



County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER

Board Meeting Date: 6/26/2018

Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager
Mike Callagy, Assistant County Manager

Subject: **FY 2018-19 Recommended Budget Hearing**

RECOMMENDATION:

Adopt a Resolution approving the FY 2018-19 Recommended Budget submitted by the County Manager.

BACKGROUND:

The County Budget Act (Government Code §§ 29000-29144 and § 30200) requires that counties have a Recommended budget, approved by the Board of Supervisors, in place on July 1 of each fiscal year. The prevailing code sections are:

GC § 29062 – The recommended budget shall be submitted to the board by the administrative officer or auditor as designated by the board, on or before June 30 of each year, as the board directs.

GC § 29063 – Upon receipt of the recommended budget the board shall consider it and, on or before June 30 of each year, at such time as it directs, shall make any revisions, reductions, or additions.

GC § 29064(a) – On or before June 30 of each year the board, by formal action, shall approve the recommended budget, including the revisions it deems necessary for the purpose of having authority to spend until the budget is adopted.

GC § 29088 – After the conclusion of the hearing, and not later than October 2 of each year, and after making any revisions of, deductions from or increases or additions to, the recommended budget it deems advisable during or after the public hearing, the board shall by resolution adopt the budget as finally determined.

On September 26, 2017, as part of the two year budget process, the Board of Supervisors approved the FY 2017-18 Adopted Budget and received the FY 2018-19 Preliminary Recommended Budget. The purpose of this budget transmittal is to seek formal approval of the FY 2018-19 Recommended Budget. This Budget has been amended from the one received last September to include adjustments that are deemed necessary to ensure uninterrupted services and operations through September 2018. The Board will consider the FY 2018-19 Adopted Budget, including September revisions and final Fund Balance adjustments, on September 25, 2018.

COUNTY MANAGER’S MESSAGE:

In 2015, the Board embarked on a major effort to:

1. End homelessness,
2. Improve reading proficiency, and
3. Ensure that all foster children graduate from high school and complete the equivalent of two years of college or vocational training.

I am pleased to report that the County continues to make good progress toward accomplishing these goals. Homelessness for families and veterans has virtually been eliminated and the unsheltered homeless count continues to decline. Reading scores for young children are improving for children enrolled in the Big Lift. Foster children are doing better in school and more are going to college and vocational schools. In addition, Home For All San Mateo County has resulted in the investment of \$103 million into affordable housing with 1,715 units constructed, preserved, under construction, or in the pipeline. And in 2016, the Board adopted a Living Wage ordinance for the unincorporated area. These actions taken together are making San Mateo County a better place for all our residents.

This year we asked the departments to go through the exercise of reducing their budgets by 2.5 percent. I am pleased to report that the departments responded with thoughtful examinations of their budgets and recommendations for how to achieve this goal without significant impact on public services. In certain instances, departments recommended reducing expenditures that were deemed unnecessary. These recommendations are reflected in these revisions. As we anticipate the preparation of the FY 2019-21 Budgets in the coming year, increasing costs for major initiatives undertaken in the last several years, the uncertainty of future health care funding, adoption of a major five-year capital improvement program, increasing labor costs, and the looming specter of a future recession necessitate fiscal prudence to insure the sustainability of core County programs and capital improvements over the next five years. Therefore, I recommend that next year’s County budget be built on a 2.5 percent reduction in Net County Costs—about \$13.4 million. This would give the Board flexibility in making future funding decisions regarding major initiatives and capital expenditures.

Next year the Board will need to make several difficult decisions regarding the allocation of Measure K funds as the result of the reallocation of some Measure K funds to SFO

due to the implementation of federal regulations for airport funding previously discussed with the Board and the loss of federal funding for the Big Lift program.

This marks the final budget I will submit to the Board. I have always believed that the purpose of government is to help people lead better lives. To accomplish this, budgets are critical in setting priorities and establishing policy not just for today but also for the future. Above all, this must be done in a way that promotes democracy and builds community.

Leonardo da Vinci once wrote, "I have been impressed with the urgency of doing. Knowing it is not enough; we need to apply. Being willing is not enough, we must do."

As John Kennedy said, "There are risks and costs to action. But they are far less than the range of risks of comfortable inaction."

I have always been so proud to work for San Mateo County because over the years the Boards of Supervisors have never been satisfied with the status quo and have always wanted to continue to make this place better for each new generation of residents. Your list of accomplishments over the years includes but is not limited to: Children's Health Initiative (universal health care for children), school-based services, countywide emergency medical/fire system, City/County Association of Governments, Agile Work Force, Office of Sustainability, Peninsula Clean Energy, long-term health care, etc.

As I think about the future of this County I hope this Board maintains your sense of urgency. Resist the temptation to rest on your laurels. Continue to engage the community to help solve real issues that impact the everyday lives of citizens. Never be satisfied with good enough. Always challenge us to do better!

I want to thank Robert Manchia and his outstanding staff of Heather Ledesma, Tim Nevin, Sophie Mintier, Michael Leach, Alicia Garcia, and Paniz Amirasiri, who have worked so hard to prepare this document. This was Robert's first "solo" effort and his attention to detail and preparation for next year's major two-year budget has been exceptional. Also my appreciation to Mike Callagy, Peggy Jensen, Iliana Rodriguez, Reyna Farrales, Connie Juarez-Diroll, and Michelle Durand for their valuable insights along the way. Finally, to all the men and women who work for San Mateo County. Thanks for everything you do to keep us safe, healthy, and prosperous that makes the County such a great place to live and work for all.

DISCUSSION:

The FY 2018-19 Preliminary Recommended Budget received by the Board last September totaled \$2,561,112,282 with 5,521 authorized positions. With ongoing adjustments made during the course of the current fiscal year, the FY 2018-19 Preliminary Recommended Budget was revised in February 2018 to reflect an increase to \$2,561,297,282 with 5,528 authorized positions (the "FY 2018-19 Revised Budget"). The FY 2018-19 Recommended Budget now presented to the Board for approval totals \$2,749,005,507 with 5,528 authorized positions, representing an increase of

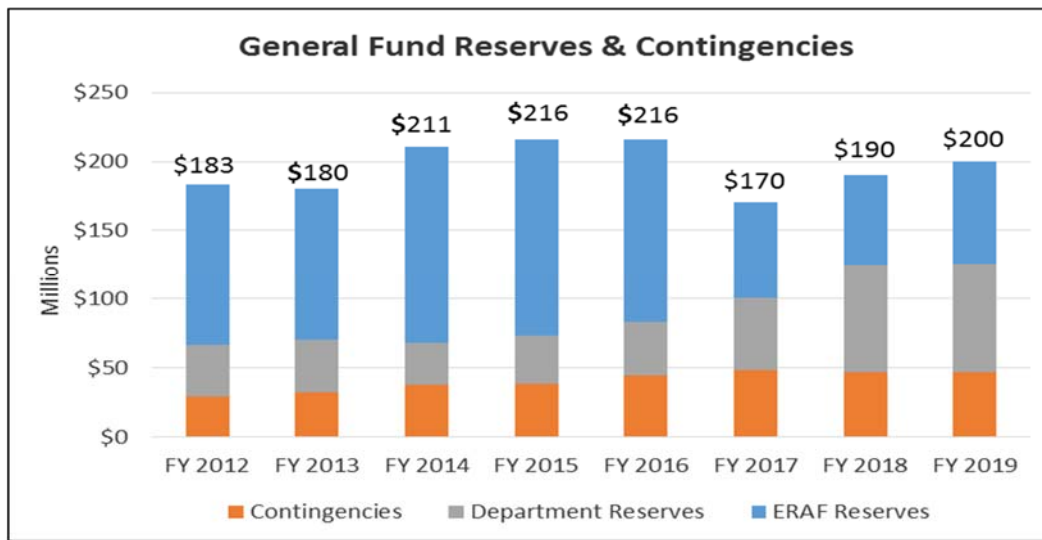
\$187,708,225 or 7.3 percent over the FY 2018-19 Revised Budget. The increases, which are described in greater detail below, are primarily related to County pension and retiree health liabilities (\$15.7 million); capital, technology, and infrastructure projects including rollovers (\$68.2 million, not including Measure K); new Property Tax System for Controller, Tax Collector, and Assessor (\$15.3 million); increased Reserves (\$17.1 million); miscellaneous increases, including salaries and benefits for California Nurses Association (\$7.8 million); and Measure K initiatives including rollovers for capital (\$64.1 million).

The following tables display the Total Requirements and Authorized Positions for All Funds and the General Fund for the FY 2018-19 Preliminary Recommended, Revised, and Recommended Budgets. The Budget Unit Summaries can be found in Attachment B, and the Position Adjustments Summary can be found in Attachment E.

TOTAL REQUIREMENTS - ALL FUNDS					
All Funds	FY 2018-19 Preliminary	FY 2018-19 Revised	FY 2018-19 Recommended	FY 2018-19 Change	% Change
Total Budget	2,561,112,282	2,561,297,282	2,749,005,507	187,708,225	7.3%
Total Positions	5,521	5,528	5,528	0	

TOTAL REQUIREMENTS - GENERAL FUND					
General Fund	FY 2018-19 Preliminary	FY 2018-19 Revised	FY 2018-19 Recommended	FY 2018-19 Change	% Change
Total Budget	1,654,828,946	1,655,013,946	1,763,254,795	108,240,849	6.5%
Total Positions	4,349	4,354	4,353	(1)	

General Fund Reserves



The increase in Reserves from the FY 2017-18 Adopted Budget to the FY 2018-19 Recommended Budget is \$9.8 million. It is important to note that the Preliminary Budget from FY 2018-19 utilized \$7.3 million in Reserves to fund one-time projects. The increase in the Recommended Budget is due to unspent ERAF of \$17.1 million in FY 2017-18, which was rolled over into Reserves in FY 2018-19.

Net County Cost Adjustments

The Net County Cost adjustments are listed in the table below.

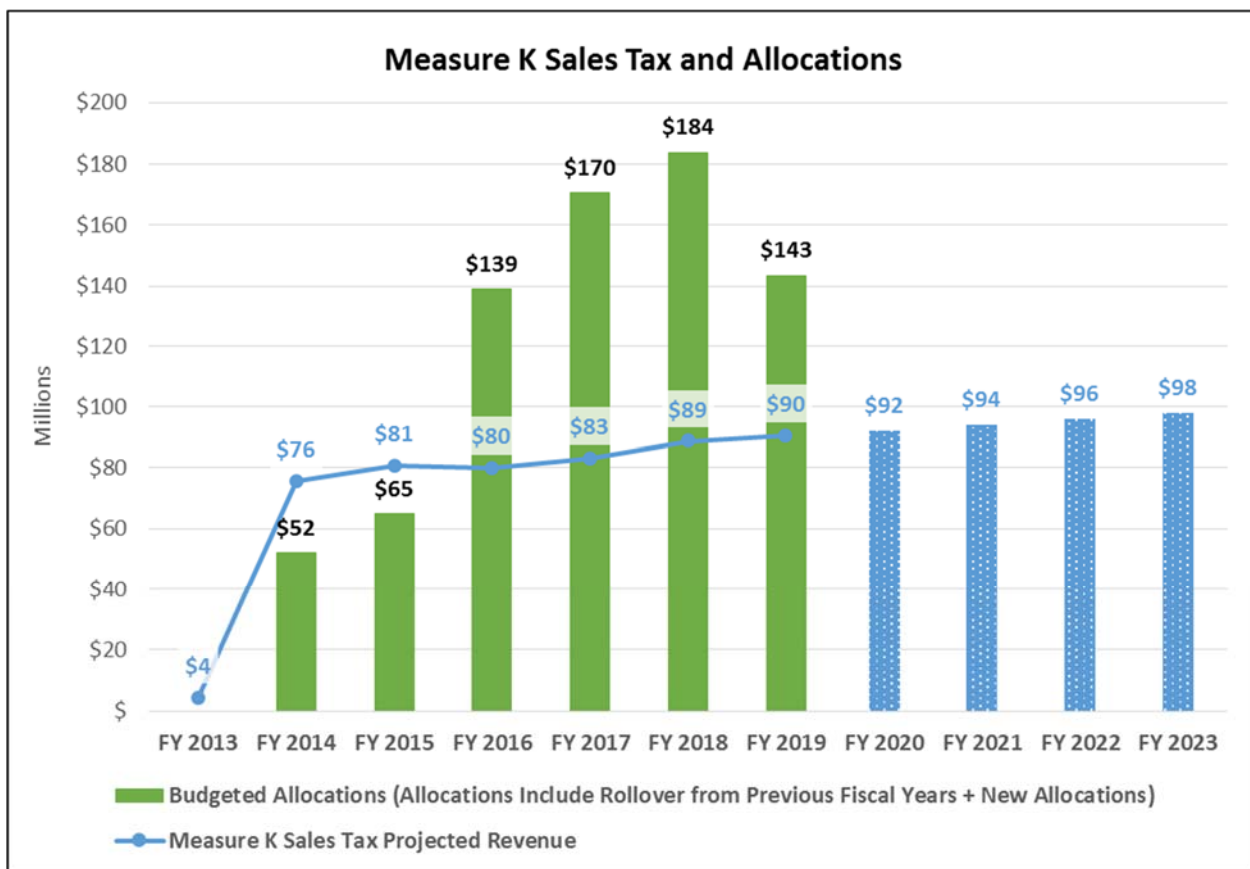
Net County Cost Adjustments		
Reason for Change	FY 2018-19 Recommended	Duration
Salary & Benefit Adjustments plus S&B Revenue Offsets	(476,444)	Ongoing
CNA Salary Increases	1,512,775	Ongoing
Tunitas Creek	1,136,720	Ongoing
Card Key Transfer	581,185	Ongoing
Rents and Leases	33,587	Ongoing
Transfer of Call Center	2,700,000	One Time
Controller Property Tax System Replacement	5,988,635	One Time
Assesor Property Tax System Replacement	8,328,799	One Time
Treasurer-Tax Collector Property Tax System Replacement	1,000,000	One Time
CAD System Upgrade	1,500,000	One Time
SMCSaves	2,500,000	One Time
Elections	512,000	One Time
Retirement Prepayment Increase	15,668,357	Thru FY 2023
Fixed Assets	5,000,000	One Time
Ongoing Items - Subtotal	45,985,614	

Net County Cost Reduction Exercise

Departments were asked to perform an exercise of preparing for a 2.5 percent reduction in Net County Cost, totaling approximately \$13.4 million countywide if implemented. Reductions were to be on-going and sustainable at the current level of mandated services. With the exception of a few of the identified items, which are included in this budget, departments were not required to make the reductions in the FY 2018-19 budget, but were advised to be prepared to make the reductions in the FY 2019-21 budgets.

Measure K

The amount of Measure K funds appropriated in the FY 2018-19 Recommended Budget total \$143 million, including rollover allocations from previous fiscal years for certain capital, IT, and Board District-Specific projects that are continuing into the next fiscal year. With the inclusion of a 10 percent Reserve, Measure K funds are allocated, with rollover resulting from ongoing and time-intensive projects and a set aside of funds moved to meet the Federal regulations for Airport Sales Tax uses. Rollover for other remaining projects will be addressed during budget adjustments in September. The chart below shows budgeted allocations as well as projected revenue, adjusted upwards by two percent.

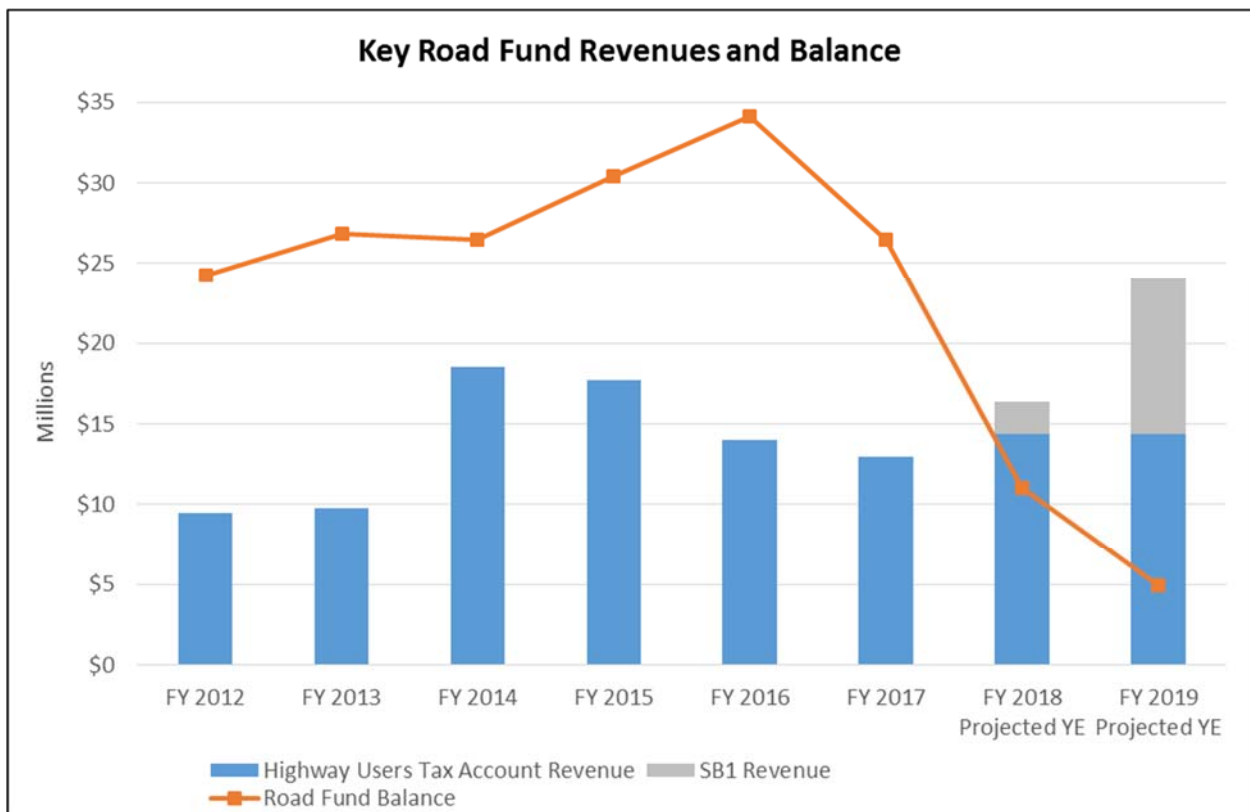


There is a complete list of funded Measure K initiatives in Attachment C.

Road Fund

The Road Fund, managed by the County's Department of Public Works (DPW), is the County's funding source for maintaining and managing the County's road infrastructure (316 miles of roads). Funding revenues are primarily derived from gas taxes, which prior to the passage of SB1 in 2017, were last increased in 1994. In FY 2017-18, gas tax revenues will be approximately \$14.7 million and are projected to remain flat due to improvements in fuel efficiency. SB1 revenues, which began in January 2018 will be approximately \$2 million due to a partial year of collection. The County is estimated to receive \$9.6 million in SB1 for the full FY 2018-19.

Due to a number of large projects that have been undertaken, the Road Fund has steadily been reduced since its peak in FY 2015-16. The current amount of gas tax revenue can maintain overall pavement conditions at current levels but is not sufficient to cover emergency repairs or large scale discretionary projects. It costs \$1 million to fix one mile of road due to increasing construction costs in the Bay Area.



There is currently an effort to repeal of SB1. Without SB1 funds, the projects approved by your Board in Resolution No. 075865, listed below, will not be implemented. If SB1 is repealed DPW will reevaluate and reprioritize all Road Fund projects to ensure there are adequate resources to maintain the existing roadway system as the cost for the current list of projects exceeds the revenue provided by both gas tax and SB1.

FY 2018-2019 SB1 Project List (Road Maintenance and Rehabilitation Account Funds)		
Department of Public Works		
Project	Anticipated Completion	Estimated Useful Life
Reconstruction of Portions of 7th Ave in the North Fair Oaks Area	Fall 2018	20-25 years
Reconstruction of Streets on the West Menlo Park Area Priority List (Croner Avenue)	Fall 2018	20-25 years
Reconstruction of Madrid, Sevilla, and Sonora Avenues (formerly Overlay Project in Road Maintenance District 3, El Granada, North Fair Oaks, and Emerald Lake Hills Areas in FY 2017-18)	Fall 2018	10-15 years
Cape, Slurry and Chip Seal Project in the Emerald Lake Hills, El Granada, Montara, Princeton By the Sea, and North Fair Oaks Areas (2018 Countywide Cape and Slurry Seal Project)	Fall 2018	5-10 years
Reconstruction of Roads in the Colma Area	Summer 2019	20-25 years
Overlay Project in Road Maintenance Districts 3, 9, and 10; El Granada, San Mateo Highlands, and West Menlo Park Areas	Summer 2019	10-15 years
Cape and Slurry Seal Project in the Burlingame Hills, Emerald Lake Hills, North Fair Oaks, Sequoia Tract, and West Menlo Park Areas	Summer 2019	5-10 years
Chip Seal Project in the Road Maintenance Districts 8, 9, and 10	Summer 2018	5-10 years
Avenue Cabrillo Storm Drainage Project	Summer 2018	25-30 years
Culvert Improvement Project in La Honda, Road Maintenance Districts 8 and 10	Summer 2019	20-25 years
FY 2018-19 SB1 Funding Total		\$9,659,877

State Budget Impacts

On May 11, Governor Jerry Brown released the May Revision to his proposed FY 2018-19 state budget, which provides a total budget of \$199 billion. The Governor forecasts revenues \$8 billion higher—over a three-year period—than projected in January, mostly reflecting higher tax collections due to strong economic growth and stock market gains. In fact, growth projections for the big three State General Fund sources, personal income taxes, sales and use taxes, and corporation taxes, are all higher.

Despite this significant increase, the Governor continues to caution that these revenues are largely one-time and commitments for spending should not be done on a permanent basis. Thus, the Governor is proposing to use the additional revenues to build up reserves, pay down budgetary debts, and make one-time investments in infrastructure. The Governor's May Revision provides \$6.1 billion for reserves and paying down debt and an additional discretionary \$2.6 billion deposit to the Rainy Day Fund. The Administration also proposes to deposit \$3.2 billion into the Special Fund for Economic Uncertainties, the State's short-term reserve fund to pay for unforeseen circumstances that arise during the fiscal year, such as higher-than-anticipated costs for disaster response. With these deposits, State reserves should total \$17 billion by the end of FY 2018-19—bringing it to 100 percent of the constitutional target.

At the local level and despite an estimated State General Fund surplus of approximately \$8 billion statewide, the May Revision continues to hold most State-funded programs and services at same level of funding as in FY 2017-18, and new funding proposals to target the growing homelessness crisis are one-time in nature. To that end, the County will be closely monitoring potential funding opportunities through the No Place Like Home, Home Safe, and mentally ill outreach and treatment proposals. The County is also expected to receive approximately \$7.4 million in AB 3632 reimbursement funding for services provided through this program between 2004 and 2011. Furthermore, despite receipt of 1991 Realignment funding and the standing IHSS MOE agreement, it is expected that growing IHSS program and administration costs will continue to outpace available revenues. Thus, estimates are that the cost of the IHSS MOE to be funded outside of 1991 Realignment will grow from \$3.6 million in FY 2017-18 to \$5.5 million in FY 2018-19, and that the County's Realignment Trust Fund will be depleted by April 2023. Finally, the County will need to remain vigilant on newly proposed Administration efforts to review Mental Health Services Act funding and will have four years to repay between \$5 and \$6 million in mental health reimbursement funding because of the findings of a 2014 audit of county mental health services billing practices.

Significant Adjustments in the FY 2018-19 Recommended Budget

Significant budget adjustments made to the FY 2018-19 Preliminary Recommended Budget include:

1. Capital Projects (\$100 million) – Adjustments include rollover of previously funded projects totaling \$75.5 million (including \$37.8 million in Measure K projects), and \$20.0 million in new Measure K funding for the Regional

Operations Center (ROC). A number of existing projects are due to be completed in FY 2018-19 including the ROC, Skylonda Fire Station, Lathrop House Relocation, Old Courthouse Façade Renovations, San Mateo Medical Center (SMMC) Old Hospital Building Non-Structural Upgrades, and Sanchez Adobe. New projects include the Parallel Trail, animal shelter replacement, SMMC MRI Project, SMMC Compounding Pharmacy Hood, and Countywide Fire Alarm Upgrade. A complete list of funded projects can be found in Attachment D.

2. FY 2018-19 Pension Prepayment Contribution (\$25.7 million) – Pursuant to the MOU entered between the County and SamCERA on November 19, 2013, the County agreed to aggressively pay down its unfunded pension liability with a combination of lump sum contributions totaling \$140 million plus an ongoing \$10 million contribution and maintaining a blended fixed rate contribution of 38 percent through FY 2022-23. The blended fixed rate was subsequently reduced to 37.14 percent to account for the employee 50 percent pick-up of Cost of Living Adjustments. The differential payment is the difference between the blended fixed rate of 37.14 percent and the blended statutory rate of 34.3 percent for FY 2018-19, which will be \$15.7 million.
3. Property Tax Systems Replacements (\$15.3 million) – Funding for the replacements of the property tax systems for the Controller’s Office (\$6 million), Assessor (\$8.3 million), and the Treasurer-Tax Collector (\$1 million) are included in the Non-Departmental Services budget. Replacement of the systems are necessary as the old systems are antiquated and no longer supported.
4. Transfer of Revenue Services to the County Manager’s Office (\$1.9 million) – The County Manager’s Office oversees many County divisions that provide cross-departmental services including Real Property, the Office of Sustainability, and the newly created Community Engagement unit. Because the Office of Revenue Services also works with multiple County departments, it has been decided that the Revenue Services Division of the Treasurer’s Office will be transferred to the County Manager’s Office, including 23 filled and three vacant positions. All associated revenue and expenditures to support the operations are also transferred. In an effort to improve organizational structure and effectiveness, the County will contract with a management consulting firm to review revenue services operations, systems, and practices and evaluate the countywide collections consolidation concept.
5. Tunitas Creek (\$1.1 million) – One Park Ranger III, one Park Ranger II, and one Capital Projects Manager, previously approved by the Board, are added to properly manage Tunitas Creek Beach. The additional Park Rangers will help enforce appropriate access to the beach and eliminate health impacts to water quality and special status species’ habitat. The Capital Project Manager will assist the Parks Department in ensuring the timely delivery of the Parks capital program and will play a vital role in assisting with projects associated with

Tunitas Creek. Funding is also added for public access improvements; equipment and supplies; professional services; and maintenance.

6. Local Agency Formation Commission (LAFCo) – LAFCo is moved out of the General Fund to a separate trust fund, and shown in the budget as information only, consistent with its status as an independent commission.
7. Climate Vulnerability and Mainstreaming Resilience Planning (\$429,500) – The Climate Vulnerability and Mainstreaming Resilience Planning in San Mateo County Project provides resources for cities and vulnerable communities to advance transportation adaptation planning. The project will assess countywide climate change impacts, and assist the County and 20 cities in further defining vulnerable transportation infrastructure, critical assets, and communities while developing adaptation strategies to prepare for climate change impacts. Key milestones include a countywide climate analysis; mapping of impacts to transportation; toolkits to incorporate adaptation measures into transportation and related plans, projects, and policies; and resilience vision and adaptation plans for priority and transit-dependent communities.
8. California Green Business Network (\$20,000) – The California Green Business Network has received \$1 million in funds from the State of California Environmental Protection Agency. A portion of the funds have been allocated to each of the Green Business Programs in the State. The San Mateo County Green Business Program will use its allocation to certify new businesses and recertify existing Green Businesses. The Office of Sustainability will use the funds for additional consultant support to certify new businesses and for increased marketing, social media, and advertising to raise awareness about the program.
9. County Behavioral Health Technology Initiative (\$3.7 million) – Funding from the Mental Health Services Act Innovation Fund will be used to fund technology projects through the statewide County Behavioral Health Technology Initiative. These projects include applications that allow peer chat and digital therapeutics; virtual evidence-based therapy using an avatar; and digital phenotyping using passive data for early detection and intervention. The funds will also provide peer support workers to provide older adult, youth, and Chinese- and Spanish-speaking clients with face-to-face technical assistance with applications. CalMHSA will serve as the fiscal intermediary to facilitate coordination of the technology vendors, support a shared evaluation, and maximize outreach and marketing.
10. Expansion of the Electronic Health Record (\$650,000) – The Electronic Health Record (EHR) at the San Mateo Medical Center (SMMC) will be expanded to include Correctional Health. This system will allow Correctional Health to transition from paper charts to instant, electronic communication with SMMC, improving continuity of care. The EHR will also replace manual efforts to track

and collect data for patient care and performance measures and facilitating process improvements. When complete, the EHR will serve as the clinical system of record for incarcerated persons, and will be integrated with common ancillary services that SMMC already supports, including laboratory, pharmacy, and radiology.

County Counsel has reviewed and approved the Budget Resolution as to form.

SHARED VISION 2025:

The approval of the FY 2018-19 Recommended Budget contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that resources are allocated in accordance with the law, that services to the community—especially the most vulnerable—are maintained without interruption, and that the County’s financial future remains strong.

FISCAL IMPACT:

With these revisions, the FY 2018-19 Recommended Budget for all funds totals \$2,749,005,507 and 5,528 authorized positions. Reserves amount to \$358.6 million or 13 percent. The FY 2018-19 Recommended Budget for the General Fund totals \$1,763,254,795 and 4,353 authorized positions. Reserves amount to \$199.9 million or 11.3 percent.

Finally, Measure K appropriations amount to \$142.7 million in FY 2018-19, with \$78.4 million in the Preliminary Recommended Budget and \$64.3 million in rollovers.

ATTACHMENTS:

- A) County Summary
- B) Budget Unit Summaries and Funding Adjustments
- C) Measure K Funded Initiatives
- D) Capital Projects Summary
- E) Position Adjustment Summary
- F) Memberships and Contributions Summary