



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: January 28, 2016
Board Meeting Date: February 9, 2016
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: FY 2015-16 County Budget Workshop and Mid-Year Update

RECOMMENDATION:

- A) Accept the FY 2015-16 County Budget Update, including key revenue and expenditure projections and budget assumptions; and
- B) Accept the Proposition 172 Maintenance of Effort Certification.

County Manager Message

There are two quotes from renowned organizational theorist Peter Drucker that I still keep in my desk:

“There is nothing quite so useless, as doing with great efficiency, something that should not be done at all;” and

“What gets measured gets done.”

Taken together these two quotes explain how successful organizations function. They determine what is important and whether it is being accomplished.

During Presidential campaigns we tend to hear a lot about what’s not working in government. In the last few years, those people that believe that government can’t do anything right have become more vocal and have had their message amplified by social media. Thus, I think it is timely to remind ourselves what has been accomplished in San Mateo County in recent years:

Crime. San Mateo is one of the safest urban counties in the State. Violent and property crime have decreased by 27% and 21%, respectively since 2005. Our recidivism rate is 24% compared to the State’s 61%.

The Maple Street Correctional Center (MSCC) will soon be accepting inmates. It was completed on time and within budget. Once fully operational, the Sheriff will be providing a wide array of services to inmates which we believe will enable these individuals to become productive members of society upon release, further reducing recidivism in the County.

Health. San Mateo has been one of the most successful counties in the State in assisting people to sign up under “Covered California”, the State’s health insurance exchange. The uninsured population has declined from 30% to 9% in two years. Many of these individuals are now covered under Medi-Cal and being treated at the San Mateo Medical Center and Clinics. As a result we continue to see improvements in the overall health of the community. San Mateo County currently ranks fourth among California Counties in overall health outcomes which include length of life, quality of life, health behaviors, clinical care, social and economic factors and physical environment, according to the Robert Wood Johnson Foundation’s 2015 County Health Rankings & Roadmaps.

Mental Health. The implementation of “Laura’s Law,” adopted by the Board in 2015, will begin in the near future. The Board has also approved the expansion of “SMART Teams” for crisis intervention and respite care for the mentally ill, funded with **Measure A** funds. The Affordable Care Act (ACA) has enabled the County to expand its treatment of the mentally ill. As a result more people with mental illness are leading productive lives and having fewer interactions with law enforcement.

Housing. The rapid escalation of housing prices and the resulting impact on people of modest means is well known. Not so well known is what the Board has been able to accomplish with our partners through the use of **Measure A** funding. Since the establishment of the Affordable Housing Fund in 2013 over 600 new affordable housing units have been completed or are underway, 300 new homeless beds have been added, and funds are being made available for additional shelter beds and rehabilitation of existing multi-family units to preserve the affordable housing stock. An additional “Hot Team” has been added that connects the homeless population to services. As a result of these efforts the unhoused homeless count in the County has dropped by over 40% between 2013 and 2015.

“The Big Lift”. The County has committed to \$15 million in **Measure A** funds leveraged with over \$15 million in federal and private funding to improve reading proficiency by the end of the third grade by increasing the number of children enrolled in pre-school and other enrichment programs. This has enabled nearly 900 youngsters to be enrolled in pre-school in the Jefferson Elementary, South San Francisco Unified, Cabrillo Unified and La Honda–Pescadero School Districts. This past summer almost 60,000 children

participated in City and County library Summer Reading Programs and over 80% of the participants surveyed reported improved reading and learning skills.

Foster Care. The Board set a goal to ensure that every emancipating Foster Care child gets a good start in life. The Board approved enhanced resources for programs targeting Foster Care youth using a combination of State and **Measure A** funds. Already we are starting to see a difference in these children's lives and I believe in the years to come in their life trajectories. Last year our County's high school graduation rate for Foster Youth was 70% – the graduation rate in California in the general population is 80%. Of this cohort, 50% have gone on to college, 5% into vocational training and over 35% are employed. Of course, outcomes for these youth can vary depending on their age of entry into the system, and mental health and substance abuse issues. Nevertheless, even after a short while we are having success with this population.

Infrastructure. The County has been able to make real progress on its list of “deferred maintenance” projects with the help of **Measure A** funds. The County has added nearly 900 acres of parks and trails and completed \$1.4 million in parks projects. Construction will soon be underway on the new Public Safety Dispatch/EOC Building. A new Fire Station in Skylonda is under construction and a site is being identified for the relocation of the Pescadero Fire Station. A replacement for the old animal shelter is in final design and \$12.0 million in **Measure A** funds have been set aside for Middlefield Road improvements and vetted with the Fair Oaks community. After years of regulatory delays bids have been awarded for the replacement of the Crystal Springs Dam Bridge. The Board recently approved a mitigated negative declaration for repair to the Alpine Road Trail. This project is now awaiting regulatory agency permits. The County has committed General Fund Reserves to a new library in Half Moon Bay and **Measure A** funds for improvements to the Fair Oaks and South San Francisco libraries. Preliminary design is now underway for replacement of the Cordilleras Facility. At Board direction, the master plans for the Civic Center and Health System Campus are being updated.

The County has made great progress replacing its “legacy computer systems.” The Data Center has been relocated and its reliability enhanced. A new and enhanced payroll system has been installed. The Criminal Justice Information System is nearing completion. The Sheriff, District Attorney and Courts have brought on-line new systems. The new Probation system and the Criminal Justice Portal will be brought on-line this year. After years of study the County is out to bid on a new Property Tax System.

Finances. The County has been able to reduce its unfunded pension and retiree health liabilities. The retirement system is over 85% funded and expected to be fully funded by 2021. The County's total outstanding capital debt is \$432 million with maximum annual debt service of \$53 million, which is only 60% of the County's self-imposed debt limit of \$89 million. The County continues its strong AAA rating and saved over \$22 million in December

when it refinanced the Youth Center debt. Projected year end reserves are \$72 million greater than anticipated, including \$45 million in General Fund and \$27 million in Non-General Funds, due to strong revenue growth, prudent fiscal policies and continued strong Excess ERAF growth. Reserves are at 20% of total General Fund appropriations.

In the span of three years with the strategic use of **Measure A** funds and the improving economy the county has invested in critical programs that have enhanced public health and safety and shown promise in reducing long-term costs, rebuilt the County Parks system, upgraded the County's technology and infrastructure, improved libraries, preserved and added affordable housing units, partnered with the Silicon Valley Community Foundation and County Office of Education to expand quality child care and after school and summer programs to improve reading proficiency by the end of the 3rd grade, reduced long-term liabilities and expanded revenues.

As we look toward the future, I urge the Board to be mindful of the fact that we are in the sixth year of the recovery from the Great Recession and one of the longest periods of sustained economic growth in modern history. A downturn in the economy is inevitable – some economists are predicting a recession in the next 18-24 months. We need to be prudent in making new commitments due to increasing economic uncertainties.

BACKGROUND:

The County's financial condition continues to be strong. General Fund reserve levels are being maintained at around 20% of budget, which gives us more choices when rainy days come again, and keeps us prepared for unanticipated events and emergencies. San Mateo County continues to hold the distinction of being one of only three counties in the state with AAA ratings from Moody's and Standard and Poor's. These ratings will keep our borrowing costs to a minimum when issuing bonds, as we have done for the Maple Street Correctional Center project and the recent refundings of the Colma Creek Flood Control Zone and Youth Services Center bonds. They also tell our residents and employees that we are a well-managed and financially viable county government and employer.

DISCUSSION:

Each year, the Board reviews the current fiscal year budget at mid-year to ensure revenues and expenditures are in accordance with estimates and to provide direction to the County Manager regarding preparation of the next budget.

This County Budget Update includes year-end fund balance estimates and variance analysis for all County funds, identification of major issues affecting the preparation of the upcoming mid-term budget adjustments, data for local economic indicators, and projections for general purpose revenues, Measure A Sales Tax and Public Safety Sales Tax (Prop. 172).

A. FY 2015-16 Year-End Fund Balance Projections

<i>County of San Mateo</i>	FY 2015-16	FY 2016-17	FY 2016-17	Projected
Agencies by Fund	Working	Budgeted	Updated	Fund Balance
	Budget	Fund Balance	Fund Balance	Variance
Criminal Justice - General Fund	\$ 393,595,725	\$ 21,434,917	\$ 23,134,988	\$ 1,700,071
Health Services - General Fund	399,446,876	3,063,381	3,170,628	107,247
Health Services - Other Funds	337,088,532	14,565,862	14,624,555	58,693
Social Services - General Fund	245,112,788	7,846,944	13,577,446	5,730,502
Community Services - General Fund	135,917,902	4,194,616	12,618,773	8,424,157
Community Services - Other Funds	471,112,772	186,468,717	213,211,524	26,742,807
Admin-Fiscal - General Fund	136,815,485	17,364,911	18,144,278	779,367
Admin-Fiscal - Other Funds	49,368,054	19,349,861	19,396,549	46,688
Non-Departmental Services - General Fund	400,065,883	253,020,072	281,256,621	28,236,549
<i>Subtotal General Fund</i>	\$1,710,954,659	\$ 306,924,841	\$ 351,902,733	\$ 44,977,892
<i>Subtotal Non-General Fund</i>	857,569,358	220,384,440	247,232,628	26,848,188
Total ALL Funds	\$2,568,524,017	\$ 527,309,281	\$ 599,135,360	\$ 71,826,079

Non-Departmental Services

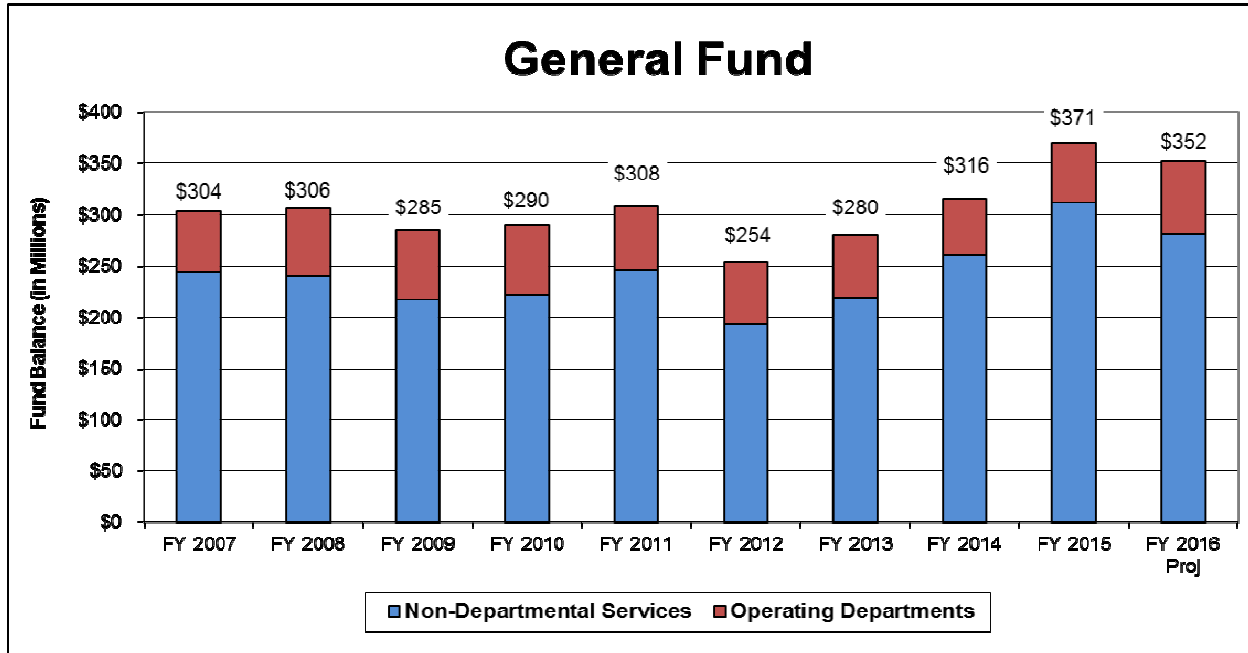
The County budgets and accounts for the General Fund's portion of general purpose revenues in Non-Departmental Services, including Property Tax, Excess ERAF, Sales Tax, Measure T Vehicle Rental Tax, and interest and investment income. Non-Departmental Services is also where the County budgets General Fund contributions to major capital and IT projects, as well as the additional one-time contributions to the Retirement System to accelerate the pay down of the County's unfunded pension liability. We project that the year-end Fund Balance for Non-Departmental Services will approximate \$281.3 million, which is \$65 million lower than the beginning Fund Balance of \$346.4 million. In January, the County received Excess ERAF of \$110 million, which exceeds the amount budgeted by \$55 million; however, one-time expenditures are expected to reach \$120 million. These one-time costs include the accelerated pension contribution of \$19.5 million; countywide capital and IT expenditures of \$63.4 million (including the build-out of the Warm Shell); a contribution to Half Moon Bay for its new Library of \$12 million; the transfer of pre-2004 mandates to Behavioral Health and Recovery Services to clear revenue accruals of \$7.8 million; draw down on the remaining Crystal Springs Sanitation District loan of \$8.3 million; and other countywide and department-specific one-time initiatives totaling \$9 million (including SMC Saves, DA and ISD remodels, Property Tax System requirements, Affordable Care Act term staffing, Contract Management System, and the Living Wage and Affordable Housing Blue Ribbon Task Forces). The projected year-end Fund Balance exceeds appropriated Reserves by \$103.8 million and FY 2016-17 estimates by \$28.2 million, and given the conservative nature of mid-year projections, we anticipate that by the time the books close the final Fund Balance figures will likely exceed our expectations. In summary, at the mid-year point, revenue and expenditure projections are on target.

General Fund Operating Departments

Overall, General Fund operating departments are projected to end FY 2015-16 with \$70.6 million in Fund Balance, which exceeds appropriated reserves by \$32.3 million and FY 2016-17 estimates by \$16.7 million.

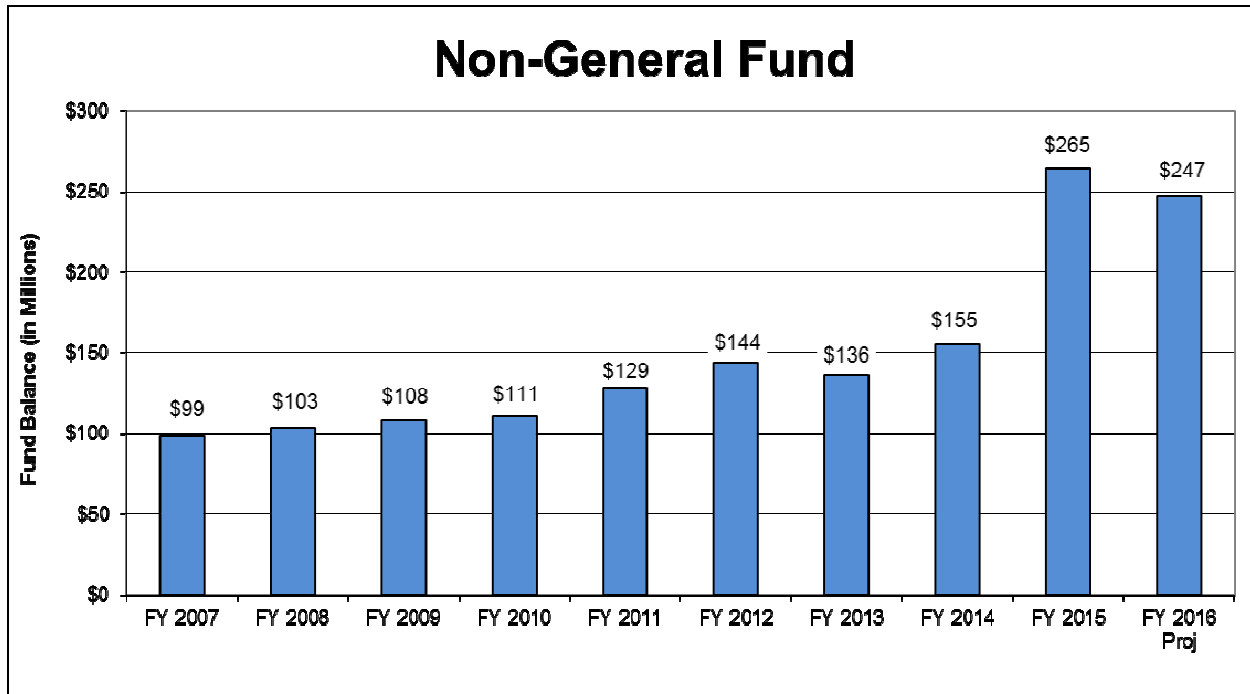
General Fund Summary

Overall, we project that the General Fund will end FY 2015-16 with \$351.9 million in Fund Balance, which is very strong considering the one-time outlays and mid-year adjustments.



Non-General Fund Summary

Overall, Non-General Fund budget units are projected to end FY 2015-16 with \$247.2 million in Fund Balance, which exceeds appropriated reserves by \$33.7 million and FY 2016-17 estimates by \$26.9 million.



Five Year Revenue and Expenditure Projections (including Measures A and T)

General purpose revenues are expected to increase 4.9% or \$21.8 million in FY 2015-16. This is primarily due to Secured Property Tax growth of 7.7%. The County's share of Excess ERAF in FY 2015-16 is \$110 million but only half (or \$55 million) is treated as ongoing revenue. The decline in Sales Tax revenues over the past two years and the flattening of growth in Public Safety Sales Tax (Prop. 172) and Measure A in the current fiscal year is directly related to declining fuel prices. A significant portion of the County's Sales Tax revenue is derived from jet fuel sales at San Francisco International Airport.

The County continues to budget general purpose revenues conservatively in the out years with projected growth ranging from 3.1% to 3.6%, resulting in average annual growth of \$17.7 million over the five-year period. Secured Property Tax growth is expected to remain strong with 20 million square feet of new office space expected to come on line over the next two years. Until fuel prices stabilize, future growth projections for Prop. 172 and Measure A Sales Tax have been conservatively projected at 2% in the out years.

General Purpose Revenues	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Secured Property Tax	8.3%	7.7%	5.0%	5.0%	4.0%	4.0%
Unsecured Property Tax	4.4%	1.0%	1.0%	1.0%	1.0%	1.0%
Excess ERAF (Ongoing Portion)	37.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Rental Tax (Measure T)	-0.6%	1.0%	1.0%	1.0%	1.0%	1.0%
Sales Tax	-5.2%	-1.8%	3.0%	3.0%	3.0%	3.0%
Property Transfer Tax	18.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax	15.6%	2.0%	2.0%	2.0%	90.1%	11.8%
Property Tax In-Lieu of VLF	5.8%	7.7%	5.0%	5.0%	4.0%	4.0%
Interest & Investment Income	49.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenue	9.2%	0.0%	0.4%	0.4%	0.4%	0.4%
Overall Growth	9.4%	4.9%	3.6%	3.6%	3.3%	3.1%
Public Safety Sales Tax	5.1%	0.0%	2.0%	2.0%	2.0%	2.0%
Measure A Sales Tax*	6.6%	0.0%	2.0%	2.0%	2.0%	2.0%

*Assumes opening of the 350 room Airport Hyatt in 2019.

General Purpose Revenues	FY 2015	FY 2020	5-Year Growth
Secured Property Tax	\$200,873,972	\$256,331,176	\$55,457,204
Unsecured Property Tax	8,922,558	9,393,711	471,153
Excess ERAF (Ongoing)*	55,000,000	55,000,000	0
Vehicle Rental Tax (Measure T)	12,181,009	12,802,363	621,354
Sales Tax	26,246,333	29,022,370	2,776,037
Property Transfer Tax	10,333,157	11,978,962	1,645,804
Transient Occupancy Tax	1,534,115	3,458,513	1,924,398
Property Tax In-Lieu of VLF	85,301,354	109,551,141	24,249,787
Interest & Investment Income	7,834,403	8,501,936	667,532
Other Revenue	35,679,890	36,304,954	625,064
General Purpose Rev Growth	\$443,906,791	\$532,345,124	\$88,438,332
Public Safety Sales Tax	\$75,826,325	\$82,076,853	\$6,250,528
Measure A Sales Tax	\$80,598,111	\$87,241,987	\$6,643,876
Excess ERAF (One-Time)*	\$62,935,895	\$0	(\$62,935,895)
*One half of anticipated Excess ERAF (\$55 million) is budgeted and no assumptions for one-time revenue is made in future years.			

Ongoing expenditures are expected to grow \$124 million over the next five years, resulting in a short-term structural deficit for FYs 2016-17 through 2018-19. By FY 2019-20 the combination of revenue growth and declining debt service should eliminate the deficit. The expenditure projections factor in all negotiated increases, including the recently negotiated increases for the Deputy Sheriff's Association.

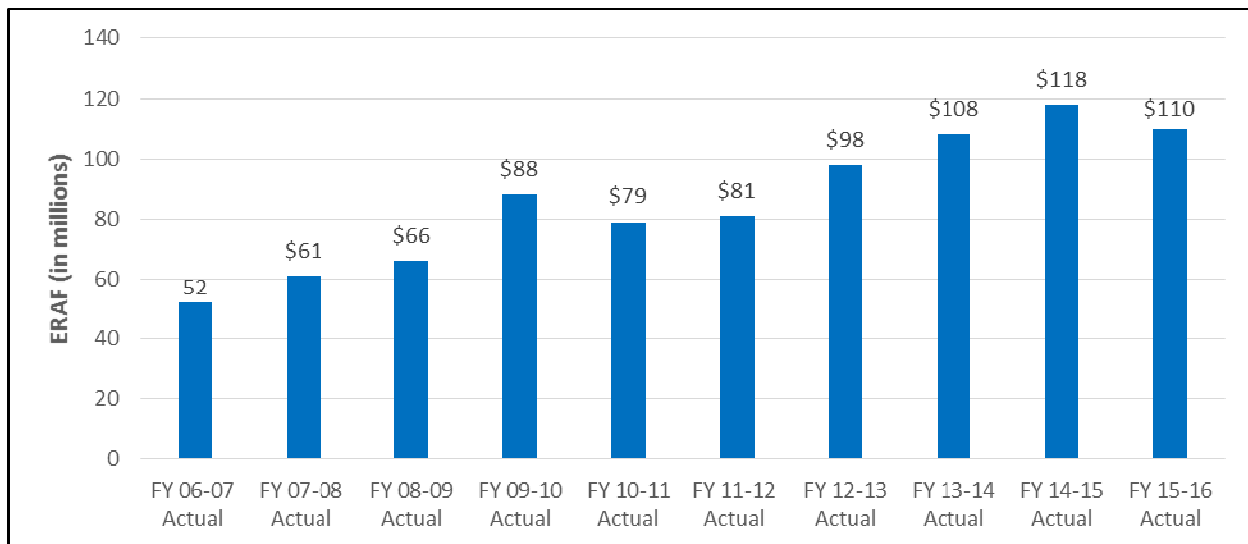
Excess ERAF

Pursuant to Revenue and Taxation Code 97.2 and 97.3, property tax contributions made by local governments to the Educational Revenue Augmentation Fund (ERAF) in excess of State-mandated school funding levels are returned to the local governmental

entities that made the contributions. The County is one of three “Excess ERAF” counties in the State. This is due to the relatively high number of school districts in the County with local property tax revenues exceeding the funding levels guaranteed by the State’s “Local Control Funding Formula” (“LCFF”). Future Excess ERAF amounts to be received by the County could decline as a result of increases in the LCFF funding levels, changes in property tax revenues received by school districts, changes in school enrollment, or further State legislative changes to the school funding model or attempts to utilize ERAF funds for other State purposes.

Due to the potential volatility of Excess ERAF, and in consultation with the Controller, the County continues to conservatively budget only one half of the projected General Fund apportionment of Excess ERAF for ongoing purposes. Pursuant to Board policy, the remaining portion may only be used for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects.

Since FY 2003-04, the County’s General Fund has received \$997.3 million in excess ERAF contributions, including \$110 million in FY 2015-16. The following table presents the General Fund’s share of Excess ERAF received from FY 2006-07 through FY 2015-16.



¹ 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 received from the California Department of Education. For example, the 2015-16 school reports will be finalized in June 2018. Thus, the County has adopted a policy to stagger the Excess ERAF distributions.

Proposition 172

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 year (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, Parks Lifeguards and Public Safety Capital Projects and Debt Service.

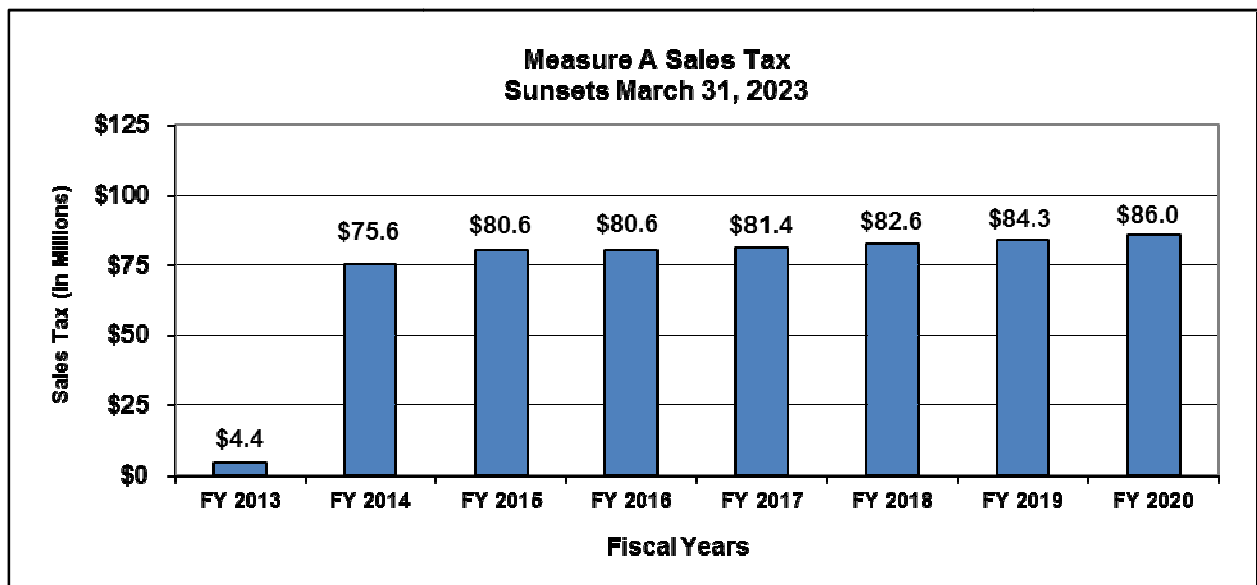
Last year the MOE certification submitted to the Board for FY 2014-15 was \$278.8 million. This figure represented the adopted budget for public safety services adjusted in accordance with the MOE guidelines to exclude certain expenditures and revenue offsets. The difference between the FY 2014-15 MOE requirement of \$130.7 million and the certification of \$278.8 million was \$148.1 million. This is the amount by which San Mateo County exceeded the FY 2014-15 Proposition 172 MOE requirements based on the FY 2014-15 Adopted Budget. Using FY 2014-15 year-end figures, the actual expenditures subject to the MOE was \$280.5 million, or \$149.8 million in excess of the MOE requirements.

Based on the FY 2015-16 Adopted Budget, the projected MOE certification for FY 2015-16 is \$280.8 million. The difference between the FY 2015-16 MOE requirement of \$133.5 million and the certification of \$280.8 million is \$147.2 million. This is the amount by which San Mateo County expects to exceed the FY 2015-16 Proposition 172 MOE requirements.

Measure A

Revenue Projections and Reserves

Measure A Sales Tax projections for FY 2015-16 remain flat at \$80.6 million, largely due to declining fuel prices. The current appropriation of Measure A for the FY 2015-17 budget cycle, including mid-year adjustments, is \$244 million (including \$7 million for Board District-specific initiatives and \$20 million for as yet undetermined major health initiatives). The \$244 million also includes the rollover of ongoing or unfinished one-time initiatives approved in the previous funding cycle. The FY 2014-15 year-end Fund Balance in the Measure A trust fund was \$99 million. This Fund Balance, combined with the projected revenues for FY 2015-16 and FY 2016-17, result in projected Measure A funding available during the FY 2015-17 cycle totaling \$261 million, leaving \$17 million unallocated. The following chart shows Measure A Sales Tax projections through 2020.



Measure A Oversight Committee

One of the requirements laid out in the Measure A Bylaws is for the Measure A Oversight Committee to present an annual report to the Board of Supervisors with the Committee's review of the annual audit of receipts, results of the Agreed-Upon Procedures (AUP), and performance measure recommendations for existing Measure A initiatives.

The Measure A Oversight Committee met and completed its review of the results of the Measure A annual audit and AUP performed by the Controller's Office. Following the approval of the audit and AUP, which found no exceptions or issues with the Measure A Fund, a subcommittee was formed to discuss the performance measures for existing Measure A programs and initiatives. This subcommittee evaluated each performance measure and had the opportunity to clarify the narrative update for each program/initiative, or make suggestions on new measures to the County Manager's Office.

The full Measure A Annual Report will be presented at the February 23, 2016 Board of Supervisors Meeting.

Federal Aviation Administration (FAA) Ruling

In 1999, the FAA published a policy statement outlining the regulations for the use of airport revenue. Under the premise that airports should be as self-sustaining as possible, the statement specified that revenue generated by an airport must be used for airport-related purposes. Taxes on aviation fuel were named as one type of airport revenue affected by the regulation. After more than a decade of non-compliance by some state and local governments, the FAA published an amendment to the regulation on aviation fuel on November 21, 2013. The amendment applies to any state or local government that levies a tax on aviation fuel and its purpose was to confirm the requirements for the use of those proceeds: *"State or local taxes on aviation fuel (except taxes in effect on December 30, 1987) are considered subject to the revenue-use requirements in 49 U.S.C. 47107 (b) and 47133. However, revenues from a State tax on aviation fuel may be used to support a State aviation program, and airport revenues may be used on or off the airport for a noise mitigation purpose."* Because the ruling does not apply to taxes adopted prior to December 30, 1987, the 1% Bradley-Burns rate, the 0.25% county transportation rate, and the State's general fund rate of 4.75% are not subject to the rule. It is not yet clear whether taxes adopted for specific purposes, like Prop. 172, 1991 Realignment or the County's Half Cent Transportation Tax, will apply. However, all indications are that general purpose taxes like the County's Measure A Sales Tax approved by the voters in 2012 will apply.

Based on jet fuel sales of \$900 million in FY 2014-15, the County estimates its Measure A exposure at \$4.5 million annually. The County Manager's Office will be working with County Counsel and any departments that provide services at SFO and the two general aviation airports to determine what current expenditures meet the regulation's spending requirements. To the extent we cannot identify expenditures that meet or exceed the Measure A proceeds from aviation fuel sales, the County may be required to either transfer the difference to SFO or put the money in the County's Airport Enterprise Fund.

We continue to review all options. Full compliance with the regulation is required by December 8, 2017. We will continue to keep the Board apprised of this situation.

Mid-Year Adjustment for Negotiated Salary Increases

The San Mateo Deputy Sheriff's Association (DSA) reached a five-year agreement with the County for the term of January 31, 2016 through January 9, 2021. Deputy Sheriffs will continue to receive salary increases based on an annual survey of set comparators and District Attorney Inspectors will receive the same salary increase percentage as the Deputy Sheriffs. Sheriff's Correctional Officers salaries will be set to 85% of the Deputy Sheriff salary. Like most other bargaining units that have ratified agreements, the employees represented by the DSA will begin to pay half of the cost of their Retirement COLA beginning July 3, 2016. In exchange, employees in Retirement Tier 4 will receive 1.9% in Safety Longevity Pay and employees in Retirement Tiers 1 and 2 will receive 3.15% in Safety Longevity Pay.

Healthcare Reform And New Medi-Cal Waiver

The County is now seeing the effects of the expansion of Medi-Cal under the ACA. As of December 2015, the Health Plan of San Mateo (HPSM), a separate legal entity from the County, had 35,000 additional Medi-Cal members for a total Medi-Cal membership of more than 123,000. This significant increase in Medi-Cal member enrollments is due to the outreach efforts of the County's Human Services Agency, the Health System, and many community partners.

An additional opportunity and challenge with California's implementation of the ACA is the treatment for substance use and moderate mental illnesses for adults enrolled in Medi-Cal. Medi-Cal benefits were previously limited to treating only those with very serious mental illness conditions. This growth in Medi-Cal membership and benefits is presenting challenges to the County's Health System to increase capacity to keep up with the increased demand.

As a direct result of the ACA, the Medical Center is now serving 20,000 additional Medi-Cal members. At the same time, the number of patients served by the County's Access and Care for Everyone (ACE) program has declined. The ACE program is designed to meet the County's indigent healthcare responsibilities and serve County residents who are not eligible for Medi-Cal, Medicare, private insurance or other third-party payers. Enrollment in ACE has declined by approximately 12,000 participants in the past two years. In addition, because a greater percentage of the patients served by the Medical Center now have insurance, the Medical Center's is less reliant upon State realignment funds. However, the dramatic increase in patients has also stressed the Medical Center's capacity to serve Medi-Cal members, as they are required to be seen for urgent, primary and specialty care within specified timeframes—standards that the ACE program does not have.

California's Section 1115 Federal Waiver Renewal

The State has come to a high-level conceptual agreement with the Centers for Medicare and Medicaid Services (CMS) on the latest iteration of the Section 1115 Waiver, a.k.a. "Medi-Cal 2020." CMS approved another five-year waiver effective January 1, 2016 through December 31, 2020. The waiver will provide \$6.2 billion in federal funding, with the potential for additional funding within the new Global Payment program.

The core elements of the waiver agreement include:

- A delivery system transformation and alignment incentive program (PRIME), which is a redesigned delivery system transformation and alignment incentive program (DSRIP) for Designated Public Hospitals (DPHs) and District/Municipal Hospitals (DMPHs). Funding for this program declines in years 4 and 5.
- A Global Payment Program (GPP) for the county public hospitals to serve the remaining uninsured. Federal funds for this program include \$1 billion in Disproportionate Share Hospital (DSH) funding annually and an initial \$276 million in uncompensated care funding. The non-DSH funding in years 2 through 5 will be determined following an independent assessment of uncompensated care due to be completed in the spring of 2016.
- Whole Person Care (WPC) county-based pilots for high-risk, vulnerable populations. CMS has agreed to \$1.5 billion in funding over the 5 years.
- A Dental Transformation Initiative (DTI) program totaling \$750 million in federal funds.

The common thread across the new funding streams is a focus on performance and shift away from cost based reimbursement. SMMC will participate in PRIME and GPP. SMMC's participation in WPC or DTI has not been determined yet. The New Waiver needs final state and federal approval which is expected in the next few months.

Proposition 47 Impacts

On November 4, 2014, voters approved Proposition 47 which makes significant changes to the state's criminal justice system. Specifically, it reduces the penalties for certain non-violent, non-serious drug and property crimes and requires that the resulting state savings be spent on (1) mental health and substance use treatment services, (2) truancy and dropout prevention, and (3) victim services.

As of December 31, 2015, the District Attorney's Office (DA) reviewed a total of 4,275 felony cases that required a special determination on whether or not they were impacted by the dictates of Prop 47. Of the cases reviewed, 3,961 were reduced to misdemeanors. Furthermore, the DA found the following:

- Crime-Type
 - 2,787 (65%) were drug-related;
 - 1,437 (34%) were theft-related; and
 - 51 (1%) fell into categories of neither drug nor theft-related.
- Conviction Status
 - 217 (5%) were pending trial (pre-conviction);
 - 32 (1%) were post-conviction, but pre-sentence; and
 - 4,026 (94%) were post-conviction and sentencing.

Additionally, of these 4,275 cases, 205 involved individuals who had previously served a sentence but were later released from custody and 29 involved individuals that had prior strikes on their record.

Prop 47 has not had an impact on the sheer number of cases that the DA has filed. The number of cases filed has remained consistent with prior years. However, many of the cases filed are now filed as misdemeanors instead of felonies.

The Private Defender Program processed 995 Prop 47 petitions for sentence reductions in FY 2014-15, or 4.9% of their total annual caseload. This increase in caseloads is expected last until the November 4, 2017 deadline to file petitions for sentence reduction.

The Sheriff's Office (SO) has continued to experience a shift in the inmate population since the passage of Prop 47. The average daily population at the Maguire Correctional Facility hit a low of 659 in February 2015, but has subsequently increased to an average of 748 in December 2015. Similarly, the average daily population at the Women's Correctional Center hit a low of 75 in January 2015, but has subsequently increased to an average of 84 in December 2015. The number of Realignment cases sentenced under PC1170(h) has increased from 9 in December 2014 to 15 in December 2015.

The SO reports that inmate sophistication continues to increase. There have been several recent events that have proven that the more sophisticated inmates have had an impact on the SOs' Detention Facilities, including the Maguire Correctional Facility. It is not uncommon to find drugs that have been smuggled into the facility by recently booked individuals. Fights among gang members have been noted to reflect the ideology established in the State's Prison System.

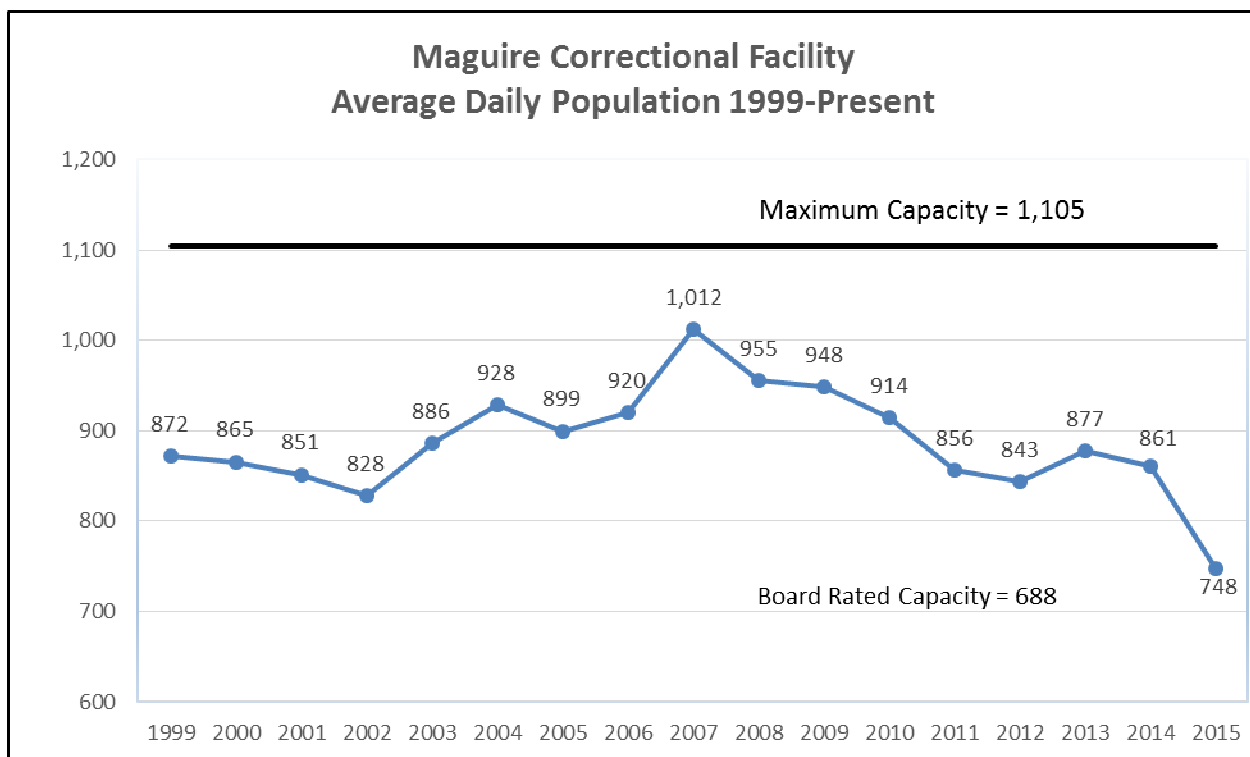
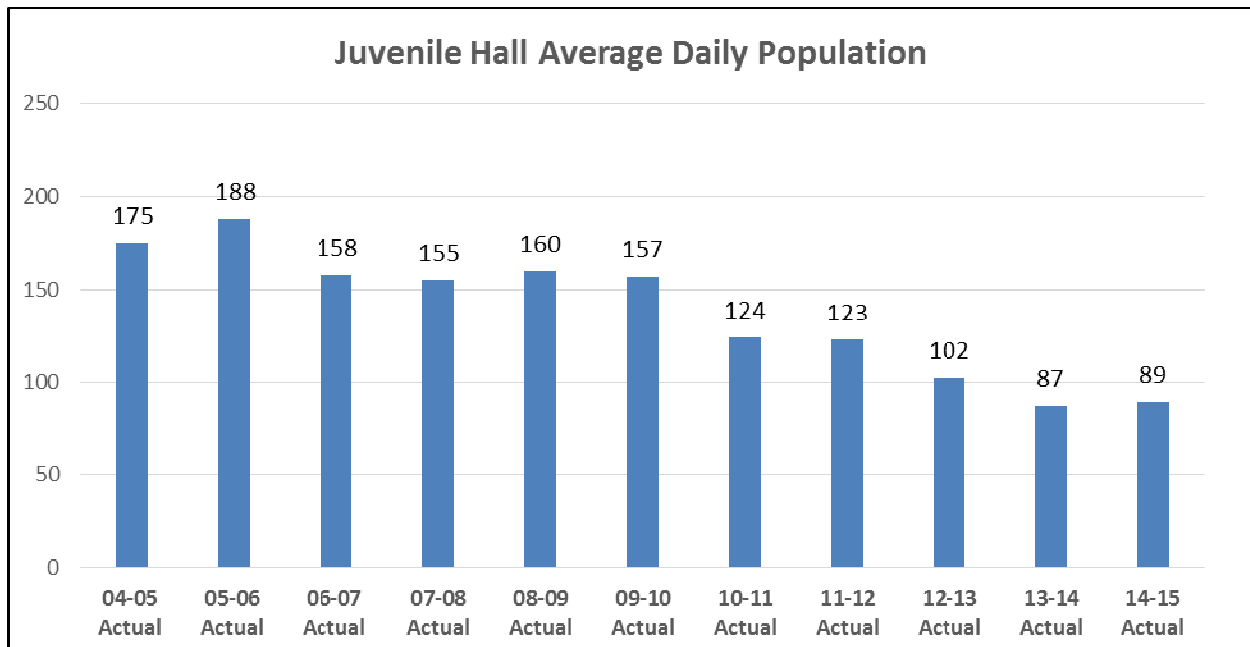
With the potential for shorter sentences due to Prop 47, the SO is exploring modifications to its programs such as GED, Families and Fathers, and Life Skills in order to make the best use of the time in incarceration. However, we reviewed the average class size of select programs to understand, at a high level, if there has been a decrease in program class size that can be attributed to Prop 47. Namely, did the number of inmates participating in programs decrease due a reduction in the overall Average Daily Population (ADP) or Average Length of Stay (ALS) after the passage of Prop 47? Between 2013 and 2015, the average class size of programs in our

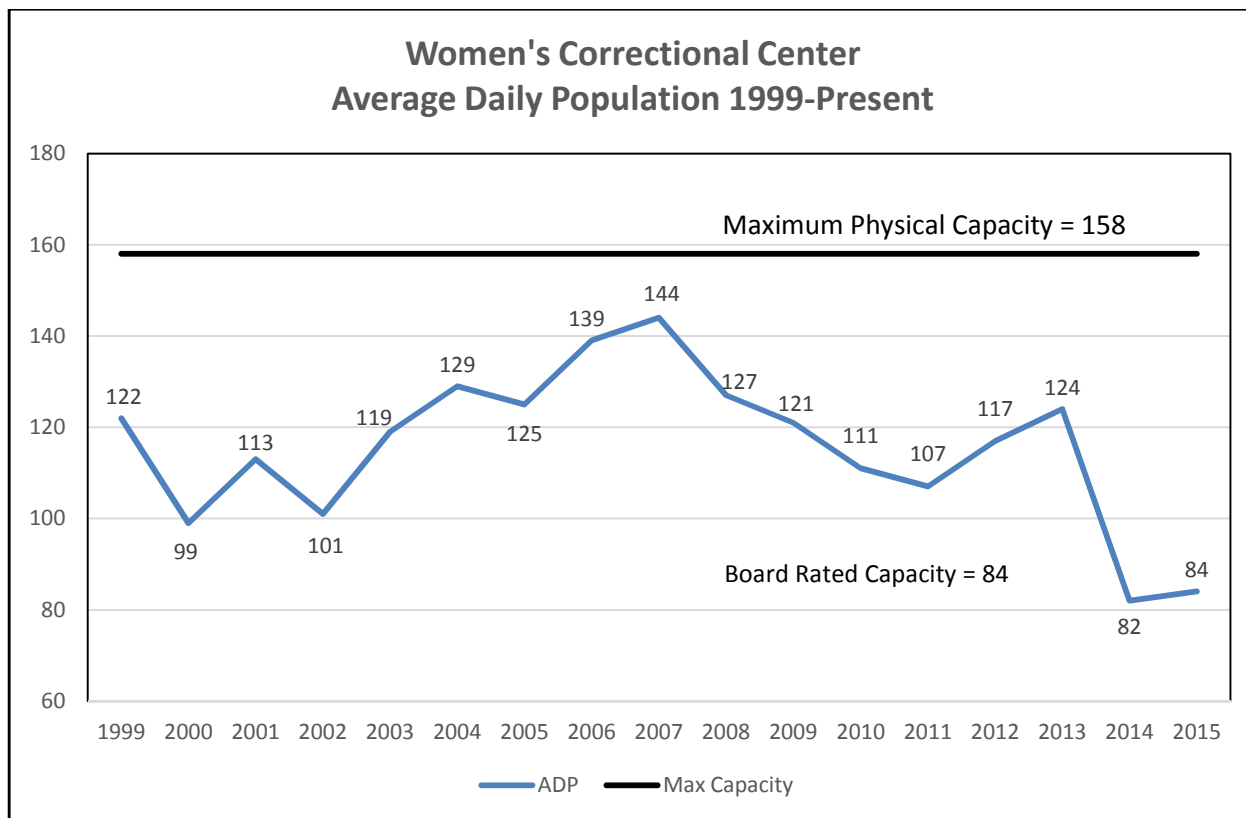
transitional facilities has remained steady, indicating that there were inmates to recruit for programs and that they were staying in custody long enough to complete the programs. However, further analysis of ADP and ALS is needed to more fully understand the relationship, if any, between Prop 47 and jail programming.

At this time, we are analyzing other data to understand Prop 47's impact to the ALS of inmates sentenced on Prop 47 charges. The ALS is an important criterion in relation to in-custody programming. It is important to note that once an individual is incarcerated, their ability to participate in programs is seldom determined by the crime for which they were adjudicated (such as the Prop 47 eligible crime categories). Rather, un-sentenced and sentenced inmates participate in programs based on classification, housing, length of stay until release, interest level, and other criteria. Length of stay is an important criterion for program participation; some programs have rolling start dates and others have fixed dates. Inmates who chose to participate in programs have to be in custody for a sufficient period of time in order to participate and/or complete the programs.

The population of inmates participating in the CHOICES reentry program has increased at both the Maguire Correctional Facility and the Women's Correctional Center since the lows experienced in 2014 and early 2015. The program can accommodate over 90 inmates in the Maguire Facility and 24 at the Women's Correctional Center. Currently, enrollment in the program stands at 90 men (versus 77 in 2014) and 13 women (versus 9 in 2014). In the past, there were typically 20-30 inmates on the waiting list for the CHOICES program but that same waiting list does not exist today. In general, the SO has found that with the change in the population, more of the inmates interested in programs are more sophisticated and manipulative than the inmates housed in the past.

The change in the population has had a negative effect on the worker housing unit. The SO continues to have difficulty filling the unit, which assigns qualified inmates to assist in important tasks, such as working in the kitchen. The original qualifying criteria for inmate workers were required to be low-level offenders, write-up free, having no gang affiliation, having no violent charges, and having a sentence of sufficient length. With the decrease of lower risk inmates and shorter sentence lengths, we have had to modify the criteria. We are now reviewing moderate risk inmates with any length sentences on a case by case basis. Ideally, the SO needs the worker pod to have approximately 70 inmate workers. The worker pod population has consistently been in the mid 50's to low 60's.





Governor's January Budget Proposal

The Governor's Budget, released January 7, 2016, proposes total state General Fund expenditures of \$122.6 billion in 2016-17, a \$6.5 billion (5.6 %) increase over revised 2015-16 levels. Health and Human Services spending accounts for \$2.1 billion of the increase (driven largely by Medi-Cal spending) and K-12 education spending accounts for \$1.4 billion. Also proposed are over \$2 billion of General Fund expenditures that are one-time in nature, including \$879 million to accelerate loan repayments for transportation projects; \$500 million for deferred maintenance projects at levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities; and \$719 million to pay the costs of wildfires and for other effects of the drought.

Despite a projected budget surplus of \$5.9 billion (2015-16 and 2016-17), Governor Brown continues to strongly emphasize fiscal prudence. The plan proposes the transfer of an additional \$2 billion in General Fund revenues to the Rainy Day Fund beyond that which would otherwise be required under Proposition 2. This would bring the total amount in the fund to \$8.0 billion, which is 65 % of its constitutional maximum amount.

In addition to continued investment in the state's Rainy Day fund, the Governor's budget addresses two key issues left unresolved from last year—the Managed Care Organization (MCO) tax and transportation funding. The expiration of the MCO tax on June 30, 2016 is expected to create a \$3.1 billion hole in the state's General Fund, which would result in program cuts. Instead, the Governor is offering a series of revisions through a tax reform package that would fully cover, if not exceed, the necessary MCO tax revenue. In the area of transportation funding, the Governor has reintroduced his

September 2015 funding and reform package that would spend an additional \$3.6 billion annually for ten years on maintenance and rehabilitation of state and local transportation systems and investments in transit.

For the County, the Governor's budget continues to hold the line on ongoing increased spending, and new spending on affordable housing and early childhood education—both County priority areas. As a result, proposed state funding for most state funded County programs and services in FY 2016-17 remains flat. Should the Administration fail to secure the necessary legislative approval for the MCO tax, the revenue loss would create a \$1.3 billion hole in the state's General Fund, which would result in cuts across multiple programs, including the County's Coordinated Care Initiative and In-Home-Supportive-Services MOE.

Youth Services Center Financing

The County refinanced its 2008 Youth Services Center Series A bonds, reducing the debt service from \$185.3 million to \$162.6 million for a savings of \$22.7 million. Because the County was able to replace the debt service cash reserve of \$9.4 million with a surety and pour those funds back into the refinancing, the present value savings are a robust \$18.9 million. The All-In True Interest Cost, which includes the cost of issuance for the new bonds, is 2.86%. The favorable pricing and the ability to replace the cash reserve with a surety is largely due to the County's strong credit, as San Mateo County is one of the only three counties in the State with AAA ratings from both Moody's and Standard & Poor's.

Capital Projects Status Report

The following are updates on the capital improvement projects underway.

- A. County Facilities Maintenance
- B. Maple Street Correctional Center
- C. Maguire Improvements (Security, Video Visitation)
- D. Pescadero and Skylonda Fire Stations
- E. Cordilleras Mental Health Facilities
- F. Dispatch Center
- G. Animal Shelter
- H. County Government Center Master Plan
- I. Government Center Parking Garage
- J. San Mateo Medical Center Master Plan
- K. Tower Road Joint Yard Master Plan
- L. IWMS Remodels/Relocations

County Facilities Maintenance: There are currently 305 projects authorized by your Board. Of these projects, six are managed directly by the Sheriff's Office and 38 are managed directly by the Parks department. The remaining 261 facilities projects are managed by Public Works and are in various stages of progress as indicated below:

<u>Category</u>	<u># of Projects</u>	<u>% of Total</u>
Completed/Closeout	30	11%
In Progress	182	70%

Investigation/Not yet underway	23	9%
Recurring (e.g. SEMP)	7	3%
Cancelled/On Hold	19	7%

Two of the three large projects that were previously behind schedule are nearing completion, including the \$4 million San Mateo Medical Center Solar Project and \$1.5 million water conservation project. The third project is the Strategic Energy Master Plan where a majority of the \$2 million funding will be used for interior LED lighting upgrades. Due to protest to the project's RFP, the RFP had to be withdrawn and now DPW is considering a design-build option. Work is expected to be completed by the end of 2016.

Even with the introduction of multiple new maintenance and construction projects for the two-year budget cycle, the pace of project delivery continues to be rapid for the majority of projects. It's anticipated that most new smaller projects will be completed by the end of FY 2015-16 while larger projects (i.e. multi-year) will likely be carried over into the following fiscal year.

Maple Street Correctional Center: This 275,000 square foot project consists of a 768 bed facility, surface parking for 180 vehicles and all necessary on site and off site utility improvements. The Maple Street Correctional Center (MSCC) has a processing and transport area, a non-secure inmate housing wing, administrative and support services (laundry, food), and a secure inmate housing wing. The site also includes video visitation for inmates and a 2,670 square foot Central Utility Plant (CUP) building that holds the main switch gear, electrical panels, fire pumps and mechanical chiller room. Phase-One of this project is nearly complete as the Commissioning of the building and the Punch-list are in progress. MSCC is set to house its first inmates on March 19, 2016.

Phase-Two of the MSCC project, the build-out of the warm shell section of the facility, was approved in the spring of 2015. This phase of the project is scheduled for completion in the fall of 2016.

Maguire Correctional Facility Improvements (Security Electronics and Detention Door, Video Visitation): The Maguire Correctional Facility (MCF) opened in 1988 as an addition to the existing San Mateo County jail located on the 4th floor of the San Mateo County Hall of Justice (HOJ). The security electronics systems, while modern at the time of installation, are now tremendously out of date, subject to frequent failure, and nearly irreparable due to the age of the components. The project has updated the security electronics, detention doors, and the installation of a video visitation system providing connectivity between the new MSCC and MCF. This project is set to be completed in the spring of 2016.

Pescadero and Skylonda Fire Stations: The project design for the Pescadero station is on hold pending the outcome of the community engagement process and further investigation of possible sites.

Design documents are being prepared for the Skylonda Fire Station by the design-build team of T.B. Penick & Sons, Inc. and Jeff Katz Architecture. The design for this essential facility will include a combined barracks, office, and drive-through apparatus bay building with a separate reserve apparatus structure. A new driveway for dedicated emergency vehicles will be built for access onto Skyline Boulevard and a new septic system will be provided. Construction is anticipated to be complete in the summer of 2017.

Cordilleras Mental Health Facility: After the Board of Supervisors approved the Needs Assessment/Feasibility Study for a replacement facility on the same site as the existing building, HGA Architects proceeded with bridging documentation for a Design-Build delivery process. The project is currently in the CEQA process to develop any mitigation measures to present to the BOS before final construction documents are complete.

Public Dispatch Center/EOC/Data Center: Major modifications and new construction at Grant Yard to transfer the Motor Pool operations are complete. A Design-Build agreement with McCarthy/AECOM to deliver the project by December 2017 was executed in October 2015. Efforts to finalize the design are underway with a construction start date by August 2016 and possible early fuel tank removal and site work set to begin as early as June 2016.

Animal Shelter: The previously issued Request for Qualifications (RFQ) for design-build entities has been reissued so that the County may better define the goals and objectives for the project. The revised RFQ was issued on December 30, 2015 with Statements of Qualifications due on February 16, 2016. The bridging documents to define the scope of this project are being developed in collaboration with the Peninsula Humane Society, Kappe Architects and DPW staff.

County Government Center Master Plan Update: Utilizing guidance from the County Manager's Office and existing data from the most recently adopted Master Plan documents (2011 & 2014), consultants Dreyfuss & Blackford (D&B) will evaluate staff relocations (various departments); identify potential efficiency strategies; and determine constraints, sequence, timeline and cost estimates to execute an optimal plan for the County Government Center.

Public Works staff interviewed D&B on January 15, 2016 and anticipates receiving proposal to perform the study by February 15, 2016. If staff chooses to accept the proposal, D&B expects to complete the study in its entirety by June 2016.

Government Center Parking Garage: Staff is proceeding with conceptual planning for a 1,250 to 1,450 space garage on the RWC campus and will present options and recommendations for sizing to the CMO upon completion of the County Government Center Master Plan project

San Mateo Medical Center Master Plan: The San Mateo Medical Center (SMMC) campus Master Plan will include a high level assessment of program requirements, facility needs and costs. It will address California's seismic safety mandates and potentially fire wall construction between older onsite facilities and newer portions of

SMMC, as well as enhance operational efficiency and improve financial performance through improved work flow, sustainable design and technological advances. The planning effort will include reviewing the San Mateo County Facility Master Plan, dated March 8, 2011, the San Mateo County Health System TDM and Parking Plan, and the Public Health Laboratory Facility Assessment and Proposed Facility Analysis Report.

Staff interviewed consultants in December 2015 and received proposals in January 2016, which are currently under review. If staff chooses to accept one of the proposals, they anticipate completing the study in its entirety by June 2016.

Tower Road Joint Yard Master Plan: Public Works is in the process of performing a feasibility study at Tower Road to best understand what options are available to reconfigure/locate the motor-pool, craft shops, library, and elections buildings as well as the possibility of the City of San Mateo co-locating some of their DPW operations.

D&B Architects are on-board conducting site visits and meeting with key staff to understand the current operations and future operations of the above mentioned Tower Road groups. The study is expected to be complete by end of March 2016.

Integrated Workplace Management System, COB 1 Renovation/Moves: The relocation of the Purchasing Division of Human Resources into the space previously occupied by Parks in County Office Building 1 on the east side of the fourth floor has been completed. It is similar in design to the current Parks Department space, further illustrating the County's workplace standards. The relocation of the Office of Sustainability has also been completed and staff now occupy the remaining 6,300 square feet on the west side of the fourth floor. The Office of Sustainability does not have as many new design features as the other two projects, but does embody a refreshed, bright, open work space.

The Information Services Department's (ISD) third floor space will undergo a significant refresh, similar to the style of the fourth floor departments. ISD staff will temporarily relocate off-site during this major reconstruction scheduled through the end of 2016.

Public Works is working with Planning and Building on the feasibility of locating a "one stop" permit center on the first floor of COB I.

The Integrated Workplace Management System continues to experience a surge in requests for internal moves by County departments currently totaling over \$3 million, even as the lack of available office space persists. The Real Property Services Division is attempting to identify and secure temporary transition spaces in leased facilities.

Agile Workforce

The Agile Organization initiative aims to help San Mateo County become a more flexible and dynamic organization by maximizing and diversifying the County's staffing resources. Over two years, we have expanded many of the County's different work

delivery options which, packaged together, allow us to rethink the ways in which we recruit for talent and deliver services to our residents.

As of December 2015, the County has 135 **term** employees in a total of 16 different departments. Data collected from the County's applicant tracking system shows that term employees are being primarily used to address short-term special projects and temporary spikes in departmental workloads. Through surveys, we have learned from hiring managers that the ability to hire term employees has allowed many of them to expand their operations and tackle new assignments. The County has recently reached agreement with AFSCME and SEIU to remove the initial cap of 73 positions.

In the summer, the County launched the San Mateo County Management Fellowship Program and hired on the first cohort of management **fellows**, who are serving in the County Budget and Performance Office, LEAP Institute, and Office of Sustainability. Fellows are recent masters graduates assigned to work on complex, high-level projects for a period of one to three years. The program enables the County to develop partnerships with local universities and is designed to recruit, identify, and develop future County leaders.

We have also seen a 39% increase (116 in 2014 to 161 in 2015) in the number of **internships** offered in the County. In 2015, we ramped up internal promotion to departments and streamlined hiring processes for our Countywide internship programs. We also received Measure A funding to expand the duration and number of participants in the County's Supported Training & Employment Program (STEP) for recently emancipated foster youth. Additionally we worked to improve the County internship experience by hosting more job skills trainings, creating more networking opportunities, and providing interview and resume writing classes.

In June 2015, we hosted the inaugural San Mateo County Hackathon (Hack-SMC). Over 70 individuals gathered for this day-long event to create working applications that aim to make San Mateo County a more efficient and effective organization. This **self-help** event is an example of another way we seek to deliver work in the County, by helping citizens to help themselves.

We have gathered together a committee comprised of different departmental volunteer coordinators to explore the possibility of implementing a centralized **volunteer** tracking system for all departments to use. The committee is also drafting the first Countywide volunteer report, which provides a general overview of the contributions and activities of all of the County's volunteers.

In the spring of 2016, we will pilot the **Student Consultants Program**, which gives current San Francisco State University masters students the opportunity to work with the County Budget and Performance Office staff on departmental program evaluations as part of their academic experience. The program represents another way in which the County can attract talent to the organization and establish talent pipelines from partnering universities.

In an effort to establish a more flexible classification and compensation structure that attracts, retains and rewards high performing employees, the County has been identifying alternatives to the traditional career path. The County's current career ladder primarily focuses on advancement into supervisory and management positions, areas that may not necessarily be of interest or fit for some employees. A **Dual Career Ladders** study was recently conducted that provides a framework for the County to establish career ladders for subject matter experts in key technical and professional classifications. We are initiating a pilot with the Controller's Office to develop new career paths for the Senior Auditor classification. We anticipate that after the pilot phase we can begin to broaden the application to other County departments/classifications.

Performance Measurement

The County Manager's Office has worked with Departments to update their Program Performance Reports in the Socrata performance management system, including performance measures, three years of data (as available), benchmarking information (as available), the story behind the data, and pictures that bring a face to the programs/services that the County provides. Departments have also updated their Measure A performance indicators on the Measure A dashboard.

The County Manager's Office worked with Hansei Consulting to train a cohort of 10 analysts from the Budget, Policy and Performance Unit, Controller's Office, Building and Planning Department and Human Resources on the principles and practices of LEAN/Six Sigma/Continuous Process Improvement. Training consisted to 40 hours of on-line training and four days of hands-on classroom training on how to conduct process improvement events. In addition, the cohort members completed five process improvement events focused on the Department of Housing's loan/grant tracking process, Information Services Department's Help Desk, the Department of Building and Planning's Code Compliance process/roles and responsibilities, the County's two-year budget/performance cycle, and Countywide Program Assessment. The cohort will continue to practice its LEAN/Six Sigma skills, including conducting future process improvement events and LEAN training for other County staff.

The Countywide Program Assessment event included a survey of all supervisors and managers in County departments to collect self-reported data on various aspects of program success. Six priority performance workgroups were developed as a result of the survey to address needed improvement areas. These include performance tracking, benchmarking, customer service, employee engagement, employee feedback and evaluation, and training for staff.

The County is also partnering with San Francisco State University's MPA faculty and students on a Student Consultants Program Pilot. The pilot will partner with current MPA students who have or are taking a Program Evaluation course with County staff to evaluate selected SMC Saves, LEAN process improvement and Measure A initiatives that have been completed over the past year. The following initiatives have been identified as candidates for the pilot, primarily because of their time and savings

potential for clients and employees (SMC Saves, LEAN) and contributions toward the County's goals to end homelessness, ensure foster youth graduate from high school and enter college or vocational school, and increase 3rd grade reading proficiency (Measure A):

- SMC Saves – Hoteling Demonstration Space (Health System)
- SMC Saves – Printing Optimization (Health System)
- SMC Saves – Tuberculosis Therapy via Video (Health System)
- SMC Saves – Coplogic Online Crime Reporting (Sheriff's Office)
- LEAN Process Improvement – Employee Onboarding (Human Resources)
- LEAN Process Improvement – Board Agenda Process (County Manager's Office)
- LEAN Process Improvement – Assessment Appeals Process (County Manager's Office)
- Measure A – CASA Court Appointed Special Advocates (Human Services Agency)
- Measure A – STEP Supported Training for Emancipated Foster Youth (Human Resources)
- Measure A – HOT Teams and Emergency Housing Assistance (Human Services Agency)
- Measure A – Library Summer Reading Programs (Library)

The County Manager's Office will also be working with County departments to update the Shared Vision dashboard in preparation for the Board's planning session in December 2016 to discuss the FY 2017-19 Budget and Measure A allocation process.

FISCAL IMPACT:

There is no Net County Cost impact by accepting this report.

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. Bay Area Consumer Price Index (CPI)
- B. First-Time Housing Affordability Index
- C. Median Home Price and Home Sales
- D. Prop. 8 Assessed Value Restorations
- E. Combined Secured and Unsecured Property Tax Roll Value
- F. Property Reassessment and Assessment Appeals Filings
- G. Building Permits Issued
- H. Office Space Availability
- I. San Francisco International Airport – Total Passengers
- J. Unemployment Rate
- K. Per Capita Personal Income

A. Bay Area Consumer Price Index (CPI)

The Consumer Price Index (CPI) measures the change in the price of goods over time. The change in the index is referred to as the rate of inflation, and is used in assumptions for calculating future costs. The Consumer Price Index for all urban consumers, all items in 2015 increased 2.7% in the Bay Area, 1.5% in California, and 0.7% in the United States. Bay Area CPI is forecasted to increase 2.8% in 2016 and 2.5% in both 2017 and 2018.

<i>CPI Fiscal Year Averages</i>	<i>Bay Area¹ % Change</i>	<i>California % Change</i>	<i>United States % Change</i>
2018*	2.5%	2.3%	2.1%
2017*	2.5%	2.1%	2.1%
2016*	2.8%	2.0%	1.3%
2015	2.7%	1.5%	0.7%
2014	2.4%	1.4%	1.6%
2013	2.6%	2.1%	1.7%
2012	2.8%	2.4%	2.9%
2011	1.7%	1.7%	2.0%
2010	1.2%	0.7%	1.0%
2009	1.8%	1.3%	1.4%
2008	3.2%	3.4%	3.7%
2007	3.3%	3.4%	2.6%
2006	2.7%	4.2%	3.8%

¹ Bay Area (San Francisco CMSA) includes the counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma.

*Forecasts: CA Department of Finance

Sources:

California Department of Finance

http://www.dof.ca.gov/html/fs_data/latestecondata/FS_Price.htm

Bureau of Labor Statistics

<http://www.bls.gov/ro9/cpisanf.htm>

B. First-Time Housing Affordability Index

The housing affordability index for first-time buyers is one way to gauge the well-being of the housing market. The %age of first-time buyers who can afford to purchase a median-priced home in San Mateo County in the third quarter of 2015 was 27%, a 9% change over the past two years and the second largest decrease after San Francisco County. Housing prices continue to be less affordable for first time home buyers in San Mateo County, a trend that is constant throughout most of the State over the past two years. The statewide figure of 51% in the third quarter of 2015 has dropped from 54% in 2013 and affordability in the Bay Area also dropped from 45% to 41% during the same time period. Conversely while it is becoming more difficult for first-time buyers, these trends do imply that housing prices are strong in San Mateo County and throughout most of the Bay Area.

<i>First-Time Buyer Housing Affordability Index</i> Region/State/County	<i>3rd Quarter</i> 2013	<i>3rd Quarter</i> 2014	<i>3rd Quarter</i> 2015
California	54%	52%	51%
United States	74%	75%	74%
SF Bay Area	45%	45%	41%
Sacramento	71%	69%	66%
Santa Clara	45%	44%	40%
Monterey	54%	50%	51%
Alameda	44%	44%	41%
Contra Costa – Central County	45%	43%	40%
San Francisco	36%	29%	24%
Marin	37%	29%	37%
San Mateo County	36%	34%	27%

Source: CA Association of Realtors
www.car.org

C. Median Home Price and Home Sales

The number of homes sold in the Bay Area has increased by 17.4% over the period from December 2014 to December 2015. This increase is seen throughout Bay Area counties. San Mateo County experienced a 16.0% increase in home sales over the same period, slightly below the Bay Area average.

Additionally, median home prices continue to rise throughout the Bay Area. From December 2014 to December 2015, the median price of a single family home increased by 14.6% to \$925,000. Median home prices in San Mateo County continue to be among the highest in the Bay Area, second only to San Francisco.

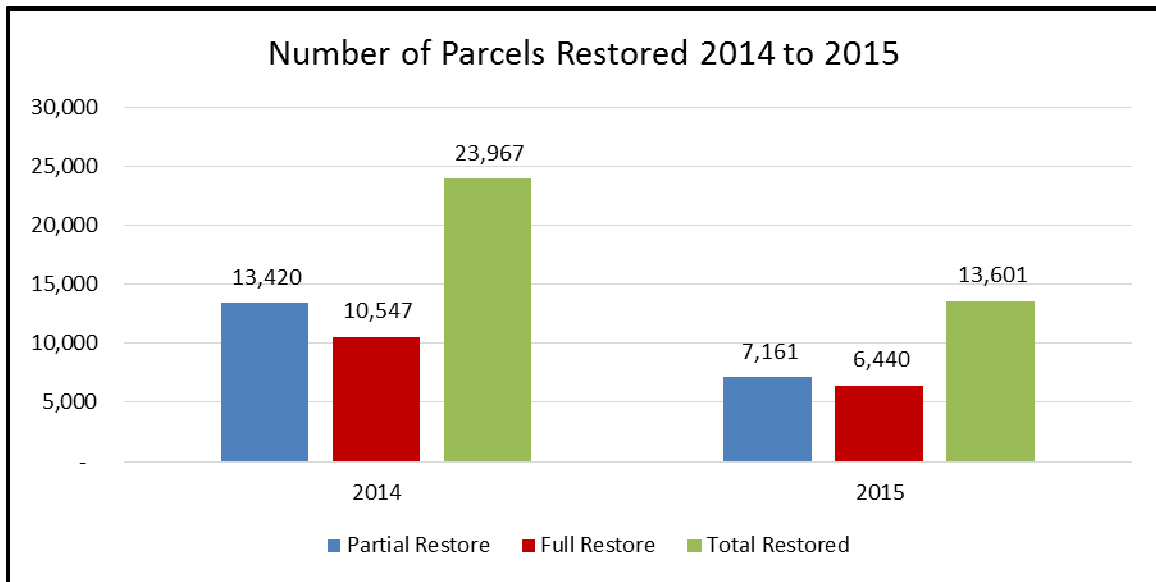
	<i>Number of Homes Sold December 2014</i>	<i>Number of Homes Sold December 2015</i>	<i>Number of Homes Sold % Change</i>	<i>Median Price December 2014</i>	<i>Median Price December 2015</i>	<i>Median Price % Change</i>
Bay Area	6,709	7,876	17.4%	\$580,000	\$655,000	12.9%
Alameda	1,419	1,733	22.1%	550,000	655,000	19.1%
Contra Costa	1,320	1,558	18.0%	450,000	480,000	6.7%
Santa Clara	1,604	1,727	7.7%	696,500	788,250	13.2%
San Mateo	545	632	16.0%	807,500	925,000	14.6%
San Francisco	472	584	23.7%	960,000	1,124,000	17.1%
Marin	221	274	24.0%	874,000	823,000	-5.8%
Napa	96	125	30.2%	450,000	555,000	23.3%
Solano	527	668	26.8%	310,750	350,250	12.7%
Sonoma	505	575	13.9%	446,750	489,000	9.5%

Source: DataQuick Information Systems

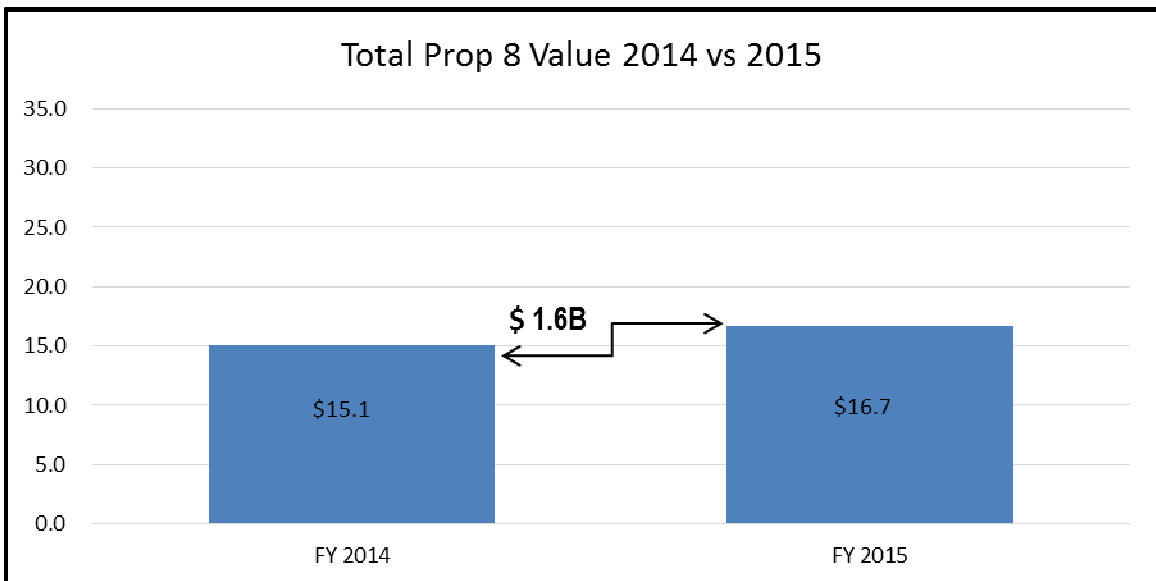
<http://www.corelogic.com/downloadable-docs/dq-news/dq-news-data-briefs/san-francisco-bay-area-december-2015-home-sales.pdf>

D. Prop. 8 Assessed Value Restorations

During FY 2014-15 the Assessor's Office reviewed approximately 16,000 parcels in the decline in value program, of which 7,161 parcels were partially restored and 6,440 parcels were fully restored, resulting in net increase of \$1.6 billion in restored value to the FY 2015-16 tax roll.



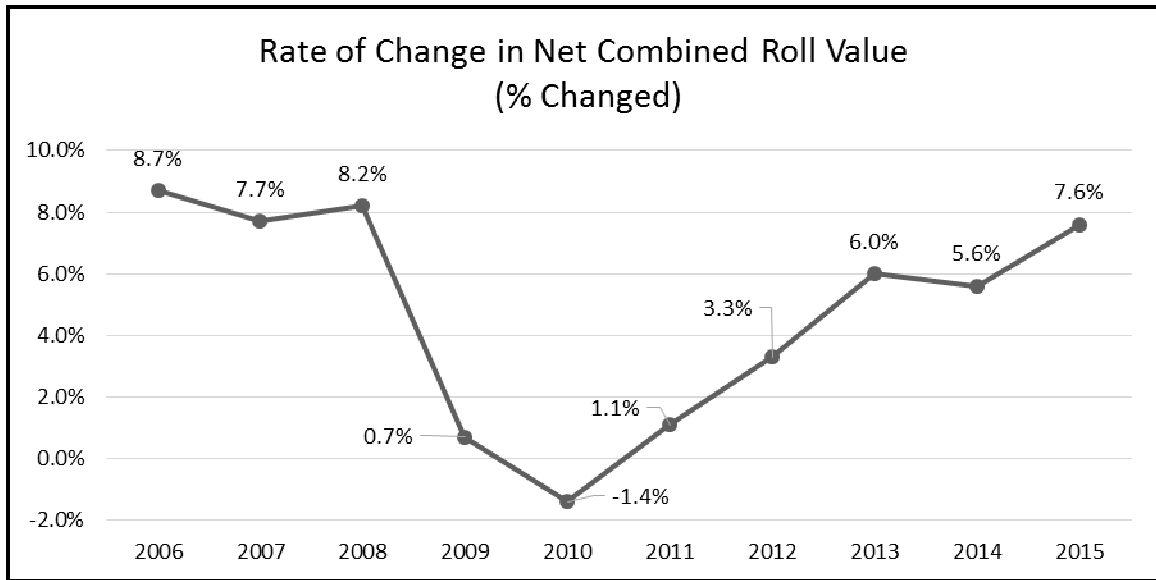
Source: Assessor's Office



Source: Assessor's Office

E. Combined Secured and Unsecured Property Tax Roll Value

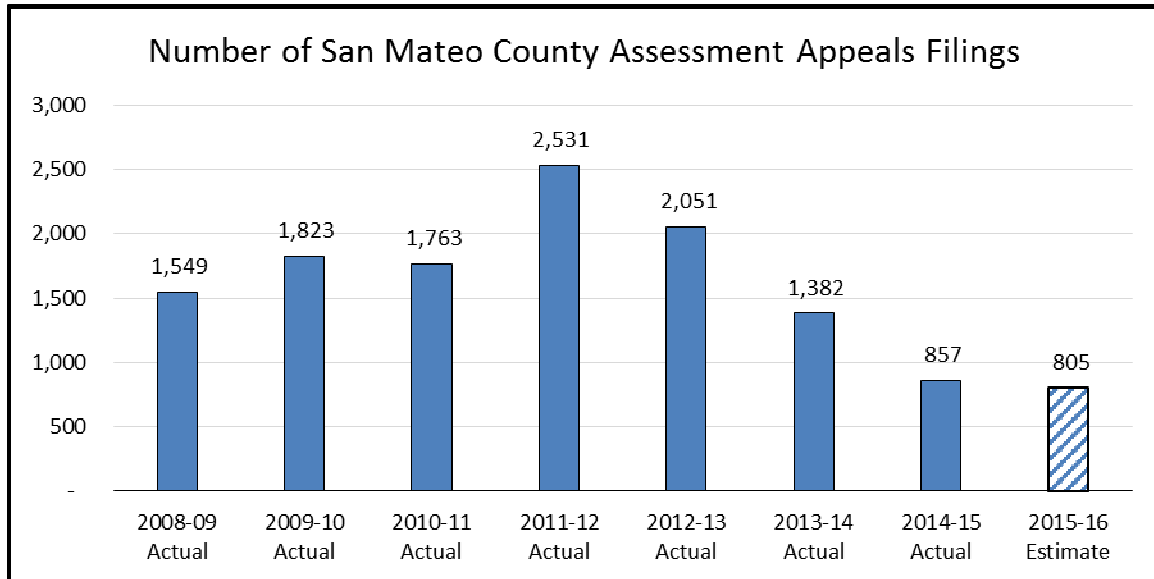
There were 236,596 assessment parcels and accounts for 2015 for a Total Local Roll of \$177 Billion and an increase of 7.6% from 2014.



Source: San Mateo County Assessor's Office

F. Property Reassessment and Assessment Appeals Filings

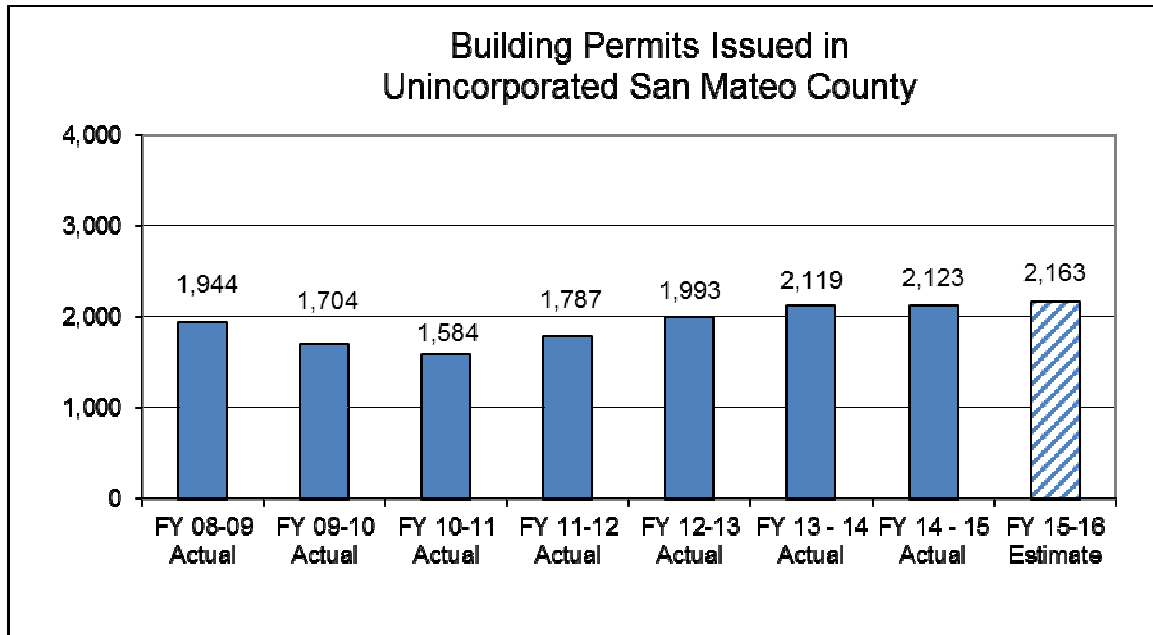
There were 857 new assessment appeals filings for FY 2014-15, which was a 38% decrease from FY 2013-14. The estimated number of appeals filed in FY 2014-15 is 805.



Source: County of San Mateo Assessment Appeals Board

G. Building Permits Issued

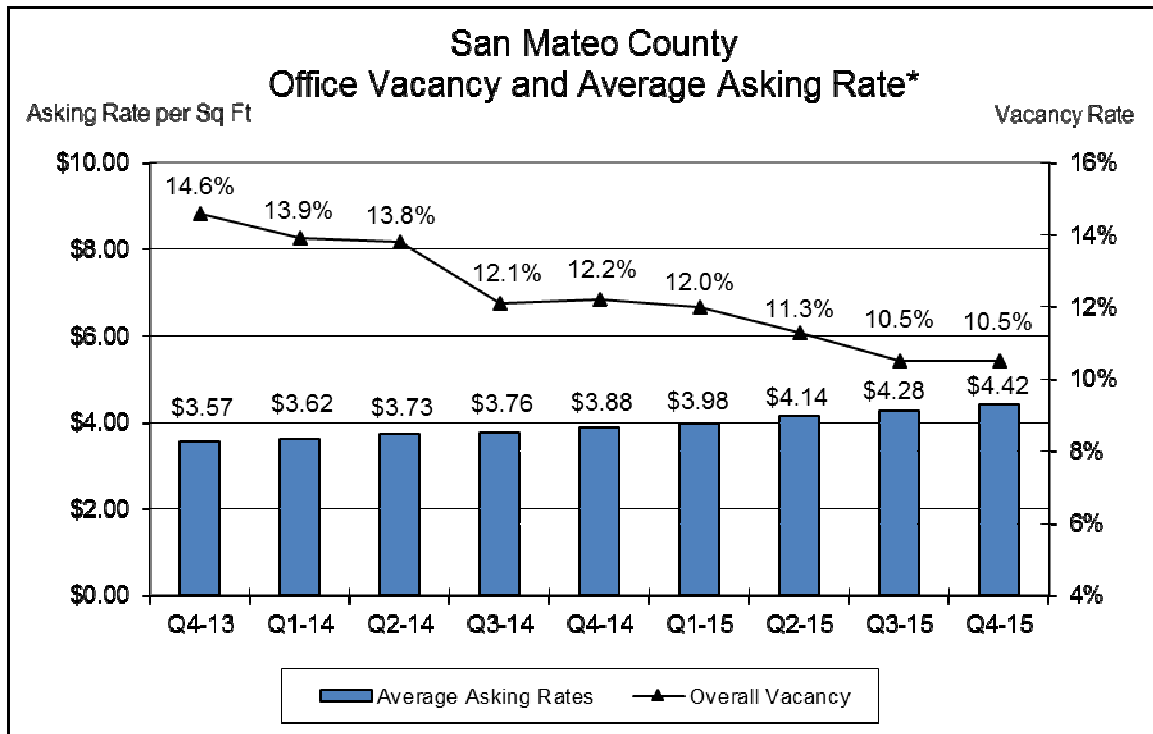
The number of building permits issued by the Planning and Building Department remains steady at historically high levels.



Source: San Mateo County Planning and Building Department

H. Office Space Availability

The demand for San Mateo County office space continued to rise in Q4-15, reaching an average asking rent of \$4.42 per square foot, full service, an increase of 13.9% since Q4-14 and 23.8% since Q4-13. The overall vacancy rate has steadily decreased each quarter from 14.6% in Q4-13 to 10.5% in Q4-15. There are a large number of development projects in the pipeline, suggesting an increase to vacancy rates in the next several years. Still, average asking rates continue to rise as life science and tech firms continue to search for and lease large amounts of office space.

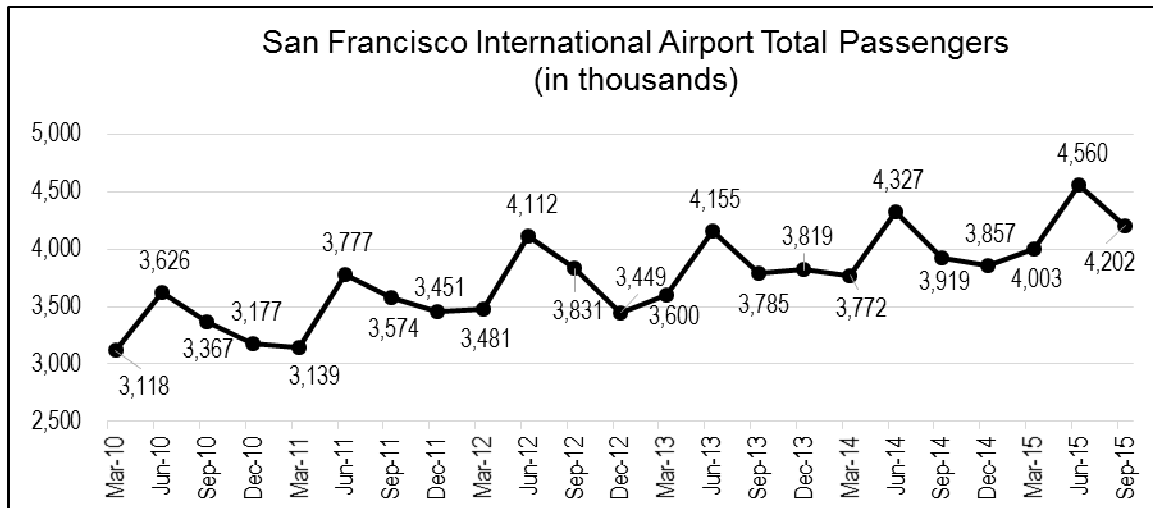


*Average asking rate includes utilities, maintenance, insurance, and all other expenses related to occupancy

Source: Cushman and Wakefield

I. San Francisco Airport – Total Passengers

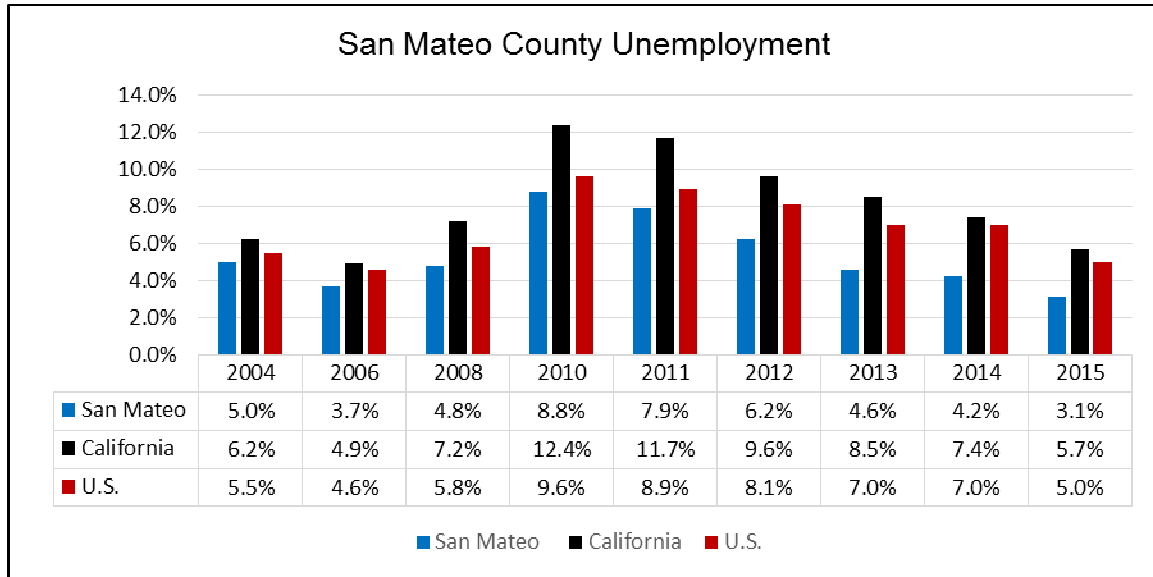
A significant portion of the County's unsecured property tax and sales tax revenues come from businesses at San Francisco International Airport, so it is important to monitor patterns in airport activity. The overall trend in passenger activity has steadily risen since March 2011.



Source: San Francisco International Airport
<http://www.flysfo.com/media/facts-statistics/air-traffic-statistics/2015>

J. Unemployment Rate

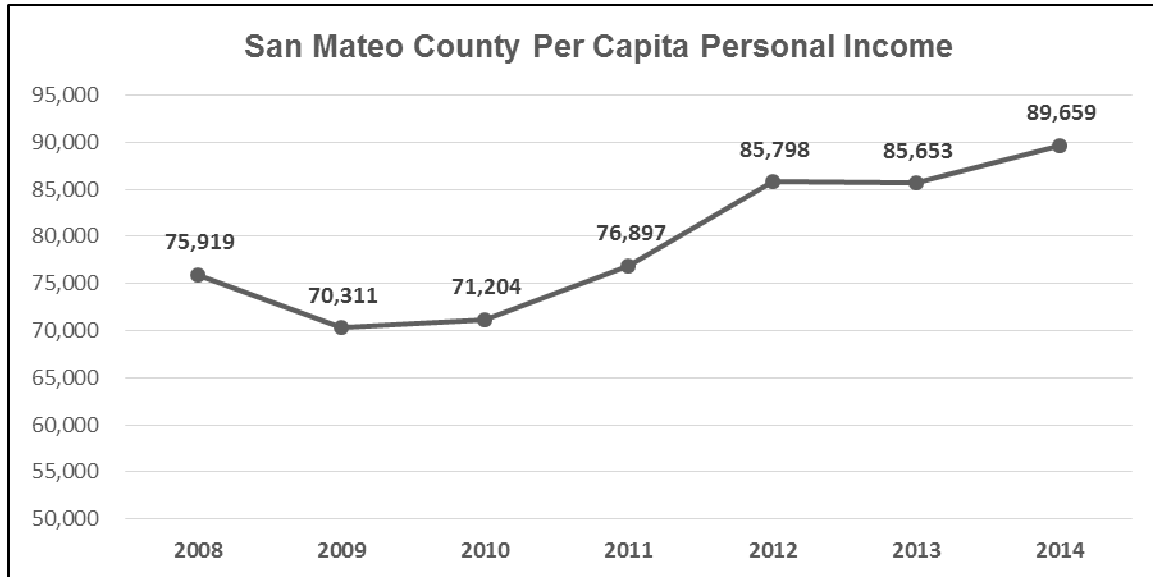
Unemployment rates at the local, state and national levels are down from last year. San Mateo County unemployment is down from 4.2% in 2014 to 3.1% in 2015. The county continues to have one of the lowest unemployment rates in the state.



Source: Employment Development Department
<http://www.calmis.ca.gov/file/lfmonth/countyur-400c.pdf>

K. San Mateo County Per Capita Personal Income

In San Mateo County, personal income increased from \$85,653 per capita in 2013 to \$89,659 per capita in 2014. Personal income is reported in current dollars (no adjustment is made for price changes). Data for 2015 is not yet available.



Source: Bureau of Economic Analysis

<http://bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=7#reqid=70&step=1&isuri=1&7022=49&7023=7&7024=non-industry&7033=-1&7025=4&7026=06081&7027=-1&7001=749&7028=-1&7031=06000&7040=-1&7083=levels&7029=49&7090=70>