



Financial Highlights

County of San Mateo, Fiscal Year Ended June 30, 2009

Board of Supervisors

Mark Church, 1st District
Carole Groom, 2nd District
Richard S. Gordon, 3rd District
Rose Jacobs Gibson, 4th District
Adrienne J. Tissier, 5th District

County Manager

David S. Boesch

Controller

Tom Huening, CPA, CPFO

Visit the County's website at:

www.co.sanmateo.ca.us

View Financial Highlights on-line at:

www.co.sanmateo.ca.us/controller/2009pafr

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

www.sanmateocountytaxcollector.org

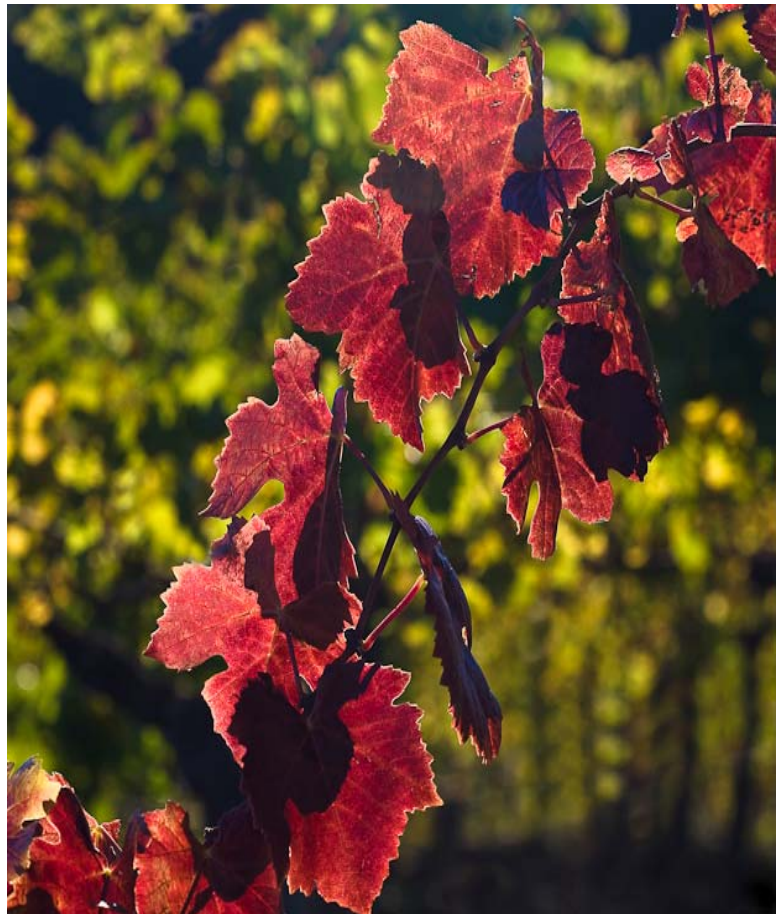
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This report highlights significant financial and economic activity of San Mateo County, California (the County) for the fiscal year (FY) ended June 30, 2009.

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 is available at all public libraries in the County or on-line at:

www.co.sanmateo.ca.us/controller/2009cafr



*Vineyard Leaves, San Mateo County
Photograph courtesy of Robert Adler*

CONTROLLER'S MESSAGE

From the State of California's financial melt-down and the slump in the global economy, the County faces significant financial challenges.

The unprecedented real estate market collapse has hit property tax rolls across the State and created additional budget challenges for the State, counties, and school districts. In July, the County Assessor released data showing that the cities and unincorporated areas within the County combined lost more than \$4 billion in assessed property value. Property taxes, our major source of discretionary revenues, are expected to remain flat or diminish in the years to come.

The County's structural deficit, a persistent gap between public expenditures and revenues, continues to grow. If no actions are taken, the County's General Fund structural deficit is expected to reach \$100 million by 2011. This structural imbalance is largely the result of:

- Flat property tax revenues, resulting from the housing slump.
- Declined consumer spending, resulting in a sizable reduction in sales tax revenue.
- Investment losses in the stock market, reduced earnings and the increased cost of funding retirement benefits for County employees.
- Rising unemployment, increasing demand for public assistance services.
- State funding cutbacks for various public programs.
- Continued significant General Fund's subsidies (\$82 million in FY 2008-09) to San Mateo Medical Center.

"The safe way to double your money is to fold it over once and put it in your pocket."

- Frank Hubbard, Famous American Harpsichord maker

In its efforts to close this persistent gap, the Board of Supervisors (the Board) has adopted a set of budget balancing principles such as capping growth in costs and undertaking no new expenses without new revenues. In addition the Board instructed departments to develop strategies to reduce their costs by 10%, 20%, or 30 % as needed.

"Remember upon the conduct of each depends the fate of all."

- Alexander the Great

While not immune from tough choices and tradeoffs, most County services and programs have been maintained for the near term as a result of hard work and planning by all County departments. With prudent leadership by the Board and management, the County is moving towards retaining a sustainable balance between revenues and expenditures. The County is expected to weather out the economic slump due to its financial strength and become stronger than before due to the commitment of its leadership and employees.

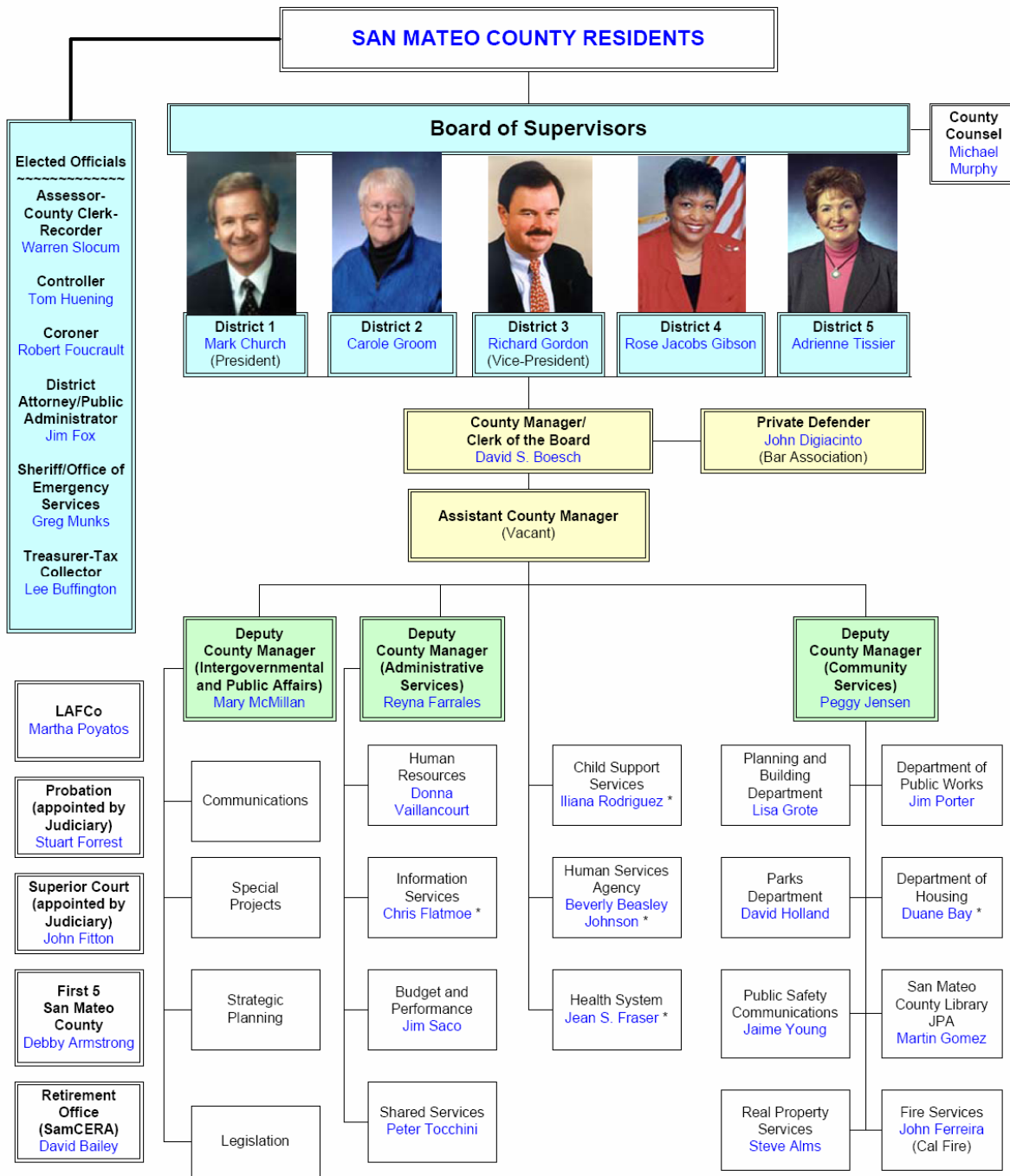
"The only safe ship in a storm is leadership."

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

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 publication. Drop me a note by e-mail at thuening@co.sanmateo.ca.us or call me at (650) 363-4777. I look forward to hearing from you.

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

COUNTY OF SAN MATEO
 Organization Chart
 June 30, 2009

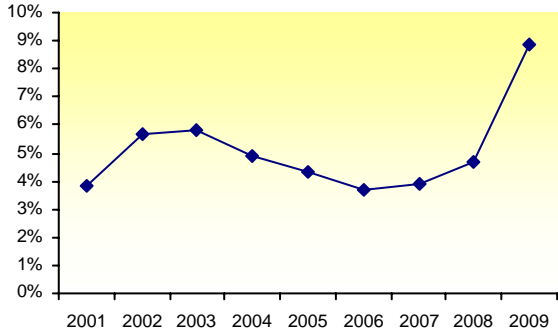


* Direct report to the County Manager

San Mateo County is governed by an elected Board of Supervisors, which sets policies 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, Coroner, District Attorney/Public Administrator, Sheriff/Office of Emergency Services, and Treasurer-Tax Collector. All other department heads are appointed.

ECONOMIC INDICATORS

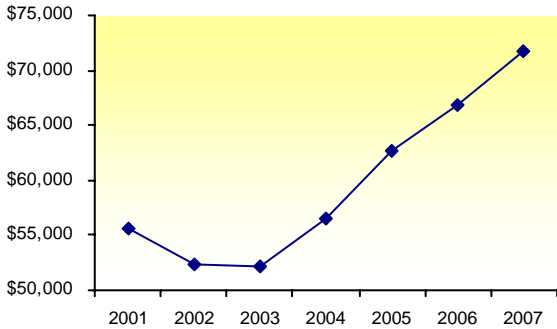
Unemployment Rate



Employment

- The County's unemployment rate increased to 8.9% in June 2009 from 4.7% in June 2008.
- California's unemployment rate increased to 11.6% compared to the national average of 9.7% in June 2009.
- The five largest employers in the County are United Airlines, Genentech, Oracle, County of San Mateo, and Kaiser Permanente.

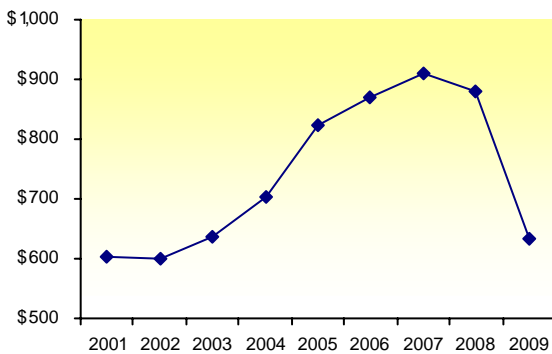
Per Capita Personal Income



Income

- The average per capita personal income in the County was \$66,839 in 2006 and \$71,753 in 2007. More recent data is not currently available.

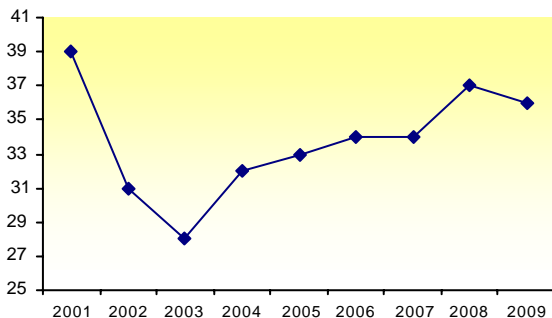
Median Home Price (In Thousands)



Residential Real Estate

- The countywide median home price for a single family house decreased 28% to \$635,000 for June 2009 from \$880,000 for June 2008.
- Compared to the State's median home price of \$274,740, the County's residential real estate market is better off than the rest of California.

SFO Passengers (In Millions)



Commercial Real Estate

- The vacancy rate for commercial properties was 16.7% for June 2009, up from 10.1% for June 2008.
- The average asking rate for commercial space dropped to \$3.19 per square foot per month in 2009 from \$4.21 in 2008.

Tourism and Technology

- The major industries for the County remain in the tourism and technology sectors, although the County has a diversified economic base.
- Total passengers at San Francisco International Airport (SFO) decreased to 36.7 million in June 2009 from 37.1 million in June 2008.



Who To Call For Information

- Controller..... (650) 363-4777
- Tax Collector - Treasurer (650) 363-4142
- Assessment Appeals Board (650) 363-4573
- Assessor-County Clerk-Recorder (650) 363-4500

FINANCIAL SUMMARY

Government-wide Financial Statements

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

Both Statements set apart functions of the County that are primarily supported by taxes, and Federal and State revenues (i.e., *governmental activities*) from functions that are intended to recover their costs through user fees and charges (i.e., *business-type activities*).

The Statement of Net Assets (Table 1, page 7) 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, page 7) provides details 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 overall financial position has improved during FY 2008-09 as its net assets increased by 3.09%, mainly due to increases in property taxes and charges for services.

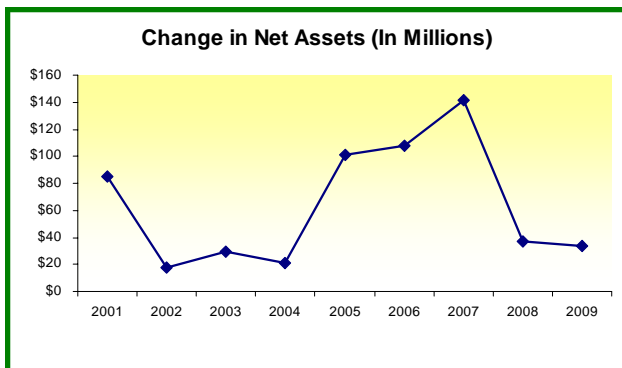


Table 1 shows the County’s net assets which fall into three categories:

- 37% are investments in capital assets less related debt. Capital assets (e.g., land, buildings, and equipment) are used to provide services to citizens. Consequently, these assets are not available for future spending.
- 13% are restricted net assets. These resources are subject to external restrictions on how they are used.
- 50% are unrestricted net assets. These resources may be used to meet the County’s ongoing obligations to citizens and creditors.

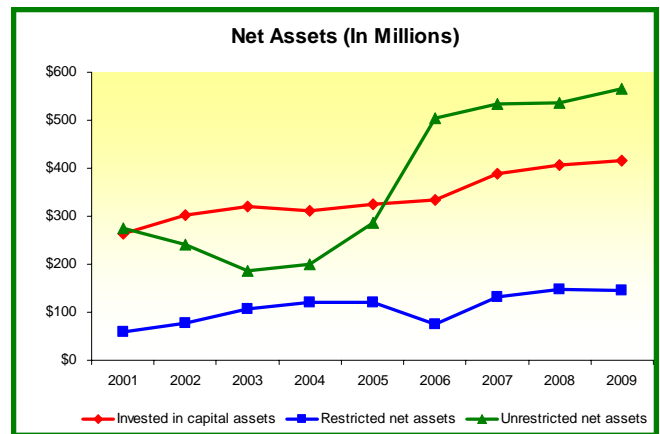


Table 2 shows total revenues surpassed total expenses by approximately \$34 million.

- The County’s total revenues increased by 1.8%, or \$21 million, from \$1,196 million to \$1,217 million.
- The County’s total expenses increased by 1.4%, or \$16 million, from \$1,159 million to \$1,175 million.

This report contains information from the CAFR’s government-wide financial statements. All statements in the CAFR are prepared in conformity with generally accepted accounting principles.

FINANCIAL SUMMARY

Table 1: Statement of Net Assets as of June 30, 2009 (Dollars in Thousands)

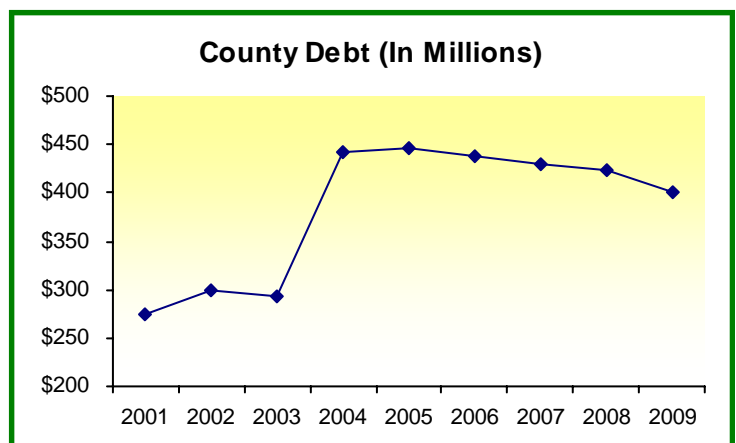
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		Variance
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	
Total assets	\$1,666,326	\$1,683,324	\$166,008	\$152,209	\$1,832,334	\$1,835,533	-0.17%
Total liabilities	652,406	677,599	54,058	65,852	706,464	743,451	-4.98%
Total net assets	<u>\$1,013,920</u>	<u>\$1,005,725</u>	<u>\$111,950</u>	<u>\$ 86,357</u>	<u>\$1,125,870</u>	<u>\$1,092,082</u>	3.09%

Table 2: Statement of Activities for the Fiscal Year Ended June 30, 2009 (Dollars in Thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		Variance
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	
Total revenues	\$970,318	\$969,749	\$246,799	\$225,909	\$1,217,117	\$1,195,658	1.79%
Total expenses	882,587	874,366	292,603	284,150	1,175,190	1,158,516	1.44%
Excess (deficiency) before special item and transfers	87,731	95,383	(45,804)	(58,241)	41,927	37,142	12.88%
Special Item Transfers	(8,139)	-	-	-	(8,139)	-	---
	<u>(71,397)</u>	<u>(89,710)</u>	<u>71,397</u>	<u>89,710</u>	<u>-</u>	<u>-</u>	---
Change in net assets	<u>\$ 8,195</u>	<u>\$ 5,673</u>	<u>\$ 25,593</u>	<u>\$ 31,469</u>	<u>\$ 33,788</u>	<u>\$ 37,142</u>	-9.03%

County Debt

- During FY 2008-09, the County's total debt decreased by \$22 million, or 5%, to \$401 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 \$27 million in FY 2008-09, well below the maximum allowable debt service limit of \$60 million.



COUNTY REVENUES

The County's significant revenue sources consist primarily of taxes, funding from the Federal and State governments, and charges for services.

Total Revenues

County revenues increased 1.8% to \$1.2 billion, \$970 million from governmental activities and \$247 million from business-type activities.

Federal and State (Intergovernmental) Revenues

Federal and State revenues decreased 4.5% to \$498 million. These resources account for 41% of the County's overall revenues and are tied to mandated services such as public protection, public assistance, health, mental health, and other social services.

"Forecast: California faces another massive deficit."

- San Mateo Daily Journal November 18, 2009

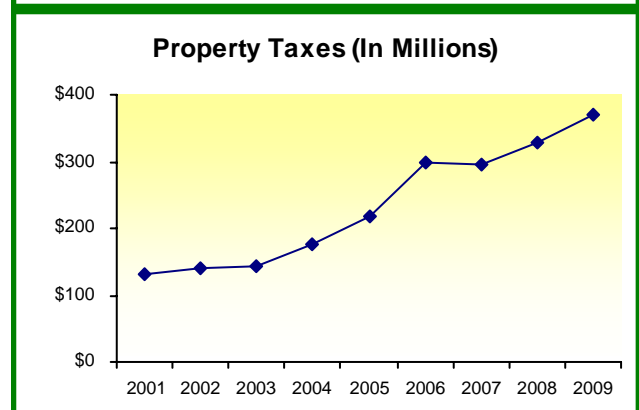
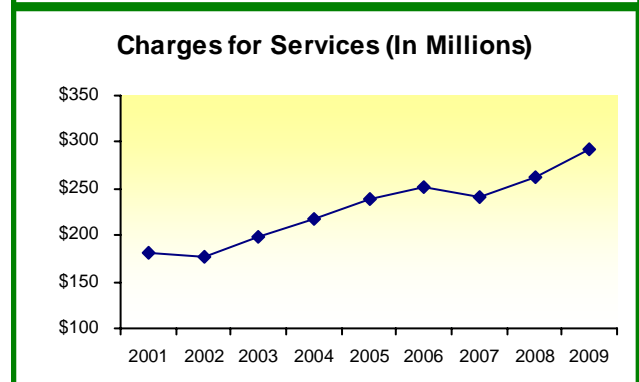
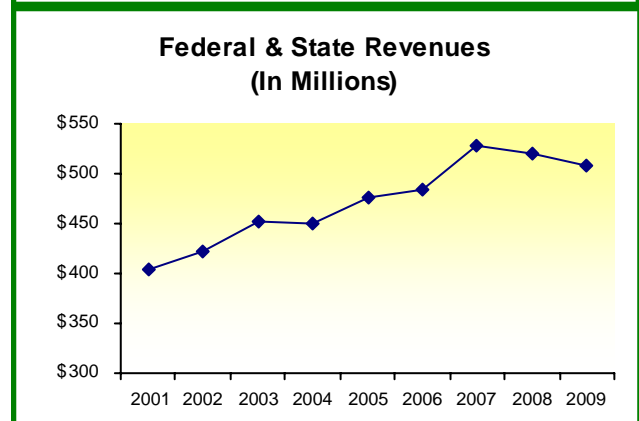
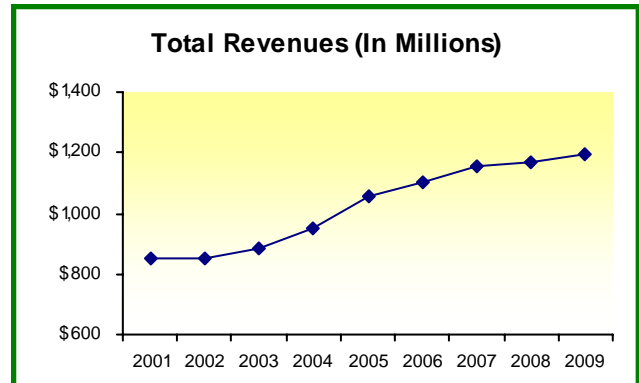
Charges for Services

Charges for services provided increased 11.6% to \$293 million. These revenues are primarily driven by program cost reimbursement via Federal and State programs and reimbursements from other entities for services provided.

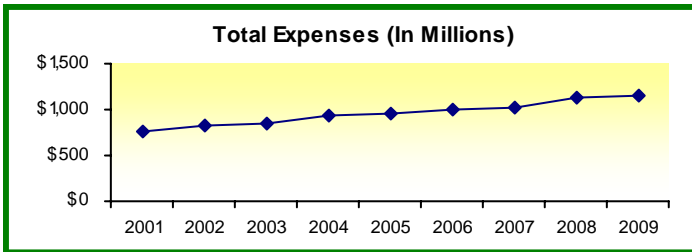
Taxes

Taxes are generated locally providing the County with most of its discretionary spending ability.

- Property taxes are the most important income source for the County. The County's share of property taxes increased 13.5% to \$371 million from last year's \$327 million.
- Sales and use taxes increased 10.7% to \$16.5 million from last year's \$14.9 million.
- Property tax in lieu of sales taxes increased 6.8% to \$4.9 million from last year's \$4.6 million.
- Property transfer taxes decreased 36.1% to \$3.8 million from last year's \$6.0 million.



COUNTY EXPENSES

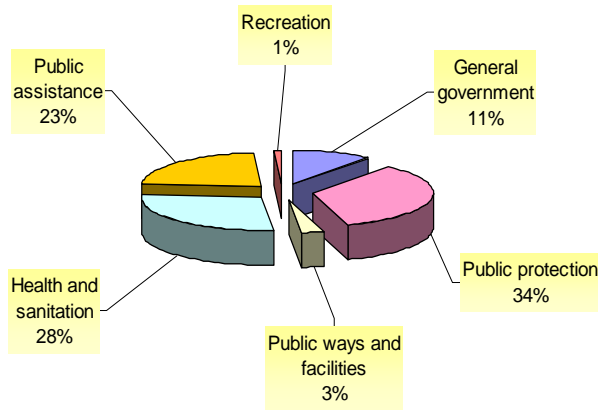


Total Expenses

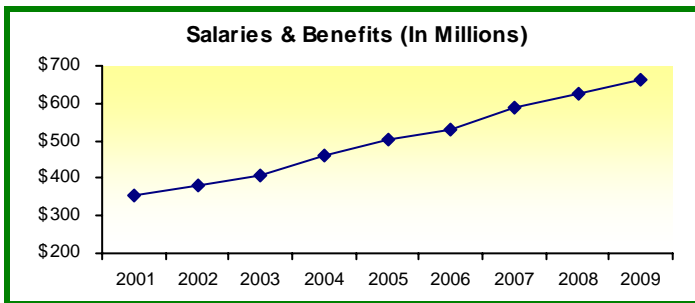
The County's total expenses increased 1.4% to \$1.2 billion; \$883 million related to governmental activities and \$293 million related to business-type activities.

Services

Governmental Activities - Expenses by Function

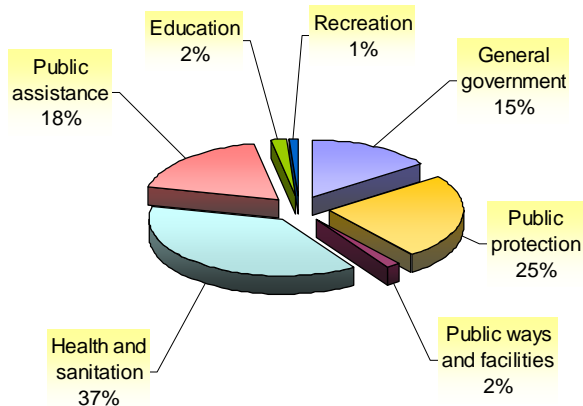


- Public Protection.** This functional area has 1,395 employees and expenses of \$297 million. The departments in this functional area are committed to protect the public through law enforcement, custody of criminals, and re-socialization of offenders.
- Health and Sanitation.** This functional area has 2,142 employees and expenses of \$242 million. The departments in this functional area strive to build a healthy community and increase the longevity and quality of people's lives by engaging in key health issues, ensuring the public's health, and caring for vulnerable populations.



- Public Assistance.** This functional area has 1,041 employees and expenses of \$196 million. The departments in this functional area assist individuals and families to achieve economic self-sufficiency, promote community and family strength, and ensure child safety and well-being.

Full-time Equivalent County Employees by Function



Employees

- The County reduced its full-time employee force to 5,686. Approximately 56.2% of the County's expenses for FY 2008-09 were for employees' salaries and benefits.
- Although the County continues the hiring freeze as one of the means to cure the County's structural deficit, the County is devoted to preserving critical services to meet the needs of residents.

MAJOR INITIATIVES

Health Care

The County continues to face rapidly increasing costs and a growing uninsured population. For several years, the Board has been actively engaged in efforts to carefully balance the County's role in the delivery and coordination of healthcare for low-income residents within its financial capacity.

It is clear that there is no "magic bullet" to address the complex forces that influence the County's available choices in the healthcare arena. In its efforts to improve the healthcare system for the underserved, the Board has implemented the Health System Redesigns Initiative. This Initiative focuses on several high priority areas, including (1) eligibility and administration, (2) chronic disease management, care coordination, and integration across levels of care, and (3) the development of a robust "Community Health Network for the Underserved" in partnership with private healthcare delivery organizations.

"Nothing strengthens the judgment and quickens the conscience like individual responsibility."

- Elizabeth Cady Stanton, American Feminist

In 2009, the County combined the formerly separated Health Department and San Mateo Medical Center into a single unit. This newly created unit, the Health System Department, reflects the County's belief that a unified health agenda will serve the County best in addressing the community health challenges and providing opportunities for integrating approaches across health disciplines and working with community partners in a coherent manner.

Housing

The range of low to moderate housing options in the County is quite limited. Many people cannot afford to live here. To meet this challenge, the County has stretched the mission of its Housing Department beyond the traditional federally funded affordable housing programs.

The Department works increasingly more with partner agencies to inform, align, empower, and enlarge a growing "housing positive" network comprised of thousands of individuals, hundreds of organizations, and numerous countywide collaboratives.

The Housing Authority also launched a five-year "asset repositioning" initiative to serve more households with a broader range of services at a lower public cost. This initiative led to the adoption of a plan for a full-service senior campus in Half Moon Bay that will integrate the services of four partners' agencies and triple the number of seniors served.



MAJOR INITIATIVES

Criminal Justice

The County continues to face significant challenges affecting the criminal justice system. Inmate overcrowding in the County's jail facilities is now the standard operating environment. The Maguire Correctional Facility and the Women's Correctional Center consistently operate between 140% and 160% of rated capacity.

The Correctional Division is challenged with a population of "at-risk" inmates. The County's Criminal Justice Working Group has continued its efforts in evaluating both the short-term jail population management strategies and the long-term need for replacement facilities.

In FY 2009-10, the County will implement and test an expanded re-entry program. The ultimate goal is to reduce repetition of criminal patterns by improving the successful return of inmates back into the community. The County is also pursuing an additional jail facility site to take advantage of State and Federal funds available for such a capital project.



Maguire Correctional Facility in Redwood City

Five-Year Plan to Eliminate the Structural Budget Deficit

The County has embarked on a five year plan to eliminate the structural budget gap (budgeted expenditures exceeding budgeted revenues) by the fiscal year ending June 30, 2013.

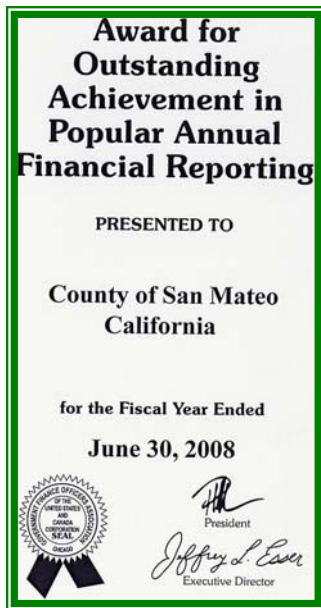
Solutions will come from four areas: changes to programs and services, labor costs, county-wide efficiencies (e.g., energy use, use of space, use of technology, reduction of overhead) and finding new sources of revenues.

The five year plan was adopted by the Board of Supervisors with a set of strategies to remove the County's structural budget imbalance by 2013. These strategies include:

- Undertake no new expenditures without corresponding new revenue or cost reduction offsets;
- Limit the annual rate of increase in General Fund Net County Cost to 5% to match the expected growth in revenue;
- Maintain operating reserves of at least 15% of net appropriations in the General Fund in addition to 3% contingency reserves;
- Eliminate the General Fund subsidies to the County Fire and Sanitation districts;
- Reduce the General Fund contribution to the Medical Center to a level consistent with the Welfare and Institutions Code §17000 indigent health care obligation; and
- Restrict future use of revenues from excess Educational Revenue Augmentation Fund to facility and technology infrastructure improvements, productivity enhancements, reduction of unfunded liabilities, and other one-time uses.

The plan allows use of General Fund Reserves over the course of five years to alleviate the impact on operating departments and ensure that excellent services are provided to the public with no interruption. In addition, the County has extended the freezing of jobs initially implemented in December 2007, ensuring that all County departments uphold a vacancy rate of at least 5%.

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, 2008. This was the seventh consecutive year that the County has received this award. The 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. 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
Certified Public Finance Officer
County of San Mateo
555 County Center, 4th Floor
Redwood City, CA 94063

RETURN SERVICE REQUESTED