



# FINANCIAL HIGHLIGHTS

County of San Mateo, Fiscal Year Ended June 30, 2011

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## County Profile

The County, one of the nine counties in the San Francisco Bay Area, was established by an Act of the State Law in 1856. The County occupies 455 square miles and contains 20 cities on a peninsula bounded by San Francisco to the North, Santa Clara County to the South, San Francisco Bay to the East, and the Pacific Ocean to the West.

Sandwiched between two large urban areas, the County is a pleasant mix of suburban and rural areas. Most of the County's 724,702 residents live in the suburban corridor east of the Santa Cruz Mountains, which bisect the County. The western part of the County remains primarily rural and has some of California's most beautiful coastline.

Under a charter form of government, the County is governed by a five-member Board of Supervisors (the Board) that serves four-year terms on a full-time basis. Each Supervisor must reside in one of the five districts of the County and is elected at large in non-partisan elections.

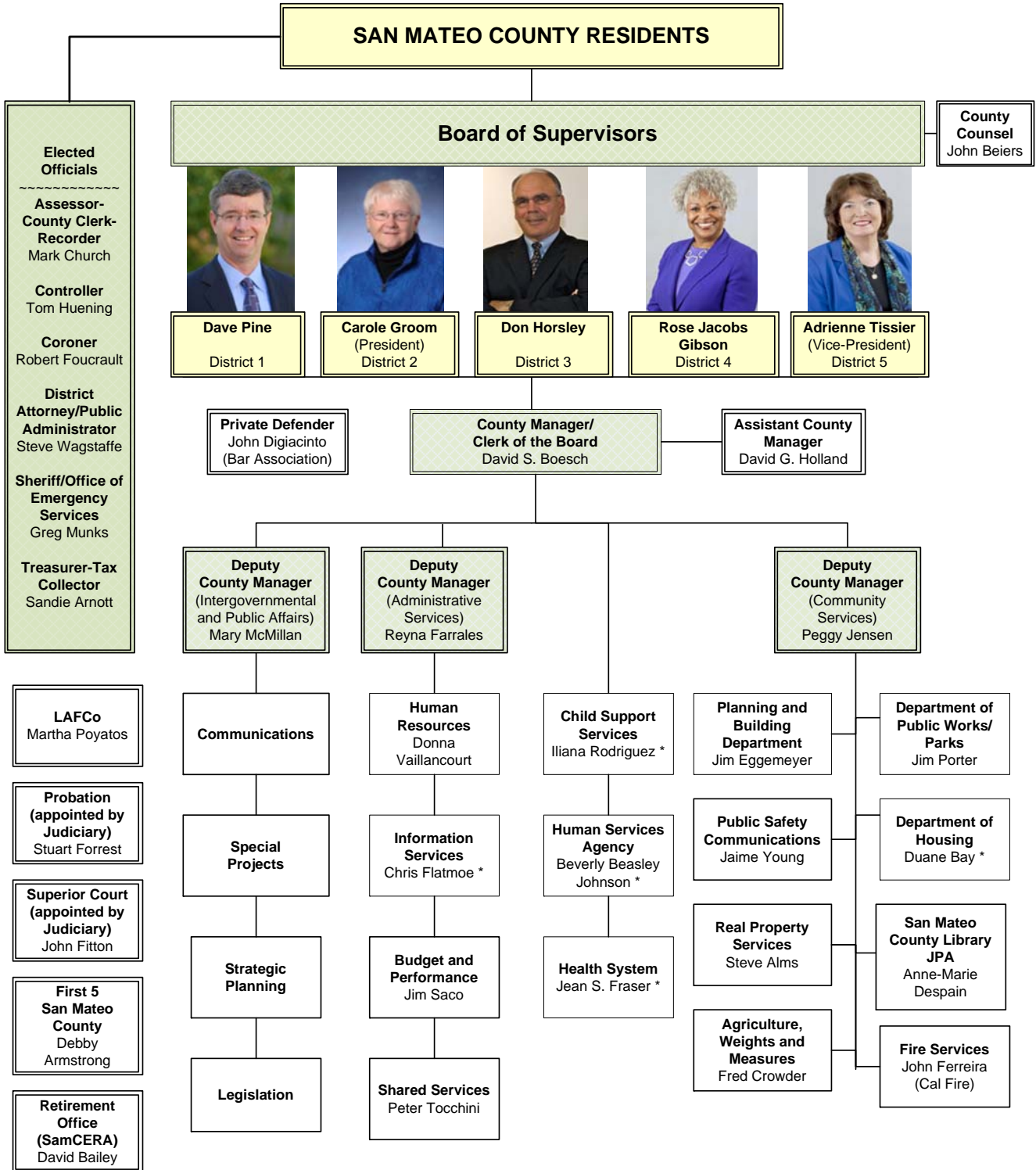
The Board is responsible, among other things, for passing ordinances, adopting the County's budget, and appointing the County Manager, the County Counsel, and various committee members. The County has six elected officials responsible for the offices of the Assessor-County Clerk-Recorder, Controller, Coroner, Sheriff, District Attorney/Public Administrator, and Treasurer-Tax Collector.

The County plays a dual role that differs from cities. Cities generally provide basic services such as police and fire protection, sanitation, recreation programs, planning, street repair, and building inspection. The County, as a subdivision of the State, provides a vast array of services for all residents. These services include social services, public health protection, housing programs, property tax assessments, tax collection, elections, and public safety. The County also provides basic city services for residents who live in an unincorporated area, not a city.



# Who We Are

## County of San Mateo Organization Chart June 30, 2011



\* Direct report to the County Manager



**Tom Huening**  
Controller  
CPA, CPFO

The County continues to face a large budget deficit despite the best efforts of the Board of Supervisors and departments. Though there have been reductions in spending, including reductions of 126 positions, the County's structural budget deficit still stands at \$50 million for the fiscal year 2011-12.

This deficit has not factored in operational costs for a proposed new jail, additional costs for projects identified in the County's Facilities Master Plan, increases in retirement contribution costs, health plan premium increases, negotiated increases with Nurses and Probation Officers and Group Supervisors, and increased County costs triggered by funding reductions at the State and Federal levels. The County has been fortunate in obtaining one-time funds to delay the draconian budget cuts that would be necessary to remove this structural deficit before reserves are completely drained. Unfortunately, more expenses are on the horizon and future one-time revenue sources are uncertain.

Continued reductions in discretionary spending by the County occur as the State shifts responsibility for programs to its counties. Though the State is providing some revenues for these shifts, it is uncertain whether these revenues will be sufficient to cover the total costs in the initial and future years. An example is the shift of prison populations formerly managed by the State to the County. These probable ongoing additional costs will cause long-term drains on the County's limited financial resources. Adding these demands to the current structural deficit will allow the County to, at best, tread water with one-time funds and, at worst, face major program delivery reductions within a very short time frame as reserves dwindle.

Another area of concern is the County's future obligation for employee pensions and benefits. A key component in computing how much the County is required to contribute each year is the discount rate. This is the assumed rate of return that the pension plan's investments will achieve over 15 years. According to a December 7, 2011 study by the County's actuarial firm, Milliman, the current discount rate used by nation's largest 100 defined benefit pension plans is 4.53%, the lowest in the 11 year history of their study. Further details can be found at <http://www.milliman.com/pfi>.

The County's pension plan uses a discount rate of 7.75% for the 2011 fiscal year. That is a 3.22% difference from the rate reported by Milliman. The Governmental Accounting Standards Board is in the final stage of issuing new accounting rules that will show this difference between the assumed discount rate and average actual discount rate (or some modification thereof) in the financial statements.

It has been estimated that for every ¼% decrease in the discount rate, the County's required annual contribution to the pension plan increases by 3% of covered payroll (\$463 million for fiscal year 2011). Using the fiscal year 2011 covered payroll, this comes to approximately \$14 million for each ¼% change in the discount rate. **If the County were to lower the assumed discount rate of 7.75% used in fiscal year 2011 to even 6.75%, the County's annual required contribution would increase by approximately \$56 million.** This would essentially double the County's current annual structural deficit of approximately \$50 million. This somewhat optimistic calculation, when added to the State's shift in costly responsibilities to counties and cities, creates a sobering fiscal scenario.

The County appears to be headed, without a major upswing in the economy, toward an entity that provides services mandated by the State and Federal governments and funds its pension obligations. Though annual, actuarially determined pension costs increased significantly from the severe market declines of 2008, the actual future pension obligation is much higher than "accounted" for. This is caused by actuarial valuations using estimated rates of returns on pension investments that are significantly higher than average market returns used by the private industry to calculate their future pension liabilities.

What can be done? The County's leadership, starting with the Board of Supervisors, continues to be innovative and future-focused. Recent negotiated pensions and other benefits for new employees will reduce the per employee obligation in future years. One-time monies are also being used to prepay pension obligations, purchase capital assets, invest in technologies allowing greater efficiencies, and maintain existing infrastructure to reduce future repair costs. However, a larger and larger portion of these one-time monies are being directed to fund current operations (and avoid program reductions) rather than reduce long-term obligations and their future costs.

# Financial Summary

## County's Net Assets (In Millions)

### Glossary

	Governmental Activities		Business-type Activities		Total		Increase/(Decrease)	
	2011	2010	2011	2010	2011	2010	Amount	Percentage
<b>Assets:</b>								
Current and other assets	\$ 919	\$1,016	\$ 105	\$ 111	\$1,024	\$1,127	\$ (103)	-9%
Capital assets	782	721	59	58	841	779	62	8%
Total assets	1,701	1,737	164	169	1,865	1,906	(41)	-2%
<b>Liabilities:</b>								
Long-term liabilities	451	460	14	14	465	474	(9)	-2%
Other liabilities	147	213	24	46	171	259	(88)	-34%
Total liabilities	598	673	38	60	636	733	(97)	-13%
<b>Net assets:</b>								
Invested in capital assets, net of related debt	449	382	55	54	504	436	68	16%
Restricted	174	143	1	-	175	143	32	22%
Unrestricted	480	539	70	55	550	594	(44)	-7%
Total net assets	\$1,103	\$1,064	\$ 126	\$ 109	\$1,229	\$1,173	\$ 56	5%

**Net assets** represent the difference between assets and liabilities.

**Governmental activities** are normally supported by taxes and intergovernmental revenues.

**Business-type activities** usually rely heavily on fees charged to recipients of the services.

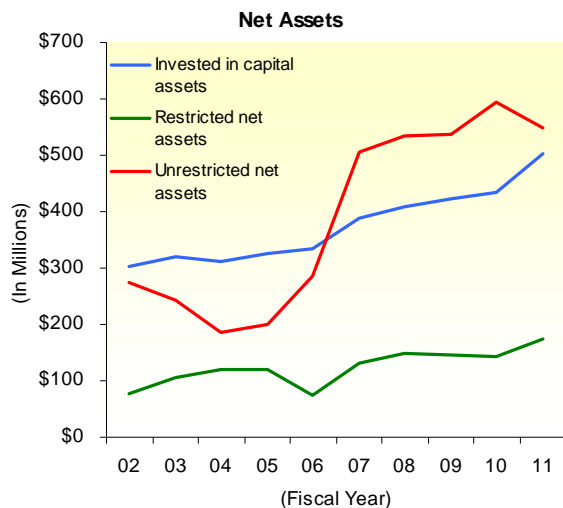
**Net Assets.** Over time increases or decreases in net assets may serve as a useful indicator of whether the County's financial position is improving or deteriorating. As of June 30, 2011, the County's total net assets reached \$1.2 billion, an increase of \$56 million or 5% from the previous year.

This report is derived from the County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles. The CAFR is available at <http://www.co.sanmateo.ca.us/controller/2011cafr>

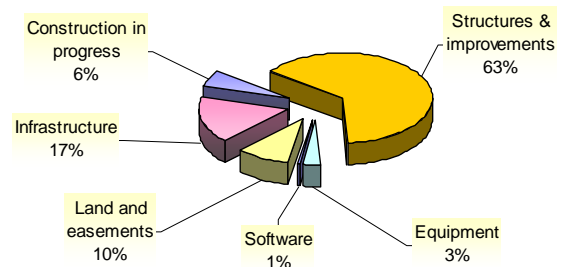
- \$504 million, or 41%, of total net assets, is invested in capital assets net of any related debts. The County uses these capital assets to provide services to citizens, therefore, these assets are not available for future spending.
- \$175 million, or 14%, of total net assets is subject to external restrictions on how it may be used.
- \$550 million, or 45%, of total net assets may be used to meet the County's ongoing obligations to citizens and creditors.

**Capital Assets.** As of June 30, 2011, the County's total capital assets increased by \$62 million, or 8%, to \$841 million.

About \$55 million of the increase was from the purchase of four real properties for \$15 million and two office buildings for \$40 million. These real properties will be used for the expansion of jail facilities. The office buildings may allow the County to achieve savings through ownership rather than leasing of facilities.



### County's Capital Assets

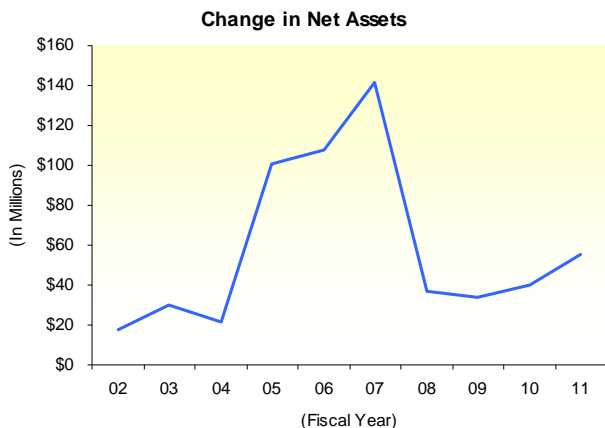


**Long-Term Debt.** The County's total debt was \$370 million as of June 30, 2011, with \$339 million in lease revenue bonds, \$23 million in certificates of participation, and \$8 million in other debt.

As noted on the preceding page, the County's net assets increased by \$56 million, or 5%. This amount reflects the difference between County's total revenues and total expenses for the fiscal year ended June 30, 2011. Unrestricted net assets however decreased by \$44 million, or 7%, which translates to a reduction in funds available to the County for discretionary spending.

### Change in Net Assets (In Millions)

	Fiscal Years		Increase/ (Decrease)
	2011	2010	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 266	\$ 279	\$ (13)
Operating grants and contributions	547	477	70
Capital grants and contributions	5	5	-
General revenues:			
Property taxes	361	377	(16)
Other taxes	23	22	1
Unrestricted interest and investment earnings	10	12	(2)
Miscellaneous	24	21	3
Total revenues	1,236	1,193	43
<b>Expenses:</b>			
Program expenses:			
General government	68	71	(3)
Public protection	329	308	21
Public ways and facilities	19	19	-
Health and sanitation	215	226	(11)
Public assistance	207	202	5
Recreation	10	9	1
Interest on long-term liabilities	18	16	2
San Mateo Medical Center	241	233	8
Airports	3	3	-
Coyote Point Marina	1	1	-
Housing Authority	69	66	3
Total expenses	1,180	1,154	26
<b>Change in net assets</b>	56	39	17
Net assets - beginning	1,173	1,134	39
Net assets - ending	\$ 1,229	\$ 1,173	\$ 56



**Revenues** are monies the County receives from a variety of sources.

**Program revenues** are derived directly from County programs and encompass:

- **Charges for services** paid by the recipients of goods and services offered by County's various programs.
- **Grants and contributions** that are restricted to meet the operational or capital requirements of County programs.

**General revenues** are revenues that are not classified as program revenues such as taxes.

**Expenses** are monies spent on providing services to the County's residents. Such services can either be "governmental" activities or "business-type" activities.

**Governmental activities** are normally supported by taxes and intergovernmental revenues and cover various services including:

- **General government** - Include costs incurred by the County's administrative offices.
- **Public protection** - Protect the public through law enforcement, custody of criminals, and re-socialization of offenders.
- **Public ways and facilities** - Maintain County roads, bridges, and other infrastructure.
- **Health and sanitation** - Build a healthy community and provide health care to vulnerable populations.
- **Public assistance** - Assist individuals and families to achieve economic self-sufficiency, promote community and family strength, and ensure child safety and well-being.
- **Recreation** - Provide residents with access to park sites and recreation facilities.

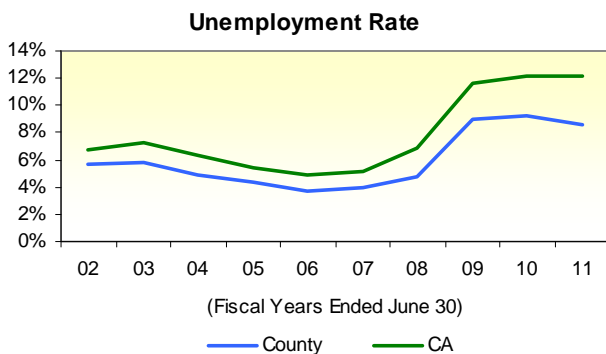
**Business-type activities** include those services provided by San Mateo Medical Center, Airports, Coyote Point Marina Recreation, and Housing Authority. Theoretically speaking, such activities rely heavily on fees charged to recipients of the services.

# Economic Indicators

## Employment

The County had an estimated 31,900 unemployed residents as of June 2011.

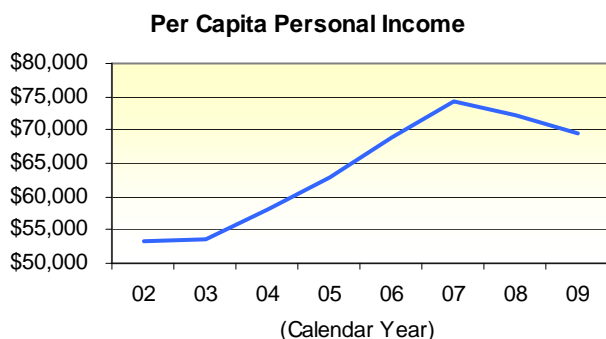
- The unemployment rate in the County was 8.6% for June 2011, below the prior year's average of 9.0%.
- This compares with an unadjusted unemployment rate of 12.1% for California and 9.3% for the U.S. for June 2011.
- Among California's 58 counties, the County recorded the second lowest unemployment rate as of June 2011.



Source: Employment Development Dept., California U.S. Department of Labor

## Income

- San Mateo County's median family income in 2010 (latest available data) dropped to \$98,757 from \$102,620 in 2009.
- The County's per capita personal income decreased to \$69,562 in 2009 (latest available data), a decline of 3.5% from \$72,112 in 2008.

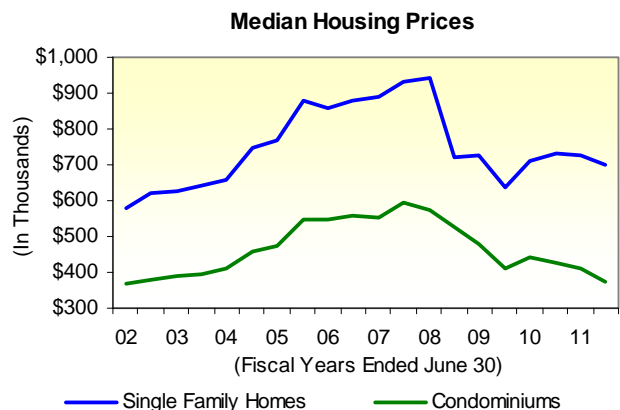


Source: U.S. Department of Commerce Bureau of Economic Analysis

## Real Estate

**Residential Property.** Overall housing prices and sales volumes have deteriorated in San Mateo County.

- The County's median single-family home price fell 4% to \$700,000 as of June 2011, from \$730,000 as of June 2010.
- The County's median condominium price fell 12% to \$375,000 as of June 2011, from \$425,000 as of June 2010.
- The California median single-family home price was down 6% to \$295,300 in June 2011, from \$314,000 in June 2010.



Source: San Mateo County Association of Realtors, based on statistics from Multiple Listing Services, Inc.

**Commercial Property.** The vacancy rate for office space in the County continues to drop.

- The vacancy rate as of June 2011 was at 13.5%, down from 17.1% as of June 2010. The June 2009 vacancy rate was 18.5%.
- The average asking rate for space rose 11.3% to \$2.95 per square foot per month as of June 2011, up from \$2.65 per square foot per month as of June 2010. The rate at June 2009 was \$2.79 per square foot per month.

***"The economy is moving forward, but certainly not at a pace that would make people feel like we are making a lot of progress."***

*- Mark Zandi,  
Chief Economist at Moody's Analytics -*

## Employment

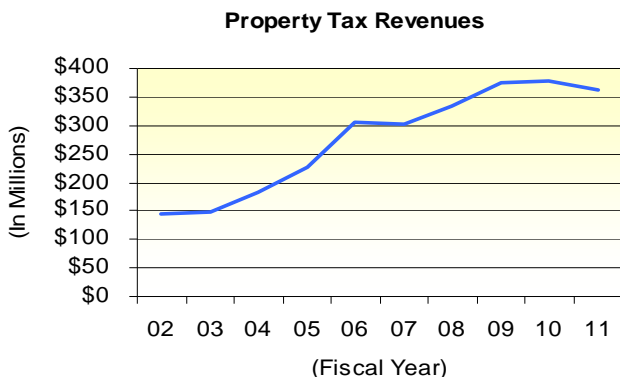
During the 2010-2011 fiscal year global economies have struggled. Europe continues to grapple with the economic chaos caused by overwhelming financial institutions' debt defaults. The United States, despite a brief stabilization of the growth of unemployment, continues to battle a stagnant job market. Unemployment for the United States hovers around 9%.

## Economic Climate

This recession has depressed consumer spending, new home construction and other consumer dependent industries from returning to pre-2008 levels. California ranks second highest in the country for unemployment. Federal revenues to the state and ultimately the County have also declined since the end of the American Recovery and Reinvestment Act Grants and continued reductions in federal spending for safety net programs.

The County fares better than the overall state in its employment rate. California employs 87.9% of its eligible workforce (12.1% unemployment) while the County employs 91.4% of its eligible workforce (8.6% unemployment). The County, however, obtains roughly 43% of its revenues from the State and Federal funding for FY 2010-11. These revenues are directly dependent on the economic well being of those entities, which remain suppressed.

About 38% of the County's funding is obtained primarily from its share of property taxes collected. Revenues from property taxes for the County decreased from the prior fiscal year; \$361 million for FY 2010-11 versus \$377 million for FY 2009-2010, a 4% decrease.



## Next Year's Budget

***“The only safe ship in a storm is leadership.”***

*- Faye Wattleton, President,  
Center for the Advancement of Women -*

On September 27, 2011, the County Board signed off on a \$1.75 billion budget with the structural deficit staying at \$50 million for FY 2011-12. That figure however does not include costs such as a new jail, other facility debt, and state realignment. The Board agreed to use \$50 million in reserves to balance the budget.

**Obtain the County's Financial Highlights at:**  
<http://www.co.sanmateo.ca.us/controller/2011pafr>

**Obtain the County's Financial Report at:**  
<http://www.co.sanmateo.ca.us/controller/2011cafr>

**Obtain the County's Budget Book at:**  
<http://www.co.sanmateo.ca.us/budget>

In preparing the County's budget for FY 2011-12, the following factors were considered:

- Four years ago, the County's expenditures started to outgrow its revenues. Management has been striving to achieve a sustainable budget through use of reserves, new revenues, ongoing spending cuts, and other innovative approaches to reduce costs; for example, negotiations with labor organizations to freeze salaries, institution of new retirement tiers to reduce future pension costs, and consolidations of departments to achieve operational efficiencies.
- About two-thirds of the U.S. economy is supported by consumers. Although consumer confidence is slowly edging up, the economic outlook is highly uncertain. Job growth remains sluggish and the housing market continues to be weak.
- The County is facing significant challenges in the coming year to address numerous issues with financial impact. These issues include health care reform, realignment, jail capacity, pension obligation, facilities and technology infrastructure, business process redesign, and exploring potential new revenue sources.

## Financial Policies

**Investment.** The County investment pool was established to meet the County's liquidity and long-term investment needs. The Board established an eight-member oversight committee under State law to monitor the management of public funds in the investment pool. The oversight committee meets at least three times a year to evaluate general strategies, monitor results, and evaluate the economic outlook, portfolio diversification, maturity structure, and potential risks to the invested funds.

The foundation of the County Investment Policy is in priority order: safety, liquidity, and yield. The County investment pool is not only designed as an income fund to maximize returns, but also attempts to match maturities with capital expenditures and other planned outlays. The Board reviews and approves the Investment Policy annually. All amendments to the policy require the Board's approval.



**Reserves.** The Board approved the original County Reserves Policy in April 1999. The creation of this policy was initiated by the County's Fiscal Officers to help reduce the negative impact on the County during times of economic uncertainty and potential losses of funding from other governmental agencies.

In February 2010, the Board adopted the revised policy to align the policy with the current fiscal environment. Under the revised policy, fund balance and reserves are viewed as one-time sources of funding and can only be used either for one-time purposes or as part of a multi-year financial plan to balance the budget. Such constraints prohibit creation of operating deficits through dependency on fund balance and reserves for ongoing expenditures.

The policy establishes minimum requirements for departmental reserves at two percent (2%) of net appropriations, General Fund reserves at five percent (5%) of total General Fund net appropriations, appropriation for contingencies at three percent (3%) of total General Fund net appropriations, reserves for capital improvements at a minimum of \$2 million, and reserves for Countywide automation projects at a minimum of \$2 million.

**Budget.** Under State law, the County is required to adopt a balanced budget by October 2 of each year. Except for the Joint Powers Financing Authority and certain other special revenue funds, the County Manager's Office prepares a budget for all governmental funds on the modified accrual basis of accounting in accordance with California Government Code Sections 29000 and 29143.

The annual budget serves as the foundation for the County's financial planning and control of expenditures. The legal level of budgetary control, where expenditures may not exceed appropriations, is at the object level (e.g., salaries and benefits) within a budget unit in a fund. Budget expenditures are enacted into law through the passage of an Appropriation Ordinance.

The ordinance sets limits on expenditures, which cannot be changed except by subsequent amendments to the budget. The Board must approve amendments or transfers of appropriations for amounts above \$50,000 or between budget units. The County Manager's Office is authorized to approve transfers and revisions of appropriations up to \$50,000 within a single budget unit. Regardless of the amount, the Board's approval is required for supplemental appropriations normally financed by unanticipated revenues or reserves.



**Debt Service Limit.** Under the County's Debt Limit Ordinance, the Board is required to establish the County debt service limit annually. The limit does not include any voter approved debt or any debts of agencies, whether governed by the Board or not, other than the County. The annual debt service limit shall not exceed 4% of the average annual County budget for the current and the preceding four fiscal years. The approved limit can be exceeded only through a 4/5 vote of the Board and upon a finding that such action is necessary in the best interest of the County and its citizens.



The County has explored new budgeting processes to tackle budget challenges from a new perspective. Rather than focus on spending cuts, the emphasis switched to exploration of ways to maximize the value of dollars expended. The County also collaborated with external service providers and nonprofit partners to identify methods that will improve the efficiency and effectiveness of service delivery.



Under a new budget process, departments were directed to develop budget proposals aligned to the public's priorities. The Board's efforts revealed that the public overwhelmingly wants to live in a county that is healthy, safe, prosperous, livable, collaborative, and environmentally conscious. Being in a leadership role, the County strives to fulfill these priorities by incorporating them into the County's strategic plan (Shared Vision 2025).

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***“Leadership and learning are indispensable to each other.”***

*- John F. Kennedy,  
35th President of United States -*

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County management believes the ultimate result of a program is what counts. The more closely a County program aligns with desired outcomes, the higher the program is ranked on a priority list (priority based budgeting). Changing organizational strategies to build upon this core principle will maximize the impact of each dollar expended on the priorities of the community.

The Board of Supervisors continues to guide changes to strengthen partnerships, implement reorganizations and labor cost restructurings, reduce long-term facilities and property costs, use technologies for administrative and operational efficiencies, and explore revenue generation opportunities.

However, difficult decisions will continue to arise. Though the County is considering where to obtain funds to build a new County jail, funds for future operating costs of this jail (estimated to be approximately \$40 million annually) are not explicit in the written structural deficit documentation. These operating costs would add significantly to the drain on discretionary resources and reduce the County's ability to fund other discretionary programs aimed at prevention and rehabilitation. This one decision could double the structural deficit from unfunded operating expenses and debt service costs.

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***“Coming together is a beginning, staying together is progress, and working together is success.”***

*- Henry Ford,  
Founder of the Ford Motor Company -*

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Other similar decisions are on the horizon such as whether to sell debt secured by owned buildings to fund on-going operations, cease prepayment of future pension obligations with one-time funds while they last, and halt succession planning due to the loss of a knowledgeable workforce from retirements and movement into a better paying private sector as the economy recovers. These challenges will continue to face the County and must continue to be met by innovation and long-term fiscal prudence.

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***“Great things are not done by impulse, but by a series of small things brought together.”***

*- Vincent Van Gogh,  
Dutch Painter -*

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# Major Initiatives

## Board of Supervisors

- Sponsored the second Women’s Criminal Justice Summit to explore ways to help women overcome substance abuse and other obstacles.
- Organized a Disaster Preparedness Day to connect individuals and families with life-saving information and training.
- Teamed with the California Highway Patrol to provide Older Driver Safety seminars around the County.

## Sheriff’s Office

- Explored innovative ways to save money and protect public safety by providing patrol services to cities.
- Improved the practice firing range to meet new safety standards and improve weapons training.

## Department of Public Works

- Developed and placed standardized interpretative signage and exhibits in County parks explaining the natural features, historic sites, habitats, and points of interest.
- Explored teaming with cities and other public agencies to share services such as maintenance of street lights, signals, and roads to reduce costs and improve efficiencies.

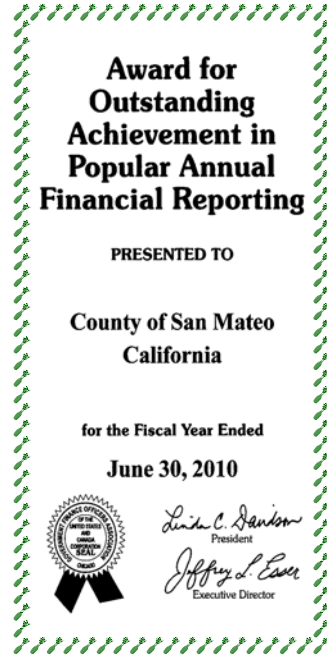
**County Manager Office.** Facilitated crisis communications training with the California Emergency Management Agency for 25 County and city staff members.

**Human Services Agency.** Explored “The Impact of Incarceration on Families” that examined ways to strengthen families with a parent in custody and to foster ideas to reunify families.

**Department of Housing.** Repositioned Housing Authority assets to increase the number of affordable homes and to help members of vulnerable populations transition to greater self-sufficiency.

**Information Services Department.** Established a new Countywide Information Technology Strategic Plan to identify and prioritize technology initiatives that will provide cost savings, improve efficiency, improve data management, provide employee and/or resident self service, and offer other shared services opportunities.

The Government Finance Officers Association of the United States and Canada (GFOA) has given an award for “Outstanding Achievement in Popular Annual Financial Reporting” to San Mateo County for its Financial Highlights publication for the fiscal year ended June 30, 2010. This Award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



In order to receive this award, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for “Outstanding Achievement in Popular Annual Financial Reporting” is valid for a period of one year only. San Mateo County has received this award for the last nine consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and are submitting it to the GFOA.



**Photo credits: Jack Yaco, Marshall Wilson, and Robert Adler**