



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

Department: County Executive's Office

Board Meeting Date: September 27, 2022
Special Notice/Hearing: None
Vote Required: Majority

TO: Honorable Board of Supervisors
FROM: Michael P. Callagy, County Executive
SUBJECT: Final Budget Changes to the Fiscal Year 2022-23 Approved
Recommended Budget

RECOMMENDATION:

Approve the following actions related to final budget revisions to the Fiscal Year 2022-23 Approved Recommended Budget:

Adopt resolutions:

- A) Adopting the revised budget of the County of San Mateo as to expenditures for Fiscal Year 2022-23 and making appropriations therefore; and
- B) Adopting the revised budget of the County of San Mateo as to the means of financing for Fiscal Year 2022-23; and
- C) Establishing the appropriation limit for the County of San Mateo for Fiscal Year 2022-23; and
- D) Authorizing an amendment to Master Salary Resolution No. 079043 as per Fiscal Year 2022-23 Adopted budget.

BACKGROUND:

The County Budget Act (Government Code §§ 29000-29144, 30200, and 53065) requires that the Board of Supervisors adopt the County budget by October 2, 2022.

On June 28, 2022, as part of the two-year budget process, the Board of Supervisors approved the FY 2022-23 Recommended Budget. The purpose of this budget transmittal is to adopt the FY 2022-23 Budget, which has been amended to include FY 2021-22 year-end Fund Balance adjustments; changes to local, state, and federal funding sources; increases in salaries and benefits; and other adjustments deemed necessary to ensure the effective delivery of services that contribute to achieving County goals.

DISCUSSION:

The FY 2022-23 Recommended Budget that this Board approved on June 28, 2022, was \$3.4 billion with 5,616 authorized positions for all County funds. With the completion of the County's year-end financial closing activities, final Fund Balance adjustments, rollover of unspent Measure K and other funding sources from FY 2022-23, and other budget changes based on updated funding amounts, increases in expenditures of \$791.2 million are proposed in connection with the approval of the FY 2022-23 Adopted Budget. This also includes a net addition of ten authorized positions. With these changes, the FY 2022-23 Budget now presented to this Board for adoption totals \$4.2 billion with 5,626 authorized positions for all County funds. The budget for the General Fund is \$2.9 billion with 4,453 authorized positions. Attachment D contains all September Revisions.

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

FY 2022-23 Adopted Budget, All Funds (Requirements)

County Agencies All Funds	2022-23 June Rec	2022-23 September Revisions Adjustments	2022-23 Adopted	2020-21 Authorized Positions
General Fund (GF)				
Administration/Fiscal	710,301,309	462,214,455	1,172,515,764	584
Community Services	214,948,948	89,510,969	304,459,917	504
Criminal Justice	522,390,645	31,602,924	553,993,569	1,327
Health Services	541,756,670	32,826,333	574,583,003	1,196
Social Services	313,999,847	10,204,584	324,204,431	842
Total GF	2,303,397,419	626,359,265	2,929,756,684	4,453
Non-General Fund (NGF)				
Administration/Fiscal	65,572,779	52,909	65,625,688	-
Community Services	594,916,512	157,856,926	752,773,438	131
Health Services	467,429,360	7,055,917	474,485,277	1,042
Total NGF	1,127,918,651	164,965,752	1,292,884,403	1,173
Total GF & NGF	3,431,316,070	791,325,017	4,222,641,087	5,626
Information Only				
County Library Fund	72,706,432	5,111,747	77,818,179	146
First 5 Fund	18,067,897	988,670	19,056,567	8
Housing Authority Fund	141,185,955	-	141,185,955	48
Local Agency Formation Commission	785,111	1,289	786,400	2
Retirement Trust Fund	9,069,472	-	9,069,472	23
Total Information Only	241,814,867	6,101,706	247,916,573	227

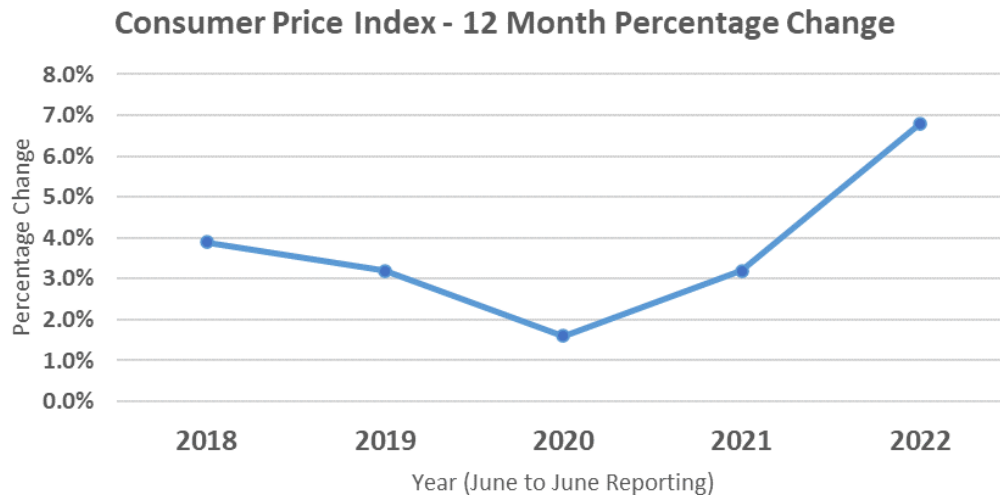
Changing Economic Landscape

As shared in the Recommended Budget, this Adopted Budget remains focused on Board priorities with a few significant changes in order to allow the County to respond to economic uncertainty. Conflicting trends in inflation and consumer spending, employment and wages, and housing and rental markets make comparisons to historic trends or events, such as the 2008 Great Recession, unreliable.

Specific conditions to monitor for potential impacts on future budget and funding include:

Inflation

The Bay Area Consumer Price Index (CPI) grew at double the average rate during FY 2021-22 compared to previous years. From June 2021 to June 2022, CPI grew 6.8 percent. When broken down into categories, food prices rose by 10.8 percent and energy prices by 36 percent. Despite increases in the costs of goods and services, consumer spending remains unexpectedly high, although it is unclear whether spending at these levels will continue. In the past we have seen that inflation disproportionately affects low-income communities and consumers and we have seen that these consumers may be relying on credit and savings to cover their everyday expenses. This budget includes increased support for food assistance, rental assistance, and basic needs. If the impacts of inflation continue, these additional supports may need to be revisited.



Source: U.S. Bureau of Labor Statistics

Employment & Wages

Despite record low unemployment numbers nationally and in our county (1.9 percent for San Mateo County as of July 2022), the recovery of the labor market from COVID-19 is uneven across different industries. The manufacturing and service industries have extremely high vacancy rates while some of the major tech companies are instituting hiring freezes or layoffs. Even with these recent trends, the labor market remains competitive, with wages continuing to increase across many industries. The full impact of these trends is still being analyzed by many labor and economic professionals. The County will need to continue to monitor to better understand how these changes will affect our services and budget.

Housing Market

Extremely constrained supply and record low mortgage rates have resulted in record increases in home prices over the past two years. As a result, the County Tax Roll is at an all-time high, but recent data suggest that the housing market is slowing down and that the future growth rate of property taxes will likely remain flat. Although a housing bubble is not anticipated as constrained supply remains an issue, it is important to keep an eye on property tax revenue as it is the largest portion of the General Fund.

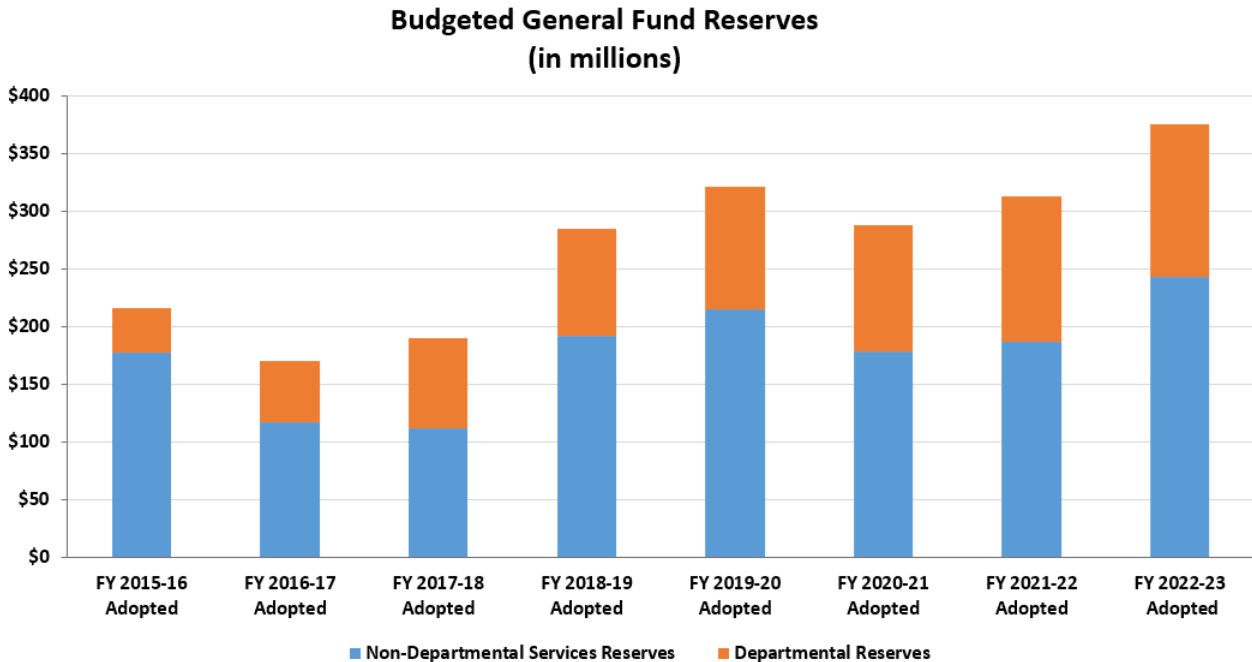
Simultaneously, recent rental market trends indicate that the average monthly rent is on the rise. According to the American Community Survey 2020 5-Year Estimates, nearly half of all San Mateo County renters are rent burdened, defined as spending 30 percent or more of their gross income on rent. Increased rental costs, combined with the impact of inflation on items such as food and energy, are likely to put additional strain on middle- and lower-income families if these trends continue.

In response to these uncertain conditions and conflicting trends, the County will continue to monitor revenue projections and relevant data to respond to changes in the future.

Fund Balance and Reserves

Final Fund Balance adjustments included herein comply with the County's Fund Balance Policy and Reserves Policy guidelines. Following FY 2021-22 year-end closing activities, final Fund Balance adjustments of \$415.8 million for all County funds—\$402.0 million in the General Fund and \$13.8 million in other County funds—are included in the budget. These adjustments are summarized in Attachment B.

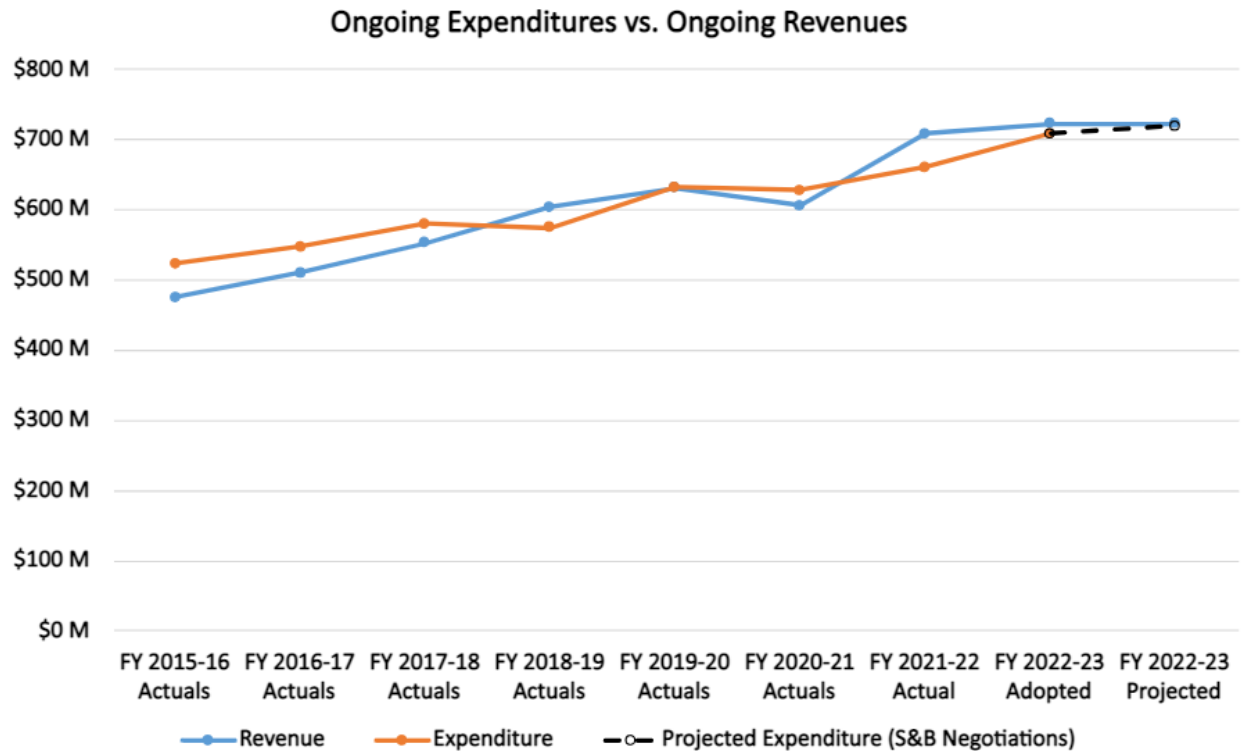
This FY 2022-23 Adopted Budget includes General Fund Reserves of \$243.7 million for Non-Departmental Services, and \$132.0 million for General Fund departments. General Fund Reserves are at 14.7 percent, exceeding the 10 percent required by Board policy. This represents a small change from the General Fund Reserves level of 14.1 percent in the FY 2022-23 Recommended Budget. Within General Fund Reserves, Non-Departmental Services Reserves and Contingencies are 9.5 percent and General Fund departmental Reserves are at 5.2 percent of Net Appropriations. These changes are mainly due to unanticipated revenues and salary savings due to position vacancies that occurred in FY 2021-22. The year over year change is 0.5 percent.



Ongoing Expenditures vs. Revenues

In FY 2021-22, actual revenues exceeded budgeted revenues in three main categories: Property Tax, Sales Tax, and Property Tax in Lieu of Vehicle License Fee (VLF). Both the Property Assessment roll value and Sales Tax grew at higher rates than anticipated. The roll value increased by 8.34 percent to \$288 billion. This compares to the FY 2021-2022 Property Assessment Roll, which increased by 4.16 percent from the prior year to \$266 billion. As a result, FY 2022-23 budget revisions include a 3.34 percent increase for property assessment revenue in addition to the 5 percent increase that was originally included in the FY 2022-23 Recommended Budget. Additionally, VLF revenues came in higher than expected, as the County did not face the same shortfall experienced in the previous year.

Despite the unanticipated growth in FY 2021-22, the County continues to take a calculated and conservative approach in budgeting for FY 2022-23. The total County General Fund expenditure is \$709 million in FY 2022-23, an increase of \$28 million from the Recommended Budget presented in May mainly due to increases in negotiated salary and benefit costs. Of this total, \$650.7 million is provided to departments to cover direct services. The remaining \$58.3 million (8.2 percent of the \$709 million) is allocated towards ongoing expenses such as debt service, facilities projects, elections, and parks operations and maintenance. It should be noted that the budget excludes additional negotiated salary and benefit cost increases for two major bargaining units with which the County has yet to reach agreement. As such, ongoing monitoring is required to ensure that resources are allocated in alignment with Board priorities while remaining flexible if adjustments are needed.



Significant Budget Changes

- **Negotiated Salary Increases:** This FY 2022-23 Adopted Budget includes negotiated salary increases that were not included in the FY 2022-23 Recommended Budget for the following bargaining units:
 - California Nurses Association (CNA): 8.5% effective 4/17/2022, 3% effective 12/25/2022
 - Service Employees International Union (SEIU): 3% effective 4/17/2022, 3% effective 10/2/2022
 - San Mateo County Council of Engineers (SMCCE): 3% effective 5/15/2022, 3% effective 2/19/2023
- **Benefits Increases:** An additional 12.6 percent increase for health benefits expense was added to the FY 2022-23 Adopted Budget to account for increases in insurance premiums.
- **Capital Projects:** The FY 2022-23 Adopted Budget total for capital projects is \$365.9 million. The FY 2022-23 Adopted Budget includes changes of \$158 million from the FY 2022-23 Recommended Budget, a 76 percent increase. Budget changes include rollover of \$58.4 million of unspent funds from FY 2021-22 and adjustments to project budgets that total \$99.7 million. All ground-up capital construction projects are fully funded in this budget. The projects include:

Project Name	Total Project Budget
San Mateo Medical Center	\$227 M
County Office Building 3	\$230 M
Navigation Center	\$ 57 M
Cordilleras Mental Health Center	\$157 M

All capital projects budgets for FY 2022-23 are listed in Attachment E. The FY 2022-23 Adopted Budget totals represent the portion of the project budget included in this specific budget, as distinct from full project costs (total project budget).

- Measure K Funding: This budget makes a number of adjustments to Measure K funding allocations. These adjustments include the addition of funding for items previously approved by the Board: restoring District-Discretionary funding (\$4,000,000); Pescadero Fire Station (\$2,000,000); 3 percent Cost of Living Adjustment for Community-Based Organizations (\$1,000,000); the Gun Removal Program (\$1,000,000); funding for improvements to the Regional Operations Center (\$1,000,000); and the Middlefield Bike Lane (\$200,000). In addition, this budget includes a true-up of revenue and expenditures for the Middlefield Streetscape Project (-\$4,200,000).
- SamCERA Rate: The SamCERA fund returned -4.4 percent on the fiscal year, missing the assumed rate of return of 6.25 percent. Notwithstanding this return, SamCERA remains positioned to decrease the County's contribution rates due, in large part to unrecognized gains from the previous fiscal year and supplemental funding by the employer. Beginning in FY 2023-24 the employer contribution rates are expected to decrease by 9-12 percent over the current rates. The Board of Retirement is expecting to review the annual actuarial valuation which will include the funded status and employer contribution rates for next year, during its September meeting.
- Position Changes:

This budget includes a net addition of ten positions from the FY 2022-23 Recommended Budget to the FY 2022-23 Adopted Budget. Positions were added in the following departments:

- Sheriff's Office (2)
- Probation Department (2)
- County Health (7)
- Human Services Agency (9)
- County Executive's Office (1)

These additions were offset by the following reductions in positions:

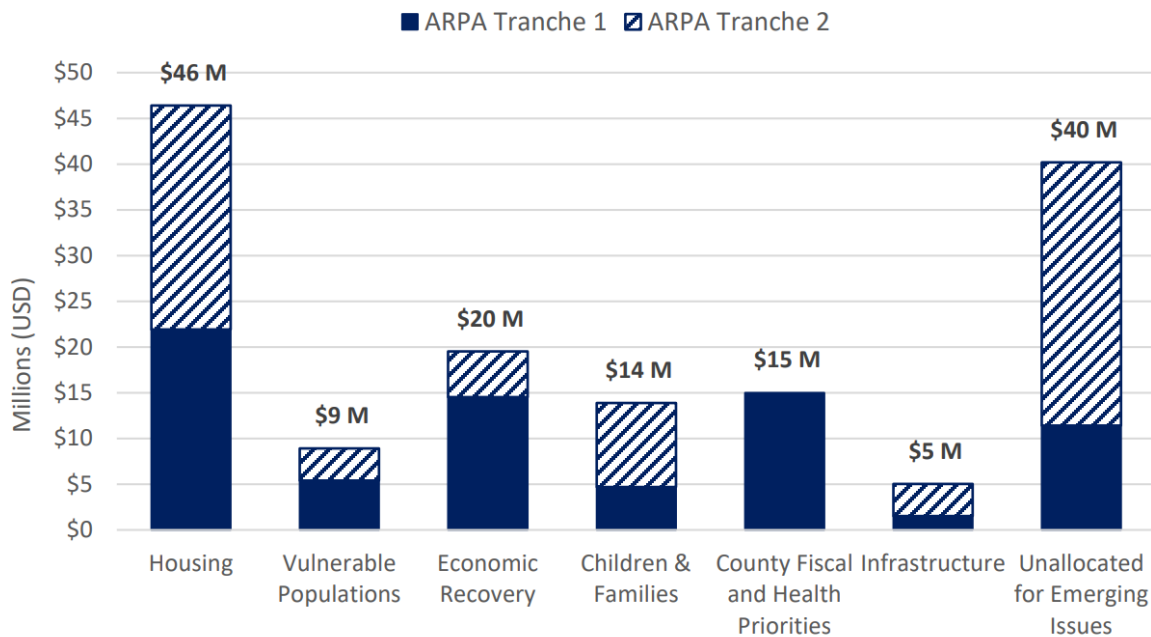
- Department of Child Support Service (-1)
- Department of Housing (-1)
- CEO Revenue Services (-9)

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

COVID Recovery

The County has received a total of \$148,897,819 in American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds over two tranches, the first in May 2021 and the second in May 2022. The second tranche of this funding (\$74M) has been included in the FY 2022-23 Adopted Budget. The County has leveraged this funding to help communities most impacted by the pandemic and advance the County's equity goals. In many instances the ARPA funding has been allocated alongside other recovery funding sources such as state, local, CARES Act, and Measure K to support programs across various recovery areas.

Through an extensive community engagement process, the County has identified five priority areas to direct its ARPA funding in line with program requirements to respond to the pandemic and its negative economic consequences: housing, vulnerable population support, economic recovery, children and families, and infrastructure. In addition to the priority areas, additional funding has been allocated to address County fiscal and health priorities and emerging issues.



ARPA funding information and other details about individual initiatives can be found in the SMC Recovery Plan - 2022 Report on the County's [ARPA reporting](#) website.

Homelessness

The 2022 one day count at the end of February found that there are 1,808 homeless residents in San Mateo County. Of that total, 1,092 are unsheltered and living on the street, in encampments, or in their cars, vans, or recreational vehicles. The graphic below outlines the multiple components of our work to address homelessness to which the County dedicated approximately \$185.7 million in the FY 2022-23 budget.



The first step in the housing continuum is prevention of homelessness. Over \$15 million has been contributed by the County, cities, philanthropy, and individual donors to the emergency financial assistance program to help families with rent and other necessary household expenses. That funding is in addition to over \$104 million in rent assistance provided to San Mateo County residents through the state Emergency Rental Assistance Program, which stopped accepting applications in this spring. In addition, the County has funded legal assistance for tenants facing eviction and tenant rights education and referral services.

If residents become homeless and unsheltered, the County and our community partners provide extensive services. Outreach teams and services that include case workers, housing specialists, medical, mental health and substance abuse specialists, and veterinarians support residents living on the street, in encampments, and in their vehicles. Mobile units that include showers and washers and dryers also serve our unsheltered residents. The street teams work hard to build trusting relationships with unsheltered residents, helping them to accept services and ultimately move into interim housing or to a safe parking location/program.

Interim housing is the step between the street and permanent housing. Over the past two years the County has substantially increased the number of interim individual housing units, meaning that each resident has a private room and bathroom. This has been accomplished through the purchase of three hotels and the ongoing development of a Navigation Center. Two hotels have residents now – one is being renovated and the Navigation Center is being developed with completion expected late in 2022. When open, facilities will add 366

units of non-congregate housing to our current inventory. Investment in these properties demonstrates the County commitment to achieving homelessness “functional zero,” meaning that every unsheltered person who chooses assistance will be provided interim or permanent housing.

Of the over \$185 million for homelessness in the FY 2022-23 budget, approximately \$61 million has been allocated for homelessness prevention, interim housing maintenance and operations, resident support services, and providing the ongoing support needed by homeless individuals to secure and sustain permanent housing.

The goal, and last component of our ending homelessness program, is permanent housing. The FY 2022-23 budget includes a total of \$124.7 million for permanent housing. Of these funds, \$97 million of Measure K and ARPA money has or will go toward the development of new Affordable Housing. A total of \$23.7 million is dedicated to housing vouchers that subsidize rent for low-income residents including formerly homeless residents. The vouchers are funded by a combination of state, federal, and Measure K funding.

This fiscal year, the County has made significant investments in support systems and facilities for our homeless residents. To build community support for ongoing support and more interim and permanent affordable housing, the County held three virtual convenings this past spring. The community education and engagement work will continue at the Working Together to End Homelessness Summit on October 28, 2022, where we expect over 200 attendees to contribute to the 2023 Homelessness Action Plan.

Equity

The County continues to make investments toward advancing equity for our residents. The FY 2022-23 Recommended Budget expanded the equity team of the County Executive Office with the addition of an Equity and Belonging Manager. The generous support of the Chan Zuckerberg Initiative has enabled us to add a Limited Term Equity and Belonging Associate to the equity team. The additional capacity has allowed aspects of the countywide Racial and Social Equity Action Plan (Equity Action Plan) to move ahead more quickly and has helped support the many efforts already underway. The Adopted Budget also includes the addition of a Human Resources Equity Management Analyst to support expanded engagement on inclusive and equitable staffing and workforce priorities. Most departments are also investing existing staffing support to advance their departmental actions identified in the Equity Action Plan and to engage in interdepartmental committees to bring their expertise and experience into countywide tools and program development. In addition to investments in personnel, the County has taken concrete steps to advance equity by: releasing a Request for Proposals to support foundational equity training for all staff; preparing to pilot staff affinity groups to create a stronger sense of belonging for our increasingly diverse staff with equity-focused facilitation support; preparing to pilot an equitable approach to training and onboarding for our newest County Commission (the Farmworker Advisory Commission); and preparing to release a Request for Information to advance inclusive procurement of goods and services. In addition, a Staff Equity Resource Hub will be launched in the Fall to facilitate access to equity tools, resources, and learning opportunities to all staff.

While primarily internal, these investments support the County's ability to bring an equity lens into operations and further strengthen the infrastructure needed to ensure that County policies and practices are developed within an equity framework.

Conclusion

Economic changes and historic increases in inflation posed difficult but not insurmountable financial challenges to this FY 2022-23 Adopted Budget. Prudence in budgeting has enabled us to manage our finances within our means and has allowed us to fully fund capital projects that invest in the County for the decades to come. As the County continues to seek innovative ways to recover from the impacts of the COVID-19 pandemic, this Board has prioritized engagement and support in communities most negatively impacted by the loss of business income, community, and economic self-sufficiency. The focus on equitable outcomes for all San Mateo County residents is changing the way the County does business with countywide equity training for staff and changes to procurement that will ensure equity remains a core value throughout the County. Finally, the ongoing commitment to end homelessness in the county aims to increase housing availability and provide services that address the needs of communities experiencing homelessness now and into the future.

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

FISCAL IMPACT:

The impact of all September changes on Total Requirements for all County funds is an increase of \$791.2 million in FY 2022-23 (compared to the FY 2022-23 Recommended Budget). Fund Balance has increased by \$415.8 million for all County funds (\$402.0 million in the General Fund and \$13.8 million in other County funds). General Fund Reserves now total \$375.7 million, which represents 14.7 percent of Net Appropriations.

ATTACHMENTS

Attachment A – Position Changes Summary
Attachment B – Final Fund Balance Adjustments
Attachment C – Measure K Allocations Summary
Attachment D – September Revisions
Attachment E – Capital Projects Summary

Cc: Roberto Manchia, Chief Financial Officer
Peggy Jensen, Assistant County Executive
Iliana Rodriguez, Deputy County Executive
Justin Mates, Deputy County Executive