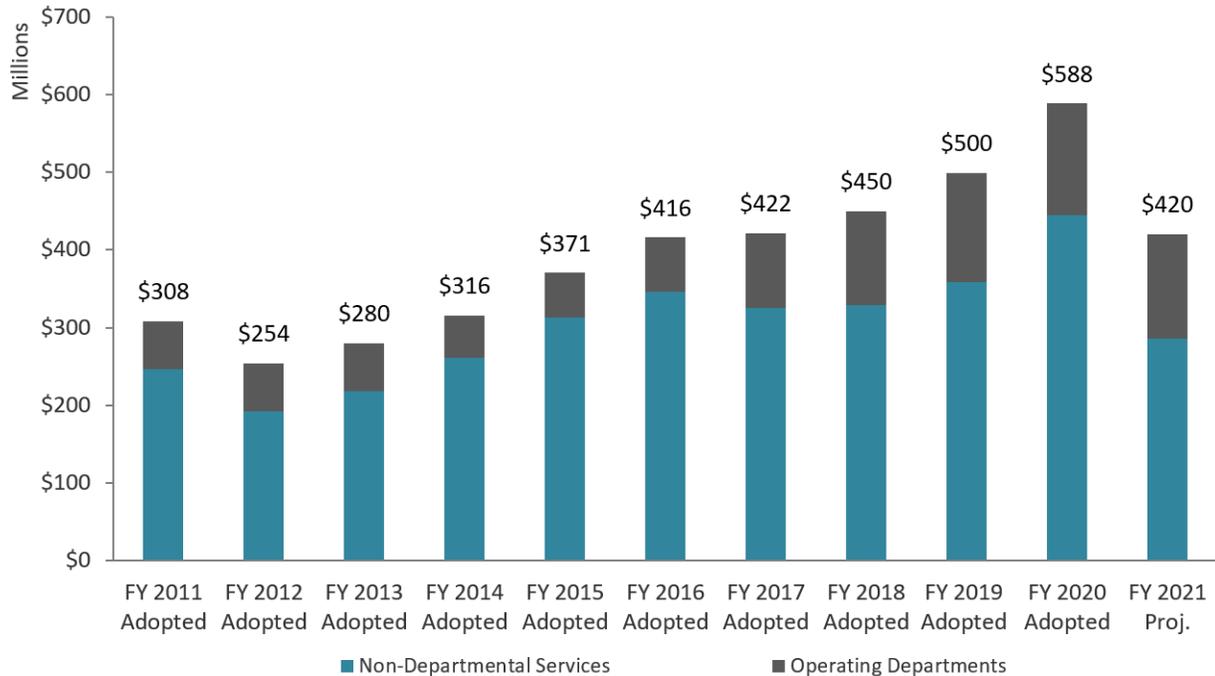
County of San Mateo Agencies by Fund	FY 2019-20	FY 2019-20	Variance
	Budgeted Reserves	Est. Year-End Fund Balance	
Operating Depts - General Fund			
Criminal Justice	31,176,774	40,904,154	9,727,380
Health Services	9,099,371	11,540,282	2,440,911
Social Services	26,276,640	32,299,868	6,023,228
Community Services	19,364,331	20,105,410	741,079
Admin-Fiscal	21,088,414	29,791,718	8,703,304
Subtotal Operating Depts - General Fund	107,005,530	134,641,432	27,635,902
Non-Departmental - General Fund			
Non-Departmental Services	214,646,371	285,842,372	71,196,001
Subtotal Non-Departmental - General Fund	214,646,371	285,842,372	71,196,001
Non-General Fund			
Health Services	5,485,204	5,485,204	0
Community Services	170,614,638	203,526,200	32,911,562
Admin-Fiscal	23,634,052	23,978,493	344,441
Subtotal Non-General Fund	199,733,894	232,989,897	33,256,003
Total ALL Funds	521,385,795	653,473,701	132,087,906

The \$132 million in total variance for All Funds includes allocations for projects in FY 2019-20 that are not anticipated to be completed within the fiscal year and will roll into the following year. This includes capital and Information Technology projects and other significant allocations totaling \$11.4 million in operating departments and \$40.7 million set aside for construction projects in Non-Departmental Services. This leaves approximately \$47 million in estimated unallocated variance for the General Fund. At the end of FY 2019-20, Year-End Fund Balance will be calculated using actuals to compute a final Year-End Fund Balance.

General Fund Summary

Overall, it is projected that the General Fund will end FY 2019-20 with \$420 million in Fund Balance, the basis for the FY 2020-21 projection. Note that Mid-Year Fund Balance projections are estimated conservatively, with the expectation that many capital projects will be completed by year-end. This explains part of the gap between the FY 2019-20 Adopted Fund Balance and the FY 2020-21 Projected Fund Balance. During the budget cycle and at year-end, figures will be updated based on which projects have and have not been completed. The County currently has a structurally balanced budget, in which ongoing expenditures are aligned and supported by ongoing revenues, the County will need to continue to monitor expenditures in the upcoming FY 2019-21 budget cycle. Proactively monitoring revenues and expenditures will reduce the likelihood of triggering structural deficits.

General Fund Balance



Non-Departmental Services

The County budgets and accounts for the General Fund’s portion of general purpose revenues in Non-Departmental Services, which includes revenues from property tax, Excess ERAF, sales tax, Measure T Vehicle Rental Tax, Teeter delinquent property tax, Transient Occupancy Tax, and interest and investment income. Non-Departmental Services is also where the County budgets General Fund contributions to major capital and IT projects, as well as additional one-time contributions to the retirement system to accelerate the pay down of the County’s unfunded pension liability.

The Year-End Fund Balance for Non-Departmental Services is projected to be \$286 million. Given the conservative nature of Mid-Year projections, it is anticipated that by Year-End the final Fund Balance figures will change. The final figures will largely depend on the timing of capital outlays, loans, and contributions.

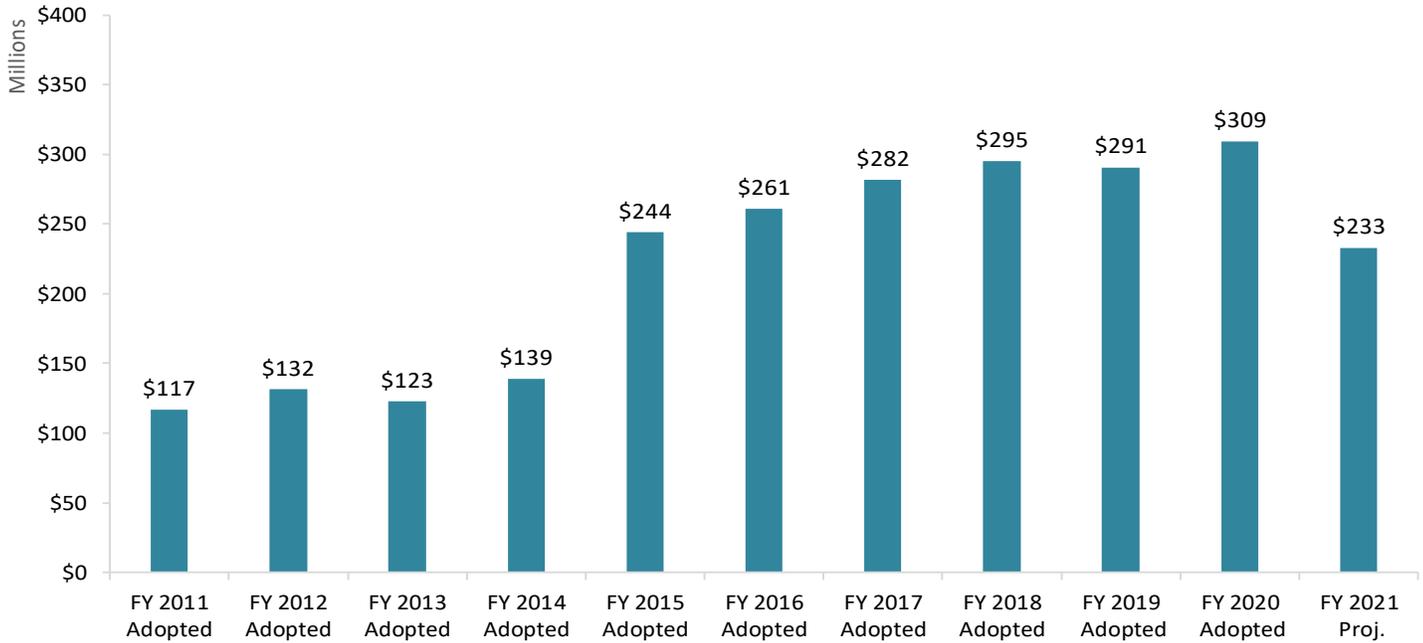
General Fund Operating Departments

Overall, General Fund operating departments are projected to end FY 2019-20 with a variance of \$27.6 million in Fund Balance. These projections, which are spread across all departments, reflect budget savings from vacancies, one-time projects either in progress or delayed, and budgeted reserves. At this point, all General Fund operating departments are expected to stay within budget and meet their year-end targets.

Non-General Fund Summary

Overall, Non-General Fund budget units are projected to start FY 2020-21 with \$233 million in Fund Balance, a decrease of \$76 million from FY 2019-20. The decrease is primarily related to one-time projects. Due to the structural deficit, County Health is relying on reserves to balance in FY 2019-20, which is also contributing to the decline in projected Fund Balance for FY 2020-21.

Non-General Fund Balance



Excess Educational Revenue Augmentation Fund (ERAF)

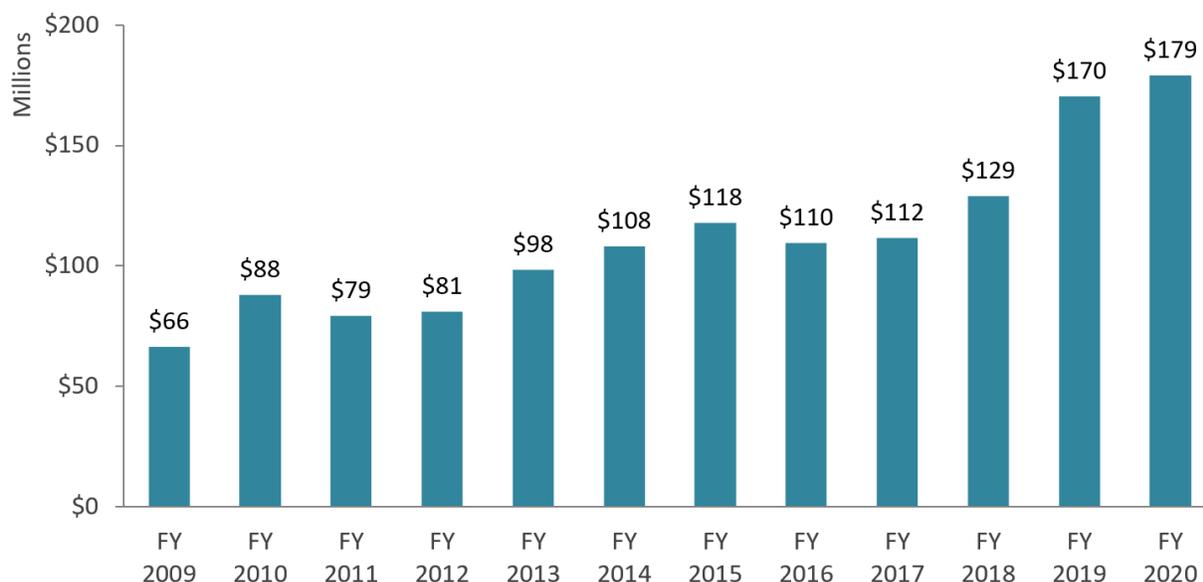
Pursuant to Revenue and Taxation Code 97.2 and 97.3, property tax contributions made by local governments to the ERAF in excess of state-mandated school funding levels are returned to the local governmental entities that made the contributions. The County is one of a handful of Excess ERAF counties in California. This is due to the relatively high number of school districts in the County with local property tax revenues exceeding the funding levels guaranteed by the State’s Local Control Funding Formula (LCFF). Future Excess ERAF amounts to be received by the County could decline as a result of increases in the LCFF funding levels, increased allocations of ERAF for special education, changes in school enrollment, or further state legislative changes to the school funding model.

Due to the potential volatility of Excess ERAF, pursuant to the Board policy, the County will conservatively budget only one half of the projected Excess ERAF for ongoing purposes. The remaining portion may only be used for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects.

In August, the County received an Excess ERAF amount of \$84 million. It is anticipated we will receive another \$95 million in late January for a total of \$179 million, nine million dollars more than the prior year. Pursuant to County policy, one-half of anticipated Excess ERAF is budgeted for ongoing expenses while the remaining portion may only be used for one-time purposes. One-time projected spending is expected to approach \$115.2 million. This includes additional pension contributions of 29.7 million; one-time capital and IT expenditures of \$79.5 million; Property Tax System Projects of \$11 million; and SMC Saves grants of \$5 million.

The following table shows the General Fund’s share of Excess ERAF received from FY 2008-09 through FY 2019-20.

Excess ERAF¹



¹ This distribution amount includes Excess ERAF from prior years. The Excess ERAF amount for any given year is not finalized until after the final Certified School Reports are received from the California Department of Education. For example, the 2015-16 school reports were not finalized until June 2018. Thus, the County has adopted a policy to stagger the Excess ERAF distributions.

County Retirement Contributions

The actuarial calculations for defined benefit retirement contributions are very complicated and include a variety of factors, including, but not limited to, future investment earnings, wages, Consumer Price Index (CPI), life expectancy assumptions, and the benefits themselves. For instance, the greater the benefit, the higher the cost. The lower the assumed earnings rate (or discount rate), the higher the cost.

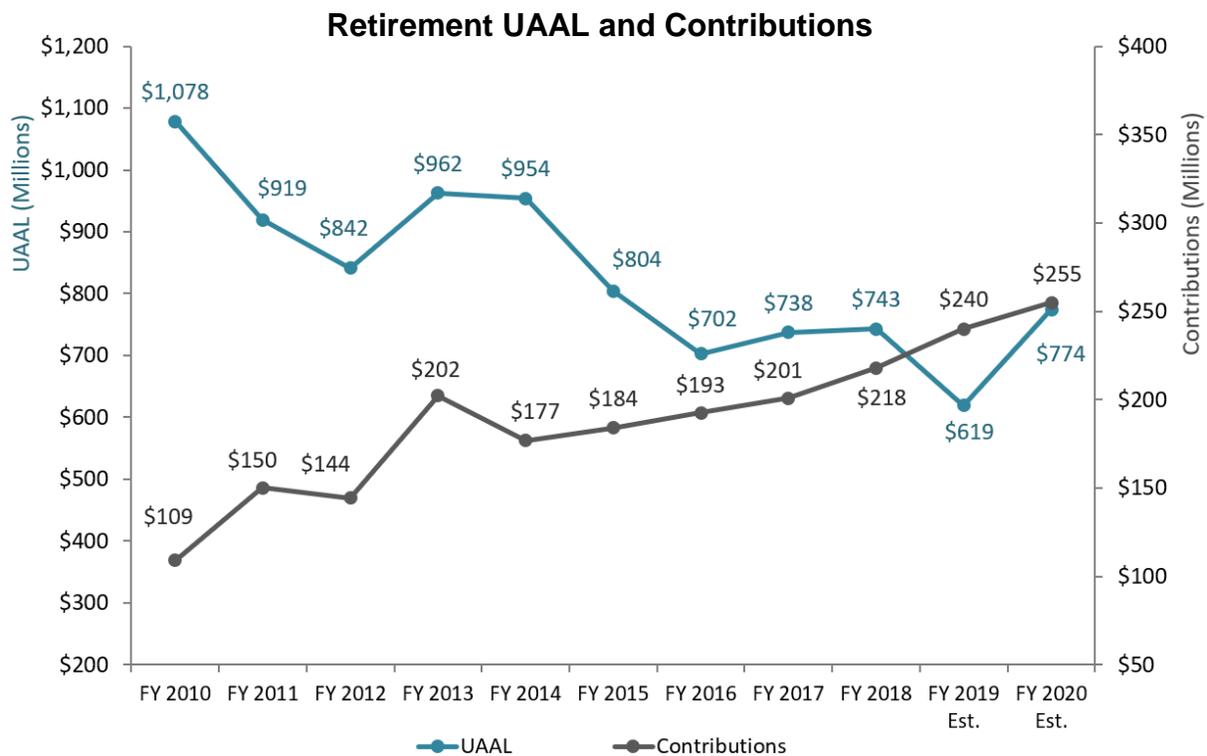
The table below shows the Unfunded Actuarial Accrued Liability (UAAL) for each of the past 12 actuarial valuations and the key assumptions for wage increases, earnings, and CPI growth.

			Key Assumptions		
Valuation Date	For Fiscal Year	UAAL	Wages	Earnings	CPI
June 30, 2008	FY 2009-10	587,285,000	4.00%	7.75%	3.50%
June 30, 2009	FY 2010-11	1,078,033,000	4.00%	7.75%	3.50%
June 30, 2010	FY 2011-12	919,377,000	4.00%	7.75%	3.50%
June 30, 2011	FY 2012-13	841,587,000	4.00%	7.75%	3.50%
June 20, 2012	FY 2013-14	962,282,000	3.75%	7.50%	3.25%
June 30, 2013	FY 2014-15	954,111,000	3.75%	7.50%	3.25%
June 30, 2014	FY 2015-16	803,855,000	3.50%	7.25%	3.00%
June 30, 2015	FY 2016-17	702,236,000	3.50%	7.25%	3.00%
June 30, 2016	FY 2017-18	737,570,000	3.25%	7.00%	2.75%
June 30, 2017	FY 2018-19	743,133,000	3.00%	6.75%	2.50%
June 30, 2018	FY 2019-20	619,033,000	3.00%	6.75%	2.50%
June 30, 2019	FY 2020-21	774,476,000	3.00%	6.50%	2.50%

The County's funded ratio decreased from 87.5 percent in 2018 to 85.8 percent in 2018 due mainly to the change in investment return assumption. Under the prepayment plan initiated in FY 2013-14, the County remains on target for significantly reducing the UAAL by FY 2022-23. Though this plan will continue to use a significant portion of the one-time Excess ERAF over the next four years, if successful, it will yield ongoing future savings.

Fiscal Year	Statutory Contribution	Additional Contribution	Total Contribution
FY 2009-10	109,028,802	0	109,028,802
FY 2010-11	150,084,139	0	150,084,139
FY 2011-12	147,124,756	3,081,311	150,206,067
FY 2012-13	140,104,854	4,168,983	144,273,837
FY 2013-14	152,225,624	50,000,000	202,225,624
FY 2014-15	166,827,712	10,000,173	176,827,884
FY 2015-16	164,526,707	19,538,000	184,064,707
FY 2016-17	158,993,422	33,600,000	192,593,422
FY 2017-18	173,305,886	27,631,026	200,936,912
FY 2018-19	188,145,269	50,667,460	238,812,730
FY 2019-20	204,025,361	29,741,023	233,766,384
FY 2020-21 Est.	244,394,050	10,000,000	254,394,050

The following graph illustrates the decline in the UAAL and the increase in contributions since the great recession. These increases are due to many factors, including a conservative funding model that has seen the assumed earnings rate drop from 7.75 to 6.50 percent since 2011, increasing wages, and the aforementioned prepayment plan.



Criminal Justice

The County's AB109 Public Safety Realignment budget for FY 2019-20 is \$20 million, with all AB109 funds devoted to programming activities focused on reducing recidivism and preparing inmates for successful reentry. As of January 2020, base revenue is anticipated to be \$19.6 million. Moving forward into the second half of the fiscal year, departments will work to make appropriate budget changes to stay within the updated anticipated revenue.

Public Safety Sales Tax (Proposition 172) Maintenance of Effort Certification

In June 1995, the Board of Supervisors approved the Maintenance of Effort (MOE) certification for the base year (FY 1992-93) and the first certification year (FY 1994-95). The Board also adopted a resolution defining public safety services to include: Sheriff, District Attorney, Private Defender, Probation, Coroner, Correctional Health, Release on Own Recognizance, Mental Health Forensics, Public Safety Communications, Emergency Services, Fire Protection, Public Safety Capital Projects, and Debt Service.

Based on the FY 2019-20 Adopted Budget, the projected MOE certification for FY 2019-20 is \$375.4 million. The County expects to exceed the FY 2019-20 Proposition 172 MOE requirement by \$232 million, which is the difference between the MOE requirement of \$143.3 million and the MOE certification of \$375.4 million.

In FY 2018-19, the County exceeded the FY 2018-19 Proposition 172 MOE requirement by \$202.8 million.

PROJECTIONS AND FUTURE CHALLENGES

Five-Year Revenue and Expenditure Projections (including Measures K and T)

General purpose revenues are expected to remain flat from the prior year. This is due to an overall slowing in the markets. The one-time increase of 87 percent in the Transient Occupancy Tax coincided with the opening of two hotels near San Francisco International Airport.

The County continues to budget other general-purpose revenues conservatively in the out years with projected growth ranging between three and four percent, resulting in an increase of \$120 million over the five-year period. Secured Property Tax is expected to remain strong. Future growth projections for Prop. 172 and Measure K sales tax have been conservatively projected at two percent in the out years.

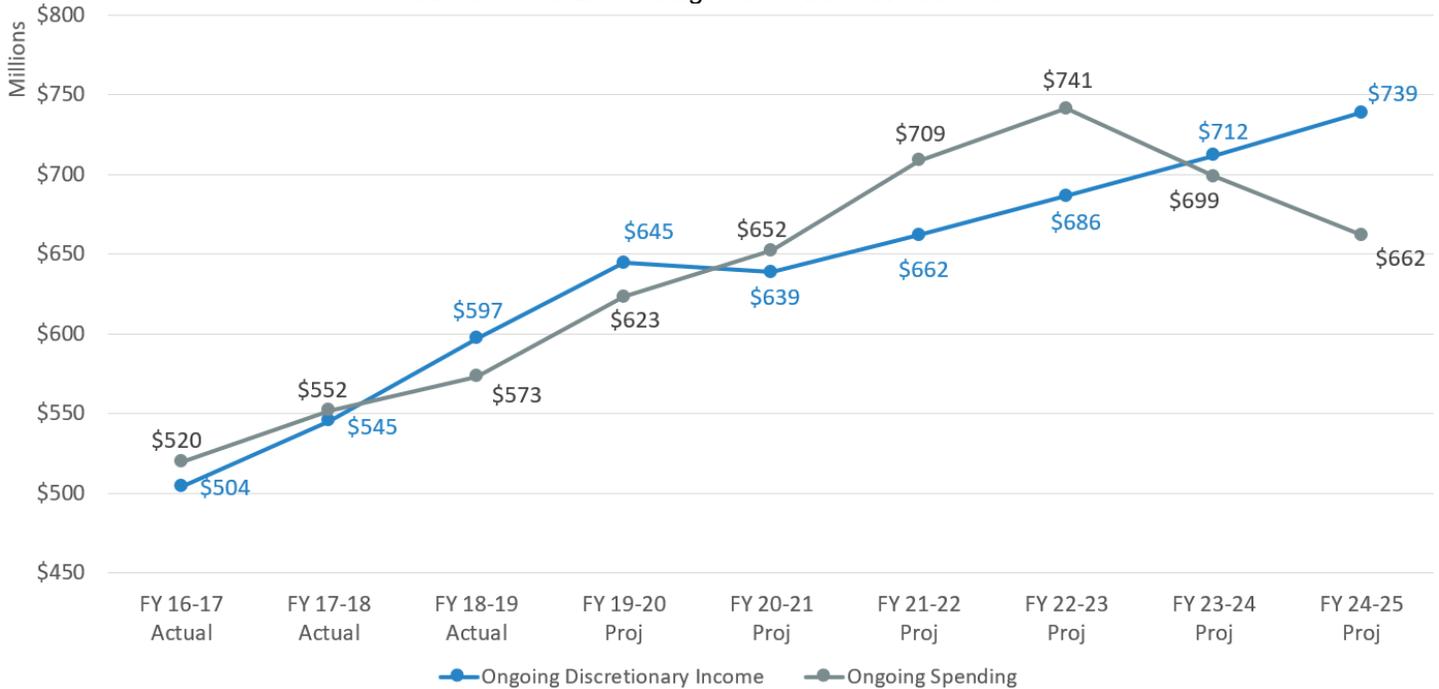
General Purpose Revenues	FY 2020	FY 2025	5-Year Growth
Secured Property Tax	\$288,480,623	\$365,787,820	\$77,307,197
Unsecured Property Tax	10,681,975	11,247,346	565,371
Excess ERAF (Ongoing Portion)	60,000,000	60,000,000	0
Vehicle Rental Tax (Measure T)	13,053,892	14,412,552	1,358,660
Sales Tax	27,838,591	30,736,054	2,897,463
Property Transfer Tax	11,315,301	13,117,535	1,802,234
Transient Occupancy Tax	3,123,143	5,022,708	1,899,565
Property Tax In-Lieu of VLF	115,482,259	147,387,878	31,905,619
Interest & Investment income	25,430,089	29,480,443	4,050,354
Other Revenue	61,852,842	60,910,686	(942,156)
General Purpose Rev Subtotal	\$617,258,715	\$738,103,021	\$120,844,306
Public Safety Sales Tax	\$89,435,419	\$0	(\$89,435,419)
Measure K Sales Tax	\$95,476,474	\$105,413,742	\$9,937,268

General Purpose Revenues	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Secured Property Tax	7.2%	5.0%	5.0%	5.0%	5.0%	5.0%
Unsecured Property Tax	-2.6%	1.0%	1.0%	1.0%	1.0%	1.0%
Excess ERAF (Ongoing Portion)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Rental Tax (Measure T)	13.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales Tax	-2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Transfer Tax	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax	87.6%	11.7%	10.7%	9.8%	9.1%	8.5%
Property Tax In-Lieu of VLF	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Interest & Investment income	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Other Revenue	4.3%	-2.5%	0.2%	0.2%	0.2%	0.2%
Public Safety Sales Tax	4.5%	2.0%	2.0%	2.0%	2.0%	2.0%
Measure K Sales Tax	-3.2%	2.0%	2.0%	2.0%	2.0%	2.0%

Ongoing expenditures are expected to grow approximately \$44.3 million over the next five years, outpacing ongoing discretionary income until FY 2024-25. This is due to inflationary factors and FY 2018-19 labor negotiations which increased overall salary and benefit costs.

County of San Mateo Structural Budget Analysis

Assumes Similar Savings from Two Previous Years



Measure K Revenue Projections and Reserves

The County received \$98.6 million in Measure K funds in FY 2018-19, which was an increase of \$11 million over FY 2017-18. The Measure K reserves total \$9.1 million. It is projected that the County will receive \$90 million in Measure K funds in FY 2019-20. It is anticipated that this amount will grow by two percent in each future fiscal year.

Governor's January Budget Proposal

The FY 2020-21 State Budget continues to project growth in the state economy but at slower pace than in past years. As a result, the Governor continues the state's focus on building up discretionary reserves and only spending half of the state's \$5.6 billion surplus on one-time expenditures. With continued savings, the state's reserves will be at \$21 billion, the largest level in state history.

The Governor's continued commitment of \$750 million in one-time funding to address homelessness and more holistic approach to the provision of health and human services that address the problems that lead to homelessness, is welcome news. His recent Executive Order to develop a fund that can receive future state appropriations, and private contributions and emphasis on the development of regional responses are also actions that could help assist the County's efforts. However, the Governor's plan to have as-yet identified "regional administrators" manage this funding is concerning given that counties are tasked with providing services to this population. In addition, it is yet unclear how the Governor will act on his stated desire to develop a statewide homelessness and housing agency, how he expects the Legislature to take early action to implement components of the Executive Order and what changes he will be proposing to make the Mental Health Services Act. The

County Manager's Office, the Human Services Agency and Health will be closely monitoring these proposals in the coming months.

Finally, the Governor's proposed \$50 million matching grant program to support additional emergency preparedness measures that bolster community resiliency during utility-initiated power shutdowns would be very helpful to help defray costs to the County for keeping a specified set of critical County services running.

The County Manager's Office (CMO) and our departments will continue to closely monitor the state budget discussions in the coming months and advocate for the interests of the County and residents. The CMO will also continue to keep your Board updated regarding discussions in Sacramento and our actions throughout the process.

FISCAL IMPACT:

There is no fiscal impact associated with accepting this FY 2019-20 County Mid-Year Budget Update, the Proposition 172 Maintenance of Effort Certification, or the FY 2019-21 Children, Youth, and Families Budget, or with authorization of the associated ATRs.

Appendices: Local Economic Indicators

The following indicators provide information on current local economic activity compared to prior years and state/national trends. Trends in the data assist in generating projections for general purpose revenue such as property tax, sales tax, and transient occupancy tax.

- A. Bay Area Consumer Price Index
- B. Turner Building Cost Index vs. Consumer Price Index
- C. Cost-Burdened Renters
- D. First-Time Buyer Housing Affordability Index
- E. Median Home Price and Home Sales
- F. Prop. 8 Assessed Value Restorations
- G. Combined Secured and Unsecured Property Tax Roll Value
- H. Property Reassessment and Assessment Appeals Filings
- I. Building Permits Issued
- J. San Francisco International Airport – Total Passengers
- K. Unemployment Rate
- L. San Mateo County Per Capita Personal Income

A. Bay Area Consumer Price Index

The Consumer Price Index (CPI) measures the change in the price of goods over time. The change in the index is referred to as the rate of inflation; and is used in assumptions for calculating future costs. The CPI for all urban consumers, all items in 2019 increased 4.0 percent in the Bay Area, 3.5 percent in California, and 2.1 percent in the United States. The Bay Area CPI is forecasted to increase 4.3 percent in 2020, 3.3 percent in 2021, and 3.8 percent in 2022.

CPI Fiscal Year Averages	Bay Area % Change**	California % Change	USA % Change
2011	1.7	1.7	2.0
2012	2.8	2.4	2.9
2013	2.6	2.1	1.7
2014	2.4	1.4	1.6
2015	2.7	1.5	0.7
2016	2.8	2.0	0.7
2017	3.4	2.5	1.8
2018	3.2	3.3	2.3
2019	4.0	3.5	2.1
2020*	4.3	3.8	2.4
2021*	3.3	2.8	2.3
2022*	3.8	3.3	2.3

** Bay Area (San Francisco CMSA) includes the counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma

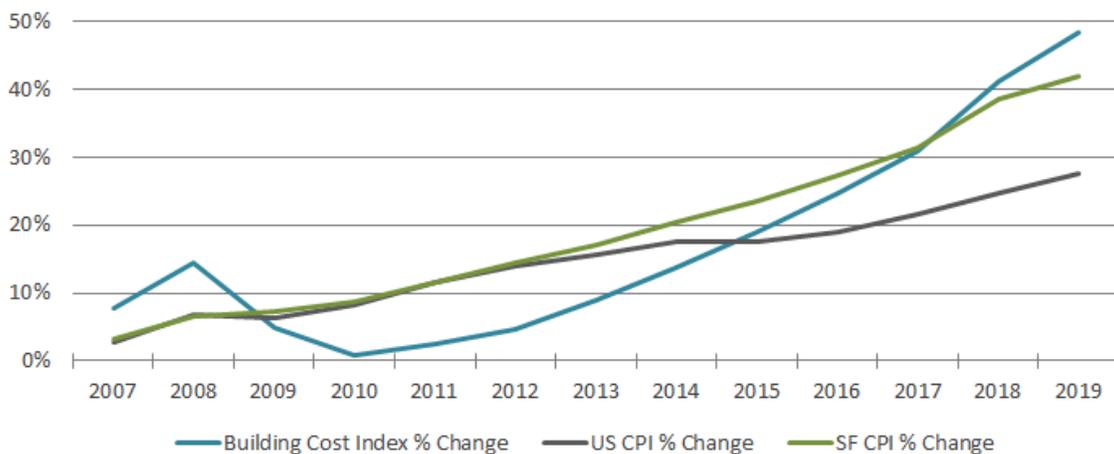
*Forecasts: CA Department of Finance

Sources: California Department of Finance <http://www.dof.ca.gov>; Bureau of Labor Statistics <http://www.bls.gov>

B. Turner Building Cost Index vs. Consumer Price Index

Construction cost increases as measured by the Turner Building Cost Index continue to outpace the Consumer Price Index growth rate for both the San Francisco metro region and U.S. overall. The environment for building and construction in San Mateo County and Bay Area continues to be challenging at every stage of the development process due to a number of local, state, and national factors. Land costs in San Mateo County are among the highest anywhere in the U.S. Environmental and land use constraints, combined with complex building codes and design requirements and lengthy approval processes, make the pre-development phase long and expensive. Amid low unemployment, low housing vacancy, and high housing costs, more construction activity is increasing demand for skilled workers and further increasing labor costs. Rebuilding efforts following severe wildfires throughout California over the past few years have increased competition for contractors, and U.S. tariffs on steel and aluminum and other materials from China and other suppliers enacted in 2018 have increased materials costs and created pricing volatility for the construction sector. Given these many factors, local and state legislative and policy efforts to reduce barriers and costs to development, particularly housing development, have taken on new urgency

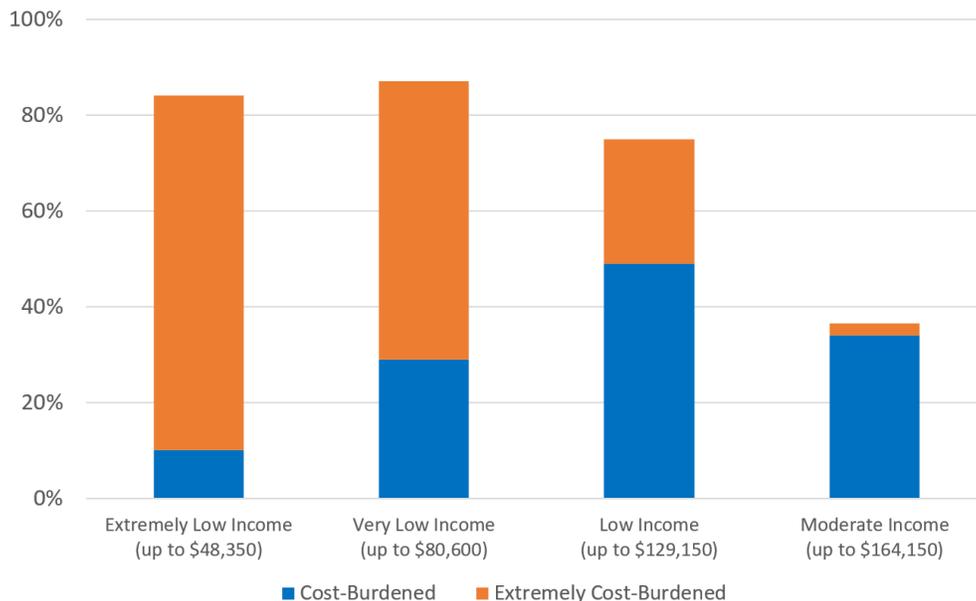
**Turner Building Cost Index¹ vs. U.S.²
and S.F.³ Consumer Price Index**



Sources: ¹www.turnerconstruction.com/cost-index; ² Bureau of Labor Statistics <http://www.bls.gov>
³www.bls.gov/regions/west/data/consumerpriceindex_sanfrancisco_table.pdf

C. Cost-Burdened Renters

Rental costs in San Mateo County have continued to increase significantly over the past five years. From 2015 to 2019, the fair market rent of a one-bedroom apartment has increased from \$1,635 to \$2,561. As a result, a large percentage of residents, particularly those with lower incomes, are cost-burdened (spending more than 30 percent of income on rent) or extremely cost-burdened (spending more than 50 percent of income on rent). The chart below illustrates the challenge that many residents are facing.



Sources: FY 2019 Fair Market Rent Documentation System

https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2019_code/2019summary.odn;

2019 San Mateo County Income Limits: https://housing.smcgov.org/sites/housing.smcgov.org/files/AFFORD2019x_0.pdf; (Note: income limits are for a family of four)

California Housing Partnership: <https://1p08d91kd0c03rlxhmhtydpr-wpengine.netdna-ssl.com/wp-content/uploads/2019/05/San-Mateo-HNR-2019-Final.pdf>

Fair Market Rent by Unit Size, Kidsdata.org

D. First-Time Buyer Housing Affordability Index

The First-Time Buyer Housing Affordability Index shows the percentage of households that can afford to purchase an entry-level single-family home (defined as 85 percent of the median home price, with a 10 percent down payment), and is a fundamental measure of the health of the economy and the housing market. Housing prices continue to be unaffordable for the large majority of households in San Mateo County and other Bay Area counties. The percentage of first-time buyers who could afford to purchase an entry-level home in San Mateo County in the third quarter of 2019 rose to 30 percent, up from 22 percent in the third quarter of 2018. Despite this increase, San Mateo remains one of the most unaffordable areas in the Bay Area, with San Francisco being the only County with a lower index at 27. The percent of *all* households that could afford to purchase a *median*-priced single-family home in San Mateo County (measured by the Traditional Housing Affordability Index) was even lower, at 20 percent for the third quarter of 2019.

First-Time Buyer Housing Affordability Index

Region/State/ Country	3 rd Quarter 2017	3 rd Quarter 2018	3 rd Quarter 2019
United States	71%	69%	70%
California	47%	45%	48%
SF Bay Area	41%	38%	46%
Alameda	38%	35%	43%
Contra Costa	53%	52%	57%
Marin	32%	31%	36%
Napa	47%	43%	47%
San Francisco	24%	22%	27%
San Mateo	25%	22%	30%
Santa Clara	33%	32%	38%
Solano	63%	58%	64%
Sonoma	45%	41%	48%

Source: CA Association of Realtors, www.car.org

E. Median Home Price of Existing Single-Family Homes

The median home price for San Mateo County dropped 1.8 percent from October 2018 to October 2019 to a median sale price of \$1,560,000. Despite the small decline, San Mateo County housing costs remain one of the highest in the Bay Area, coming in second to San Francisco and 40 percent higher than the Bay Area average of \$1,105,438.

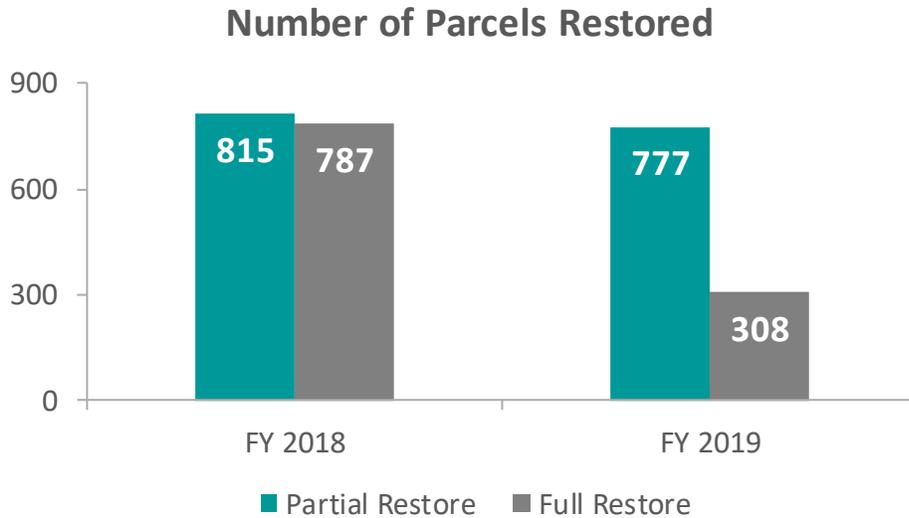
Median Sold Price of Existing Single-Family Homes – Bay Area Counties

County	Oct 2018	Oct 2019	Price Change
Alameda	\$900,000	\$925,000	2.80%
Contra Costa	\$657,000	\$681,250	3.70%
Marin	\$1,450,000	\$1,397,500	-3.60%
Napa	\$709,500	\$735,000	3.60%
San Francisco	\$1,600,000	\$1,650,000	3.10%
San Mateo	\$1,588,000	\$1,560,000	-1.80%
Santa Clara	\$1,225,000	\$1,234,750	0.80%
Solano	\$650,000	\$660,000	1.50%
Bay Area Average	\$1,097,438	\$1,105,438	0.80%

Source: California Association of Realtors, <https://www.car.org/marketdata/data/countysalesactivity>

F. Prop. 8 Assessed Value Restorations

During FY 2018-19, the Assessor's Office fully or partially restored 1,085 parcels in the decline in value program (Prop. 8). Of this amount, 777 parcels were partially restored, and 308 parcels were fully restored to their assessed value. This was a decrease of 32 percent from the previous year. The partially and fully restored parcels resulted in a net increase of \$105 million in restored value to the FY 2019-20 tax roll, a decrease (commensurate with reduced number of restored lots) from the \$136 million restored to the FY 2018-19 tax roll.

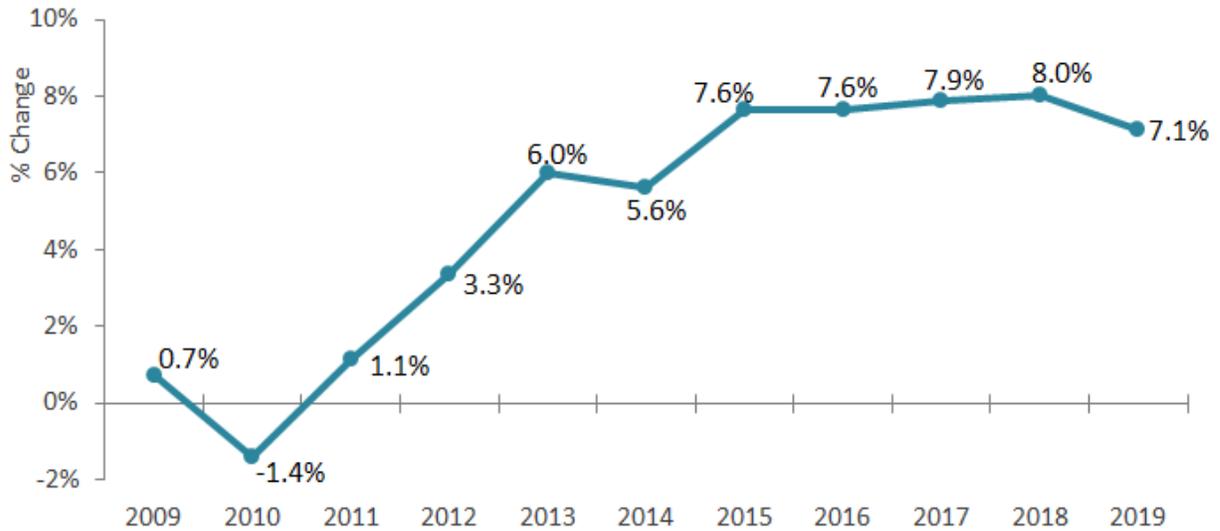


Source: San Mateo County Assessor's Office

G. Combined Secured and Unsecured Property Tax Roll Value

There were 236,077 assessment parcels and accounts for 2019 for a Total Local Roll of \$238.4 billion, representing an increase of seven percent from 2018. This is the ninth consecutive year in which a new historical high has been set. While there was some softening in the residential market, record growth in commercial and mixed-use development helped push the total roll value to this new high. Total assessed values increased in all 20 cities and unincorporated areas, with increases ranging from 3.4 percent to as high as 10.5 percent. The top five cities with the highest percentage growth in assess values were: Menlo Park (10.5 percent), Foster City (10.2 percent), South San Francisco (9.1 percent), Brisbane (7.9 percent) and San Mateo (7.7 percent).

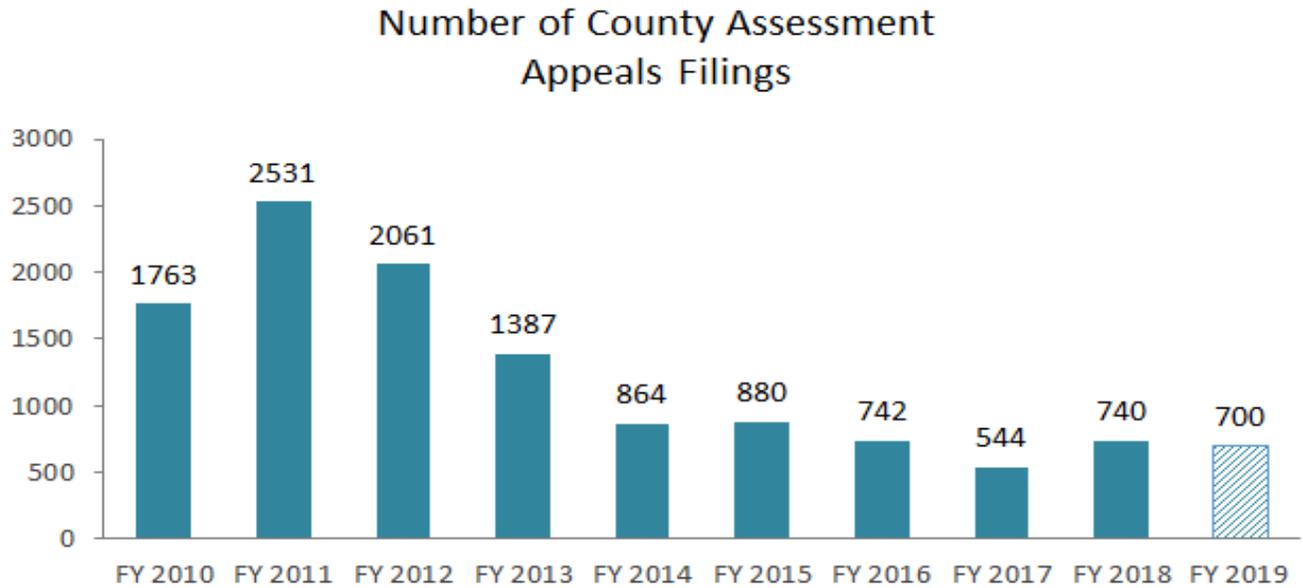
Rate of Change in Net Combined Roll Value



Source: San Mateo County Assessor's Office

H. Property Reassessment and Assessment Appeals Filings

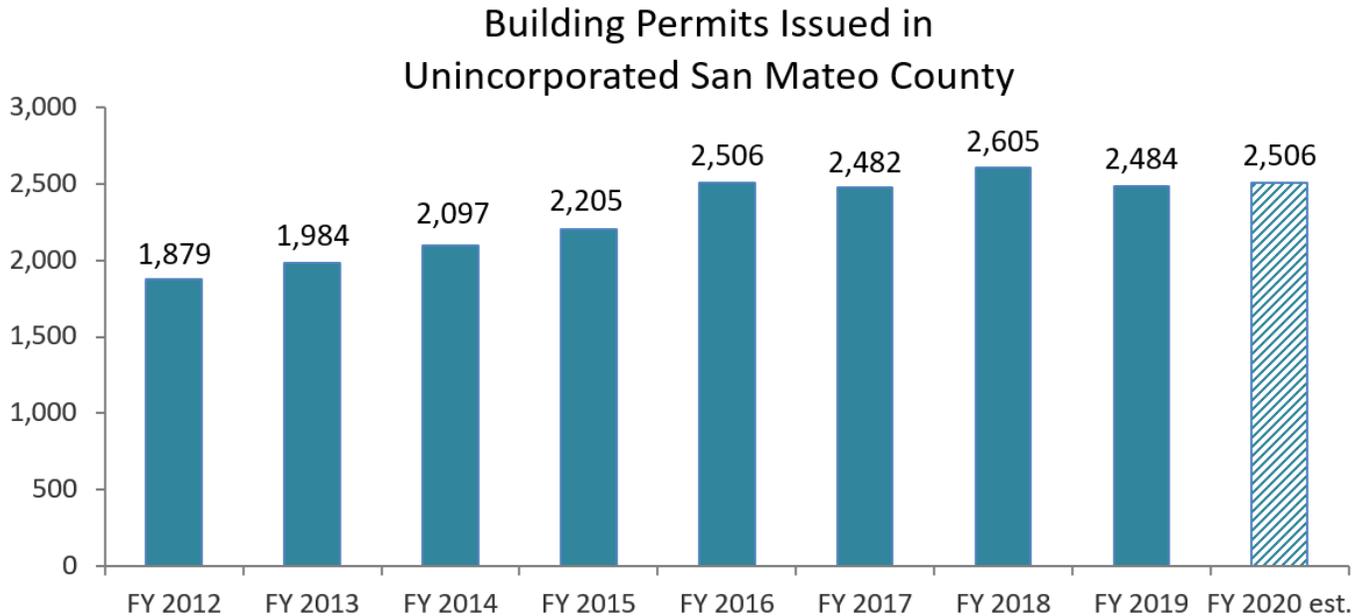
There were a total of 740 new assessment appeals filing in FY 2017-18, a 27 percent increase from FY 2016-17. This is a reversal of the trend that showed a steady decrease that occurred between FY 2011 and FY 2017. It is estimated that 700 new assessment appeals will be filed in FY 2019.



Source :Assessment Appeals Board (AAB) **Note: Data differs from previous years' report due to previous Source data coming from ACRE in which data lagged by a year. Data is now obtained directly from AAB, which yields more accurate results.

I. Building Permits Issued

After several years of steady increases, the number of building permits issued by the Planning and Building Department for unincorporated San Mateo County began to flatten in FY 2016-17, FY 2017-18, and FY 2018-19 at 2,482, 2,605, and 2,484 respectively. The Department estimates it will issue about 2,506 permits in FY 2019-20, which would be about a one percent decline from the prior year.



*Note: the building permit data shown in the chart above has been updated for accuracy and reflects the total number of permits issued each fiscal year.

Source: San Mateo County Planning and Building Department

J. San Francisco Airport – Total Passengers

A significant portion of the County’s unsecured property tax and sales tax revenues come from businesses at San Francisco International Airport, so it is important to monitor patterns in airport activity. Passenger activity has steadily increased, with 1.14 million more passengers utilizing SFO in June 2019 than in June 2014.



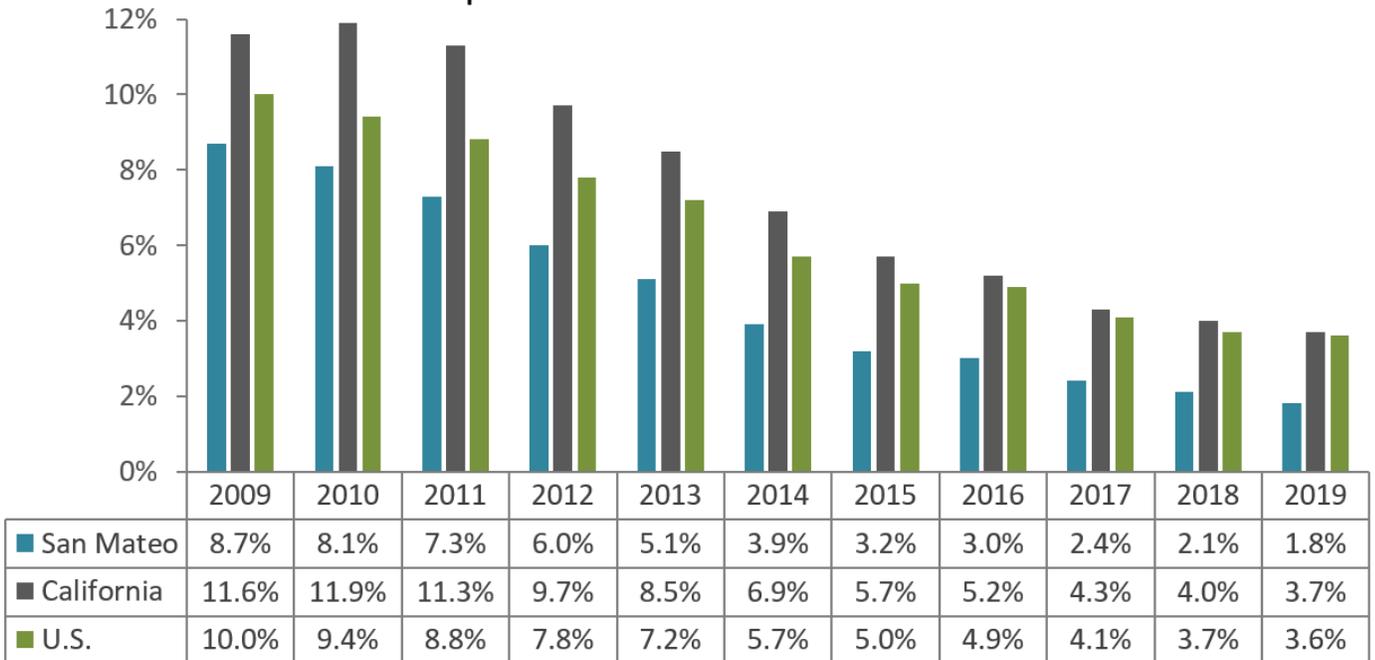
Source: San Francisco International Airport: <http://www.flysfo.com/media/facts-statistics/air-traffic-statistics/2019>

Source: San Francisco International Airport: <http://www.flysfo.com/media/facts-statistics/air-traffic-statistics/2019>

K. Unemployment Rate

Monthly unemployment rates at the local, state, and national levels are down from last year. San Mateo County unemployment, measured in October of each year, is down from 2.1 percent in 2018 to 1.8 percent in 2019. San Mateo County continues to have the lowest unemployment rate of all counties in California.

**San Mateo County Unemployment Rate
Compared to State and National Rate**



Note: Unemployment rates measured in October of each year, not seasonally adjusted

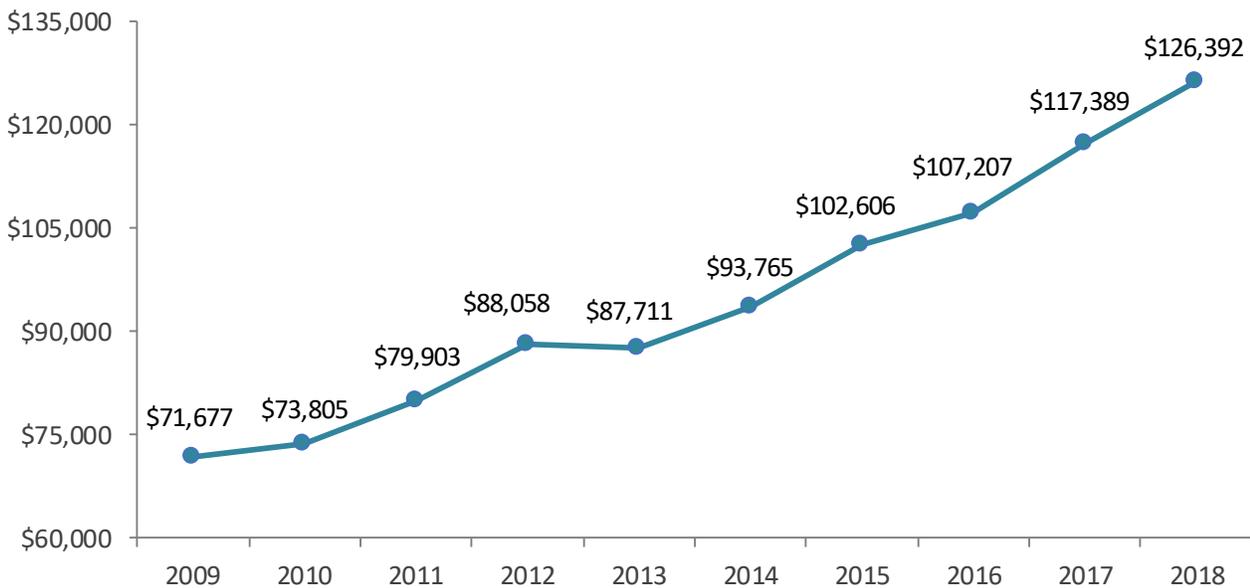
Sources: California Employment Development Department, Local Area Unemployment Statistics: <https://data.edd.ca.gov/Labor-Force-and-Unemployment-Rates/Local-Area-Unemployment-Statistics-LAUS-/e6gw-qvii>;

Bureau of Labor Statistics: <https://data.bls.gov/timeseries/LNS14000000>

L. San Mateo County Per Capita Personal Income

In San Mateo County, personal income increased from \$117,389 per capita in 2017 to \$126,392 in 2018 (2019 data is not yet available). Personal income is reported in current dollars (no adjustment is made for price changes). This continues a trend of growth seen in eight of the previous nine years. The County's per capita personal income is nearly \$27,000 higher than that of the San Francisco-Oakland-Berkeley Metropolitan Statistical Area (\$99,424), which San Mateo County falls within, and \$71,946 higher than that of the United States (\$54,446).

San Mateo County Per Capita Personal Income



Source: Bureau of Economic Analysis: <http://www.bea.gov/>