



Financial Highlights

County of San Mateo, Fiscal Year Ended June 30, 2008

BOARD OF SUPERVISORS

Mark Church
Richard Gordon
Jerry Hill
Rose Jacobs Gibson
Adrienne J. Tissier

COUNTY MANAGER

John L. Maltbie

CONTROLLER

Tom Huening

Visit the County's website at:

www.co.sanmateo.ca.us

Pay your property taxes on-line and see the breakdown of your secured property tax bill at:

www.sanmateocountytaxcollector.org

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This report highlights significant financial and economic activity of San Mateo County, California for the fiscal year (FY) ended June 30, 2008. To view this publication on-line, visit www.co.sanmateo.ca.us/controller/pafr.

The information contained in this report is derived from the County's *Comprehensive Annual Financial Report* (CAFR). The CAFR contains more detailed information about the County's finances, and copies of the reports are available at www.co.sanmateo.ca.us/controller/cafr and all public libraries in the County.



Half Moon Bay, San Mateo, CA
Photograph courtesy of Stormy Maddux

CONTROLLER'S MESSAGE

The County's financial position at the end of the 2008 fiscal year remains strong. For the fiscal year ended June 30, 2008, our financial statements show revenues of \$1.2 billion and expenses of \$1.1 billion. As of year end, the County had \$1.8 billion in assets and \$743 million in liabilities. Overall, at the end of the year, responsible fiscal management by the County Board of Supervisors in cooperation with County management resulted in a healthy balance sheet for the taxpayers of the County. There were, however, indications during the year that a slowdown in the economy was in progress and much was done by County leadership to prepare for the downturn.

"You don't have to be sick to get better."
- David Boesch - Assistant County Manager

County leadership has done much to ensure continued financial strength at the County. The Board of Supervisors approved a significant "down payment" to reduce the County's liability for Other Postemployment Benefits (OPEB). The prepayment slows the rate of growth in benefit costs in future years and funds the OPEB obligation at approximately ninety percent. This action ensures that future County generations do not need to pay for today's costs of operations and aids to ensure sufficient resources are available to continue to provide taxpayers with needed services. The Board of Supervisors has also directed departments to hold five percent of their positions vacant, maintain departmental reserves at minimum of two percent of their net appropriations, and embarked on a five year plan to address the County's structural budget deficit. Strategies include ensuring there are no new expenditures without corresponding new revenue or cost reduction offsets, capping the annual rate of increase in General Fund Net County Cost to five percent to match expected growth in revenue, and maintaining operating reserves of at least fifteen percent of net appropriations in the General fund, along with several other measures.

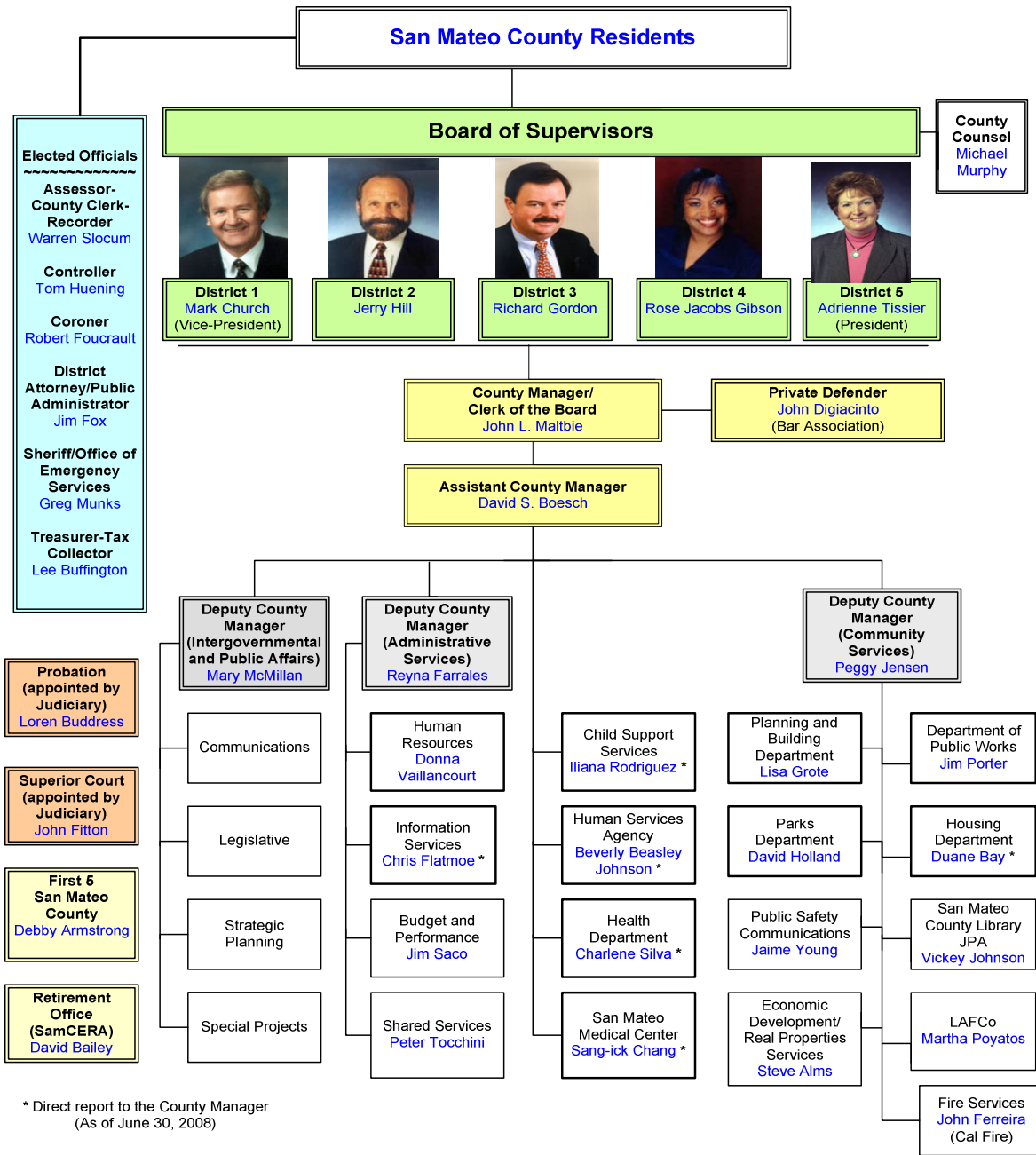
All of these steps were taken in the 2008 fiscal year.

"The only safe ship in a storm is leadership."
- Faye Wattleton - President, Center for the Advancement of Women

Since the close of the fiscal year, the global economic environment has changed significantly. Financial markets have experienced historic declines, unemployment continues to rise, and more taxpayers are expected to rely on County services as a result of a weakened economy. The future effects of this global economic decline are unknown, however, it is safe to say that the County's finances will be impacted. For example, in the 2008 fiscal year, revenues from Property Transfer Taxes, an indicator of the volume of real property sales, have declined by approximately twenty seven percent. The state's governor has declared a fiscal emergency. Automobile sales, nationally, have declined significantly, an indicator that future sales tax revenues will decline. With unemployment rising, state income tax revenues will also most likely decline. It will take continued prudent fiscal management and leadership by the Board of Supervisors and County management to maintain the County's financial strength during this period.

This *Financial Highlights* publication provides the public with an easy to read overview of the County's financial condition. I hope you will take the time to provide us with your thoughts or ideas for improvements after reading this year's report. Drop me a note at the address below, email me at **thuening@co.sanmateo.ca.us**, or call my office at (650) 363-4777. I look forward to hearing from you.

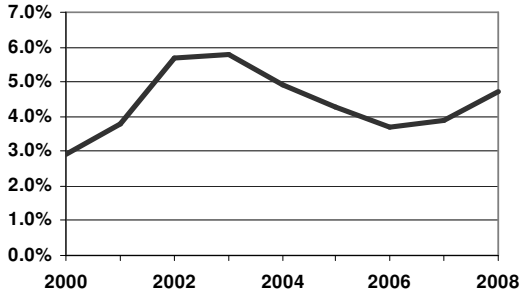
Tom Huening, CPA
Certified Public Finance Officer
Controller, County of San Mateo



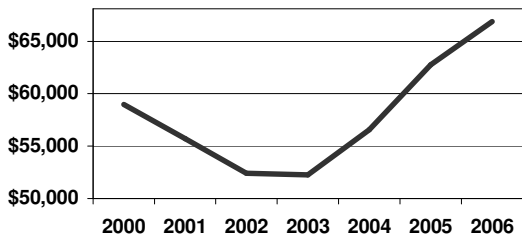
San Mateo County is governed by an elected Board of Supervisors, which sets policy and administers County government by ordinances and regulations. In addition to the five Board seats, the County has six elected officials: the Assessor-County Clerk-Recorder, Controller, Treasurer-Tax Collector, District Attorney/Public Administrator, Sheriff, and Coroner. All other department heads are appointed.

ECONOMIC GROWTH

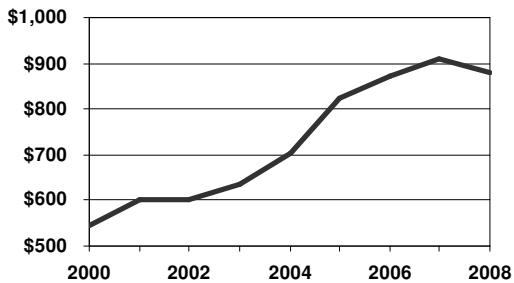
Unemployment Rate



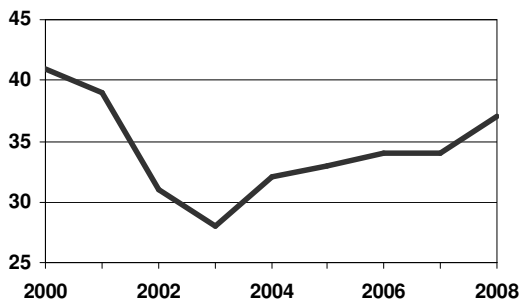
Per Capita Personal Income



**Median Home Price
(In Thousands)**



**SFO Passengers
(In Millions)**



The following highlights changes in County's economy.

Employment

- The County's unemployment rate increased to 4.7% in June 2008 from 3.9% in June 2007.
- In contrast, California's unemployment rate increased to 7.0% in June 2008 from 5.2% in June 2007.
- The County's five largest employers are United Airlines, Genentech, County of San Mateo, Oracle Corporation, and Kaiser Permanente.

Income

- The average per capita personal income in the County was \$66,839 in 2006, a 5% increase from 2005.

Residential Real Estate

- The housing market is clearly slowing. Activity in the housing market is 16% less than last year. The Assessor has lowered assessments on more than 1,000 properties for a total of \$350 million due to falling real estate prices.
- In the first six months of 2008, the median price of a single-family home in the County was \$880,000, a drop of \$50,000 from the first six months of 2007.

Commercial Real Estate

- The vacancy rate for office space continues its downward trend. At the end of FY 2007-08, the vacancy rate was 10.1% down from 11.1% for FY 2006-07. The decline is mainly caused by the expansion of technology and biotechnology industries.
- With a diminishing supply of higher quality available space, average asking rental rates have jumped 17% to \$4.21 per square foot from \$3.60 last year.

Tourism and Technology

- The County has a diversified economic base, but its major industries are in the tourism and technology sectors.
- Traffic at San Francisco International Airport increased with the reopening of Terminal 2 and the expansion of Virgin America, and other low fare airlines. The impact of general economic conditions on future air travel is unknown.



Who To Call For Information:

Controller	(650) 363 - 4777	Assessment Appeals Board	(650) 363 - 4573
Tax Collector - Treasurer	(650) 363 - 4580	Assessor-County Clerk-Recorder	(650) 363 - 4500

FINANCIAL SUMMARY

Government-wide Financial Statements

Government-wide financial statements, which are comprised of the Statement of Net Assets and the Statement of Activities, provide readers with a broad overview of the County's finances that is similar to a private sector business.

Both of these statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*).

The Statement of Net Assets (*Table 1*) presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities (*Table 2*) provides information on the County's revenues and expenses, and reports the difference between the two as the change in 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.

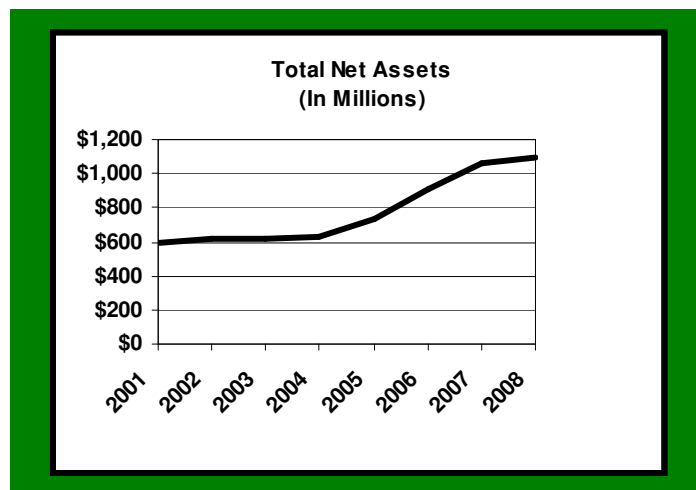
The County's net assets increased by 3.5% during FY 2007-08, mainly due to increases in property taxes, charges for services, and operating and capital grants. Compared to the prior fiscal year, the County's overall financial position has improved.

Table 1 on page 7 shows the County's net assets, which fall into three categories:

- 37% net assets are investment in capital assets, less related debt. Capital assets (land, buildings, infrastructure, and equipment) are used to provide services to citizens; consequently, these assets are not available for future spending.
- 14% are restricted net assets. These resources are subject to external restrictions on how they are used.
- 49% are unrestricted net assets. These resources may be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 on page 7 shows the total revenues surpassed total expenses by \$37 million.

- The County's total revenues increased by 1%, or \$11 million, from \$1,156 million to \$1,167 million.
- The County's total expenses increased by 11%, or \$116 million, from \$1,014 million to \$1,130 million.



FINANCIAL SUMMARY

Table 1: Statement of Net Assets as of June 30, 2008

(Amounts in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Total assets	\$1,683,324	\$1,733,936	\$152,209	\$121,140	\$1,835,533	\$1,855,076	(1.05)%
Total liabilities	677,599	733,884	65,852	66,252	743,451	800,136	(7.08)%
Total net assets	<u>\$1,005,725</u>	<u>\$1,000,052</u>	<u>\$86,357</u>	<u>\$54,888</u>	<u>\$1,092,082</u>	<u>\$1,054,940</u>	3.52%

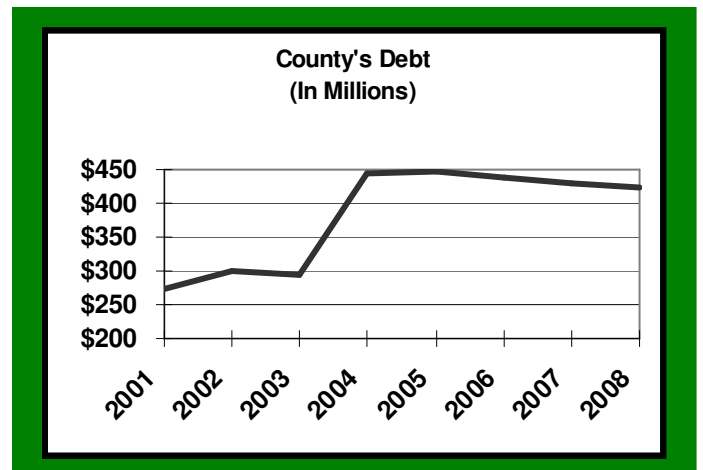
Table 2: Statement of Activities for the Fiscal Year Ended June 30, 2008

(Amounts in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	
Total revenues	\$941,090	\$924,807	\$225,909	\$230,778	\$1,166,999	\$1,155,585	0.99%
Total expenses	845,707	743,470	284,150	270,636	1,129,857	1,014,106	11.41%
Excess (deficiency) before transfers	95,383	181,337	(58,241)	(39,858)	37,142	141,479	(73.75)%
Transfers	(89,710)	(61,918)	89,710	61,918	-	-	0.00%
Change in net assets	<u>\$5,673</u>	<u>\$119,419</u>	<u>\$31,469</u>	<u>\$22,060</u>	<u>\$37,142</u>	<u>\$141,479</u>	(73.75)%

County's Debt

In FY 2007-08, the County's total debt decreased by \$7 million to \$423 million. The County Debt Limit Ordinance limits annual debt service payments to 4% of the average annual County total budget for the current and the preceding four fiscal years. The County's debt service payments were \$30 million in FY 2007-08, well below the maximum allowable debt service limit of \$56 million.



COUNTY REVENUES

The County's significant revenue sources are comprised primarily of taxes, funding from the state and federal governments, and charges for services.

Revenues

County revenues increased by 1% to \$1,167 million, \$941 million for governmental activities and \$226 million for business-type activities.

Federal and State (Intergovernmental) Revenues

Approximately 45% of County's overall revenues come from the federal and state governments. Such resources are tied to mandated services such as public protection, public assistance, health, and other social services.

Charges for Services

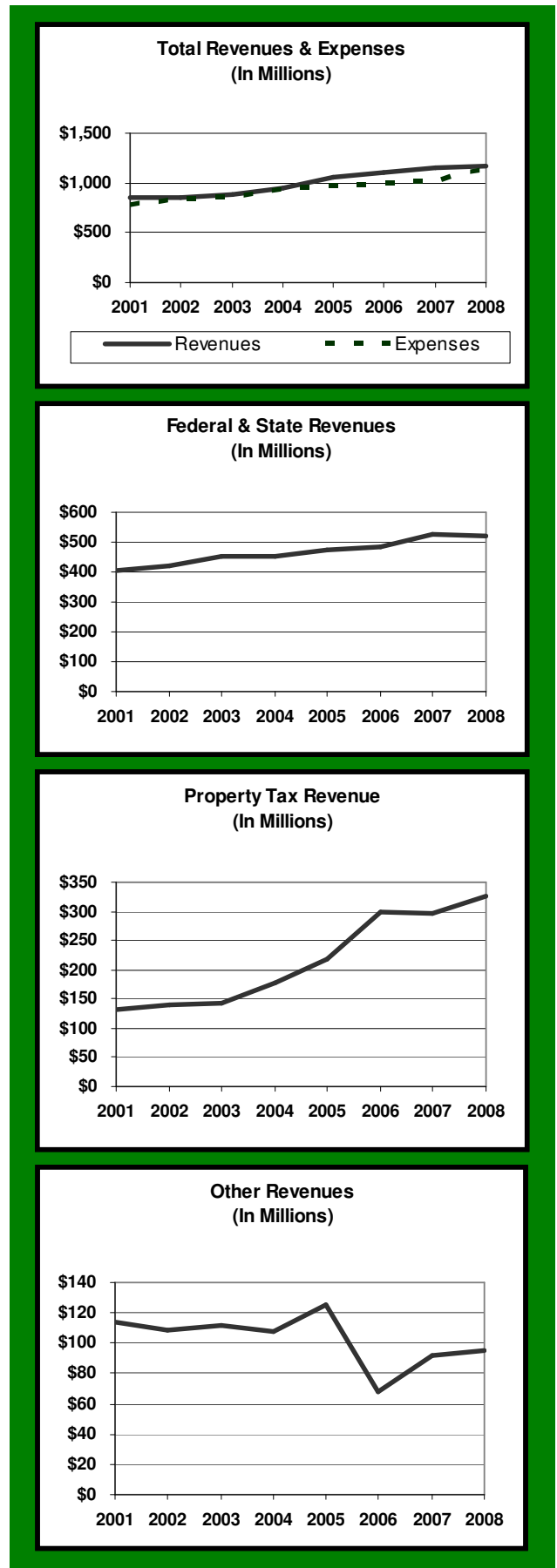
Charges for services revenue decreased by 2.3% to \$234 million. These revenues are primarily driven by program cost reimbursements via federal and state programs and reimbursements from other entities for services provided.

Property Tax Revenue

Property tax revenue is the most important income source for the County. The County's share of property tax revenues increased by \$32 million, or 11%, from \$295 million in FY 2006-07 to \$327 million in FY 2007-08.

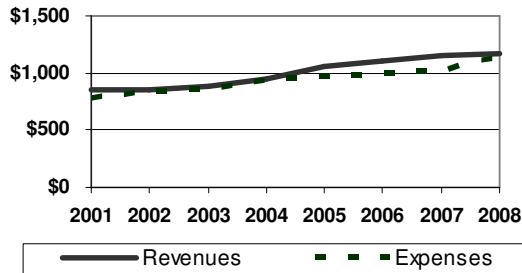
Other Revenues

- Sales and use taxes increased by 10% to \$14.9 million.
- Property tax in lieu of sales taxes increased by 10% to \$4.6 million.
- Property transfer taxes decreased by 27% to \$6.0 million.
- Unrestricted interest and investment earnings decreased by 22% to \$32.3 million. The shrinking economy significantly impacted the County's return on investments.

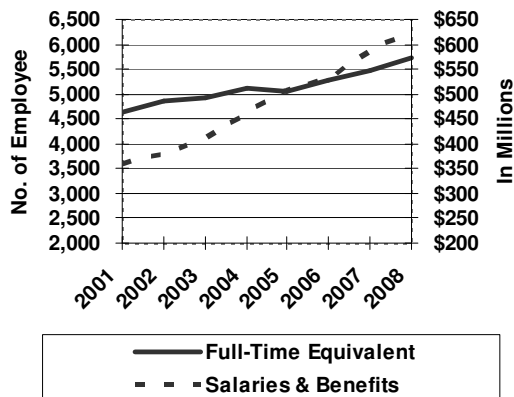


COUNTY EXPENSES

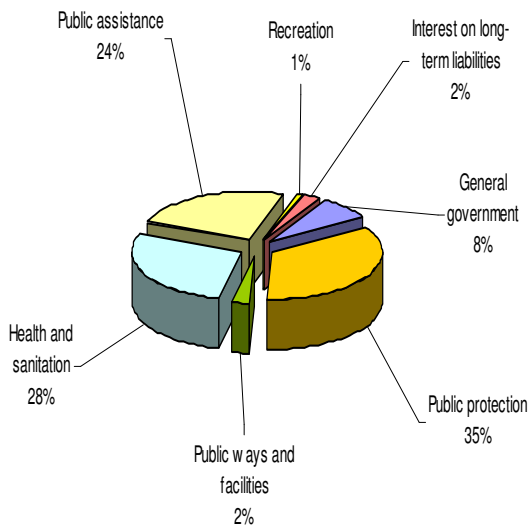
**Total Revenues & Expenses
(In Millions)**



Employees Salaries & Benefits



**Governmental Activities
Expenses by Function/Program**



The County's overall expenses are devoted to improve the safety, health, and quality of life for its residents.

Expenses

County's expenses increased by 11.4% to \$1,130 million; \$846 million for governmental activities and \$284 million for business-type activities.

Services

- Public Protection (294 million, 26% of total expenses)** Public protection expenses include costs incurred by the following departments: Sheriff, District Attorney, Probation, Coroner, County Fire, and Public Safety Communications. Public protection expenses increased by \$17 million, or 6%, over the prior year.
- Public Assistance (201 million, 18% of total expenses)** The County provides community accommodations such as alcohol and drug services, low-cost housing and homeless services, job search and training, and family resource assistance. Expenses increased by \$50 million, or 33%, over the prior year. Most of this increase is due to a one-time accounting adjustment made in last fiscal year.
- Health and Sanitation (236 million, 21% of total expenses)** Health and sanitation expenses include cost associated with mental health services, the Prenatal to Three Initiative, environmental health services, the AIDS program, and other health services. Health and sanitation expenses increased by \$35 million, or 18%, over the prior year.
- San Mateo Medical Center (\$221 million, 20% of total expenses)** San Mateo Medical Center is a County system of healthcare providing inpatient services, outpatient services, and long-term care. These services are provided through an acute care hospital, skilled nursing facility, and 11 clinics located across the County. Medical Center's expenses increased by \$14 million, or 7%, over the prior year.

Employees

The County increased its full-time equivalent employees by 171 to 5,715. Approximately 55% of the County's expenses for FY2007-08 are for employee's salaries and benefits.

MAJOR INITIATIVES



San Mateo Medical Center's Hospital

Health Care

As a healthcare provider to low and uninsured populations, the County is faced with rapidly escalating costs and a growing uninsured population. The Board of Supervisors has engaged in two high priority efforts to address the County's role in the delivery and coordination of healthcare for low-income and underserved populations: the Blue Ribbon Coverage Expansion Initiative and the Alternatives for the Delivery of Healthcare to the Medically Indigent Population Study. The recommendations from both of these efforts are being pursued as the Health System Redesign Initiative in accordance with a two-year plan approved by the Board.

Capital Improvements

In March 2008, Public Works completed a comprehensive evaluation of all County facilities. This evaluation rates each facility and has been loaded into the Facilities Condition Information System (FCIS). This system is used in the priority-setting process to recommend projects for the Five-Year Capital Improvement Program. The Adopted Budget includes the five-year capital improvement plan, with a detailed list of projects and funding

sources, which amounts to \$30.6 million of General Fund contributions. It also includes \$17.2 million to address deferred maintenance needs. Future budgets will include continued investments to address facilities deficiencies based on the Facilities Condition Index assigned by the FCIS.

"We can always turn down the options, but if we don't explore them we'll never know."

- San Mateo Daily News - December 5, 2007

Shared Vision 2025

In 2000, with Board participation, Shared Vision 2010 that defined the County's policies, programs, and spending priorities was developed. Since the adoption, the Board actions, including budget items, services and program plans are aligned with the commitments and goals. During the past fiscal year, the Board embarked on an ambitious effort to update Shared Vision 2010. At ten community forums they asked: What is the most important goal that the County should set for the year 2025? What was heard from the 1,000 participants is the desire for a healthy, connected, collaborative and sustainable community. While the Board is still in the process of developing the final goal statements, it is clear that in the coming year, Shared Vision 2025 will provide an important new framework to conduct a deliberative, priority-driven budget process – one that engages the community in the challenges and difficult choices to be made in order to provide the desired level and mix of services with constrained resources.



San Mateo County Going Green

Improving Outcome for Children

African American children account for 2% of all the children in County, yet these children are overrepresented in the foster care and juvenile justice systems. Research indicates that children, particularly minority children, who enter the child welfare system, are more likely to remain longer; to experience multiple moves from foster home to foster home; and be adjudicated in the juvenile justice system. They are less likely to return to their families of origin or to be adopted. The overrepresentation of African American children in the San Mateo County child welfare system is a symptom of a much larger issue: the urgent need to improve outcomes for children in our community.

The Budget includes \$150,000 to study this complex issue and prepare concrete actions to reverse these trends. The Courts are invited to be active partners in this review. The study will analyze data, review processes, identify any systemic biases that exist, and recommend best practices that will achieve equitable outcomes for all children in these systems. The results of this review and appropriate policy recommendations will be reported to the Board through the Housing, Health and Human Services Committee

“The eye sees only what the mind is prepared to comprehend.”

- Henri Bergson - French Philosopher



Emergency Vehicles, San Mateo Medical Center



Improving Outcome for Children

Public Safety Communications

Public Safety Communications (PSC) is working on several projects to improve emergency response services to the County residents. On June 3, 2008, PSC began taking 911 calls from cell phones served by Sprint/Nextel with service to all phone providers available by the end of the 2008. PSC will answer about 40% of the wireless 911 calls originating in the County because the Highway Patrol has jurisdiction over calls from all state roads and highways. PSC is also starting a one-year SMART 911 pilot program with a vendor that provides supplemental information to dispatchers about a caller’s premises when a 911 call is received. The final PSC project is associated with the upcoming contract negotiations for Emergency Medical Services (EMS). PSC will work with the selected EMS vendor to enhance the PSC Computer Aided Dispatch system to improve emergency response time and increase EMS provider accountability.

“You always pass failure on the way to success.”

- Mickey Rooney - Actor/Entertainer

ABOUT THE FINANCIAL HIGHLIGHTS

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 publications for the fiscal year ended June 30, 2007. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, 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 a Popular Award for the last six consecutive years (fiscal years 2002-2007). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and are submitting it to the GFOA.

Controller Tom Huening, CPA, CPFO
County of San Mateo
555 County Center, 4th Floor
Redwood City, CA 94063

RETURN SERVICE REQUESTED