



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

Board Meeting Date: 2/8/2022

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: Michael P. Callagy, County Manager Roberto Manchia, County Chief Financial Officer
Subject: FY 2021-22 County Mid-Year Budget Update

RECOMMENDATION:

Recommendation to:

- A) Accept the FY 2021-22 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) Accept the FY 2021-23 Children, Youth, and Families Budget.

BACKGROUND:

On September 28, 2021, the Board of Supervisors adopted the FY 2021-22 Budget. This Mid-Year Report provides an update on the FY 2021-22 Budget and a look ahead to the FY 2022-23 Budget.

DISCUSSION:

As 2022 begins, we would like to take an opportunity to update the Board of Supervisors on the state of the current budget and the work that we are doing around the priorities that were set when this budget was adopted. It is hard to believe that we are moving into what will be the third year of the COVID-19 pandemic. Over the past two years, we have endured shelter in place orders, mask mandates, business closures, testing and vaccines. Our residents and businesses have faced financial hardships, loss of loved ones and tremendous uncertainty and stress in their lives. While we continue to endure more uncertainty, we must take a moment to acknowledge the way this county, and more importantly, this community has come together not only to respond to the most critical needs of those most impacted but also in the ways we are continuing to build back better. As Desmond Tutu once said, "Hope is being able to see that there is light despite all of the darkness."

Although the pandemic resulted in many hardships, it also provided the opportunity to take decisive action on the priorities set by this Board. Through this Board's leadership as well as sound financial planning, we continue to not only respond to the immediate needs of our community but also to plan and anticipate future

needs. The County remains in good financial standing and as you will read throughout this report, the budget adopted by this Board for FY 2021-22 tracks closely with current revenue trends and expenditures.

It is important to note that changes in negotiated labor agreements are not included in this Mid-Year Report though such changes will impact the fiscal year-end budget.

To date, both county sales tax and property tax revenue are tracking slightly higher than originally projected. Although much of the sales tax increase is due to increased traffic at the airport, the levels of travel have still not returned to pre-pandemic levels. Property tax continues to see growth, but at a much lower rate than in previous years due to low inventory of available properties for sale.

In addition to the slight increase in revenue projections, the County is anticipating a year-end fund balance of \$153 million due to delayed capital projects, ERAF and staffing vacancies. More details regarding these funds are included in this report.

The County's financial standing has allowed for a continued focus on helping our community recover from the pandemic. Recovery efforts, which have been front and center since the beginning of the pandemic, continue to be a lifeline to both individual residents as well as the businesses that operate in our community. Since the fall of 2020, over \$218 million of funding has been distributed to support these efforts, including initiatives for rental assistance, meals for seniors, expanded public WiFi and small business support. You'll have the opportunity to read more about these initiatives throughout this report but enough cannot be said about the individuals who continue to bring new and innovative ideas to the table and have then executed these ideas into reality. This work has been a true collaboration and shows what can be accomplished when we work together.

While recovery efforts have been a primary focus to ensure our community remains strong, we have not lost sight of one of our highest priorities – achieving functional zero homelessness, where every unsheltered homeless person who chooses assistance can be sheltered in an emergency shelter or in temporary or permanent housing. Just over a year ago, the County made unprecedented strides towards this goal by purchasing three hotels to provide more housing options for those in need. The TownePlace Suites, now Shores Landing, provides 93 units of permanent supportive housing for extremely low-income seniors, while the Pacific Inn and the Coastside Inn were purchased and have since been transformed into non-congregate shelters for homeless individuals. The Coastside Inn - now named Coast House - is the first shelter on the coast-side. Together, these properties provide over 200 units of safe living accommodations for those most in need.

Efforts towards ending homelessness did not stop here. Building on the success of last year's hotel acquisitions, and through the intensive work by staff from the Department of Housing, Human Services Agency, the Project Development Unit, County Counsel and other County departments, the County applied for additional Homekey funds to support the Navigation Center. The County was awarded \$55.3 million to support the Navigation Center, resulting in the largest housing grant in the County's history, and was also awarded \$13.5 million for the purchase of the Stone Villa Hotel which will be used as a homeless shelter.

Although great progress has been made, there is still much work to be done and this work cannot be done by the County alone. For this reason, the County's focus in 2022 will be on Working Together to End Homelessness. The year-long project will involve educational offerings, tours of affordable housing and shelter sites as well as opportunities to volunteer with homeless services providers. A website with more information on Working Together to End Homelessness in 2022 will be available soon.

Another focus in 2022 will be to operationalize equity into all county functions. Through the Office of Racial and Social Justice, work continues to refine departmental performance measures, provide more intense

training for staff, and develop a Countywide Racial and Social Equity Action Plan to guide future efforts. You will read more detail on the county's work on equity and performance in the latter parts of this report.

The aforementioned efforts encompass only a fraction of what our staff and community have accomplished in these past two years. While the work completed has been nothing short of extraordinary, we know that the ongoing pandemic and cumulative stress has also taken a toll on staff. We have relied upon our staff, especially our frontline staff, to show up every day while balancing the needs of their family and their own health. In just the past few months with the surge of the Omicron variant, we have had to work through staffing shortages which have only put more pressure on those who remain healthy to carry the load. The science is clear that with increased stressors, we require increased buffers to stay in equilibrium. It is imperative that we continue to support our employees and stay committed to their wellbeing. While we face much uncertainty in the year to come, we continue to be ready to respond to any challenges that arise. We will remain focused on our priorities and continue to strive towards our goals. The last two years have proven our ability to be responsive to the ever-changing environment and through continued collaboration with our community partners, residents, and businesses, we can and will succeed.

The following sections of this report provide the Board with summaries of priority areas of the County's response to the pandemic and our financial status.

A) HOMELESSNESS- WORKING TOWARD FUNCTIONAL ZERO

The Navigation Center planning is now underway, with constructions scheduled to be completed in late 2022 and shelter operations to begin as soon as the Navigation Center can be occupied.

The Navigation Center will have the capacity to provide 240 non-congregate accessible sleeping units, approximately 66 percent of which will contain *en suite* restrooms. The Navigation Center will replace Maple Street Shelter when it opens in late 2022. With the completion of the Navigation Center and the ongoing operations at the previously acquired hotels, the County's non-congregate shelters will be able to serve approximately 400 adults at full capacity, while additional capacity will continue through the congregate shelters at WeHope and Safe Harbor. It is projected that when the Navigation Center becomes operational, the County will have achieved functional zero homelessness in that every unsheltered homeless person who chooses assistance can be sheltered in an emergency shelter or in temporary or permanent housing.

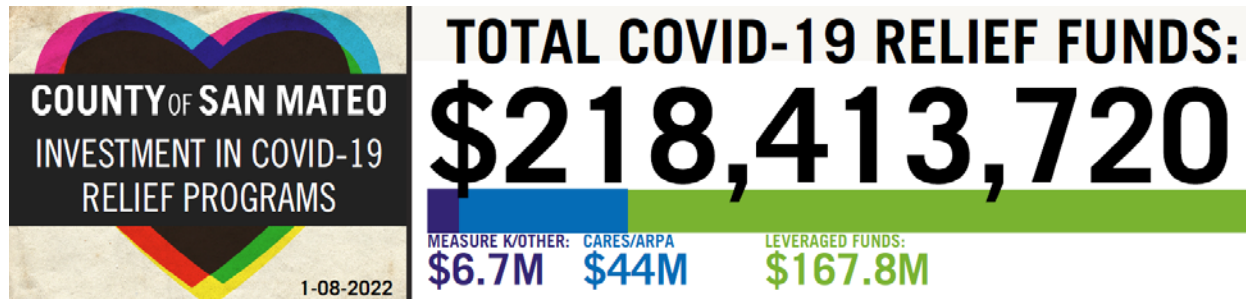
In addition to the \$55.3 million that was awarded for the Navigation Center, an additional \$13.5 million was awarded through the Homekey application and will be used to purchase, rehabilitate, and operate the Stone Villa Inn in San Mateo. Stone Villa Inn, a 44-unit hotel, will provide immediate temporary shelter services and skill-building to help residents exit to permanent housing. The Board of Supervisors also recently declared its intention to purchase the Comfort Inn and Suites Hotel in Redwood City. Once purchased, this 51-unit hotel would be converted into affordable housing for homeless individuals referred by Coordinated Entry Services.

B) COVID-19 RECOVERY UPDATES

Recovery Initiatives/Programs

San Mateo County, in collaboration with over 300 community residents and partner organizations, developed a Pandemic Recovery strategic plan in 2020 and began implementing plan recommendations in

the fall of that year. Over \$218 million in County, city, federal, state and private donor funds have been distributed since the fall of 2020 to implement recovery recommendations.



Highlights of current and ongoing Recovery Initiative programs include:

- The County contributed over \$1 million for community based, intensive outreach for the California Emergency Rental Assistance Program (ERAP). Over the past ten months, community partners including the Core Services Agencies have held 47 ERAP webinars, sent almost 4,000 emails to potential applicants, sent out 2,300 letters to property owners, and made over 8,000 connections with residents seeking assistance via social media. About 9,349 households have applied for rental assistance.
- Through an expansion of Meals on Wheels programs throughout the County, almost 1,000 low-income seniors have had five meals a week delivered to their homes since July 2021. These seniors in need first came to the attention of the County through the Great Plates program and through the commitment of the Board, are continuing to receive food assistance since the Great Plates program ended.
- With recovery funds, over 284 additional public WIFI sites were set up to which over 82,000 people have connected, an average of 13,234 a month.
- The Choose Local San Mateo County app launched in November of 2021. The app encourages county residents to patronize locally owned businesses through an incentive point program. Choose Local is being piloted in eight cities/areas in the county, and has already expanded to two additional cities, with plans to expand countywide in the coming months. Since the start of the program, 1,800 users have downloaded Choose Local and the promotion of the app will continue through the new year.
- Multiple small business assistance programs have been conducted over the past year in partnership with the San Mateo Credit Union Community Fund and the San Mateo County Economic Development Agency. These programs have included the restaurant, breweries and wineries grants; the ongoing small business grants targeted to businesses that hadn't received state or federal assistance; and the current micro-food business grant program. In addition, a special grant program for up to 25 newly permitted operators of micro enterprise home kitchens (MEHKOs) will soon open.
- In addition, the County recently applied for and received almost \$1,000,000 in state funding for a micro business grant program that will provide \$2,500 grants to extremely small businesses in the County. This grant program will be administered in partnership with the Renaissance Entrepreneurship Center.

Planning began last fall for the next phase of the Recovery Initiative. One-time funding for the next phase of the Recovery work includes \$10 million remaining from the first tranche of American Rescue Plan Act (ARPA) funds and an expected additional \$74.5 million in the second tranche. To update community priorities which will guide the ARPA funding allocation plan, the Silicon Valley Community Foundation (SVCF) funded a contract with the John W. Gardner Center for Youth and Their Communities at Stanford to work with the County's Chief Equity Officer. That work included gathering current input from the County's most impacted communities. Through this process, the County received 1,000 survey responses from community members; 200 responses on posters posted at seven locations; and held six focus group

meetings with 49 participants. All outreach events were conducted in English, Spanish and Chinese and the surveys were provided in seven languages.

The Gardner Center work reaffirmed the community's top recovery priorities: housing and shelter; food and nutrition; job training and assistance; mental health and wellness and anxiety about housing and food insecurity; and childcare for kids ages 0-5 and out of school care for kids 5+. The SVCF also funded a contract with the Boston Consulting Group (BCG) to use community priorities affirmed by the Gardner Center along with input from housing partners, childcare providers and organizations, after-care providers, and workforce development partners to develop a proposed ARPA allocation plan for the remaining \$10,000,000 from the first tranche as well as a proposed allocation plan for the second tranche of ARPA funds totaling \$74,500,000.

The tranche 1 funding proposal focuses on projects aligned with community priorities that can be implemented quickly including "test and learn" pilot projects to determine which efforts should be expanded with funding from the second tranche. The focus of the proposed plans for both tranches is moving from relief to investments in building a more equitable and better future for the whole community. The ARPA funding proposals continue to be refined, but currently include significant investments in housing, childcare, workforce development, and economic resilience. The proposal for the remaining \$10,000,000 in the first ARPA tranche will be presented to the Board on February 8, 2022. The second tranche plan will be presented to the Board for review in the coming months.

Testing and Vaccinations

As the County continues to endure the COVID-19 omicron variant surge, coronavirus testing has become more imperative than ever. The omicron variant is more contagious than previous variants and breakthrough infections among the fully vaccinated are more common. Safe, easy and no-cost testing is widely available at County-sponsored locations for everyone who works or lives in San Mateo County regardless of symptoms. In the past 30 days, the County has administered 330,058 tests with a positivity rate of 14.8 percent, far outpacing last winter's COVID-19 surge in terms of case numbers.

There are two types of COVID-19 tests: Polymerase chain reaction (PCR) tests, which typically return results within 72 hours, although times vary depending upon demand, and rapid antigen tests, often referred to as at-home test kits, which return results in a few minutes. The County offers PCR testing at 11 sites which it operates through contracted providers Curative and LHI/OptumServe. During the past 30 days, the County's test sites have returned test results within an average of 1.6 days. Vaccination remains the most effective tool to reduce the impact of COVID-19 on residents. The County, along with its community partners, is dedicated to supporting ongoing vaccination efforts. The County's efforts to vaccinate residents against the COVID-19 virus and its variants, led by this Board in partnership with community partners, continues to provide vaccinations to anyone who is eligible. There are currently 632,241 individuals who have completed the COVID-19 vaccination series. This represents 92.2 percent of eligible county residents. The County and its partners have administered 1,671,783 vaccine doses overall.

The County has taken an equity-based approach in providing vaccinations and boosters to residents, utilizing two main strategies: improve communication building trust, engagement, and participation in vaccine efforts and to enhance targeted vaccination strategies to ensure equitable distribution to at-risk communities. In FY 2021-22, the County utilized the San Mateo County Event Center as a mass vaccination site to provide vaccinations and booster shots to eligible residents, delivering 68,785 vaccines to adults ages 12 and up and 7,585 vaccines to children ages five to eleven between early October and mid-December. The County Health System and its community partners have used community-based strategies to bring vaccination sites to vulnerable neighborhoods, established mobile vaccine clinics, and

focused on accessibility to registration and appointment setting to reduce barriers to residents becoming fully vaccinated and boosted.

C) Equity

Equity in Departmental Performance

In continuation of the Board of Supervisor’s 2020 prioritization of equity and social justice in the County, the performance program in this budget is focused on developing equity as a critical component of Departments’ performance. Each department has evolved many of their performance measures not only to incorporate equity, but also to ensure that the measures are meaningful and informative to their programs and services. Many of those measures were new and others were prior measures whose data was disaggregated by a demographic factor to provide insight into existing discrepancies in our programs and services. At the conclusion of the last fiscal year, departments redesigned their performance pages on the online Socrata platform to shift to a story telling format inclusive of primary data alongside descriptions of data significance. Now at mid-year, departments will be updating their data and stories online in Socrata. More than half of the performance measures countywide are new as of the last Recommended Budget and about 85% of all measures have FY 2021-22 data and stories to be updated on Socrata by the end of January 2022. Department Performance measures are organized by agency and can be found on the [County Performance](#) site.

As a next step to performance and equity, eight departments, including the County Manager’s Office will embark on a year-long training where they will spend time examining the root causes of inequity and develop mini actions plans to address how their own department operations, programs and service delivery might be adjusted to ensure more equitable outcomes for all. Throughout this process, performance metrics will be developed and utilized to measure progress over time.

Countywide Equity Efforts

In addition to performance, several other countywide equity efforts are underway in an effort to operationalize equity into all government operations. A few highlights include:

- **Inter-departmental Core Equity Team** – In September 2021, the inter-departmental core equity team was expanded to include representation from every department. The team’s purpose is to advance countywide equity projects, review and provide input on the development and progress of countywide equity efforts, and represent departmental perspective. The team is in the process of drafting a Countywide Racial and Social Equity Action Plan that will serve as a central location for all county equity efforts as well as provide accountability to these efforts. Several committees were developed to address high priority areas which include Staff Training, Staff Well-being, Community Engagement, Policy, Performance, and Equity Tools. This plan will be coming to the Board in early 2022.
- **Government Alliance for Race and Equity Staff Survey** – In partnership with the Government Alliance for Race and Equity (GARE), a countywide survey was administered in December 2021. This biennial survey will provide a baseline from which to track progress over time as it relates to both racial equity and equity more broadly. Even with repeated management encouragement, the response rate was low at approximately 35 percent. This could be due to the timing of the survey overlapping with the holidays, the length of the survey, and the discomfort people have with sharing experiences related to equity. GARE will

provide a summary report of key findings that will be utilized to further develop and refine the Racial and Social Equity Action Plan.

D) UPDATE ON FINANCIAL CONDITIONS

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 2021-22) 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 2022-23 starting Fund Balance.

County of San Mateo Agencies by Fund	FY 2021-22 Budgeted Reserves	FY 2021-22 Est. Year-End Fund Balance	Variance
Operating Depts - General Fund			
Criminal Justice	43,378,465	58,829,624	15,451,159
Health Services	10,695,898	10,403,924	(291,974)
Social Services	38,540,857	45,275,446	6,734,589
Community Services	14,853,762	19,979,012	5,125,250
Admin-Fiscal	18,340,724	38,005,395	19,664,671
Subtotal Operating Depts - General Fund	125,809,706	172,493,401	46,683,695
Non-Departmental - General Fund			
Non-Departmental Services	186,761,910	293,295,721	106,533,811
Subtotal Non-Departmental - General Fund	186,761,910	293,295,721	106,533,811
Non-General Fund			
Health Services	3,264,979	3,231,159	(33,820)
Community Services	156,460,206	266,987,583	110,527,377
Admin-Fiscal	20,088,833	23,008,255	2,919,422
Subtotal Non-General Fund	179,814,018	293,226,997	113,412,979
Total ALL Funds	492,385,634	759,016,119	266,630,485

Overall variance is due to salary and benefit savings from vacant positions that are hard to fill, particularly given recent trends in the labor market. The variance in Criminal Justice is mainly due to ongoing staffing vacancies within the Probation department as changes in legislation have resulted in a reduction of clients served. In FY 2022-23, adjustments will be made to reduce the department's Net County Cost. The variance in Admin-Fiscal is mainly due to IT and capital projects that have been budgeted but will not be completed within the fiscal year. The variance in Non-Departmental Services is primarily due to several factors including a \$21 million repayment for the Cordilleras facility replacement

project which will be utilized to pay for COB3, \$57 million in Excess ERAF due to actual revenue received exceeding budget, \$9 million in former RDA residual and pass-through payments, \$6 million in state mandated cost reimbursements, and \$4 million due to an increase in secured property taxes as well as general sales and use taxes collected countywide.

Property Taxes

Property taxes accounted for nearly \$333.3 million of the County's General Fund in FY 2020-21. Based on the estimated levy (which includes secured, unsecured, and homeowner exemptions), the County's property tax revenue for FY 2021-22 is expected to be \$349.5 million, an increase of 4.7 percent.

While home sale prices have continued to increase during the pandemic, the limited inventory of homes for sale, combined with the effect of Prop. 13 on limiting property tax increases, has resulted in a lower year-over-year increase in property taxes, compared to the decade prior.

Property Tax In Lieu of Vehicle License Fees (VLF)

VLF is a State obligation to counties and cities which pursuant to State law, is funded from non-basic aid school districts' ERAF monies and property taxes. The State backfills school districts for any funds used to pay the State's VLF obligation.

For FY 2021-22, the VLF amount due to the County is \$137.5 million. As of December 2021, only \$104 million is available from the statutorily designated sources, leaving a \$33.5 million VLF shortfall for the County. The available funds are scheduled to be distributed in two equal parts in December 2021 and April 2022.

The FY 2021-22 \$33.5 million VLF shortfall is \$23.5 million less than the FY 2020-21 \$57 million VLF shortfall. The VLF shortfall decreased because there was an additional non-basic aid school districts in the current fiscal year compared to the prior fiscal year.

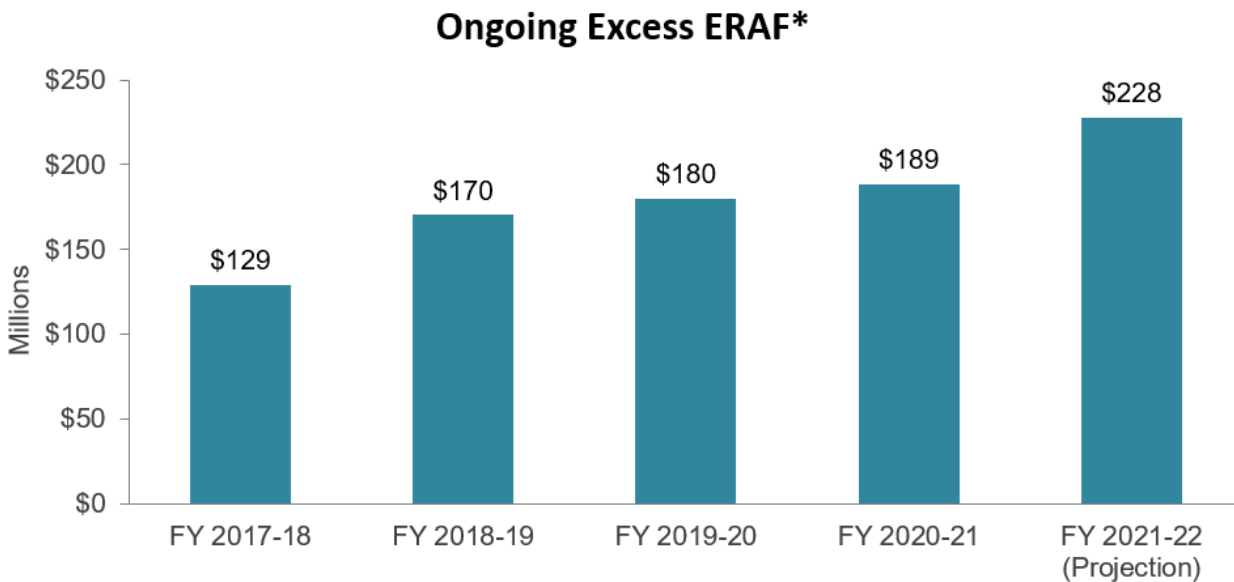
VLF shortfalls are expected to continue due to the overall trend in the declining number of non-basic aid school districts that fund VLF. As in prior years, the County and cities will seek an appropriation in the State budget to be made whole for the FY 2021-22 VLF shortfall. The State's FY 2022-23 budget includes an appropriation for the FY 2020-21 \$57 million shortfall.

Excess Educational Revenue Augmentation Fund (ERAF)

Pursuant to Revenue and Taxation Codes 97.2 and 97.3, property tax contributions made by the County, cities, and special districts to the local Education Revenue Augmentation Fund (ERAF) in excess of State-mandated school funding levels are returned to the contributing governmental entities. The amount of monies returned (referred to as "Excess ERAF") may decline in the future based on changes to the school funding methodology or other State laws. In 2021, the California School Boards Association (CSBA) initiated litigation to challenge an aspect of the State Controller's Office's (SCO) guidelines for calculating Excess ERAF. The CSBA contends that charter schools should be funded by ERAF in the same way as school districts, which would decrease the County's share of Excess ERAF. Three bay area counties have joined the lawsuit in support of the SCO guidelines. This dispute aside, the legislature has historically sought to utilize local ERAF monies to fulfill State obligations.

In light of the uncertainties concerning the amount of Excess ERAF to be returned each year, the County budgets only fifty percent of the average of the Excess ERAF received in each of the last 10 fiscal years.

Any remaining Excess ERAF funds are then utilized for one-time purposes, such as payment of the County’s retirement obligations, capital projects, as well as to replenish the County’s General Fund Reserves. For FY 2021-22, the County’s ongoing Excess ERAF share is estimated to be \$228 million. This estimate represents a \$39 million increase from the prior year, including a \$20.2 million increase in property tax revenues shifted to ERAF due to growth in assessed values and a \$18.8 million decrease in school districts’ ERAF entitlement and funding for special education. The overall increase in Excess ERAF funds is inversely related to the shortfall of VLF funds (referenced earlier in this report) due to the declining number of non-basic aid school districts in the County and decreased property tax revenues from these school districts. The following table shows the General Fund’s share of Excess ERAF received since FY 2017-18, including the FY 2021-22 projection.



*Note: 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 issued from the California Department of Education, which takes 2 years from the end of the fiscal year. Thus, the Controller’s Office has adopted a policy to stagger Excess ERAF distributions for any given fiscal year.

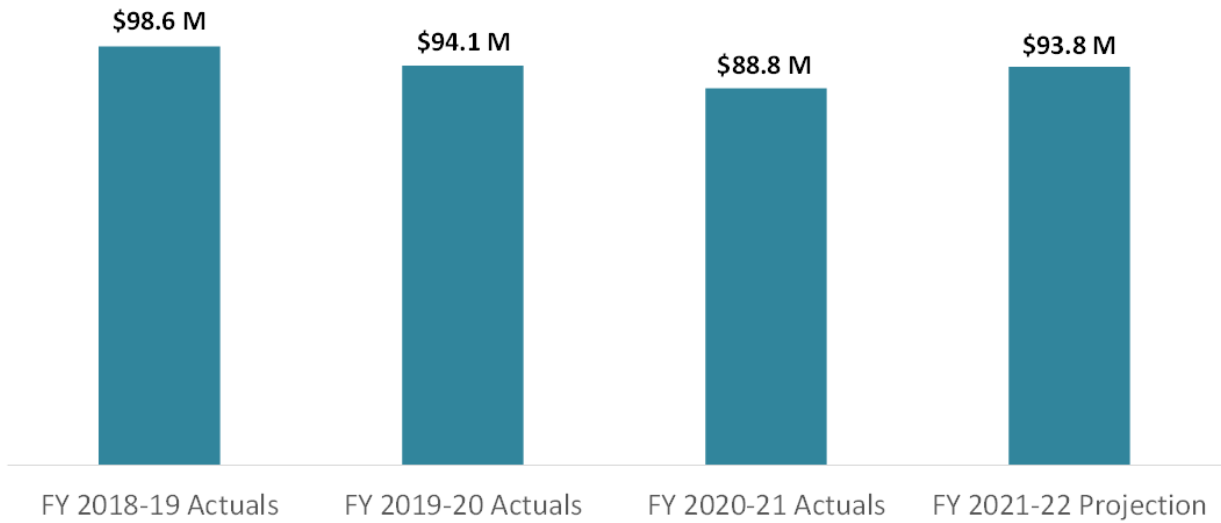
County Sales Tax Revenue

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:

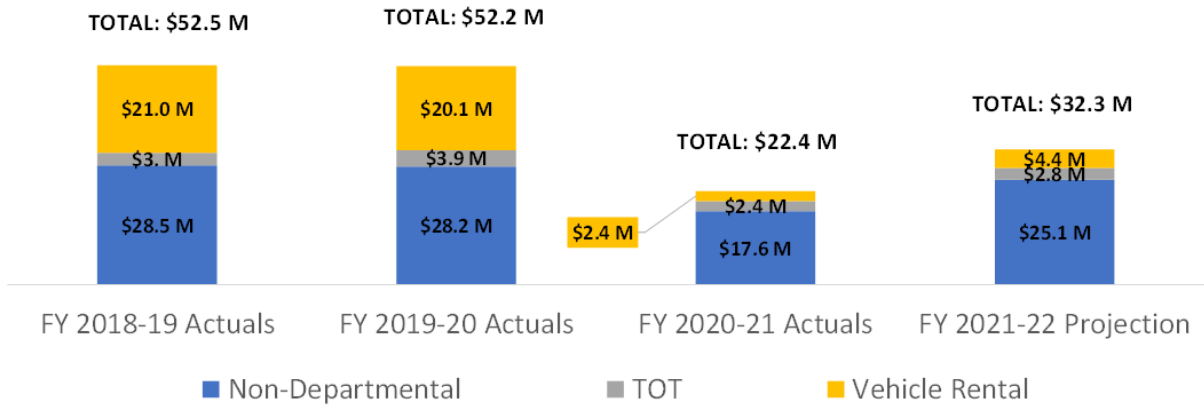
- Countywide receipts for Measure K
- Unincorporated County receipts (General Fund)
 - Unincorporated Sales Tax (UST)
 - Transient Occupancy Taxes (TOT)
 - Vehicle Rental Taxes (VRT)

County-derived sales tax revenue, including Measure K revenue, have decreased more than state sales tax revenue due to the proportion of sales taxes related to San Francisco International Airport, which saw significantly reduced passenger and air traffic; this contributed to the decrease in County sales tax revenue of \$35 million in Fiscal Year 2020-21 when compared to the previous year. Looking forward, County sales tax revenue is projected to see a lower recovery than other sectors of the economy.

Measure K County Sales Tax Revenue

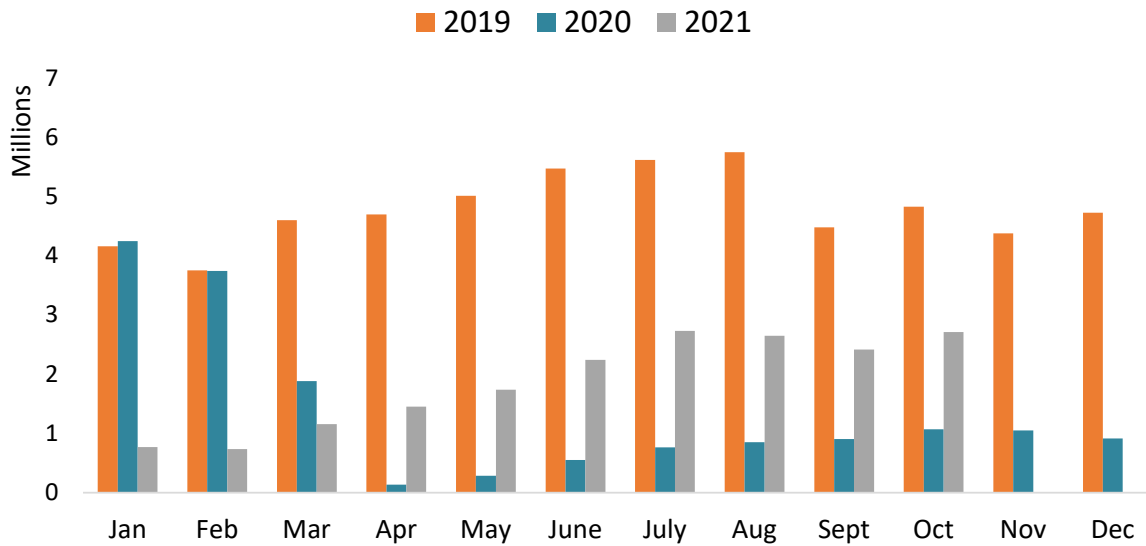


Other County Sales Tax Revenue



As significant portion of the County's sales tax revenues come from businesses at San Francisco International Airport, it is important to monitor patterns in airport activity. Since April 2021, monthly airport passenger volume into and out of San Francisco has increased though it continues to lag behind pre-pandemic numbers as shown below.

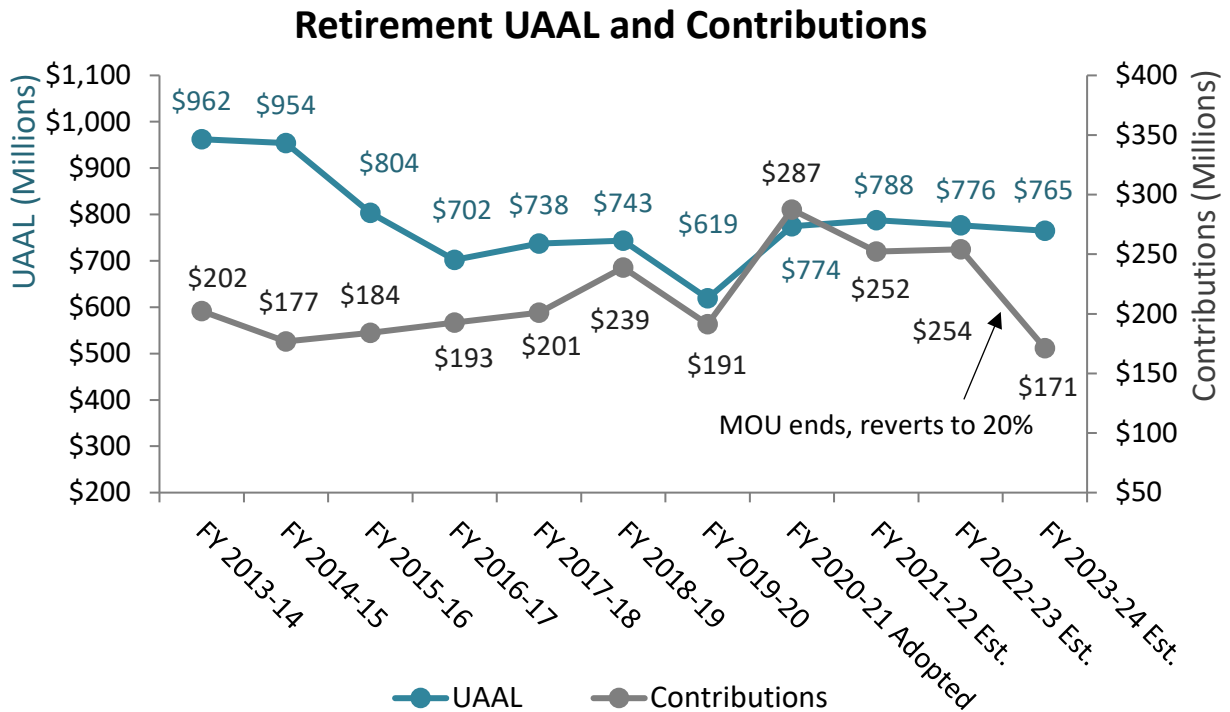
San Francisco International Airport Total Passengers



Source: San Francisco International Airport:
<https://www.flysfo.com/media/facts-statistics/air-traffic-statistics/2021>

County Retirement Contributions

The actuarial calculations for defined benefit retirement contributions are complex and include a variety of factors, including future investment earnings, wages, Consumer Price Index (CPI), life expectancy assumptions, and the benefits themselves. The County continues to use a significant portion of one-time Excess ERAF funding each year to fulfill the prepayment plan for the unfunded liability initiated in FY 2013-14. As a result, the County is still on track to reach the goal of covering a minimum of 90 percent of the unfunded liability by the end of FY 2022-23, at which time the current Memorandum of Understanding with SamCERA will end. Beginning in FY 2023-24, the Statutorily Required Contribution will drop from 38 percent to 20 percent of the total Unfunded Actuarial Accrued Liability (UAAL), as the County will have achieved funding the unfunded liability at the minimum of 90 percent. The following graph illustrates the changes in the UAAL and the increase in contributions since 2014. 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 previously mentioned prepayment plan.



E) 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 2021-22 Adopted Budget, the projected MOE certification for FY 2021-22 is \$379.0 million. The County expects to exceed the FY 2021-22 Proposition 172 MOE requirement by \$226.6 million, which is the difference between the MOE requirement of \$152.4 million and the MOE certification of \$379.0 million.

In FY 2020-21, the County exceeded the FY 2020-21 Proposition 172 certification requirement by \$231.5 million.

FISCAL IMPACT

There is no fiscal impact associated with accepting this FY 2021-22 County Mid-Year Update or the Proposition 172 Maintenance of Effort Certification.

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.

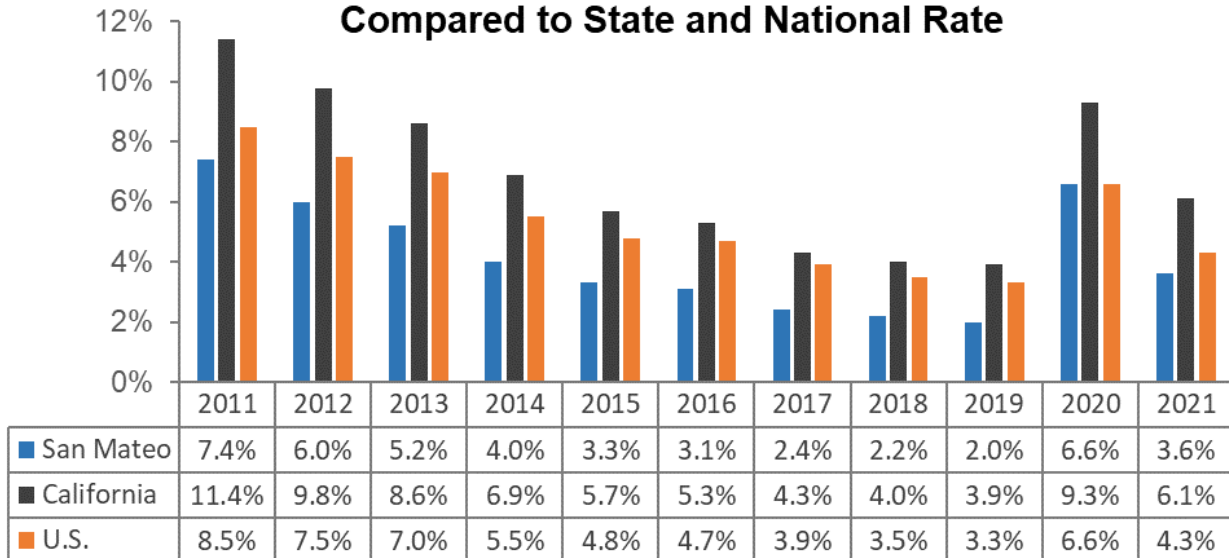
- A. Unemployment Rate
- B. Poverty Rate
- C. Average Commercial Office Rents and Vacancy Rates
- D. Cost-Burdened Renters
- E. Renter Eviction Risk
- F. First-Time Homebuyer Affordability Index
- G. Median Home Price of Existing Single-Family Homes
- H. Monthly Retail Sales
- I. Prop. 8 Assessed Value Restorations
- J. Combined Secured and Unsecured Property Tax Roll Value
- K. San Francisco International Airport Passenger Volume Pre- and Post-Pandemic
- L. Transit Ridership
- M. Childcare Availability and Enrollment
- N. Supply Chain Impacts on Capital Projects

A. Unemployment Rate

As the national economy gradually recovers from a downturn at the height of the COVID-19 pandemic in 2020, monthly unemployment rates at the local, state, and national levels have decreased. San Mateo County unemployment, measured in October of each year, is down from 6.6 percent in 2020 to 3.6 percent in 2021. San Mateo County has the second lowest unemployment rate of all counties in California.

As of November 2021, California and national unemployment rates vary by race/ethnicity but are roughly equal between genders. The unemployment rate is highest among Blacks/African Americans both in California and the US, followed by Hispanics/Latinos, and then Whites. The California Employment Development Department does not report an unemployment rate for Asians, which is at 3.8 percent in the US. In terms of gender, California and national unemployment rates for both women and men have decreased by around 2 to 3 percent compared to last year and are now roughly equivalent to each other with women unemployment at 0.1 percent higher than that of men. The County hopes to report on County-level unemployment data disaggregated by gender and race/ethnicity when this information is made available.

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://beta.bls.gov/dataViewer/view/timeseries/LNU04000000>

B. Poverty Rate

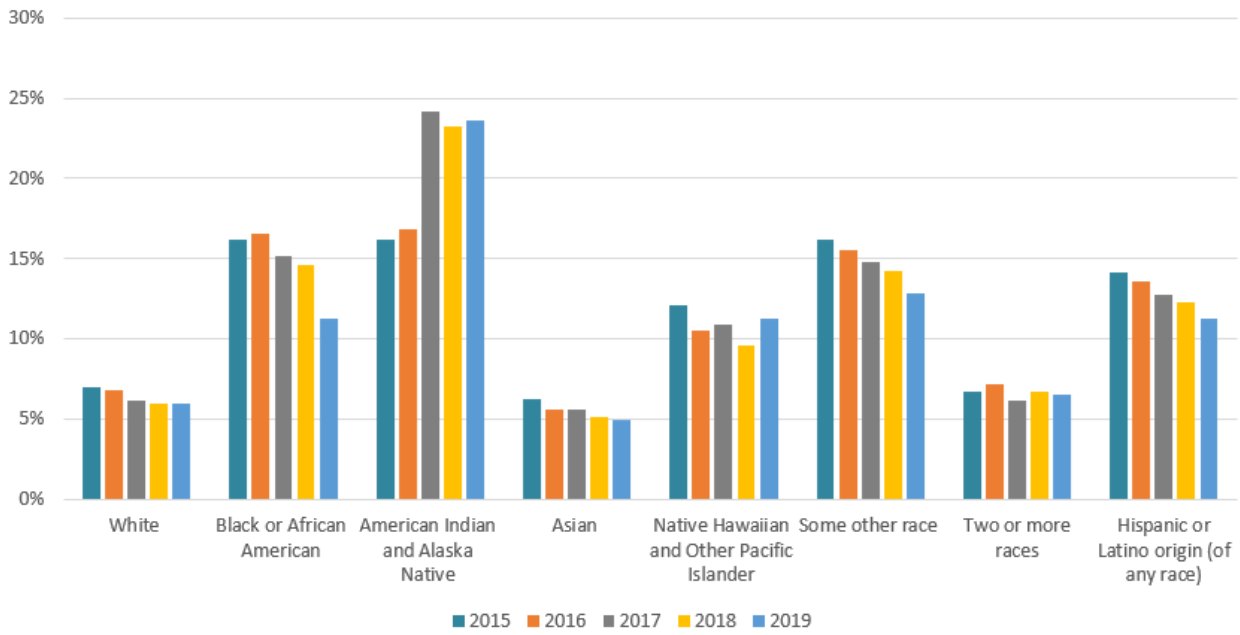
Note: The US Census has delayed release of its 2016-2020 American Community Survey data to March 2022. As a result, the following information is based on calendar years 2015 through 2019.

The federal poverty level (FPL), or the "poverty line," is an economic measure used to decide whether the income level of an individual or family qualifies them for certain federal benefits and programs. In 2019, the FPL for a family of 4 was \$25,750 a year. Other percentages of income are used to show how close individuals and families are to economic self-sufficiency. A useful comparison is to 200% of the FPL, which, for 2019 was \$51,500 for a family of four. In 2019, there were estimated to be 127,321 people living in the County with incomes below this amount.

For estimating self-sufficiency in the County, 400% of the FPL is about what families would need in order to meet their own needs without relying on public programs, free/reduced cost services provided through charitable organizations or community-based organizations, or unpaid labor from friends, family, or neighbors. In 2019, a family of four would have needed an income of at least \$103,000 to meet this threshold.

The chart below illustrates the uneven distribution of household income below the FPL for the years 2015 to 2019 by race and ethnicity. Overall, for many racial and ethnic groups, there was a negative pre-pandemic trend for the percent of people who had income below the FPL. While disproportionately higher rates of poverty are found among the County's American Indian and Alaskan Native and Black or African American populations, these groups represent 2.7% of the County's total population. Residents who identify as Some Other Race (11%) or Hispanic or Latino (24.4%) comprise larger numbers of County residents who experience poverty. It is likely the number of individuals and families who experience poverty and rely on public programs for basic needs will increase as a result of the COVID-19 pandemic and subsequent unknown duration of economic recovery.

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

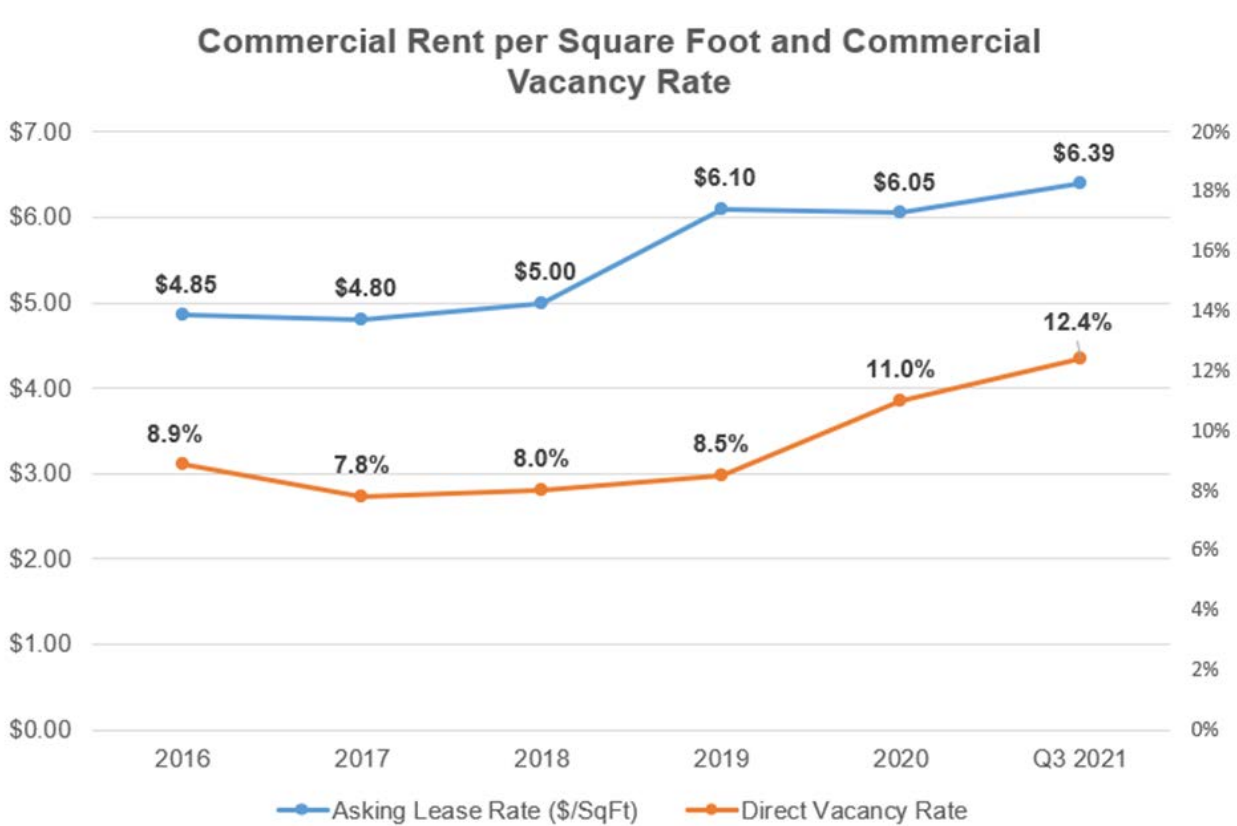


Source:

U.S. Census Bureau: Poverty Status in the Last 12 Months, 2015-2019 American Community Survey 5-year estimates, <https://data.census.gov/cedsci/table?q=poverty%20san%20mateo%20county&tid=ACST1Y2019.S1701>

C. Average Commercial/Office Rents and Vacancy Rate

As of Quarter 3 2021, the average commercial rental rate in San Mateo County has increased slightly compared to last year. However, the commercial vacancy rate has also continued to increase due to the ongoing COVID-19 pandemic, rising from an annual vacancy rate of 11 percent in 2020 to 12.4 percent in Quarter 3 2021. In the future, vacancy rates may decline as employers bring more of their employees back to the office along with advances in vaccination efforts. However, difficulties with new COVID-19 variants may further delay a return to the office and hamper a full recovery in leasing activity.



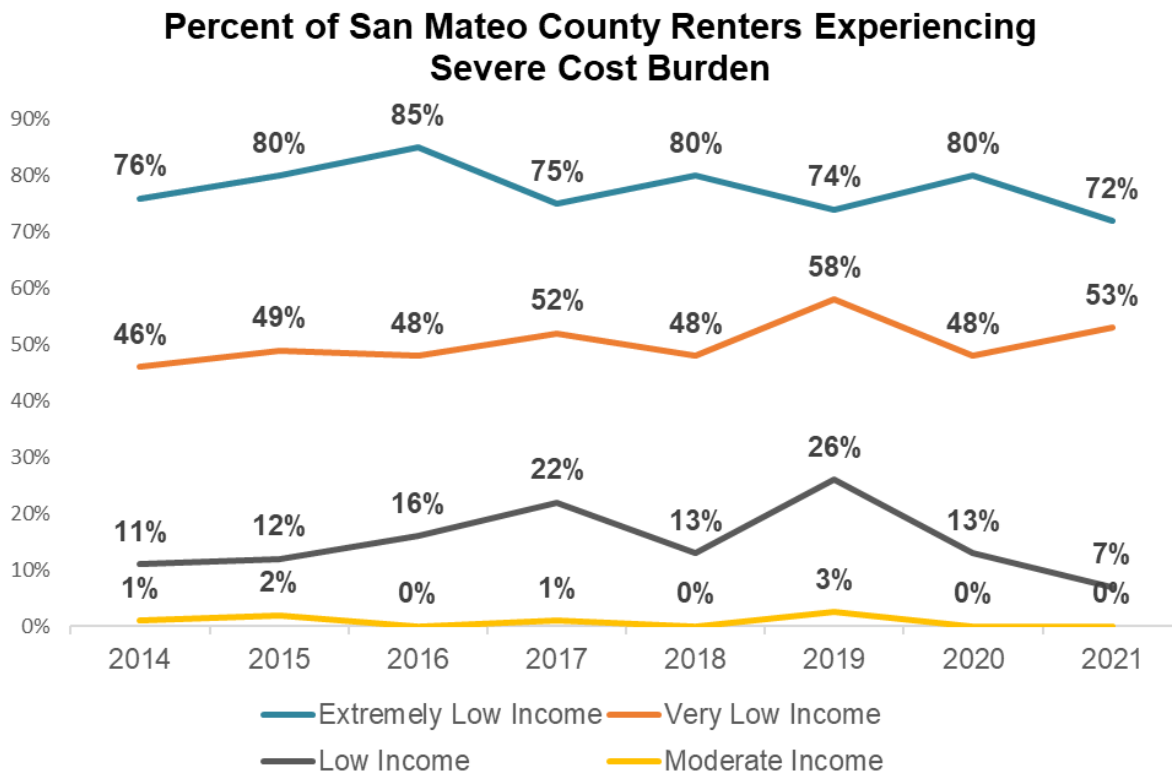
Source:

Kidder Matthews: https://kidder.com/wp-content/uploads/market_report/office-market-research-peninsula-2021-3q.pdf

D. Cost-Burdened Renters

Rental costs in San Mateo County have continued to increase significantly over the past seven years. From 2015 to 2021, the fair market rent of a one-bedroom apartment has increased from \$1,635 to \$2,631.

County Health data states that there are 275,845 households in San Mateo County. The California Housing Partnership estimates that 24,440 low-income renters in San Mateo County (8.9 percent of total households) do not have access to an affordable home defined as costing less than 50 percent of their monthly income. Between 2020 and 2021, however, the percent of extremely low-income renters experiencing severe cost burden did decrease by 8 percent. The chart below illustrates the challenge that many residents continue to face.



Sources: County Health demographics data:

https://www.smcalthtogetherbetter.org/demographicdata?id=278§ionId=936#sectionPiece_69;

California Housing Partnership 2021 Affordable Housing Needs Report: https://1p08d91kd0c03rlxhmhtydpr-wpengine.netdna-ssl.com/wp-content/uploads/2021/05/San-Mateo_Housing_Report.pdf

E. Renter Eviction Risk

According to the Bay Area Equity Atlas, forty percent of residents in San Mateo County and the greater San Francisco Bay Area are renters, including the majority of Latinx and Black residents. Prior to the COVID-19 pandemic, many residents were already facing a renter debt crisis due to soaring rents over the past several years. Despite the current gradual economic recovery, the ongoing pandemic continues to put many low-income households at risk of eviction; however, current state law does grant special protections to renters in financial distress, including access to funding from the California COVID-19 Rent Relief program and a requirement that all landlords apply for assistance from the relief program before proceeding with eviction lawsuits. In the San Francisco Bay Area, the Bay Area Equity Atlas estimates that renters of color, especially women, before the pandemic were disproportionately experiencing housing insecurity, with over half of rent-burdened households headed by Black or Latinx women. In San Mateo County, the Bay Area Equity Atlas also estimates that 6,143 low-income households as of 2019 were behind on their rent payments with an average rent debt of \$3,904 per household. Pending release of updated US Census data for 2020, it is likely that those estimates will increase due to the pandemic.

County	Number of Renters HH Behind on Rent	Average Rent Debt per HH	Total LI Rent Debt (Millions)
Alameda	21,454	2,928	62.8
Contra Costa	10,958	2,928	32.1
Marin	2,828	3,660	10.4
Santa Clara	1,430	2,928	4.2
San Francisco	15,533	2,147	33.4
San Mateo	6,143	3,904	24.0
San Jose	16,677	3,416	57.0
Santa Clara	5,201	2,684	14.0
Sanoma	6,375	2,928	18.7
San Mateo County Bay Area	86,599	3,058	256.6

Notes: LI = Low-income (<\$50,000), HH = Household

Sources: Bay Area Equity Atlas: https://bayareaequityatlas.org/research/baea_evictionrisk_library, <https://bayareaequityatlas.org/research/analyses/COVID-19-evictions-san-mateo>

F. 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. Amidst the ongoing COVID-19 pandemic, housing prices continue to be unaffordable for a 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 2021 remained the same as the third quarter of 2020 at 26 percent. San Mateo County remains the most unaffordable area in the Bay Area, followed closely by San Francisco County with a higher index at 29 percent. 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 19 percent for the third quarter of 2021. Furthermore, the affordability index continues a declining trend across the US and California as a whole in 2021 and remains below pre-pandemic levels.

Region/State/ Country	3rd Quarter 2018	3rd Quarter 2019	3rd Quarter 2020	3rd Quarter 2021
United States	69%	70%	69%	67%
California	45%	48%	45%	42%
SF Bay Area	38%	46%	41%	37%
Alameda	35%	43%	39%	35%
Contra Costa	52%	57%	51%	50%
Marin	31%	36%	30%	32%
Napa	43%	47%	45%	42%
San Francisco	22%	27%	28%	29%
San Mateo	22%	30%	26%	26%
Santa Clara	32%	38%	36%	33%
Solano	58%	64%	62%	62%
Sonoma	41%	48%	48%	48%

Source: CA

Association of Realtors: <https://www.car.org/marketdata/data/ftbhai>, <https://car.sharefile.com/share/view/s03697d42f5046e6b>,
<https://www.car.org/marketdata/data/haitraditional>

G. Median Home Price of Existing Single-Family Homes

Following a modest 3.4 percent increase between November 2019 and 2020, the median home price for San Mateo County increased significantly by 34.7 percent from November 2020 to November 2021 to a median sale price of \$2,222,500. San Mateo County housing costs are the highest in the Bay Area, and 70.9 percent higher than the Bay Area average of \$1,300,622.

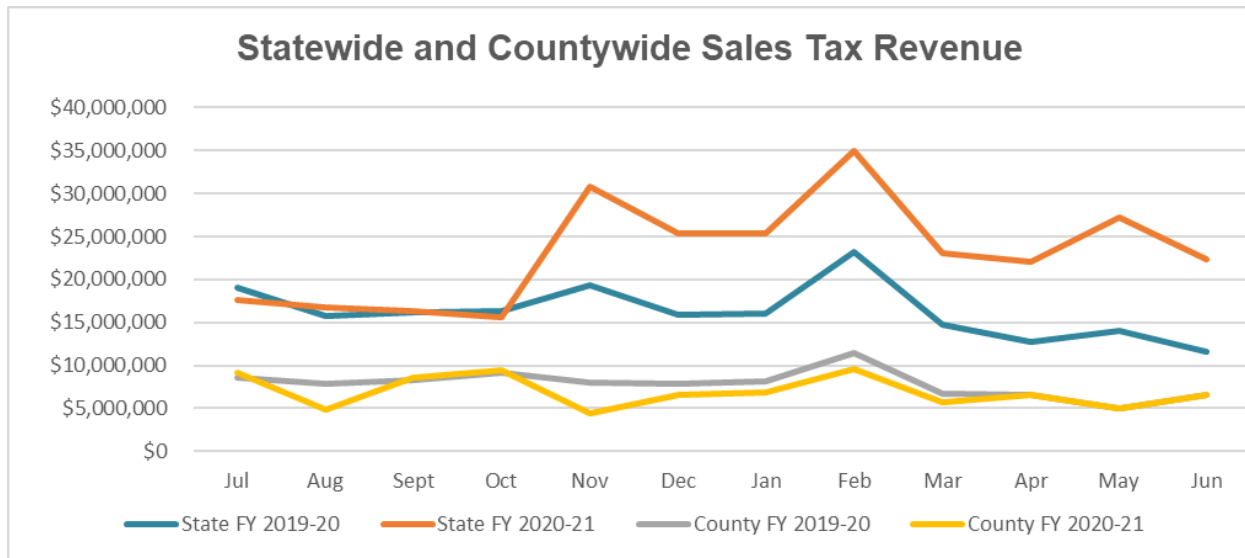
County	Nov 2020	Nov 2021	Price Change
Alameda	\$1,049,040	\$1,300,000	23.9%
Contra Costa	\$810,000	\$876,000	8.1%
Marin	\$1,425,000	\$1,535,000	7.7%
Napa	\$824,500	\$811,600	-1.6%
San Francisco	\$1,697,500	\$1,900,000	11.9%
San Mateo	\$1,650,000	\$2,222,500	34.7%
Santa Clara	\$1,383,000	\$1,692,500	22.4%
Solano	\$505,520	\$593,000	17.3%
Sonoma	\$715,000	\$775,000	8.4%
Bay Area Average	\$1,117,729	\$1,300,622	16.4%

Source: California Association of Realtors: <https://www.car.org/marketdata/data/countysalesactivity>, <https://car.sharefile.com/share/view/s0c02663a5c54e23a>

H. Monthly Retail Sales

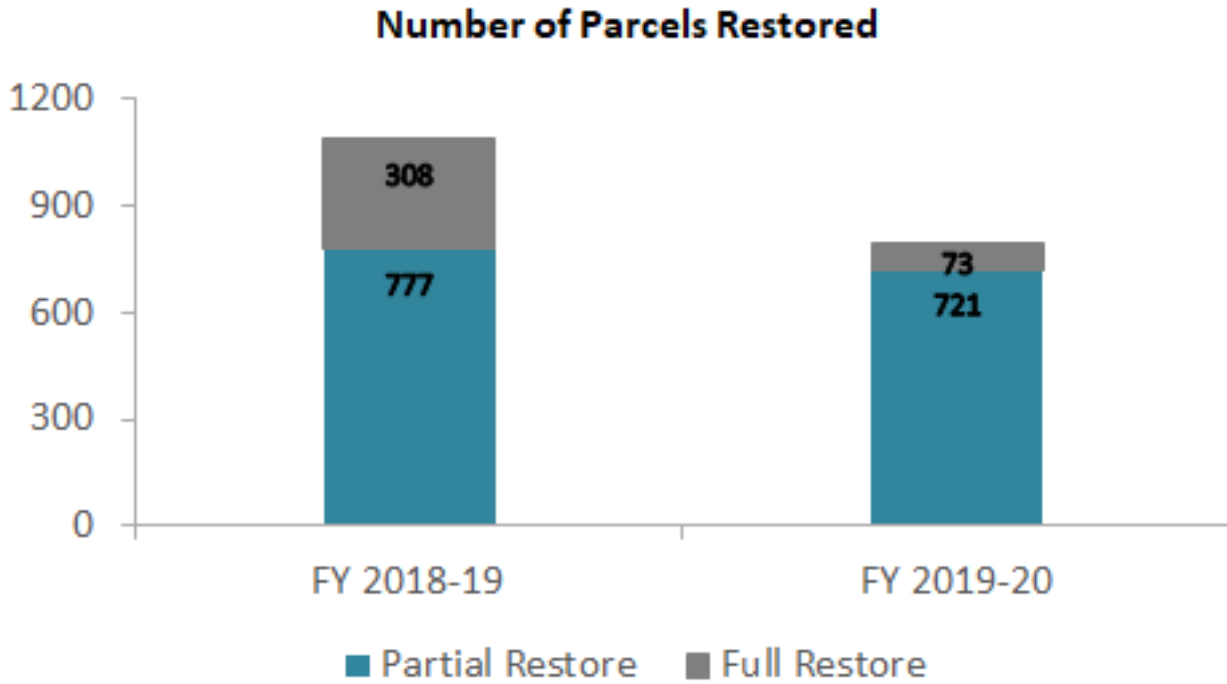
Analysis of sales tax revenue is a useful, but imperfect analog to gauge monthly retail sales. As noted, and shown earlier in this document, the COVID-19 pandemic has caused a more immediate impact on sales taxes versus property tax. County sales tax receipts dropped over 11.4 from FY 2019-20 to FY 2020-21, and statewide sales taxes increased by 42.2 percent over the same period with the CPI increased by 4.3.

Monthly sales were impacted by both known (holiday shopping) and previously unseen (stimulus checks) factors. The unknown fiscal relief environment and vaccine rollout makes future projections challenging.



I. Prop. 8 Assessed Value Restorations

During FY 2020-21, the Assessor's Office fully or partially restored 794 parcels in the decline in value program (Prop 8). Of this amount 721 parcels were partially restored, and 73 parcels were fully restored to their assessed value. This was a decrease of 27 percent from the previous year. The partially and fully restored parcels resulted in the net increase in restored value for FY 2019-20 is \$119.2 million, and for FY 2020-21 \$51.9 million.

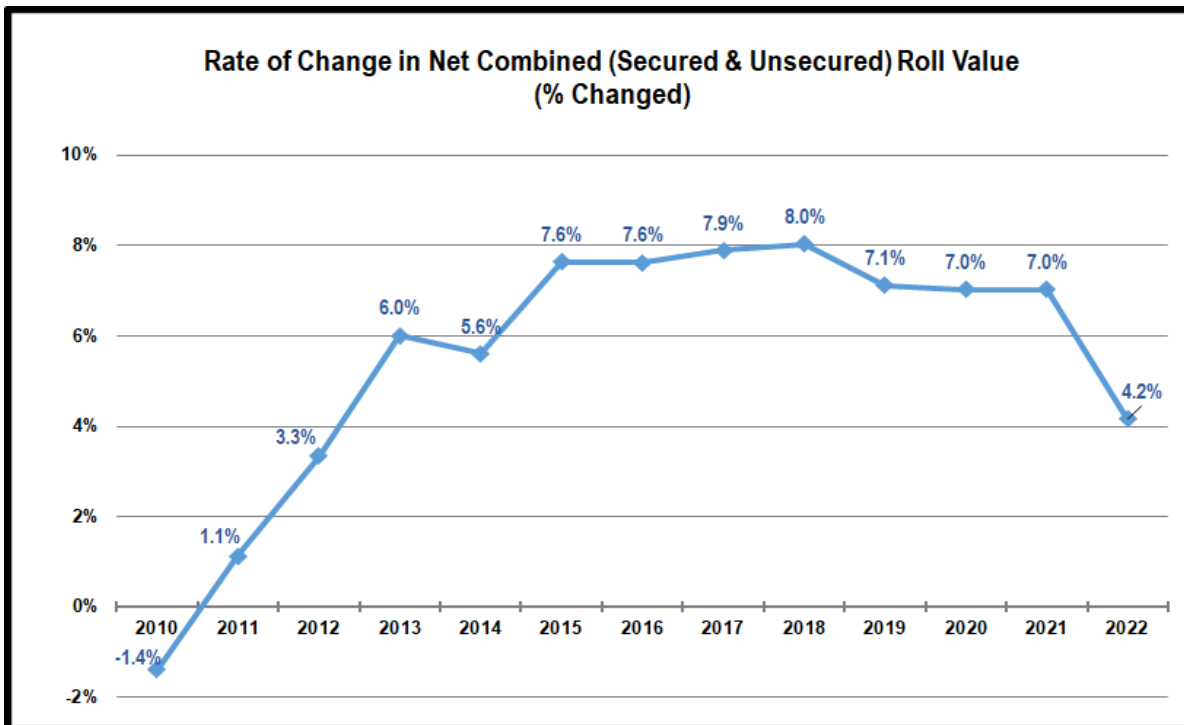


Source: San Mateo County Assessor's Office

J. Combined Secured and Unsecured Property Tax Roll Value

There were 235,525 assessment parcels and accounts for 2021 for a Total Local Roll of \$265.8 billion, representing an increase of four percent from 2020. This is the eleventh consecutive year in which a new historical high has been set. This year's increase was largely due to record setting single-family home values driven by strong demand for homes during the pandemic despite the county's Shelter-In-Place mandates and ongoing COVID-19 pandemic. Commercial properties saw some declining values but there was growth overall.

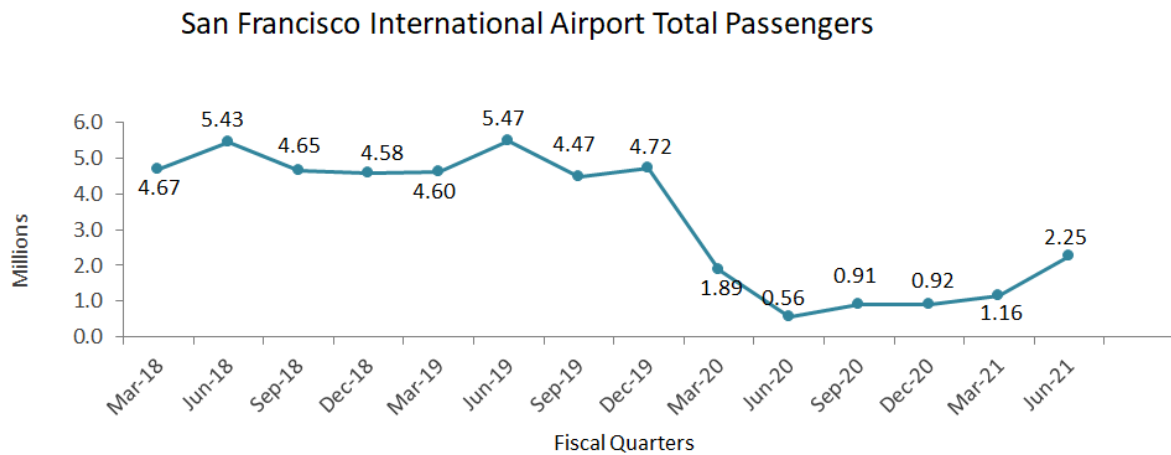
Total assessed values increased in all 20 cities and unincorporated areas, with increases ranging from 1.7 percent to as high as 7.4 percent. The top five cities with the highest percentage growth in assess values were: San Carlos (7.4 percent), Menlo Park (7.3 percent), Brisbane (6.6 percent), South San Francisco (6.3 percent), and Atherton (5.7 percent).



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

K. San Francisco International Airport Passenger Volume Pre- and Post-Pandemic

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 decreased due to the impacts of the pandemic, with 3 million less passengers utilizing SFO in March 2020 compared to the same time in 2019. Despite the introduction of vaccines and testing, the numbers of passengers at SFO are not bouncing back to pre-pandemic levels. The number of passengers utilizing SFO in June 2021 is 3.22 million less compared to pre-pandemic levels during the same season in June 2019. Due to the significant decrease in travel to the area, San Mateo County has seen a huge economic decline in revenues including TOT, Hotel occupancy, sales tax, car rentals, etc. Regardless of business or leisure, travel brings economic activity to the area.



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

L. Transit Ridership

Ridership within the San Mateo County Transit District has gradually begun to increase from the steep drop in 2020. For all modes, average weekly ridership as of November 2021 had increased nearly 100 percent from one year prior and was at about 30 percent compared to pre-pandemic ridership two years prior.

While the major modes of SamTrans bus, Caltrain, and BART each had significant increases in average weekday ridership in November 2021 compared to November 2020, the rebound varies greatly by mode. SamTrans bus had 60 percent, BART had 27 percent, and Caltrain had 17 percent of their pre-COVID ridership (as measured against November 2019).

The region's transit agencies are heavily reliant on farebox revenue for their operations. Agencies have received some federal emergency relief funding (including CARES Act and American Rescue Plan) that has provided short-term relief.

M. Childcare Spots and Enrollment

The pandemic has continued to severely impact the San Mateo County childcare sector—an industry that was already marked by instability and extremely narrow margins. According to 4Cs of San Mateo County, since the beginning of the pandemic, at least 66 childcare centers—serving over 1,800 children between birth and age 12—have closed. This figure reflects childcare centers that have permanently closed and terminated their licenses, and thus does not capture the larger number of sites that have effectively closed due to low or no enrollment and increased costs, but that have not formally terminated their licenses.

The Child Care Partnership Council conducted a survey of San Mateo County childcare providers in April 2021, which had the following key findings:

- Child enrollment is at approximately 61 percent of pre-COVID levels
- Forty-one percent of respondents are receiving 50 percent or less of their pre-COVID income
- Forty-five percent of respondents had no more than one month of cash on hand
- Thirty-nine percent of respondents had COVID-related debt

These ongoing impacts to the local childcare sector harm the providers themselves, who are disproportionately women, people of color, and immigrants and who contended with low pay and high instability even pre-pandemic. The closures and shortages of available childcare spots harm families, particularly mothers, and their ability to obtain or maintain employment. Childcare shortages and instability are closely linked to the increase in mothers leaving the workforce, both locally and nationally. Finally, the lack of sufficient childcare spots is a larger infrastructure challenge that limits both the employment opportunities of the workforce and the functioning of employers.

N. Supply Chain Impacts on Capital Projects

Global supply chain issues have had an impact on the County's capital projects that are in construction or repair phases. Costs and delivery time for capital construction have increased due to labor disruptions caused by the COVID-19 pandemic, capacity limitations, raw material shortages, demand for container and truck transportation have surpassed supply, severe impacts on Just-In-Time production methods, and weather-related power outages across the country. The pandemic has had an outsized impact on manufacturing and transportation reaching full capacity as workers or those of their suppliers and freight haulers may have been ill, quarantined, or required to care for family members at home. These issues magnify the impact of more commonly occurring manufacturing or transportation breakdowns that usually result in reduced supplies, inventory drawdowns, or localized shortages. Industry analysis performed by contractors the County works with predict that these issues are anticipated to continue through 2022.

Both overall cost and lead time on materials have increased for County capital projects. In some cases, lead time on materials reached seven to ten months in the first half of FY 2021-22, compared to the usual three-month timeframe. According to the Associated General Contractors of America, input costs for construction increased 27.8 percent between April 2020 and August 2021 nationwide. County capital projects have experienced significant delays in acquiring windows, electrical panels, and shower inserts for Americans with Disabilities Act (ADA) upgrades, requiring project managers to reconfigure project plans and budgets. Ongoing cost volatility and unpredictability in the construction labor market combined with a projected increase in local demand for construction volume of 15 percent by the beginning of 2022, will require flexibility and nimble planning for the County's ongoing capital projects through the second half of FY 2021-22.