To: Honorable Board of Supervisors

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

Subject: FY 2022-23 County Mid-Year Budget Update

RECOMMENDATION:

Recommendation to:

A) Accept the FY 2022-23 County Mid-Year Budget Update, including key revenue and expenditure projections and budget assumptions; and

B) Accept the Proposed Proposition 172 Maintenance of Effort Certification

BACKGROUND:

On September 27, 2022, the Board adopted the FY 2022-23 Budget. This Mid-Year Report provides an update on the FY 2022-23 Budget and a look ahead to the FY 2023-25 Budget. This memo also discusses and recommends acceptance of the County's proposed FY 2022-23 Maintenance of Effort certification required under Proposition 172, the statewide half-cent sales tax for support of local public safety functions.

DISCUSSION:

It goes without saying that the last three years challenged us in unimaginable ways, and so far, 2023 is showing to be no different. Despite the obstacles, our employees rose to the occasion time and time again, demonstrating their continued resilience and dedication to the community. From finding ways to keep all residents safe and sheltered to reaching every corner of the community to understand their needs, they showed us how to think in innovative ways and adapt to everchanging needs.

The lessons learned during the COVID-19 pandemic guided us during the winter storms and the recent gun violence tragedy in Half Moon Bay. Through these devastating experiences, we have remained committed to our values of sheltering all residents, ensuring equitable response and recovery, and incorporating creative solutions where possible. Through each of these uniquely challenging events, the County has continued to demonstrate leadership by coordinating our relief and recovery efforts with residents, cities, and community-based organizations. The challenges we face are not ours alone. As such, this collaborative and collective approach has pushed us to think differently about how we deliver services.

We must continue to embrace flexibility and adapt to ever-changing needs, even when, at first, it may feel uncomfortable. Our responses to the pandemic, fires, storms, gun violence and other events demonstrated that remaining open to new approaches can unlock more effective strategies and result in better services to our residents. We hope to approach the next budget cycle with this spirit in mind.

We believe that this innovative spirit entails not only an open mind to new and exciting ideas, but also a willingness to rethink how we have carried out our work in the past and what could make it even better in the future. This also means examining whether the processes that have met our needs up until now will continue to meet future needs – and, if they don't, how we can use our creativity and skills to adapt.

Heading into 2023, we would like to update this Board on the status of the budget and the key priorities guiding us into the next budget cycle. We invite this Board, employees, and our residents to join us as we move forward to this next phase. As we begin to develop the FY 2023-25 budget, we will be returning to this Board to present and seek approval on the following each year:

- Measure K Allocations – late February/early March
- June Budget Hearings – late June
- September Revisions/Adopted Budget – late September
- Mid-Year Report – late January/early February (2024)

The following sections of this report provide the Board with summaries of the County's priority areas and the current financial status.

A) HOMELESSNESS- WORKING TOWARD FUNCTIONAL ZERO

The County has made continued efforts to reach its goal of functional zero, where any County resident who choses assistance can be sheltered in an emergency shelter or in temporary or permanent housing. During the first half of the year, the newest non-congregate shelter, El Camino House, was opened and quickly reached full occupancy. El Camino House, operated by Samaritan House and located in San Mateo, is operated on the site of a former hotel which was acquired by the County with the assistance of a State Homekey grant. Also, the newest permanent supportive housing program, Casa Esperanza, has opened and is housing individuals who were experiencing homelessness.

The County's largest ever shelter, the state- of-the-art Navigation Center, is in the final stages of construction and is scheduled to open in March 2023. The Navigation Center, for which the County also received a Homekey funding award, will have 240 units and will provide each person served with a private room, as well as access to intensive on-site services to help them transition to permanent housing as quickly as possible.

The County is also continuing the focus on preventing homelessness with additional one-time funding toward emergency rental assistance programs operated by the Core Service Agencies. With many families and individuals continuing to struggle to meet their basic needs and maintain their housing in the very challenging housing market and with increasing costs of many essential items, there continues to be high levels of need for people struggling to maintain their housing.

Additionally, the County has launched a Lived Experience Advisory Group (LEAG), and HSA is working with the inaugural LEAG members on expanding the group and increasing the ways that people with lived experience of homelessness are involved in homeless service planning and implementation.

In late October, the County hosted the Working Together to End Homelessness summit, which was a culminating event in the County's yearlong Working Together to End Homelessness initiative (www.SMCEndingHomelessness.org). Over 275 community members attended the summit, including many city staff, elected officials, and non-profit staff. The summit focused on progress that has been made, continuing challenges, and discussions about additional strategies that can further the work on homelessness and housing, focusing on three themes: economic insecurity, housing insecurity, physical and mental health, and addiction challenges.

The Working Together to End Homelessness Innovation Grant Fund awarded three grants to pilot bold and novel approaches to assist the 1,092 unsheltered residents of San Mateo County. The grants are testing new ways to engage unsheltered residents with service providers, and to help them successfully transition to interim and ultimately permanent housing. Awardees include the cities of Redwood City and Millbrae, and a joint proposal from the City of Half Moon Bay and the non-profit WeHope. Project work in Redwood City includes assigning outreach workers to specific encampments with a limited caseload, improved coordination among all outreach workers, providing hotel respite, and on-demand shelter when appropriate. In Millbrae, ongoing services including shelter, transportation assistance, and support service referral, will be expanded to include more service hours. WeHope and Half Moon Bay are working on the development of a Coastside Safe Parking program.

Finally, the County recently allocated funds to support the development of an affordable housing project located at 555 Kelly Avenue, Half Moon Bay to help support local farmworker households with extremely low income (35% of AMI) or low income (50% of AMI) who were negatively impacted by the pandemic.

B) COVID-19 RECOVERY UPDATES

In 2021, the federal government allocated $74.5 million in American Rescue Plan Act (ARPA) funds to San Mateo County for use to respond to the pandemic and its negative economic consequences and support other eligible uses under the statute. This was followed by a second tranche of ARPA funding also in the amount of $74.5 million in early February 2022. Over 300 community members and partners, as well as the County Chief Equity Officer in collaboration with the Gardner Center and Stanford University, collaborated to identify the highest priority needs to be addressed by the second tranche of ARPA funds. In addition to ARPA funding, the pandemic recovery strategic plan includes contributions from County, federal, state, city, and private donor funds, totaling over $272 million. Recent Recovery Initiative programs have focused on providing support to local job seekers, small businesses, and entrepreneurs impacted by the pandemic, increasing access to childcare and out-of-school care, and making investments in affordable housing and services and support for homelessness programs.

Recovery programs completed and currently ongoing in fiscal year 2022-23 include:

Small Business Grants

In partnership with the San Mateo Credit Union Community Fund and the San Mateo County Economic Development Agency, San Mateo County has awarded grants to small businesses such as restaurants, wineries, and breweries, microfood businesses, newly permitted microenterprise home kitchen operators, and currently ongoing, to small businesses specifically in the North Fair Oaks region. Since December 2020, San Mateo County has provided grants to over 7,000 business owners.

Children and Families

The pandemic and its negative economic consequences impacted families and children and the childcare providers (often small businesses and non-profits) on which they rely. In response, the County has developed and funded several programs to assist children and families through childcare, out-of-school care, and summer enrichment programs.

The County's childcare grant programs provided financial support to childcare centers and family day care providers impacted by the pandemic so they could stay open and keep childcare available to working caregivers. Out-of-school care grants expanded access to quality out-of-school care for socio-economically disadvantaged youth by supporting programs providing care before and after school hours and during school-year breaks. The summer enrichment program expanded access to summer camps and other summer educational programs, focusing on social and emotional development, youth wellbeing, and activities and programs that reinspired students and propelled learning. Harder and Company, the evaluator of the 2022 Summer Enrichment Program, found the programs met the intended goals, especially in the advancing social and emotional development. The success of the 2022 grants led to the Board approving $3,000,000 in ARPA funding for a second year of the program. Grant applications for the 2023 Summer Enrichment Program are currently under review, with grants expected to be distributed by mid-February. All of these programs have advanced equity by targeting grants to programs serving the communities most impacted by the pandemic.

Economic Recovery

The County has contributed funds to develop and operate Economic Advancement Centers (EAC) in South San Francisco, North Fair Oaks, and Half Moon Bay. These EACs will provide a range of technical assistance to job seekers, small business owners, and local entrepreneurs adversely impacted by the pandemic. The Half Moon Bay EAC will serve residents of both the City and the unincorporated coast communities.

Additionally, the County is currently developing a pilot program to provide small businesses impacted by the pandemic with technical assistance to make facility improvements.

C) EQUITY

Equity in Departmental Performance

With the worst of the pandemic hopefully behind us, the County is looking to build even stronger connections with local communities, especially our most vulnerable and historically marginalized. As a result, this budget is focused on furthering equity as a critical component of each County departments' performance. In December of 2022, eight departments, including the County Executive's Office, completed a year-long training examining the root causes of inequity and began to develop action plans to address how department operations, programs, and service delivery may be adjusted to ensure more equitable outcomes for all.

All departments are continuing to collect equity-focused performance measures and aligning those measures with meaningful and informative programming and services to better address their communities' needs. All measures for FY 2022-23 data and stories will be updated by the end of January 2023. Department performance measures are organized by agency and can be found on the County Performance site.

Countywide Equity Efforts

In addition to tracking performance, several other countywide equity efforts are underway in an effort to operationalize equity into all government operations. A few highlights include:

- Pilot Staff Affinity Groups – In an effort to enhance a sense of community, belonging, and cultural awareness, the County has initiated pilot staff affinity groups. Affinity groups offered during the pilot phase include staff with disabilities, Black staff, Latinx/Latino/Latina staff, Asian and Pacific Islanders staff, LGBTQIA+ staff, and White allies. The purposes of the affinity groups include, but are not limited to, creating a safe space for staff to engage in open dialogue, share experiences, and support each other as the County advances efforts on equity and increased discourse on inequities and needs access.
- Equity Resource Hub – In September 2022, the Equity Resource Hub ("HUB") officially launched on the Employee Resource Information Network (ERIN), the internal County of San Mateo staff SharePoint site. The Hub provides staff access to key resources, information, and equity-based tools, including Equity Tools, Learning Resources, and the County Racial and Social Equity Action Plan. The Hub's goal is to increase the cultural awareness and community belonging for our staff and serves as an important resource for staff evaluation of their programs and services by providing a wealth of frameworks, tools, and resources.

D) UPDATE ON FINANCIAL CONDITIONS

Fund Balance Projections

Year-End Fund Balance is estimated at Mid-Year in order to provide the Board of Supervisors with an update on anticipated available resources for the upcoming year, including the portion of the departments' Fund Balance that will be returned to the General Fund. It also gives departments better information to inform their future budgets. The variance shown in the table below calculates the difference between the updated Year-End Fund Balance estimate and the current year (FY 2022-23) budgeted Reserves. This variance captures any unanticipated or over-realized revenue and/or unspent appropriations. This variance is used to update the department estimates of the FY 2023-24 starting Fund Balance.

As shown in the table below, there is an estimated $251 million variance projected for FY 2022-23. Of that $251 million, $40 million is associated to the General Fund, much of which is attributed to salary and benefits due to vacant positions throughout the County. The current vacancy rate is around 15 percent, with a large percentage in the Probation Department, Sheriff's Office, County Health, and Human Services Agency. Approximately $139 million of the $251 million of total variance has already been allocated towards capital and IT projects that have not been completed in the Department of Public Works, Information Services Department, Project Development Unit and Parks Department. This amount will be rolled over and included in the FY 2023-25 Recommended Budget. The remaining $71 million is Non-General Fund and is restricted for use in costs associated to special districts, such as roads, sewers, utilities, solid waste, and other fee-based or franchised services.

County of San Mateo Agencies by Fund	FY 2022-23 Budgeted Reserves	FY 2022-23 Est. Year-End Fund Balance	Variance
Operating Depts - General Fund			
Criminal Justice	47,031,749	64,265,011	17,233,262
Health Services	10,687,168	13,598,051	2,910,883
Social Services	38,871,980	44,534,913	5,662,933
Community Services	17,702,112	22,134,459	4,432,347
Admin-Fiscal	17,679,396	27,852,635	10,173,239
Subtotal Operating Depts - General Fund	131,972,405	172,385,069	40,412,664
Non-Departmental - General Fund			
Non-Departmental Services	243,745,893	383,371,528	139,625,635
Subtotal Non-Departmental - General Fund	243,745,893	383,371,528	139,625,635
Non-General Fund			
Health Services	3,666,640	5,841,419	2,174,779
Community Services	166,799,794	229,868,687	63,068,893
Admin-Fiscal	18,442,080	24,878,082	6,436,002
Subtotal Non-General Fund	188,908,514	260,588,188	71,679,674
Total ALL Funds	564,626,812	816,344,785	251,717,973

Labor Negotiations

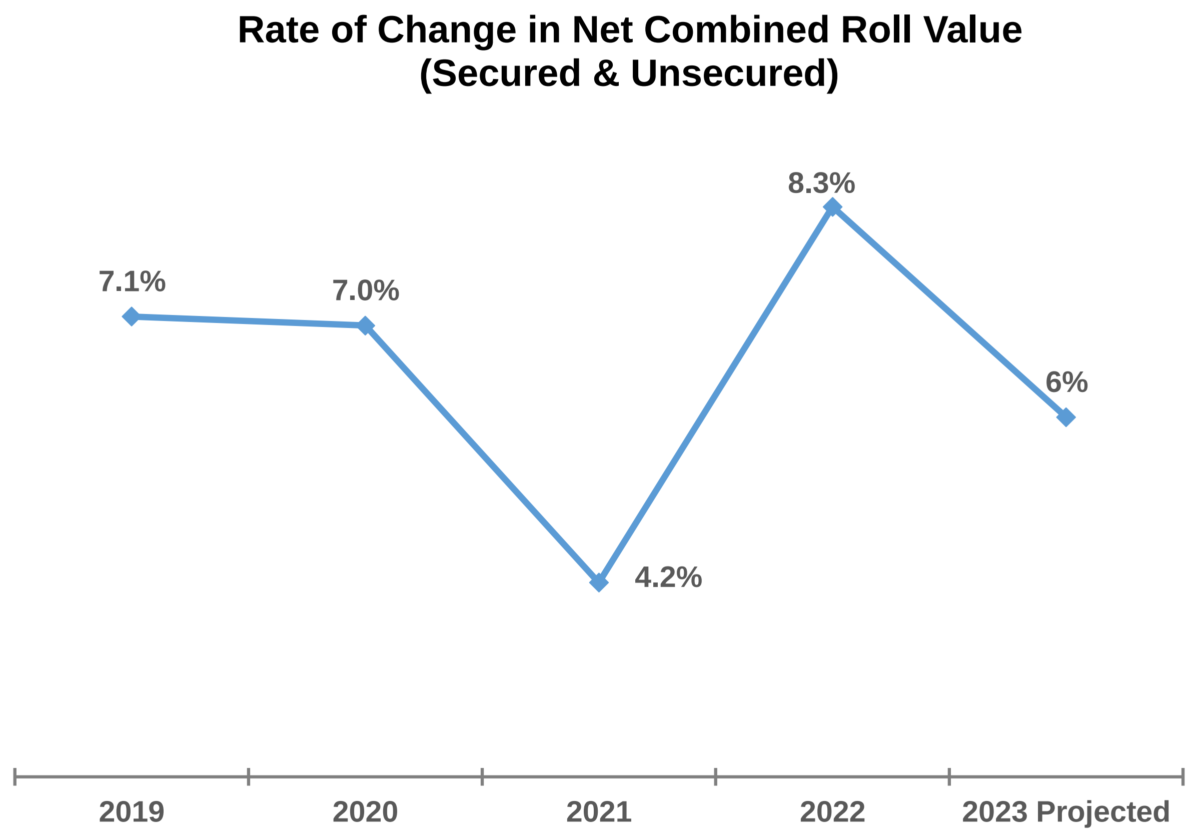
Labor negotiations have been concluded since the adoption of the FY 2022-23 budget. The changes will generate approximately $7.8 million in additional Net County Costs for FY 2022-23 through increased salary and benefit costs. These additional costs are not currently reflected in the above Fund Balance Projections table and will affect the Fund Balance available at year end.

Property Taxes

Property taxes accounted for nearly $333.4 million of the County’s General Fund in FY 2021-22. Based on the estimated levy (which includes secured, unsecured, and homeowner exemptions), the County’s property tax revenue for FY 2022-23 is expected to be $353.5 million, an increase of 6 percent.

Between 2021 and 2022, there were 235,587 assessment parcels that collectively accounted for a Total Local Roll of $287.97 billion, representing an increase of 8.3 percent.

Although the Total Local Roll is again expected to increase for 2023, the percentage increase will likely be lower, and is currently estimated to increase by approximately 6% from 2022. This lower anticipated increase is due to a variety of factors, including a significant decline in residential property sales and increased property reassessments as home values decrease. The expected reduction in sales and increased reassessments can largely be attributed to rising interest rates and declining economic conditions, ultimately resulting in restricted property tax revenue growth in FY 2023-2024.



Source: Assessor-County Clerk-Recorder-Elections Office of Mark Church, County of San Mateo
https://www.smcacre.org/assessment-roll-summaries

Property Tax In Lieu of Vehicle License Fees (VLF)

In 2004, the State permanently reduced annual VLF revenues that were a significant funding source for counties and cities and, for two fiscal years, shifted an additional $1.3 billion in property taxes away from counties, cities, and special districts to pay the State's school funding obligations. As a result of these shifts, the counties and cities gave up significant revenue to address the State's budget deficit. In exchange, the State guaranteed counties and cities a permanent in-lieu annual VLF payment (adjusted annually for property tax growth). In FY 2022-23, the County's in-lieu VLF entitlement is estimated to be approximately $148 Million.

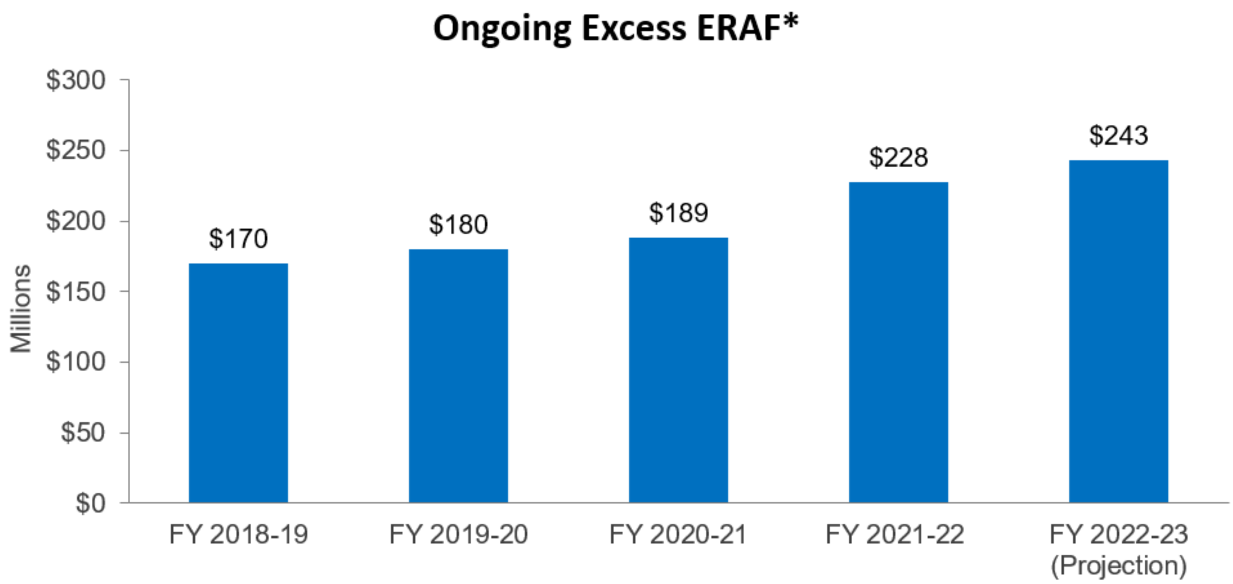
In recent years, in-lieu VLF revenue shortfalls have occurred because the sources available to directly fund the entitlement under the statute have been insufficient. As a result, the County has made special appropriation requests to the State to receive its and the cities' full in-lieu VLF entitlement, in arrears. For each year in which the County has faced such a shortfall, the Legislature has included, per the County's request, a special appropriation in the State Budget to reimburse the County and cities for the deficit. For FY 2021-22, the County requested State reimbursement via the Department of Finance for the County-wide shortfall amount of $32,898,051 (of which the County's share is $19,492,055). This requested appropriation was not included in the Governor's proposed budget released in January 2023. The County will coordinate with its legislative delegation to directly request inclusion of the shortfall amount in the revised budget.

The State has generally paid the shortfall amount in August of the following fiscal year. The County anticipates that, absent changes to the sources for payment of the State's in-lieu VLF obligation, shortfalls will continue in the future. For the FY 2022-23 shortfall and in the event of future shortfalls, the County will seek reimbursement from the State.

Excess Educational Revenue Augmentation Funds

Pursuant to State law, the County and the cities and special districts within the County, are mandated to shift a portion of their shares of local property tax dollars to the local Educational Revenue Augmentation Fund (ERAF), to meet the State's obligation to provide minimum educational funding levels to school districts. The ERAF monies are used to fund local school districts up to their State-guaranteed Local Control Funding Formula (LCFF) amount if their shares of local property taxes are insufficient to meet the LCFF amount ("LCFF Districts"). School districts whose property taxes equal or exceed the LCFF amount ("Excess Tax School Entities" or "Basic Aid school districts") do not require and are not eligible to receive funds from the ERAF. Under State law, local agencies' contributions to the ERAF in excess of the amount necessary to fully fund all LCFF Districts to their State-mandated funding levels are returned to the local agencies as Excess ERAF. In FY 2022-23, the County's Excess ERAF revenues are expected to be approximately $243 Million.

The amount of Excess ERAF annually distributed to the County and other local agencies may be negatively impacted from year to year by property tax revenues received by school districts, changes in school enrollment, implementation of the LCFF and/or State efforts to redirect or reduce Excess ERAF for purposes other than as currently provided in statute. This risk of State adverse action is expected to be an ongoing issue for Excess ERAF. Due to the potential volatility of Excess ERAF, the County budgets only 50% of the projected General Fund apportionment of Excess ERAF for ongoing purposes. Pursuant to Board policy, the remaining 50% of Excess ERAF may only be used for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects.



*Note: 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 issued from the California Department of Education, which takes 2 years from the end of the fiscal year. Thus, the Controller's Office has adopted a policy to stagger Excess ERAF distributions for any given fiscal year.

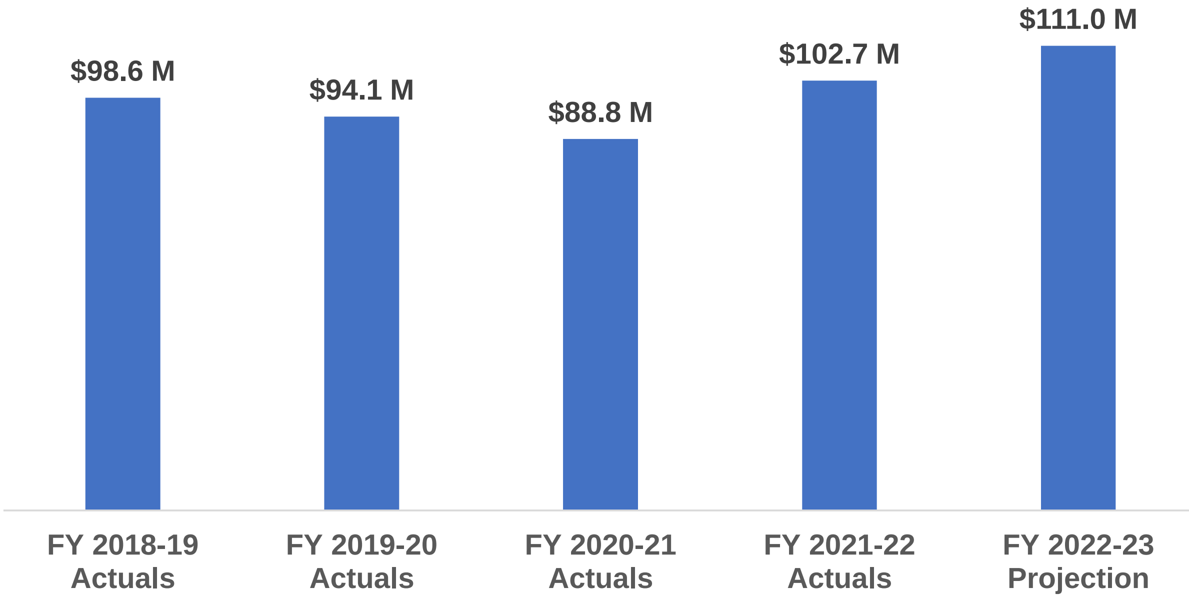
County Sales Tax Revenue

The County receives county-derived sales tax revenue from the State Board of Equalization, distributed according to state and local statute. The two sources of county-derived sales tax revenue are:

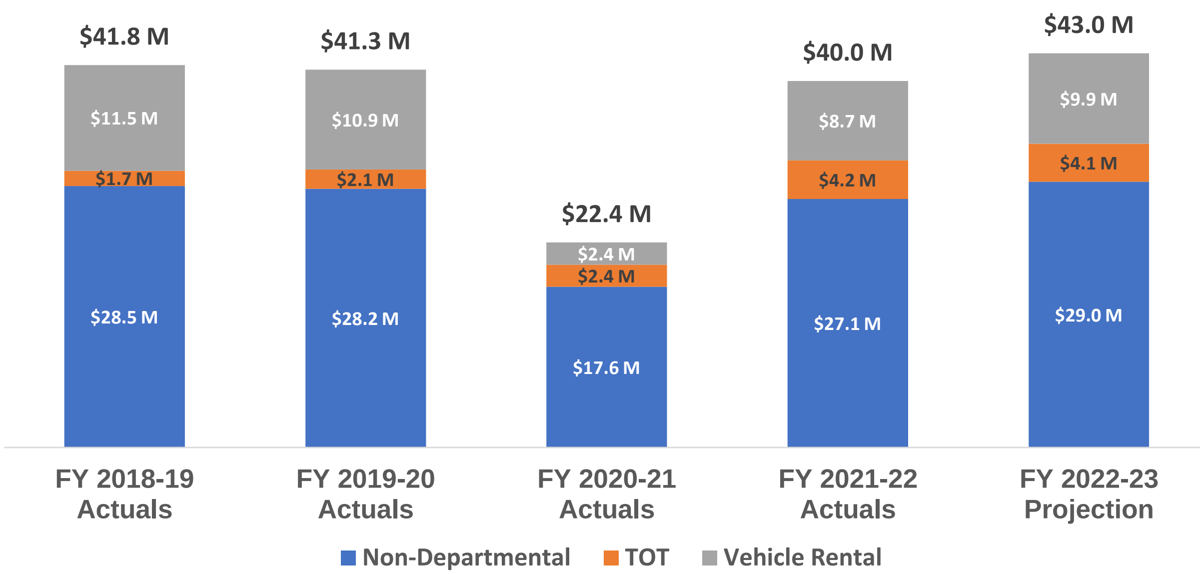
- Countywide receipts for Measure K
- Unincorporated County receipts (General Fund)
    - Unincorporated Sales Tax (UST)
    - Transient Occupancy Taxes (TOT)
    - Vehicle Rental Taxes (VRT)

County-derived sales tax revenue, including Measure K revenue, has recovered from the decline driven by COVID-19. Major revenue sources such as the San Francisco International Airport, which saw significantly reduced passenger and air traffic as a result of COVID, are approaching or above pre-Pandemic levels. County sales tax revenue increased by $31.5M in Fiscal Year 2021-22 when compared to the previous year. Looking forward, County sales tax revenue is projected to continue to increase but at a more measured pace as Pandemic recovery tapers off.

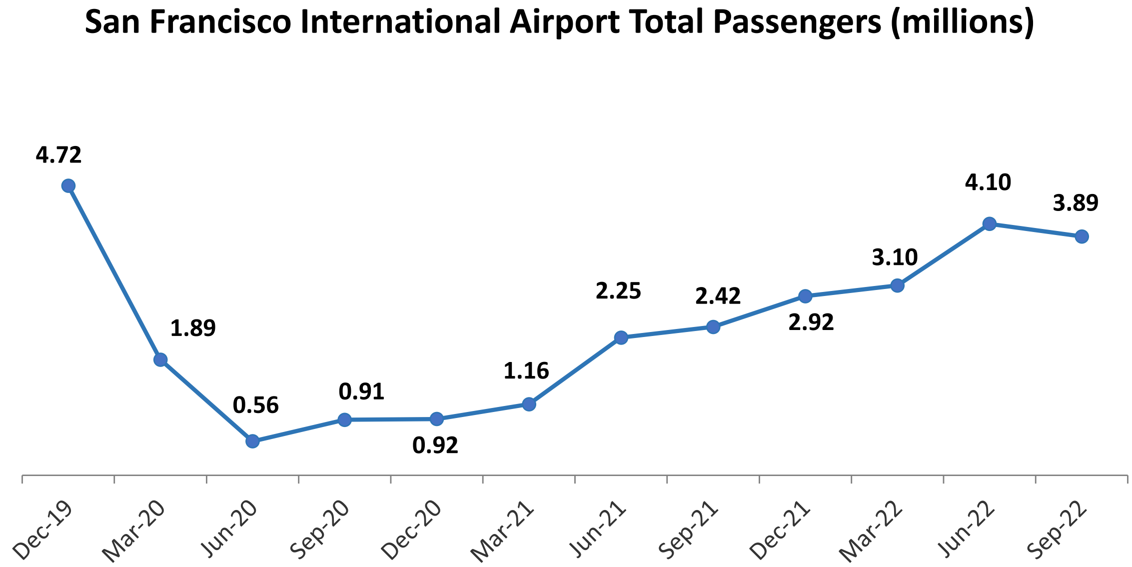
Measure K County Sales Tax Revenue



Other County Sales Tax Revenue



Passenger activity at San Francisco International Airport has steadily increased since the steep decline in June 2020 due to the impacts of the pandemic. Recent reports indicate that passenger levels are nearing pre-Pandemic levels. As a significant portion of the County's sales tax, vehicle rental, and hotel lodging revenues come from businesses at San Francisco International Airport, it is important to monitor patterns in airport activity.



Source: San Francisco International Airport: http://www.flysfo.com/media/facts-statistics/air-traffic-statistics; https://www.flysfo.com/about/media/facts-statistics/air-traffic-statistics/2022

E) 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 (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.

Based on the FY 2022-23 Adopted Budget, the projected MOE certification for FY 2022-23 is $402.1M. The County expects to exceed the FY 2022-23 Proposition 172 MOE requirement by $244.2M, which is the difference between the MOE requirement of $157.9M and the MOE certification of $402.2M million.

F) CAPITAL PROJECTS

The County continues to make progress on its capital improvement program through ground-up construction, parks, and building maintenance projects including the San Mateo County Health Campus, County Office Building 3 (COB 3), and Cordilleras Mental Health Center. Upcoming and in-progress projects that have funding needs include: the South San Francisco Wellness Center project; fire station projects to update the Pescadero Fire Station and replace Fire Station 17; Realize Flood Park; Tunitas Creek Beach, and many other capital projects in parks throughout the County. It will be important for us to look at these projects and begin to appropriate funding in FY 2023-25 Recommended Budget.

In addition to incorporation of capital project funding in the FY 2023-25 Recommended Budget, deferred maintenance and improvement projects associated with County buildings must also be prioritized. Building maintenance is a long-term cost saving strategy that is imperative to providing high quality spaces for clients, staff, and residents and ensuring the longevity and safe and healthy experiences for those who use and visit County buildings.

FISCAL IMPACT

There is no fiscal impact associated with accepting this FY 2022-23 County Mid-Year Update or the Proposition 172 MOE certification.

APPENDICES: 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. These indicators must be analyzed in totality in order to fully understand the current countywide climate.

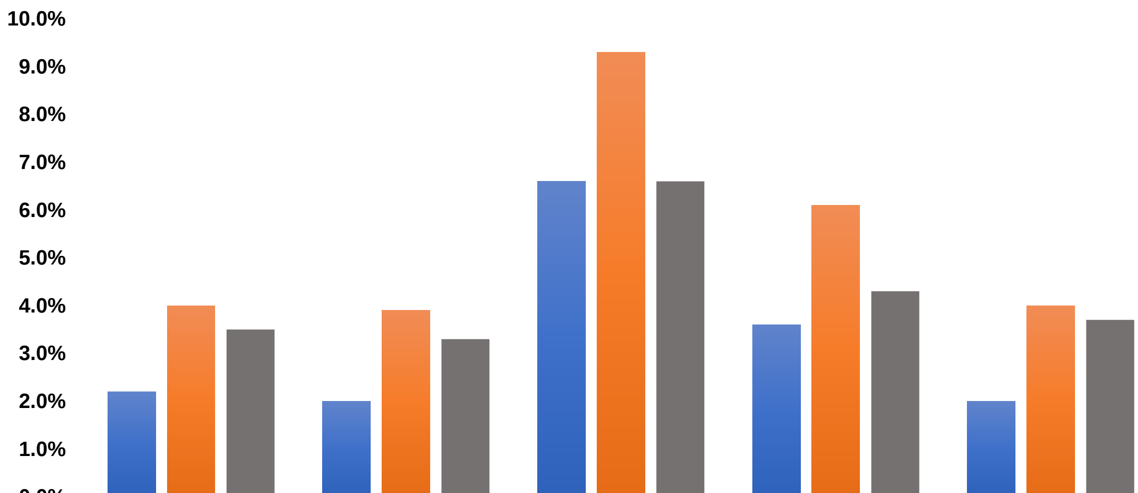
A. Unemployment Rate
B. Poverty Rate
C. Median Household Income
D. Average Commercial/Office Rents and Vacancy Rate
E. Residential Vacancy Rates
F. Cost-Burdened Renters
G. Impact of the California COVID-19 Rent Relief Program
H. Regional Housing Needs Allocation by Income
I. Home Prices

A. Unemployment Rate

As the national economy gradually recovers from a downturn at the height of the COVID-19 pandemic in 2020, monthly unemployment rates at the local, state, and national levels have decreased. San Mateo County unemployment, measured in October of each year, is down from 6.6 percent in 2020 to 2.0 percent in 2022. San Mateo County has the lowest unemployment rate of all counties in California.

As of November 2022, California and national unemployment rates vary by race/ethnicity but are roughly equal between genders. The unemployment rate is highest among Blacks/African Americans both in California and the US, followed by Hispanics/Latinos, and then Whites. The California Employment Development Department does not report an unemployment rate for Asians. In terms of gender, California and national unemployment rates for both women and men, ages 16 and older, have decreased by around 0.5 percent compared to last year and are roughly equivalent to each other with the unemployment rate for women at 0.1 percent lower than that of men. The County hopes to report on County-level unemployment data disaggregated by gender and race/ethnicity when this information is made available.

San Mateo County Unemployment Rate Compared to State and National Rate



	2018	2019	2020	2021	2022
San Mateo	2.2%	2.0%	6.6%	3.6%	2.0%
California	4.0%	3.9%	9.3%	6.1%	4.0%
U.S.	3.5%	3.3%	6.6%	4.3%	3.7%

Note: Unemployment rates measured in October of each year, not seasonally adjusted

Sources: California Employment Development Department, Local Area Unemployment Statistics: https://data.edd.ca.gov/Labor-Force-and-Unemployment-Rates/Local-Area-Unemployment-Statistics-LAUS-/e6gw-gvii;

Bureau of Labor Statistics: Quarterly Census of Employment and Wages (bls.gov)

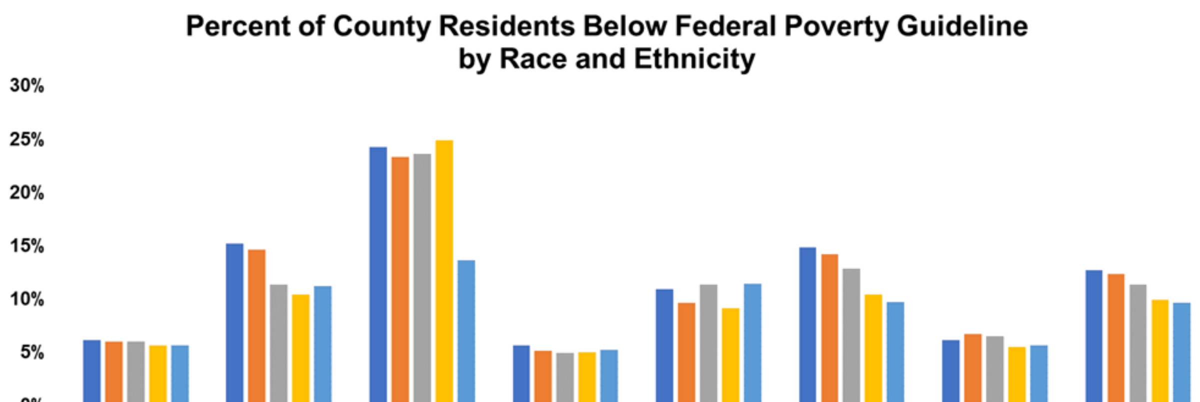
B. Poverty Rate

Note: The US Census has delayed the release of its 2022 American Community Survey data. As a result, the following information is based on calendar years 2017 through 2021.

The federal poverty level (FPL), or the "poverty line," is a measure used to decide whether the income level of an individual or family qualifies them for certain federal benefits and programs. In 2021, the FPL for a family of 4 was $26,500 annually. Other percentages of income are used to show how close individuals and families are to economic self-sufficiency. A helpful comparison is 200% of the FPL, which, for 2021, was $53,000 for a family of four. In 2021, there were estimated to be 111,218 people living in the County with incomes below this amount.

For estimating self-sufficiency in the County, 400% of the FPL is about what families need to meet their own needs without relying on public programs, free/reduced-cost services provided through charitable organizations or community-based organizations, or unpaid labor from friends, family, or neighbors. In 2021, a family of four would have needed an income of at least $106,000 to meet this threshold.

The chart on the following page illustrates the uneven distribution of household income below the FPL for the years 2017 to 2021 by race and ethnicity. Overall, for many racial and ethnic groups, there was a negative pre-pandemic trend for the percentage of people with income below the FPL. While disproportionately higher poverty rates are found among the County's American Indian and Alaskan Native and Black or African American populations, these groups represent 3.1% of the County's total population. Residents who identify as Some Other Race (11%) or Hispanic or Latino (24.1%) comprise more significant numbers of County residents who experience poverty. The number of individuals and families who experience poverty and rely on public programs for basic needs will likely increase due to the subsequent unknown duration of economic recovery.

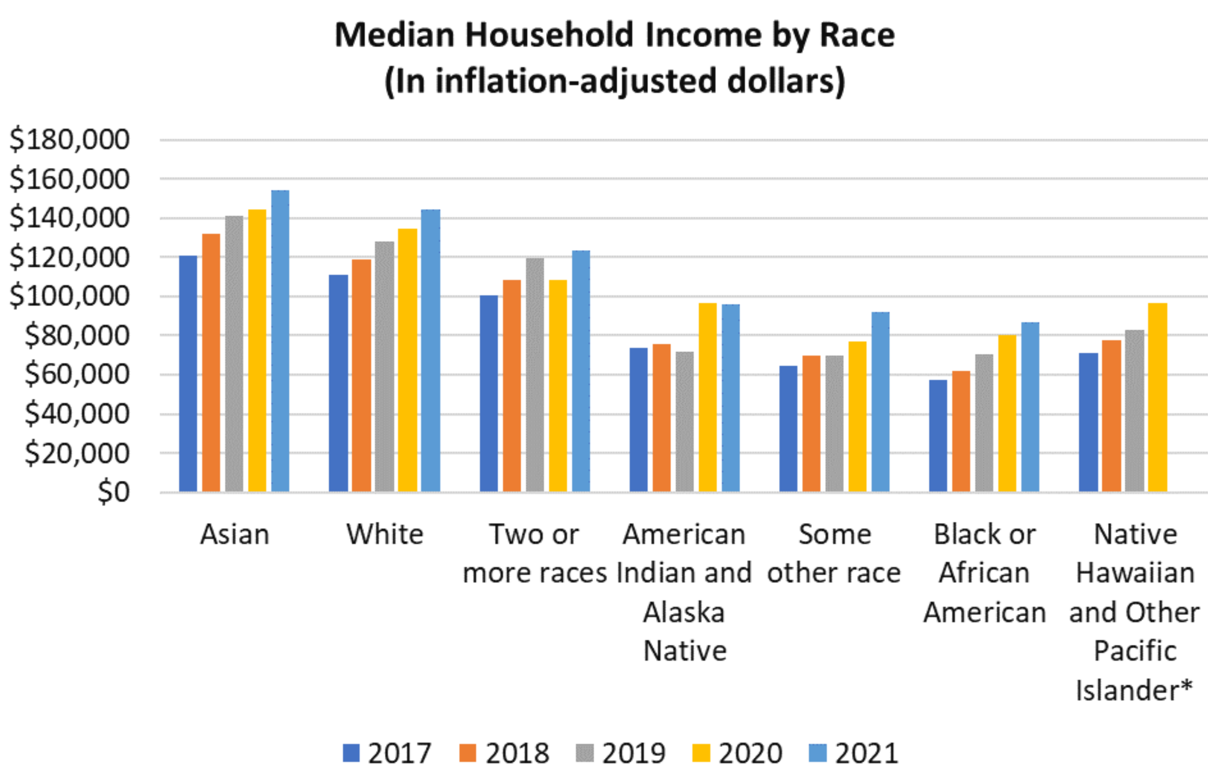


	White	Black or African American	American Indian and Alaska Native	Asian	Native Hawaiian and Other Pacific Islander	Some other race	Two or more races	Hispanic or Latino origin (of any race)
2017	6.10%	15.20%	24.20%	5.60%	10.90%	14.80%	6.10%	12.70%
2018	6.00%	14.60%	23.30%	5.10%	9.60%	14.20%	6.70%	12.30%
2019	6.00%	11.30%	23.60%	4.90%	11.30%	12.80%	6.50%	11.30%
2020	5.60%	10.40%	24.90%	5.00%	9.10%	10.40%	5.50%	9.90%
2021	5.60%	11.20%	13.60%	5.20%	11.40%	9.70%	5.60%	9.60%

Source: U.S. Census Bureau: Poverty Status in the Last 12 Months, 2016-2021 American Community Survey 5-year estimates, https://data.census.gov/table?q=poverty+san+mateo+county&tid=ACSST5Y2021.S1701

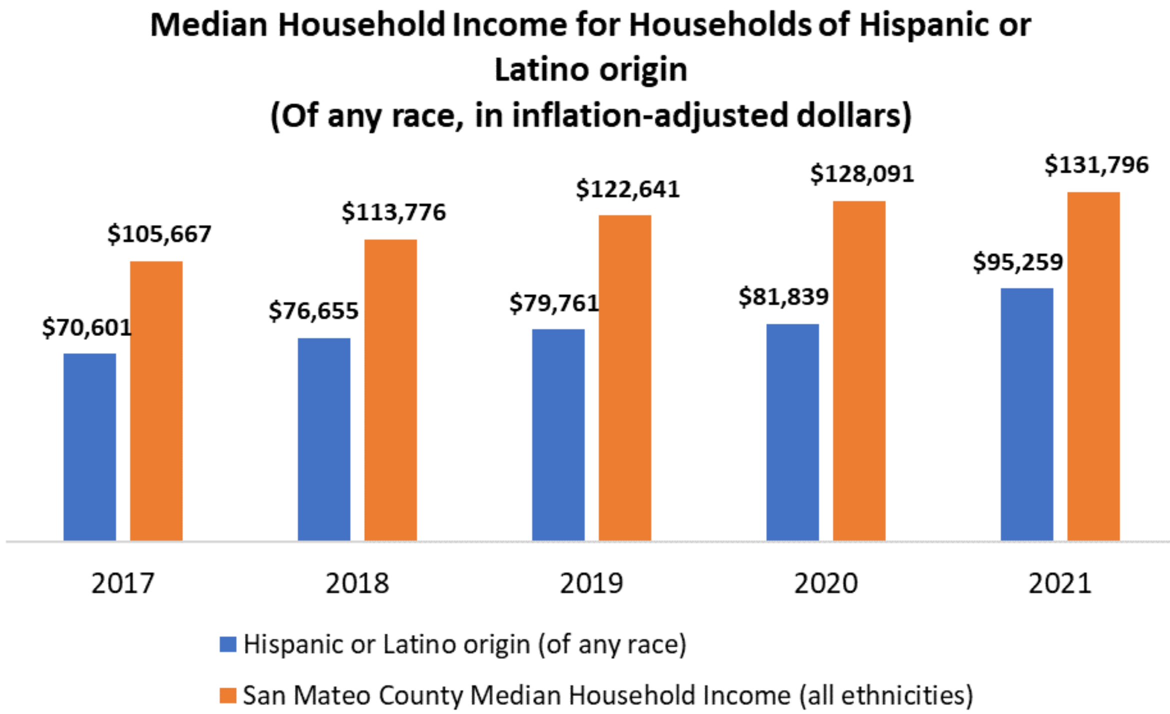
C. Median Household Income

Median household income is an indicator of current economic conditions within communities and can indicate how well households can financially provide for basic needs like food, shelter, and clothing. Overall, San Mateo County household median income has increased year-over-year for the past five years. During that same time, Black or African American households have increased median household income by 51.6 percent and Some Other Race households have increased median household income by 41.4 percent. Between 2020 and 2021, Some Other Race household median income increased by 19.6 percent and Two or More Races household median income increased by 14.2 percent. Persistent gaps in median household income persist in 2021 with Asian median household income 56.3 percent higher than Black or African American median household income which represents the largest gap between median household incomes by race. Because the United States Census Bureau collects and calculates data for race and ethnicity as distinct demographics, that information is presented separately below.



* 2021 data for all groups is sourced from the United States Census' 2021 American Community Survey 1 Year Estimates, the latest data available. The sample size for the Native Hawaiian and Other Pacific Islander category was within the margin of error for the survey so no results were reported for group that in 2021. 2020 and previous years' data sourced from the United States Census 2021 American Community Survey 5 Year Estimates.

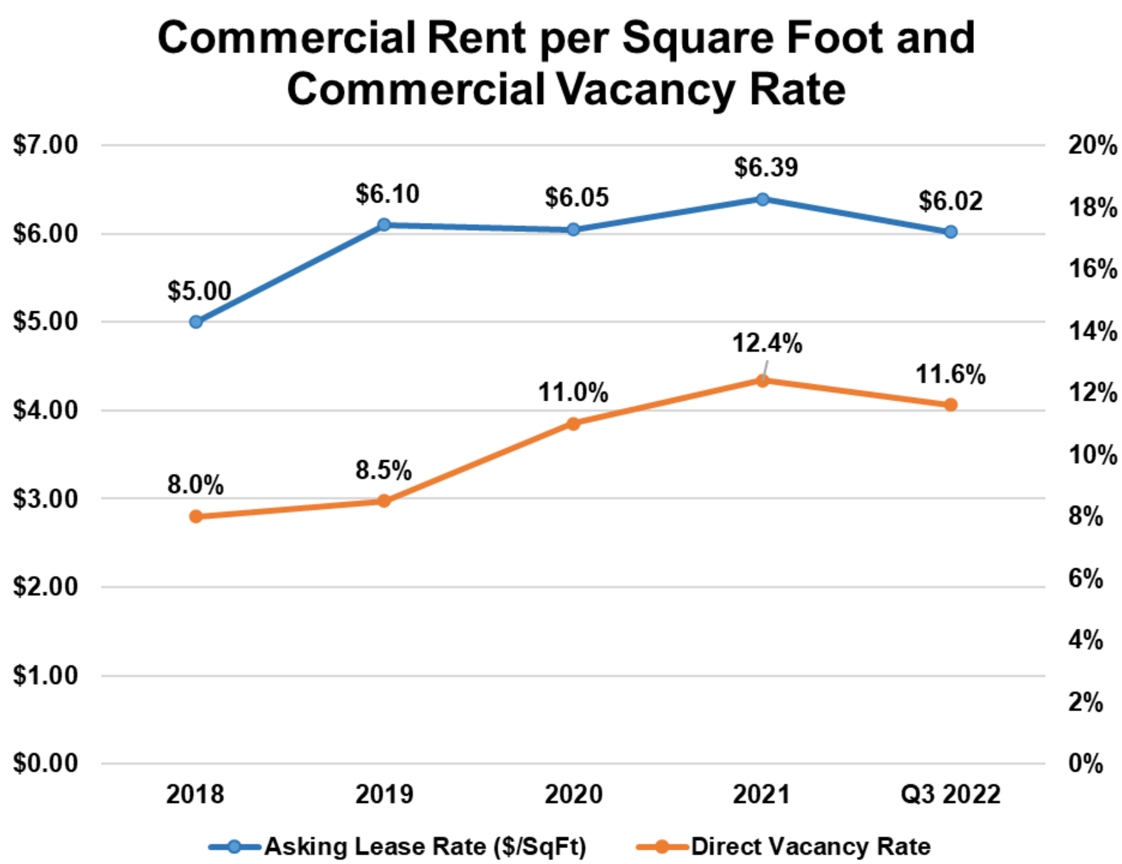
A significant portion of San Mateo County's population is Latinx. In 2021, the United States Census Bureau estimated that 24 percent of the County's total population was Hispanic or Latino. Median household income for Hispanic or Latino households increased annually between 2017 and 2021, with an overall increase of 34.9 percent, outpacing the overall median household income for the county which increased 24.7 percent during the same time. In 2021, Hispanic or Latino households earned a median amount of $95,259 compared to the overall county median household income of $131,796.



Source: United States Census 2021 American Community Survey 5 Year Estimates

D. Average Commercial/Office Rents and Vacancy Rate

As of Quarter 3 2022, the average commercial rental rate in San Mateo County has decreased slightly compared to last year. The commercial vacancy rate has also decreased by nearly one percent from an annual vacancy rate of 12.4 percent in 2021 to 11.6 percent in Quarter 3 2022. This decline may be a result of employers bringing more of their employees back to the office. Although the vacancy rate is beginning to decline, a larger percentage of employers have shifted to more telework options since the onset of the pandemic and this trend will likely continue to impact this number.



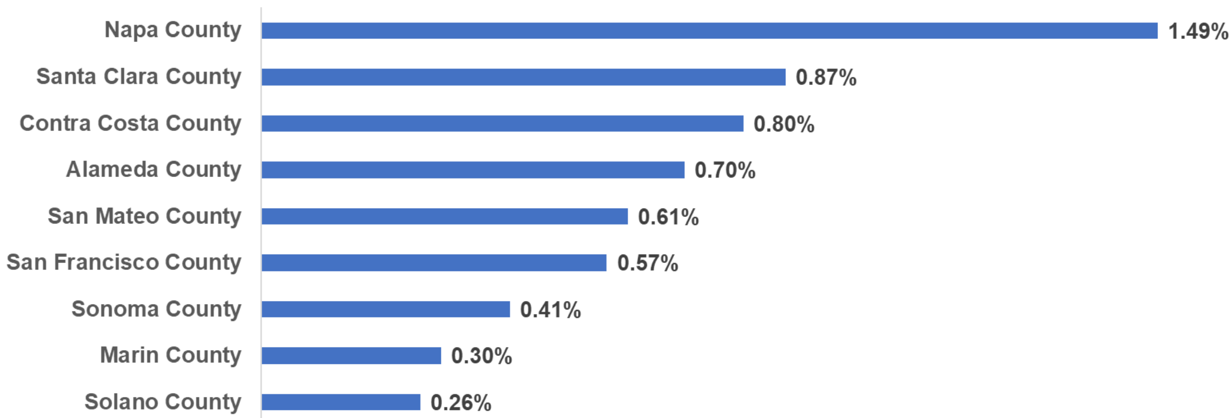
Source: Kidder Matthews: https://kidder.com/wp-content/uploads/market_report/office-market-research-peninsula-2022-3q.pdf

E. Residential Vacancy Rates

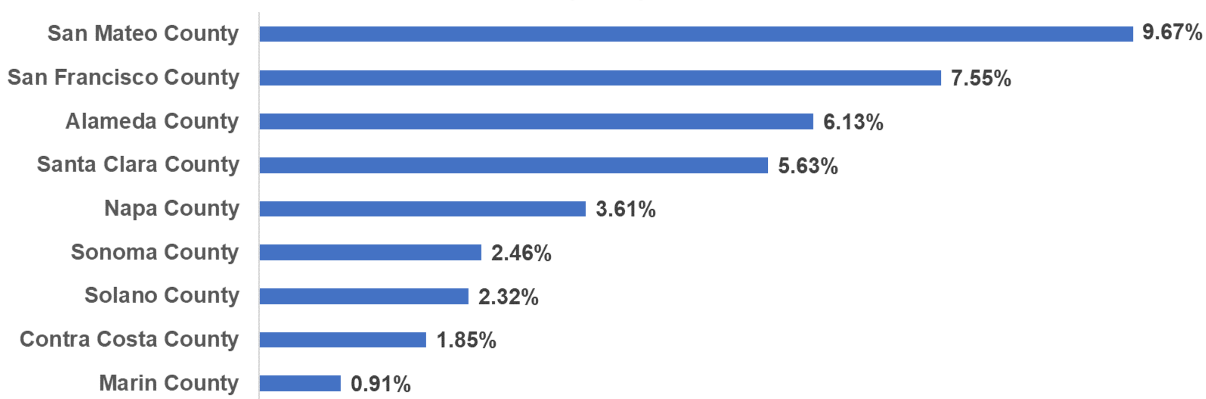
A major priority of the County of San Mateo is to increase affordable housing options for residents. As detailed in the FY 2022-23 Recommended Budget, for example, the County allocated $36.5 million in Measure K funds to enhance housing affordability and combat homelessness across a variety of initiatives. As efforts to increase affordable housing are ongoing, potential progress indicators could be the county's residential vacancy rates (or the proportion of total housing units available for prospective buyers and tenants).

According to 2021 housing data published in the U.S. Census Bureau's American Community Survey (data for 2022 is pending), San Mateo County had 285,583 total housing units, with 158,525 units intended for homeowner occupation and 120,817 units intended for renter occupation. Of the 158,525 units intended for homeowner occupation, 964 units were unoccupied and for sale, resulting in a homeowner vacancy rate of 0.61 percent. Of the 120,817 units intended for renter occupation, 11,678 units were unoccupied and available for rent, resulting in a rental vacancy rate of 9.67 percent. Below are two graphs comparing the homeowner and rental vacancy rates between the nine Bay Area counties, as well as a third graph displaying the rental vacancy rate trend in San Mateo County from 2017 through 2021.

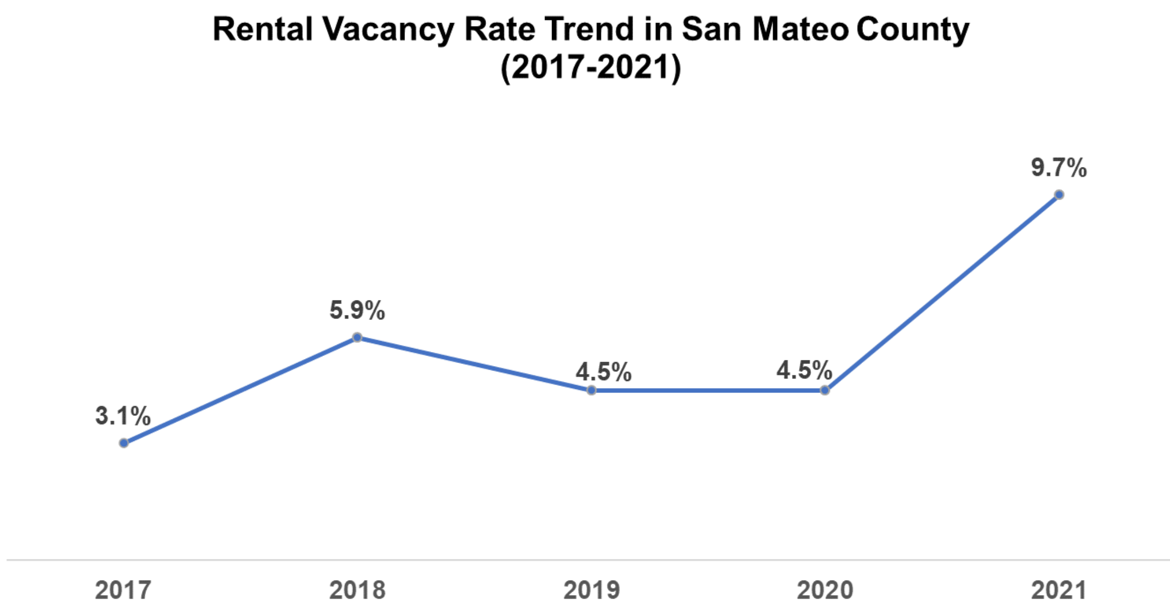
Homeowner Vacancy Rates for Nine-County San Francisco Bay Area (2021)



Rental Vacancy Rates for Nine-County San Francisco Bay Area (2021)



There are three key takeaways when comparing the 2021 residential vacancy rates of San Mateo County to the other eight counties of the nine-county San Francisco Bay Area. First, when comparing the ratio of individual residents to housing units per county, all counties had roughly between one housing unit for every two to three residents; San Mateo County ranked in the middle of this comparison. Second, all Bay Area counties had less than one percent homeowner vacancy rates, with San Mateo County ranking in the middle; these low vacancy rates indicated relatively low housing stock for sale across the region, which likely contributed to high sale prices. Third, San Mateo County had the highest rental vacancy rate of 9.67 percent among all Bay Area counties, significantly higher than more populous counties like Santa Clara, Alameda, and Contra Costa Counties. However, reports suggested that the relatively high vacancy rate in San Mateo County was due to a large number of workers in the county who could pivot to remote work during the COVID-19 pandemic and thus relocated to more affordable areas in the state and country; San Mateo County had the highest median contract rent at $2,394 among all Bay Area counties. When comparing San Mateo County's rental vacancy rate to pre-pandemic levels, the rates were generally lower percentage-wise, albeit still higher than most other Bay Area counties.

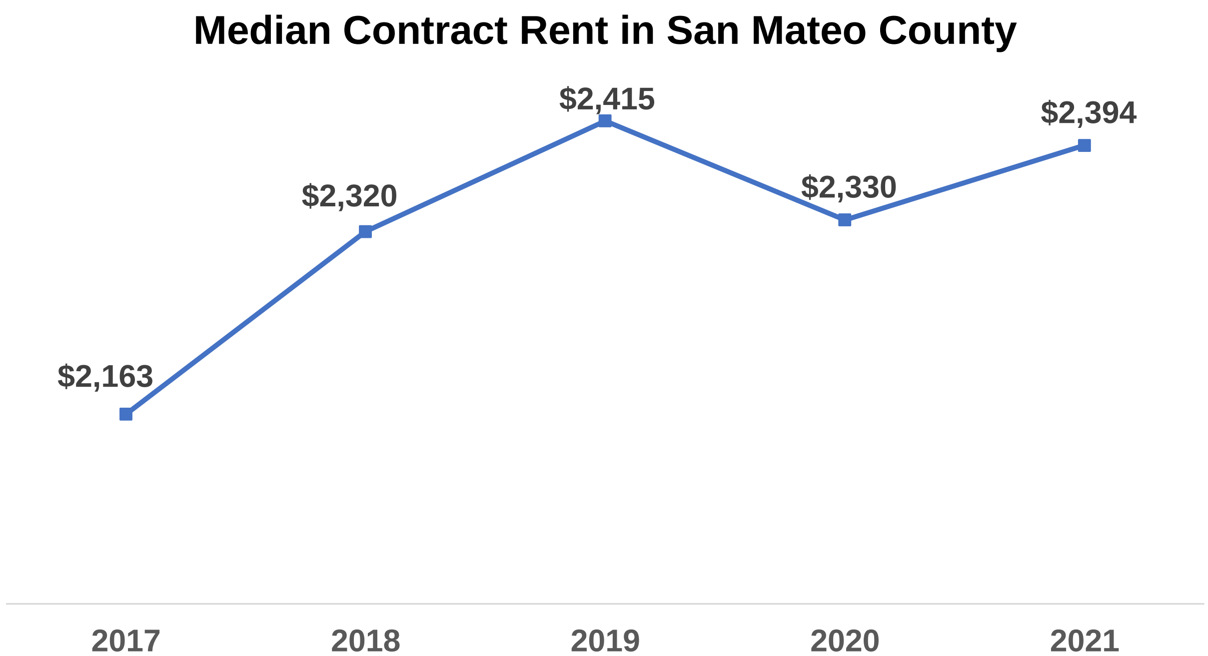


Sources:

1. "Selected Housing Characteristics," American Community Survey, U.S. Census Bureau, https://data.census.gov/table?q=housing+vacancy&g=0500000US06001,06013,06041,06055,06075,06081,06085,06095,06097&tid=ACSDP1Y2021.DP04
2. "Vacancy Status," American Community Survey, U.S. Census Bureau, https://data.census.gov/table?q=housing+vacancy&g=0500000US06001,06013,06041,06055,06075,06081,06085,06095,06097&tid=ACSDT5Y2017.B25004

F. Cost Burdened Renters

According to the American Community Survey by the U.S. Census Bureau, San Mateo County's median contract rent for residential housing in 2021 (data for 2022 is pending) was $2,394, which was the highest in the nine-county San Francisco Bay Area. The median contract rent had steadily increased for years until the COVID-19 pandemic caused rents to decrease in 2020; however, the median reached pre-pandemic levels by the end of 2021 as the pandemic's effects began to subside.



The Bay Area Equity Atlas utilized 2019 data from the American Community Survey to localize rent cost burden in San Mateo County by city or unincorporated area. Based on an affordability benchmark (established by the U.S. Department of Housing and Urban Development) of paying no more than 30 percent of one's income on rent, a vast majority of renters with annual incomes of less than $75,000 were considered cost burdened. The table below lists the top ten cities in 2019 with the most occupied rental housing units in San Mateo County and their respective proportions of cost burdened renters with annual incomes of less than $75,000. In 2019, the ten cities accounted for approximately 82 percent of all rental housing units in San Mateo County.

City	Rental Housing Units	Total Renters w/ Income <75k	Cost Burdened Renters w/ Income <75k	Percent Cost Burdened Renters w/ Income <75K
1. San Mateo	17,339	6,290	5,841	92.9%
2. Redwood City	15,312	6,549	5,818	88.8%
3. Daly City	13,243	6,532	5,757	88.1%
4. South SF	8,250	3,635	3,006	82.7%
5. Burlingame	6,335	2,103	1,980	94.2%
6. San Bruno	6,196	1,967	1,749	88.9%
7. Foster City	5,439	977	857	87.7%
8. Menlo Park	4,890	1,754	1,556	88.7%
9. East Palo Alto	4,745	2,730	2,293	84.0%
10. Belmont	4,043	1,401	1,230	87.8%

Sources:

1. American Community Survey, U.S. Census Bureau, https://data.census.gov/table?q=Renter+Costs&g=0500000US06001,06013,06041,06075,06081&tid=ACSDT1Y2021.B25058
2. Bay Area Equity Atlas, https://bayareaequityatlas.org/lowincomerentermap

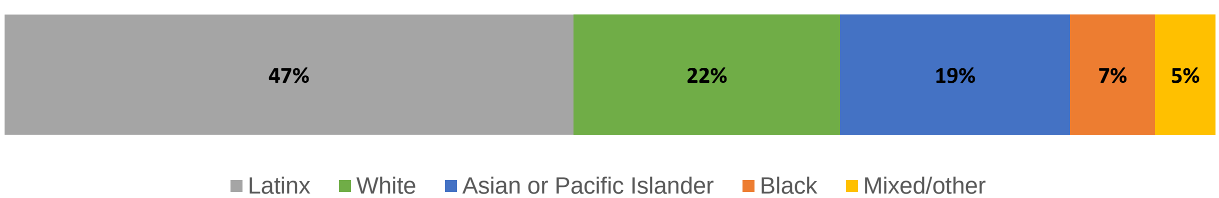
G. Impact of the California COVID-19 Rent Relief program

Many California residents were unable to fully pay their rent or utility bills because of the COVID-19 pandemic. On March 15, 2021, the CA COVID-19 Rent Relief program began to accept applications for rent and utility support, helping Californians hit hardest by the pandemic. Tenants and landlords were able to request up to 18-months in assistance covering the time between April 1, 2020, and March 31, 2022.

Understanding the actual impact of the State's rent relief program facilitates assessment of renter debt burden and eviction risk. Although State rent relief ceased on March 31, 2022, the National Equity Atlas determined that approximately 806,000 California renters (predominantly low-income households of color who suffered job and income losses due to the pandemic) were still behind on rent as of June 2022. In response, the National Equity Atlas produced a detailed analysis of the rent relief program's outcomes at the State, County, and City levels, utilizing data provided by the California Department of Housing and Community Development.

In San Mateo County specifically, a total of 9,562 applications were submitted to the State for rent and utility assistance with 2,316 applicants facing eviction at the time of application. The racial/ethnic composition of applicants roughly mirrored that of severely rent burdened households as shown in the graph below. Overall, 72% of applications were approved with approximately $100.2 million paid to residents out of $150.2 million requested.

Ethnic Composition of Applicants
(San Mateo County)

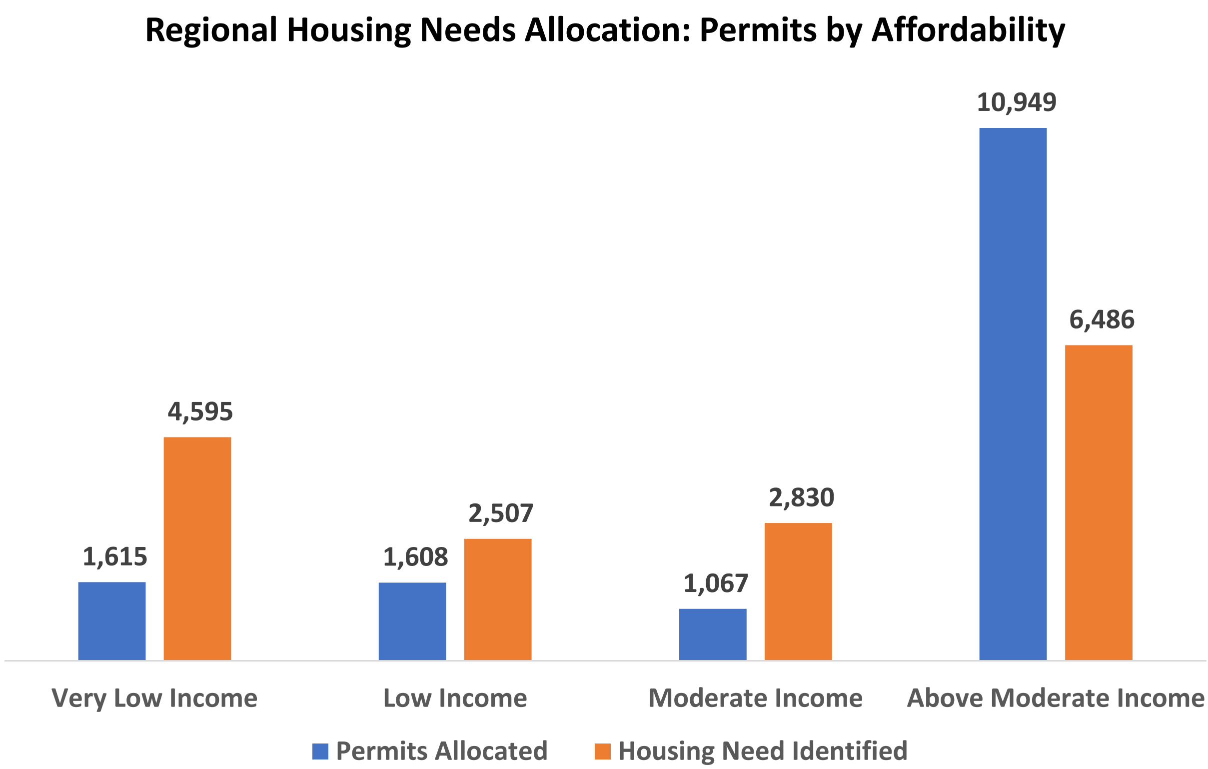


Ethnic Composition of Severely Rent Burdened Households
(San Mateo County)

Source: National Equity Atlas, https://nationalequityatlas.org/ca-rental-assistance

H. Regional Housing Needs Allocation by Income

Since 1969, the State of California has required all local governments, including cities and counties, to adequately plan to meet the housing needs of all those living in their communities. To meet this requirement, each local jurisdiction must develop a Housing Element that shows how it will meet the local housing needs. The Regional Housing Needs Allocation (RHNA) process is used to determine how many new homes each local government must plan for as well as the affordability of those homes. RHNA is a process that occurs every eight years. The chart below illustrates the RHNA conducted for the eight-year cycle that will end in January 2023 and the data included below is current through December 2021. The data demonstrates the disparity between housing needed and the actual permits awarded, especially for very low-income housing. On the other end of the spectrum, above moderate-income housing is being permitted at nearly double the needed allocation identified. The high cost of land and construction have contributed to the disparity.



I. Home Prices

The First-Time Buyer Housing Affordability Index shows the percentage of households that can afford to purchase an entry-level single-family home (defined as 85 percent of the median home price, with a 10 percent down payment), and is a fundamental measure of the health of the economy and the housing market. Housing prices continue to be unaffordable for a large majority of households in San Mateo County and other Bay Area counties. The percentage of first-time buyers who can afford to purchase an entry-level home in San Mateo County in the third quarter of 2022 increased slightly by 4% since the third quarter of 2021. San Mateo County remains the most unaffordable area in the Bay Area, followed closely by San Francisco County with a higher index at 28 percent. The percent of *all* households that could afford to purchase a *median*-priced single-family home in San Mateo County (measured by the Traditional Housing Affordability Index) was even lower, at 19 percent for the third quarter of 2022. Furthermore, the affordability index continues a declining trend across the US and California as a whole in 2022 and remains below pre-pandemic levels.

Region/State/ Country	3rd Quarter 2019	3rd Quarter 2020	3rd Quarter 2021	3rd Quarter 2022
United States	70%	69%	67%	59%
California	48%	45%	42%	36%
SF Bay Area	46%	41%	41%	33%
Alameda	43%	39%	35%	31%
Contra Costa	57%	51%	50%	45%
Marin	36%	30%	32%	25%
Napa	47%	45%	42%	28%
San Francisco	27%	28%	29%	28%
San Mateo	**30%**	**26%**	**26%**	**27%**
Santa Clara	38%	36%	33%	28%
Solano	64%	62%	62%	54%
Sonoma	48%	48%	48%	39%

Source: CA Association of Realtors: https://www.car.org/marketdata/data/ftbhai, https://car.sharefile.com/share/view/s03697d42f5046e6b, https://www.car.org/marketdata/data/haitraditional

There has been a decrease in home sales across the Bay Area, including in San Mateo County. San Mateo County single-family home sales have decreased by 45.4% as of November 2022. Many contributing factors have affected this decrease, including the increase of interest rates on homes, the stock market, inflation, and inventory of homes to sell. High interest rates are driven by inflationary pressures causing home prices to decline, but mortgage rates to increase.

Region/State/ Country	November 2019	November 2020	November 2021	November 2022
California	5.6%	26.3%	-10.7%	-47.7%
SF Bay Area	-4.8%	34.4%	-4.8%	-43%
Alameda	-10.3%	39.6%	-5.2%	-40.1%
Contra Costa	-10.8%	49.9%	-9%	-46.3%
Marin	13.3%	40.6%	-33.1%	-21.9%
Napa	-18.5%	28%	1%	-30.9%
San Francisco	-5.8%	28.6%	10.7%	-35.1%
San Mateo	**-3.6%**	**28.3%**	**0.2%**	**-45.4%**
Santa Clara	-0.9%	34.4%	-4.2%	-47.7%
Solano	-3.1%	16.6%	-7.7%	-51.2%
Sonoma	8.7%	14.2%	10.1%	-40.3%

Source: https://car.sharefile.com/share/view/sf7d2f2d2a69a454eab91437e9938bbe8

As a result of the decrease in home sales, the median home price for San Mateo County decreased by 19.8% from November 2021 to November 2022 to a median sale price of $1,782,500. However, San Mateo County remains to have the highest housing prices across the Bay Area making homeownership difficult to obtain.

County	Nov 2021	Nov 2022	Price Change
Alameda	$1,300,000	$1,175,000	-9.6%
Contra Costa	$876,000	$890,000	1.6%
Marin	$1,535,000	$1,535,000	0.0%
Napa	$811,600	$1,050,000	29.4%
San Francisco	$1,900,000	$1,500,000	-21.1%
San Mateo	**$2,222,500**	**$1,782,500**	**-19.8%**
Santa Clara	$1,692,500	$1,600,000	-5.5%
Solano	$593,000	$560,000	-5.6%
Sonoma	$775,000	$834,580	7.7%
Bay Area Average	$1,300,622	$1,214,120	-6.7%

Source: https://www.car.org/marketdata/data/ftbhai