



Financial Highlights

County of San Mateo, Fiscal Year Ended June 30, 2007

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This publication highlights the significant financial and economic activities of San Mateo County, California, for the fiscal year (FY) ended June 30, 2007. To view this publication online, visit www.co.sanmateo.ca.us/controller/pafr.

The information contained in this publication is derived from the County of San Mateo's Comprehensive Annual Financial Report (CAFR). The CAFR contains more in-depth information about the County's finances. Copies of this report are available at all public libraries in the County and at www.co.sanmateo.ca.us/controller/cafr.



Japanese Tea Garden, San Mateo, CA
Photograph courtesy of Robert Adler

Controller's Message

San Mateo County's local economy is relatively strong overall. Per capita personal income is steadily increasing, unemployment remained low at 3.9% in June 2007, and the tourism and technology industries are growing. Three major carriers (JetBlue, Southwest Airlines, and Virgin America) started services at San Francisco International Airport this year, which is expected to increase airport traffic and related services. Although the number of home sales is declining, median housing prices are slowly increasing. The commercial real estate market is in its third year of growth.

"JetBlue lands at SFO...First of 3 major low-cost carriers coming to airport"

- San Mateo Daily News, May 3, 2007

In FY 2006-07, the County had \$1.9 billion worth of assets and \$0.8 billion of liabilities. The County's financial statements reflect revenues of \$1.2 billion and expenses of \$1.0 billion. A major issue facing the County now is that its ongoing expenses have been growing faster than its ongoing revenues. Although the County continues to balance its budget, this was only made possible by various one-time revenue sources. Absent these one-time revenue sources, the County would currently be facing a \$25 million deficit. The County's major challenge in the next five years is to ensure its ongoing expenses do not exceed its ongoing revenues.

In FY 2006-07, the County's salaries and benefits increased 10%, which represents approximately 58% of County expenses. Staffing increased by 206 full time equivalent (FTE) employees for a total of 5,481 FTE.

The County's contribution to the San Mateo Medical Center continued to rise and was \$69 million in FY 2006-07. It is budgeted at \$72 million in FY 2007-08 and is projected to reach \$115 million in five years. The County is conducting a comprehensive review of its healthcare system to manage the rapidly rising medical costs.

The new \$155 million Youth Services Center opened last year. In the near future, the County needs to implement various other capital projects that require significant long-term funding.

Despite the challenge of curbing expenses without severely impacting the level of services the County offers, the County's overall financial position, reflected in its financial statements, continues to remain strong.

This Financial Highlights 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 at the address below, call my office at (650) 363-4777, or e-mail me at thuening@co.sanmateo.ca.us. I look forward to hearing from you.

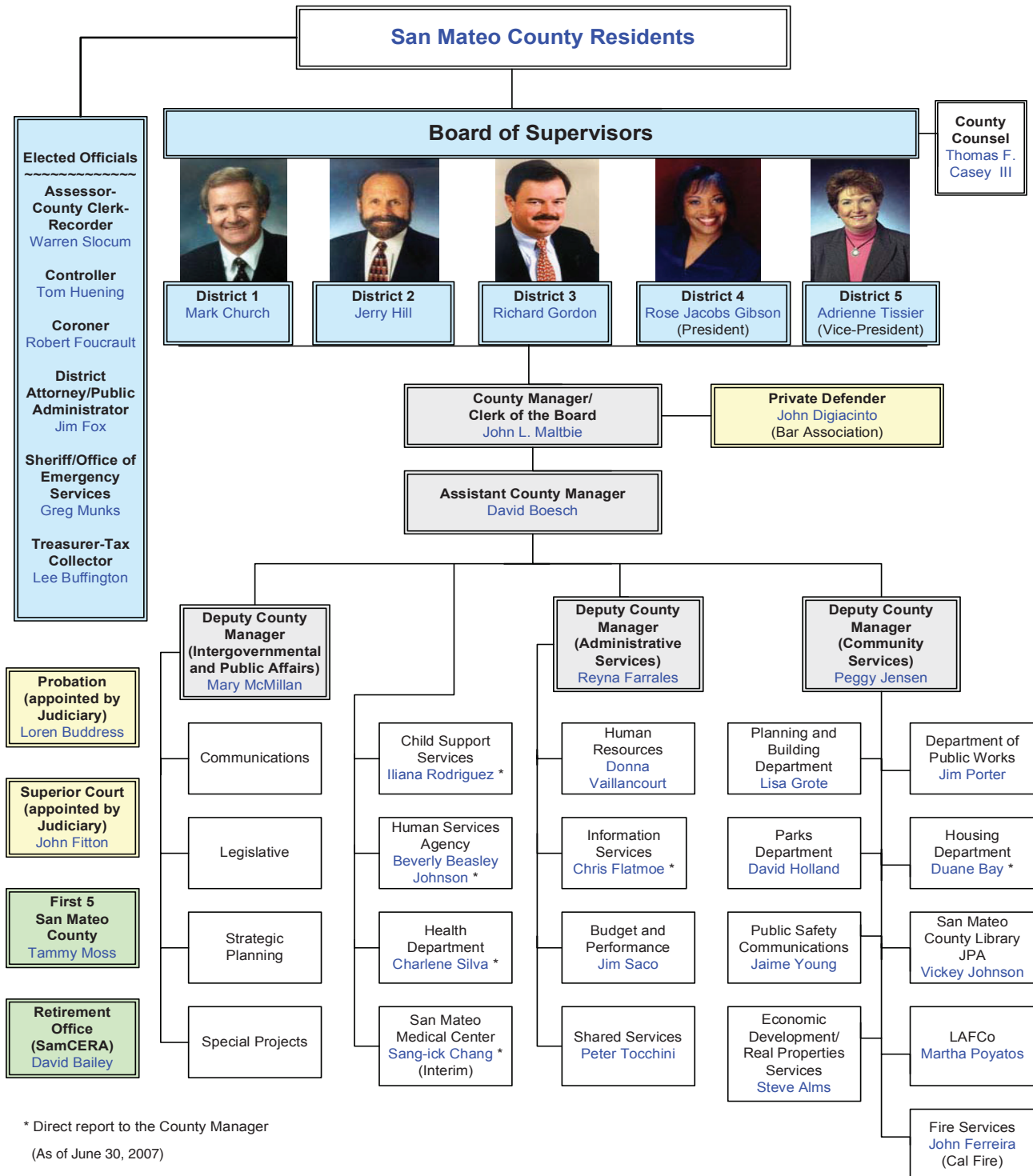
Tom Huening, CPA
Certified Public Finance Officer
Controller, County of San Mateo

"The sizzle has fizzled from the Bay Area housing market."

- Oakland Tribune, October 18, 2006

Tom Huening has served the County of San Mateo as the elected Controller since 1998.

Who We Are



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...

Employment

- The County's unemployment rate was 4.3% in 2005, remained very low at 3.7% in 2006, and was 3.9% for June 2007.
- In contrast, California's unemployment rate was 5.2% for June 2007.
- The County's two largest employers are United Airlines with 9,600 employees and Genentech Inc. with 7,845 employees.

Income

- The per capita personal income increased 4.4% to \$59,213 in 2005 (latest data available).

Residential Real Estate

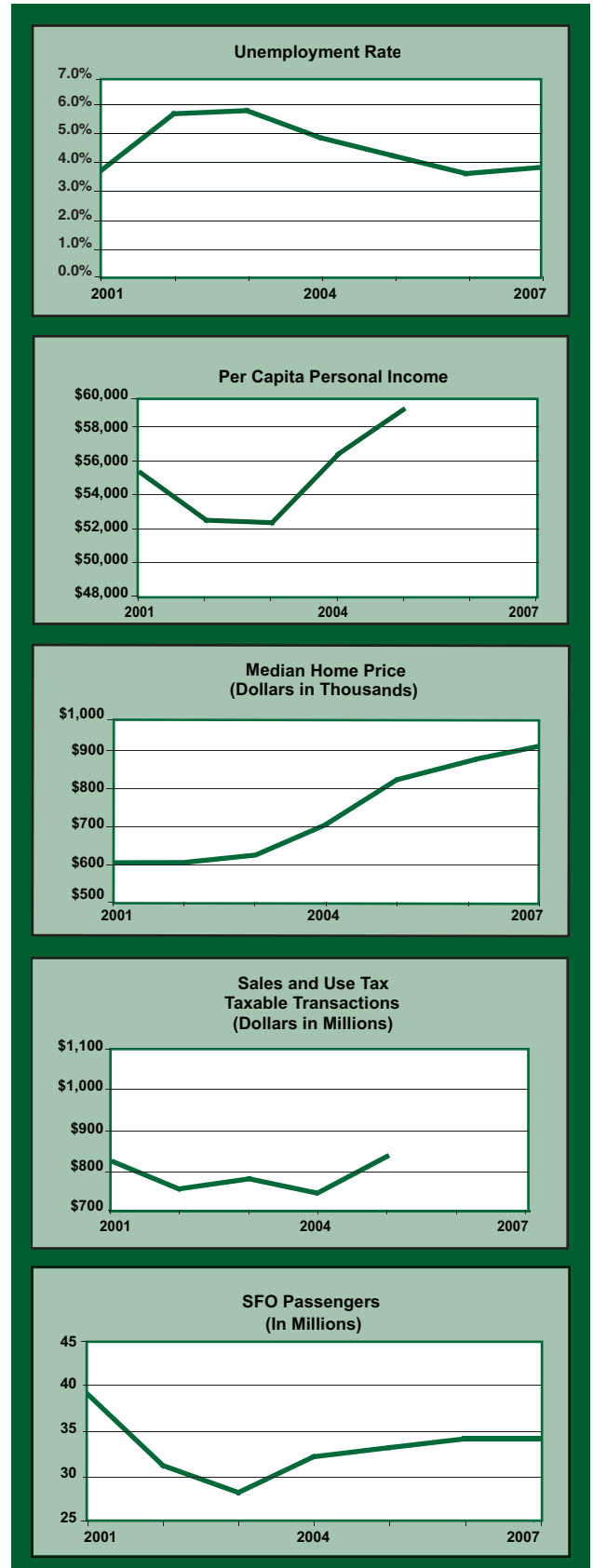
- Home sales in the San Francisco Bay Area continue to decline at the fastest pace in 12 years, primarily due to a tightening of the mortgage market and increasing inventory.
- In the first six months of 2007, the median price of a single-family home in the County was \$930,000, compared to \$594,280 for California and \$223,800 for the U.S.

Commercial Real Estate

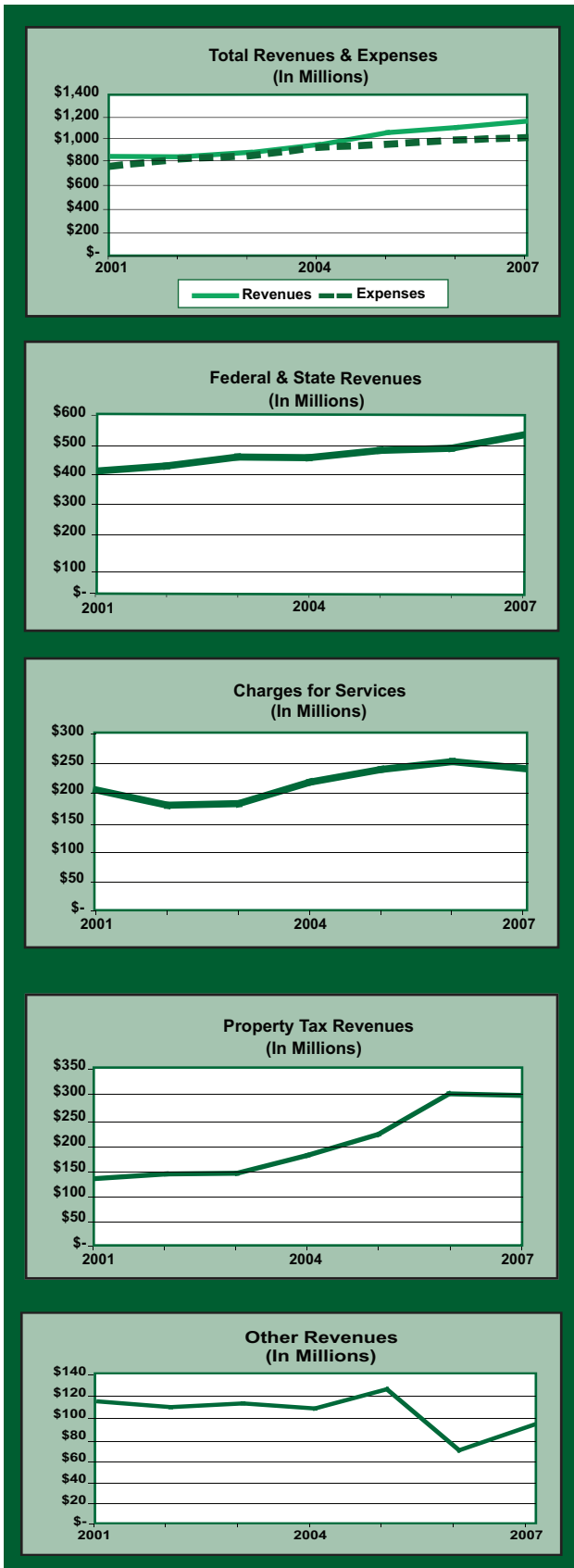
- The vacancy rate for office space continues its downward trend. At the end of FY 2006-07, it was 11.1%, the lowest in six years. This decline is caused by the expansion of technology and biotechnology industries.
- With the diminishing supply of higher quality available space, average asking rental rates have jumped to \$3.60 per square feet from \$2.75 last year, representing a 31% increase since 2006.

Tourism and Technology

- The County has a diversified economic base, but its major industries are in the tourism and technology sectors.
- San Francisco International Airport (SFO) is located within the County's boundaries. Jet Blue started services at SFO in May 2007. Southwest Airlines and Virgin America started services in August 2007. These new carriers are expected to bring in more tax revenues to the County.



...Drives County Revenues



The momentum of the economy fuels the County's significant revenue sources, which are comprised primarily of payments from state and federal governments, taxes and charges for services.

Total Revenues

- Revenues for the County increased by 4.8% to \$1,156 million.

Intergovernmental (Federal and State) Revenues

- As an arm of state government, these multiple program resources represent 45% of County funding and are tied to various mandated services such as social services, public assistance and mental health.
- Total intergovernmental resources increased 9% to \$529 million.

Charges for Services

- Charges for services include candidates filing fees, returned check charges, tax administration fees, private defender fees, geotechnical fees, agricultural inspection fees, fingerprinting fees and lab fees.
- Charges for services revenues decreased 4.7% to \$240 million.

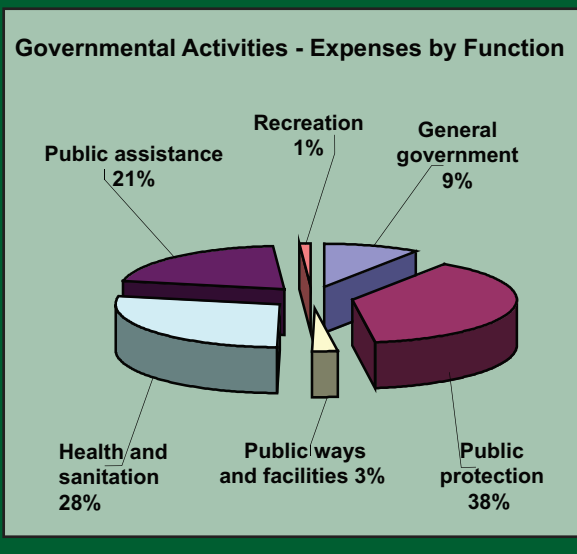
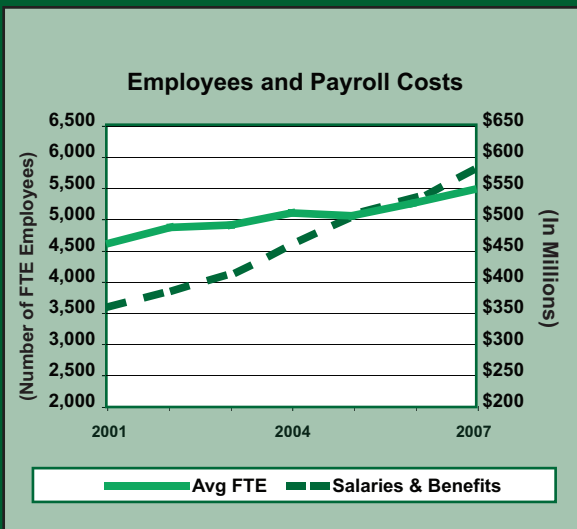
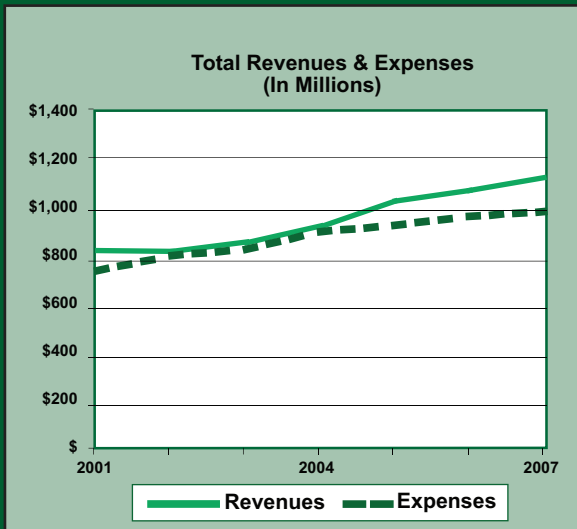
Property Tax Revenue

- Property tax revenue is the most important tax source for the County.
- In FY 2006-07, the County's share of property tax revenues remained strong overall, with a slight decrease from \$298 million in FY 2005-06 to \$295 million in FY 2006-07.

Other Revenues

- Sales and use taxes increased 4.3% to \$13.5 million.
- Property tax in lieu of sales taxes increased 7.4% to \$4.2 million.
- Property transfer taxes decreased 3.5% to \$8.2 million.
- Interest and investment earnings increased 114% to \$41.4 million due to strong economic conditions.

County Expenses



Expenses

- Expenses for the County increased 2% to \$1,014 million and were comprised of \$743 million for governmental activities and \$271 for business-type activities.

Employees

- The County increased its FTE employees by 206 to 5,481.
- As a service delivery entity, the cost of employee salaries and benefits were approximately 58% of total expenses for FY 2006-07.

Services

- Public Protection (\$278 million, 27% of total expenses)** Public protection expenses include costs incurred by the Sheriff, District Attorney, Probation, Coroner, County Fire, and Public Safety Communications. Public protection expenses increased \$24 million, or 9%, over the prior year.
- Public Assistance (\$152 million, 15% 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. These expenses decreased \$44 million, or 22%, primarily due to a one-time accounting adjustment to expenses.
- Health and Sanitation (\$200 million 20% of total expenses)** Health and sanitation expenses include costs 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 to \$27 million, or 16%, over the prior year.
- San Mateo Medical Center (\$208 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.

County Map



Who To Call For Information

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

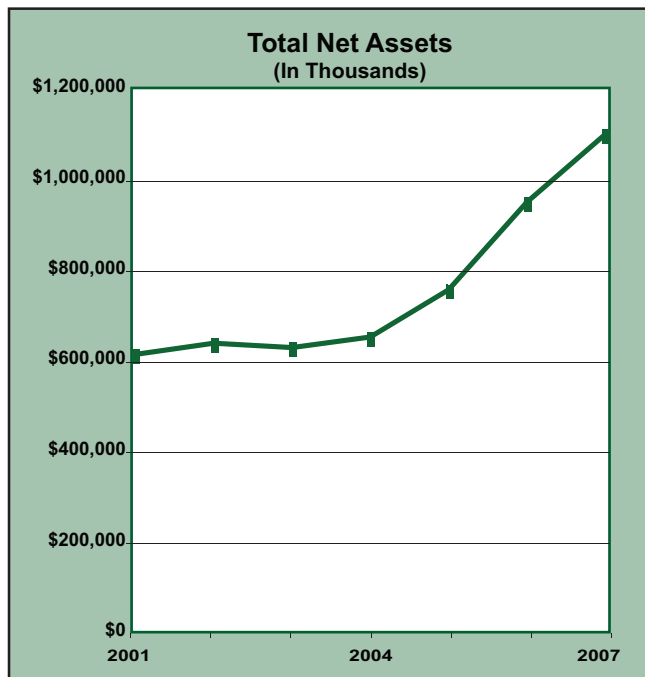
Financial Summary

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, 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 15%, or \$141 million, during FY 2006-07, mainly due to increases in operating grants and contributions and interest and investment earnings. Compared to the prior fiscal year, the County's overall financial position has improved.

Table 1 on page 9 shows the County's net assets, which fall into three categories:

- 37% of 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.
- 12% are restricted net assets. These resources are subject to external restrictions on how they are used.
- 51% are unrestricted net assets. These resources may be used to meet the County's ongoing obligations to citizens and creditors.

Table 2 on page 9 shows the total revenues surpassed total expenses by \$141 million.

- The County's total revenues increased by 5%, or \$53 million, from \$1,102 million to \$1,156 million.
- The County's total expenses increased by 2%, or \$20 million, from \$994 million to \$1,014 million.

Financial Summary

Table 1: Statement of Net Assets as of June 30, 2007

(Amounts in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Total assets	\$1,733,936	\$1,585,216	\$121,140	\$86,455	\$1,855,076	\$1,671,671	10.97%
Total liabilities	<u>733,884</u>	<u>704,853</u>	<u>66,252</u>	<u>53,627</u>	<u>800,136</u>	<u>758,210</u>	5.53%
Total net assets	<u>\$1,000,052</u>	<u>\$880,633</u>	<u>\$54,888</u>	<u>\$32,828</u>	<u>\$1,054,940</u>	<u>\$913,461</u>	15.49%

Table 2: Statement of Activities for the Fiscal Year Ended June 30, 2007

(Amounts in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Variance</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Total revenues	\$924,807	\$894,863	\$230,778	\$207,525	\$1,155,585	\$1,102,388	4.83%
Total expenses	<u>743,740</u>	<u>737,878</u>	<u>270,636</u>	<u>256,618</u>	<u>1,014,106</u>	<u>994,496</u>	1.97%
Excess (deficiency) before transfers	181,337	156,985	(39,858)	(49,093)	141,479	107,892	31.13%
Transfers	<u>(61,918)</u>	<u>(49,291)</u>	<u>61,918</u>	<u>49,291</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	<u>\$119,419</u>	<u>\$107,694</u>	<u>\$22,060</u>	<u>\$198</u>	<u>\$141,479</u>	<u>\$107,892</u>	31.13%

Outstanding Debt

In FY 2006-07, the County's total debt decreased by \$8 million to \$430 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 \$25 million in FY 2006-07, well below the maximum allowable debt service limit of \$52 million.

The information on this page is derived from the County's Comprehensive Annual Financial Report (CAFR), which is presented in conformity with generally accepted accounting principles and contains more information. The CAFR is available at all public libraries in the County and online at www.co.sanmateo.ca.us/controller/cafr.



Major Initiatives



San Mateo Medical Center's Hospital

Health Care

Between FY 2003-04 and FY 2005-06, the County's annual contribution to the Medical Center was approximately \$59 million. During this period, the Medical Center was able to maximize state and federal revenues and contain costs. Beginning in FY 2006-07, disproportionate share hospital and other federal payments and reimbursements for MediCal in-patient care could not keep pace with soaring healthcare costs including negotiated salaries and benefits, medical supplies and equipment, additional staffing to meet state mandated nursing ratios, and growing caseloads. Assuming the same growth rate in the next five years, the County's annual contribution would be approximately \$115 million in five years. The County cannot sustain the present rate of increases in its contribution to the Medical Center. To tackle this challenge, the

County is conducting a comprehensive review of its healthcare system.

"Finding money to provide medical care for the uninsured has been a growing problem for the county."

~ San Mateo Daily News, March 31, 2007

Capital Improvements

In Fall 2006, Public Works conducted a facilities condition assessment for 76 County-owned facilities. This assessment set sights on needs and estimated costs for renewal of building systems, cyclic maintenance, deferred maintenance, health and safety requirements, and preventive maintenance for the next 15 years. The assessment was completed in March 2007 and was documented in a new Facilities Condition Information System. Approximately \$55.7 million is needed to correct all noted deficiencies and implement projected requirements. A multi-year maintenance and repair plan will be used to develop a Five-Year Capital Improvement Plan, which will be completed in the next budget cycle. The need for new facilities, including correctional and re-entry facilities, will also be included in the plan when requirements and cost estimates become available.

Major Initiatives

Criminal Justice System

A feasibility study is underway to identify whether a new jail is necessary to address the overcrowding in the Maguire and Women's jails. The Maguire jail was opened in 1994 at a cost of \$55 million. Since that time, the County has closed the Honor Camp with 140 beds, Medium Security Facility with 100 beds, and Men's Work Furlough Facility with 140 beds. Inmates formerly housed in these facilities are now held at the Maguire and the Women's jails.

Building a new jail is a major long-term financial commitment. Coupled with the feasibility study, the County's Jail overcrowding Task Force is conducting careful analyses of why the jail population is not declining even though arrests have decreased. Analyses of programs to help the County mitigate future growth in inmate population are also underway.



Maguire Correctional Facility

"Both men's and women's jails are bursting at the seams."

~San Mateo Daily News, April 3, 2007

Human and Health Services

On November 7, 2006, the Board approved an Alcohol and Other Drugs (AOD) Strategic Plan that is targeted to address the serious impacts that substance abuse has on the community. A steering committee was formed to implement the strategies called for in the plan. The committee is comprised of a wide spectrum of stakeholders from businesses, cities, advocacy groups, probation, child welfare, as well as County representation from the health, mental health, and AOD programs. The ongoing goal is to identify revenue sources that will enhance and expand services, such as supportive housing stipends and continuing case management, and increase residential and intensive day treatment capacity for women and youth.

On July 24, 2007, the Board approved the creation of a new Behavioral Health and Recovery Services Division. This new division will merge the Alcohol and Other Drugs services with the existing Mental Health Services into a new Behavioral Health and Recovery Services unit within the Health Department. The mission of this new division is to improve the health and mental health outcomes of individuals with addiction and mental health issues.

"The important thing is not to stop questioning"

~Albert Einstein

About the Financial Highlights

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Financial Reporting**

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**County of San Mateo
California**

for the Fiscal Year Ended

June 30, 2006



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President

Jeffrey L. Esser
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 Popular Annual Financial Report for the fiscal year ended June 30, 2006. 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 five consecutive years (fiscal years ended 2002-2006). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

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

RETURN SERVICE REQUESTED