County of San Mateo

Inter-Departmental Correspondence

Department: COUNTY MANAGER
File #: 18-119 Board Meeting Date: 2/27/2018

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 2017-18 Mid-Year Budget Report and Five-Year Capital Improvement Plan

RECOMMENDATION:
Recommendation regarding Mid-Year Budget Report and Five-Year Capital Improvement Plan:

A) Accept the FY 2017-18 County Budget Update, including key revenue and expenditure projections and budget assumptions; and

B) Accept the Proposition 172 Maintenance of Effort Certification; and

C) Accept the Five-Year Capital Improvement Plan; and

D) Authorize an Appropriation Transfer Request in the amount of $690,000 for the purchase of additional public open space on Sign Hill in South San Francisco; and

E) Authorize an Appropriation Transfer Request in the amount of $185,000 for the **Measure K** Communications Officer position and **Measure K** Coordinator position; and

F) Authorize an Appropriation Transfer Request in the amount of $250,000 for Cannabis Outreach; and

G) Authorize an Appropriation Transfer Request in the amount of $177,000 for Capital Projects funding.

BACKGROUND:
We are pleased to report that San Mateo County is in sound financial condition. We closed FY 2016-17 with a $31 million surplus contributing to a General Fund reserve of $190 million, 11.3 percent of Net Appropriations. Combined reserves and contingencies in all funds are $404.6 million. For the third consecutive year, property tax revenue growth exceeded seven percent, and construction

activity for the next 24 months is projected to remain strong. Activity at the San Francisco International Airport is near capacity and the new Grand Hyatt Hotel is expected to be opened in 2019. Growth in general purpose sales tax revenue has leveled off at approximately $24.5 million a year. Strong equity markets are producing double-digit returns. The County remains on track to significantly reduce the County's unfunded pension liability by 2023.
In last year's mid-year budget report I discussed the duality described in the "Tale of Two Cities" as a metaphor for many of the challenges facing the County. While those challenges still exist, it has become increasingly apparent that the continuing breakdown in our sense of community compounds those challenges at both the local and national levels. Alexander Hamilton once wrote, "There are seasons in every country when noise and impudence pass current for worth; and in popular commotions especially, the clamors of interested and factious men are often mistaken for patriotism."

We must do our best to not let the "noise and impudence" distract us from the continuing work of building inclusive communities and meeting the challenges of this place and time. In the end we will be judged on what we have done to make this a better place now and for future generations.

- <u>Housing</u> Since 2010, 24 new jobs have been added in the county for every one new housing unit built. Median monthly rent for a two-bedroom unit in the county is $3,400 and the median price of a single-family home has risen to over $1.2 million-pushing housing out of reach for too many people. Since 2012, the County has committed over $80 million to affordable housing. Working with non-profits, community groups and cities, more than 1,400 housing units have been built or are in the "pipeline." This includes 18 units being made available to emancipating foster youth in projects in Redwood City and Menlo Park. County clients remain among the most vulnerable to changes in housing costs. This is a problem that cannot be solved by any one government alone; it requires a concerted effort by local, state, and federal governments and a willingness on the part of neighborhoods to welcome new neighbors.

- <u>Transportation</u> is inextricably linked to the jobs/housing imbalance. The concentration of jobs in an area and the cost of housing are causing people to commute longer distances and clogging our freeways and streets. The electrification of Caltrain will increase capacity to that system. Additional funding is needed for a stabilized SamTrans bus system, grade separation for high-speed rail and a major new transit link to the East Bay and beyond. The creation of a regional system of transportation will require the cooperation of the people in the Bay Area and the support of local taxpayers.

- <u>Health</u> Last year I wrote that "there was no clear indication of what, if anything, will replace the Affordable Care Act (ACA) or when it will occur." This is still true, except that parts of the ACA have been dismantled by administrative orders and tax legislation. Despite this, approximately 60,000 residents kept or have been newly enrolled in health insurance made available through the ACA, with this year's open enrollment in California concluding January 31, 2018. Although the General Fund contribution for health care has been stabilized due to ACA, future costs for the medically indigent population remain very volatile.

  Most county residents receive health care through the private sector. Nevertheless, as we have been reminded with the most recent flu epidemic, communicable diseases affect everyone regardless of demographics or economics. Regardless of what happens in

Washington, D.C. or Sacramento, the County needs to work with our health care partners to ensure a system of health care in this county that is affordable with good access for everyone.

- Infrastructure This year the mid-year budget presentation encompasses the $852 million, Five-Year Capital Improvement Program (CIP) including such major projects as replacement of the 66-year old Cordilleras Mental Health Facility, the 67-year old Animal Control Facility and the 61-year old Pescadero Fire Station; updating the San Mateo Health Center Campus to bring it into compliance with state standards; adding a new Emergency Operations and Dispatch Center, parking garage and office building to the Redwood City Campus; and acquiring the Tunitas Creek Beach property. Completing these projects on-time and within budget will be a significant challenge due to the Bay Area's hyper-inflated construction market.

  The CIP includes over $233 million in information technology projects designed to improve security, replace aging legacy systems to enhance productivity and provide better public access to County information to enable greater insight into County government. Together these improvements are intended to meet the needs of residents in the 21st century.

- Fire Protection The catastrophic Napa/Sonoma and Southern California's wildland fires reminds us of this county's vulnerabilities to such a disaster. The Board should convene a task force of stakeholders to study these fires and apply lessons learned to our county. The outcome of this effort could impact future Fire and Public Works budgets.

  Fire doesn't respect county boundaries, communicable disease can be spread to anyone, no matter where we live or where we are going traffic congestion affects us all, the cost of housing ripples through the economy, and infrastructure connects all of us.

The challenges that we have identified can only be successfully met by the combined efforts of the San Mateo and Bay Area communities. We are fortunate to still retain a sense of community in San Mateo County-an understanding that we are stronger together and that there is much more that unites than divides us. We share the "can do" attitude of the entrepreneur that solves problems and improves lives. We shouldn't take this for granted.

Today as so much of the country seems to be dividing into groups - economically, racially, regionally, ideologically, etc., we in the Bay Area and San Mateo County are demonstrating how a multi-cultural community can thrive. It seems so long ago that a young man of multi-culture ancestry used the Office of President of the United States to remind us, "The pundits like to slice and dice our country into…red states for Republicans and blue states for Democrats," he said. "But I've got news for them....We worship an awesome God in blue states, and we don't like federal agents poking round in our libraries in red states. We coach Little League in the blue states and yes, we've got gay friends in the red states…We are one people." It is up to us to nurture this sense of common purpose so that one day others will understand that there isn't anything we can't do together, but very little we can accomplish when divided.

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 update includes year-end Fund Balance estimates, a variance analysis for all County funds, identification of major issues affecting the preparation of midterm budget adjustments, data for local economic indicators, and projections for general purpose revenues, **Measure K**, and Public Safety Sales Tax (Prop. 172).

The Bay Area economy continues to grow with unemployment in San Mateo County declining to 2.4 percent. Boardings at San Francisco International Airport (SFO) are increasing, construction activity remains at record levels, and office vacancy rates are at 8.5 percent due to increased capacity. Annual per capita personal income has increased from $101,264 to $105,721 (four percent) between 2015 and 2016. Data for 2017 is not yet available.

Year end Fund Balance in the General Fund has consistently been in the 20 percent range. Due to one-time funding approaching $250 million for major capital and IT projects, as well as the pay-down of unfunded pension liabilities, undesignated reserves are at 11.3 percent of Net Appropriations. The County of San Mateo continues to hold the distinction of being one of only a handful of counties in the state with AAA ratings from both Moody's and Standard and Poor's. These ratings will keep borrowing costs down when issuing bonds.

The one-half of Excess Educational Revenue Augmentation Fund (ERAF) revenues set aside for one -time purposes has essentially been obligated this year and for the upcoming budget cycle. This revenue will continue to accelerate the pay-down of the County's pension liability and fund major capital and IT projects.

FY 2017-18 Year-End Fund Balance Projections

County of San Mateo Agencies by Fund	FY 2017-18 Working Budget	FY 2018-19 Preliminary Fund Balance	FY 2018-19 Updated Fund Balance	Projected Fund Balance Variance
Criminal Justice - General Fund	$ 454,857,720	$ 28,300,064	$ 35,090,772	$ 6,790,708
Health Services - General Fund	455,760,779	9,756,677	13,439,568	3,682,891
Health Services - Other Funds	390,217,582	13,170,148	14,188,294	1,018,146
Social Services - General Fund	266,524,008	19,532,048	23,894,986	4,362,938
Community Services - General Fund	178,867,906	9,693,860	14,354,880	4,661,020
Community Services - Other Funds	483,687,313	182,900,453	195,590,283	12,689,830
Admin-Fiscal - General Fund	164,625,244	21,592,869	26,439,691	4,846,822
Admin-Fiscal - Other Funds	75,444,066	21,431,587	21,609,062	177,475
Non-Departmental Services - General Fund	358,332,328	204,164,266	297,775,827	93,611,561
Subtotal General Fund	$ 1,878,967,985	$ 293,039,784	$ 410,995,723	$ 117,955,939
Subtotal Non-General Fund	949,348,961	217,502,188	231,387,639	13,885,451
Total ALL Funds	$ 2,828,316,946	$ 510,541,972	$ 642,383,362	$ 131,841,390

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 additional one-time contributions to the retirement system to accelerate the pay down of the County's unfunded pension liability.

The year-end Fund Balance for Non-Departmental Services is projected to be $297.8 million, which exceeds preliminary FY 2018-19 Fund Balance by $93.6 million. This represents a drop of $31 million from the beginning FY 2017-18 Fund Balance of $329 million, due to one-time obligations described below.

In January, the County received Excess ERAF of $129 million, which exceeds the amount budgeted by $74 million; however, like last year, one-time expenditures are expected to approach $100 million. The County continues to budget one-half of Excess ERAF or $55 million due to the volatility of this revenue source. One-time projected spending includes additional pension contributions of $27.6 million; contributions and loans of $31.4 million (e.g., Half Moon Bay Library, Brisbane Library, Peninsula Clean Energy, Resource Conservation District, Martins Beach, Coastside Flooding, Atherton Storm Drain, Event Center Paving, North Fair Oaks Forward, Enhanced Flood Control Zone and Courthouse Construction Fund); one time capital and IT expenditures of $26.6 million; and SMC Saves grants of $5 million.

Given the conservative nature of mid-year projections, it is anticipated that by year-end the final Fund Balance figures will likely exceed expectations. The final figures will largely depend on the timing of capital outlays, loans and contributions.

General Fund Operating Departments
Overall, General Fund operating departments are projected to end FY 2017-18 with $113.2 million in Fund Balance, which exceeds preliminary FY 2018-19 Fund Balance by $24.3 million. These projections, which are spread across all agencies and most departments, reflect considerable budget savings from vacancies, one-time projects either in progress or delayed, and budgeted reserves. At this point, all General Fund operating departments are expected to stay within budget and meet their year-end targets.

Five-Year Revenue and Expenditure Projections (including Measures K and T)
General purpose revenues are expected to increase five percent or $26.2 million in FY 2017-18. This is primarily due to the Secured Property Tax increasing to 7.5 percent. The County's share of Excess ERAF in FY 2017-18 is $129 million. Of the anticipated Excess ERAF, which has averaged $110 million in recent years, the County has historically budgeted one half ($55 million). If revenue continues in excess of $120 million, future budgets will be adjusted accordingly.

The County continues to budget general purpose revenues conservatively in the out years with projected growth ranging from five to three percent, resulting in average annual growth of $20.4 million over the five-year period. Secured Property Tax is expected to remain strong. Pending projects - currently under construction, in the building permit pipeline or in the planning stage - will add over 33 million square feet of new large developments. Future growth projections for Prop. 172

and **Measure K** sales tax have been conservatively projected at two percent in the out years.

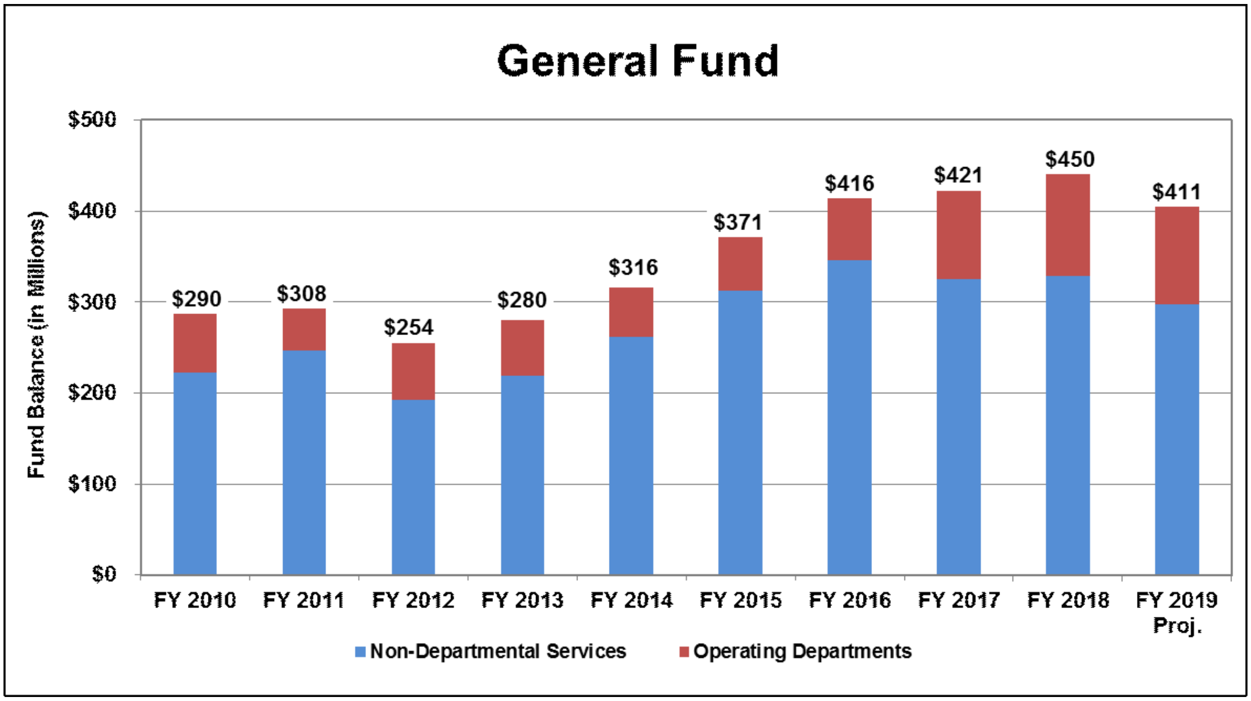
General Purpose Revenues	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Secured Property Tax	7.7%	7.5%	5.0%	5.0%	4.0%	4.0%
Unsecured Property Tax	-1.7%	1.0%	1.0%	1.0%	1.0%	1.0%
Excess ERAF (Ongoing Portion)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Rental Tax (Measure T)	3.6%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales Tax	-0.1%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Transfer Tax	1.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax	-1.5%	2.0%	2.0%	88.0%	11.7%	10.6%
Property Tax In-Lieu of VLF	7.6%	7.5%	5.0%	5.0%	4.0%	4.0%
Interest & Investment Income	33.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenue	15.0%	1.0%	0.4%	0.4%	0.4%	0.4%
Overall Growth	6.67%	5.20%	3.59%	3.89%	3.05%	3.07%
Public Safety Sales Tax	2.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Measure K Sales Tax*	3.9%	2.0%	2.0%	2.0%	2.0%	2.0%
*Assumes opening of the 350 room Airport Hyatt in 2019						

General Purpose Revenues	FY 2017	FY 2022	5-Year Growth
Secured Property Tax	$ 234,212,026	$ 298,131,057	$ 63,919,031
Unsecured Property Tax	9,070,178	9,538,962	468,784
Excess ERAF (Ongoing)*	55,000,000	55,000,000	0
Vehicle Rental Tax (Measure T)	12,581,008	13,890,449	1,309,441
Sales Tax	23,878,042	26,363,288	2,485,246
Property Transfer Tax	10,088,824	11,695,712	1,606,888
Transient Occupancy Tax	1,602,444	3,871,803	2,269,359
Property Tax In-Lieu of VLF	98,631,464	126,435,555	27,804,091
Interest & Investment Income	12,129,445	13,245,572	1,116,127
Other Revenue	47,014,910	48,182,495	1,167,585
General Purpose Rev Growth	$504,208,342	$606,354,894	$102,146,552
Public Safety Sales Tax	$ 78,561,362	$ 86,738,092	$ 8,176,730
Measure A Sales Tax	$ 83,033,888	$ 91,676,122	$ 8,642,234
Excess ERAF (One-Time)*	$ 56,796,381	$ -	$ (56,796,381
*One half of anticipated Excess ERAF ($55 million) is budgeted for ongoing purposes a			

Ongoing expenditures are expected to grow approximately $116.8 million over the next five years, essentially the same pace as ongoing revenues. Due to inflationary factors, it is anticipated that the expenditures will exceed the revenues during this same period. It will be important to keep expenditure growth at or below revenue growth to maintain a structurally balanced budget. Over the next budget cycle, we will be asking departments to develop scenarios estimating what a 2.5 percent reduction in General Fund cost would mean and how those reductions would impact County services going forward.

General Fund Summary

Overall, it is projected that the General Fund will end FY 2017-18 with $411 million in Fund Balance. Although the County currently has a structurally balanced budget, in which ongoing expenditures are aligned and supported by ongoing revenues, the County will need to place a greater emphasis on monitoring expenditures in the upcoming FY 2018- 19 and FY 2019-21 budget cycles. Proactively monitoring expenditures will reduce the likelihood of triggering structural deficits.



Non-General Fund Summary

Overall, Non-General Fund budget units are projected to end FY 2017-18 with $231.3 million in Fund Balance, which represents an increase of $13.8 million from beginning Fund Balance of $217.5 million. The increase is primarily related to carryover funds for projects not expected to be completed in FY 2017-18 in four budget units: Other Capital Construction, Major Capital Construction, Capital Projects Fund, and Utility Districts.

County Retirement Contributions

The actuarial calculations for defined benefit retirement contributions are very complicated and include a variety of factors, including, but not limited to, future investment earnings, wages, Consumer Price Index (CPI), life expectancy assumptions, and the benefits themselves. For instance, the greater the benefit, the higher the cost. The lower the assumed earnings rate (or discount rate), the higher the cost.

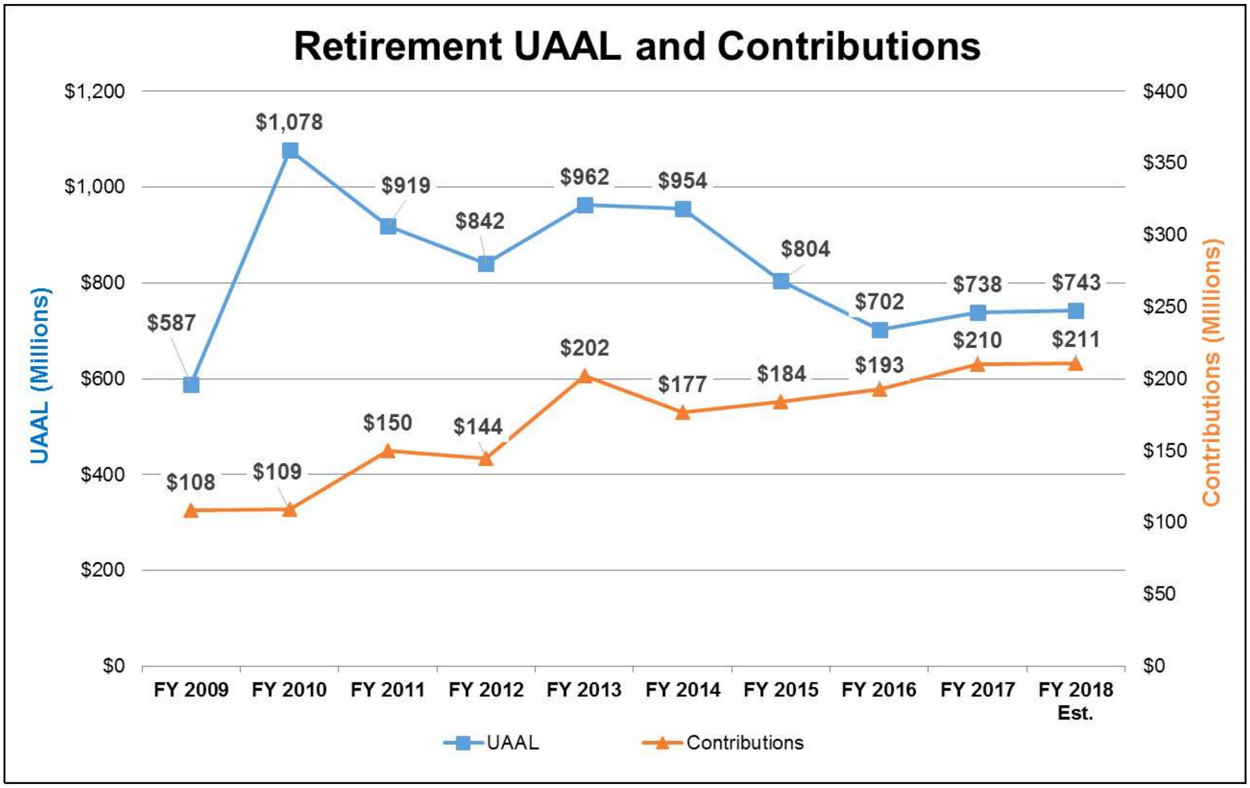
The table below shows the Unfunded Actuarial Accrued Liability (UAAL) for each of the past 10 actuarial valuations and the key assumptions for wage increases, earnings, and CPI growth.

			Key Assumptions		
Valuation Date	For Fiscal Year	UAAL	Wages	Earnings	CPI
June 30, 2017	FY 2018-19*	743,133,000	3.00%	6.75%	2.50%
June 30, 2016	FY 2017-18*	737,570,000	3.25%	7.00%	2.75%
June 30, 2015	FY 2016-17	702,236,000	3.50%	7.25%	3.00%
June 30, 2014	FY 2015-16	803,855,000	3.50%	7.25%	3.00%
June 30, 2013	FY 2014-15	954,111,000	3.75%	7.50%	3.25%
June 20, 2012	FY 2013-14	962,282,000	3.75%	7.50%	3.25%
June 30, 2011	FY 2012-13	841,587,000	4.00%	7.75%	3.50%
June 30, 2010	FY 2011-12	919,377,000	4.00%	7.75%	3.50%
June 30, 2009	FY 2010-11	1,078,033,000	4.00%	7.75%	3.50%
June 30, 2008	FY 2009-10	587,285,000	4.00%	7.75%	3.50%
June 30, 2007	FY 2008-09	578,773,000	4.00%	7.75%	3.50%

The County's funded ratio increased from 83.1 percent to 84.3 percent due mainly to employer contributions and strong market performance. Under the prepayment plan initiated in FY 2013-14, the County remains on target for significantly reducing the UAAL by FY 2022-23. Though this plan will continue to use most of the one-time Excess ERAF over the next five years, if successful, it will yield ongoing savings approaching $80 to $100 million annually.

Fiscal Year	Statutory Contribution	Additional Contribution	Total Contribution
FY 2018-19*	191,800,000	19,200,000	211,000,000
FY 2017-18*	182,825,425	27,451,784	210,277,209
FY 2016-17	158,993,422	33,600,000	192,593,422
FY 2015-16	164,526,705	19,538,000	184,064,705
FY 2014-15	166,827,885	10,000,000	176,827,885
FY 2013-14	152,225,624	50,000,000	202,225,624
FY 2012-13	140,104,854	4,168,983	144,273,837
FY 2011-12	147,124,756	3,081,311	150,206,067
FY 2010-11	150,084,139	0	150,084,139
FY 2009-10	109,028,802	0	109,028,802
FY 2008-09	108,418,023	0	108,418,023
*FY 2017-18 and FY 2018-19 represent estimates.			

The following chart illustrates the decline in the UAAL and the increase in contributions since the Great Recession. These increases are due to many factors, including a conservative funding model that has seen the assumed earnings rate drop from 7.75 to 6.75 percent since 2011, strong market performance, increasing wages, and the aforementioned prepayment plan.

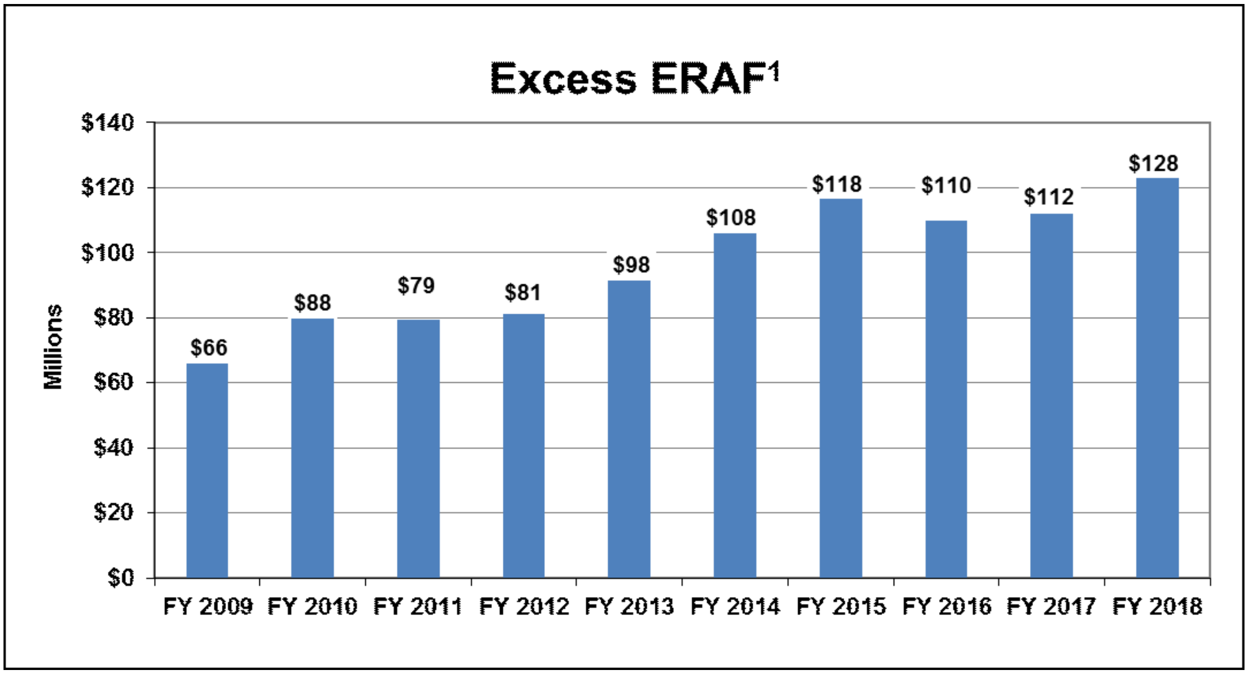


Excess Educational Revenue Augmentation Fund (ERAF)

Pursuant to Revenue and Taxation Code 97.2 and 97.3, property tax contributions made by local governments to the 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 four Excess ERAF counties in California). 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, increased allocations of ERAF for special education, changes in school enrollment, or further State legislative changes to the school funding model.

Due to the potential volatility of Excess ERAF, and in consultation with the County Controller, the County continues to conservatively budget only one half ($55 million) 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. When Excess ERAF exceeds projections, the excess is recognized in the year-end Fund Balance and appropriated the following fiscal year.

Since FY 2003-04, the County's General Fund has received $1.23 billion in Excess ERAF apportionments, including the $129 million in FY 2017-18. The following table shows the General Fund's share of Excess ERAF received from FY 2008-09 through FY 2017-18.



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.

Public Safety Sales Tax (Proposition 172) Maintenance of Effort Certification

In June 1995, the Board of Supervisors approved the Maintenance of Effort (MOE) certification for the base year (FY 1992-93) and the first certification 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, Public Safety Capital Projects, and Debt Service.

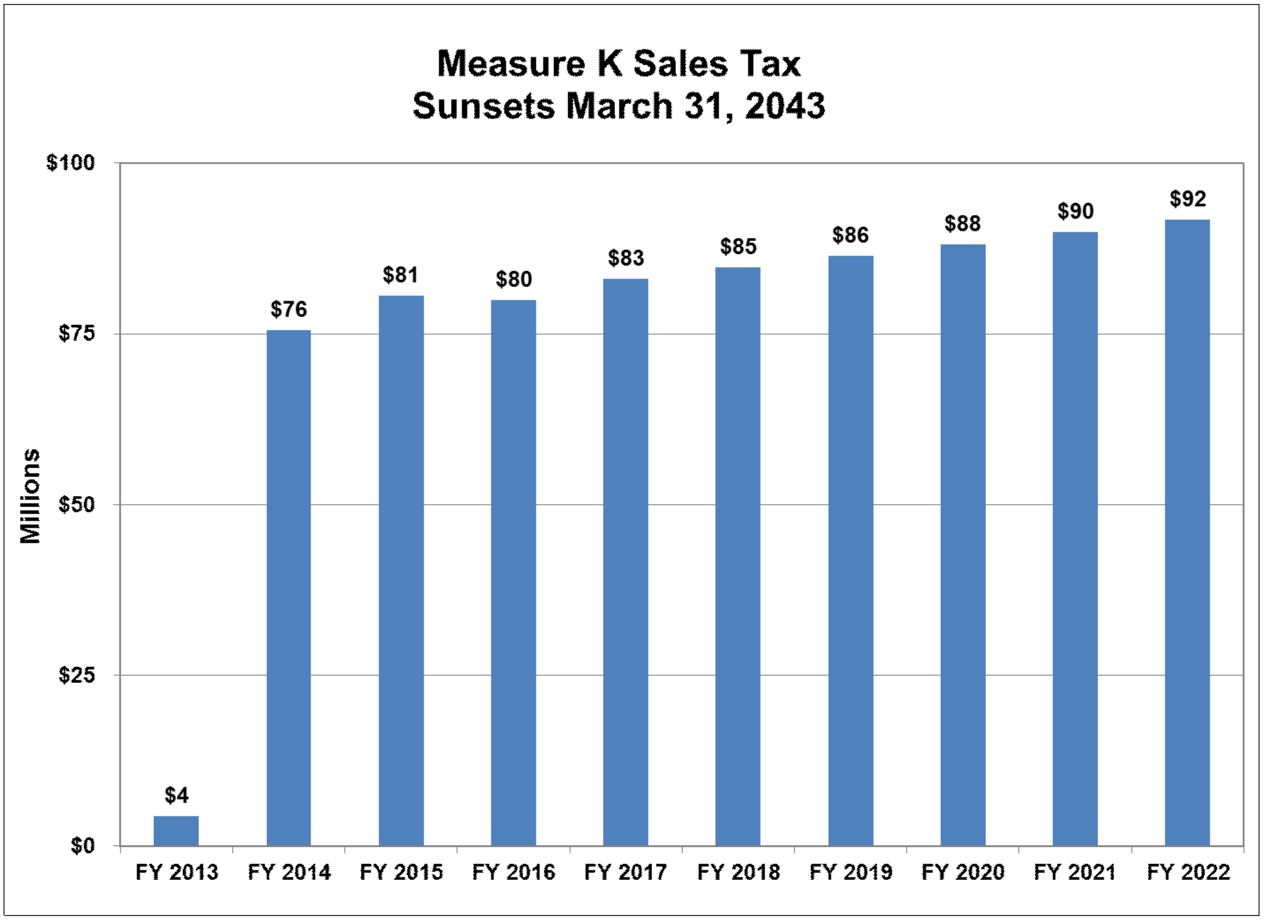
Last year, the MOE certification submitted to the Board for FY 2016-17 was $292.3 million. This figure represented the adopted budget for public safety services adjusted in accordance with the MOE guidelines and excluded certain expenditures and revenue offsets. The difference between the FY 2016-17 MOE requirement of $134.5 million and the certification of $292.3 million was $157.8 million. This is the amount by which the County exceeded the FY 2016-17 Proposition 172 MOE requirements based on the FY 2016-17 Adopted Budget. Using FY 2016-17 year-end figures, the actual expenditures subject to the MOE was $240.7 million, or $106.2 million in excess of the MOE requirements.

Based on the FY 2017-18 Adopted Budget, the projected MOE certification for FY 2017-18 is $325.9 million. The difference between the FY 2017-18 MOE requirement of $136.7 million and the certification of $325.9 million is $189.2 million. This is the amount by which the County expects to exceed the FY 2017-18 Proposition 172 MOE requirement.

Measure K Revenue Projections and Reserves

Measure K sales tax receipts have ranged from $75.6 million to $83 million per year since it took effect on April 1, 2013. **Measure K** projections for FY 2017-18 predict a two percent increase at $85 million. By June 30, 2018, the County will have received approximately $400 million in **Measure K**

revenue. The current appropriation of **Measure K** for the FY 2017-18 budget, including mid-year adjustments, is $183.3 million. The $183.3 million includes the rollover of ongoing or unfinished one-time initiatives approved in the previous funding cycle. The current unallocated amount of **Measure K** funds, including the amount set aside for undetermined health initiatives, approximates $22.5 million. In accordance with the Federal Aviation Administration's regulations, $3 million to $4 million annually of **Measure K** funds associated with Aviation Fuel Tax must be used for airport purposes. The following chart shows **Measure K** revenue projections through FY 2021-22.



Measure K Oversight Committee

One of the requirements laid out in **Measure K** is for the **Measure K** 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 K** initiatives.

The Oversight Committee met and completed its review of the results of the **Measure K** 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 K** Fund, a subcommittee was formed to discuss the performance measures for existing **Measure K** programs and initiatives. This subcommittee evaluated the performance measures and made recommendations to be addressed in the final report and in preparation for next year's performance report to the Oversight Committee.

The full **Measure K** Annual Report will be presented to the Board of Supervisors as a separate item on February 27.

Whole Person Care Pilot

Through an opportunity in one of California's Medi-Cal 1115 waiver efforts, the Health System is leveraging $16.5 million in local dollars, and $2 million **Measure K** investment to earn up to $16.5 million in federal funding annually made available to support transformations in the quality of care, access and efficiency for up to 2,000 complex, high-risk clients. In 2017, the Whole Person Care (WPC) pilot successfully enrolled 2,000 Medi-Cal eligible clients. By mid-2017, there were early signs of an overall reduction in emergency department and inpatient hospitalization for WPC clients. A key contributing factor to this early success is the implementation of the Bridges to Wellness (BTW) team- a care navigation model providing support to the largely homeless highest utilizers with the ultimate goal of connecting clients with their primary care or behavioral health home. Data shows that following the engagement of a set of clients by care navigators from the BTW team, ED visits among the same group dropped by 35 percent. The pilot has also achieved success with diabetes control for 46 percent of eligible clients, and housing five clients who have struggled with homelessness or housing instability that has affected their health. Baseline data for 10 core performance metrics will be completed by mid-2018. The program targets reducing emergency department use by 25 percent and serving 5,000 unique individuals over the five-year grant.

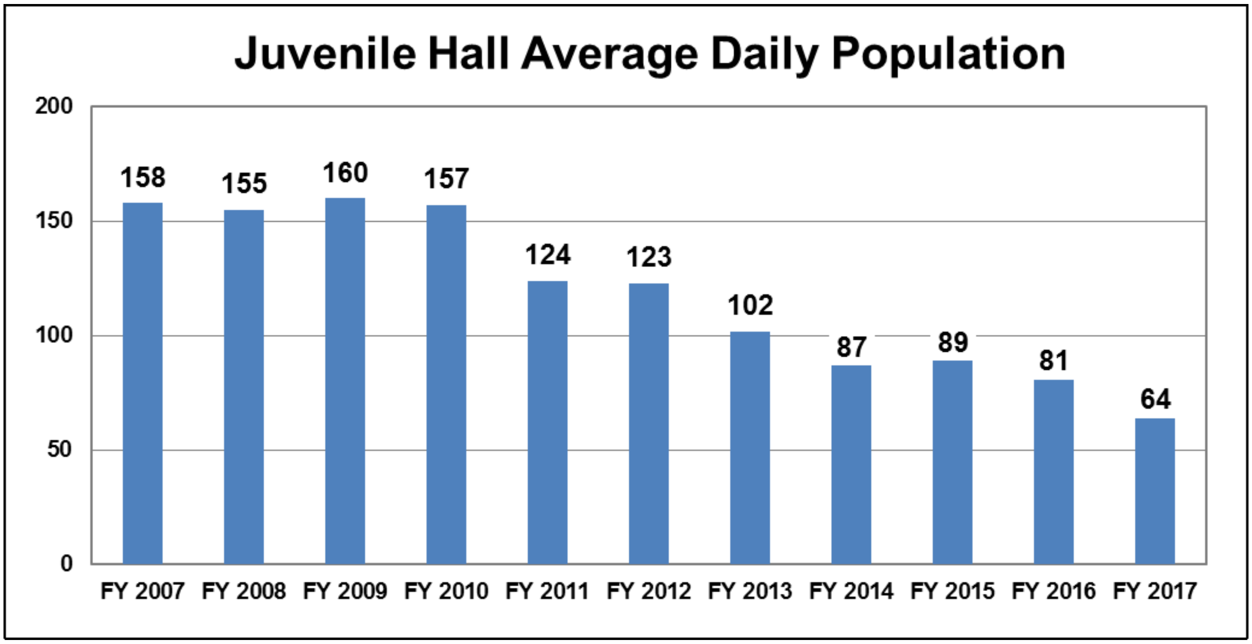
The BTW team has been instrumental in locating homeless clients and supporting them to not only reconnect with services but also regain some housing stability. For example, a 56-year old male who suffers from multiple conditions including schizophrenia, polysubstance abuse, obesity, mild hyperglycemia and been homeless for the past 15 years was successfully located and engaged by a care navigator and then supported to connect to primary and specialty care, and a residential treatment program and is currently housed in a board and care facility. Similarly, a 47-year old homeless male diagnosed with metastatic cecum cancer, depression, and anxiety and is currently receiving chemotherapy twice a month, was supported to receive a housing subsidy.

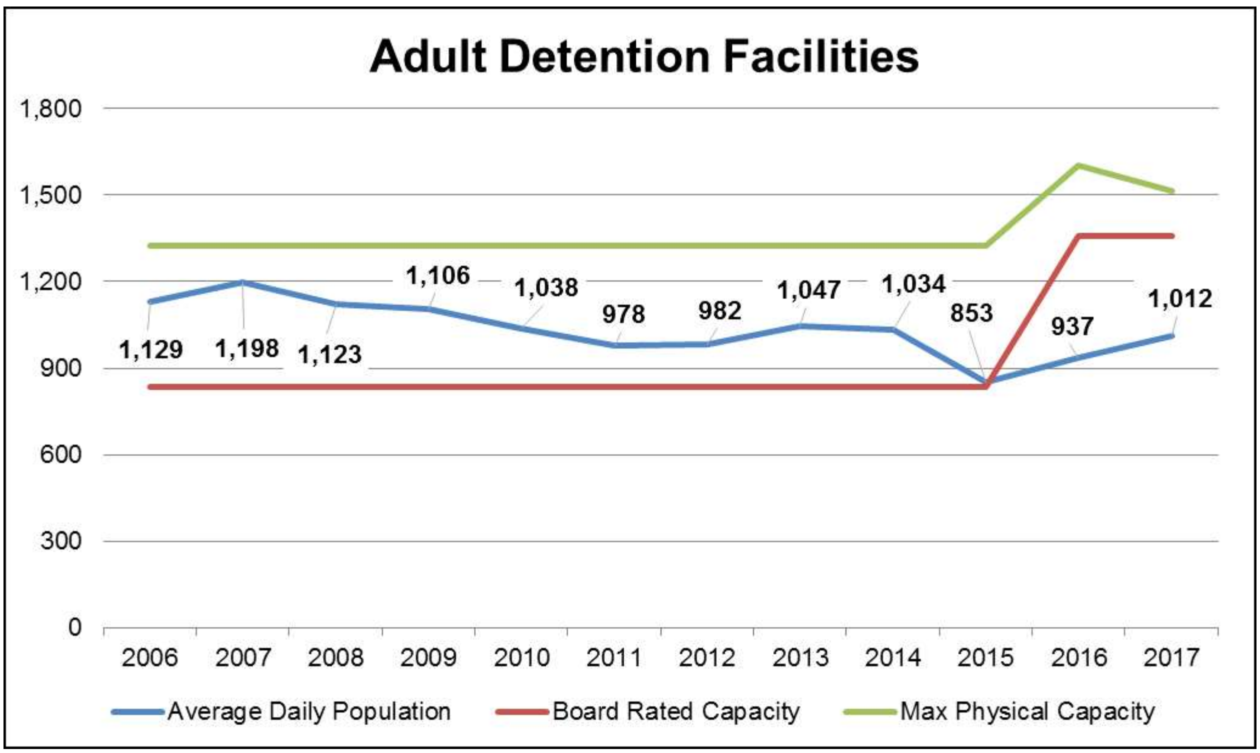
Criminal Justice

The average daily population of the Juvenile Hall has been steadily decreasing, as shown in the charts below. Over the past ten years, the average daily population at Juvenile Hall has dropped by approximately 60 percent to 64 in FY 2016-17. For adult correctional facilities, the average daily population dropped from 1,198 in 2007 to 1,012 in 2017. This is significantly below both the Board Rated Capacity of 1,360 and the maximum capacity of 1,516.

As mentioned in last year’s report, the Controller’s Office will be performing a comprehensive financial and operations analysis of the Sheriff’s jail facilities and Probation Department-Juvenile Services Division to examine appropriate staffing levels based on the declining populations to determine if operating costs can be reduced or if facilities can be better utilized.

The County’s AB109 Public Safety Realignment budget for FY 2017-19 is approximately $18 million each year. Base revenue is anticipated to be $16.5 million. The additional balance will be covered by AB109 reserves. Though some of these reserves are ear-marked for training, evaluations, and grants, the County Manager’s Office is working with departments to determine if available Fund Balance can be used to fund the County’s Unified Re-Entry efforts.





Maple Street Correctional Center opened in 2016, increasing Maximum Physical Capacity to 1,603. In 2017, Maximum Physical Capacity decreased slightly to 1,516 due to changes at Maguire Correctional Facility in the Administrative Segregation Unit and the opening of the repurposed space for the Behavioral Health Pod.

Governor's January Budget Proposal

Governor Jerry Brown's proposed FY 2018-19 budget-his last as Governor-proposes approximately $131.7 billion in State General Fund spending, an increase of approximately 4.1 percent from last year and $190.3 billion in total spending. The Governor forecasts revenues that are $4.2 billion higher (over a three-year budget window from 2016-17 to 2018-19) than previously projected in the

FY 2017-18 budget enacted last June. The stronger revenue forecast is largely driven by higher personal income tax and sales and use taxes revenue projections. The Governor's budget assumes no changes to current federal policies and funding levels and is not yet able to account for the potential impacts of the Republican tax bill passed in late December 2017. Assessment of those effects have been postponed to the May Revision.

Despite increased revenues, the Governor continues to urge fiscal caution amid deep uncertainty about looming federal budget proposals, the impacts of the recently enacted federal tax bill, and future economic conditions. To this end, he does not propose any new ongoing spending commitments, and instead proposes one-time allocations for special projects, paying down debt and increasing the State's funding reserves. The Governor's Budget recommends making a supplemental deposit of $3.5 billion into the State's Rainy Day Fund to reach 100 percent of the constitutional target for savings. Thus, the total transfer into the Rainy Day Fund would be $5 billion ($1.5 billion as required by the State Constitution, plus the $3.5 billion supplemental transfer). As a result, the Rainy Day Fund would total $13.5 billion by the end of the 2018-19 fiscal year.

At the County-level, the Governor's Budget holds most state-funded programs and services at the same levels of funding received in FY 2017-18. However, because the budget proposal does not account for the potential impacts of the recently passed Republican tax bill to state revenues, it is difficult to ascertain whether there will be ongoing impacts to County programs in the future at this time. Additionally, growing County costs for the IHSS program are of concern because it is estimated that 1991 Realignment growth funding will not be sufficient to cover increased IHSS costs and under the new MOE counties will assume a greater share of program costs starting in 2019-20. These pressures are independent of new IHSS provider wages and benefits, which are currently being negotiated. Finally, the Governor Budget does provide opportunities for new one-time funding including: 1) the replacement of outdated elections equipment in time for the rollout of the California Voter's Choice Act; 2) a new initiative to assist county assessors in the maintenance and equalization of property tax rolls; 3) $1.02 billion in funding for parks, water, and wildlife conservation efforts for year one implementation (should Proposition 68 on the June 2018 be approved); and 4) continued SB 1 subventions to counties for transportation purposes.

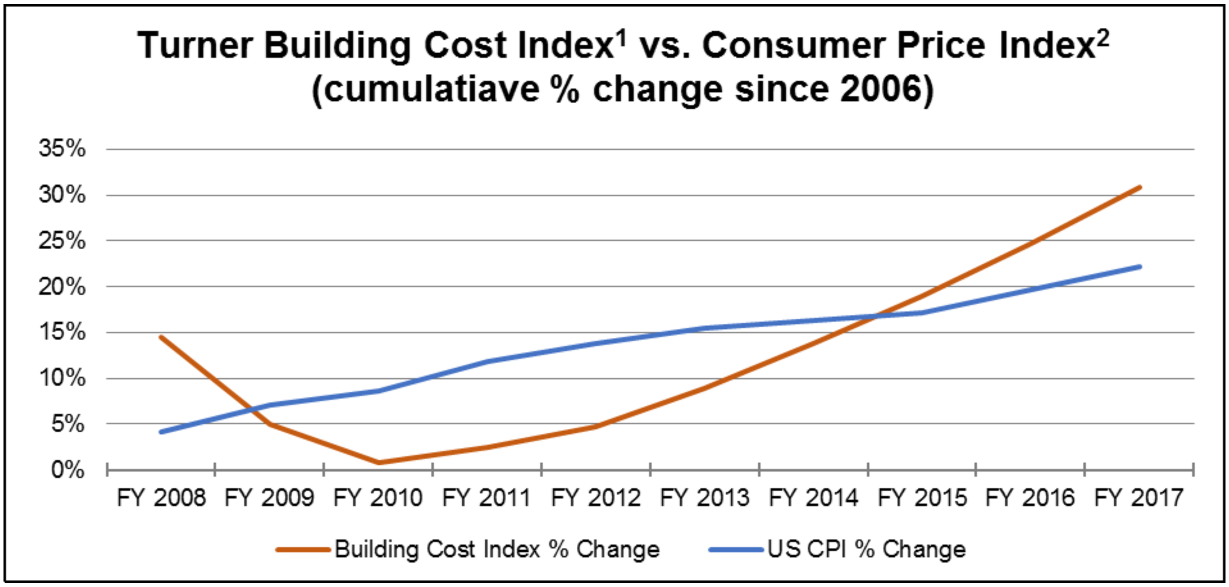
The May Revision is expected by May 14 and a final budget is due to the Governor by June 15 and must be signed into law by July 1, 2018.

Five-Year Capital Improvement Plan

The County of San Mateo's Five-Year Capital Improvement Plan (CIP) is outlined in a separate document and presented to the Board of Supervisors along with this Mid-Year Update. The Five-Year CIP, which totals $852 million, is intended as a planning tool that identifies both the short- and long-term capital improvement and information technology needs of the County. The CIP's objective is to align those needs with appropriate financing, scheduling, and implementation. The CIP is intended to be used in conjunction with the County Budget. This approach will help ensure a more fiscally responsible and efficient use of existing resources. The CIP represents a commitment to building a more resilient and vibrant future for county residents, workers, and visitors.

Based on current information, the CIP outlines the capital needs for the County over the next five years, addressing facilities, parks and IT projects. The first two fiscal years of the CIP consist of the planned expenditures for FY 2017-18 and FY 2018-19. The projected expenditures shown for the remaining three fiscal years are provided primarily for project planning purposes and do not necessarily reflect a commitment of funds. Capital appropriations and priorities will need to be set for each two-year budget cycle. Recognizing the dynamic environment in which the County operates, the information presented in this plan is expected to change from year to year, as needs and funding sources change and evolve.

The following graph displays a continued divergence in trend between the cost of new construction and the Consumer Price Index. It is notable that a number of contributing factors are currently putting upward pressure on both the cost of construction and the completion date estimates being used. These factors include an overall busy construction market in the Bay Area, shortages of skilled labor, and the impact of natural disasters on material production and demand.



[1]www.turnerconstruction.com/cost-index; [2] Bureau of Labor Statistics http://www.bls.gov

Performance Management

The County is in the process of implementing Sherpa, a new budget and performance management system that will better automate budget and associated performance reporting. Combining budget and performance data and reporting in Sherpa will be a work in progress over the next few years, with the anticipation that the outcome will be much more transparent and easier to use as an operational tool on a daily basis.

The County will continue its work in Continuous Process Improvement (LEAN), especially around the planning for capital work countywide.

Authorization of Appropriation Transfer Requests

The following Mid-Year Appropriation Transfer Requests, totaling $1,302,000 are submitted with this report:

- Open Space on Sign Hill in South San Francisco
  An Appropriation Transfer Request authorizing the transfer of $690,000 from the Parks Acquisition and Development Fund to the City of South San Francisco for the purchase of additional public open space on Sign Hill in South San Francisco. The Parks Acquisition and Development Fund received funding from the South San Francisco Redevelopment Agency in

2007 for open spaces around San Bruno Mountain in South San Francisco, including the adjacent Sign Hill. Once complete, 20 acres of permanent open space will be added for habitat preservation as well as for walking trails for San Mateo County residents or visitors to enjoy. The land will be maintained by the South San Francisco Parks and Recreation Department.

- **Measure K** Positions
  An Appropriation Transfer Request authorizing the transfer of $185,000 from the **Measure K** Trust Fund to fund the County's **Measure K** Communications Officer and **Measure K** Coordinator positions for FY 2017-18. These positions are currently occupied and provide critical support to tracking, measuring, and publicizing the impact of **Measure K**-funded programs and initiatives.

- Cannabis Outreach
  An Appropriation Transfer Request authorizing the transfer of $250,000 from Non-Departmental Services to the Health System. The Board authorized this funding at its December 12, 2017 meeting to fund new education and outreach services to prevent youth access and exposure to marijuana. Funding will be for a 0.5 FTE and contracted services for FY 2017-18.

- Public Works Capital Projects
  An Appropriation Transfer Request authorizing the Department of Public Works to transfer $177,000 within the Capital Projects Fund to complete the following projects:
  a. Camp Glenwood Improvement Project ($127,000)
  b. SMMC Remodel Engineering Office/Shop ($30,000)
  c. San Carlos Airport Stairs Replacement ($20,000)

FISCAL IMPACT:
Approval of the Appropriation Transfer Requests totaling $1,302,000 has an impact of $250,000 on the General Fund, $690,000 on the Parks Acquisition and Development Fund, $185,000 in **Measure K** Trust Fund, and $177,000 in existing appropriations within the Capital Projects Fund. These ATRs are for one-time expenditures, not ongoing. There are sufficient funds in all of these sources to cover the ATRs in the current year budget.

ATTACHMENT A: Local Economic Indicators