County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY EXECUTIVE
File #:

Board Meeting Date: 9/23/2025

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

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

Subject: Final Budget Changes to the Fiscal Year 2025-26 Approved Recommended Budget

RECOMMENDATION:

Approve the following actions related to final budget revisions to the Fiscal Year 2025-26 Approved Recommended Budget:

A) Adopt a resolution adopting the revised budget of the County of San Mateo as to expenditures for Fiscal Year 2025-26 and making appropriations therefore; and

B) Adopt a resolution adopting the revised budget of the County of San Mateo as to the means of financing for Fiscal Year 2025-26; and

C) Adopt a resolution establishing the appropriation limit for the County of San Mateo for Fiscal Year 2025-26; and

D) Adopt a resolution authorizing an amendment to Master Salary Resolution No. 081316 as per Fiscal Year 2025-26 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, 2025.

On June 25, 2025, as part of the two-year budget process, this Board approved the FY 2025-27 Recommended Budget. The purpose of this subsequent budget transmittal is to adopt the FY 2025-26 Recommended Budget, which has been amended to include FY 2024-25 year-end Fund Balance adjustments; changes to local, state, and federal funding sources; increases in benefits; and other adjustments deemed necessary to ensure the effective delivery of services that contribute to achieving County goals.

DISCUSSION:

The FY 2025–26 Recommended Budget in June emphasized preparation for significant federal policy shifts and resulting economic uncertainty, financially positioning the County to meet challenges while seeking opportunities ahead. To date, there is still material uncertainty surrounding policy changes and funding impacts, as well as the general economy, though more information about state and federal funding changes is expected near the end of the second quarter of the fiscal year. These September revisions incorporate the best available information to ensure that the County is well prepared for FY 2025–26. Through this Board's careful fiscal stewardship, the budget addresses current funding needs while sustaining the County's ability to deliver the highest quality services to residents with confidence and stability.

The Board-approved FY 2025-27 Recommended Budget as of June 25, 2025, stood at $4.9 billion with 5,865 authorized positions across all County funds. After year-end final Fund Balance adjustments, rollover of appropriations (e.g. Measure K), and other budget changes, the proposed FY 2025–26 Adopted Budget increases expenditures by $610 million and adds 24 positions. As a result, the revised FY 2025–26 Budget now totals $5.5 billion with 5,889 positions. The General Fund portion is $4 billion with 4,725 positions. See Attachment D for health benefit rate updates and Attachment E for the September revisions.

The following table summarizes Requirements for the September Revisions to the Recommended Budget by County Agency and Non-Departmental Services:

FY 2025-26 Proposed Adopted Budget, All Funds (Requirements)

County Agencies All Funds	2025-26 May Rec	2025-26 September Revisions Adjustments	2025-26 Proposed Adopted	2025-26 Authorized Positions
General Fund (GF)				
Administration/Fiscal*	216,686,093	21,036,979	237,723,072	634
Community Services	249,201,610	114,006,670	363,208,280	579
Criminal Justice	581,405,248	(11,451,590)	569,953,658	1,311
Health Services	716,014,610	10,629,413	726,644,023	1,335
Social Services	374,069,026	9,423,240	383,492,266	866
Agency Total*	**2,137,376,587**	**143,644,712**	**2,281,021,299**	**4,725**
Non-Departmental Services*	1,340,761,257	383,093,368	1,723,854,625	-
Total GF	**3,478,137,844**	**526,738,080**	**4,004,875,924**	**4,725**
Non-General Fund (NGF)				
Administration/Fiscal	70,551,823	(6,558,457)	63,993,366	-
Community Services	686,939,420	103,822,542	790,761,962	137
Health Services	669,743,477	(13,728,938)	656,014,539	1,027
Total NGF	**1,427,234,720**	**83,535,147**	**1,510,769,867**	**1,164**
Total GF & NGF	**4,905,372,564**	**610,273,227**	**5,515,645,791**	**5,889**

**Non-Departmental Services is structurally part of Administration/Fiscal but presented separately to better illustrate budget changes within the County Agencies*

FY 2025-26 September Revisions

In June, the FY 2025-27 Recommended Budget was presented to the Board of Supervisors, emphasizing the need for fiscal responsibility in the context of ever-changing economic conditions. The September revisions make necessary modifications to stay the course set in the Recommended Budget with this focus in mind. These revisions include approximately $610 million in net adjustments, driven by several key factors:

- Final Fund Balance Adjustments (excluding Capital Projects Rollover): Following FY 2024-25 year-end closing, $307.8 million in Fund Balance adjustments were made, including allocations for one-time projects and increases to Contingencies and Reserves.

- Capital Projects Rollover: For ongoing capital projects and infrastructure improvements, $66.8 million has been rolled forward into the current fiscal year. This rollover amount is significantly less than in recent years due to the closeout of many ground-up construction projects.

- New Capital Projects: Since the FY 2025-27 Recommended Budget was approved, an additional $16.5 million in new capital projects or additional funding has been added, largely for Don Horsley Park at Tunitas Creek Beach, Flood Park playground, and facilities improvements.

- Measure K Rollover and Skyway Building: Measure K funding of $91.1 million has been rolled over, mainly for ongoing capital projects including the Affordable Housing Fund, Local Housing Subsidy Program (housing vouchers), and the Pescadero Fire Station project. In addition, the revisions include a $3.5 million contribution to the 795 Skyway Building project at the San Carlos Airport from the FAA Fuel Tax Reserve.

- Prefunding of Other Post Employment Benefits: As described later in this memo, up to $75 million has been allocated to prefund future retiree benefits.

- Benefits Increases: An additional increase of 18.99 percent (Kaiser) and 15.99 percent (Aetna) in health benefits expenses has been added to the FY 2025-26 Proposed Adopted Budget, resulting in an overall increase of $6.7 million to account for rising insurance premiums.

These increases are offset by reductions in grant funding, defeasance of bonds for the Youth Services Campus, and higher than anticipated year-end vendor costs for the Electronic Health Record and the Health Information Exchange project.

Position Changes

These September revisions include a net increase of 24 positions from the FY 2025-27 Recommended Budget to the FY 2025-26 Proposed Adopted Budget. Positions were added in the following departments:

District Attorney's Office	*Family Justice Center and Prop. 36*	6
Sheriff's Office	*DHS Regional Threat Assessment Center Grant*	1
County Health	*Implementation of Prop 1, non-General Fund*	8
Agriculture/Weights and Measures	*Conversions from Extra-Help to Part-Time Seasonal*	6
Department of Public Works	*Due to increased workload at new County facilities*	4
Information Services Department	*Alignment of accounting staff needs*	1

These additions were partially offset by the removal of one position from County Health and one from the Controller's Office.

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

Fund Balance and Reserves

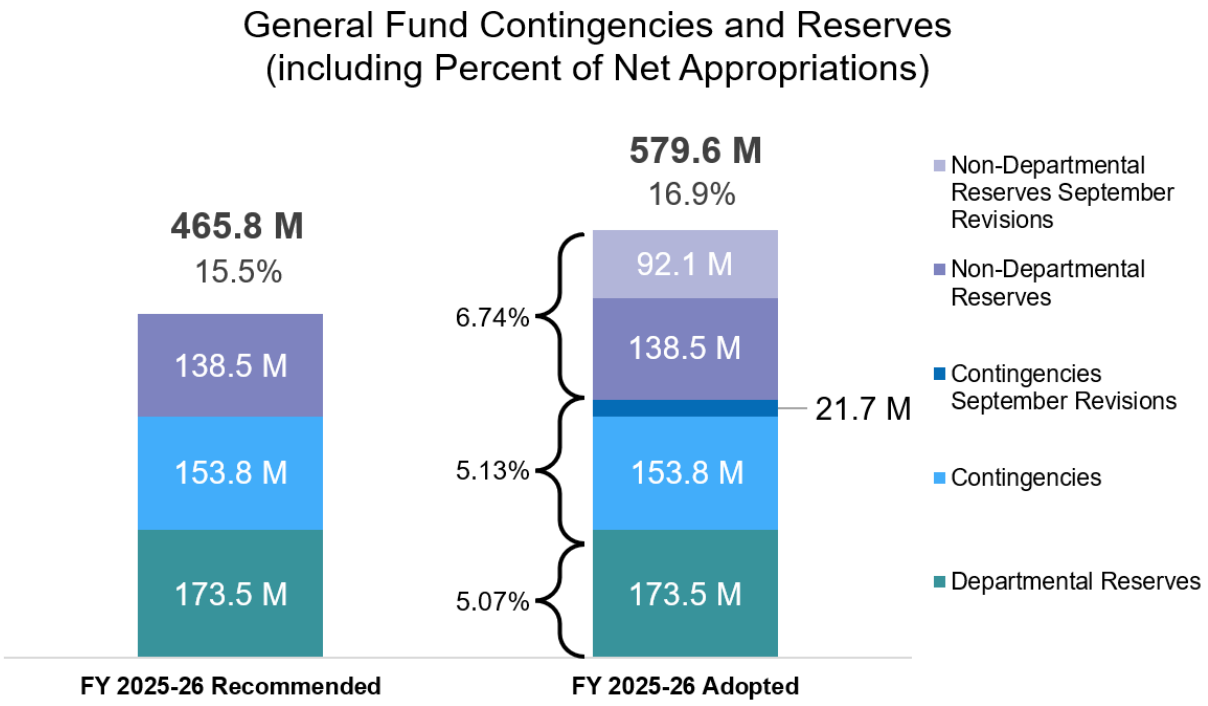
Final Fund Balance adjustments included herein comply with the County's current Fund Balance Policy and Reserves Policy guidelines. Revisions to these policies were approved by this Board as part of the County's Long Term Financial Policies in connection with the adoption of the FY 2024-25 Budget, to manage potential volatility and/or reductions in state, federal, and local funding.

Following FY 2024-25 year-end closing activities, final Fund Balance adjustments of $374.6 million for All County funds are included in the revised FY 2025-26 Recommended Budget. Of this total, $368.5 million are in the General Fund and $6.1 million are in Other County funds. These adjustments are mainly due to rollover of funding for capital projects, as described below, and the addition of Contingencies and Reserves. A summary of these changes can be found in Attachment B.

Overall, the County All Funds has Contingencies and Reserve of $668.3 million which is an increase of $141 million from the FY 2025-27 Recommended Budget. In the General Fund, Contingencies and Reserves now total $579.6 million for the FY 2025-26 Proposed Adopted Budget, an increase of $113.8 million from the FY 2025-27 Recommended Budget.

The updated County Reserves Policy changed the General Fund reserve requirement to 15 percent of County Net Appropriations which are inclusive of minimum requirements for Departmental Reserves (4 percent), Non-Departmental Reserves (6 percent), and General Fund appropriation for Contingencies (5 percent).

The chart below shows the change in General Fund Contingencies and Reserves from the FY 2025-27 Recommended Budget, including the values as a percentage of Net Appropriations.



Prefunding Other Post Employment Benefits (OPEB)

The County currently contracts with the California Public Employees' Retirement System (CalPERS) to fund the County's Other Post Employment Benefits commonly known as OPEB. The OPEB trust is used to pay for retiree benefits such as health, dental, or vision through a combination of contributions from the County and investment returns from CalPERS California Employer's Retiree Benefit Trust (CERBT). In recent years, the County has contributed between $15 - $20 million annually to the CERBT.

To align with this Board's direction to implement long-term fiscal stewardship and building on similar successful approaches such as aggressively paying down retirement liabilities and defeasance of bonds, the County plans on making a one-time contribution of up to $75 million to prefund future retiree benefits. By prefunding, the County will realize long-term cost savings as this increased contribution will realize additional investment returns in the trust as well as lower long-term costs by reducing the total liability. Additional benefits of prefunding are improved credit rating, which can lower borrowing costs, as well as increased budget stability and predictability as prefunding smooths out costs over time.

Capital Projects

The FY 2025-26 Recommended Budget includes total appropriations for capital projects of $557 million. This includes all projects throughout the County including Roads, Information Technology Infrastructure, and the entire 5-year Capital Improvement Plan. Although portions of capital project may be included in departmental appropriations, all County capital projects are fully funded in the Non-Departmental Services budget. These projects include several technology projects:

- Assessor-County Clerk-Recorder-Elections' (ACRE) Assessor Property Assessment System (APAS)
- Controller's Office property tax system
- Assessment Appeals Board system

These projects also include construction projects, including those noted below:

- Renovation of 455 County Center in Redwood City
- Don Horsley Park at Tunitas Creek Beach
- Mitten Road property upgrades in Burlingame
- North County Wellness Center in South San Francisco
- Family Justice Center in San Mateo
- Bridgepointe property upgrades in San Mateo

The FY 2025-26 Recommended Budget includes changes of $83.3 million from the FY 2025-27 Recommended Budget for Capital Projects, a 17.6 percent increase, mostly due to rollover from FY 2024-25. In-depth information about the capital projects program can be found in the Five-Year Capital Improvement Plan for FY 2025-30 which will be provided to this Board as a separate report and made available online at https://smcgov.org/ceo/cip the week of September 22, 2025.

More information about capital projects budgets for FY 2025-26 is listed in Attachment F. The FY 2025-26 Recommended Budget totals represent the portion of the project budget that is appropriated in this specific budget. These amounts are distinct from full project costs (total project budget), not all of which may be appropriated during this budget cycle.

Vehicle License Fee Adjustment Amount (VLFAA) Status

The County continues to monitor uncertainty regarding the VLFAA reimbursement and potential impacts to County services as a result.

As in the past, the County requested reimbursement from the State to cover the FY 2023-24 VLFAA shortfall amount and worked with the County's legislative delegation to have it included in the State's FY 2025-26 budget. Although past full shortfall amounts have been included in the State budget each year, this year the State ultimately included only two-thirds of the required amount, leaving a shortfall for the County of approximately $22.3 million.

The County has resubmitted its claim to the State for the balance due the County and the cities for the total amount of $37,750,993. The County has also initiated litigation against the State and public officials to recover the outstanding funds and confirm the State's obligation to make the County and the cities whole for VLFAA shortfall amounts.

For FY 2024-25, the VLFAA due to the County was approximately $168 million. However, based on current estimates, there is only $97 million available from the available funding sources, resulting in a $70.8 million shortfall for the County's share of the VLFAA.

The County will continue its efforts to obtain State reimbursement for these shortfalls. In the meantime, the County is allocating Reserves to cover capital-related expenses to cover the VLFAA shortfalls. The use of Reserves to cover VLFAA shortfalls will adversely impact the County's ability to

fund capital outlays, ongoing maintenance costs, purchase of new buildings, and other one-time expenditures.

Federal and State Funding Changes and Impacts

Federal funding changes connected to the One Big Beautiful Bill Act (OBBA) and State changes are expected to negatively impact certain programs. Staff are assessing potential impacts in partnership with County Health and the County Human Services Agency (HSA) and are monitoring service demand. Impacts to health coverage, benefit eligibility, and tax credits are being evaluated in relation to federal funding and executive orders that may impact services.

While many of the changes slated to impact HSA services will take effect after the mid-term elections, some residents will be impacted within the current fiscal year such as the approximately 2,000 County residents that rely on the Able-Bodied Adults Without Dependents (ABAWD) work waiver to maintain CalFresh eligibility, as changes to this program are being implemented in the near term.

The Health Department has observed no decline in service volume for its Medical Center or Behavioral Health and Recovery Services. However, the Health Coverage Unit (HCU), Family Health Services (FHS), and Public Health Policy and Planning (PHPP) have reported increased client fear, mistrust, and other changes in connection with their services including reluctance to apply for or renew Medi-Cal and avoidance of in-person visits. FHS has seen more appointment cancelations and travel hesitancy, especially among families with pending residency or asylum cases. PHPP staff have noted increased birth certificate requests and greater mistrust among Spanish speaking clients. These trends reflect widespread apprehension about interacting with government agencies amid changes in federal policies and funding.

The full nature and extent of the impacts of federal funding changes will further depend on specific federal guidance for these programs as well as the State's response.

Although the State Budget has not introduced significant reductions this year, we will continue to evaluate any future impacts, particularly if further changes in federal funding place greater financial responsibility on the County for providing services to residents. Staff anticipate providing additional information on these impacts during the mid-year budget update.

Conclusion

This revised FY 2025-26 Recommended Budget provides a strategic financial framework that balances the County's commitment to delivering high-quality services with the realities of a changing funding environment. While federal and state policy shifts remain uncertain, our mission is clear: to safeguard essential services for all residents and respond quickly to changes that may affect the programs they rely on.

Potential shifts in federal funding—such as adjustments to Medicaid that flow down to Medi-Cal—illustrate how changes outside our control can cascade to the local level. A shift in the funding split could significantly increase the County's share of costs. Likewise, the ongoing lack of full VLFAA repayment creates a persistent gap that must be managed until a long-term solution is achieved.

As discussed in the Fund Balance and Reserve section, the Board's foresight in adopting the County's Long-Term Financial Policy ensures that we are prepared to meet these challenges. With a

strong financial foundation, the County is positioned to absorb near-term pressures, maintain service levels, and adapt as conditions evolve.

Looking ahead, the County will continue to closely track federal and state developments, forecast potential impacts, and prepare contingency plans to protect critical services. While many provisions of the OBBA will not take effect until FY 2026–27, our proactive approach keeps the County ready to respond as needed. Above all, this budget affirms the County's mission: to remain a reliable partner to our residents by sustaining services, adapting to change, and planning responsibly for the future.

COMMUNITY IMPACT:
The FY 2025-26 Recommended Budget allocates resources to essential services such as healthcare, education, and social welfare, ensuring access for all residents regardless of socioeconomic status. Investments in infrastructure and capital projects focus on serving vulnerable populations and public input has been sought in key decisions.

FISCAL IMPACT:
The impact on the revised budget of all September changes on Total Requirements for all County funds is an increase of $610.3 million in FY 2025-26 (compared to the FY 2025-26 Recommended Budget). Fund Balance has increased by $374.6 million for all County funds ($368.5 million in the General Fund and $6.1 million in other County funds). General Fund Reserves now total $581.6 million, which represents 16.9 percent of Net Appropriations.

Attachments
Attachment A – Position Changes summary
Attachment B – Final Fund Balance Adjustments
Attachment C – **Measure K** Allocations Summary
Attachment D – Health Benefit Increases Summary
Attachment E – September Revisions
Attachment F – Capital Projects