Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

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

Subject: FY 2024-25 County Mid-Year Budget Update and amendment authority for certain contracts

RECOMMENDATION:

Recommendation to:

A) Accept the FY 2024-25 County Mid-Year Budget Update, including key revenue and expenditure projections and budget assumptions; and

B) Accept the Proposed Proposition 172 Maintenance of Effort Certification; and

C) **Measure K:** Adopt a resolution authorizing the County Executive, or designee(s), to negotiate, execute and/or to approve amendments to certain Net County Cost and Measure K funded contracts with specified service providers to provide an increase of up to 5 percent to the salary costs reimbursed under such contracts, for the period from February 1, 2025 through June 30, 2025, in an aggregate amount not to exceed $2,000,000 to be funded by Measure K funds or other available funds, as necessary and advisable in the discretion of the County Executive and within the parameters of this Resolution.

BACKGROUND:

On September 24, 2024, the Board adopted the FY 2024-25 Budget. This memorandum includes the Mid-Year Report, which provides an update on the FY 2024-25 Budget and a look ahead to the FY 2025-26 Budget.

This memorandum also discusses and recommends acceptance of the County's proposed FY 2024-25 Maintenance of Effort certification required under Proposition 172, the statewide half-cent sales tax for support of local public safety functions.

In addition, this memorandum recommends that the Board authorize the County Executive, or designee(s), to negotiate, execute or approve amendments to certain Net County Cost and Measure K funded contracts with specified service providers to provide an increase of up to 5 percent to the salary costs reimbursed under such contracts, as further set forth herein and described in the accompanying resolution.

DISCUSSION:

The County of San Mateo is committed to addressing the immediate needs of its residents while proactively planning for the future. By aligning its budget with critical priorities alongside mandated services, the County will remain responsive to the evolving needs of the community. This thoughtful, long-term approach aims to position the County for financial stability, enabling it to meet challenges as they arise while continuing to deliver vital services.

The County's focus on transparency and collaboration is central to this effort. On January 16, 2025, the County hosted over 150 civic leaders, including elected officials, city managers, and non-profit directors, for a summit addressing the impact of anticipated changes in policies at the federal level on residents of San Mateo County. Presentations by state and federal lobbyists, County service departments, and local non-profits highlighted concerns about a range of issues that may impact the community.

These leaders specifically discussed how significant shifts in federal government spending may impact local programs and services. For example, plans to reduce government spending could result in funding cuts to programs such as Medicaid and Supplemental Nutrition Assistance Program (SNAP), potentially limiting access to essential services on which many County residents rely. These cuts could disproportionately affect vulnerable populations and strain local governments' ability to provide critical support. The full impact of such new policies may not be known for some time.

At the conclusion of the event, participants identified five key areas of concern which included:

1. Reductions in federal funding,
2. Challenges with communication and misinformation,
3. Housing and homelessness (including workforce impacts),
4. The need for information, training, and legal services for immigrants, and
5. Enhanced emergency preparedness

These identified concerns reflect the diverse and pressing needs of the community and will guide the County's planning and response efforts in the months and years ahead.

At the same time that the County confronts potential federal policy changes, the ongoing economic challenges posed by inflation, which has driven up costs, continues to affect both residents and the County. In addition, unemployment claims and poverty rates in the County are beginning to show a slight upward trend as shown in the appendices attached to this report. The County is working diligently to monitor and address these pressures through careful financial planning and targeted investments that support those most affected. By fostering partnerships, communicating transparently, and planning carefully, the County is building a stable and resilient foundation to support residents through these immediate challenges and to prepare for a stronger, more secure future.

A. County Priorities

1. Housing & Homelessness

The County continues its commitment to addressing homelessness through a robust, countywide homeless response system that includes 694 interim shelter units for adults, families, and youth, while also expanding affordable and permanent supportive housing. The Board has bolstered this effort by allocating $59 million in Measure K funds and $13 million in General Fund monies to ongoing Housing and Homeless Safety Net Services. These include the expansion of medical mobile health services, a new partnership with the County Event Center for the Inclement Weather Shelter Program, and a significant increase in Emergency Financial Assistance.

The Navigation Center, now in its second year, is an important component of the County's initiative to address homelessness. The Navigation Center has strengthened its offerings by launching weekday on-site dental services in collaboration with the University of the Pacific's Arthur A. Dugoni School of Dentistry, LifeMoves, and Healthcare in Action. Additionally, the center partnered with the County's Vocational Rehabilitation Services to operate the on-site kitchen five days a week, serving two meals daily while providing workforce development and employment opportunities for clients.

To further address homelessness, the Board adopted the *Hopeful Horizons: Empowering Lives* initiative, which prioritizes providing services and shelter before enforcing a prohibition on encampments on public property in unincorporated areas. The County has secured state funding of $14.1 million to expand intensive homeless services across the county, which will aid chronically homeless individuals in transitioning to permanent housing.

The County is also increasing its permanent supportive housing stock. Through $13.89 million in Homekey grant funds and $6.75 million in American Rescue Plan Act (ARPA) dollars, the County will support the conversion of a hotel in South San Francisco into 45 studio apartments, offering on-site services such as behavioral health support and case management. This project represents the third permanent supportive housing development funded by Homekey, with County support. Additionally, the County redesigned its decade-old homeless outreach model to improve efficiency by aligning regional coverage areas with need, centralizing dispatch for outreach requests, and implementing standardized performance measures across programs. This new model launched in January 2025.

To ensure data-driven decision-making, the County engaged a third-party evaluator to review the effectiveness of the Emergency Financial Assistance program, Rapid Re-

Housing, and Coordinated Entry System. This evaluation aims to identify service gaps and improve processes to further strengthen the County's ability to effectively support its most vulnerable residents.

2. Children, Families, & Seniors

The County has demonstrated its strong commitment to children, families, and seniors through substantial investments in programs in the County's budget that include State, Federal and County Net County Cost funding that are estimated at $700 million in FY 2024-25, which represents 22 percent of the General Fund budget. This funding underscores the County's dedication to promoting the health and well-being of its residents.

Among the County's key initiatives in support of children, family and seniors are the San Mateo County Children & Family Services (CFS), which received over 5,100 child abuse or neglect reports and provided trauma-informed, case level services to 257 children and youth The CFS Program also secured permanent homes for 17 children, providing stability and opportunity for vulnerable youth. In addition to these mandated programs, the County has made substantial investments through County General Fund and Measure K to ensure the wellbeing of children and families. Examples of these Measure K funded programs include approximately $8.1 million to Big Lift to ensure reading proficiency, over $5 million directed to the Parks Department to provide safe and accessible spaces for recreation and learning opportunities, and $2 million to Second Harvest for food distribution to support those in need.

As with children and families, the budget supports the County's senior population through investments including approximately $2 million for elder abuse investigations and adult protection, $500,000 for the master plan on aging, and $600,000 for taxi vouchers. For older adults and individuals with disabilities, the Area Agency on Aging (AAA) provided essential services, including over 132,000 meals at community centers, 154,000 home-delivered meals, and 17,000 transportation rides. Programs like In-Home Supportive Services (IHSS) supported over 8,300 residents, enabling them to live safely at home, while Adult Protective Services (APS) Home Safe assisted 85 individuals facing homelessness or abuse. Continued investment in these programs is essential to address the growing needs of San Mateo County's vulnerable populations and ensure long-term success for youth, families, and seniors alike.

3. Emergency Preparedness

Emergency Preparedness remains a critical priority for the County. The Department of Emergency Management (DEM) spearheads the County's efforts through building a culture of preparedness and resilience to better protect the community against increasing risks. This takes on a new importance after witnessing the devastation of the Southern California fires.

Current investments in Emergency Preparedness include Measure K funding across several departments of $13.6 million in the FY 2024-25 budget. Additional support comes from the County General Fund, including $3.5 million directly associated with the Department of Emergency Management, as well as funding from other state and federal sources.

In the face of extreme weather events and evolving risks, DEM has focused on enhancing resilience and hands-on training for emergencies. While preparing for all hazards, including earthquakes and wildfires, DEM is creating tailored toolkits to help jurisdictions and their residents address flooding, power outages, and evacuations. With a focus on inclusive planning, DEM remains dedicated to protecting the community by fostering preparedness and unity.

To further support Emergency Preparedness, in FY 2024-25, the San Mateo County Parks Department utilized Measure K Fire Mitigation funds to reduce the amount of fire fuels present in the County parks system and to improve access to the interior of parks to enable first responders to conduct wildfire containment and suppression activities. At Quarry County Park, the Parks Department processed approximately 400,000 pounds of fire fuel and biomass that resulted from previous wildfire fuel reduction projects while establishing an extensive network of shaded fuel breaks in strategically located areas throughout the park. The Parks Department also removed logs (felled by the previous property owner) that were hindering the Department’s ability to expand fuel breaks and shaded fuel breaks at Quarry County Park. The Department has also planned the repair of Old Haul Road at Schenly Crossing, which is necessary to enable the road to support the weight of vehicles or fire engines. This project is critical given that Old Haul Road serves as a critical fire road in Pescadero Creek County Park and was a strategic fire line during the CZU Complex Fire.

These strategic investments underscore the County’s unwavering commitment to safeguarding the community by prioritizing and funding Emergency Preparedness measures.

4. Equity

Over the past few years, the County has made significant strides toward advancing equity. Among other initiatives, the Shared Prosperity Coordinating Council (SPCC) is a working group composed of leaders from local government, nonprofit, and private sectors, that focusses on creating sustainable solutions that ensure economic success, power, autonomy, dignity, and belonging for all San Mateo County residents. As of Fall 2024, the SPCC has been developing a data dashboard to spotlight opportunities and inequalities across various demographic groups within the County to support data-driven decision-making. In 2025, the Council will finalize its Mobility Action Plan (MAP), which outlines key recommendations and strategies to address inequities, with the goal of fostering greater equity and inclusion as a multi-sector collaborative.

Additionally, on December 12, 2023, the Board of Supervisors voted unanimously to authorize the creation of the Office of Labor Standards & Enforcement (OLSE). The OLSE, a partnership between the County Executive's Office, the County Attorney's Office, and the District Attorney’s Office, will support enforcement of local minimum wage laws, promote educational opportunities related to labor rights for workers and businesses, and promote fair labor practices.

Moreover, in the next fiscal year, the County will implement changes to its procurement policies and practices to ensure an equity lens is brought to all government contracts. The County led the 'The Supplier Diversity Study' in 2024 to analyze whether local, small, or micro businesses face barriers in contracting with the County. The results led the Board to adopt the Local Preference Program Ordinance on November 19, 2024. In addition, revisions to Administrative Memoranda-B1 will be forthcoming to update the County's procurement policies in line with an equity lens. Prioritizing local and local small businesses promotes the local economy and takes steps towards shared prosperity by removing barriers for local and local small businesses to access the County’s procurement opportunities.

Lastly, as of January 1, 2025, the County’s Equity Ordinance went into effect, including the addition of a new section on Board of Supervisor agenda items, where equity impacts of proposed Board actions are succinctly identified. This complements the existing fiscal impact statement and enables Board members and the public to readily understand the implications of the Board decision on equity, as well as finances. This is an important way for departments to incorporate an equity lens to their day-to-day work and showcase their efforts to advance equitable outcomes across our most vulnerable communities.

B. <u>Current Financial Conditions</u>

Cost of Living Adjustments

In December 2024, the Board approved new Memoranda of Understanding with the American Federation of State, County and Municipal Employees (AFSCME) and Service Employees International Union (SEIU), as well as adopted new Salary and Benefits Resolutions for the unrepresented Management, Attorney, and Confidential Units. Departments are absorbing the increased costs through salary and other savings through the remainder of FY 2024-25. Going forward, the changes will generate approximately $29.2 million in additional Net County Cost through increased salary and benefit costs in FY 2025-26, the first full year of the approved agreements and resolutions. An additional $500,000 in FY 2024-25 and $1 million in FY 2025-26 in Net County Cost is estimated to provide similar salary and benefit increases to Community Based Organizations (CBOs) that are currently in contract with the County for various services. The County continues to engage in labor negotiations with other bargaining units.

In addition to increases in Net County Cost due to labor negotiations, an additional $2 million of Measure K and/or other available funding is necessary to allocate in the current fiscal year to cover salary and benefit increases for both County staff and CBOs. Toward this end, submitted with this memorandum is a proposed resolution authorizing the County Executive, or designee(s), to negotiate, execute and/or to approve amendments to certain Net County Cost and Measure K funded contracts with specified service providers to provide an increase of up to 5 percent to the salary costs reimbursed under such contracts, for the period from February 1, 2025 through June 30, 2025, in an aggregate amount not to exceed $2 million to be funded by Measure K funds or other available funds, as necessary and advisable in the discretion of the County Executive and within the parameters of the proposed resolution. Appropriation Transfer Requests to facilitate the transfers of funds for the amended contracts will be presented to this Board for approval at a future meeting.

Vacancy and Turnover

The County continues to make significant investments in its employees. The FY 2024-25 Adopted Budget includes 5,851 positions. With an average 9.8 years of service to the County, our workforce shows a strong dedication to serving the public.

In FY 2024-25, the vacancy rate for County positions is projected to decrease slightly to 12.3 percent with the employee turnover rate projected to remain steady at 9.9 percent after peaking at 12 percent during pandemic recovery. Retirement eligibility is expected to decrease to 16.6 percent as employees continue to retire at a high rate. These rates are summarized in the following table:

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25 Projected
Vacancy Rate	12.2%	14.4%	14.6%	13%	12.3%
Turnover Rate	7%	12%	10%	10%	9.9%
Retirement Eligibility	22.4%	21.7%	19.7%	18%	16.6%

Fund Balance Projections

Year-End Fund Balance is estimated at Mid-Year 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. This estimate 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 2024-25) budgeted Reserves.

This variance captures any unanticipated or over-realized revenue and/or unspent appropriations. This variance is used to update the department estimates of the FY 2025-26 starting Fund Balance.

As shown in the table below, there is an estimated $159 million Fund Balance variance, or one-time dollars, projected for FY 2024-25. Of that $159 million, $38.5 million is associated to Non-General Fund departments and is restricted for costs relating to special districts, such as roads, sewers, utilities, solid waste, and other fee-based or franchised services. The remaining $120.5 million is associated to the General Fund, which is attributed to the inclusion of unbudgeted returned Educational Revenue Augmentation Fund (ERAF), a 12.3 percent vacancy rate in permanent positions, and savings in contracts, services and supplies, and other general expenditures.

For Non-Departmental Services, a budget unit which contains the general fund that is distributed to departments, there is an estimated variance of $84 million, a portion of which will be allocated toward capital projects including deferred maintenance, facility infrastructure upgrades, and work to create County facilities that are welcoming and accessible to everyone. To align with the County’s updated Long-Term Financial Policies, the remainder will be used on meeting the new Reserve requirements as well as other one-time projects.

County of San Mateo Agencies by Fund	FY 2024-25 Budgeted Reserves	FY 2024-25 Est. Year-End Fund Balance	Variance
Agencies - General Fund			
Criminal Justice	61,371,647	71,186,306	9,814,659
Health Services	25,677,643	38,163,001	12,485,358
Social Services	40,749,749	42,449,749	1,700,000
Community Services	19,308,183	24,404,002	5,095,819
Admin-Fiscal	21,250,903	28,667,519	7,416,616
Subtotal Agencies - General Fund	168,358,125	204,870,577	36,512,452
Non-Departmental - General Fund			
Non-Departmental Services	339,053,973	423,065,773	84,011,800
Subtotal Non-Departmental - General Fund	339,053,973	423,065,773	84,011,800
Agencies - Non-General Fund			
Health Services	29,198,265	31,649,369	2,451,104
Community Services	185,219,291	213,334,185	28,114,894
Admin-Fiscal	15,106,953	23,030,822	7,923,869
Subtotal Non-General Fund	229,524,509	268,014,376	38,489,867
Total ALL Funds	736,936,607	895,950,726	159,014,119

SamCERA Retirement Contributions

With this Board's authorization, in January 2025, the County entered into a new MOU with SamCERA to make additional supplemental contributions to the County Supplementary Contribution Account with SamCERA of $50 million in FY 2024-25 to continue to reduce its pension liabilities. The additional contributions are intended to maintain a minimum average employer contribution rate of 27 percent of payroll. These additional contributions, along with an additional $50 million contribution in FY 2029-30, are expected to lower pension costs by approximately $131 million over the next 12 years.

The SamCERA fund returned 9.2 percent on the fiscal year, eclipsing the assumed rate of return of 6.25 percent by 2.95 percent. The County's aggregate contribution rate for FY 2025-26 edged slightly lower to 26.48 percent of pay from 26.62 percent. SamCERA's funded ratio decreased by 0.7 percent from 88.3 percent to 87.6 percent. The small decrease was primarily due to accounting for investment losses from previous years. Prior to the valuation, the Board of Retirement changed the funding policy to reset the current unfunded accrued liability to a new 15-year amortization period and begin layering subsequent unfunded liability layers over the succeeding fifteen years. This change is expected to add stability to the employer contribution rates in the near term.

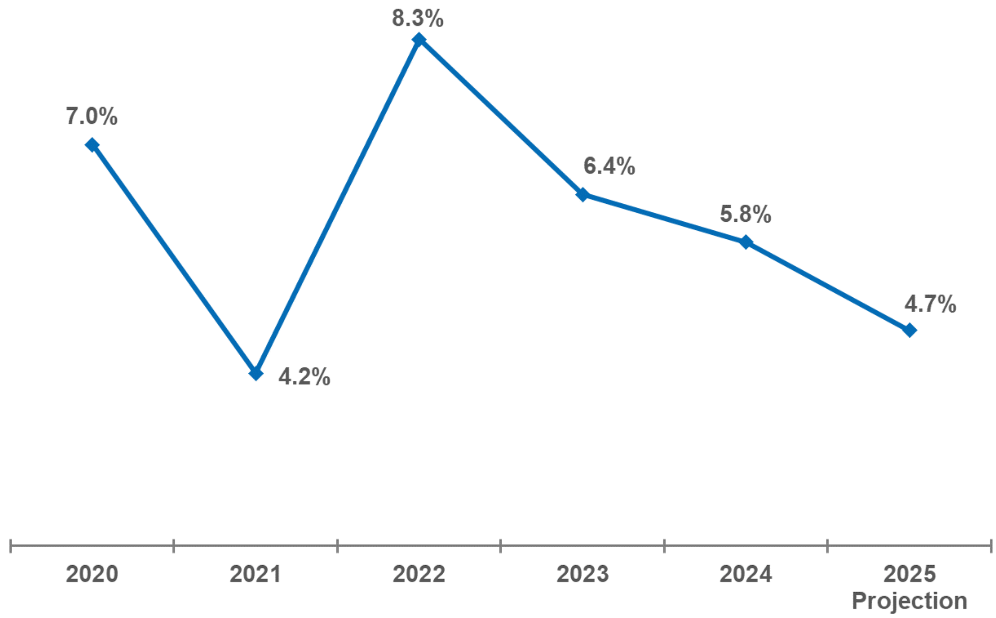
Property Taxes

The County's total FY 2024-25 property tax revenue is projected to be approximately $678 million, representing approximately 72 percent of the total revenue received in the General Fund (excluding Measure K and state and federal revenues).

For FY 2024-25, the value of the County's total Combined Assessment Roll (including secured, unsecured rolls) increased year-over-year by $17.7 billion, or 5.8 percent, to a record high of over $325.5 billion. This year's roll growth can be attributed to steady residential demand and significant commercial development; however, inflation and elevated mortgage interest rates continue to keep roll growth in check.

Although the total Combined Assessment Roll is again expected to increase for FY 2025-26, the annual percentage increase will likely be lower and is currently estimated to be approximately 4.7 percent. This lower anticipated increase is primarily due to continued pressure from inflation and elevated interest rates. While home sales have risen slightly compared to the prior year, they remain well below FY 2022-23 levels. Inflation and high interest rates have also tempered new residential construction activity. However, home prices have remained relatively stable or increased due to the limited inventory of available homes. Commercial and mixed-use construction remain significant contributors to the growth of the FY 2025-26 total Combined Assessment Roll. Additional factors such as post-lien date Declines in Value Restorations and Assessment Appeals will also affect the FY 2025-26 total Combined Assessment Roll.

Rate of Change in Net Combined Roll Value (Secured & Unsecured)



Source: Assessor-County Clerk-Recorder-Elections Office of Mark Church, County of San Mateo
https://www.smcacre.org/assessment-roll-summaries

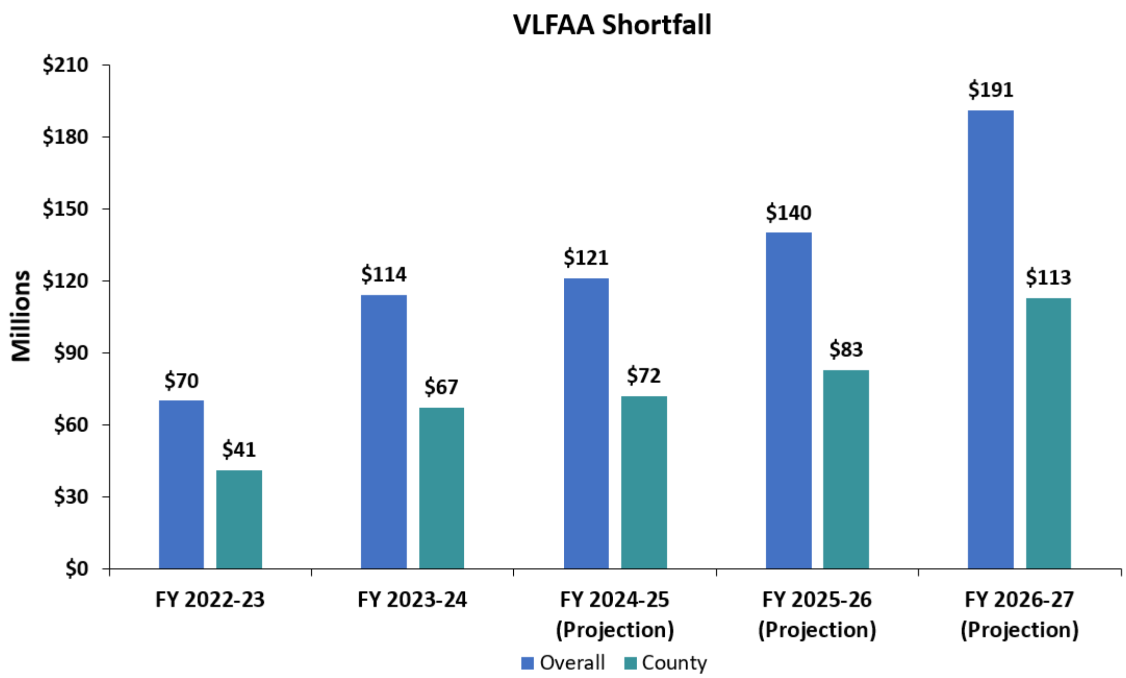
Vehicle License Fee Adjustment Amount (VLFAA)

The County continues to monitor uncertainty regarding the Vehicle License Fee Adjustment Amount (VLFAA) reimbursement and potential impacts to County services as a result. After extensive efforts by the County and its legislative delegation, payment for the countywide FY 2022-23 VLFAA shortfall of $70 million, of which the County's share was approximately $41 million, was included in the State budget, as well as the County's FY 2024-25 Adopted Budget. These funds were distributed to the County and the cities on August 27, 2024.

For FY 2023-24, the VLFAA due to the County was approximately $159 million. However, based on current estimates and implementation of applicable property tax laws, there was only $91 million available in ERAF and property taxes from non-basic aid school districts to fund the County's VLFAA, resulting in an estimated $68 million VLFAA shortfall for the County. As in the past, the County has lodged a claim for reimbursement from the State to cover the FY 2023-24 VLFAA shortfall amount. The reimbursement amount was not included in the Governor's proposed FY 2025-26 January budget release. The County will work with its legislative delegation to request that an appropriation for the VLFAA reimbursement is included in the State's FY 2025-26 adopted budget.

For FY 2024-25, the VLFAA due to the County was approximately $168 million. However, based on current estimates, there is only $96 million from the available funding sources, resulting in a $72 million shortfall.

The County will continue pursuing State reimbursement for these shortfalls. To address delays in reimbursement and maintain adequate cash flow, the County is using Returned ERAF funds, typically placed in Reserves to cover capital-related expenses, to cover the VLFAA shortfalls. The use of Returned ERAF to cover VLFAA shortfalls may adversely impact the County's ability to fund capital outlays, ongoing maintenance costs, purchase of new buildings, and other capital improvements.



Returned Educational Revenue Augmentation Fund (ERAF)

Under State law, the County, cities and special districts within the County shift a portion of their shares of property tax dollars to ERAF. ERAF monies are used to help fund non-basic aid school districts up to their State-guaranteed Local Control Funding Formula (LCFF) amount. Under State law, local agencies' contributions to ERAF that exceed the amount necessary to fully fund such non-basic aid districts to their LCFF levels are returned to local agencies, after funding special education programs, as Returned ERAF. The County's currently estimated share of Returned ERAF for FY 2024-25 is approximately $267 million.

The amount of Returned ERAF and VLFAA estimated and distributed to the County and other agencies may be negatively impacted by property tax revenues received by school districts, changes in school enrollment, implementation of the LCFF and/or State efforts to legislatively or by executive interpretation of property tax laws, redirect or reduce Returned ERAF for its own purposes.

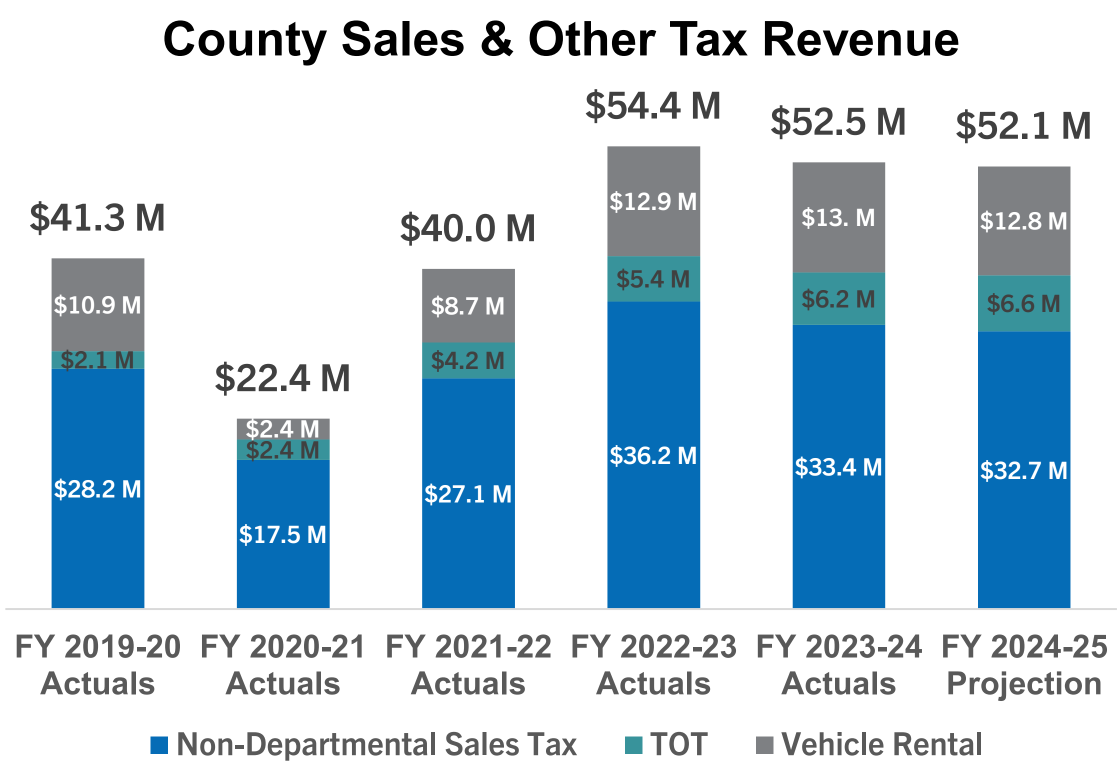
In the upcoming FY 2025-26 Recommended Budget, staff will propose updates to the Long-Term Financial Policies to budget 70 percent of Returned ERAF to cover increases in negotiated salary and benefit costs. The remaining 30 percent will be used to cover the VLFAA shortfall.

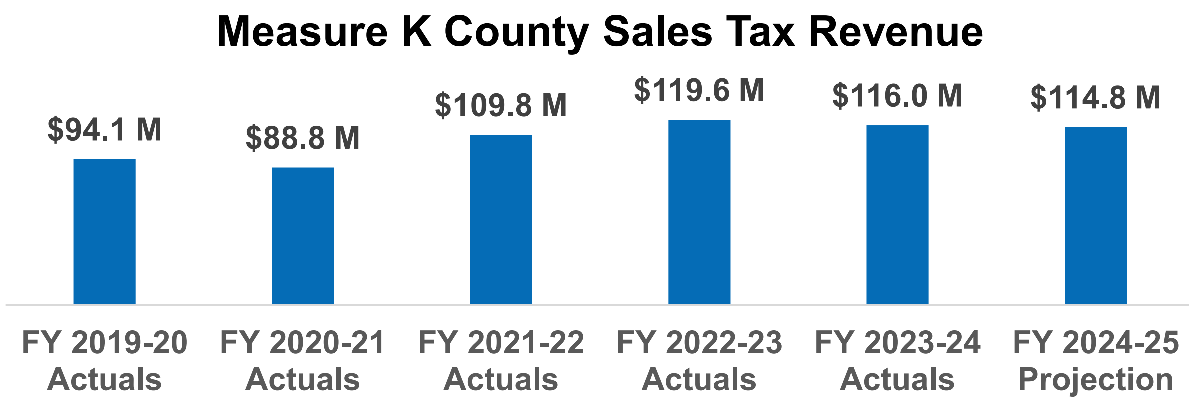
County Sales and Other Tax Revenue

The County receives county-derived sales tax revenue from the State Board of Equalization, distributed according to state and local statute. The two sources of county-derived sales tax revenue are:

- Countywide receipts for Measure K
- Unincorporated County receipts (General Fund)
    - Unincorporated Sales Tax (UST)
    - Transient Occupancy Taxes (TOT)
    - Vehicle Rental Taxes (VRT)

County sales tax revenue is projected to continue to moderately decline by 0.9 percent in response to both lower fuel prices and other economic concerns that are resulting in a decrease in consumer spending. Current projections from multiple sources show sales tax could increase slightly in FY 2025-26.





C. <u>Conclusion</u>

As discussed in this report, the County of San Mateo remains committed to addressing impending policy changes at the federal level and continued inflation, and to mitigating their impacts to the County's most vulnerable residents. To continue to progress forward, the County is implementing careful financial planning and targeted investments to support those most affected by these conditions. By fostering partnerships, maintaining transparent communication, and emphasizing planning, the County is laying a stable foundation to meet immediate needs and ensure long-term resilience.

Across the Bay Area, all nine counties submitted balanced budgets for FY 2024-25, yet four of these counties operated with structural deficits. To address these shortfalls, these counties are relying on a combination of new revenue sources, fund balances, reserves, and cuts to programs, services, and staffing. The deficits stem from increased unfunded state and federal mandates, growing demands for services, and reductions in changing revenue streams.

San Mateo County has long been recognized for its excellent fiscal stewardship. Thanks to the Board's commitment to conservative budgeting and transparency, the County has been able to navigate financial challenges while avoiding structural deficits. However, the County is not immune to the pressures faced by its neighboring counties. San Mateo County must continue its legacy of strong fiscal management and open communication with constituents to address expected funding challenges. By maintaining a conservative budgeting approach while also exploring new revenue streams, the County is dedicated to meeting the needs of its most vulnerable residents and ensuring continued access to essential services for years to come.

D. 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 (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 2024-25 Adopted Budget, the projected MOE certification for FY 2024-25 is $387.9 million. The County expects to exceed the FY 2024-25 Proposition 172 MOE requirement by $224.5 million.

EQUITY IMPACT:

The acceptance of the FY 2024-25 County Mid-Year Budget Update for the County of San Mateo includes analysis of economic conditions that form a critical foundation for our planning process, ensuring that our decisions align with the diverse needs of our community. In recognizing the economic complexities, our goal is to employ a lens of equity that acknowledges and addresses disparities. This Mid-Year Budget Update is a proactive step towards fostering a county where every resident has the opportunity to thrive.

FISCAL IMPACT:

There is no fiscal impact associated with accepting this FY 2024-25 County Mid-Year Update, and the Proposition 172 MOE certification. Adoption of the proposed resolution to authorize the County Executive to negotiate, execute and approve amendments to certain Net County Cost and Measure K funded contracts would be funded through an amount not to exceed $2 million, in Measure K or other available sources, which are included in the FY 2024-25 Adopted Budget. Appropriation Transfer Requests to facilitate the transfers of funds for the amended contracts will be presented to this Board for approval at a future meeting.

APPENDICES: LOCAL ECONOMIC INDICATORS

The following indicators provide information on current local economic activity compared to prior years, and compared to the larger Region, State, and Nation. The data presented in these indicators assists the County in identifying trends that may affect revenue streams, changes in County services, and future economic conditions within the County for both residents and their local government.

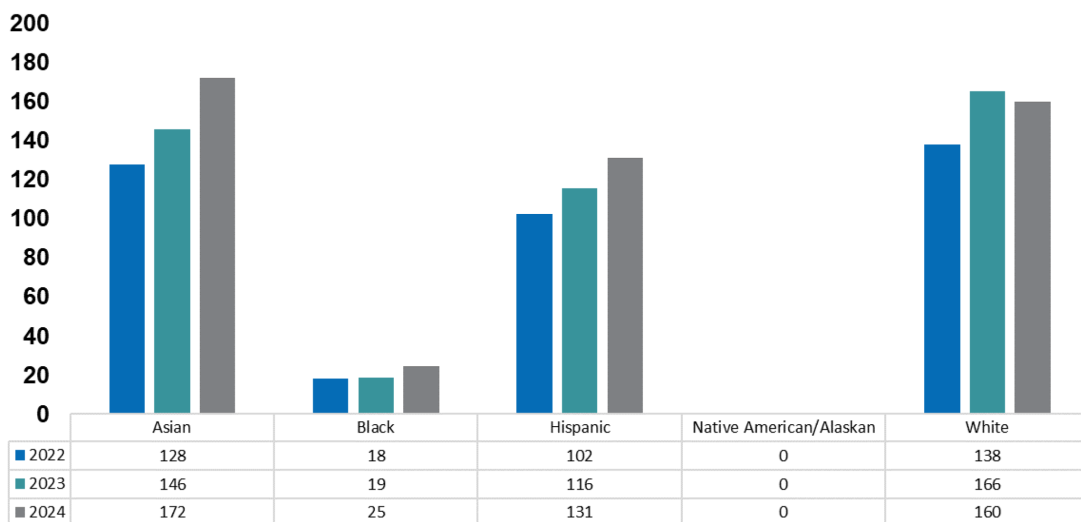
As in past reports, the data collected shows us signs of an economically healthy County with relatively low unemployment, high average salaries, and continually valuable real estate. However, the data also presents signs of residents in need of continued County services, a housing market that is struggling to meet the needs present in this County, and a commercial real estate market that is less attractive than in years past. These indicators can help us see the strengths and possibilities that San Mateo County continues to hold, and the areas where the County must continue to build upon, especially in the face of changing Federal priorities.

A. Unemployment
B. Poverty Rate
C. Income Inequality
D. Consumer Price Index
E. Median Household Income
F. Wage Growth
G. Childcare Costs
H. Median Home Prices
I. Median Rent
J. Vacancy Rates
K. County Interest Earnings

A. Unemployment

Since the end of 2021, San Mateo County has seen a relatively stable rate of new and continued weekly unemployment claims averaging between 400 to 600 per week. This marked reduction is down from a pandemic high of over 7,000 new and continued unemployment claims per week. While the current rate has been stable, there is a noticeable increase in claims for quarters 3 and 4 of 2024, as compared to the prior two years. Often quarters 3 and 4, coinciding with the holiday season and increases in temporary job opportunities see a larger drop in weekly unemployment claims than we are currently seeing. Additionally, quarter 1 of 2024 saw the highest weekly rate of claims since quarter 4 of 2021; combined with this higher than usual holiday season unemployment claims rate, this may point to a slight increasing trend in San Mateo County's unemployment rate, which is still well below that of the State. From a County revenue and expenditures standpoint, higher rates of unemployment coincide with reduction in sales tax revenue and increased usage of County services, which increases County costs.

Countywide Average Weekly Unemployment Claims by Race and Ethnicity



	Asian	Black	Hispanic	Native American/Alaskan	White
2022	128	18	102	0	138
2023	146	19	116	0	166
2024	172	25	131	0	160

California EDD did not identify any unemployment claims by Native American/Alaskan Natives, in San Mateo County, for 2022 through 2024

Source: State of California Employment Development Department: Unemployment Insurance Weekly Claims Data for California. [Unemployment Insurance Weekly Claims Data for California - Dataset - California Open Data]

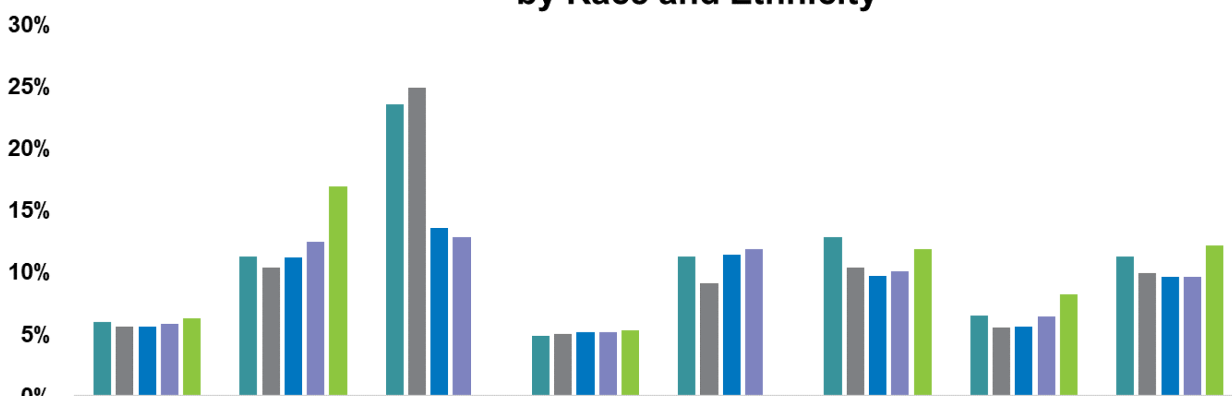
Unemployment Rate	
San Mateo County	5.2%
California	3.3%

Source: Employment Development Department Labor Market Information Division: Monthly Labor Force Data for Counties December 2024 – Preliminary. https://labormarketinfo.edd.ca.gov/file/lfmonth/countyur-400c.pdf

B. Poverty Rate

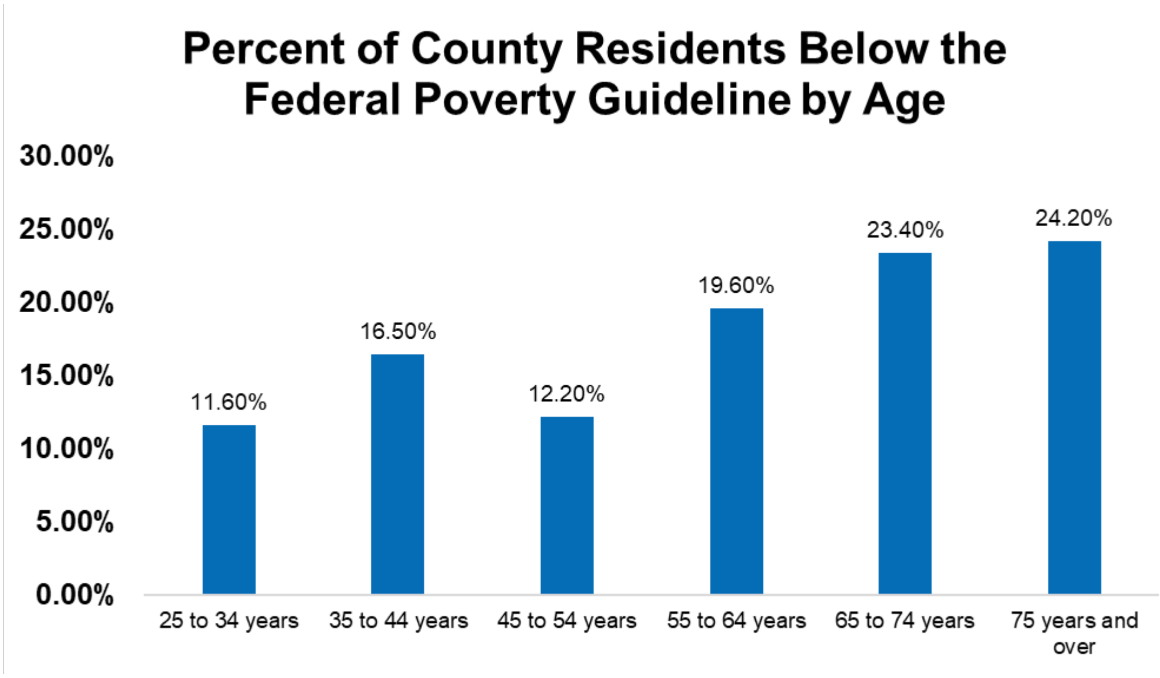
San Mateo County continues to enjoy high GDP, personal income, and property values, yet many of our most vulnerable residents still struggle with poverty and paying for their basic needs. Notably, the County's African American and Latino households experience a higher-than-average poverty rate. Additionally, as noted in past reports, the County's population is aging, and it is therefore important to recognize that nearly a quarter of all retirement age residents fall below the poverty line. Finally, approximately 22,500 households in San Mateo County rely on the Supplemental Nutrition Assistance Program (SNAP), which makes up nearly 9% of all households in the County. With potential changes coming from a new Presidential administration, it will be important for the County to ensure that our most vulnerable residents are able maintain continued access to food, shelter, and necessary services.

Percent of County Residents Below Federal Poverty Guideline by Race and Ethnicity

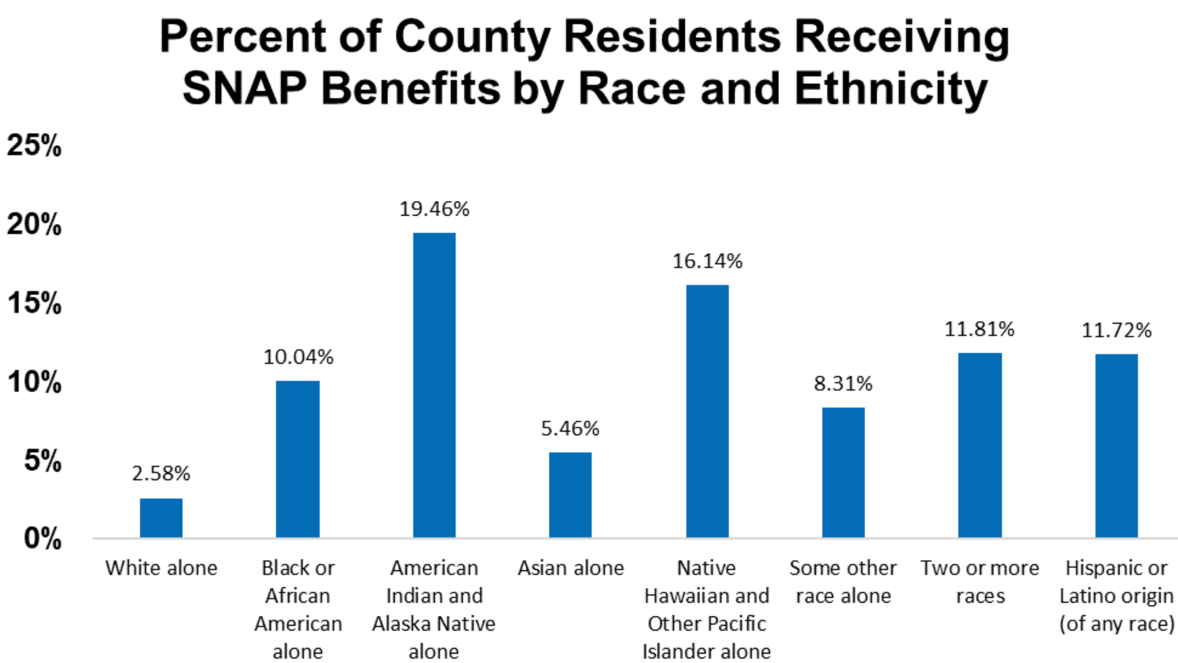


	White	Black or African American	American Indian and Alaska Native	Asian	Native Hawaiian and Other Pacific Islander	Some other race	Two or more races	Hispanic or Latino origin (of any race)
2019	6.00%	11.30%	23.60%	4.90%	11.30%	12.80%	6.50%	11.30%
2020	5.60%	10.40%	24.90%	5.00%	9.10%	10.40%	5.50%	9.90%
2021	5.60%	11.20%	13.60%	5.20%	11.40%	9.70%	5.60%	9.60%
2022	5.80%	12.50%	12.80%	5.20%	11.90%	10.10%	6.40%	9.60%
2023	6.30%	16.90%	0.00%	5.30%	0.00%	11.90%	8.20%	12.20%

For 2023, no data was collected for American Indian & Alaska Native, as well as Native Hawaiian & Other Pacific Islander



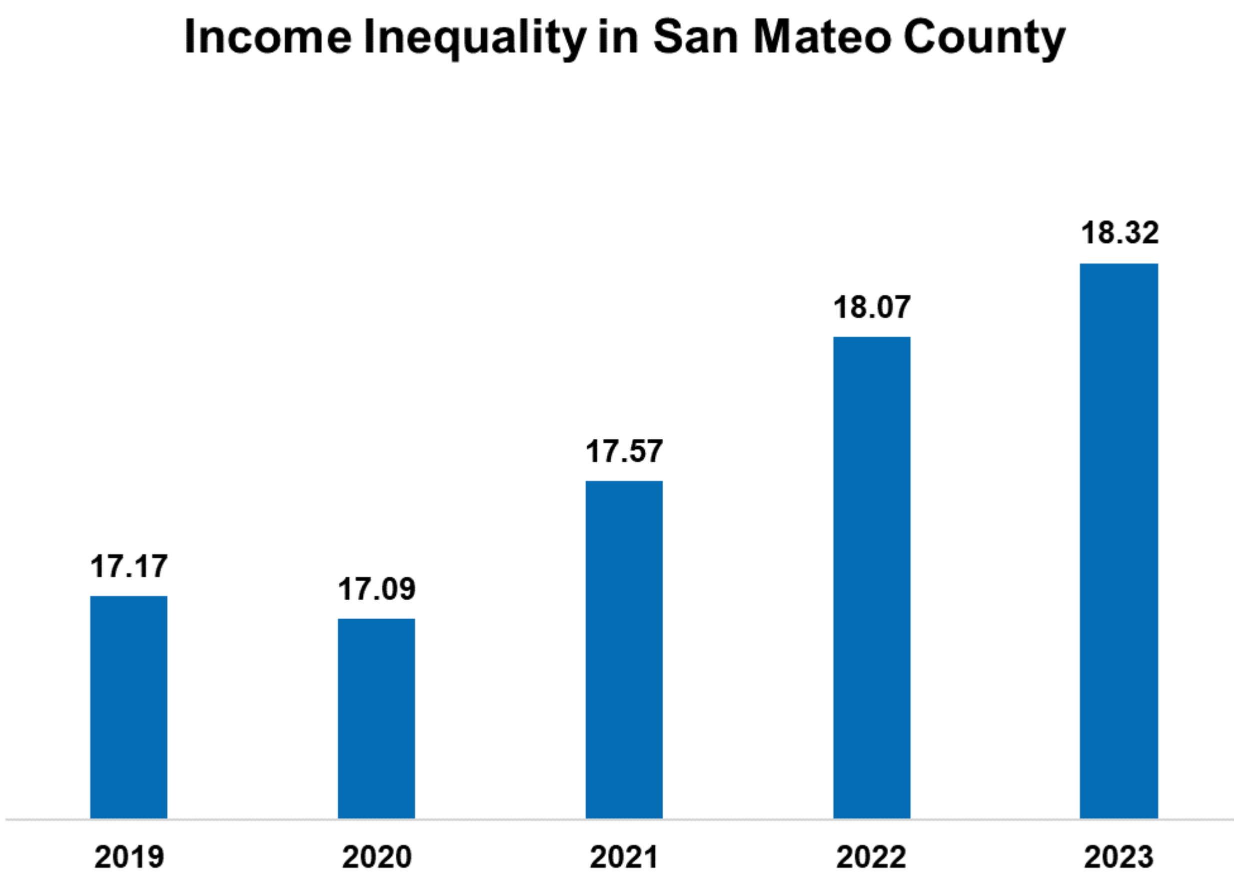
Source: United States Census Bureau: Poverty Status in the Past 12 Months, American Community Survey 1-Year Estimates Subject Tables – 2023. [S1701: Poverty Status in the Past ... - Census Bureau Table]



Source: United States Census Bureau: Food Stamps/Supplemental Nutrition Assistance Program (SNAP), American Community Survey 1-Year Estimates Subject Tables – 2023. [S2201: Food Stamps/Supplemental ... - Census Bureau Table]

C. Income Inequality

Income inequality has continued to rise in San Mateo County, despite a minor drop in 2020, we now see an income inequality ratio of 18.32. This means that the average income of the top 20% of earners is 18.32 times higher than the average income of the bottom 20% of earners in our county. Income inequality poses a problem to our communities in a variety of ways, some of which include: lack of socioeconomic diversity in neighborhoods, reduced access to basic services for lower income residents, increased economic and racial segregation in schools, and distrust in local governments by lower income residents. All of these issues have long lasting eroding effects on the cohesion and livability of San Mateo County.

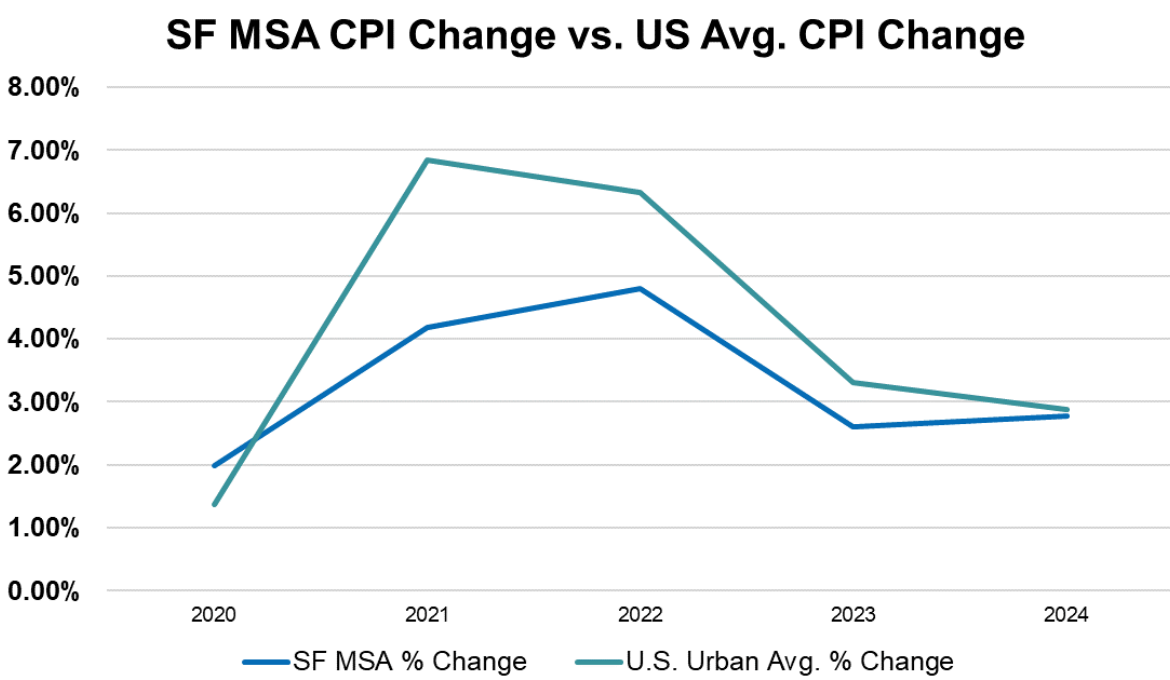


Source: Federal Reserve Bank of St. Louis – Economic Data: Income Inequality in San Mateo County, CA. Income Inequality in San Mateo County, CA (2020RATIO006081) | FRED | St. Louis Fed.

Source: The Brookings Institution: City and metropolitan inequality on the rise, driven by declining incomes. City and metropolitan inequality on the rise, driven by declining incomes

D. Consumer Price Index

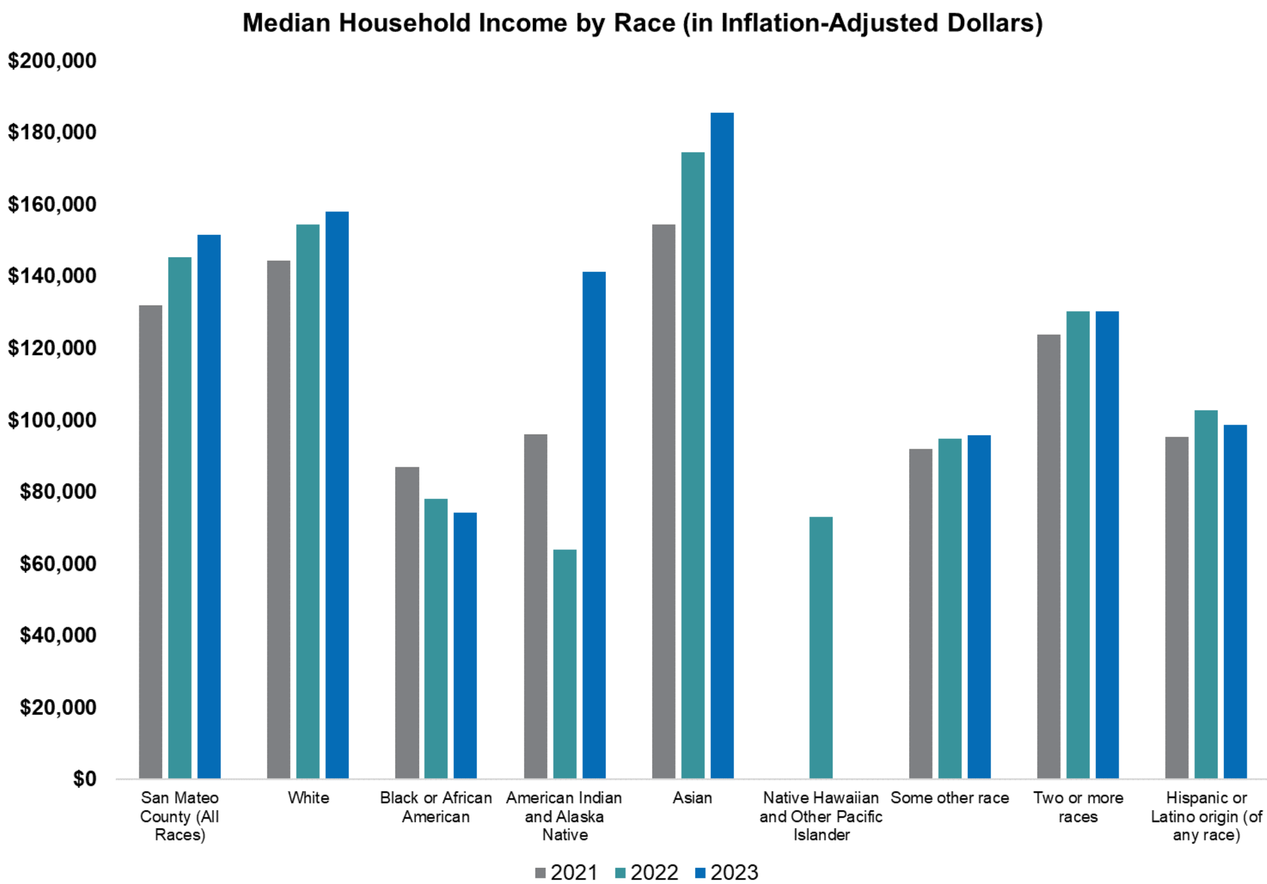
The Consumer Price Index number looks at the price of over 200 different types of goods and services in eight categories: food & beverage, housing, apparel, transportation, medical care, recreation, education & communication, and other goods & services. It is the overall increase in these goods and services, year over year, that can cause financial difficulties for many members of our community. Often, these consumer price increases do not coincide with increases in income, leading to strained household financial resources. Between 2020 and 2024 the CPI for the San Francisco Metropolitan Statistical Area (SF MSA) increased approximately 16%. In comparison, the U.S. urban average CPI (the average CPI for all MSAs in the U.S.) increased nearly 21% in the same time period.



Source: U.S. Bureau of Labor Statistics: Consumer Price Index for All Urban Consumers. [BLS Data Viewer](). Source: U.S. Bureau of Labor Statistics: Consumer Price Index for All Urban Consumers – All Items in San Francisco-Oakland-Hayward, CA. [Bureau of Labor Statistics Data]()

E. Median Household Income

Median household income is an indicator of current economic conditions within communities and can indicate how well households can financially provide for basic needs like food, shelter, and clothing. Overall, San Mateo County household median income has increased year-over-year for the past three years. During this time period, White and Asian households saw healthy increases in their median household income, 9 percent and 20 percent respectively. While Black and Latino households saw decreases; Black household have decreased 15 percent in their median income from 2021-2023, while Latino households saw a modest median income increase followed by a decrease the next year. While the overall household income trajectory is excellent within San Mateo County, this data highlights the disparities that exist within our community as not all race communities are experiencing the same income growth.

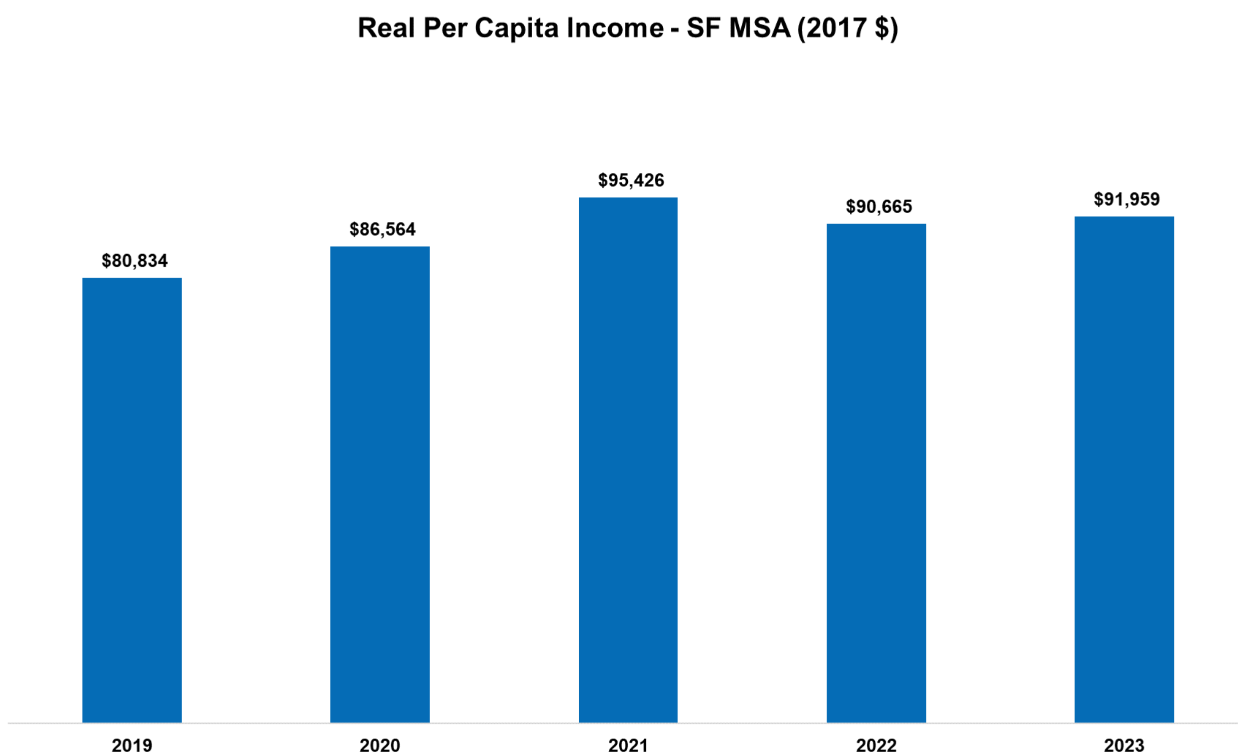


For 2021 and 2023, no data was collected for Native Hawaiian & Other Pacific Islander

Source: U.S. Census Bureau – American Community Survey: ACS 1-Year Estimates Subject Tables (2023). S1903: Median Income in the Past 12 ... - Census Bureau Table

F. Wage Growth

Since 2019, the Real per Capital Income (total area income, divided by population, adjusted for inflation) has grown by nearly $12,000. Like many other indicators, our area saw a spike in incomes in 2021, which was followed by a roughly $5,000 reduction in per capita income and is slowly increasing once again. Without accounting for inflation, the per capita income of San Francisco and San Mateo County, in 2023, was at $168,302.



Source: U.S. Bureau of Economic Analysis: Real Personal Income by Metropolitan Statistical Area. [BEA Interactive Data Application]

G. Childcare Costs

The cost of childcare in San Mateo County is high in comparison to the other counties in the Bay Area. Only San Francisco has more expensive childcare. The median yearly cost for infant care for 2023 was over $25,000, or $2,156 per month (slightly below the cost of the median rent in the county). Additionally, with a median household income of $151,485 (pre-tax), over half of all San Mateo County households would be paying over 17% of their income in infant care (if they utilized childcare services). When childcare costs consume so much of a household's income, the household cannot adequately save and fully participate in the local economy. Both of those issues can have larger impacts to tax revenue for local government and increasethe need for publicly funded services (such as healthcare).

County	Infant Care	Pre-School Care	School-Age Care
Alameda County	$24,066.48	$18,677.84	$13,696.84
Contra Costa County	$22,473.27	$17,406.58	$13,545.05
Marin County	$25,570.94	$19,821.79	$13,843.73
Napa County	$19,983.99	$14,009.60	$13,592.79
San Francisco County	$28,297.70	$21,820.80	$13,803.34
San Mateo County	**$25,869.63**	**$19,996.84**	**$13,848.63**
Santa Clara County	$24,590.41	$18,760.47	$13,800.28
Solano County	$18,526.05	$12,311.73	$11,067.40
Sonoma County	$19,997.46	$13,832.10	$13,548.72

Source: U.S. Department of Labor – Women's Bureau: Childcare Prices by Age of Children and Care Setting. Childcare Prices by Age of Children and Care Setting | U.S. Department of Labor.

Source: U.S. Census Bureau: San Mateo County, CA Profile. San Mateo County, California - Census Bureau Profile

Source: Care.com: This is how much child care costs in 2024. How Much Does Child Care Cost? 2024 Cost of Care Survey

H. Median Home Prices

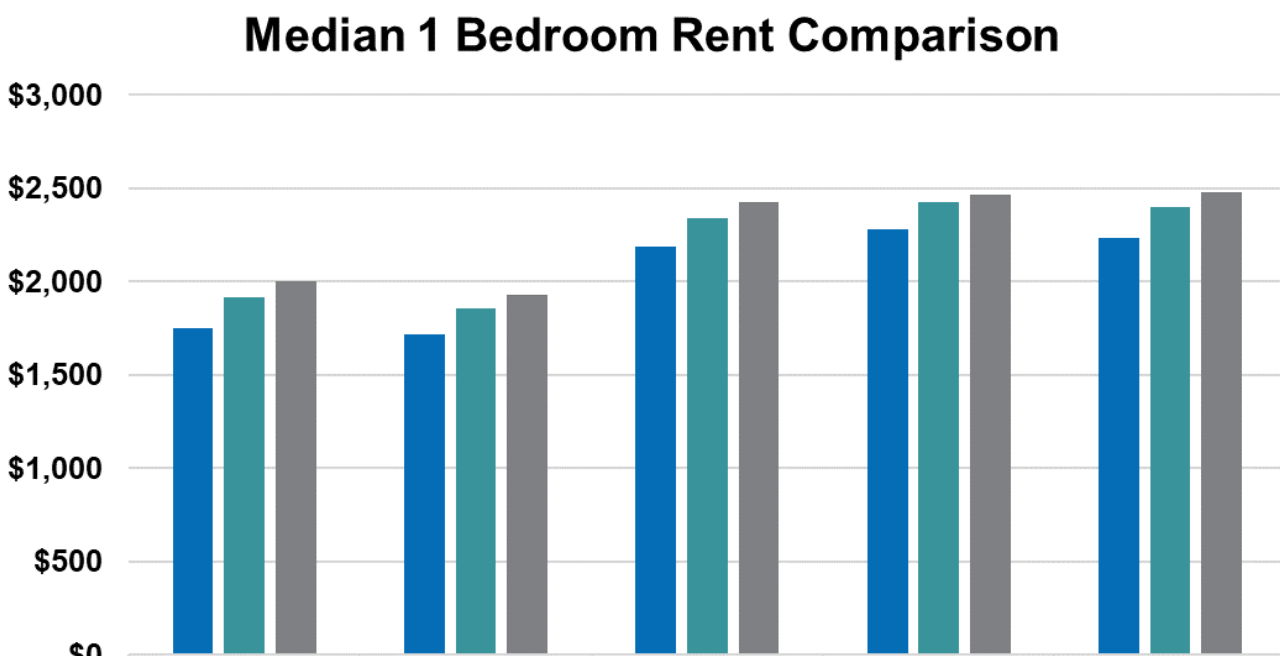
For many years the median home prices in San Mateo County have been higher than the Bay Area's regional median home prices. However, San Mateo County home buyers have seen over $400,000 of increase in the median home price from 2020 through 2024; this rise in median home price is second only to Santa Clara County. These home prices have tracked very closely with the per capita income of San Mateo County residents, as well as the County's GDP. However, this still places the average County resident into a purchasing scenario where their home is valued at 11.5 times their salary. Combined with the high cost of borrowing in recent years, this has led to an extremely difficult housing market for many would-be home buyers.

County Region State	2020	2021	2022	2023	2024
CA	$650,157	$785,641	$820,308	$815,211	$869,562
S.F. Bay Area	$1,012,816	$1,256,308	$1,277,458	$1,217,479	$1,316,325
Alameda	$1,001,272	$1,242,958	$1,300,088	$1,210,917	$1,303,446
Contra-Costa	$737,000	$902,542	$897,825	$842,178	$878,720
Marin	$1,444,417	$1,601,875	$1,732,750	$1,600,417	$1,688,600
Napa	$769,490	$911,592	$990,583	$892,271	$946,300
San Francisco	$1,646,125	$1,810,700	$1,775,333	$1,553,125	$1,650,850
San Mateo	**$1,675,558**	**$2,010,708**	**$2,025,042**	**$1,936,917**	**$2,082,750**
Santa Clara	$1,372,408	$1,629,063	$1,749,708	$1,741,333	$1,913,366
Solano	$489,754	$565,063	$601,292	$585,603	$593,660
Sonoma	$695,219	$767,267	$826,780	$829,037	$840,272

Source: California Association of Realtors: Median Prices of Existing Detached Homes Historical Data. MedianPricesofExistingDetachedHomesHistoricalData.xlsx

I. Median Rent

While the housing market has been difficult, compared with the larger Bay Area and State, San Mateo County renters have seen fairly stagnant median rental prices since 2021. Looking at the median rent of a 1-bedroom household between 2021 and 2023, we can see that rental costs remain high in San Mateo County. However, the median rent has only increased about 8 percent in that time, whereas the median rent in Alameda County has increased nearly 15 percent.

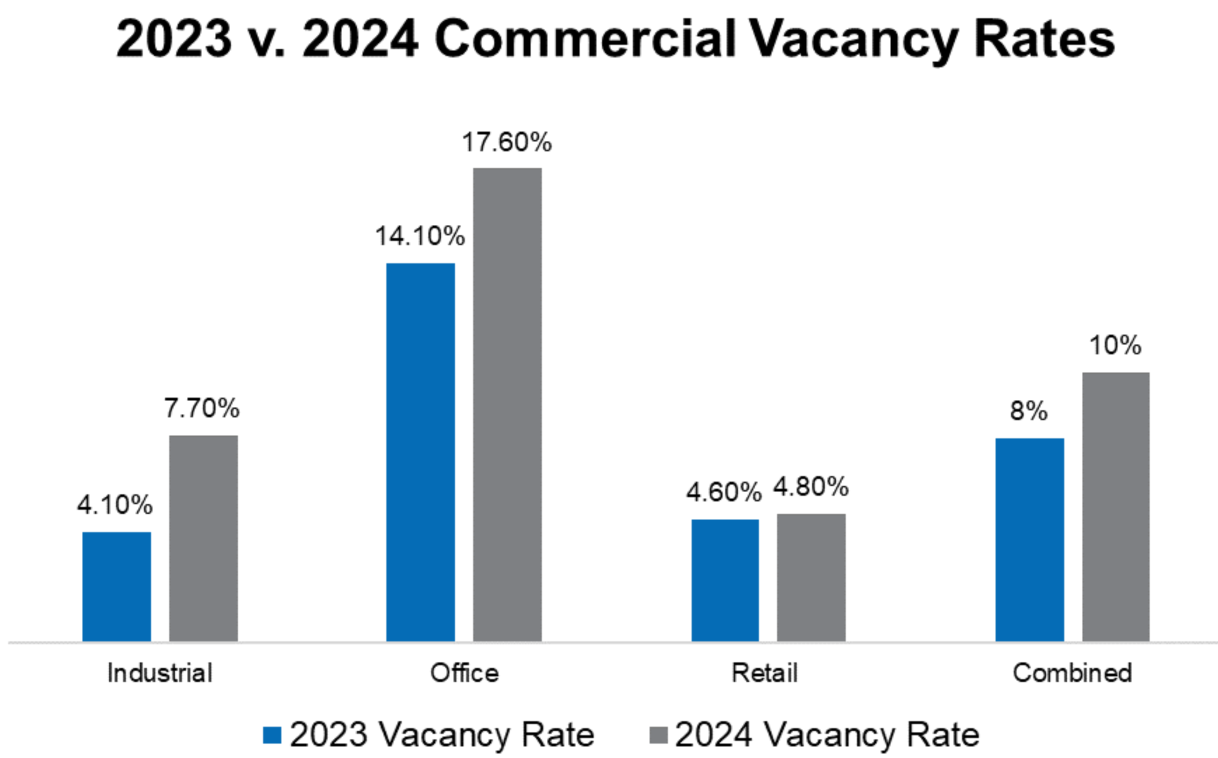


	Alameda County	Contra Costa County	San Francisco County	San Mateo County	Santa Clara County
2021	$1,751	$1,716	$2,189	$2,278	$2,234
2022	$1,915	$1,857	$2,338	$2,424	$2,398
2023	$2,005	$1,933	$2,425	$2,468	$2,479

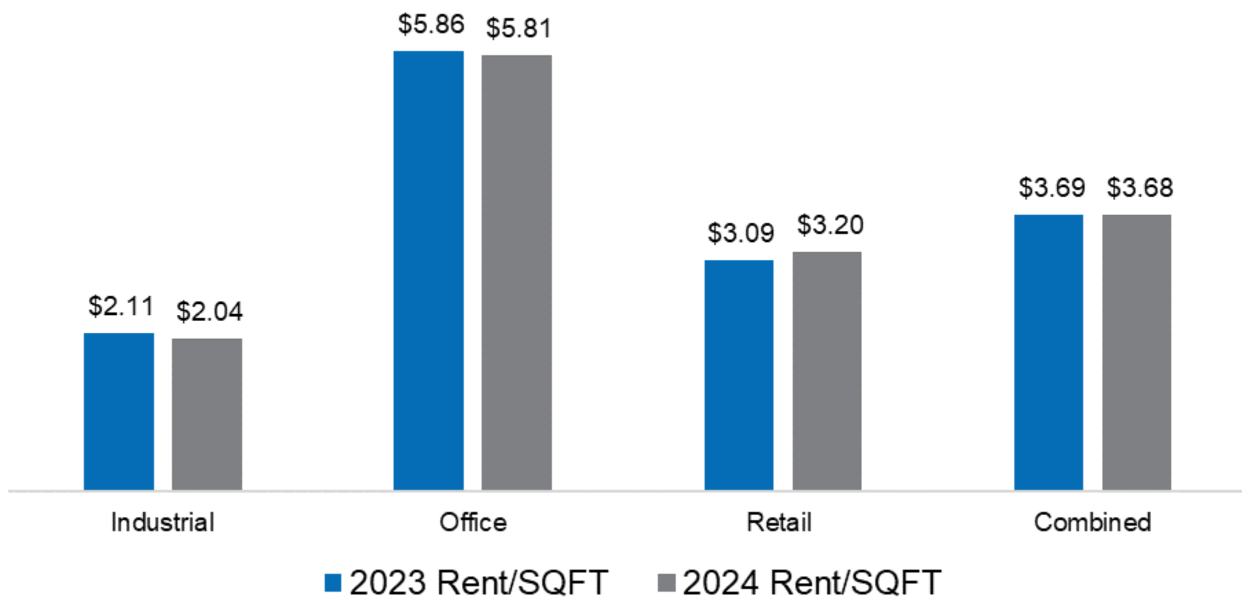
Source: Zillow: Zillow Home Value Index, All Homes Time Series, Smoothed, Seasonally Adjusted. Housing Data - Zillow Research

J. Vacancy Rates

With many organizations downsizing, shifting office locations, and changing their employee work schedules, the entire Bay Area has seen higher commercial vacancy rates post-pandemic. Since last year, these vacancy rates have increased in San Mateo County, especially amongst industrial and office properties. At the same time, the combined rental rate per square foot for commercial properties has only decreased by $0.01. With increasing housing costs, slowing housing development, and organizational re-structure amongst many large Bay Area companies, it is unclear if commercial vacancy rates will decrease in the year to come.



2023 v. 2024 Commercial Rent per Square Foot

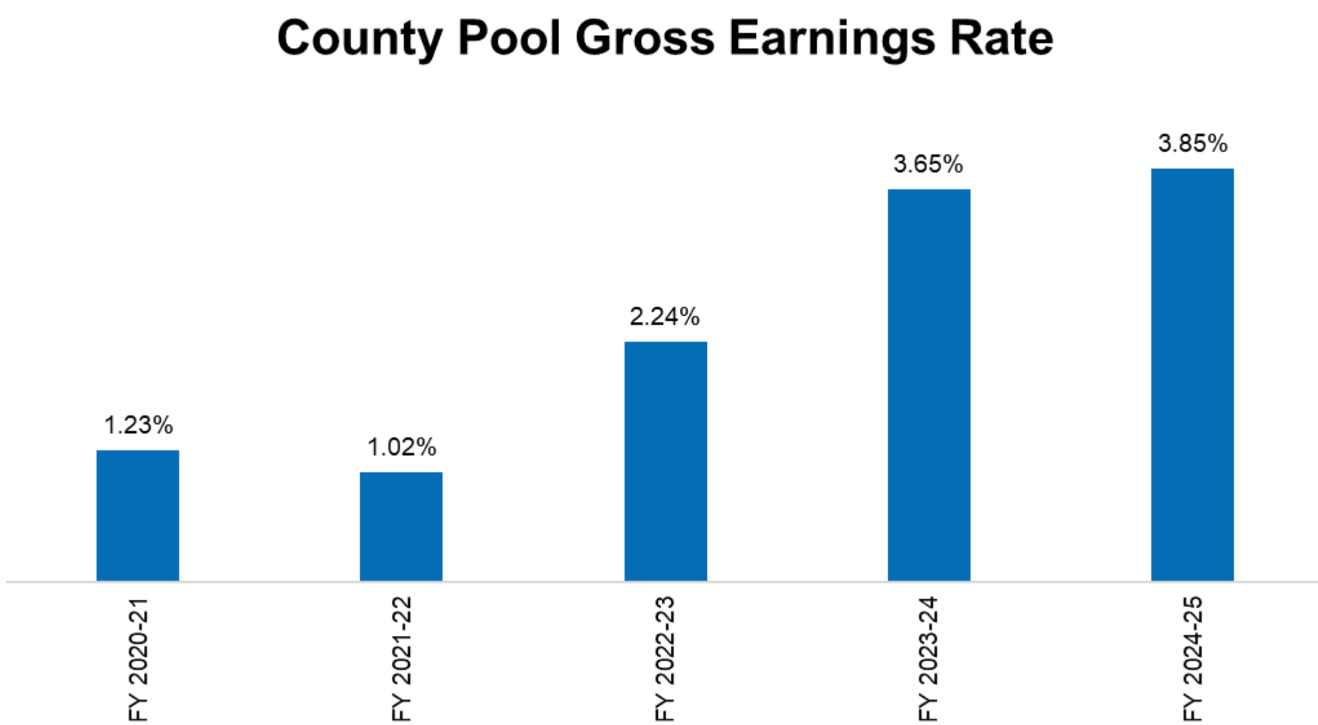


Source: Kidder Matthews: California, Peninsula/San Mateo Market Reports. [Market Reports | Kidder Mathews]

K. County Interest Earnings

As low-yield investments from the post-pandemic period mature, the County pool is expected to experience an increase in overall yield, as these funds are reinvested at higher current rates. Investments within the pool, including corporate notes, commercial paper, bank CDs, and asset-backed securities, should continue to benefit from stable economic and corporate fundamentals. While potential policy uncertainties—such as changes in taxes, tariffs, immigration, and regulation—pose risks, market sentiment currently favors a pro-growth outlook.

Key risks to this outlook include a potential economic slowdown, regulatory and policy uncertainties, interest rate shocks, and geopolitical instability. Overall, the yield of the County pool is projected to rise as older, low-yield investments are reinvested at more favorable rates. For the upcoming year, the County anticipates earnings of approximately $300 million, with 50 percent of these earnings allocated to the County Fund.



Sources: San Mateo County Treasurer/Tax Collector: County Pool Dollar Earnings, County Pool Gross Earnings Rate. [Treasurer-Tax Collector (1500B) | San Mateo County Performance]