



# FINANCIAL HIGHLIGHTS

County of San Mateo, Fiscal Year Ended June 30, 2010



## San Mateo County Board of Supervisors

- District 1 - Mark Church
- District 2 - Carole Groom (Vice-President)
- District 3 - Richard Gordon (President)
- District 4 - Rose Jacobs Gibson
- District 5 - Adrienne Tissier

## County Manager

David Boesch

## Controller

Tom Huening, CPA  
Certified Public Finance Officer

## Visit the County's website at:

[www.co.sanmateo.ca.us](http://www.co.sanmateo.ca.us)

## View the Financial Highlights at:

[www.co.sanmateo.ca.us/controller/2010pafr](http://www.co.sanmateo.ca.us/controller/2010pafr)

## View the County's Financial Report at:

[www.co.sanmateo.ca.us/controller/2010cafr](http://www.co.sanmateo.ca.us/controller/2010cafr)

## Pay your property taxes online at:

[www.sanmateocountytaxcollector.org](http://www.sanmateocountytaxcollector.org)

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## Controller's Message

### County's Bigger Budget Hole

We at the County have been working on a new budget process to deal with a projected \$110 million to \$150 million structural deficit. Structural deficit means we spend more tax dollars than we take in both in good and bad economic times. We've been only modestly successful closing the gap, and it turns out the gap could be wider than commonly acknowledged. National accounting standards are likely to expose the size of the gap.



**Tom Huening**  
**Controller**  
**CPA, CPFO**

The Governmental Accounting Standards Board (GASB) sets the rules for financial reporting for government entities like the County of San Mateo. In 2001 the GASB required government financial reports to look more like private industry. This allows for greater transparency and understanding of the financial activity and health of governmental organizations by taxpayers and others.

The GASB is now preparing tighter accounting standards for government pension obligation reporting. The liabilities that governmental entities have incurred for promised pension benefits are significant as emphasized by the unprecedented media coverage of this subject over the past two years.

The GASB changes are still "preliminary views" and not intended to effect funding requirements, at least not yet. For now what is likely is that within a couple of years, for financial reporting purposes, the County would need to reduce its current discount rate from 7.75% to 6% more typically used by private industry. If translated to a funding requirement, a "back of the napkin" calculation shows for every ¼% decrease in the discount rate there is a 3% increase in the employer contribution rate as a percent of payroll using a 15 year amortization catch up period. Additionally, for every year the amortization period is decreased, the annual County expense would increase by about 6.6%.

## Controller's Message (Continued)

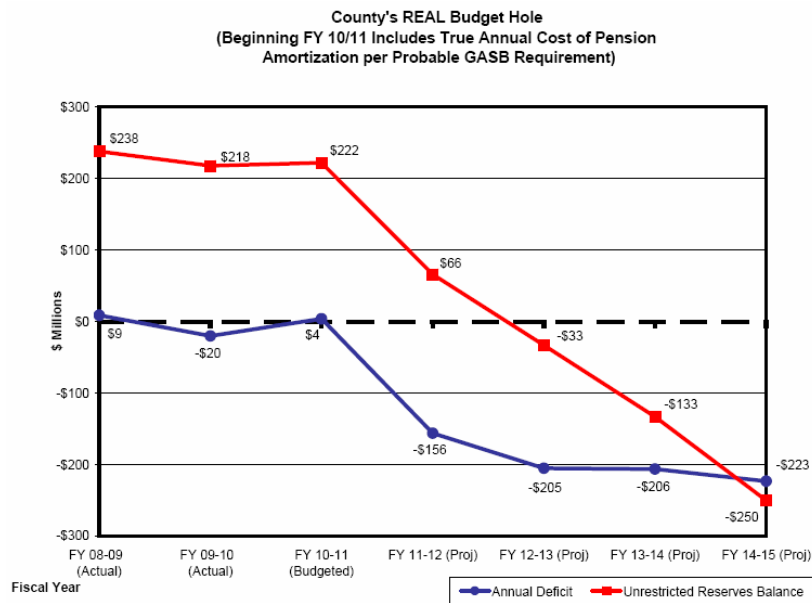
The chart below shows the impact these changes could have on San Mateo County's finances:

	Current Annual Cost	Change in Annual Cost from Discount Rate Decrease 7.75% to 6%	Change in Annual Cost from Amortization Period 15 Years to 14 Years	New Annual Cost to County	Increase in Annual Cost
County Retirement Plan (SamCERA)	\$150,000,000	\$90,000,000	\$16,000,000	\$256,000,000	\$106,000,000

Of course the above calculations are only rough approximations based on assumptions by our office. The point is that by moving governmental financial reporting more in line with private industry reporting, our Board of Supervisors, our credit agencies and our financial statement users will gain a clearer understanding of the County's financial position.

Perhaps most importantly, this increase in transparency and usability of our financial reports will aid taxpayers in recognizing that fundamental realignment of the County's use of its resources must occur for the County to live within its financial means. This is an important change for both San Mateo County and national taxpayers to recognize.

As a result of this new GASB initiative related to pension accounting, the County's true structural deficit would be increased, per the above table, by approximately \$106 million per year. This accelerates the decline in County's General Fund reserves dramatically as shown by the graph below:



Using these business-type pension accounting practices, the County's reserves would be negative at the end of fiscal year 2013. Delaying recognition of these "off book" liabilities can only lead to the same type of financial failures currently experienced globally by the business sector.

New and innovative approaches to budgeting our County's limited resources to best meet the priorities of our taxpayers need to be developed. The County Board of Supervisors is to be applauded for considering new ways to balance the County's structural budget deficit. Without structural change to the way we do business, these deficits will continue and, most likely, reduce the resources available to those most in need. Delaying these tough decisions will result in sudden and severe reductions in all of the services that the County provides.

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



County Overview

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 447 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.

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 twenty cities within the County are governed by their own city councils.

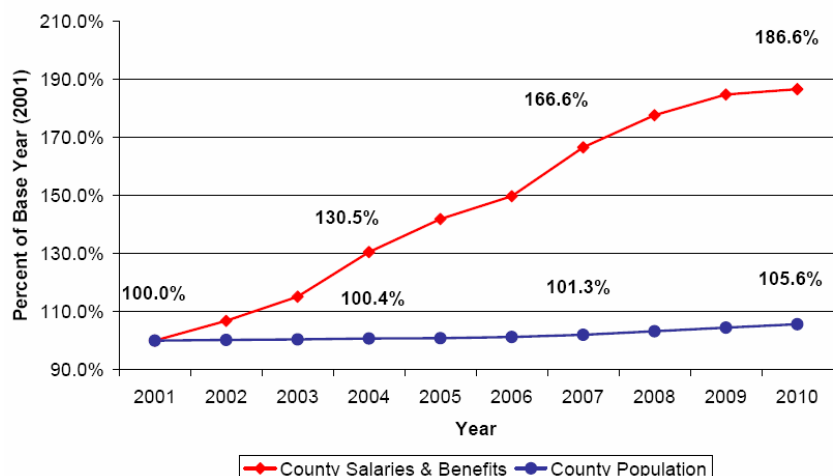
The County provides an array of services for all County residents. These services include social services, public health protection, housing programs, property tax assessments, tax collection, elections, and public safety. The County also provides basic city services for residents who do not live within a city but in an unincorporated area.

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 budgets, and appointing committees, the County Manager and the County Counsel.

The non-elected directors of six departments are appointed by the County Manager. The County has six elected officials responsible for the offices of the Assessor-County Clerk-Recorder, Controller, Coroner, District Attorney/Public Administrator, Sheriff, and Treasurer-Tax Collector.

County's spending on its employees' salaries and benefits has significantly outpaced the growth in its population over the past ten fiscal years.

Change in County Salaries & Benefits vs Change in County Population (Base Year = 2001)



# Economic Indicators

## Employment

The County had an estimated 34,100 unemployed residents as of June 2010.

- The unemployment rate in the County was 9.2% in June 2010, above the prior year's average of 9.0%.
- This compares with an unadjusted unemployment rate of 12.2% for California and 9.6% for the entire U.S. for the same period.
- Among California's 58 counties, the County recorded the third lowest unemployment rate as of June 30, 2010.

## Real Estate

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

- The number of single-family homes sold increased by 6%, to 447 in June 2010 from 420 in June 2009.
- The County's median single-family home price increased 15% to \$730,000 in June 2010 from \$635,000 in June 2009.
- The California median single-family home price increased 13% to \$312,000 in June 2010 from \$275,000 in June 2009.

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

- The vacancy rate in June 2010 was at 17.1%, down from 18.5% in June 2009.
- The average asking rate for space dropped 5.0% to \$2.65 per square foot per month in June 2010, down from \$2.79 per square foot per month in June 2009.

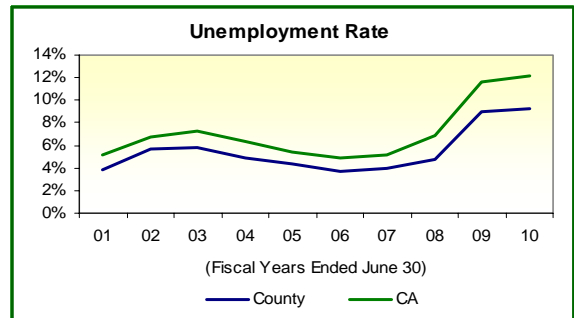
## Tourism

San Francisco International Airport (SFO) remains a significant economic engine in the region by providing tens of thousands of jobs.

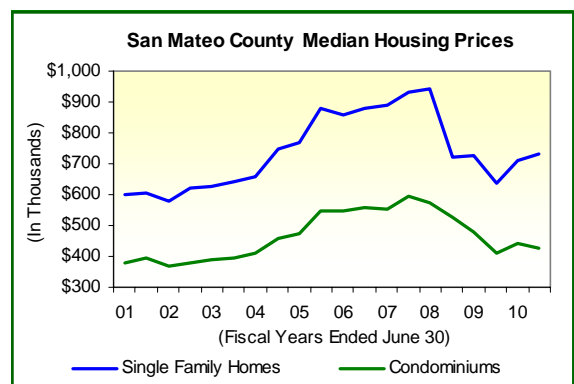
- The Airport's total passenger volume increased 4.6% to 38.4 million in June 2010 from 36.7 million in June 2009.

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

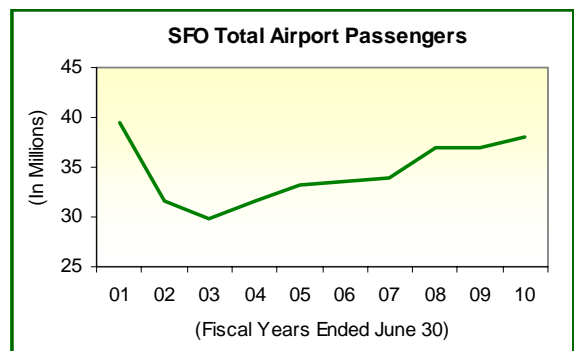
*- Mark Zandi, chief economist at Moody's Analytics -*



Source: Employment Development Dept., California



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



Source: SFO Comparative Traffic Reports

This report is derived from the County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010.

The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles.

## Economic Indicators

Recent economic indicators remain mixed for California and the San Francisco Peninsula, but the general direction continues to signal stabilization if not slow improvement. San Mateo County appears to have reached the apex in the unemployment rate and is positioned to rebound, albeit slowly, from the economic recession.

Growth is predicted to be slow for the next several years according to an economic forecast and analysis recently released by the San Mateo County Economic Development Association. As County government revenues tend to lag behind the economy, County resources will likely remain stagnant for the several years.

Principal Employers Year 2008				
Employer	Business Type	Number of Employees	Rank	% of Total County Employment
United Airlines	Airline	9,600	1	2.62%
Genentech Inc.	Biotechnology	8,250	2	2.25%
Oracle Corp.	Software	5,642	3	1.54%
County of San Mateo	Government	5,443	4	1.49%
Kaiser Permanente	Health Care	3,780	5	1.03%
Safeway Inc.	Supermarket	2,273	6	0.62%
Electronic Arts Inc.	Entertainment	2,000	7	0.55%
SMC Community College District	Public Education	1,950	8	0.53%
Mills-Peninsula Health Services	Health Care	1,800	9	0.49%
United States Postal Service	Postal Service	1,671	10	0.46%
Total		42,409		11.58%

Like other counties in California, the County has suffered during the economic recession, but it has fared relatively better than most areas. While home prices declined by 27% from a 2007 peak, certain areas in California saw a 50% drop.

Consumer spending began to rebound in the second half of 2009. Although some of this spending can be attributed to federal stimulus programs, taxable sales in San Mateo County are expected to continue increasing. In addition, a variety of economic factors indicate that the County is well positioned for slow but steady economic improvement.

## Financial Indicators

The County's estimates are that revenues will remain relatively flat for the foreseeable future, while costs will continue to increase at a significantly faster rate. This results in a widening negative gap between County's revenues and expenditures over time.

As reflected in the County's Budget for the fiscal year 2010-11, County management slows the rate of growth in this gap by reducing program and service expenditures by \$36 million. It does, however, require the use of \$90 million from County reserves.

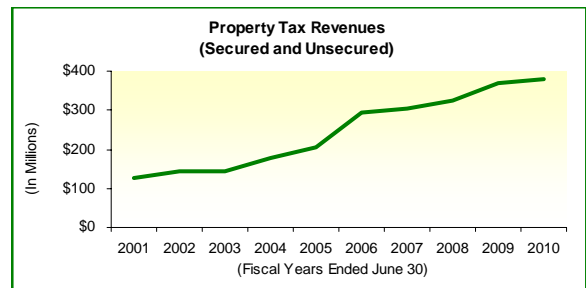
Since FY 2007-08, the County has bridged its annual budget deficits by using \$248 million from its reserves. General Fund reserves are budgeted to have about a balance of \$209 million at the end of fiscal year 2010-11.

**“San Mateo County budget deficit grows.”**

- San Mateo Daily Journal, September 16, 2010 -

Property tax is the County's largest discretionary General Fund revenue source. Since the housing market collapsed in 2008, real property tax (secured tax) revenues have declined from an average of 7% annual growth during the last five fiscal years to -1% in FY 2009-10 and projected at between 0% to 3% through FY 2014-15.

About 85% of personal property tax (unsecured tax) revenues are generated from businesses at San Francisco International Airport. Unsecured tax revenues increased 4.4% in FY 2009-10 compared to 11.5% in FY 2008-09.



Principal Property Assesseees As of January 1, 2010				
Assessee	Nature of Business	Taxable Assessed Value (In Millions)	Rank	% of Total Taxable Assessed Value
Genentech	Biotechnology	\$ 1,892	1	1.34%
United Airlines	Air Carrier	1,200	2	0.85%
Oracle	Software	611	3	0.43%
Slough BTC	Lease	545	4	0.39%
Pacific Shores Investors	Investment	486	5	0.34%
Slough SSF	Lease	464	6	0.33%
Gilead Sciences	Biopharmaceutical	419	7	0.30%
Sun Microsystems	Computer Products	354	8	0.25%
Wells Real Estate Investment Trust	Real estate	310	9	0.22%
Electronic Arts Inc	Video games	285	10	0.20%
Total		\$ 6,566		4.65%



# Financial Summary

## Net Assets

As of June 30, 2010, the County's net assets totaled \$1.2 billion, an increase of \$40 million or 4% from the previous year.

- \$435 million, or 37%, of net assets, is invested in capital assets net of any related debts used to acquire those assets. The County uses these capital assets to provide services to citizens, therefore, these assets are not available for future spending.
- \$144 million, or 12%, of net assets is subject to external restrictions on how it may be used.
- \$595 million, or 51%, of net assets may be used to meet the County's ongoing obligations to citizens and creditors.

## Capital Assets

The County's capital assets include land, easements, infrastructure, construction-in-progress, structures and improvements, equipment, and software.

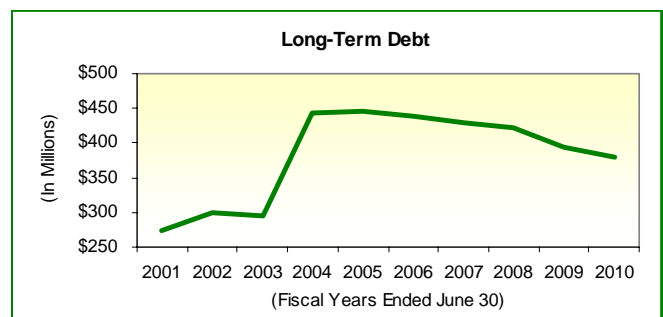
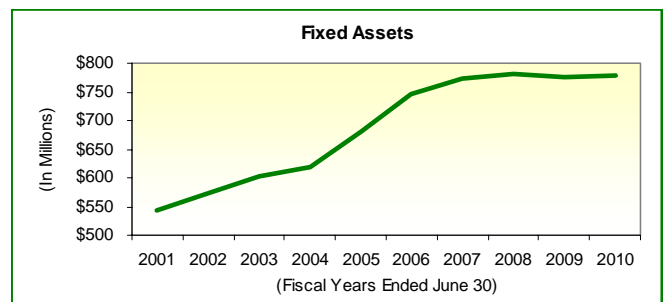
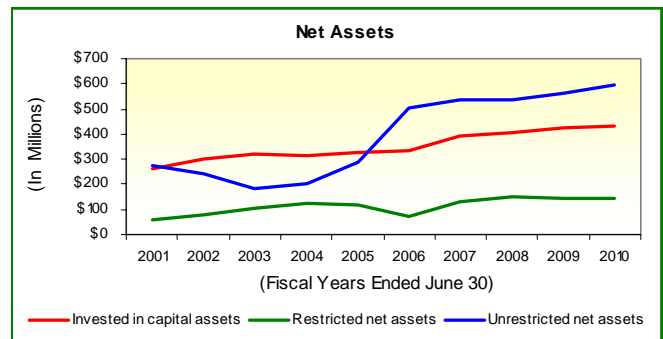
- At June 30, 2010, the County's investment in capital assets increased by \$2 million, or 0.3%, to \$779 million.
- \$1.6 million of the increase was caused by the construction of remaining projects at the County's Youth Services Center.

## Long-Term Debt

The County's long-term debts are primarily comprised of lease revenue bonds, certificates of participation, and notes payable.

- At June 30, 2010, the County's outstanding long-term debts decreased by \$15 million, or 4%, to \$379 million. The decrease was mainly caused by scheduled retirement of debts.
- On December 10, 2009, the County issued the 2009 Lease Revenue Bonds in an aggregate of \$115.5 million through the San Mateo Joint Powers Financing Authority to refinance a portion of old debts. The refunding in effect reduced the County's aggregate debt service payments by \$12.6 million over the next 23 years.

	As of June 30,		Increase/ (Decrease)
	2010	2009	
<b>Assets:</b>			
Current and other assets	\$ 1,127	\$ 1,055	\$ 72
Capital assets	780	777	3
<b>Total assets</b>	<b>1,907</b>	<b>1,832</b>	<b>75</b>
<b>Liabilities:</b>			
Long-term liabilities	474	486	(12)
Other liabilities	259	212	47
<b>Total liabilities</b>	<b>733</b>	<b>698</b>	<b>35</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	435	423	12
Restricted	144	146	(2)
Unrestricted	595	565	30
<b>Total net assets</b>	<b>\$ 1,174</b>	<b>\$ 1,134</b>	<b>\$ 40</b>



## Revenues and Expenses

As noted on the adjacent page, the County's net assets increased by \$40 million, reflecting the difference between County's total revenues and total expenses for the fiscal year ended June 30, 2010.

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

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

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

**General revenues** are revenues that are not classified as program revenues, including all taxes.

- *One-time revenues* are about \$90 million of FY 2009-10 total revenues. These one-time revenues are not guaranteed in future years. About \$50 million of these revenues were used to fund ongoing operations leaving \$40 million as the increase in net assets.

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

**Governmental activities** are normally supported by taxes and intergovernmental revenues and cover an array of services including:

- **General government** - Cover 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 infrastructures.
- **Health and sanitation** - Strive to 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 17 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. Such activities, theoretically, should heavily rely on fees charged to recipients of the services.

San Mateo Medical Center, however, is unable to achieve self-sufficiency and continuously requires subsidy from the County General Fund. In the past five fiscal years, the average annual subsidy was about \$76 million. Intensive efforts have been underway to improve the financial strength of the Medical Center. The impact of the recently passed federal health care legislation on the Medical Center is not yet fully known.

<b>Change in Net Assets</b>			
(In Millions)			
	Fiscal Years		Increase/ (Decrease)
	2010	2009	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 279	\$ 285	\$ (6)
Operating grants and contributions	477	493	(16)
Capital grants and contributions	5	5	-
General revenues:			
Property taxes	377	375	2
Other taxes	22	24	(2)
Unrestricted interest and investment earnings	12	(2)	14
Miscellaneous	25	29	(4)
Total revenues	1,197	1,209	(12)
<b>Expenses:</b>			
Program expenses:			
General government	78	84	(6)
Public protection	298	297	1
Public ways and facilities	18	27	(9)
Health and sanitation	242	242	-
Public assistance	190	196	(6)
Recreation	9	9	-
Interest on long-term liabilities	19	20	(1)
San Mateo Medical Center	233	226	7
Airports	3	2	1
Coyote Point Marina	1	1	-
Housing Authority	66	63	3
Total expenses	1,157	1,167	(10)
Excess (deficiency) before special item and transfers	40	42	(2)
Special item	-	(8)	8
<b>Change in net assets</b>	40	34	6
Net assets - beginning (restated)	1,134	1,100	34
Net assets - ending	<u>\$ 1,174</u>	<u>\$ 1,134</u>	<u>\$ 40</u>

**Adopted Budget for the Fiscal Year 2010-11**

On September 28, 2010, the County Board unanimously approved the County's budget of \$1.82 billion with 5,436 positions for FY 2010-11.

- This budget represents an increase of 3.4%, or \$0.06 billion, when compared to the \$1.76 billion with 5,626 positions for FY 2009-10.
- The total number of positions has been reduced by 190 to address the County's structural budget deficit. The majority of these positions were vacant with only a small number of actual layoffs.

The County continues to face a chronic structural budget deficit that was recognized over three years ago. Even though the County implemented measures to curb spending, the structural budget deficit has deepened and is expected to hit \$124 million by FY 2014-15 without action. To remove the structural deficit, the County is exploring all options to streamline operations, reduce labor costs, and explore new revenue sources.

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

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**Award for  
Outstanding  
Achievement in  
Popular Annual  
Financial Reporting**

PRESENTED TO

**County of San Mateo  
California**

for the Fiscal Year Ended  
**June 30, 2009**



*[Signature]*  
President  
*[Signature]*  
Executive Director

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, 2009. 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 eight consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and are submitting it to the GFOA.

Tom Huening, CPA, CPFO  
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