

To: Honorable Board of Supervisors

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

Subject: FY 2023-24 County Mid-Year Budget Update

RECOMMENDATION:

Recommendation to:

- A) Accept the FY 2023-24 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 2023-25 Children, Youth, and Families Budget.

BACKGROUND:

On September 26, 2023, the Board adopted the FY 2023-24 Budget. This memorandum includes the Mid-Year Report, which provides an update on the FY 2023-24 Budget and a look ahead to the FY 2024-25 Budget. This memorandum also discusses and recommends acceptance of the County's proposed FY 2023-24 Maintenance of Effort certification required under Proposition 172, the statewide half-cent sales tax for support of local public safety functions. The FY 2023-25 Children, Youth, and Families Budget is also attached for review and acceptance.

DISCUSSION:

As the County shifts its focus from pandemic response and recovery towards strategic, long-term planning, we face a set of fluctuating economic conditions that require regular monitoring and the willingness to adjust. Projections for the remainder of FY 2023-24 demonstrate differing trends across the County's various revenue sources, with some rising and others decreasing, resulting in relatively flat growth overall. This is in contrast to the steady growth that marked the immediate post-pandemic recovery. The complexity of these fluctuations is highlighted when we explore the contributing factors that directly influence our revenues and might be a sign of a changing economy.

First, sales tax revenue is generated from several different industries that currently show opposing trends. High interest rates and ongoing inflation limit purchasing power, creating a dilemma of choice for consumers. For example, while casual dining and food delivery in San Mateo County saw an increase in the third quarter of FY 2023-24, sales taxes collected from fuel and service stations, purchases of home furnishings and electronics, and car sales are all down. As consumers decide where to spend and

where to hold back, the net result is a slight decrease in overall sales tax revenue for the County.

Similar to sales tax, property tax revenues are experiencing shifting trends. Over the past several years, with the exception of FY 2020-21, the County experienced steady growth rates of around 7.5 percent. Beginning this fiscal year and projecting into the next, while property tax revenue is still expected to continue growing, it will be at a slower rate.

Finally, following the January 10th release of the Governor's State Budget Proposal, we are closely monitoring potential actions by the State that could profoundly impact ongoing revenue sources, namely in-lieu vehicle license fees (VLF) and Excess Educational Revenue Augmentation Fund monies . Should these proposed changes take effect, there will be significant impacts to these ongoing revenue sources which would necessitate creative solutions via collaborative efforts across County departments to address the shortfalls that may arise.

Despite the recent trends, however, the County remains in good financial standing. Although economic conditions will need to continue to be monitored, the County should be well-positioned to adjust as needed. Long-term planning, regular assessment of economic indicators, and policy changes will need to be explored and considered in order to maintain the current level of service provision to the community. As we prepare to move into FY 2024-25 and update the Preliminary Recommended Budget, we will continuously assess any changes in trends and make adjustments accordingly, including, but not limited to, contemplating an increase in the County Reserve Policy.

A. MAJOR COUNTY INITIATIVES

The following sections provide the Board with additional details on the current financial status and updates on major County initiatives.

1. HOMELESSNESS - WORKING TOWARD FUNCTIONAL ZERO

The County has made continued efforts to reach its goal of functional zero, where any unsheltered County resident who chooses assistance will be provided interim or permanent housing.

The Navigation Center, which opened in Spring 2023 and reached full occupancy in early September 2023, is the County's largest shelter with 240 private units and offers clients intensive onsite services, including substance use treatment, medication-assisted treatment, behavioral health therapy, medical services, and soon to be dental services. Further, since 2021, the County has successfully converted five hotels into interim non-congregate housing and permanent supportive housing. Together, these

efforts have increased our capacity from 281 shelter beds to 645 shelter beds and units which now serve adults, youth, and families with children.

The County is also implementing new and innovative approaches to move individuals throughout the continuum of care with improved efficiency and outcomes, examples of which include:

- **SMC Homeless Outreach and Mobile Engagement (HOME)**

In December 2023, the County was awarded a prestigious Challenge Award for the SMC HOME mobile application, which allows outreach teams to quickly respond to reports of unsheltered individuals in need and assists in understanding more about the number of unsheltered individuals, where they are living, and resources needed for an effective response.

- **Multi-Disciplinary Team Meetings (MDTs)**

The Center on Homelessness launched a new initiative of Long-Term Shelter Stayer MDTs, which allows County staff to collaborate confidentially with community-based organizations and other County partners regarding households with lengths of stay in shelters that exceed six months. As a result of these efforts, 46 percent of families and 14 percent of adult-only households on the long-term shelter stayer list exited to permanent housing.

- **Mobile Clinics for the Unsheltered**

The County has continued to provide medical services in the field to adults experiencing homelessness, new immigrants, farmworkers, uninsured, and underinsured residents. These mobile clinics consist of small nimble teams who travel throughout San Mateo County and transport essential supplies and medications to our most vulnerable residents. Last year our mobile clinics served 3,000 patients.

- **Home Stat**

Homelessness is a pressing issue that demands all of our attention, collaboration, and creative solutions. This past year the County started meeting with departments and community-based organizations providing services to our unsheltered residents. The purpose is to review how our homeless system is operating, identify gaps and challenges, and develop strategies to improve outcomes. We utilize data to inform decision-making processes, regularly assess the effectiveness of programs, tackle key metrics, and adjust strategies based on real time data to ensure we can be nimble and adaptive when addressing homelessness.

These meetings have resulted in various pilot initiatives, such as, de-escalation supports for individuals housed and at risk of eviction, multidisciplinary teams to

review the reasons why individuals and/or families are in shelter in excess of 365 days, created trainings for due case managers and housing specialists, and the development of new resource tools to assist our unhoused.

As we bolster efforts to support our homeless residents and those residing in temporary shelters, we are also working on expanding the availability of stable and permanent housing. The Housing Authority of the County of San Mateo (HACSM) provides rental assistance to approximately 4,980 individuals and families through the Section 8 Housing Choice Voucher Program. Of the total assisted families, approximately 83 percent are considered extremely low income and about 15 percent considered themselves homeless when they were initially admitted to the program.

Furthermore, HACSM received new funding from the U.S. Department of Housing and Urban Development (HUD) to support up to 40 vouchers under the Stability Voucher Program and new funding to support 37 chronically homeless households with rental assistance and critical supportive services through the Continuum of Care Permanent Supportive Housing (PSH) program. This new funding has allowed HACSM to assist 401 individuals and families under PSH to meet their housing needs.

2. EQUITY

The following highlights key efforts in the County's ongoing Equity work:

- **Enhancing Staff Capacity**

To date, 750 employees have participated in the Foundational Equity training and more trainings will be delivered in 2024. Equity modules in the Essential Supervisory Skills training series and the Management Development Program have also been added to integrate equity into the competencies of all County leadership and staff.

- **Advancing the Supplier Diversity Study**

The County commissioned GCAP Services, Inc. (GCAP) to conduct its Supplier Diversity Study, the goals of which are to help the County better understand any gaps between the County's existing use of local, small, micro, and diverse businesses and the availability of these businesses in the local market; improve data collection and tracking of local, small, micro, and diverse business enterprises; and recommend tailored solutions to improve outreach efforts and capacity building of underrepresented businesses. With the collection of three years of County contract data and market analysis completed, GCAP is moving into identifying procurement opportunities and barriers for local, small, and diverse enterprises to access County procurement opportunities. The study recommendations will be released in late May 2024.

- **Foundation to Advance Shared Prosperity**

The Shared Prosperity Coordinating Council (formerly the Recovery Coordinating Council) has completed a demographic survey and identified demographic and sectoral gaps in participation that have now been largely filled with new members. The Council onboarded the Urban Institute’s Upward Mobility from Poverty national framework to organize their work and we have brought on a consultant to support a community- and data-driven action planning process.

3. MEASURE K

The Measure K Notice of Funding Opportunity closed on Friday, January 5th, 2024. The County Executive’s Office and the evaluation committees are in the process of reviewing the applications.

The County received 315 applications with requests totaling \$750 million over three years in the following Priority Areas:

Priority Areas	Applications
Children, Families, and Seniors	232
Emergency Preparedness	28
Housing and Homelessness	55

Requests for the first year alone total more than \$251 million, which is more than seven times the estimated \$35-\$37 million in Measure K funding available annually, meaning the available funding can only cover 14 percent of the requests.

In March 2024, County staff will bring forth a set of recommendations to the Board of Supervisors with respect to the proposed applications.

4. COUNTY WORKFORCE

The County continues to make significant investments in its employees. The FY 2023-24 Adopted Budget includes 5,805 positions. With an average 10.4 years of service, our workforce shows a strong dedication to serving the public.

In FY 2023-24, the vacancy rate is projected to decrease slightly to 13.5 percent with the employee turnover rate projected to remain steady at 10 percent after peaking at 12 percent during pandemic recovery. Retirement eligibility is expected to increase to 19 percent indicating current employees are remaining in the workforce. Those rates are summarized in the following table:

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24 Projected
Vacancy Rate	12.2%	14.4%	14.6%	13.5%
Turnover Rate	7%	12%	10%	10%
Retirement Eligibility	22.4%	21.7%	19.7%	19.1%

5. UPDATE ON FINANCIAL CONDITIONS

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 2023-24) 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 2024-25 starting Fund Balance.

As shown in the table below, there is an estimated \$311.7 million Fund Balance variance, or one-time dollars, projected for FY 2023-24. Of that \$311.7 million, \$210 million is associated to the General Fund, which is attributed to the inclusion of unbudgeted excess ERAF funds, a 13.5 percent vacancy rate in permanent positions, and savings in contracts, services and supplies, and other general expenditures. For Non-Departmental Services, there is an estimated variance of \$178 million, 50 percent 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.

In the past, the County successfully used funding from the American Rescue Plan Act (ARPA) as matching funds for grant applications to support residents experiencing homelessness. As these ARPA funds have been fully allocated, the County will need a new source for these matching funds and will set aside 30 percent of the total anticipated Non-Departmental Services Fund Balance for this purpose. The remainder will be used, pursuant to the Fund Balance policy, on other one-time projects and will be rolled over and included in the FY 2024-25 Recommended Budget. At the beginning of the FY 2025-27 budget cycle, it will be determined which of these expenditures will need to become on-going costs.

The remaining \$101 million is Non-General Fund and is restricted for costs associated to special districts, such as roads, sewers, utilities, solid waste, and other fee-based or franchised services.

County of San Mateo Agencies by Fund	FY 2023-24 Budgeted Reserves	FY 2023-24 Est. Year-End Fund Balance	Variance
Agencies - General Fund			
Criminal Justice	56,863,254	48,301,360	(8,561,894)
Health Services	15,212,387	24,465,707	9,253,320
Social Services	44,141,134	52,189,562	8,048,428
Community Services	17,291,066	25,196,982	7,905,916
Admin-Fiscal	17,564,109	32,924,516	15,360,407
Subtotal Agencies - General Fund	151,071,950	183,078,126	32,006,176
Non-Departmental - General Fund			
Non-Departmental Services	236,721,599	415,056,464	178,334,865
Subtotal Non-Departmental - General Fund	236,721,599	415,056,464	178,334,865
Agencies - Non-General Fund			
Health Services	57,356,301	90,963,222	33,606,921
Community Services	179,313,439	239,741,778	60,428,339
Admin-Fiscal	16,127,031	23,412,695	7,285,664
Subtotal Non-General Fund	252,796,771	354,117,695	101,320,924
Total ALL Funds	640,590,320	952,252,285	311,661,965

SamCERA Retirement Contributions

The SamCERA fund returned 5.1 percent on the fiscal year, missing the assumed rate of return of 6.25 percent. Notwithstanding this return, the County's aggregate contribution rate for FY 2024-25 edged up slightly to 26.62 percent from 26.19 percent. The small increase was due to recognizing investment losses but also mitigated by supplemental funding by the employer. 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.

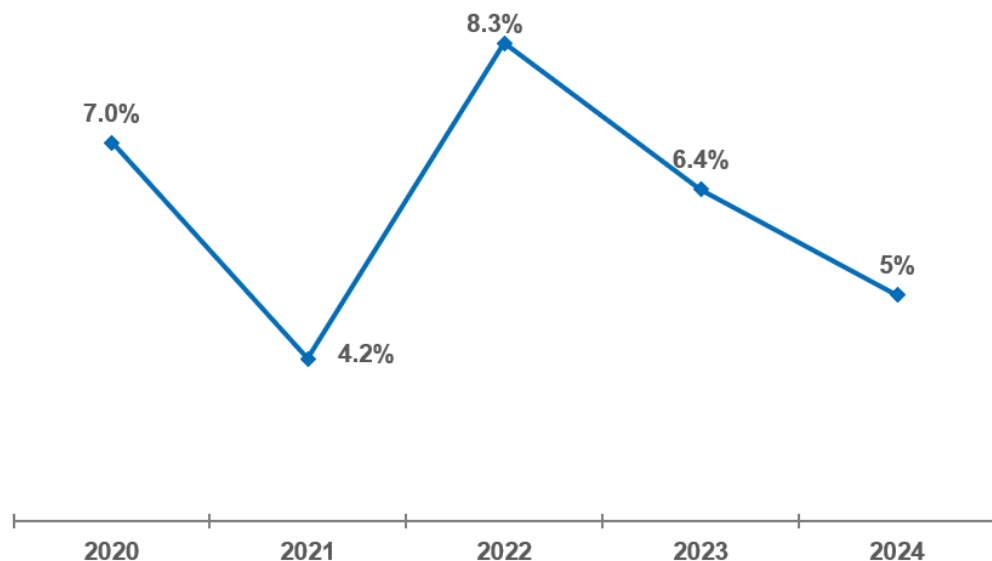
Additionally, a minimum contribution rate was established based on the original (FY 2023-24) unfunded accrued liability rate calculation. This change is expected to add stability to the employer contribution rates in the near term. During its September 2024 meeting, the Board of Retirement is scheduled to review the annual actuarial valuation which will include the funded status and employer contribution rates for next year.

Property Taxes

The County's total FY 2023-24 property tax revenue is projected to be approximately \$494.8 million. Property tax revenue based on the estimated levy (which includes secured, unsecured, and homeowner exemptions) for FY 2023-24 is expected to be \$384.5 million, an increase of 5 percent; there will also be additional revenue from in-lieu VLF of approximately \$110.3 million, which includes \$19.2 million owed from prior years.

Between 2022 and 2023, there were 235,376 assessment parcels that collectively accounted for a Total Local Roll of \$307.75 billion, representing an increase of 6.4 percent. Although the Total Local Roll is again expected to increase for 2024, the percentage increase will likely be lower, and is currently estimated to increase by approximately 5 percent from 2023. This lower anticipated increase is due to several factors, including continued pressure from inflation and higher interest rates, as well as a decline in residential property sales and new construction activity. The expected reduction in property sales and new construction activity can largely be attributed to cost inflation and higher interest rates, ultimately resulting in lower property tax revenue growth in FY 2024-25.

**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>

In Lieu Vehicle License Fees (VLF)

In 2004, the State permanently reduced annual VLF revenues that were a significant funding source for counties and cities and, for two fiscal years, shifted an additional \$1.3 billion in property taxes away from counties, cities, and special districts to pay the State's school funding obligations and address its budget deficit. In exchange, the State provided counties and cities with an in-lieu VLF payment (adjusted annually for property tax growth).

In FY 2023-24, the in-lieu VLF entitlement due to the County and cities is approximately \$267 million. However, there is only an estimated \$153 million available in Educational Revenue Augmentation Funds (ERAF) and general property taxes from non-basic aid school districts countywide to fund the in-lieu VLF payment, creating a countywide funding shortfall of approximately \$114 million. Due to this shortage, there are insufficient funds to cover the County's full in-lieu VLF entitlement of \$158.9 million, such that the County will receive \$91.1 million of its share.

The primary reason for this shortfall is the reduction in the number of non-basic aid school districts in the County from six in FY 2022-23 to five in FY 2023-24, which in turn resulted in less available property tax revenues to fund the FY 2023-24 in-lieu VLF payment.

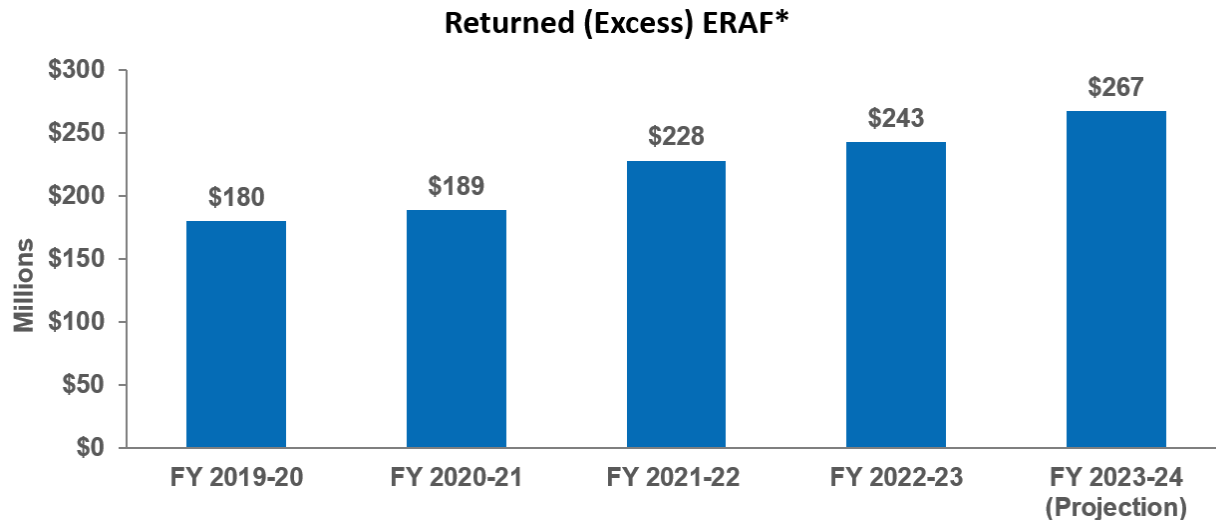
As in the past, the County has requested reimbursement from the State to cover the shortfall amounts. The Governor's Budget, released January 10th, did not include an appropriation for the County and cities' in-lieu VLF shortfall. The County will continue its efforts to obtain State reimbursement for the shortfall. In the meantime, the County is allocating Excess ERAF funds that are typically placed in Reserves to cover capital-related expenses across the County, to cover the in-lieu VLF payment shortfall. Over time the in-lieu VLF shortfalls and use of Excess ERAF to cover them may adversely impact the County's ability to fund capital outlays, ongoing maintenance costs, purchase of new buildings, and other capital improvements.

Returned (Excess) ERAF

The Returned (Excess) ERAF annually distributed to the County and other local agencies may be negatively impacted by property tax revenues received by school districts, changes in school enrollment, and/or State efforts to redirect or reduce Returned (Excess) ERAF for its own purposes. The 2024-25 State Budget Proposal Budget proposes statutory changes indicating that charter schools are now eligible to receive ERAF. Should this go into effect, the County's amount of Returned (Excess) ERAF will be reduced.

Due to potential volatility of Returned (Excess) ERAF, the County budgets only 50 percent of the projected General Fund apportionment of Excess ERAF for ongoing

purposes. Pursuant to Board policy, the remaining 50 percent may only be used for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects. As noted, part of this funding is currently being used to cover the in-lieu VLF shortfall.



*Note: This distribution amount includes Returned (Excess) ERAF from prior years. The Returned (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 Returned (Excess) ERAF distributions for any given fiscal year.

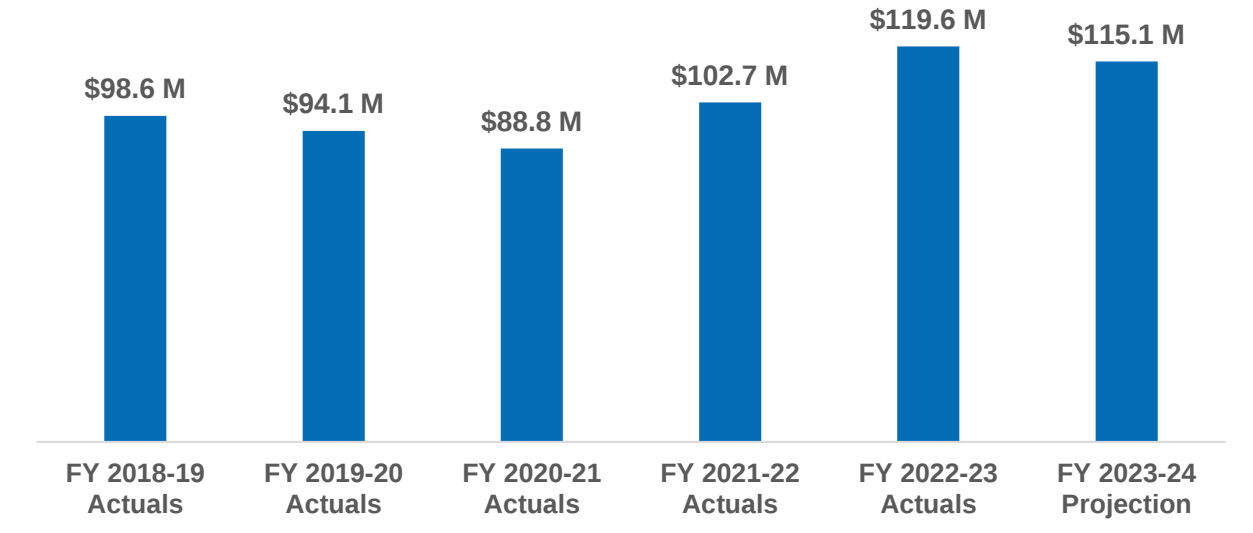
County Sales and Other Tax Revenue

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:

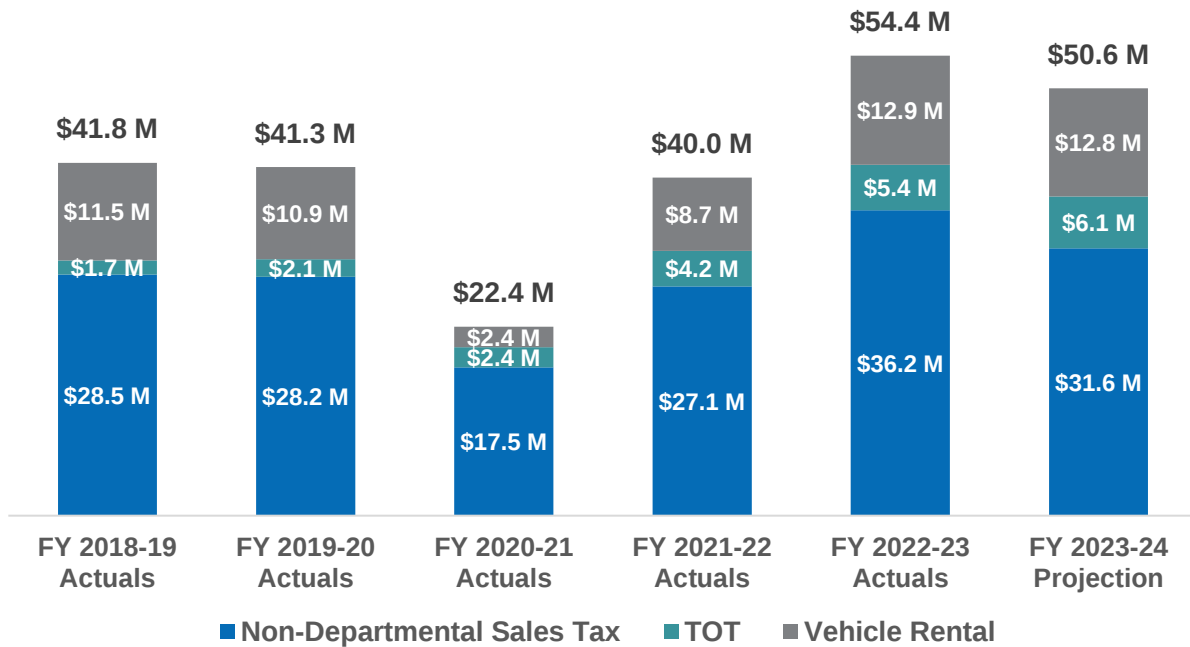
- Countywide receipts for Measure K
- Unincorporated County receipts (General Fund)
 - Unincorporated Sales Tax (UST)
 - Transient Occupancy Taxes (TOT)
 - Vehicle Rental Taxes (VRT)

County-derived sales tax revenue, including Measure K revenue, has largely recovered from the decline driven by COVID-19, but increases have tapered off due to increased inflationary pressure on consumers. County sales tax revenue increased by \$31.4 million in FY 2022-23 when compared to the previous year. Looking forward, County sales tax revenue is projected to decrease by 3.8 percent in response to economic concerns and a resulting decrease in consumer spending.

Measure K County Sales Tax Revenue

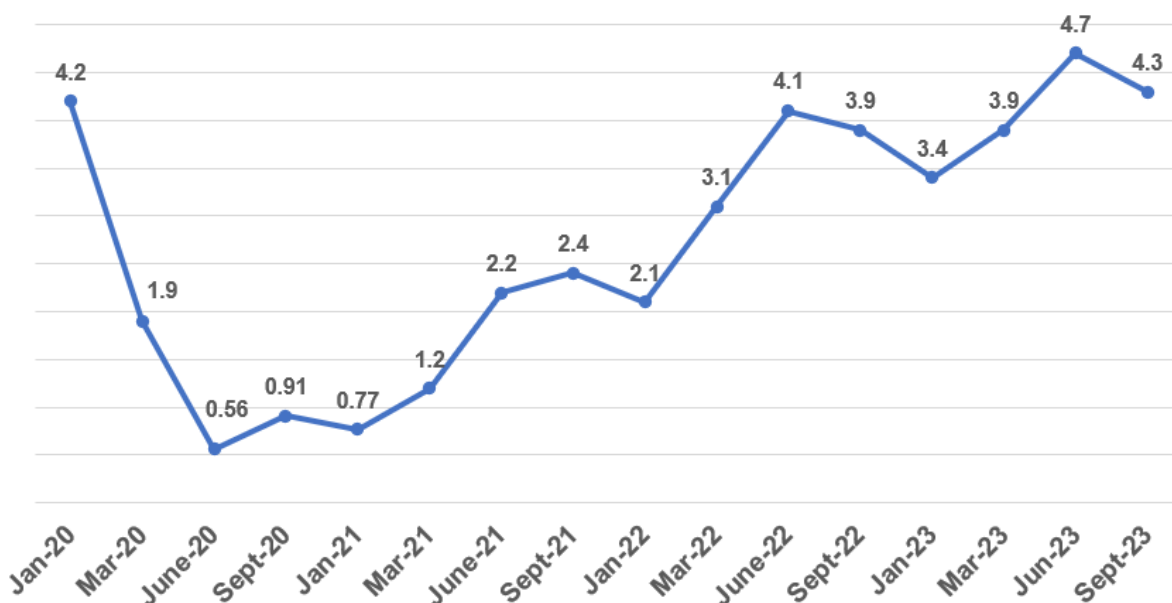


County Sales & Other Tax Revenue



Passenger activity at San Francisco International Airport has recovered to at least pre-Pandemic levels; recent reports indicate that the airport welcomed 4.3 million passengers in September 2023. As a significant portion of the County's sales tax, vehicle rental, and hotel lodging revenues come from businesses at San Francisco International Airport, it is important to monitor patterns in airport activity.

**San Francisco International Airport Total Passengers
(millions)**



Source: https://data.sfgov.org/Transportation/Air-Traffic-Passenger-Statistics/rkru-6vcg/about_data

6. CAPITAL PROJECTS

The County continues to make progress on its capital program including ground-up construction, parks, and building maintenance projects. The San Mateo County Health Campus, County Office Building 3 (COB3), and Cordilleras Mental Health Center projects are all currently underway and, in many cases, are nearing completion over the next year.

In addition, budgets have been set for new projects, including: South San Francisco Wellness Center (\$142 million), Radio Communication Upgrades (\$45 million), Update of 455 County Center (\$20 million), Pescadero Fire Station (\$20 million), Flood Park (\$18.6 million), North County storm drain projects (15 million), Elevator repairs (\$15 million), Tunitas Creek Beach (\$14.8 million), and Hall of Justice First Floor Remodel (with Courts) (\$10 million).

At the same time, the Department of Public Works is working to balance the needs of newly identified priority capital projects with planned deferred maintenance and improvement projects for existing County buildings, including: maintaining accessibility

for all County facilities; East Palo Alto City Hall Improvements; and the San Mateo Medical Center Prevent Self-Harm and Ligature Project.

B. 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 2023-24 Adopted Budget, the projected MOE certification for FY 2023-24 is \$380.1 million. The County expects to exceed the FY 2023-24 Proposition 172 MOE requirement by \$217.4 million.

C. FY 2023-25 CHILDREN, YOUTH, AND FAMILIES BUDGET

The FY 2023-25 Children, Youth and Families budget is submitted to the Board as an attachment to this memorandum.

EQUITY IMPACT:

The approval of the FY 2023-24 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 2023-24 County Mid-Year Update, the Proposition 172 MOE certification, and the FY 2023-25 Children, Youth, and Families Budget.

APPENDICES: LOCAL ECONOMIC INDICATORS

The indicators presented below offer valuable insights into our community's needs. With increasing income inequality in our County, there's a growing concern about residents facing challenges in affording housing and managing everyday living costs, potentially leading to the need for relocation. It's crucial to closely monitor these indicators to comprehend and address the diverse needs of the community. This ensures fair access and allocation of resources for County services.

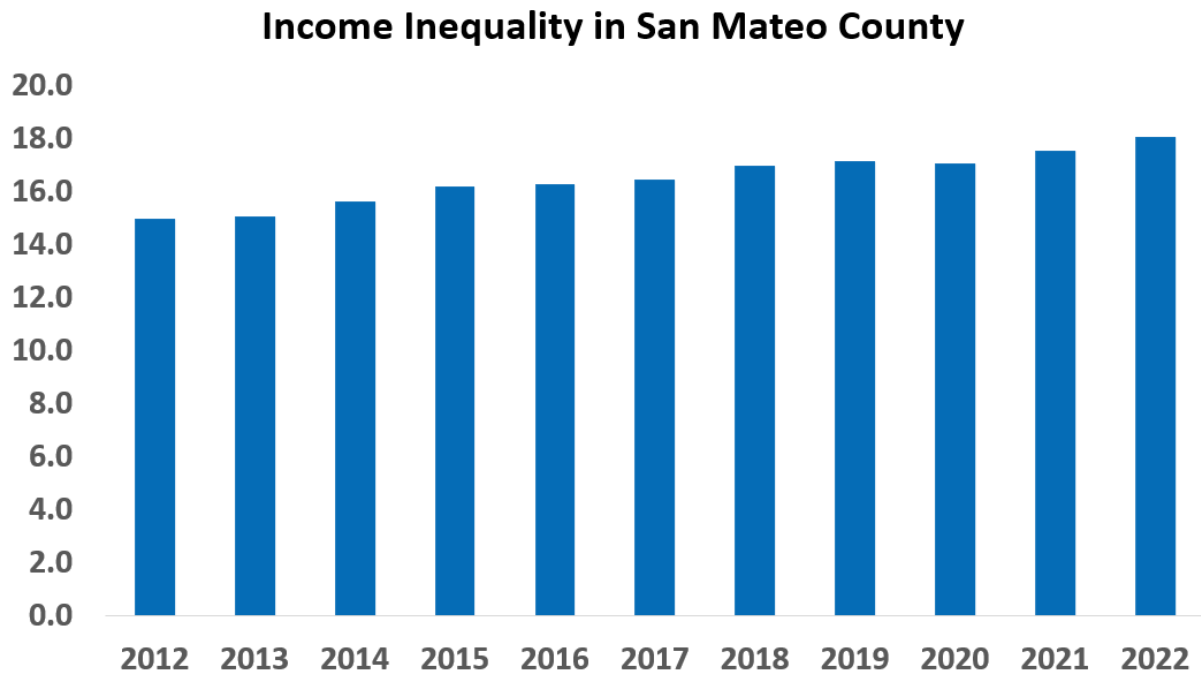
Similar to revenue trends, economic indicators reveal opposing trajectories. While many indicators display positive trends, it's essential to recognize that these trends do not

represent the experiences of all residents. The nuances become apparent based on one's position along the income spectrum. Unemployment remains notably low, and median household income continues to rise. Conversely, the hurdles of housing affordability, the availability of affordable childcare, and the costs of daily living persist for many residents. Moreover, demographic trends indicate an aging population with relatively fixed incomes struggling to keep pace with rising costs. If this trend persists, there may be an increased demand for County services to address these evolving needs.

- A. Income Inequality
- B. Median Household Income
- C. Unemployment Rate
- D. Poverty Rate
- E. Median Contract Rent (1 Bedroom)
- F. Regional Housing Needs Allocation by Income
- G. Home Prices
- H. Childcare Costs
- I. Consumer Price Index Increase
- J. Average Commercial/Office Rents and Vacancy Rate
- K. County Demographics by Age

A. Income Inequality

Income inequality has been steadily rising in the County through the past several years. The ratio displayed in the chart below represents the mean income of the highest quantile (top 20 percent) of earners divided by the mean income of the lowest quantile (bottom 20 percent) of earners in the County. In 2022, this ratio hovered around 18 – an increase of 3.1 from 2012. According to the Pew Research Center, “One reason for the concern [around income inequality] is that people in the lower rungs of the economic ladder may experience diminished economic opportunity and mobility...”

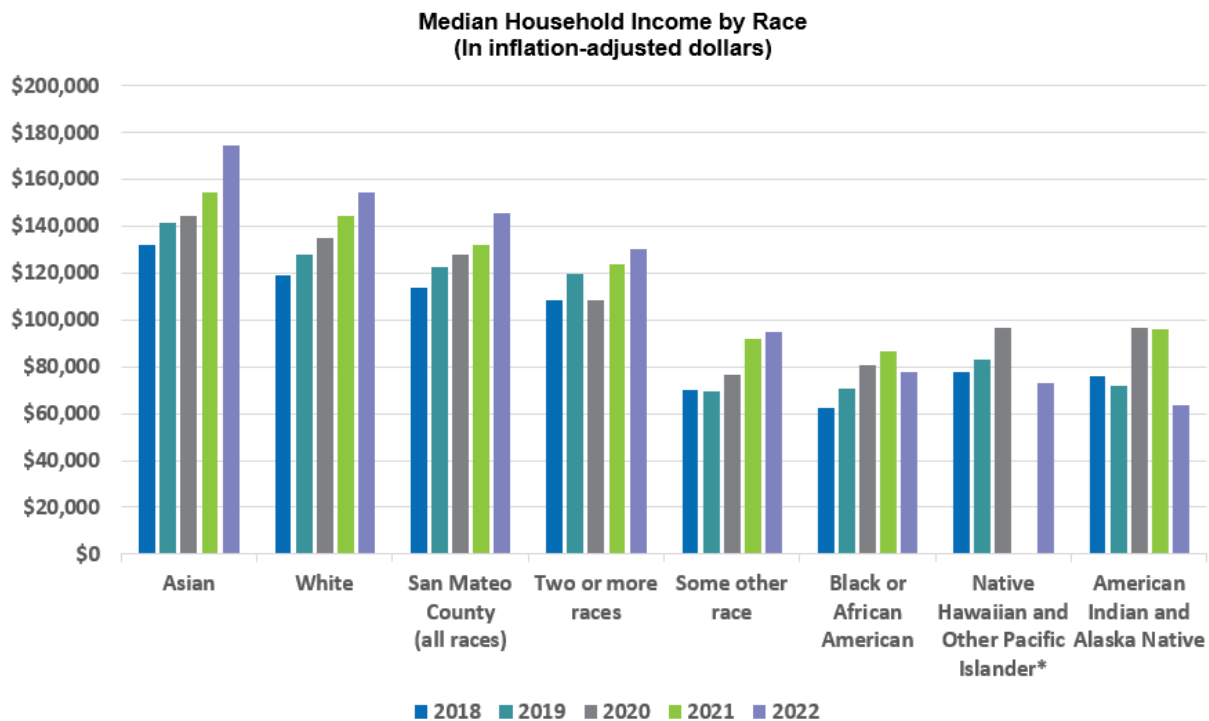


Source (Chart): U.S. Census Bureau, Income Inequality in San Mateo County, CA [2020RATIO006081], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/2020RATIO006081>, January 23, 2024.

Source: “Most Americans Say There Is Too Much Economic Inequality In The U.S., But Fewer Than Half Call It A Top Priority.” Pew Research Center, Washington D.C. (January 9, 2020) <https://www.pewresearch.org/social-trends/2020/01/09/trends-in-income-and-wealth-inequality/>.

B. 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 five years. During that same time, households identifying as Some Other Race have increased median household income by 35 percent and Asian households have increased median household income by 32 percent. Between 2021 and 2022, Asian household median income increased by 13 percent and Black or African American household median income decreased by 10.2 percent. Significant gaps in median household income persist in 2022 with American Indian and Alaska Native median household income being 36.6 percent of Asian median household income. The next largest gap in median household income is between Native Hawaiian and Pacific Islander median household income which is 41.8 percent of Asian median household income. Because the United States Census Bureau collects and calculates data for race and ethnicity as distinct demographics, that information is presented separately below.



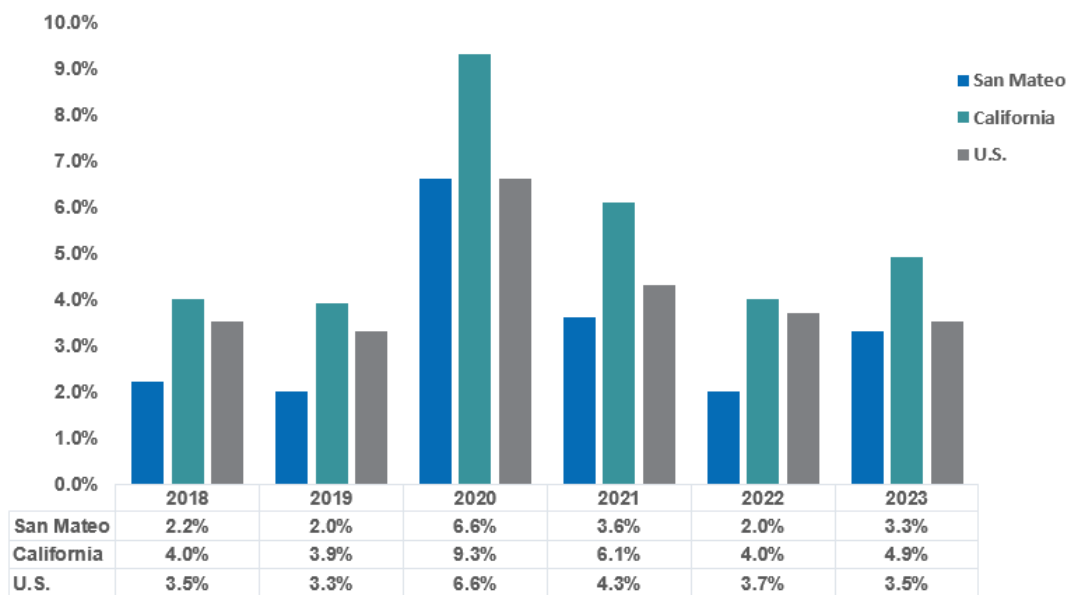
* 2022 data for all groups is sourced from the United States Census 2022 American Community Survey 1 Year Estimates, the latest data available. The sample size for the Native Hawaiian and Other Pacific Islander category was within the margin of error for the survey so no results were reported for group that in 2021. 2021 and previous years' data sourced from the United States Census 2021 American Community Survey 5 Year Estimates.

C. Unemployment Rate

While the national economy is still trying to recover from a downturn at the height of the COVID-19 pandemic in 2020, monthly unemployment rates at the local, state, and national levels have increased from 2022. San Mateo County has the lowest unemployment rate of all counties in California. Although the San Mateo County unemployment rate, measured in October of each year, is down from 6.6 percent in 2020 stemming from the COVID-19 pandemic, it has risen to 3.3 percent in 2023 from 2.0 percent in 2022.

As of December 2022, 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 Native Hawaiian and Other Pacific Islanders, then two or more races, Asians, and then Hispanics/Latinos. In terms of gender, California and national unemployment rates for both women and men, ages 16 and older, have increased compared to last year. There has been an increase in the gender disparity with the unemployment rate for women at 1 percent lower than that of men in 2023 as opposed to women at 0.1 percent lower than that of men in 2022.

**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://labormarketinfo.edd.ca.gov/data/unemployment-and-labor-force.html>

Bureau of Labor Statistics: Quarterly Census of Employment and Wages (bls.gov)

D. Poverty Rate

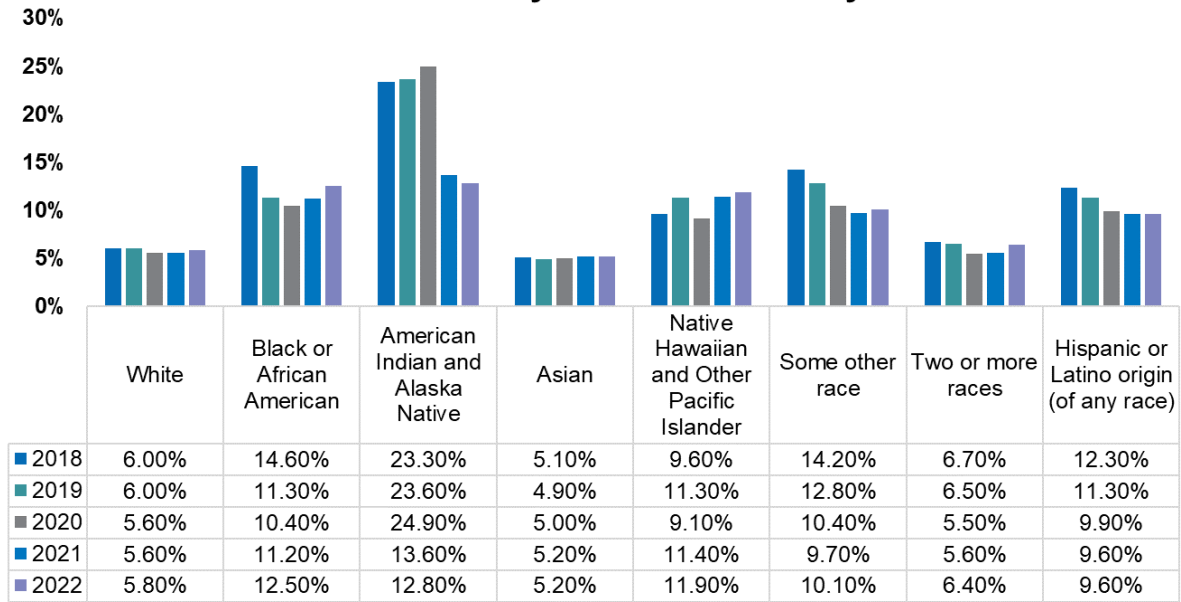
Note: The US Census has delayed the release of its 2023 American Community Survey data. As a result, the following information is based on calendar years 2018 through 2022.

The federal poverty level (FPL), or the "poverty line," is a measure used to determine whether the income level of an individual or family qualifies for certain federal benefits and programs. In 2022, the FPL for a family of 4 was \$27,750 annually. Other percentages of income are used to show how close individuals and families are to economic self-sufficiency. A helpful comparison is 200% of the FPL, which, for 2022, was \$55,500 for a family of four. In 2022, it is estimated that 110,289 individuals in the County have incomes below this amount.

For estimating self-sufficiency in the County, 400% of the FPL is about what families need to meet their 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 2022, a family of four would have needed an income of at least \$111,00 per year to meet this threshold.

The chart on the following page illustrates the uneven distribution of household income below the FPL for 2018 to 2022 by race and ethnicity. Overall, for many racial and ethnic groups, there was a negative pre-pandemic trend with respect to the percentage with income below the FPL. While disproportionately higher poverty rates are found among the County's American Indian and Alaskan Native and Black or African American populations. Residents who identify as Some Other Race or Hispanic or Latino comprise more significant numbers of County residents who experience poverty.

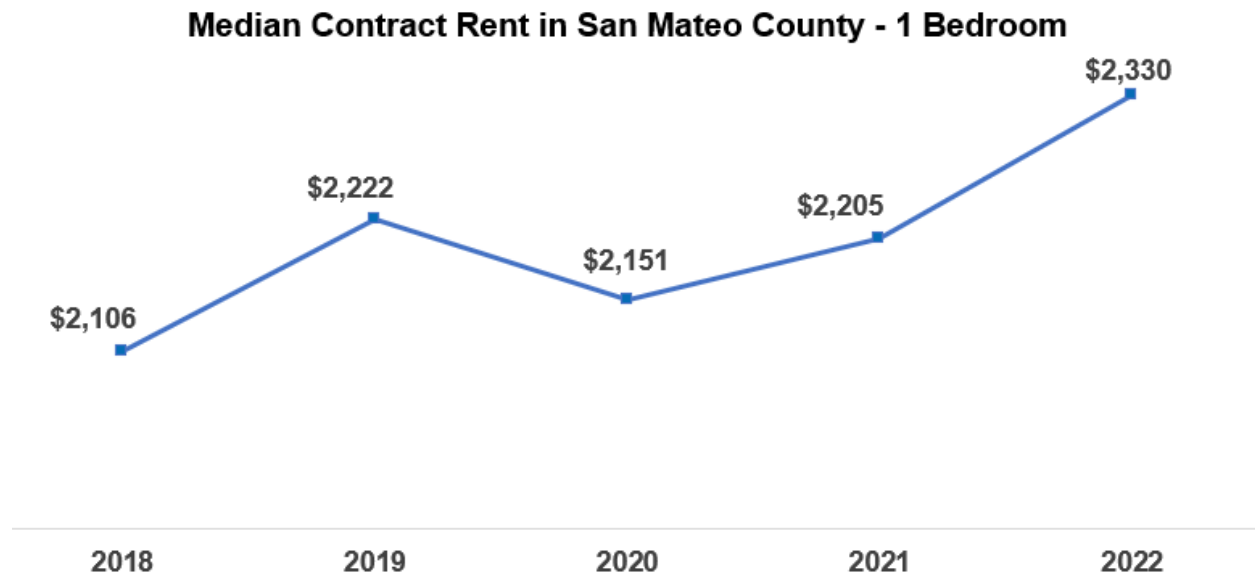
Percent of County Residents Below Federal Poverty Guideline by Race and Ethnicity



Source: U.S. Census Bureau: Poverty Status in the Last 12 Months, 8-2022 American Community Survey 5-year estimates, <https://data.census.gov/table?q=poverty+san+mateo+county&tid=ACSST5Y2021.S1701>

E. Median Contract Rent (1 Bedroom)

According to the American Community Survey by the U.S. Census Bureau, San Mateo County's median contract rent for a one-bedroom in 2022 (data for 2023 is pending) was \$2,330. The median contract rent for a one-bedroom had steadily increased for years until the COVID-19 pandemic caused rents to decrease in 2020; however, the median reached pre-pandemic levels by the end of 2021 as the pandemic's effects began to subside.

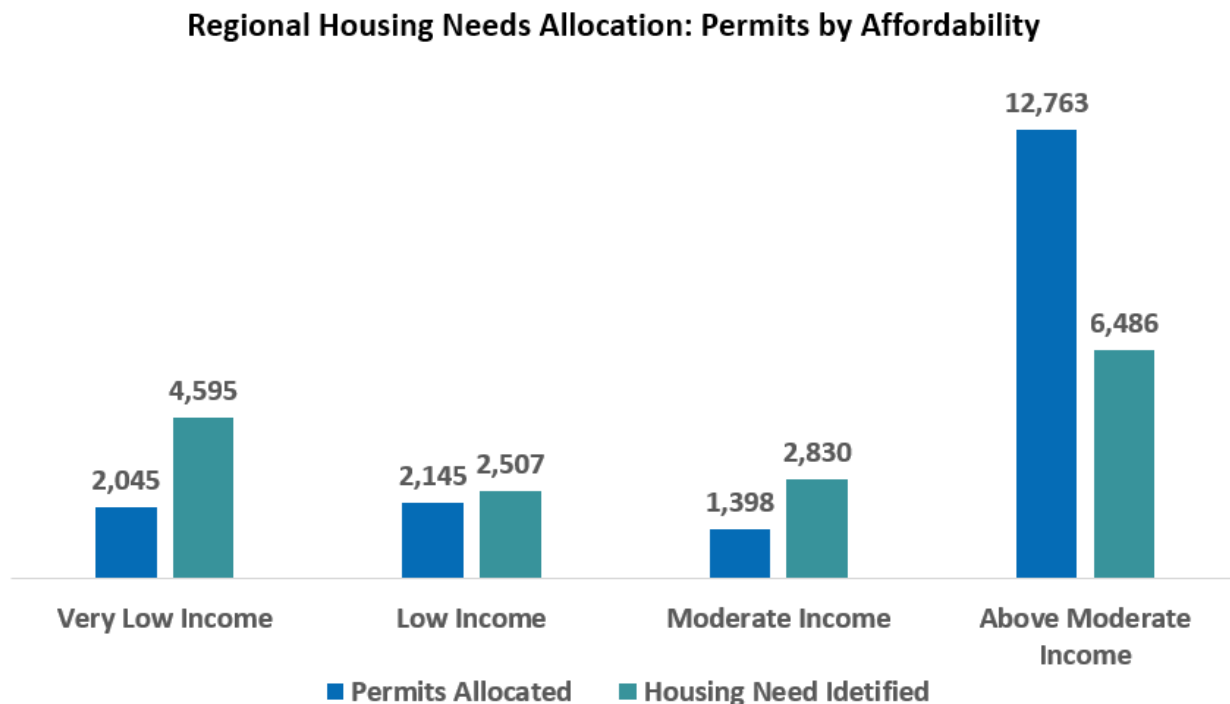


Sources:

American Community Survey, 1-Year and 5-Year Estimates U.S. Census Bureau,
<https://data.census.gov/table/ACSDT1Y2022.B25031?q=Renter%20Costs&g=050XX00US06081&tid=ACSDT1Y2019.B25031>

F. Regional Housing Needs Allocation by Income

Since 1969, the State of California has required all local governments, including cities and counties, to adequately plan to meet the housing needs of all those living in their communities. To meet this requirement, each local jurisdiction must develop a Housing Element that shows how it will meet the local housing needs. The Regional Housing Needs Allocation (RHNA) process is used to determine how many new homes each local government must plan for as well as the affordability of those homes. RHNA is a process that occurs every eight years. The chart below illustrates the RHNA conducted for the eight-year cycle that ended on January 31, 2023. The data demonstrates the disparity between housing needed and the actual permits awarded, especially for very low-income housing. On the other end of the spectrum, above moderate-income housing is being permitted at nearly double the needed allocation identified. The high cost of land and construction have contributed to the disparity.



Source: <https://www.hcd.ca.gov/planning-and-community-development/housing-open-data-tools/housing-element-implementation-and-apr-dashboard>

G. Home Prices

The First-Time Buyer Housing Affordability Index shows the percentage of households that can afford an entry-level single-family home (85 percent of the median home price, with a 10 percent down payment). It is a fundamental measure of the economy's health and the housing market. Housing prices continue to be unaffordable for most households in San Mateo County and other Bay Area counties. The percentage of first-time buyers who can afford an entry-level home in San Mateo County in the third quarter of 2023 decreased by 4% since the third quarter of 2022. San Mateo County remains one of the most unaffordable areas in the Bay Area. 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 17 percent for the third quarter of 2023. Furthermore, the affordability index continues a declining trend across the US and California in 2023 and remains below pre-pandemic levels.

Region/State/ Country	3rd Quarter 2019	3rd Quarter 2020	3rd Quarter 2021	3rd Quarter 2022	3rd Quarter 2023
United States	70%	69%	67%	59%	52%
California	48%	45%	42%	36%	29%
SF Bay Area	46%	41%	41%	33%	27%
Alameda	43%	39%	35%	31%	24%
Contra Costa	57%	51%	50%	45%	39%
Marin	36%	30%	32%	25%	24%
Napa	47%	45%	42%	28%	30%
San Francisco	27%	28%	29%	28%	27%
San Mateo	30%	26%	26%	27%	25%
Santa Clara	38%	36%	33%	28%	25%
Solano	64%	62%	62%	54%	46%
Sonoma	48%	48%	48%	39%	31%

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>

Home sales across the Bay Area remain competitive and dynamic. In November 2020, sales for single-family homes significantly increased from 34.4% across the Bay Area to 28.3% in San Mateo County. In November 2021, home sales drastically decreased to - 4.8% across the Bay Area and to 0.2% in San Mateo County and have continued to decline. Many factors have contributed to this decrease, including increased interest rates on homes, the stock market, inflation, and inventory of homes to sell. High-interest rates are driven by inflationary pressures, causing home prices to decline but mortgage rates to increase.

Region/State/ Country	November 2019	November 2020	November 2021	November 2022	November 2023
California	5.6%	26.3%	-10.7%	-47.7%	-5.8%
SF Bay Area	-4.8%	34.4%	-4.8%	-38.9%	-6.2%
Alameda	-10.3%	39.6%	-5.2%	-35.8%	-8.9%
Contra Costa	-10.8%	49.9%	-9.0%	-40.0%	-15.7%
Marin	13.3%	40.6%	-33.1%	-16.3%	-19.4%
Napa	-18.5%	28.0%	1.0%	-28.9%	-17.4%
San Francisco	-5.8%	28.6%	10.7%	-35.1%	6.1%
San Mateo	-3.6%	28.3%	0.2%	-45.4%	10.2%
Santa Clara	-0.9%	34.4%	-4.2%	-47.0%	3.2%
Solano	-3.1%	16.6%	-7.7%	-33.7%	4.0%
Sonoma	8.7%	14.2%	10.1%	-36.3%	-17.4%

Source: <https://car.sharefile.com/share/view/sf7d2f2d2a69a454eab91437e9938bbe8>

The median home price for San Mateo County has increased by 10.2% from November 2022 to November 2023 to a median sale price of \$1,970,000. However, San Mateo County remains to have the highest housing prices across the Bay Area making homeownership difficult to obtain.

County	Nov 2022	Nov 2023	Price Change
Alameda	\$1,175,000	\$1,275,000	8.5%
Contra Costa	\$890,000	\$870,000	-2.2%
Marin	\$1,535,000	\$1,590,000	3.6%
Napa	\$1,050,000	\$942,500	-10.2%
San Francisco	\$1,500,000	\$1,550,000	3.3%
San Mateo	\$1,782,500	\$1,970,000	10.5%
Santa Clara	\$1,600,000	\$1,850,000	15.6%
Solano	\$560,000	\$595,000	6.3%
Sonoma	\$834,580	\$850,000	1.8%
Bay Area Average	\$1,214,120	\$1,276,944	5.2%

Source: <https://www.car.org/marketdata/data/ftbhai>

H. Childcare Costs

In 2022, the demand for childcare spaces exceeded supply across all child age groups – infants, preschool, and school age. The imbalance was greatest among infants, with a shortage of 66 percent, followed by school age children at 34 percent. The gap between supply and demand was smallest for preschool children, with the shortage at 6 percent. This gap is predicted to grow if capacity cannot be added. Challenges to expanding supply include staffing shortages, childcare worker wages, state reimbursement rates, and overall cost of living in the county.

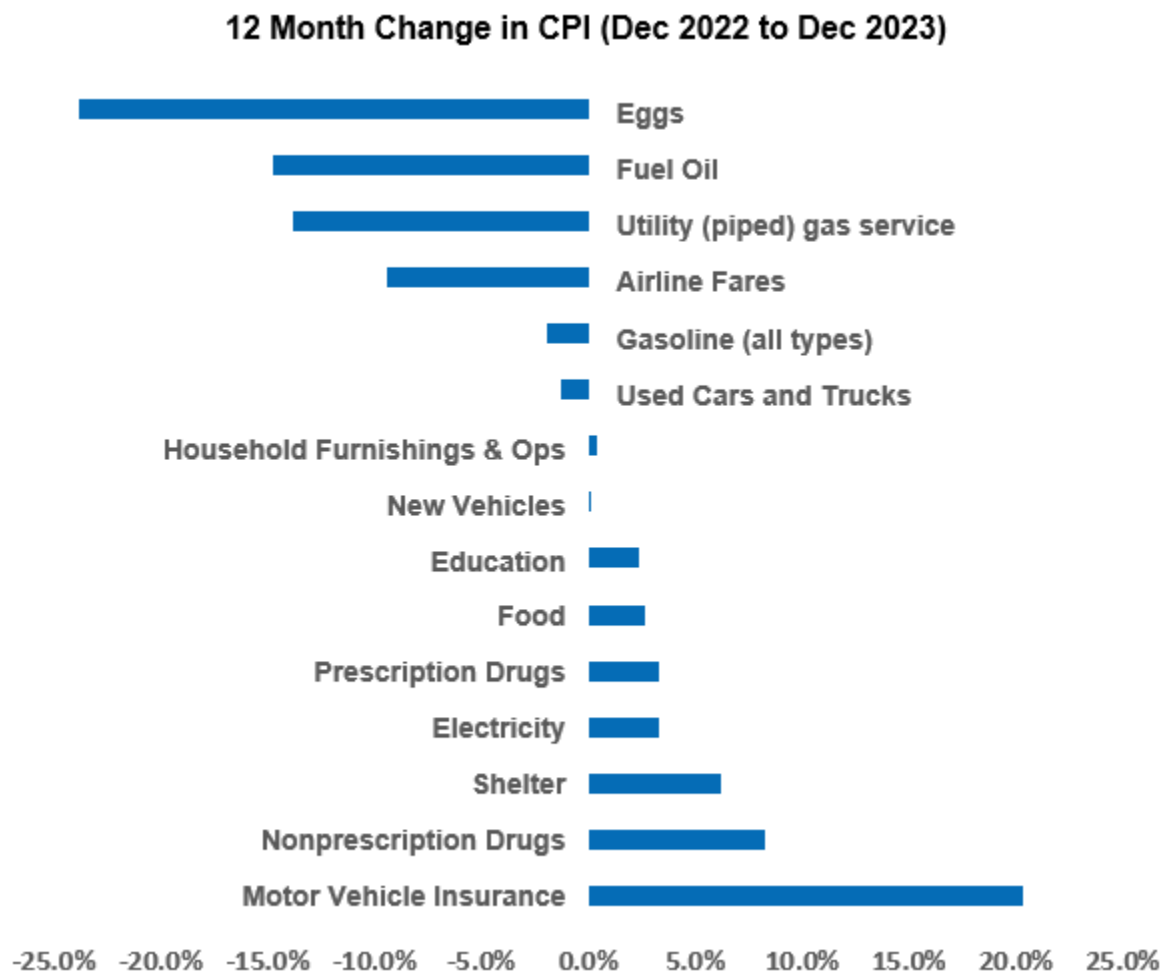
SMC Supply and Demand for Childcare Spaces 2022				
Age Group	Demand	Supply	Shortage	Percentage
Infants	8,715	2,925	5,790	66%
Preschool	19,847	18,740	1,107	6%
School Age	29,942	19,682	10,260	34%
Total	58,504	41,347	17,157	29%

Source: [Child Care and Early Learning Needs Assessment - San Mateo County Office of Education \(smcoe.org\)](https://smcoe.org/child-care-and-early-learning-needs-assessment)

I. Consumer Price Index (CPI)

It is important to note that despite decreasing economic certainty and increasing interest rates for loans, wages remain stagnant, with inflation still increasing on many of the commodities our residents rely on. This shows that there's an enormous financial gap that needs to be filled for some of the County's most vulnerable populations.

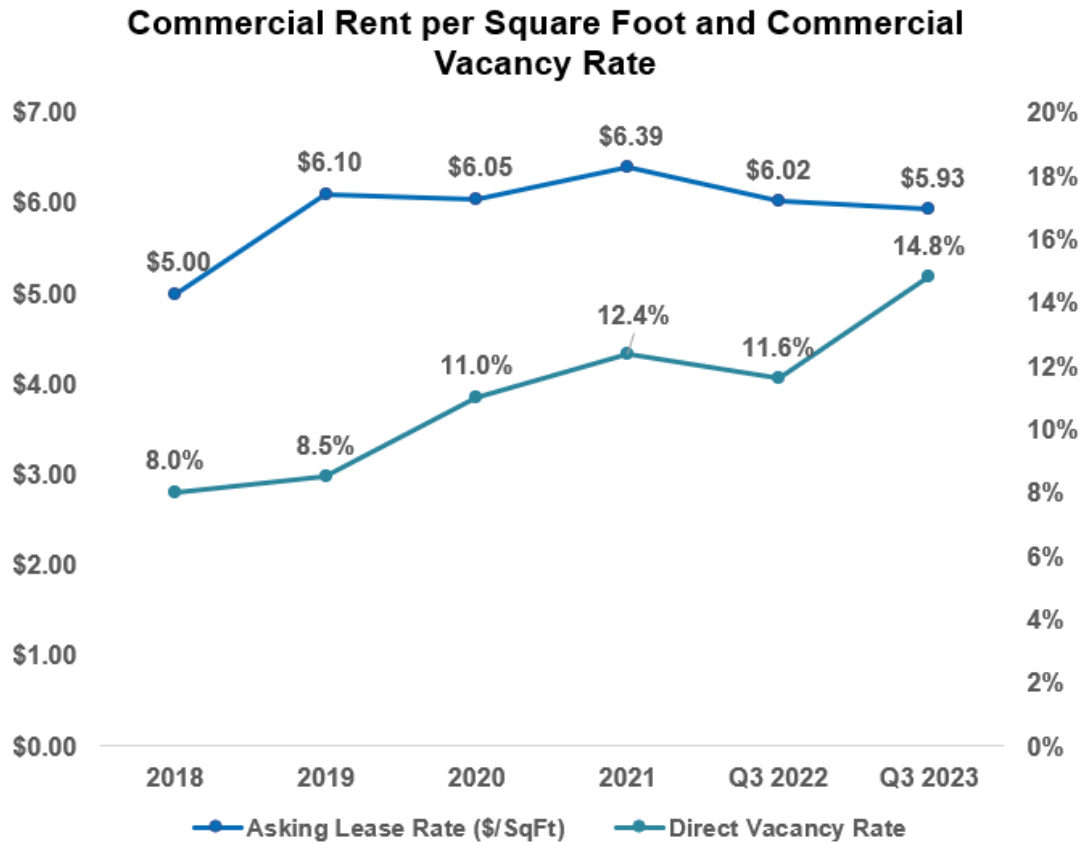
The Bureau of Labor Statistics reported in January 2024, consumer prices in all categories increased 3.4 percent from December 2022 to December 2023. Some notable areas with the highest increases include motor vehicle insurance at 20.3 percent, nonprescription drugs at 8.3 percent, to shelter at 6.2 percent to the lowest commodities; gas service at -13.8 percent, fuel oil at -14.7 percent and eggs at -23.8 percent. It is notable that all three commodities mentioned saw some of the highest increases in the 2021-2022 calendar year at 19.3, 41.5, and 59.9 percent respectively. These prices have normalized in the 2022-2023 year. For the full list please visit the sources below.



Note from U.S, Bureau of Labor Statistics, Data are not seasonally adjusted. Source: [Consumer Price Index: 2023 in review : The Economics Daily: U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/opub/ted/2024/consumer-price-index-2023-in-review.htm)
<https://www.bls.gov/opub/ted/2024/consumer-price-index-2023-in-review.htm>

J. Average Commercial/Office Rents and Vacancy Rate

As of Quarter 3 2023, the average commercial rental rate in San Mateo County has decreased slightly compared to last year while the commercial vacancy rate has increased by more than three percent from an annual vacancy rate of 11.6 percent in 2022 to 14.8 percent in 2023. The increased vacancy rate is the result of many companies reassessing office space needs as a larger percentage of employers have shifted to more hybrid and telework options.

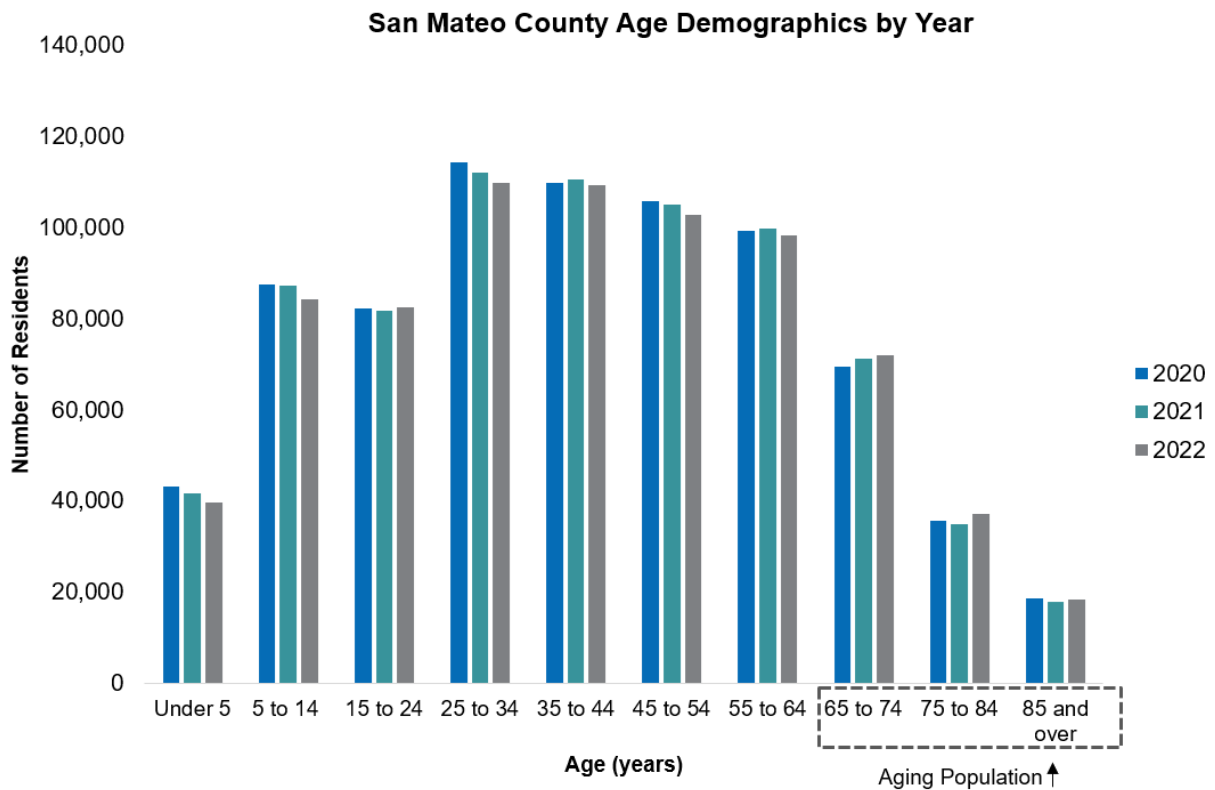


Source: Kidder Matthews: https://kidder.com/wp-content/uploads/market_report/office-market-research-peninsula-2023-3q.pdf

K. County Demographics by Age

The County continues to have an aging population with an overall increase of 8% year over year. In 2022, residents ages 65 and over total at 127,520. Whereas residents between the ages of 0 and 14 total at 123,873, declining by 8.3%. The age range between 25 and 64 remain relatively steady with the age subgroup of 25 to 34 stands out as the most prominent. This age range consistently maintains the highest representation, indicating a sustained level of population within the County.

Understanding these demographic shifts allows us to proactively plan and adapt to the changing needs of the County. This highlights potential opportunities to contribute and ensure the overall wellbeing and sustainability of the community.



Source:

<https://data.census.gov/table/ACSST5Y2018.S0101?q=San%20Mateo%20County,%20California&tid=ACSST5Y2019.S0101>