



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY EXECUTIVE

Board Meeting Date: 9/26/2023

Special Notice/Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Michael P. Callagy, County Executive
Roberto Manchia, County Chief Financial Officer

Subject: Final Budget Changes to the Fiscal Year 2023-24 Approved Recommended Budget

RECOMMENDATION:

Approve the following actions related to final budget revisions to the Fiscal Year 2023-24 Approved Recommended Budget:

- A) Adopt a resolution adopting the revised budget of the County of San Mateo as to expenditures for Fiscal Year 2023-24 and making appropriations therefore; and
- B) Adopt a resolution adopting the revised budget of the County of San Mateo as to the means of financing for Fiscal Year 2023-24; and
- C) Adopt a resolution establishing the appropriation limit for the County of San Mateo for Fiscal Year 2023-24; and
- D) Adopt a resolution authorizing an amendment to Master Salary Resolution No.079812 as per Fiscal Year 2023-24 Adopted budget.

BACKGROUND:

The County Budget Act (Government Code §§ 29000-29144, 30200, and 53065) requires that the Board of Supervisors adopt the County budget by October 2, 2023.

On June 28, 2023, as part of the two-year budget process, the Board of Supervisors approved the FY 2023-24 Recommended Budget and received the FY 2024-25 Preliminary Recommended Budget. The purpose of this budget transmittal is to adopt the FY 2023-24 Budget, which has been amended to include FY 2022-23 year-end Fund Balance adjustments; changes to local, state, and federal funding sources; increases in benefits; and other adjustments deemed necessary to ensure the effective delivery of services that contribute to achieving County goals.

DISCUSSION:

The FY 2023-24 Recommended Budget that this Board approved on June 28, 2023, was \$4.1 billion with 5,768 authorized positions for all County funds. With the completion of the

County's year-end financial closing activities, final Fund Balance adjustments, rollover of unspent **Measure K** and other funding sources from FY 2022-23, and other budget changes based on updated funding amounts, increases in expenditures of \$365.5 million are proposed in connection with the approval of the FY 2023-24 Adopted Budget. This also includes a net addition of 37 authorized positions. With these changes, the FY 2023-24 Budget now presented to this Board for adoption totals \$4.4 billion with 5,805 authorized positions for all County funds. The budget for the General Fund is \$2.96 billion with 4,625 authorized positions. Attachment E contains all September Revisions and Attachment D contains changes to Service Charges (uploaded into the budget system via automated upload for the first time in September Revisions) and Health Benefit Rate increases.

The following table summarizes Requirements for the September Revisions by County Agency:

FY 2023-24 Adopted Budget, All Funds (Requirements)

County Agencies All Funds	2023-24 May Rec	2023-24 September Revisions Adjustments	2023-24 Adopted	2023-24 Authorized Positions
General Fund (GF)				
Administration/Fiscal	1,103,584,265	(38,671,960)	1,064,912,305	616
Community Services	219,325,881	131,462,361	350,788,242	542
Criminal Justice	536,489,741	1,638,994	538,128,735	1,318
Health Services	608,890,930	49,720,335	658,611,265	1,285
Social Services	326,830,049	20,730,070	347,560,119	864
Total GF	2,795,120,866	164,879,800	2,960,000,666	4,625
Non-General Fund (NGF)				
Administration/Fiscal	70,727,818	(44,075)	70,683,743	-
Community Services	603,471,042	151,725,730	755,196,772	137
Health Services	592,101,128	48,934,450	641,035,578	1,043
Total NGF	1,266,299,988	200,616,105	1,466,916,093	1,180
Total GF & NGF	4,061,420,854	365,495,905	4,426,916,759	5,805
Information Only				
County Library Fund	75,071,231	9,381,234	84,452,465	153
First 5 Fund	15,282,107	2,772,444	18,054,551	8
Housing Authority Fund	149,975,475	-	149,975,475	48
Local Agency Formation Commission	848,861	(52,704)	796,157	2
Retirement Trust Fund	9,227,183	107,834	9,335,017	23
Total Information Only	250,404,857	12,208,808	262,613,665	234

Significant Budget Changes

In June the FY 2023-24 Recommended Budget was presented to the Board of Supervisors for approval. This office took a cautious approach to ensure a comprehensive understanding of the County's financial picture.

While economic conditions continue to be in a constant state of flux, the overall economic landscape has not changed significantly since the Recommended Budget was presented to this Board. The recent announcement from the Federal Reserve underscores that we have yet to witness the full effects of their tightening of monetary policy, particularly within the lending industry. The County is not immune from these effects and the impacts of inflation can be seen through the continued increase in the costs of ongoing services as well as impacts to our employees through the increase in health benefits highlighted in this memo. Given these conditions, ongoing concern with our economy persists; however continued monitoring will help keep our finances in focus.

Despite these concerns, the County remains in good financial standing and is confident in presenting a revised budget to this Board that prioritizes critical projects that were initially deferred in the Recommended Budget and that support the Board's priorities of Housing & Homelessness, Emergency Preparedness, Children and Families, and Mental Health (with Equity spanning all categories). Our objective is to ensure that we continue to allocate resources in the most prudent and effective manner possible, considering the needs and interests of all residents in San Mateo County.

The following are major changes included in this budget for County Funds:

- Benefits Increases: An additional 13.94 percent (Kaiser) and 8.9 percent (Aetna) increase for health benefits expense was added to the FY 2023-24 Adopted Budget to account for increases in insurance premiums.
- Position Changes:
 - This budget includes a net addition of 37 positions from the FY 2023-24 Recommended Budget to the FY 2023-24 Adopted Budget. Positions were added in the following departments:

▪ Coroner's Office	2
▪ Sheriff's Office	9
▪ County Health	1
▪ Human Services Agency	10
▪ Department of Emergency Management	2
▪ Department of Public Works	13
▪ Parks Department	10
▪ Public Safety Communications	3
▪ Assessor-County Clerk-Recorder	6

- Controller's Office 2
- County Executive's Office/Clerk of the Board 6
- These additions were offset by the following reductions in positions:
 - Probation Department (27)

For further information, a detailed list of position changes is set forth in Attachment A.

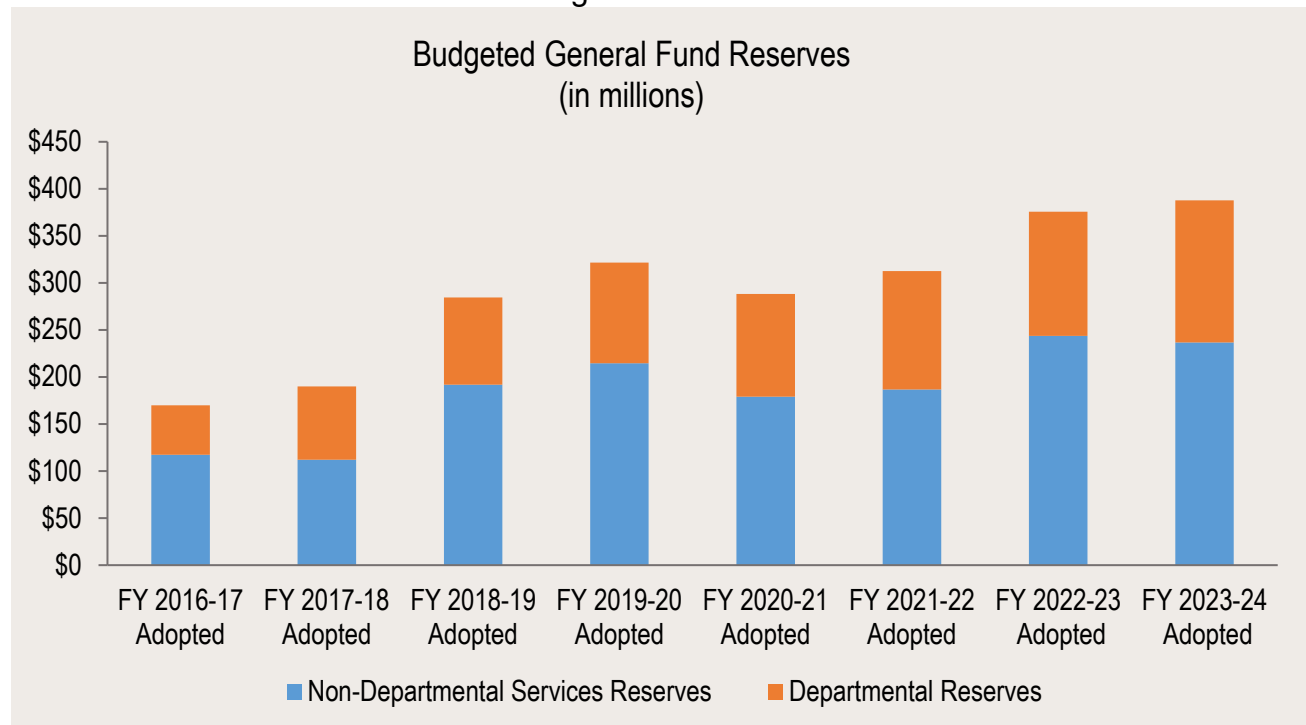
- **Measure K:** Rollover of \$97.4 million included initiatives such as: Farm Labor Housing Grant, Affordable Housing Initiatives, Second Unit Amnesty Program, Housing Voucher Program, Fire Mitigation Initiatives, Fire Safe Project, Fire Engine Replacement, Zonehaven (for emergency preparedness and response), Flood and Sea Level Rise, CuriOdyssey Science Museum and Zoo (for site repairs and updates), and the Equity Innovation Fund.
- **Criminal Justice:** \$1.6 million in net adjustments from the May Recommended Budget, including costs for the body-worn cameras project in the Sheriff's Office and Mobile Probation Service Centers to serve as additional sites where unhoused clients can report to Probation and receive services.
- **Social Services:** \$20.7 million in net adjustments from the May Recommended Budget, including increases in General Assistance Grant funding, additions for Shelter Operations agreements, transfer of the Big Lift Initiative from the County Executive Office to Human Services, and the addition of Human Services Agency staff, including positions to support the mandatory public benefits program, and overpayment and collections work which was transferred from Revenue Services.
- **Health System:** \$98.7 million in net adjustments from the May Recommended Budget, including a large adjustment to Electronic Health Record, increases to the Mental Health Services Act, appropriation of the Justice Assistance Grant to expand Community Wellness, and the Crisis Response Team.
- **Community Services:** \$283.2 million in net adjustments from the May Recommended Budget, including rollover of costs for capital projects such as Flood Park, Memorial Park Facility Improvements, Pescadero Creek County Park Bridge Project, Tunitas Creek Beach Improvement Project, Navigation Center Project, County Office Building 3, Cordilleras, staff training for the Emergency Operations Center, and the addition of two Emergency Management Coordinators for earthquake preparedness.
- **Administration and Fiscal Services:** \$38.7 million in net reductions from the May Recommended Budget mainly due to backing out of expenditures associated with American Rescue Plan Act ("ARPA") funds that were received to support the County's response to the pandemic and recovery efforts.

Fund Balance and Reserves

Final Fund Balance adjustments included herein comply with the County's Fund Balance Policy and Reserves Policy guidelines. Following FY 2022-23 year-end closing activities, final Fund Balance adjustments of \$148.3 million for all County funds are included in the budget. Of this total, \$30.9 million are in the General Fund and \$117.4 million are in other County funds. These adjustments are summarized in Attachment B.

This FY 2023-24 Adopted Budget includes General Fund Reserves of \$236.7 million (a \$4.6 million increase from the FY 2023-24 Recommended Budget) for Non-Departmental Services, and \$151 million (an \$8.9 million increase from the Recommended Budget) for General Fund departments. General Fund Reserves are at 15.1 percent of Net Appropriation (a slight decrease of 0.4 percent from the Recommended Budget), exceeding the 10 percent required by Board policy. Within General Fund Reserves, Non-Departmental Services Reserves and Contingencies are 9.2 percent of Net Appropriations. These minor changes are mainly due to unanticipated revenues and salary savings due to position vacancies that occurred in FY 2022-23.

The change in Reserves and Contingencies between the FY 2023-24 Recommended and Adopted Budgets is relatively small, highlighting that the pool for one-time resource allocations will be limited without future growth.



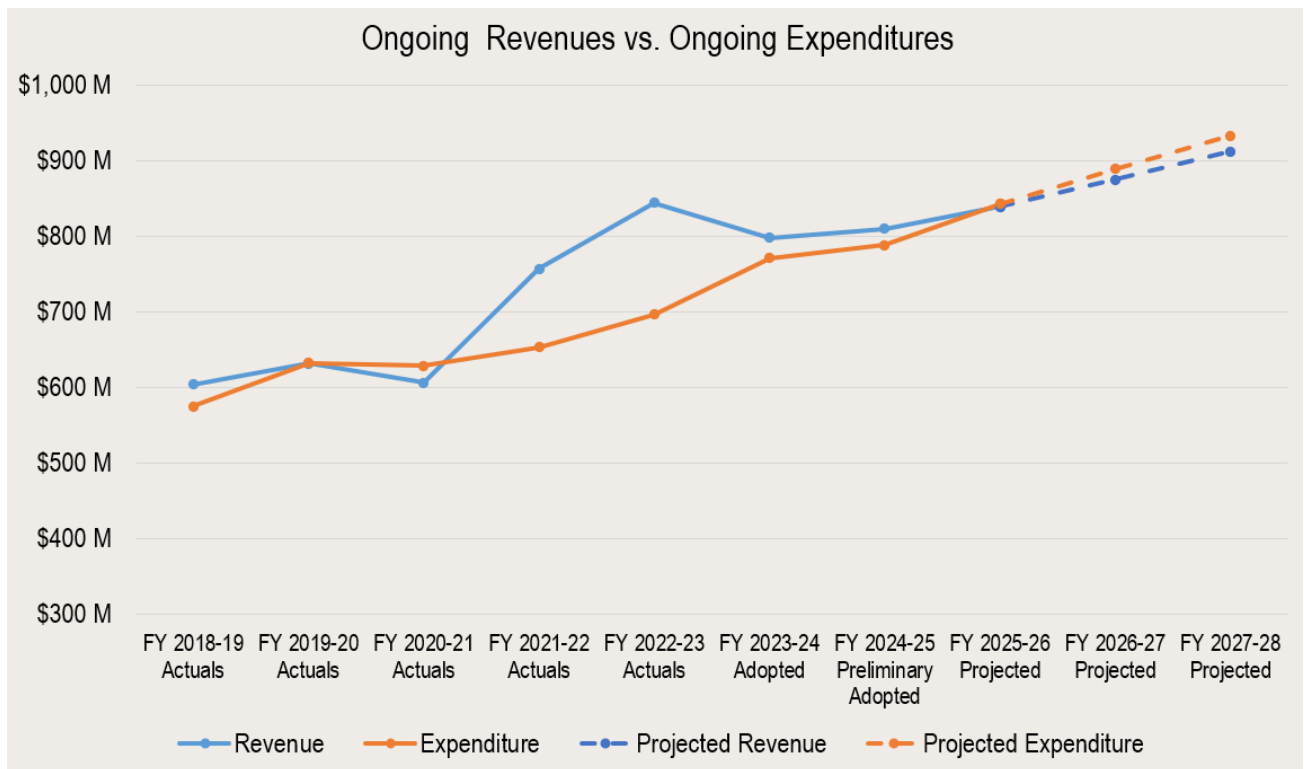
Ongoing Revenues vs. Expenditures

The trajectory of ongoing revenues is poised for a continuation of growth, albeit at a pace noticeably more measured than in previous years. Notably, the rise of property tax revenue,

which surged by over 8 percent in the past year, is now slated for a more tempered 6 percent increase in the coming year. Concurrently, sales tax is also seeing a slowdown as the impacts of inflation are influencing families' disposable income, thereby impeding discretionary spending.

Although ongoing revenues are predicted to grow, a cautious and calculated approach to expenditures must continue. This is because expenditures are rising much faster than ongoing revenues and are predicted to outpace revenues over the course of the next two years as seen in the chart that follows below. The escalation in expenditures is propelled by multifaceted factors, including the increase of health benefits and service contract costs as well as the increase for general assistance and the implementation of the Electronic Health Record Project.

It should be noted that the current projections do not yet include future salary increases, which emphasizes the necessity of continued careful planning and judicious allocation of resources. As we move forward, maintaining fiscal equilibrium through careful spending and revenue optimization is paramount.



Capital Projects

The FY 2023-24 Adopted Budget includes total appropriations for capital projects of \$477.4 million. The FY 2023-24 Adopted Budget includes changes of \$110.4 million from the FY 2023-24 Recommended Budget, a 23.1 percent increase. In-depth information about the capital projects program can be found in the Five-Year Capital Improvement Plan for FY

2023-28 which will be provided to this Board as a separate report and made available online at <https://smcgov.org/ceo/cip> the week of September 25, 2023.

All capital projects budgets for FY 2023-24 are listed in Attachment F. The FY 2023-24 Adopted Budget totals represent the portion of the project budget that is appropriated in this specific budget. These amounts are distinct from full project costs (total project budget) not all of which may be appropriated during this budget cycle.

Conclusion

The road ahead is not one of stagnation but of perpetual evolution. We acknowledge that needs evolve, circumstances shift, and challenges change. It is with this understanding that we commit to a practice of continuous re-evaluation. Our ability to adapt to the ever-changing landscape is a testament to our resilience and dedication to progress.

Our collective response to the trials of the past few years has ignited a spirit of introspection and adaptability. We understand that the very essence of effective governance lies in our commitment to the wellbeing of our diverse community. The lessons learned have affirmed the critical importance of centering community voices. As we peer into the future, we are dedicated to this principle, with an amplified focus on community engagement. By fostering inclusive dialogues, we will continue to unearth fresh perspectives, forging a path forward that resonates with the needs and aspirations of every resident.

In this journey, data stands as an invaluable compass, guiding us towards the most impactful decisions. Recognizing this, we are committed to the collection and analysis of data pertaining to contracts, programs, and services. By harnessing the power of data-driven insights, we empower ourselves to chart a course that is visionary and firmly grounded in the reality of our residents' lives. This analytical approach is not just a means of understanding where we have been, but an instrument for propelling us to where we aspire to be.

As we embark on the upcoming year, we do so with a forward-looking approach, fortified by the lessons of the past, and inspired by the potential of the future. Our commitment to community, data-driven decisions, and adaptive governance will be the driving forces that ensure San Mateo County thrives in every sense of the word.

The County Attorney has reviewed and approved the resolutions as to form.

EQUITY IMPACT:

Through the approval of the FY 2023-24 Adopted Budget for the County of San Mateo, we affirm our commitment to equity as a foundational principle. This budget is a testament to our dedication to fostering an inclusive workforce and addressing historical inequities. By allocating resources to targeted services in underserved areas, promoting diversity and belonging in our workforce, and supporting underrepresented businesses, we are actively advancing a vision of equitable access, opportunity, and justice for every member of our diverse community. This budget stands as a pivotal step in our ongoing journey yet we

recognize the work that remains such as continuing to center and include community voice in decision making and informing priorities set by this Board.

FISCAL IMPACT:

The impact on the revised budget of all September changes on Total Requirements for all County funds is an increase of \$365.5 million in FY 2023-24 (compared to the FY 2023-24 Recommended Budget). Fund Balance has increased by \$148.3 million for all County funds (\$30.9 million in the General Fund and \$117.4 million in other County funds). General Fund Reserves now total \$387.8 million, which represents 15.1 percent of Net Appropriations.

ATTACHMENTS

Attachment A – Position Changes Summary

Attachment B – Final Fund Balance Adjustments

Attachment C – **Measure K** Allocations Summary

Attachment D – Service Charges and Health Benefit Increases Summary

Attachment E – September Revisions

Attachment F – Capital Projects Summary

Cc: Iliana Rodriguez, Assistant County Executive
Justin Mates, Deputy County Executive
Adam Ely, Interim Deputy County Executive