COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: February 2, 2017
Board Meeting Date: February 14, 2017
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: FY 2016-17 County Budget Workshop and Mid-Year Update

RECOMMENDATION:

A) Accept the FY 2016-17 County Budget Update, including key revenue and expenditure projections and budget assumptions; and

B) Accept the Proposition 172 Maintenance of Effort Certification.

BACKGROUND:

I am reminded of Dickens' opening paragraph in *A Tale of Two Cities*: "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way…"

While the overwhelming passage of the Measure K sales tax seemed to assure the County of long-term financial stability and the ability to continue addressing critical County needs, the actions taken by the Trump Administration raise many questions about the future financial burdens that could be placed on the County.

The challenges that we know about today include:

- The Affordable Care Act (ACA). There is no clear indication of what, if anything, will replace the ACA or when it will occur. It is likely that the County's uninsured population will increase with a corresponding increase in County costs for medically indigent patients. It is also likely that funding for behavioral health services, now covered under the ACA, will decrease. As the scope of these challenges become clearer the County will have to consider reducing services and/or repurposing a significant amount of Measure K funds. (Potential impact: $10-30 million)

- The Coordinated Care Initiative (CCI). The Governor is proposing to eliminate this program that essentially caps In-Home Support Services (IHSS) costs at FY 2011-12 levels, plus 3.5 percent annual growth. In San Mateo County, the program is operated in partnership with the Health Plan of San Mateo's dual Medical/Medicare program and has been successful in keeping clients in their homes and reducing long-term care costs. California State Association of Counties (CSAC) and the other pilot project counties are in discussion with the Governor regarding this proposal. Counties are also considering litigation and other strategies that would lessen their impacts. (Potential impact $6.9 million)

- Immigration. Our County has a long history of inclusion. Historically, the tapestry of our County includes people from "all walks of life"—different races, cultures, religions, and income levels. Newcomers and long-time residents have worked side by side to make our community a better place to live and work. While the details of the Trump Administration's immigration policies are still emerging, much has been reported in the press and social media about "Sanctuary Counties." Approximately three years ago, the State enacted a law, known as the "Trust Act," that defined the level of cooperation by State and local authorities on immigration actions. The California Legislature is debating two bills that would establish California as a "Sanctuary State." Potential areas of conflict between federal and local governments include: involvement of law enforcement in U.S. Immigration and Customs Enforcement (ICE) actions; immigration holds beyond inmate release dates; release of confidential information regarding clients; and dependency issues concerning minors of parents being deported. The County is closely monitoring the rapidly evolving policies in this area. (Potential impact: $11.9-123.9 million)

- Trade. The economic success of the Bay Area is intimately linked with both immigration and trade issues. Access to the most talented technology professionals (particularly since there are not enough technology graduates from U.S. schools) is critical to the continued growth of many businesses based in the Bay Area. Many of the products produced by these companies are made overseas and sold internationally. What will happen to their markets if tariffs are raised or the cost of their products is significantly changed? (Potential impact: $9.6 million, 50 percent reduction in the annual projected revenue growth rate)

- Infrastructure/Transportation. The Trump Administration has discussed a significant increase in federal funding for infrastructure/transportation projects. This could be a significant benefit to the Bay Area for Caltrain and other projects that would help ease traffic congestion. The County could also benefit from these funds for some of its major infrastructure and parks projects. At present, there is no legislation in Congress for a new infrastructure/transportation program, so it is difficult to assess the actual impact on the County.

- Housing. The "Housing for All" report approved by the Board last year describes the nature of the problem in this County. The Board is also aware of the difficulties that cities face in approving workforce housing. Since the passage of Measure K in 2012, the County has allocated just over $56 million for housing projects, which includes about $30 million in Measure K funds. These funds have primarily been devoted to affordable housing development and preservation. Federal tax credits and Section 8 certificates are critical to successful workforce housing projects. The future of these funds are unknown at this point.

Given the unknowns described above, I believe prudence is the best way to approach preparation of the budgets for FY 2017-18 and FY 2018-19. I will not be recommending any new or expanded programs in FY 2017-18. Recommendations for capital expenditures will likewise be for future projects already funded or "in the pipeline." Despite these cautions, I remain optimistic about the future of San Mateo County as described in Shared Vision 2025; the County is an inclusive community in which everyone has the opportunity to succeed and a community that values and preserves its natural resources.

The duality used by Dickens to describe London and Paris during the French Revolution has clearly played out in America in recent years as we have been reminded by the recent election. While parts of our country, including the Bay Area, have prospered in the global economy, other regions have stagnated. Clearly there is sharp disagreement about the causes for this and the solutions. Despite this, I believe that most Americans want good jobs, safe neighborhoods, affordable housing, and healthcare, a clean environment, and a better future for their children without pitting different regions, industries, and people against one another. It is up to government to be the instrument by which people develop a consensus on how to achieve those things that are most important to them.

In *Democracy in America*, Alexis de Tocqueville wrote, "America is great because America is good. If America ever ceases to be good it will cease to be great." I believe in the basic goodness and common sense of the American people. As Winston Churchill was once purported to have said, "You can always count on Americans to do the right thing – after they've tried everything else!"

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 Manger 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 the upcoming two-year budget, 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 under three percent. Boardings at San Francisco International Airport (SFO) are increasing, construction activity remains at record levels, and office vacancy rates are less than eight percent. Annual per capita personal income has increased six percent to $97,553.

The County's financial condition remains strong. General Fund reserve levels remain at 18 to 20 percent of budget. The County of San Mateo continues to hold the distinction of being one of only three counties in the state with AAA ratings from Moody's and Standard and Poor's. In addition, Moody's recently upgraded the County's lease revenue bond rating from Aa2 to Aa1, representing Moody's highest potential lease rating for a California issuer. 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, fund major capital and IT projects, and partially fund the first three years of debt service for the Maple Street Correctional Center.

FY 2016-17 Year-End Fund Balance Projections

County of San Mateo **Agencies by Fund**	**FY 2016-17 Working Budget**	**FY 2016-17 Budgeted Reserves**	**FY 2017-18 Projected Fund Balance**	**Projected Fund Balance Variance**
Criminal Justice - General Fund	$ 433,307,957	$ 18,085,384	$ 20,625,159	$ 2,539,775
Health Services - General Fund	413,360,685	2,884,464	8,575,388	5,690,924
Health Services - Other Funds	349,553,149	11,288,156	12,258,298	970,142
Social Services - General Fund	262,885,963	11,309,282	19,916,880	8,607,598
Community Services - General Fund	159,990,060	6,561,939	15,013,752	8,451,813
Community Services - Other Funds	530,892,839	159,532,093	199,219,202	39,687,109
Admin-Fiscal - General Fund	135,242,850	13,833,315	20,391,099	6,557,784
Admin-Fiscal - Other Funds	74,552,897	20,215,921	20,451,255	235,334
Non-Departmental Services - General Fund	368,081,823	117,386,007	276,123,071	158,737,064
Subtotal General Fund	$1,772,869,338	$ 170,060,391	$ 360,645,349	$ 190,584,958
Subtotal Non-General Fund	954,998,885	191,036,170	231,928,755	40,892,585
Total ALL Funds	$2,727,868,223	$ 361,096,561	$ 592,574,104	$ 231,477,543

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 $276 million, which exceeds appropriated reserves by nearly $159 million. This represents a drop of $49 million from the beginning fund balance of $325 million. The reason for the disparity between beginning fund balance and appropriated reserves is due to one-time appropriations in excess of $200 million in the FY 2016-17 Adopted Budget.

In January, the County received Excess ERAF of $112 million, which exceeds the amount budgeted by $57 million; however, like last year, one-time expenditures are expected to exceed $100 million. One-time items include additional pension contributions of $33.6 million; contributions and loans of $30 million (e.g., Half Moon Bay Library, Brisbane Library, Crystal Springs Sanitation District, Peninsula Clean Energy, County airports, and Enhanced Flood Control Zone); countywide capital and IT expenditures of $25 million; clinic expansion of $9.5 million; and acquisition of 3060-3080 Middlefield Road of $1.9 million. It should be noted that many of the loans and contributions were originally appropriated last fiscal year and were rolled forward into this year's budget, so the drop in fund balance that was anticipated in FY 2016-17 has shifted to FY 2017-18.

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 2016-17 with $84.5 million in fund balance, which exceeds appropriated reserves by $31.8 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 $23.8 million in FY 2016-17. This is primarily due to the Secured Property Tax increasing to 7.6 percent. The County's share of Excess ERAF in FY 2016-17 is $112 million, but only half ($55 million) is treated as ongoing revenue. Stagnating sales tax revenues over the past three years, including Public Safety Sales Tax (Prop. 172) and Measure K, are directly related to declining fuel prices. A significant portion of the County's sales tax revenue is derived from jet fuel sales at the San Francisco International Airport. The County's sales tax consultant believes that fuel prices have bottomed out and that at least moderate sales and transaction tax growth are likely in the coming years.

The County continues to budget general purpose revenues conservatively in the out years with projected growth ranging from 3.1 to 4 percent, resulting in average annual growth of $19.3 million over the five-year period. Secured Property Tax is expected to remain strong with approximately 50 million square feet of new large developments expected to be completed in the next five to six years. Future growth projections for Prop. 172 and Measure K have been conservatively projected at two percent in the out years.

General Purpose Revenues	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Secured Property Tax	7.8%	7.6%	5.5%	5.0%	4.0%	4.0%
Unsecured Property Tax	1.2%	-0.2%	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)	-0.3%	1.9%	2.0%	2.0%	2.0%	2.0%
Sales Tax	-8.9%	2.6%	2.0%	2.0%	2.0%	2.0%
Property Transfer Tax	-3.4%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax (TOT)*	6.1%	-2.2%	2.0%	2.0%	88.5%	11.7%
Property Tax In-Lieu of VLF	7.5%	7.6%	5.5%	5.0%	4.0%	4.0%
Interest & Investment Income	38.6%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenue	14.9%	-1.0%	1.2%	0.4%	0.4%	0.4%
Overall Growth	6.5%	5.0%	4.0%	3.6%	3.3%	3.1%
Public Safety Sales Tax	1.2%	2.0%	2.0%	2.0%	2.0%	2.0%
Measure K Sales Tax	-0.9%	2.0%	2.0%	2.0%	2.0%	2.0%
*Assumes opening of the 350 room Airport Hyatt in 2019.						

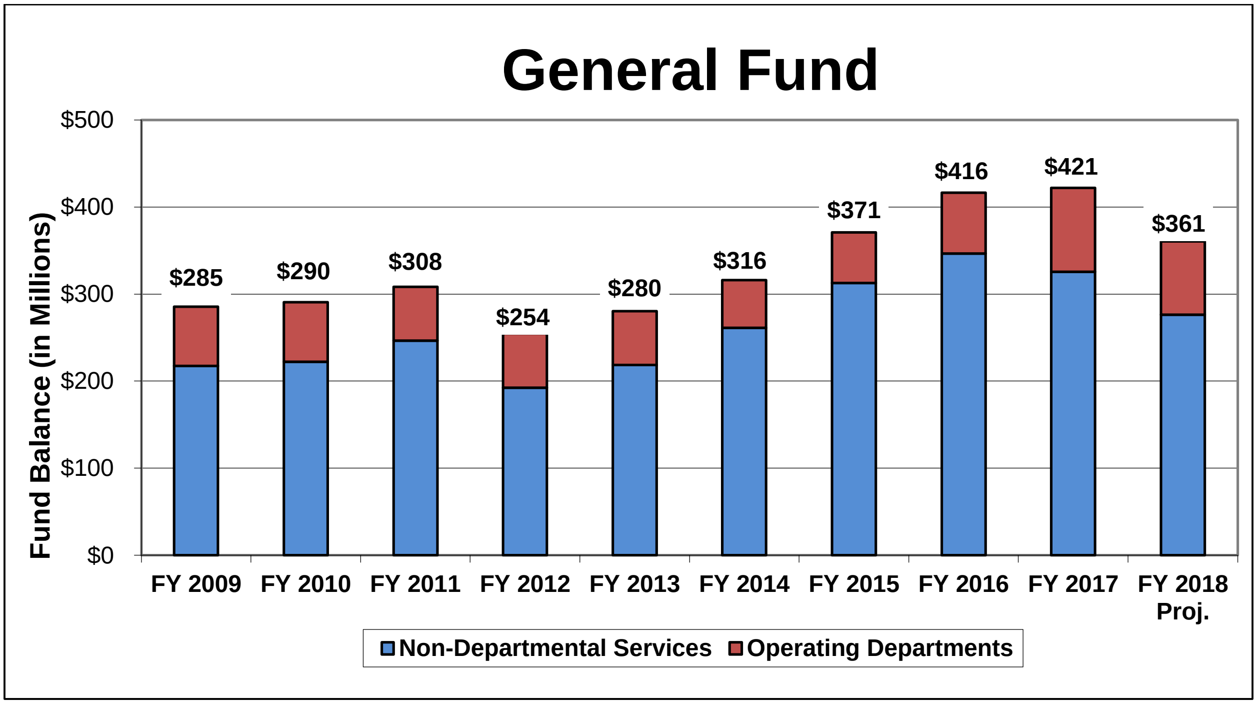
General Purpose Revenues	FY 2016	FY 2021	5-Year Growth
Secured Property Tax	$ 218,477,258	$ 279,335,934	$ 60,858,676
Unsecured Property Tax	9,313,391	9,669,016	355,625
Excess ERAF (Ongoing)*	55,000,000	55,000,000	0
Vehicle Rental Tax (Measure T)	12,145,155	13,398,181	1,253,026
Sales Tax	23,901,560	26,548,699	2,647,139
Property Transfer Tax	9,978,397	11,567,697	1,589,300
Transient Occupancy Tax (TOT)	1,627,628	3,488,160	1,860,532
Property Tax In-Lieu of VLF	91,683,046	118,197,895	26,514,849
Interest & Investment Income	9,707,513	10,654,835	947,322
Other Revenue	40,996,309	41,544,740	548,431
General Purpose Rev Growth	$ 472,830,257	$ 569,405,157	$ 96,574,900
Public Safety Sales Tax	$ 76,768,380	$ 84,758,495	$ 7,990,115
Measure K Sales Tax	$ 79,888,971	$ 88,203,880	$ 8,314,908
Excess ERAF (One-Time)*	$ 54,653,530	$ -	$ (54,653,530)
*One-half of anticipated Excess ERAF ($55 million) is budgeted for ongoing purposes and no assumptions for one-time revenues are made in future years.			

Ongoing expenditures are expected to grow approximately $96.7 million over the next five years, essentially the same pace as ongoing revenues. It will be important to keep expenditure growth at or below revenue growth to maintain a structurally balanced budget. These expenditure projections do not factor in potential impacts related to the In-

Home Support Services/Coordinated Care Initiative, the Affordable Care Act, and compliance with Regional Water Board stormwater regulations.

General Fund Summary

Overall, it is projected that the General Fund will end FY 2016-17 with $360.6 million in fund balance. As noted earlier, the reduction in fund balance that was originally expected to occur in FY 2016-17 is now projected to materialize in FY 2017-18 due in large part to delays in one-time expenditures. 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 2017-19 budget cycle. Proactively monitoring expenditures will reduce the likelihood of triggering structural deficits.



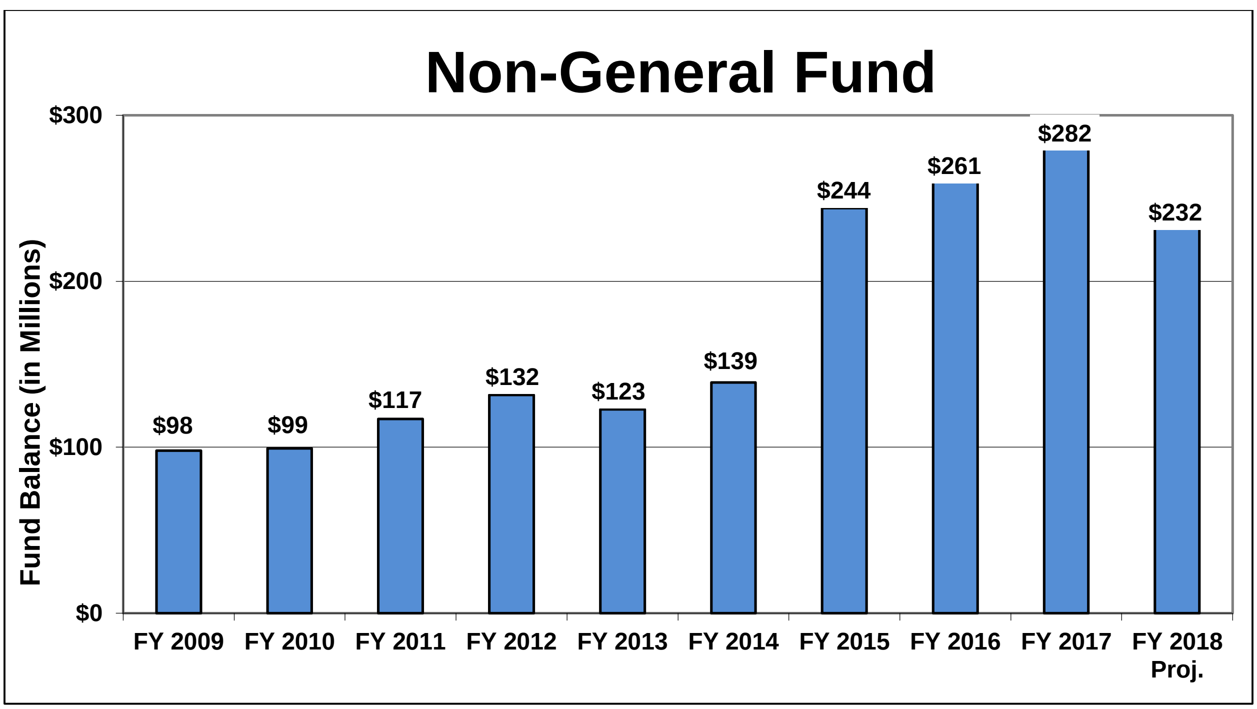
Community Services Departments

For Community Services departments, much of the anticipated increase in fund balance is attributed to delays in large scale capital projects. Work on the Old Maguire Jail, San Mateo Medical Center, County Government Center Campus, and proposed new Radio Shop at Tower Road are awaiting completion of several master planning efforts taking place throughout the County. Planned renovations at the Maple Street Shelter in Redwood City have been put on hold to explore the development of a more comprehensive facility that can serve a larger portion of the population. A hangar replacement project at the San Carlos Airport is scheduled to be completed in FY 2017-18. Additional fund balance in Utilities is primarily due to capital improvement projects in the Sewer Districts, Flood Control Zones, and County Service Area No. 11 (CSA 11) not expected to be completed by end of the fiscal year, and higher than anticipated property tax revenues. Additional fund balance in the Parks Acquisition and Development Fund is attributed to an unanticipated donation for the Eastern Promenade project at Coyote Point Park, as well as delays of several capital projects and studies that will be completed in FY 2017-18.

In addition to the capital project costs that will carry forward to the next fiscal year, savings were realized in the Solid Waste Fund as a result of higher than expected revenues from AB939 franchise fees, vacant positions, and unspent appropriations in services and supplies. Savings in Structural Fire are attributed to lower than anticipated actual costs for the California Department of Forestry and Fire Protection (CAL FIRE) contract.

Non-General Fund Summary

Overall, Non-General Fund budget units are projected to end FY 2016-17 with $231.9 million in fund balance, which represents a decrease of $49.6 million from beginning fund balance of $281.5 million. The drop is primarily related to four budget units: Road Construction and Operations, Utility Districts, Other Capital Construction, and the Medical Center. The decline for Road Construction and Operations of $15 million has been discussed in prior budget reports; Road Fund revenues are insufficient to cover ongoing road construction and maintenance needs. There is also an anticipated delay in reimbursements for the Crystal Springs Dam Bridge Project. The decline for Utility Districts of $13 million is primarily due to planned one-time sewer and flood control capital improvement projects. The decline for Other Capital Construction of $12 million is also due to planned capital improvement projects, including the Warm Shell Build-Out and the Skylonda Fire Station Project. Finally, the decrease for the Medical Center of nearly $8 million is primarily due to lower than projected capitation revenue. By year-end, it is expected that this decrease will be offset with additional 1991 Realignment revenue.



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 reason that assumed earnings rates have come under such scrutiny in recent years is not the good years, which historically have out-numbered the bad years, but the disproportionally negative impact of the bad years. Case in point, if the long-term assumed earnings rate is seven percent and there is a year where the investment returns are zero percent, that means that future earnings must not only meet the annual seven percent threshold but also exceed it in some years to make up for the seven percent not realized in that one year. In order to lessen the actuarial impact of not meeting the assumed rate of return, gains and losses are smoothed over five-year rolling periods. Perhaps even more challenging are those times, like the Great Recession, where there are negative returns. Think of a glass of water filled to the brim. If you pour out half of the water, you have decreased the amount of water by 50 percent. To refill the glass, you would need to increase the amount of water currently in the glass by 100 percent. When factoring in the unmet assumed earnings rate, the effect of actuarial losses in any given year in which actual returns are below the long-term assumed earnings rate can become even more pronounced.

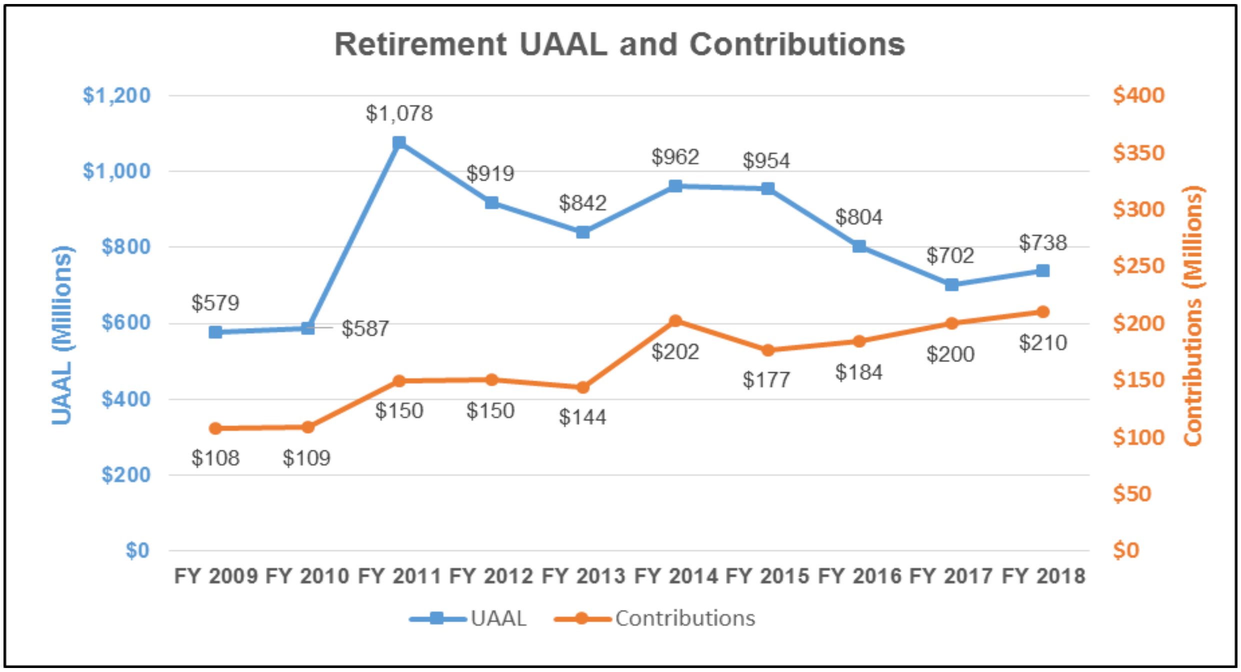
The table below shows the Unfunded Actuarial Accrued Liability (UAAL) for each of the past 10 actuarial valuations and the key assumptions for wage increases, earnings, and CPI growth.

		Key Assumptions		
Valuation Date	**UAAL**	**Wages**	**Earnings**	**CPI**
June 30, 2016	$737,570,000	3.25%	7.00%	2.75%
June 30, 2015	702,236,000	3.50%	7.25%	3.00%
June 30, 2014	803,855,000	3.50%	7.25%	3.00%
June 30, 2013	954,111,000	3.75%	7.50%	3.25%
June 20, 2012	962,282,000	3.75%	7.50%	3.25%
June 30, 2011	841,587,000	4.00%	7.75%	3.50%
June 30, 2010	919,377,000	4.00%	7.75%	3.50%
June 30, 2009	1,078,033,000	4.00%	7.75%	3.50%
June 30, 2008	587,285,000	4.00%	7.75%	3.50%
June 30, 2007	578,773,000	4.00%	7.75%	3.50%

Due to losses sustained in FY 2008-09, the UAAL nearly doubled from $587 million to $1.08 billion in that one year. Over the past seven years since the downturn (not including the current fiscal year), the County has contributed $1.03 billion in statutory contributions and made additional contributions of $86.8 million. While the UAAL is nearly $150 million more than before the downturn, the County of San Mateo is basically the envy of every other medium to large sized county in the state. The County has a funded ratio of 83 percent and has never issued pension obligation bonds. Additionally, employee contributions have also increased through negotiated memoranda of understanding (MOUs). Under the prepayment plan initiated in FY 2013-14, the County remains on target for minimizing the UAAL by FY 2022-23. Though this plan will continue to use most of the one-time Excess ERAF over the next six years, if successful, it will yield ongoing savings approaching $80 to $100 million annually.

Fiscal Year	Statutory Contribution	Additional Contribution	Total Contribution
FY 2017-18*	$182,799,939	$27,451,784	$210,251,723
FY 2016-17*	166,159,692	33,600,000	199,759,692
FY 2015-16	164,526,705	19,538,000	184,064,705
FY 2014-15	166,827,886	10,000,000	176,827,886
FY 2013-14	152,225,631	50,000,000	202,225,631
FY 2012-13	140,104,854	4,168,980	144,273,834
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	108,418,026	0	108,418,026
*FY 2016-17 and FY 2017-18 represent estimates.			

The following chart illustrates the drop in the UAAL since the Great Recession while contributions continue to increase. These increases are due to many factors, including a conservative funding model that has seen the assumed earnings rate drop from 7.75 to 7 percent since 2011, increasing wages, and the aforementioned prepayment plan.

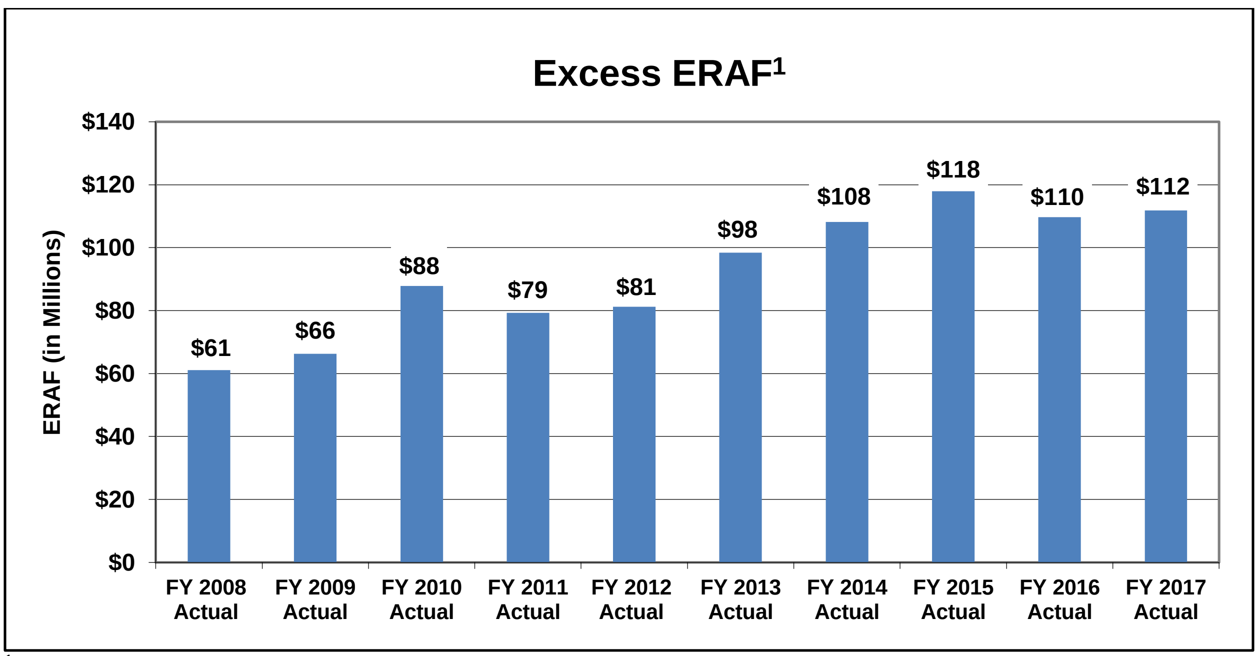


Excess Educational Revenue Augmentation Fund (ERAF)

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 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 $1.11 billion in Excess ERAF apportionments, including the $112 million in FY 2016-17. The following table shows the General Fund's share of Excess ERAF received from FY 2007-08 through FY 2016-17.



[1] This distribution amount includes Excess ERAF from prior years. The Excess ERAF amount for any given year is not finalized until after the final Certified School Reports are received from the California Department of Education. For example, the 2015-16 school reports will be finalized in June 2018. Thus, the County has adopted a policy to stagger the Excess ERAF distributions.

Proposition 172 Certification

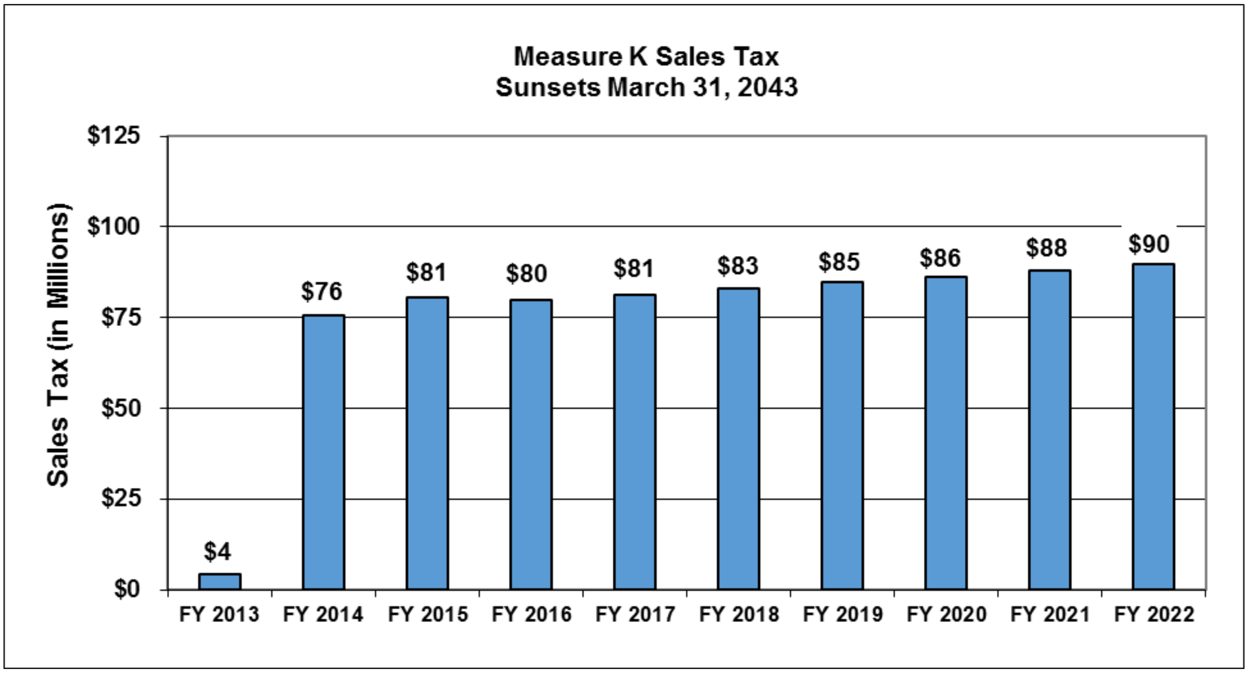
In June 1995, the Board of Supervisors approved the Maintenance of Effort (MOE) certification for the base year (FY 1992-93) and the first certification year (FY 1994-95). The Board also adopted a resolution defining public safety services to include: Sheriff, District Attorney, Private Defender, Probation, Coroner, Correctional Health, Release on Own Recognizance, Mental Health Forensics, Public Safety Communications, Emergency Services, Fire Protection, Parks Lifeguards, Public Safety Capital Projects, and Debt Service.

Last year, the MOE certification submitted to the Board for FY 2015-16 was $280.8 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 2015-16 MOE requirement of $133.5 million and the certification of $280.8 million was $147.2 million. This is the amount by which the County exceeded the FY 2015-16 Proposition 172 MOE requirements based on the FY 2015-16 Adopted Budget. Using FY 2015-16 year-end figures, the actual expenditures subject to the MOE was $256 million, or $122.5 million in excess of the MOE requirements.

Based on the FY 2016-17 Adopted Budget, the projected MOE certification for FY 2016-17 is $292.3 million. The difference between the FY 2016-17 MOE requirement of $134.5 million and the certification of $292.3 million is $157.8 million. This is the amount by which the County expects to exceed the FY 2016-17 Proposition 172 MOE requirement.

Measure K Revenue Projections and Reserves

Measure K sales tax receipts have ranged from $75.6 million to $80.6 million per year since it took effect on April 1, 2013. Measure K projections for FY 2016-17 remain relatively flat at $81.3 million, largely due to the use of more fuel efficient vehicles and stagnant fuel prices. By June 30, 2017, the County will have received approximately $320 million in Measure K revenue. The current appropriation of Measure K for the FY 2016-17 budget, including mid-year adjustments, is $178.3 million (including $5.8 million for Board district-specific initiatives and $7.5 million for yet to be determined major health initiatives). The $178.3 million also 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 $34 million. 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 Measure K 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 each performance measure and had the opportunity to clarify the narrative update for each program/initiative, or make suggestions on new measures to the County Manager's Office.

The full Measure K Annual Report will be presented at the February 28, 2017 Board of Supervisors Meeting.

<u>Whole Person Care</u>

On May 13, 2016, the Department of Health Care Services (DHCS) received approval from the Center for Medicare and Medicaid Services (CMS) for the Whole Person Care (WPC) pilot program. The purpose of the WPC pilot is to coordinate health, behavioral health, and social services in a patient-centered manner in order to improve beneficiary health and well-being.

The WPC pilot will help to integrate care for a particularly vulnerable group of Health Plan of San Mateo's Medi-Cal beneficiaries who have been identified as high users of multiple systems and continue to have poor health outcomes. Through collaborative leadership and systematic coordination, WPC pilot entities will identify target populations, share data between systems, coordinate real time, and evaluate individual and population progress—all with the goal of providing comprehensive coordinated care for the beneficiary to achieve better health outcomes.

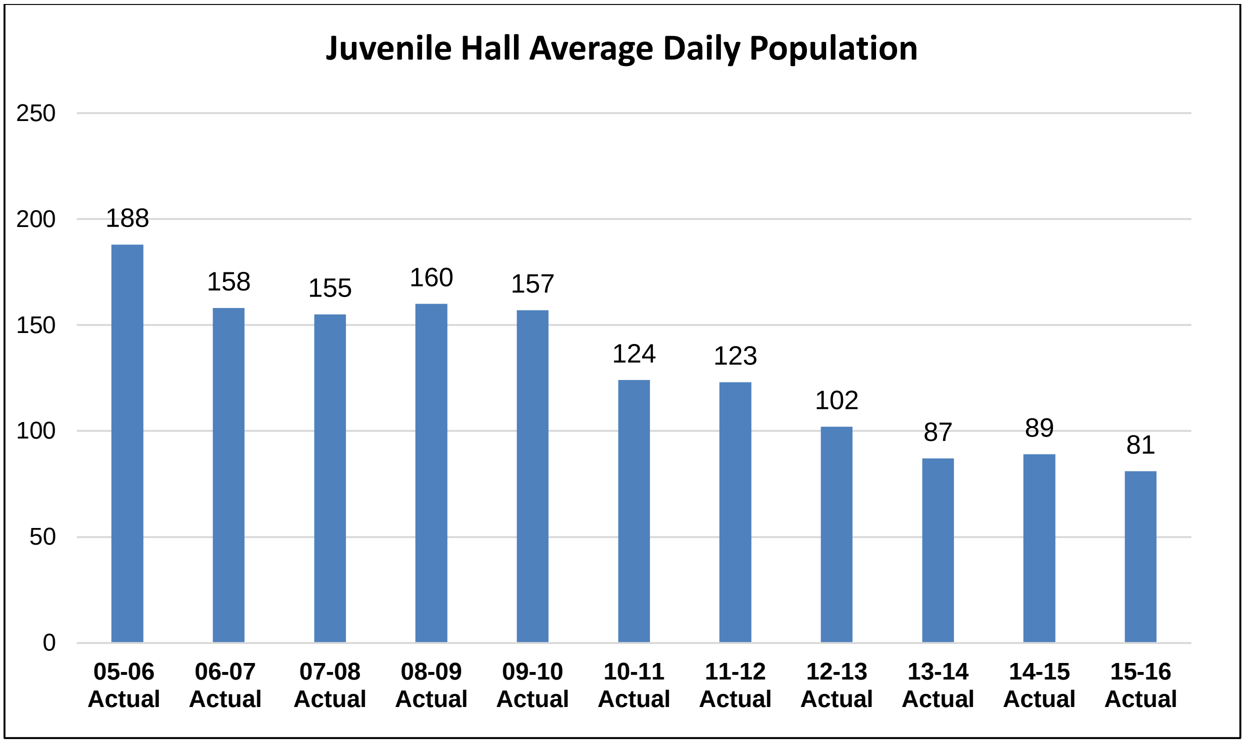
On July 1, 2016, the Health System submitted an application to DHCS to participate as a lead entity in the WPC pilot. The application was approved by DHCS, and on November 1, 2016, the Board of Supervisors adopted a resolution allowing the Chief of the Health System to sign the grant agreement in the amount of $16.5 million for the WPC pilot.

Criminal Justice

The average daily populations of both the jails and the Juvenile Hall have 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 100, to 81 people in FY 2015-16. For adult correctional facilities, the average daily population dropped from 1,129 in 2006 to 937 in 2016. This is significantly below both the Board Rated Capacity of 1,360 and the maximum capacity of 1,603.

The County Manager'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 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, estimated to be $18 million by June 30, 2017. 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.



Juvenile Hall Average Daily Population
250
200
150
100
50
0
188
158
155
160
157
124
123
102
87
89
81
05-06 Actual
06-07 Actual
07-08 Actual
08-09 Actual
09-10 Actual
10-11 Actual
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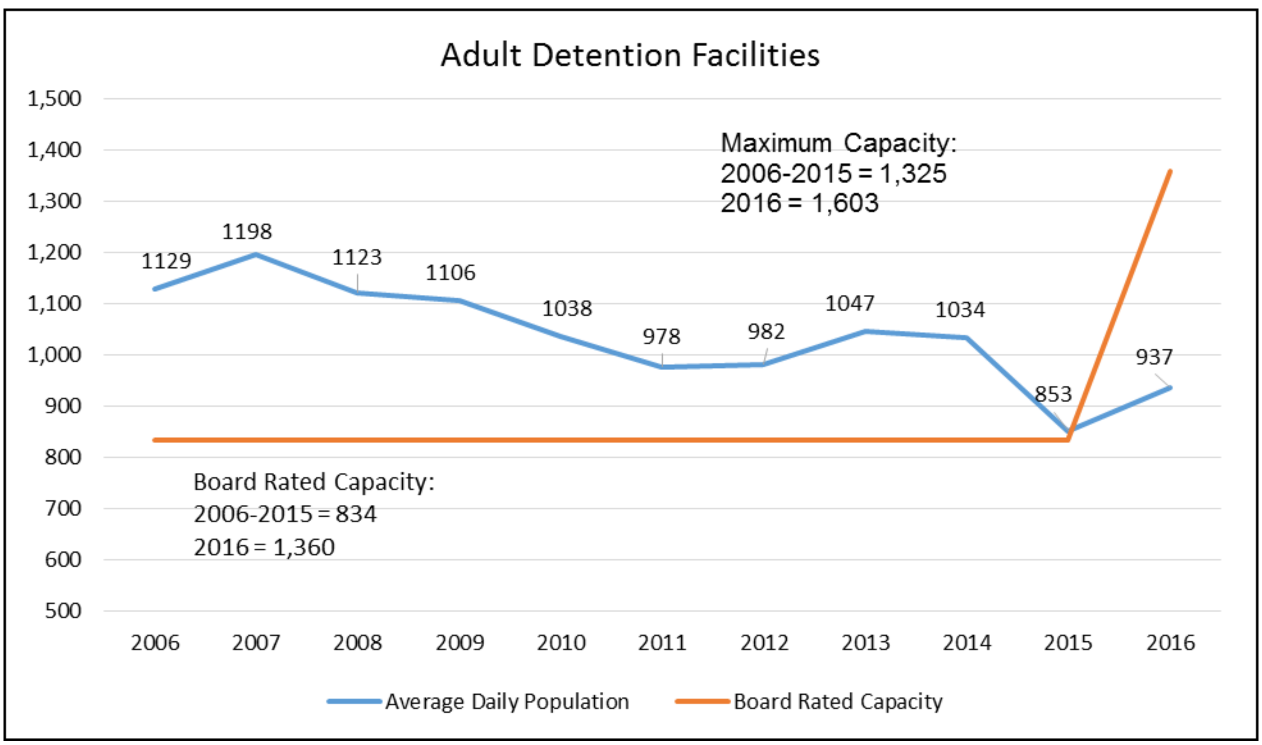
14-15 Actual
15-16 Actual



Adult Detention Facilities
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
Maximum Capacity:
2006-2015 = 1,325
2016 = 1,603
1129
1198
1123
1106
1038
978
982
1047
1034
853
937
Board Rated Capacity:
2006-2015 = 834
2016 = 1,360
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Average Daily Population
Board Rated Capacity

Stormwater Requirements and the Municipal Regional Permit

The San Francisco Bay Regional Water Quality Control Board ("Water Board") issues the Municipal Regional Permit ("MRP"), which regulates pollutants in stormwater runoff from municipal storm drain systems for 76 agencies, including unincorporated San Mateo County. The MRP covers a range of stormwater pollution prevention measures, including trash load reduction, development of a Green Infrastructure Plan, and implementation of an industrial and commercial site inspection program.

The County has been required to comply with stormwater regulations since the early 1990s but has never received funding for this mandate. Stormwater compliance is a multi-departmental effort implemented by the Department of Public Works, Planning and Building Department, County Environmental Health, and Parks Department. Historically, departments have absorbed stormwater compliance costs, oftentimes incorporating required stormwater tasks as an extension of their existing work.

Recent additional requirements have further challenged departments to fund the work required by the MRP. The most recent MRP, issued in November of 2015, includes several new major requirements. For example, it will require the development of a Green Infrastructure Plan to guide the County's transition from traditional stormwater infrastructure to a more resilient and sustainable storm drain system. The MPR also requires the County to achieve a 100 percent trash load reduction by 2022. While the County has achieved a 70 percent reduction thus far, eliminating the final 30 percent of trash will likely require expensive infrastructure updates. A third significant requirement is to achieve specific reductions in bacteria in the San Pedro Creek watershed because the County was issued a Total Maximum Daily Load (TMDL). In the coming years, the County may be issued several more TMDLs for bacteria, sediment, and trash, which would increase the costs to comply. For each provision that the County does not comply with, there is a chance of being issued a Notice of Violation (NOV) and fined up to $10,000 a day. In 2016 the County was issued an NOV for being out of compliance with industrial and commercial stormwater inspection requirements and had to allocate significant staff resources to quickly achieve compliance.

The requirements of the MRP impact the Department of Public Works, Planning and Building, Parks Department, Office of Sustainability, and County Environmental Health, and span activities such as capital construction, road maintenance, storm drain filtration systems, inspections, and plan and policy compliance. Preliminary estimates for the combined costs to impacted departments to comply with the MRP are $4.2 million in FY 2017-18 and $4.3 million in FY 2018-19.

Governor's January Budget Proposal

On January 10, 2017, Governor Jerry Brown released a proposed FY 2017-18 State budget that reflects both deep uncertainty about looming federal actions and a tempered economic and fiscal outlook for the State. The Governor forecasts that revenues will be $5.8 billion lower (over a three year period) than previously projected. Specifically, the Governor expects personal income tax revenues to be $2.1 billion lower, sales and use tax revenues to be $1.9 billion lower, and corporation tax revenues to be $1.7 billion lower than expected when the budget for the current fiscal year was signed into law.

Furthermore, according to the administration, absent new budget solutions, the State would face a deficit of $1.6 billion at the end of FY 2016-17. To address this estimated budget shortfall, the Governor's budget includes more than $3.2 billion in actions to reduce General Fund spending growth. Proposed solutions include rescinding certain one-time spending commitments included in the FY 2016-17 State budget, including: 1) $400 million set aside for affordable housing programs and to be provided only if lawmakers modified the local review process for certain housing developments as proposed by the Governor; 2) $300 million that was intended to begin the process of renovating or replacing certain State office buildings; and 3) delaying a multiyear plan adopted in 2016 to reinvest in the State's child care and development system.

The Governor's proposal includes setting aside $2.3 billion as constitutionally required by Proposition 2 (2014), with half deposited in the State's rainy day fund and half used to pay down State debts. Under the Governor's proposal, State reserves would total $9.5 billion by the end of FY 2017-18.

The Governor's budget proposes termination of the Coordinated Care Initiative (CCI), which would end the IHSS Maintenance of Effort (MOE) agreement and shift an estimated $550 million in FY 2017-18 to participating counties, including San Mateo.

On transportation, the Governor's proposed budget includes a 10-year, $43 billion transportation funding and reform package that would provide $1.8 billion in FY 2017-18. The package was first introduced in 2015 and includes a mix of new revenues, additional investments of "cap and trade" auction proceeds, accelerated loan repayments, and efficiencies in the California Department of Transportation (CalTrans).

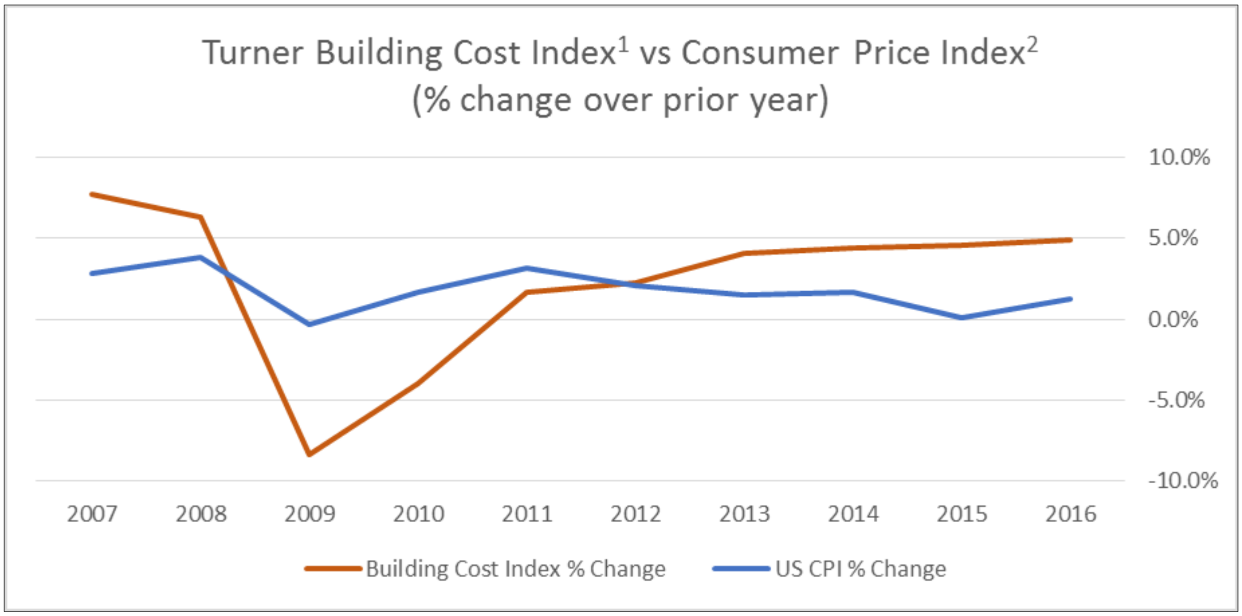
Overall, the Governor's budget proposes to hold most State-funded programs and services at the same level funding received in FY 2016-17 with the exception of proposed reductions to programs supported by the State Penalty Fund and a reduction in funding for the CalWORKs program due to lower projected caseload levels. Finally, as the Governor's budget proposal is silent on the potential fiscal impacts of the repeal of the ACA, it is unclear what exactly those impacts might be to the County of San Mateo. It is expected that the Administration will provide counties with more information on the repeal of the ACA in the May Revision.

Capital Projects Status Report

There are currently 331 capital projects authorized by the Board of Supervisors, totaling approximately $182 million. Of these projects, 15 are managed by the new Project Development Unit (PDU) and the County Manager's Office, totaling $83.3 million; 263 are managed by the Public Works Facilities Capital Projects team, totaling $60.3 million; six are managed by the Sheriff's Office, totaling $15 million; 31 are managed by the Parks

Department, totaling $13.9 million; and 16 are managed by the Public Works Engineering Unit, totaling $9.4 million.

Project delivery has been a challenge in recent years, as the rising costs of construction have significantly outpaced the national CPI, and nearly doubled the local CPI. Labor shortages, especially among local subcontractors, have led to increased costs as well. Industry experts advise adding 10 percent to all projects bid in 2017 in the Bay Area, to account for the lack of competition. The County is implementing new approaches to project bidding and delivery to account for current market conditions.



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

Project Development Unit (PDU): In December 2016, the Board authorized the creation of a new PDU within the County Manager's Office. This unit will be responsible for all large-scale, ground-up capital projects. The following are updates on major capital improvement and master planning projects currently underway:

- <u>Pescadero Fire Station</u>. The Steering Committee consisting of five local community members has reviewed the shortlisted recommended sites. The shortlisted sites consist of the current fire station, Department of Public Works Corp. Yard, and the Pescadero High School site. Once a final site has been selected, a countywide vote will occur. Following required approvals, design and construction may take approximately 18 to 24 months.

- <u>Skylonda Fire Station</u>. Design documents were prepared by the design-build team of T.B. Penick & Sons, Inc. and Jeff Katz Architecture. The design for this essential facility will include a combined barrack, office, and drive-through apparatus bay building with a separate reserve apparatus structure. A new driveway for dedicated emergency vehicles will be built for access onto Skyline Boulevard and a new septic system will be provided. Work is well underway with building foundations recently poured.

- Cordilleras Mental Health Facility. The Health System staff has confirmed the needed programming requirements and the bridging documents have been completed. A California Environmental Quality Act (CEQA) workshop was held in August 2016 and attended by interested Design-Build teams. A meeting with the Army Corps of Engineers to discuss creek realignment occurred in April 2016. In addition, the Health System has successfully reached an agreement with State and federal partners on funding reimbursement parameters. Bids from interested proposers will be accepted in February 2017.

- Regional Operations Center. In October 2015, the Board awarded a design-build contract to McCarthy Construction. Early fuel tank removal, survey of underground utilities, a geo-technical investigation, and site survey have been completed. Additional underground obstacles have been discovered and removal is currently underway. The design documents have been submitted to the required departments for review and permits. Once permits have been obtained, underground utility work will commence. It is anticipated that a temporary re-routing of pedestrian and vehicle flow will be needed. Advance notice will be issued depicting appropriate detours.

- Animal Shelter. Proposals were received in July 2016 and F&H Construction with LDA Partners was shortlisted. Working closely with the Health System staff and Peninsula Humane Society, an agreed upon first draft is close to being finalized. It is anticipated that a final contract will be presented to the Board of Supervisors in March 2017 and construction will begin mid-summer, 2017.

- Government Center Parking Structure. At the County Government Center the need to provide adequate vehicle parking to support the Government Facilities, Judicial Facilities, employees, and downtown Redwood City commercial and retail venues has been identified. The County continues to support a “transit friendly” stance, encouraging the utilization of public transit systems. Even with the continued proactive support to reduce the parking demand, additional vehicle parking is needed. To accommodate the current demand and growth considerations, a 1,200-stall above grade parking structure is recommended. The City of Redwood City has expressed an interest in supporting this development to increase parking availability to the well-developed commercial/retail corridor along Broadway Avenue. A Request for Proposals will be released by March 2017 to solicit interest from Design-Build firms.

- Countywide Master Planning Projects. County master planning teams and consultants have been collaborating regularly through working sessions and bi-weekly meetings and identified many actions items. The outcomes of this synergistic effort are expected to be finalized by March 2017 and presented to the Board of Supervisors in a study session shortly thereafter.

- County Facilities Maintenance. The Public Works Facilities Capital Projects team has made significant progress on two of the most challenging projects this year, the San Mateo Medical Center Solar and Co-generation projects. Following the bankruptcy of the original contractor on the solar project, the performance bond company secured a new contractor, and the project is expected to be completed in March of 2017. The Co-generation project at the Medical Center is now complete and the plant is operating at full capacity. In addition, the Countywide Facility LED Lighting Project is well underway. Phase 1, which consists of the Maguire Jail and Mike Nevin Medical Center, is scheduled for completion by June 30, 2017. In an effort to conserve water, the Facilities Services Division has replaced toilets and urinals with water efficient fixtures in the Hall of Justice and County Office Building 1, and installed programmable water control valves in the Maguire Jail. A major HVAC upgrade in the Hall of Justice was recently awarded to a JOC contractor and is scheduled for completion in December 2017. The following table provides an overview of the progress of the facilities maintenance projects budgeted in FY 2016-17:

Category	# of Projects	% of Total
Completed/Closeout	50	19%
In Progress	110	42%
Investigation/Not Yet Underway	89	34%
Recurring (e.g. SEMP)	5	2%
Cancelled/On Hold	9	3%

Technology Update

On January 26, 2017, the Information Management Planning Council (IMPC) identified countywide technology needs and developed a technology spending forecast for the next five years.

Due to competing priorities, financial constraints, and the number of proposed technology projects, the group is proposing to recommend key investments in the following areas: (1) Mobile Strategy - Support Telecommuting; (2) Big Data - Predictive Analysis; (3) Paperless; (4) Multiple Data Sources Countywide; (5) Self-Service Access; (6) Leverage SharePoint for Document Management; and (7) GIS Capability and Support.

Over the next five years, it is estimated that potential investments in the areas mentioned above could approximate \$50.5 million in one-time costs and \$46.4 million in ongoing costs. It should be noted that some of these costs will be funded from other non-General Fund sources and that a few of the one-time costs, including GIS, are partially funded in the current budget. It should also be noted that this list does not include major department specific initiatives, most notably the replacement of the County's property tax system. As the FY 2017-19 Recommended Budget is developed, these items will be prioritized with other important initiatives, some of which are outlined in this report, including capital construction and maintenance projects.

Key Investment Commonalities			
Key Theme	**Technology Solution**	**Estimated 5 Year One-Time Costs**	**Estimated 5 Year Ongoing Costs**
Mobile Strategy - Support Telecommuting	Mobility	$ 3,600,000	$ 1,875,000
Big Data - Predictive Analysis	Business Intelligence	$ 3,450,000	$ 500,000
Paperless	Document Management/ Case Management	$ 34,542,000	$ 41,500,000
Multiple Data Sources Countywide	Data Management/ Data Warehouse	$ 1,470,000	$ 350,000
Self-Service Access	Yet to Be Determined	$ 700,000	$ 150,000
Leverage SharePoint for Document Management	SharePoint	$ 2,350,000	$ 200,000
GIS Capability / Support	GIS	$ 4,370,000	$ 1,780,000
TOTAL		**$ 50,482,000**	**$ 46,355,000**

Performance Measurement

The County Manager's Office continues to work with departments to update their Program Performance Reports in the Socrata performance management system, including performance measures, data by fiscal year, benchmarking information (as available), the story behind the data, and pictures that illustrate the programs and services that the County provides.

Along those lines, the County Manager's Office changed the Measure K dashboard to clearly illustrate the seven priority areas for Measure K funding and to better align the performance of the Measure K initiatives with the Shared Vision 2025 priorities and goals. The seven Measure K priority areas are Parks and Environment, Health and Mental Health, Community Services, Housing and Homelessness, Older Adults and Veterans Services, Public Safety, and Youth and Education.

In addition, the County Manager's Office worked with departments to update the Shared Vision 2025 dashboard to be used to guide decision making for the FY 2017-19 budget cycle.

The County continues to work on continuous process improvement using LEAN techniques. Projects in process include the Parks Department hiring process for seasonal Park Aides, the Office of Sustainability's See-Click-Fix process, and the Department of Housing's processing of applications and other critical documents through their Customer Service and Eligibility units. In addition, the Medical Center continues to operate its LEAP program.

Last fiscal year, one of the LEAN events conducted was the Countywide Program Assessment, which included a survey of all supervisors and managers in County departments to collect self-reported data on various aspects of program success. Six priority performance workgroups were developed as a result of the survey to address needed improvement areas. These included performance tracking, benchmarking, customer service, employee engagement, employee feedback and evaluation, and training for staff. The culmination of these workgroups was the development of a Performance Handbook that is available to all County employees to use in improving their programs in these six areas.

The County successfully partnered with San Francisco State University's Masters of Public Administration (MPA) faculty and students on a Student Consultants Program Pilot. The pilot included MPA students who were taking or had already completed a Program Evaluation course and partnering them with County staff to evaluate selected programs. These program reviews included the Assessment Appeals Board, the Homeless Outreach Team Program, Library Summer Reading Programs, Health System Hoteling Space, and the Family Resource Centers.

FISCAL IMPACT:

There is no Net County Cost associated with accepting this report.

Local Economic Indicators

The following indicators provide information on current local economic activity compared to prior years and state/national trends. Trends in the data assist in generating projections for general purpose revenue such as property tax, sales tax, and transient occupancy tax:

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

A. <u>Bay Area Consumer Price Index</u>

The Consumer Price Index (CPI) measures the change in the price of goods over time. The change in the index is referred to as the rate of inflation, and is used in assumptions for calculating future costs. The CPI for all urban consumers, all items in 2016 increased 2.8 percent in the Bay Area, 2 percent in California, and 0.7 percent in the United States. The Bay Area CPI is forecasted to increase 3.3 percent in 2017, 3.4 percent in 2017, and 3.3 percent in 2018.

CPI Fiscal Year Averages	Bay Area[1] % Change	California % Change	United States % Change
2019*	3.3	2.6	2.1
2018*	3.4	2.7	2.0
2017*	3.3	2.6	1.8
2016	2.8	2.0	0.7
2015	2.7	1.5	0.7
2014	2.4	1.4	1.6
2013	2.6	2.1	1.7
2012	2.8	2.4	2.9
2011	1.7	1.7	2.0
2010	1.2	0.7	1.0
2009	1.8	1.3	1.4
2008	3.2	3.4	3.7
2007	3.3	3.4	2.6
2006	2.7	4.2	3.8

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

*Forecasts: CA Department of Finance

Sources:
California Department of Finance http://www.dof.ca.gov
Bureau of Labor Statistics http://www.bls.gov

B. First-Time Housing Affordability Index

The housing affordability index for first-time buyers is one way to gauge the well-being of the housing market. Housing prices continue to be unaffordable for the majority of first-time buyers in San Mateo County and other Bay Area counties. The percentage of first-time buyers who can afford to purchase a median-priced home in San Mateo County in the third quarter of 2016 was 29 percent, a slight increase over 2015, but still down significantly from 2013 and 2014. San Mateo County is second only to San Francisco County with the lowest affordability for first-time buyers. Affordability for the Bay Area as a whole increased from 41 percent in 2015 to 45 percent in 2016. The statewide housing affordability index continued its steady decline to 50 percent.

First-Time Buyer Housing Affordability Index ***Region/State/County***	*3rd Quarter* ***2013***	*3rd Quarter* ***2014***	*3rd Quarter* ***2015***	*3rd Quarter* ***2016***
California	54%	52%	51%	50%
United States	74%	75%	74%	73%
SF Bay Area	45%	45%	41%	45%
Sacramento	71%	69%	66%	63%
Santa Clara	45%	44%	40%	41%
Monterey	54%	50%	51%	46%
Alameda	44%	44%	41%	40%
Contra Costa	45%	43%	40%	55%
San Francisco	36%	29%	24%	26%
Marin	37%	29%	37%	34%
San Mateo County	**36%**	**34%**	**27%**	**29%**

Source: CA Association of Realtors, www.car.org

C. Median Home Price and Home Sales

The number of homes sold in the Bay Area decreased by 9.1 percent between December 2015 and December 2016. Home sales volumes decreased in all Bay Area counties except for Napa County, where they were flat. In San Mateo County, there was an 11.5 percent drop in the number of home sales between December 2015 and December 2016.

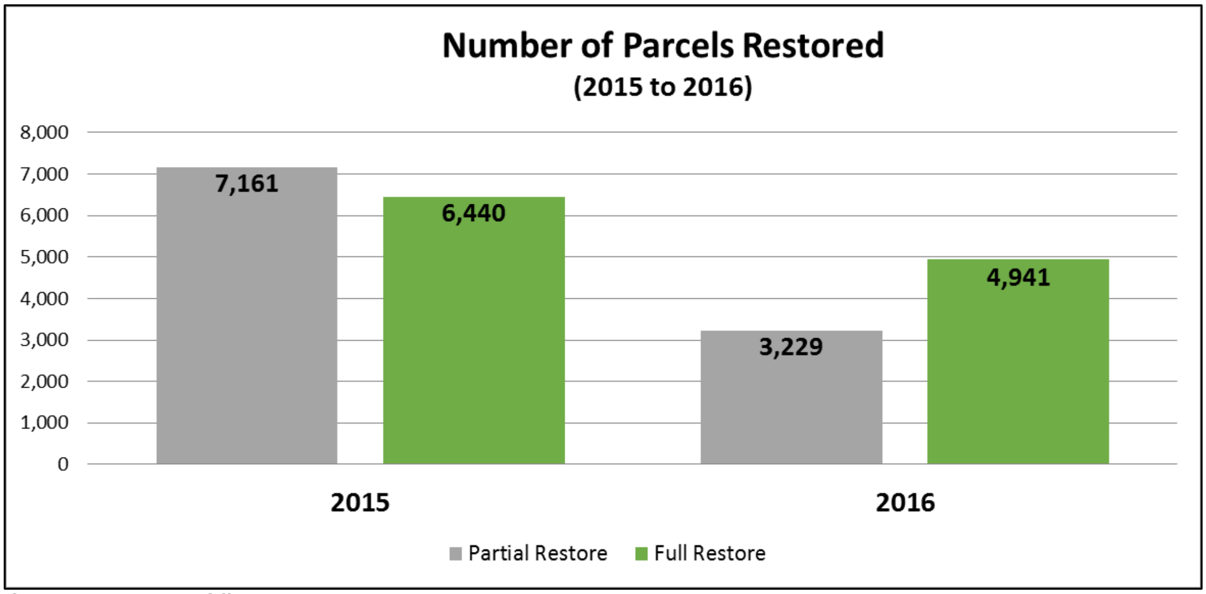
Median home prices continued to rise over this period. The median home price in San Mateo County in December 2016 surpassed $1 million, an increase of 10 percent from December 2015. Overall, Bay Area median home prices increased by four percent from December 2015 to December 2016.

	Homes Sold Dec. 2015	*Homes Sold Dec. 2016*	*Homes Sold % Change*	*Median Price Dec. 2015*	*Median Price Dec. 2016*	*Median Price % Change*
Bay Area	7,850	7136	-9.1%	$650,000	$676,000	4.0%
Alameda	1,689	1,563	-7.5%	$650,000	$685,000	5.4%
Contra Costa	1,564	1,441	-7.9%	$480,500	$505,000	5.1%
Santa Clara	1,747	1,608	-8.0%	$788,500	$805,000	2.1%
San Mateo	**618**	**547**	**-11.5%**	**$916,750**	**$1,008,000**	**10.0%**
San Francisco	627	553	-11.8%	$1,124,000	N/A	N/A
Marin	274	244	-11.0%	$823,000	$857,500	4.2%
Napa	125	125	0%	$555,000	$560,000	0.9%
Solano	668	591	-11.5%	$350,250	$390,000	11.3%
Sonoma	538	464	-13.8%	$480,000	$527,500	9.9%

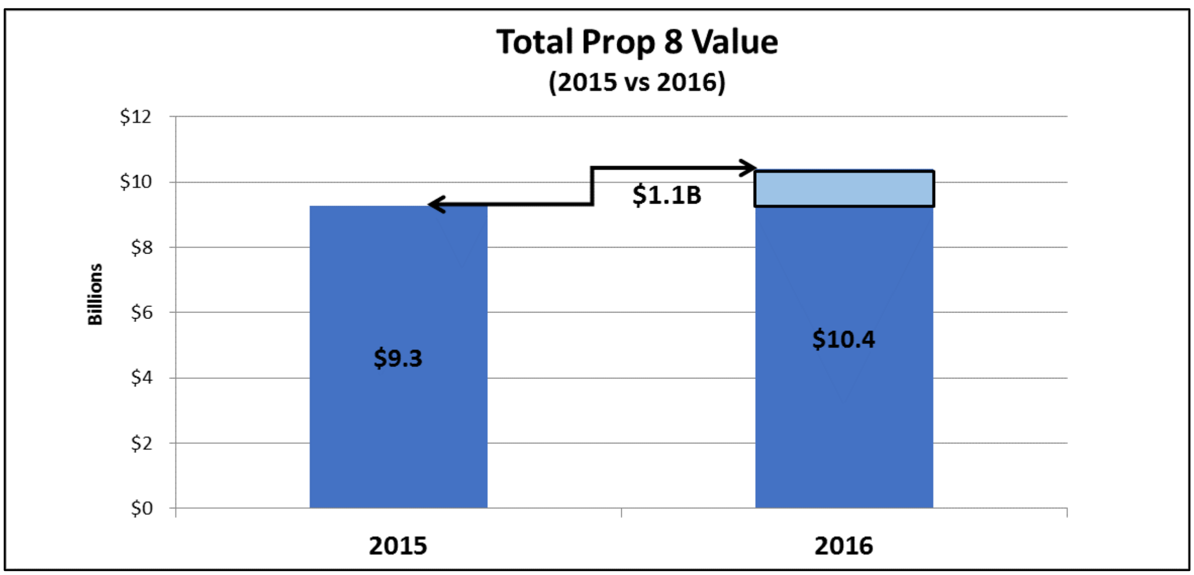
Source: CoreLogic Data Briefs, http://www.corelogic.com/downloadable-docs/dq-news/dq-news-data-briefs/san-francisco-bay-area-december-2016-home-sales.pdf

D. Prop. 8 Assessed Value Restorations

During FY 2015-16, the Assessor's Office reviewed approximately 8,800 parcels in the decline in value program. Of this amount, 3,229 parcels were partially restored and 4,941 parcels were fully restored. The remaining parcels that were reviewed either had values that did not increase or were new to the Prop. 8 program. The partial and fully restored parcels resulted in a net increase of $1.1 billion in restored value to the FY 2016-17 tax roll.



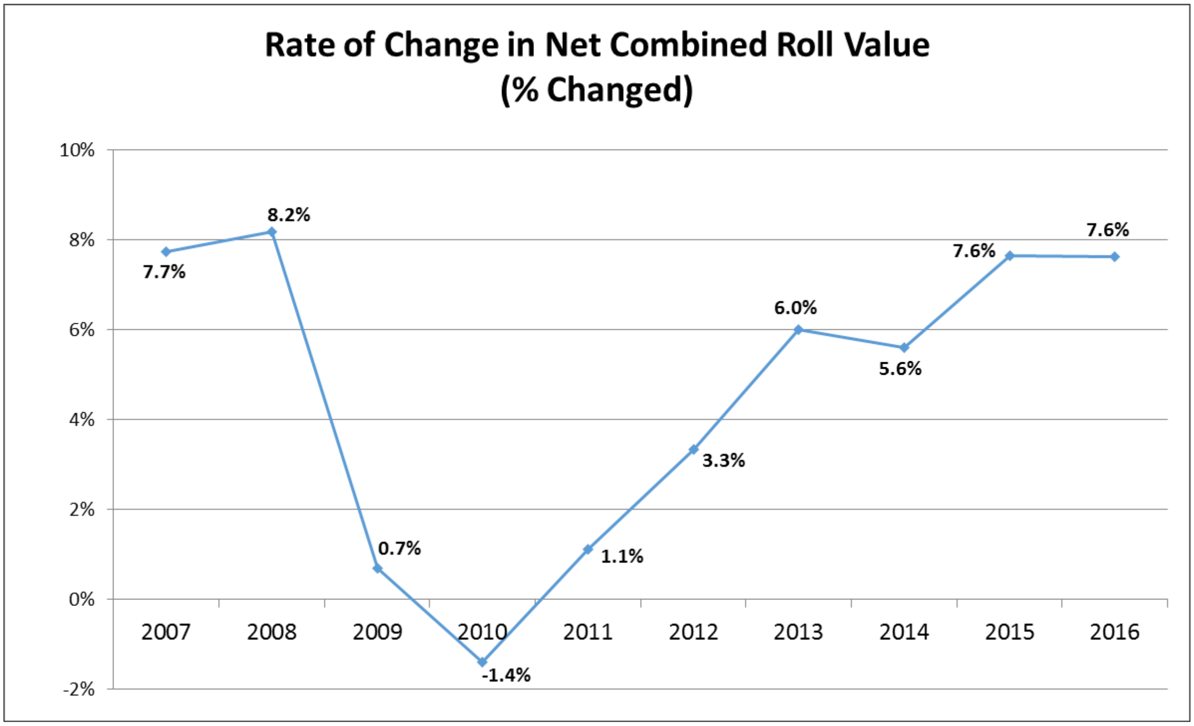
Source: Assessor's Office



Source: Assessor's Office

E. Combined Secured and Unsecured Property Tax Roll Value

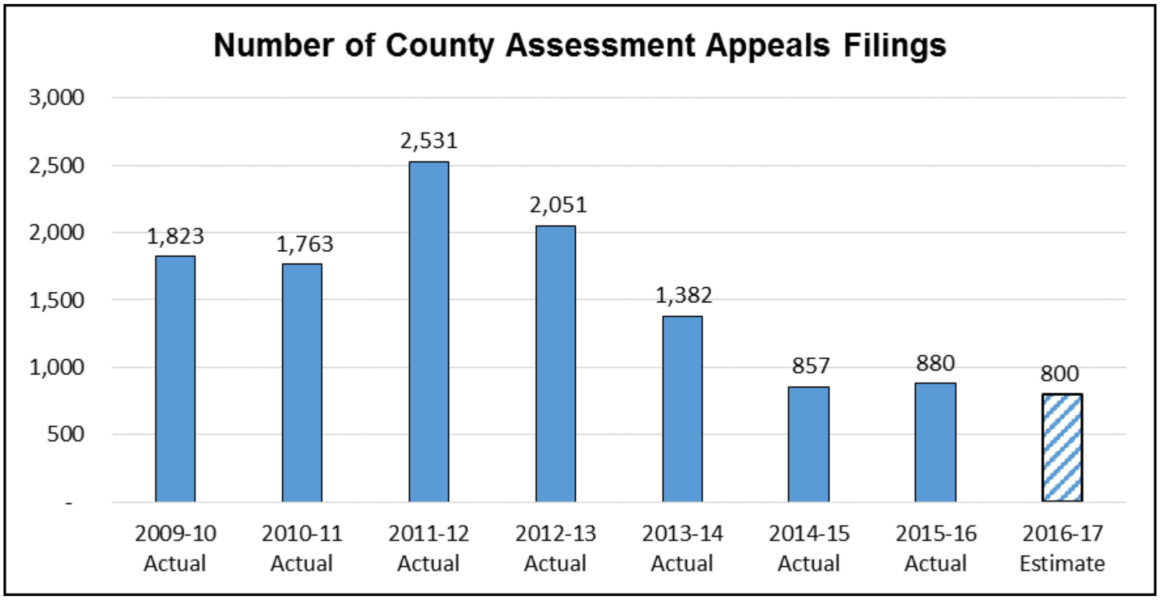
There were 236,374 assessment parcels and accounts for 2016 for a Total Local Roll of $191 billion, representing an increase of 7.6 percent from 2015.



Source: San Mateo County Assessor's Office

F. <u>Property Reassessment and Assessment Appeals Filings</u>

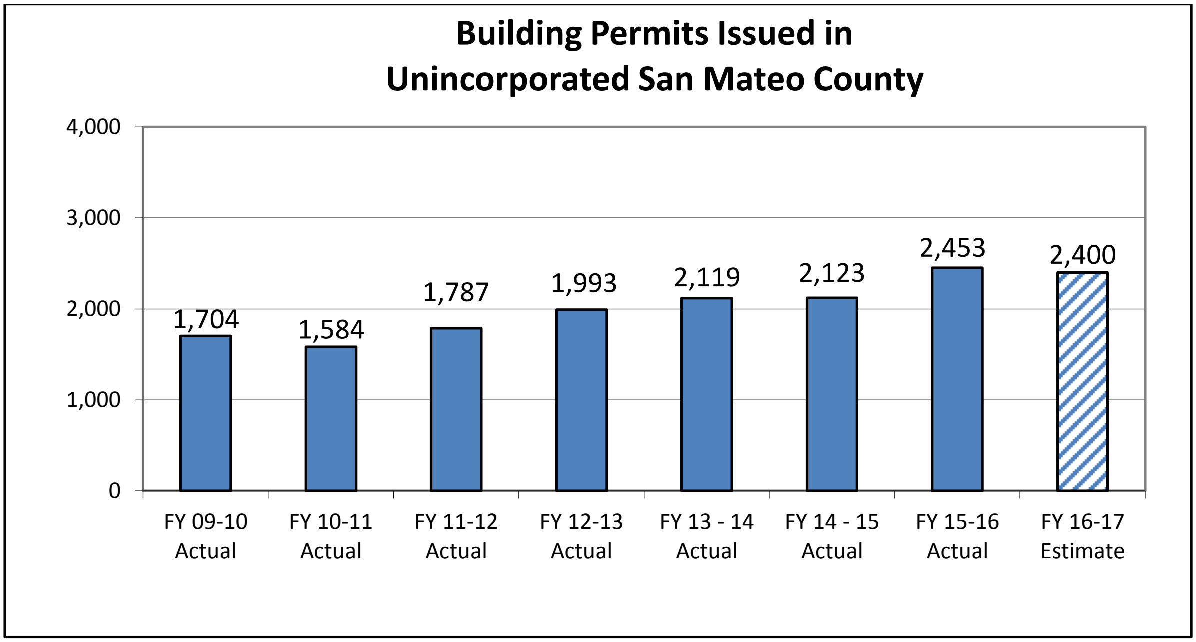
According to the County's Assessment Appeals Board, there were 880 new assessment appeals filings in FY 2015-16, which was a 2.6 percent increase from FY 2014-15. It is estimated that 800 appeals will be filed in FY 2016-17.



Source: County of San Mateo Assessment Appeals Board

G. Building Permits Issued

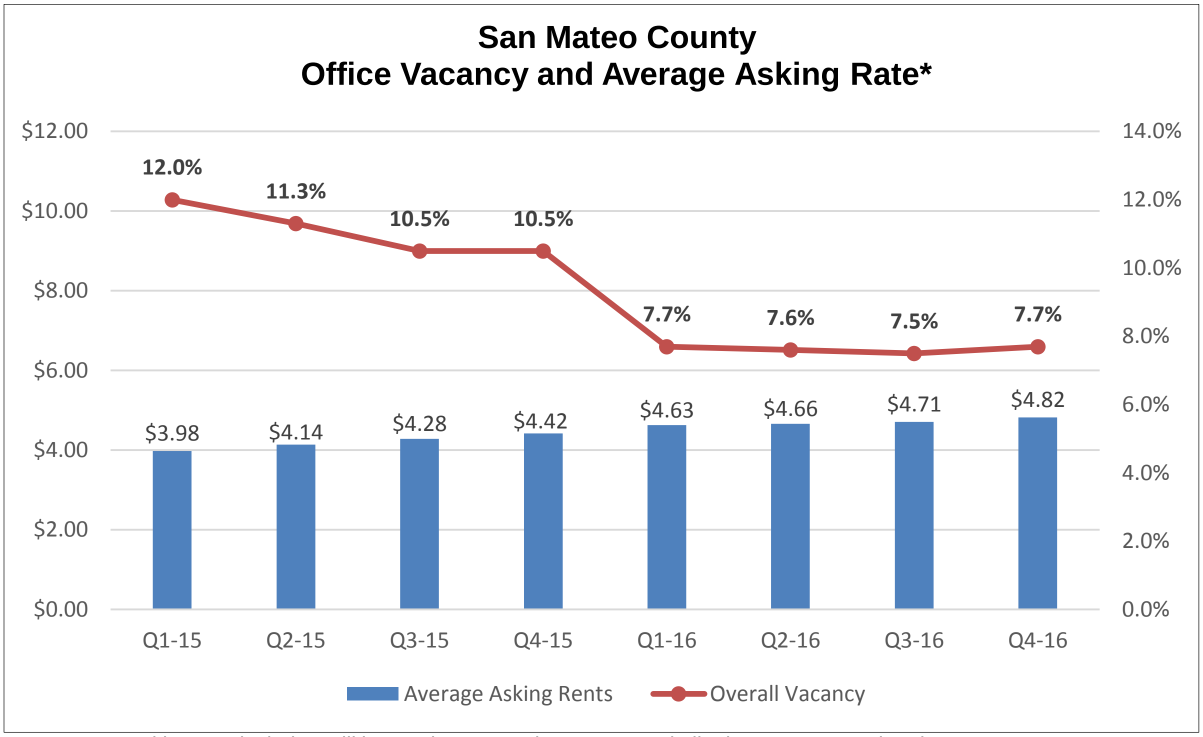
The number of building permits issued for unincorporated San Mateo County by the Planning and Building Department has increased every fiscal year since FY 2010-11. It is estimated that there will be 2,400 building permits issued for Unincorporated San Mateo County in FY 2016-17.



Source: San Mateo County Planning and Building Department

H. Office Space Availability

The demand for San Mateo County office space continued to rise in Q4-16, reaching an average asking rent of $4.82 per square foot (full service equivalent), an increase of 9 percent since Q4-15 and 21.1 percent since Q1-15. The overall vacancy rate has steadily decreased from 12 percent in Q1-2015 to 7.7 percent in Q4-16. There are a large number of development projects in the pipeline, suggesting an increase to vacancy rates in the next several years. Still, average asking rates continue to rise as life science and tech firms continue to search for and lease large amounts of office space.

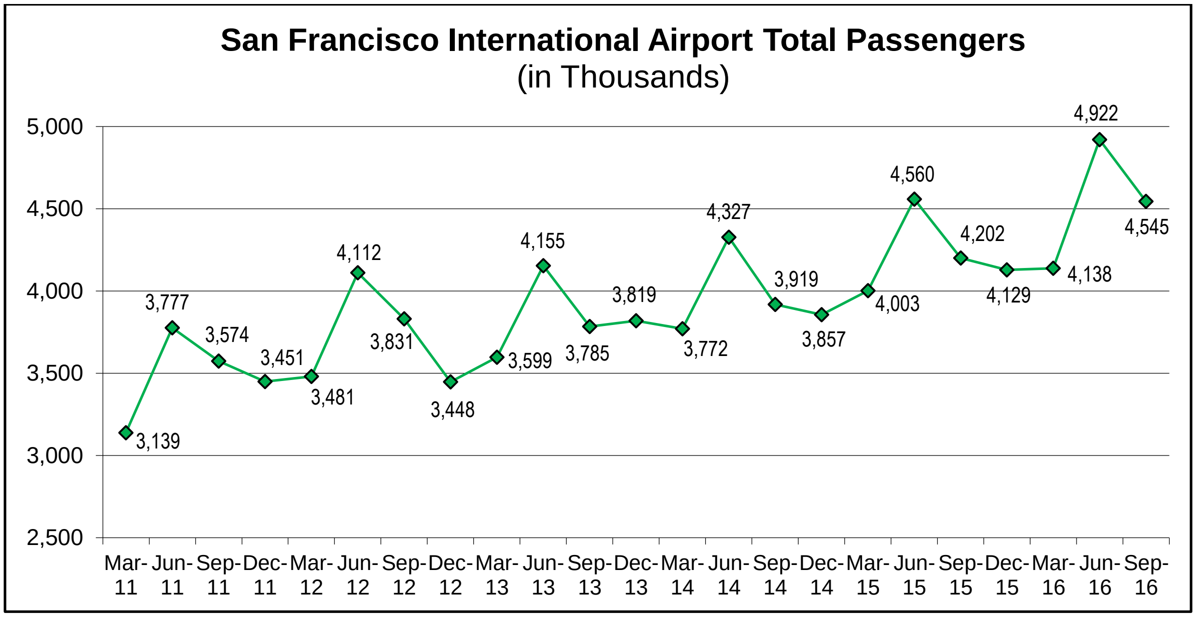


*Average asking rate includes utilities, maintenance, insurance, and all other expenses related to occupancy

Source: Cushman and Wakefield

I. San Francisco Airport – Total Passengers

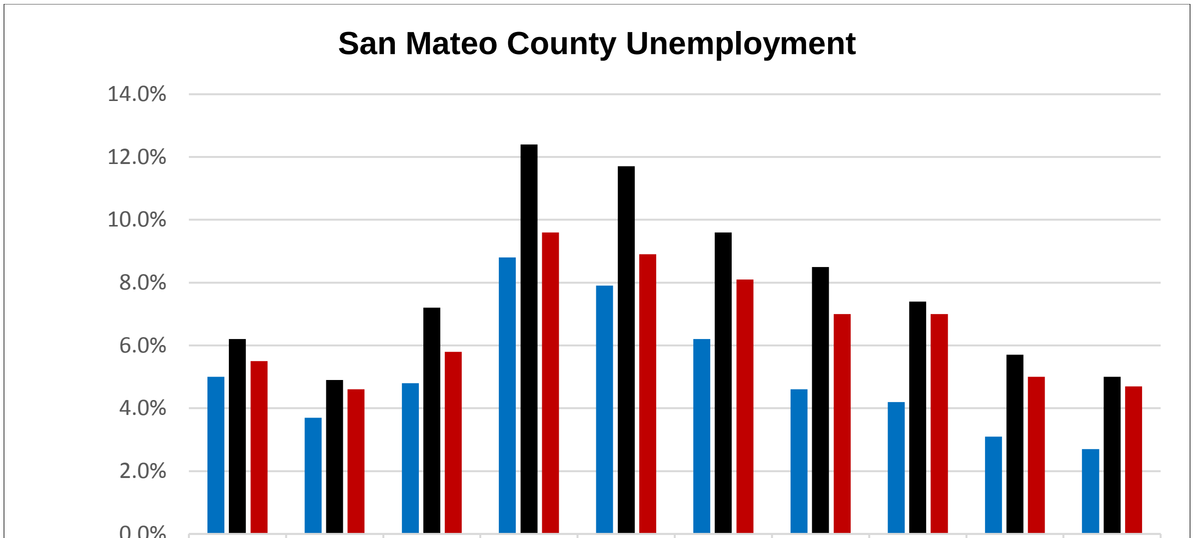
A significant portion of the County's unsecured property tax and sales tax revenues come from businesses at San Francisco International Airport, so it is important to monitor patterns in airport activity. The overall trend in passenger activity has increased since March 2011.



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

J. <u>Unemployment Rate</u>

Unemployment rates at the local, state, and national levels are down from last year. San Mateo County unemployment is down from 3.1 percent in 2015 to 2.7 percent in 2016. The county has the lowest unemployment rate in the state.

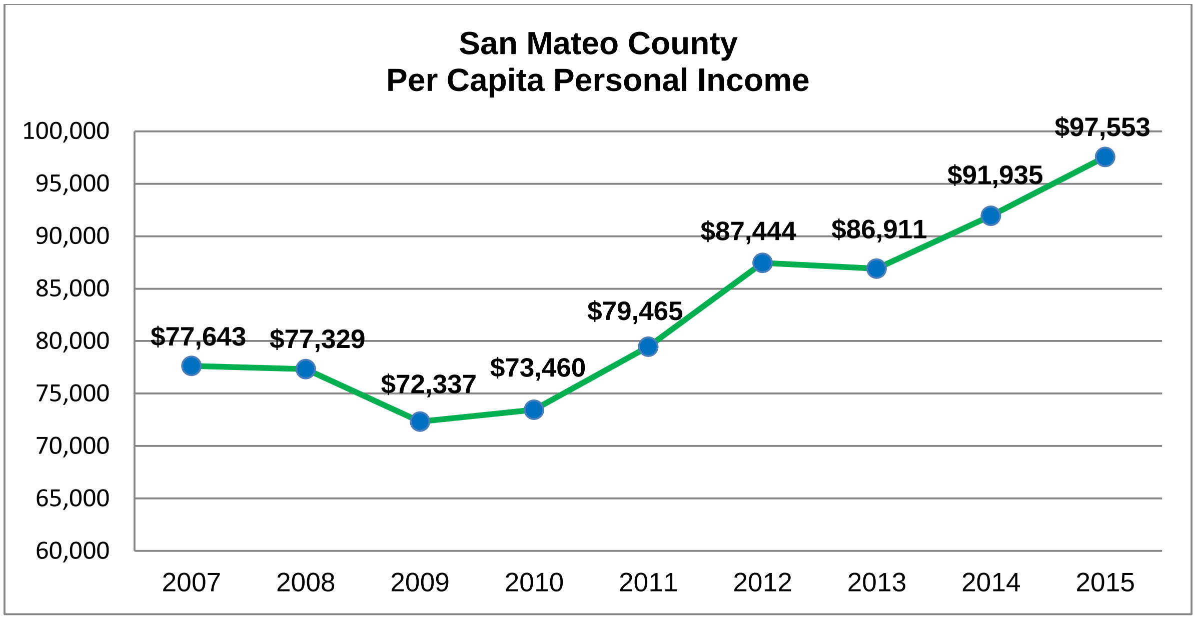


	2004	2006	2008	2010	2011	2012	2013	2014	2015	2016
San Mateo	5.0%	3.7%	4.8%	8.8%	7.9%	6.2%	4.6%	4.2%	3.1%	2.7%
California	6.2%	4.9%	7.2%	12.4%	11.7%	9.6%	8.5%	7.4%	5.7%	5.0%
U.S.	5.5%	4.6%	5.8%	9.6%	8.9%	8.1%	7.0%	7.0%	5.0%	4.7%

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

K. <u>San Mateo County Per Capita Personal Income</u>

In San Mateo County, personal income increased from $91,935 per capita in 2014 to $97,553 per capita in 2015. Personal income is reported in current dollars (no adjustment is made for price changes). Data for 2016 is not yet available.



Source: Bureau of Economic Analysis: http://bea.gov/