COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office

DATE: February 4, 2010
BOARD MEETING DATE: February 9, 2010
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: David S. Boesch, County Manager

SUBJECT: FY 2009-10 County Budget Update

RECOMMENDATIONS

A. Accept the FY 2009-10 County Budget Update
B. Review key budget assumptions and provide direction regarding FY 2010-11 and 2011-12 Budget
C. Adopt Salary Ordinance Amendment eliminating 64 vacant positions in the current fiscal year
D. Adopt Updates to the County Reserves Policy
E. Adopt a Resolution (1) revising expenditure assumptions for Fiscal Years 2010-14 by eliminating the assumption that the General Fund contribution to the San Mateo Medical Center will be reduced to $50 million and (2) stating that the budget targets for the San Mateo Medical Center will be equivalent to those of the other divisions of the Health System

BACKGROUND AND DISCUSSION

The Board reviews the current fiscal year budget at mid-year to ensure revenues and expenditures are in accordance with estimates and to provide direction to the County Manager regarding preparation of the next budget. The FY 2010-11 and FY 2011-12 Recommended Budget will be submitted to the Board on May 28. Budget hearings will begin Monday, June 21.

This County Budget Update includes year-end Fund Balance estimates and variance analysis for all County funds, identification of major issues affecting the preparation of the upcoming budget, data for local economic indicators, and projections for general-purpose revenue and Public Safety Sales Tax (Prop. 172). It also provides a plan for eliminating the structural deficit by FY 2012-13.

In addition, three items are attached to this report for the Board's consideration:

- Salary Ordinance Amendment eliminating 64 vacant positions as part of the County's accelerated approach to eliminating the structural budget deficit, saving $1.8 million for the remainder of FY 2009-10 and $6.4 million ongoing.
- Updates to the County Reserves Policy to incorporate best practices, including a new Non-Departmental Reserves minimum requirement of 5%, in addition to the 3% Contingency requirement already in place, and increased fiscal oversight of departments that fall below the 2% minimum Reserves requirement for departments. This will maintain at least $100 million in General Fund Reserves and Contingencies.
- Resolution eliminating the assumption that the General Fund subsidy to the San Mateo Medical Center will be reduced to $50 million and stating that budget targets for the Medical Center will be calculated in the same manner as budget targets for all other divisions of the Health System. This has been supported by the Board's Finance & Operations Committee to recognize the Medical Center as an operating division of the consolidated Health System and to address demands for services in the current economic environment. It will, however, increase the structural deficit by $22 million over the next five years.

FY 2009-10 COUNTY FINANCIAL STATUS

Based on year-end estimates, the County is expected to end the fiscal year with $362.1 million in Fund Balance, which is $37.7 million less than the prior year. The General Fund is projected to end the year with $277.5 million, which is $13 million less. This is largely due to projected Fund Balance declines in General Fund operating departments of $10.9 million. Some of these declines represent the anticipated completion of one-time projects, while others, like the District Attorney's Office, the Probation Department and the Planning Department, represent potentially serious budget problems heading into next fiscal year. Despite Excess ERAF proceeds this fiscal year of $87.9 million, Non-Departmental Services is projected to end the year with $2 million less. The County's structural budget deficit has grown to $87 million in the current fiscal year as General Purpose revenues, such as Public Safety Sales Tax (Prop. 172), local sales taxes and interest earnings decline. Further, Property Tax In-Lieu of VLF, a stable and reliable revenue source since its inception in 2004, is now partially at risk as there may be insufficient funds to make the statutory distributions to the County and the cities should the Community College District turn basic aid. This emerging issue is discussed in greater detail under "Major Budget Issues".

Non-General Fund departments are expected to end the fiscal year with $84.7 million in Fund Balance, which is $26 million less than the prior year, due to anticipated completion of one-time capital construction and improvement projects in Utilities Districts, Roads and County facilities.

Major budget issues to consider in preparing the upcoming budget include: elimination of the County's structural deficit; the impact of the Governor's proposed budget; a continuing weak economy with declining assessed values in residential and commercial real estate; increasing unfunded actuarial liabilities due to investment losses incurred by SamCERA; significant operating deficits in several General Fund departments, including District Attorney's Office, the Probation Department and Planning Department; and deficits in other operating funds, including Structural Fire and Construction Services.

FY 2010-11 FUND BALANCE ESTIMATES

The following tables provide summary and detail information of updated FY 2010-11 Beginning Fund Balance estimates for the General Fund and other County funds in comparison to the Fund Balance estimates in the Tentatively Adopted FY 2010-11 Budget. The total Fund Balance of $362.1 million represents 20.5% of the County's $1.77 billion budget. The anticipated surplus for the General Fund heading into FY 2010-11 is $44 million, but this includes Excess ERAF receipts of $87.9 million. Beginning on page 4, significant variances to original Fund Balance estimates are organized by the five Community Outcome areas.

Shared Vision 2025 Communty Outcome by Fund *(Dollars in Thousands)*	FY 2009-10 Working Budget	FY 2010-11 Budgeted Fund Balance	FY 2010-11 Updated Fund Balance	Projected Fund Balance Variance *
Healthy - General Fund	660,136	30,208	29,661	(547)
Healthy - Other Funds	290,655	7,929	8,107	178
Prosperous – General Fund	217,831	7,329	7,186	(143)
Livable – General Fund	19,527	4,830	2,869	(1,961)
Livable – Other Funds	29,279	11,255	9,801	(1,454)
Environmentally Conscious – General Fund	33,792	1,000	2,525	1,525
Environmentally Conscious - Other Funds	168,142	49,834	48,249	(1,584)
Collaborative - General Fund	293,715	190,089	235,210	45,121
Collaborative – Other Funds	53,201	16,591	18,522	1,931
Subtotal General Fund	1,225,001	233,457	277,452	43,995
Subtotal Non-General Fund	541,277	85,609	84,680	(929)
Total ALL Funds	1,766,278	319,065	362,132	43,066

* Projected variance represents additions (surplus) or reductions (shortfall) to budgeted FY 2010-11 Beginning Fund Balance based on updated estimates prepared as part of this County Budget update.

Department/Fund Name	FY 2009-10 Working Budget	FY 2010-11 Budgeted Fund Balance	FY 2010-11 Updated Fund Balance	Projected Fund Balance Variance*
Health System-General Fund	266,965,020	16,869,074	16,885,779	16,705
Health System-Other Funds	24,550,068	6,130,933	5,829,190	(301,743)
Health System-San Mateo Medical Center	256,214,576	0	0	0
Contributions to Medical Center	75,570,454	0	0	0
Sheriff's Office	161,615,271	7,417,454	7,949,508	532,054
Probation	72,800,477	1,246,541	305,875	(940,666)
District Attorney/Public Administrator	25,036,849	2,812,801	1,571,952	(1,240,849)
County Support of the Courts	20,449,993	0	698,975	698,975
Private Defender	16,510,529	0	2,219	2,219
Public Safety Communications	9,453,032	813,078	1,059,004	245,926
Fire Protection	6,590,085	0	0	0
Structural Fire Fund	6,590,085	475,059	886,616	411,557
Coroner's Office	3,310,212	411,844	511,844	100,000
County Service Area #1 Fund	3,300,490	1,323,507	1,391,539	68,032
Message Switch	1,155,506	508,810	541,539	32,729
Grand Jury	678,676	128,523	134,700	6,177
Healthy Community-Total	950,791,323	38,137,624	37,768,740	(368,884)
Human Services Agency	196,641,117	6,660,807	6,461,002	(199,805)
Child Support Services	11,777,859	0	0	0
Human Resources Department	9,411,545	667,716	724,652	56,936
Prosperous Community-Total	217,830,521	7,328,523	7,185,654	(142,869)
County Library Fund	29,279,168	11,254,940	9,801,089	(1,453,851)
Planning and Building Department	10,984,205	4,691,353	2,729,989	(1,961,364)
Department of Housing	8,229,067	0	0	0
LAFCo	313,995	139,037	139,037	0
Livable Community-Total	48,806,435	16,085,330	12,670,115	(3,415,215)
Public Works-General Fund	24,925,620	851,866	2,162,892	1,311,026
Public Works-Other Funds	121,367,235	44,230,372	42,846,474	(1,383,898)
Capital Projects Fund	32,445,026	367,572	386,368	18,796
Parks Department-General Fund	8,866,812	148,599	362,569	213,970
Parks Department-Other Funds	14,329,320	5,235,562	5,016,558	(219,004)
Environmentally Conscious Comm-Total	201,934,013	50,833,971	50,774,860	(59,111)
Information Services	21,149,421	3,710,506	3,710,506	0
Assessor-Clerk-Recorder	19,506,154	1,294,611	1,565,784	271,173
County Manager/Clerk of the Board	10,655,088	1,489,721	1,809,721	320,000
Treasurer-Tax Collector	10,389,224	3,919,403	3,899,111	(20,293)
County Counsel	10,111,168	2,499,460	2,551,907	52,447
Controller's Office	8,729,786	1,005,394	949,411	(55,983)
Board of Supervisors	3,483,233	351,491	351,491	0
Real Property Services	3,390,769	307,889	307,889	0
Debt Service Fund	46,251,399	15,246,119	15,246,119	0
Courthouse Construction Fund	4,785,058	483,123	2,331,519	1,848,396
Criminal Justice Facilities Fund	2,158,660	855,577	938,660	83,083
Accumulated Capital Outlay Fund	5,893	5,893	5,741	(152)
Non-Departmental and Contingencies	110,693,944	79,904,564	65,913,044	(13,991,520)
Non-Departmental ERAF Reserves	95,606,290	95,606,290	154,151,400	58,545,110
Collaborative Community-Total	346,916,087	206,680,041	253,732,302	47,052,261
Subtotal-General Fund	1,225,001,401	233,456,832	277,451,798	43,994,966
Subtotal-Other Funds	541,276,978	85,608,657	84,679,873	(928,784)
Total ALL Funds	1,766,278,379	319,065,489	362,131,671	43,066,182

* Projected variance represents additions (surplus) or reductions (shortfall) to budgeted FY 2010-11 Beginning Fund Balance based on updated estimates prepared as part of this County Budget update.

Healthy Community

Healthy Community departments include Health System, First 5, Sheriff's Office/Office of Emergency Services, Message Switch, Probation Department District Attorney, Private Defender, County Support of the Courts, Grand Jury, Coroner, Public Safety Communications, County Fire and County Service Area #1 and are estimated to carry over $37.8 million in Fund Balance, approximately $303,000 less than budgeted next year. This represents a shortfall of $481,000 in General Fund budgets and surplus of $178,000 in Non-General Fund budgets.

The following factors have contributed to the projected net decrease in Fund Balance:

- The shortfall of $1,240,849 in the District Attorney's Office is primarily due to lower than expected civil penalty revenue due to fewer civil penalty cases being filed and a decrease in various state grants.
- The shortfall of $940,666 in the Probation Department is primarily due to a reduction in Juvenile Justice Crime Prevention Act (JJCPA) and Juvenile Probation and Camps Funding (JCPF) revenues. Both programs are funded by the Vehicle License Fee (VLF), which is a variable funding source, and has had lower than projected receipts. Additional contributing factors are lower than expected care and maintenance fees due to the inability of some parents to pay the daily rate for incarceration of their child.
- The Health Department is expected to carry over $22.7 million in Fund Balance, consisting of $16.9 million in General Fund programs and $5.8 million in Non-General Fund programs. The General Fund portion represents an increase of $16,706 from the amount budgeted for next year, due primarily to savings in salaries and benefits related to vacancies after offsets in anticipated revenue shortfalls, notably State cuts in Mental Health Managed Care Services revenue. Behavioral Health Services will use approximately $312,500 in reserves this year to support a three-month transition for affected clients. The Non-General Fund portion represents a decrease of $301,743 from the amount budgeted for next year due to the State's elimination of Emergency Medical Service Assistance funds.
- The Medical Center is projected to end the year within budget. This compares favorably to the $5 million deficit projected the same time two years ago, and $2.5 million deficit projected the same time last year. Medical Center management has worked aggressively to achieve meeting their budget target. The County continues to provide a General Fund contribution of $66.7 million, which $4.4 million less than the prior year. Further information regarding the Medical Center's financial status and what solutions they are currently focusing on to meet budget can be found on in the "Major Budget Issues" section of this report.
- The surplus of $698,975 in County Support of the Courts is primarily due to higher than anticipated revenues and savings in operating costs.
- The surplus of $532,054 in the Sheriff's Office is primarily due to salary and benefit savings as a result of vacant positions.
- The surplus of $441,557 in the Structural Fire Protection Fund is largely due to higher than anticipated revenues from property taxes, which were budgeted conservatively.
- The surplus of $245,926 in Public Safety Communications is largely due to salary savings from unfilled positions.
- The surplus of $100,000 in the Coroner's Office is due to the ongoing morgue remodel.
- The surplus of $68,032 in County Service Area #1 is primarily due to higher than anticipated revenues from property taxes, which were budgeted conservatively.
- The surplus of $32,729 in Message Switch is primarily due to savings in operating costs.
- The surplus of $6,177 in Grand Jury is primarily due to savings in operating costs.
- The surplus of $2,219 in Private Defender is primarily due to higher than anticipated revenues.

Prosperous Community

Prosperous Community departments include Human Resources Department, Department of Child Support Services, and the Human Services Agency and are estimated to carry over $7.2 million in Fund Balance, approximately $143,000 less than budgeted for the next year.

The following factors have contributed to the projected net decrease:

- The shortfall of $199,805 in the Human Services Agency is primarily due to decreased Intergovernmental Revenue and the economic downturn in general, lower State Medi-Cal allocation related to eligibility determination programs, reduced Realignment funding related to child welfare services, and decreased charges for services revenue for

Vocational Rehabilitation Services (VRS) food services and Workcenter programs. Partially offsetting these reduced revenues are salary savings and even though caseloads have increased costs are lower than anticipated. As the unemployment rate increases and clients are unemployed longer, it is expected that caseloads will increase to match client demand. Agency Reserves will be used to cover this shortfall at year-end.

- The surplus of $56,936 in the Human Resources Department is primarily due to salary and benefit savings as a result of vacant positions.

Livable Community

Livable Community departments include Planning and Building Department, Local Agency Formation Commission (LAFCo), County Library and Department of Housing. General Fund budget units are estimated to carry over $12.7 million in Fund Balance, approximately $3.4 million less than budget next year. This represents a shortfall of $1.9 million in General Fund units and a shortfall of $1.5 million in Non-General Fund units.

The following factors have contributed to the projected net decrease:

- The shortfall of $1,961,364 in Planning and Building is due to the reduction of reserves in FY 2009-10 and the projected reduction in revenues anticipated this year related to the recession; variance is likely to be less due to unspent appropriation related to the General Plan Zoning update project, various technological upgrades and ongoing development contracts.
- The shortfall of $1,453,851 in County Library is primarily due to the use of fund balance in the current year for equipment purchases designed to further automate and streamline the delivery of library services.

Environmentally Conscious Community

Environmentally Conscious Community departments include Department of Public Works, Parks Department, Coyote Point Marina, Fish and Game Propagation, Off-Highway Vehicle License Fees, Parks Acquisition and Development Fund, and Capital Projects are estimated to carry over $51.0 million in Fund Balance, approximately $59,000 less than budgeted next year. This represents a surplus of $1.52 million in General Fund budgets and a shortfall of $1.58 million in Non-General Fund budgets.

The following factors have contributed to the projected net decrease:

- The shortfall of $1,259,684 in Utilities is primarily due to a variety of delayed capital projects from the previous Fiscal Year under construction, and less than expected interest earnings.
- The shortfall of $562,935 in Vehicle and Equipment Services is primarily due to unanticipated equipment acquisitions.
- The shortfall of $345,986 in the Coyote Point Marina is primarily due to unanticipated costs for dredging the Marina
- The shortfall of $262,348 in Construction Services represents borrowed funds used to cover accrued expenditures in the previous Fiscal Year. This is the last year Construction Services will use current revenues to cover previous year expenditures.
- The surplus of $1,311,026 in Facilities Services is primarily due to a variety of higher than anticipated rents, unbudgeted litigation settlements, rent stabilization receipts, other revenues, and salary savings.
- The surplus of $353,859 in the Solid Waste Fund is primarily due to delays in capital projects related to the closure of the Pescadero Transfer Station that have been delayed, as well as reductions in operations.
- The surplus of $213,970 in the Parks Department is primarily due salary savings, tight cost controls throughout Services and Supplies and unanticipated revenues from park usage fees.
- The surplus of $205,089 in the County Airport Fund is primarily due to higher than expected earnings on rentals from newly constructed hangers and t-shades.
- The surplus of $109,925 in Transportation Services is primarily from salary savings, and reduced expenditures in marketing and outreach activities.
- The surplus of $96,732 in Parks Acquisition and Development is primarily due to cost savings on delayed projects due to State and local funding challenges.
- The surplus of $32,146 in Road Construction and Operations is due to higher than anticipated charges for services and conservative spending in services and supplies.

- The surplus of $18,796 in the Capital Projects Fund is primarily due to savings from projects completed under budget.
- The surplus of $2,676 in Off-Highway is unexpended funds, as the program has not been funded by the State in four years.

Collaborative Community

Collaborative Community departments include Board of Supervisors, County Manager-Clerk of the Board, Assessor-County Clerk-Recorder, Controller, Treasurer-Tax Collector, County Counsel, Information Services Department, Real Property Services, Construction Funds and Debt Service Fund and are estimated to carry over $254.0 million in Fund Balance, approximately $47.1 million more than budgeted next year. This represents a surplus of $45.1 million in General Fund budgets and a surplus of $1.9 million in Non-General Fund budgets.

The following factors have contributed to the projected net increase:

- The shortfall of $55,983 in the Controller's Office is due to less than anticipated savings generated from vacant positions and other operating costs.
- The shortfall of $20,293 in Treasurer-Tax Collector is due to less than anticipated savings in operating costs.
- The surplus of $1,848,396 in the Courthouse Construction Fund is primarily due to savings from uncompleted Court Seismic work.
- The surplus of $320,000 in County Manager-Clerk of the Board is primarily a result of holding positions vacant in the current year.
- The surplus $271,173 in the Assessor-County Clerk-Recorder is primarily due to savings generated by holding positions vacant and other operating cost saving measures.
- The surplus of $83,083 in the Criminal Justice Construction Fund is primarily due to savings in capital project expenditures.
- The surplus of $52,447 in County Counsel is attributable to attorney fees received in the settlement of a complex litigation matter.
- The surplus of $44.6 million in Non-Departmental Services, which includes revenue shortfalls and Excess ERAF, is described in detail in the following paragraph.

Non-Departmental

Non-Departmental General Fund is projected to end the year with $220.1 million in available Fund Balance, representing a decrease of $2 million for the year, but still $44.6 million more than budgeted next year due to $58.5 million in unanticipated Excess ERAF. Non-Departmental Reserves will be used to cover revenue shortfalls in local sales taxes of $3 million and interest earnings of $4 million. In addition, the County and the cities may experience a shortfall in Property Tax In-Lieu of VLF this year should the Community College District turn basic aid (See "Major Budget Issues"). Revenue projections have been reduced by $6.5 million until a final determination on the status of the District can be made. Reserves of $20.7 million have been restored through the Proposition 1A securitization program. Other one-time factors include reimbursement from the State of $1.5 million for the May 2009 special election and anticipated costs of $2.5 million for the upcoming June 2010 election.

LOCAL ECONOMIC INDICATORS

The following indicators provide information on current local economic activity compared to prior years and state/national trends. Trends in the data assist in generating projections for general purpose revenue such as property tax, sales tax, and transient occupancy tax:

A. Bay Area Consumer Price Index (CPI) ↓
B. First-Time Housing Affordability Index) ↑
C. Median Home Price and Home Sales ↑
D. Foreclosure Activity ↑
E. Property Reassessment and Assessment Appeal Filings ↑
F. Building Permits Issued ↓
G. Office Space Availability ↑
H. San Francisco International Airport – Total Passengers ↑
I. Unemployment Rate ↑
J. PeninsulaWorks Participants ↑
K. Public Assistance Caseloads ↑
L. Emergency Room Visits ↑
M. Health Insurance Enrollment Adults and Children ↑
N. Jail and Juvenile Hall Populations ↓

Bay Area Consumer Price Index (CPI)

The Consumer Price Index (CPI) measures the change in the price of goods over time. The change in the index is referred to as the rate of inflation, and is used in assumptions for calculating future costs. In FY 2009-10 an increase of one and three-tenth percentage points, from 1.6% to 2.9%, is forecast for the Bay Area CPI while California is forecast to increase one and one-tenth percentage points, from 1.3% to 2.4%. The national CPI is forecast to increase nine-tenth percentage points, from 1.1% to 2.0%. Bay Area CPI is forecast to decrease to 2.6%, California CPI is forecast to increase to 2.7%, and the national CPI is forecast to increase to 2.5% in FY 2010-11.

General CPI Fiscal Year	*Bay Area % Change*	*California % Change*	*U.S. % Change*
2012*	3.1%	3.2%	2.5%
2011*	2.6%	2.7%	2.4%
2010*	2.9%	2.4%	2.0%
2009	1.6%	1.3%	1.1%
2008	3.2%	3.4%	3.7%
2007	3.3%	3.4%	2.6%
2006	2.7%	4.2%	3.8%
2005	1.7%	3.3%	3.0%
2004	0.9%	1.9%	2.2%
2003	1.9%	2.6%	2.2%
2002	3.2%	2.9%	1.8%
2001	5.5%	4.3%	3.4%

Source: FY98 to FY08 Bureau of Labor Statistics.
*FY10 to FY12 CA Dept of Finance for CA and U.S.; Governor's Budget Forecast, November 2009

First-Time Housing Affordability Index

The housing affordability index is the most fundamental measure of housing well-being in the state. The percentage of first-time buyers who can afford to purchase a median-priced home in the third quarter of 2009 was 40%. The statewide figure of 64% is the third-highest score recorded in the last ten years, with the number one and two ranked scores occurring in the previous two quarters of 2009. San Mateo County saw an increase from 32% to 40% over the past year, but continues to be one of the least affordable places to buy a home in California, with only San Francisco at 35% and Marin at 37% ranked lower. These figures are indicative of a readjusted market resulting from the recession, but still demonstrate a depressed housing market overall.

First-Time Buyer Housing Affordability Index by Region	*3rd Quarter*	*3rd Quarter*	*3rd Quarter*
	2007	*2008*	*2009*
California	27%	55%	64%
United States	64%	70%	76%
SF Bay Area	22%	38%	49%
Sacramento	56%	72%	78%
Santa Clara	25%	41%	53%
Monterey Region	19%	54%	66%
Alameda County	25%	42%	53%
Contra Costa County	19%	33%	42%
San Francisco	18%	28%	35%
Marin County	22%	26%	37%
San Mateo County	19%	32%	40%

Source: CA Association of Realtors www.car.org

Median Home Price

The number of homes sold in the Bay Area is up by 15.2% from last December, after hitting a 20-year low in December 2007. Median home prices are up by 15.2% compared to the prior year. The median price paid for a Bay Area home was $330,000 in December 2008 compared to $380,000 a year ago. The volume of homes sold in San Mateo County was up by 47.6%. The median home price increased by 9.2% to $586,500 compared to $537,000 last year. Prices of homes in the County continue to be one of the highest in the Bay Area and the State. DataQuick reports show that Federal Housing Administration (FHA) loans made up 25.6% of all Bay Area purchase loans in December 2009, which was up from 25.1% in November and 22.8% from a year ago.

Bay Area Counties	*Number of Homes Sold December 2008*	*Number of Homes Sold December 2009*	*Number of Homes Sold % Change*	*Median Price December 2008*	*Median Price December 2009*	*Median Price % Change*
Bay Area	6,889	7,828	13.6%	$330,000	$380,000	15.2%
Alameda	1,492	1,552	4.0%	338,000	360,000	6.5%
Contra Costa	1,788	1,634	-8.6%	252,500	287,500	13.9%
Santa Clara	1,265	1,915	51.4%	436,000	475,000	8.9%
San Mateo	435	642	47.6%	537,000	586,500	9.2%
San Francisco	366	499	36.3%	615,500	650,000	5.4%
Marin	165	265	60.6%	562.500	635,000	12.9%
Napa	111	128	15.3%	402,500	356,000	-11.6%
Solano	733	698	-4.8%	213,500	217,500	1.9%
Sonoma	534	495	-7.3%	300,000	330,000	10.0%

Source: DataQuick Information Systems http://www.dqnews.com/Articles/2010/News/California/Bay-Area/RRBay100121.aspx

Foreclosure Activity

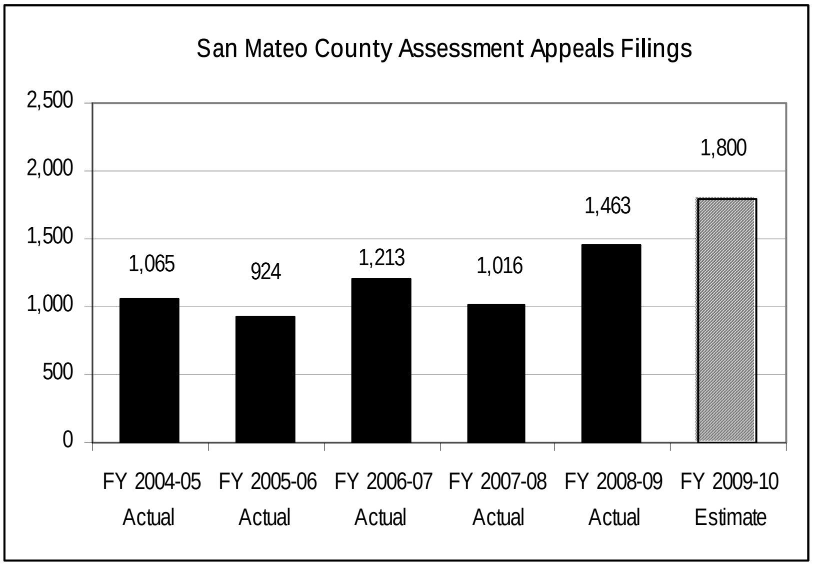
During the fourth quarter 2009, mortgage default notices were up statewide by 10.6% from the same period last year with lending institutions issuing 84,568 notices, highlighting the negative impact on overall property values from at-risk home loans. In terms of percentage change, default notices are the highest in Marin, San Francisco, San Mateo, Santa Clara, and Alameda counties. In San Mateo County, default notices have increased by 252 or 38.7%.

Notices of Default	*4th Quarter 2008*	*4th Quarter 2009*	*% Change*
California	46,183	51,060	10.6%
SF Bay Area	11,157	13,594	21.8%
Sacramento	4,186	4,741	13.3%
Santa Clara	2,101	2,816	34.0%
Monterey Region	806	874	8.4%
Alameda County	2,363	2,806	18.7%
Contra Costa County	3,135	3,501	11.7%
San Francisco	302	465	54.0%
Marin County	194	305	57.2%
San Mateo County	651	903	38.7%
San Joaquin County	2,546	2,513	-1.3%
Los Angeles County	14,410	16,595	15.2%

Source: DataQuick Information Systems www.dqnews.com/RRMain.shtm

Property Reassessment and Assessment Appeals Filings

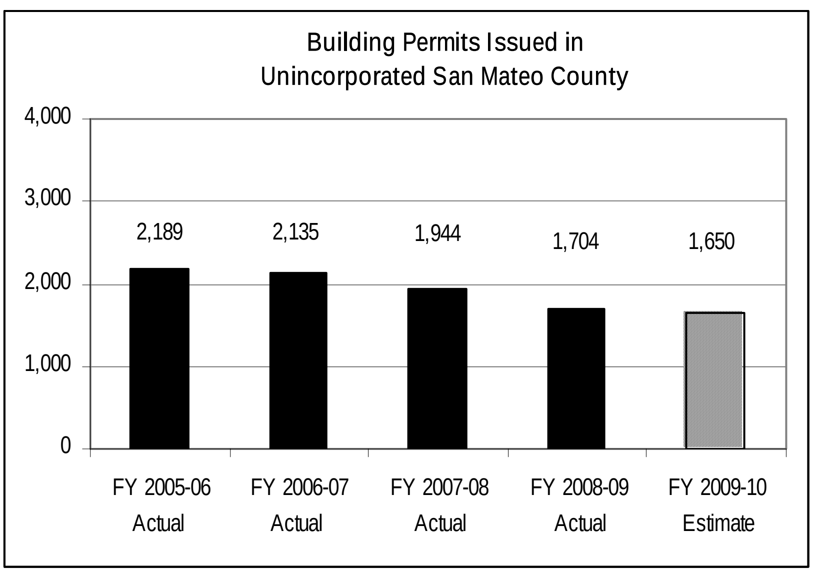
There were 1,650 assessment appeals filed with the Assessment Appeals Board as of mid-January 2010 and another 150 estimated by year-end, representing an increase of 338 filings or 23% from FY 2008-09 appeals and an increase of 77% from FY 2007-08 filings. The filing period for appeals is from July 2 through December 1, 2009. Appeals received after the deadline are primarily appeals of Supplemental or Escape Assessments. There are currently 2,030 open appeals of which 1,735 were filed in the past two years.



Source: San Mateo County Assessor's Office

Building Permits

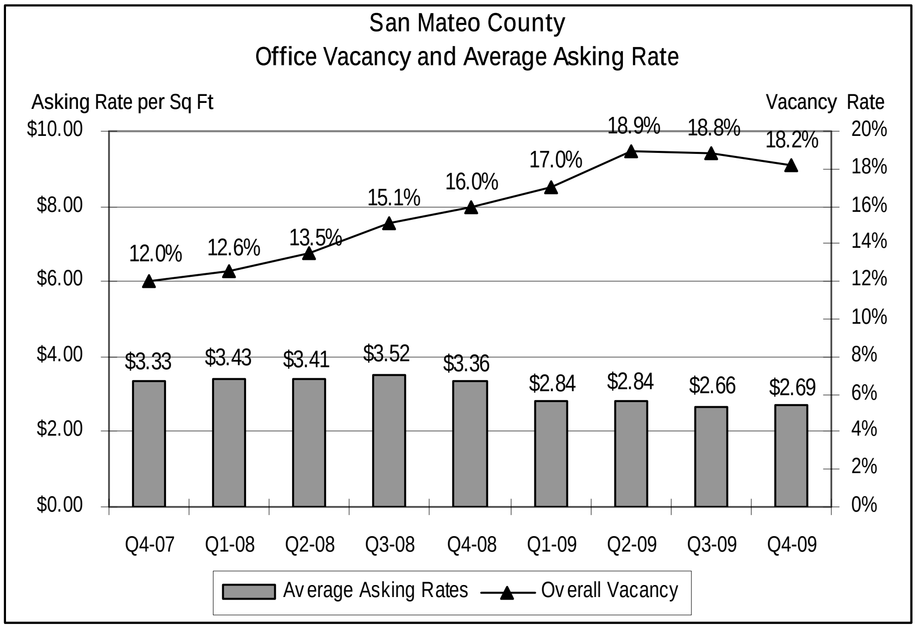
The number of building permits issued by the Planning and Building Department are lower than last fiscal year, reflecting the continued economic downturn, including sustained difficulties in obtaining new home construction and home improvement loans. Current permit activity indicates that the majority of building permits processed continues to be improvements to existing homes and structures.



Source: San Mateo County Planning and Building Department

Office Space Availability

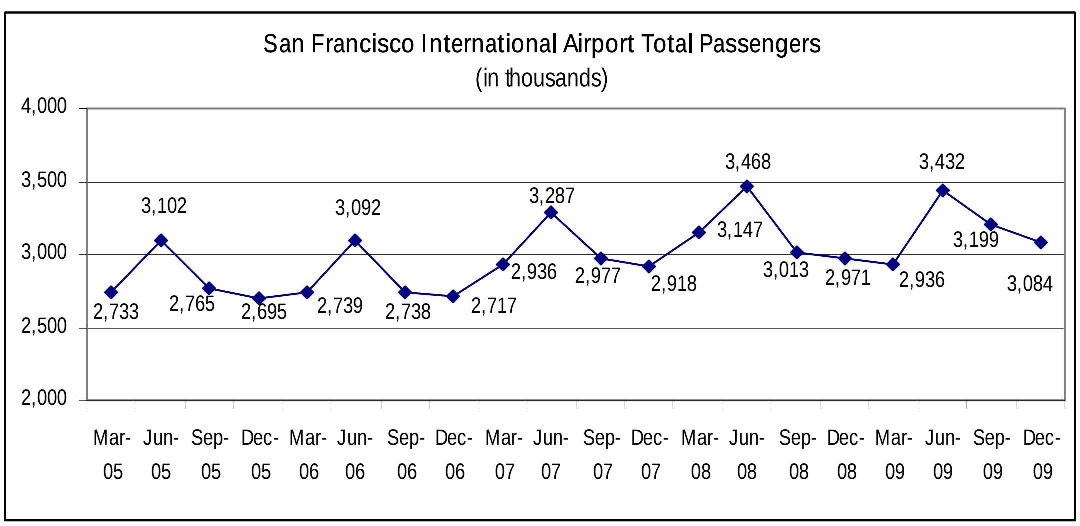
As anticipated, the overall office vacancy rate increased in 2009 from 16.0% at the close of 2008 to a peak of 18.9% in Q2-09, with a corresponding drop in the average asking rate. Although minor positive absorption occurred late in 2009 as a few tenants began to take advantage of the soft market, the year closed with vacancy above 18% and an average asking rate of $2.69, down from $3.37 a year earlier. There is every indication that rates will continue to decline through 2010 in tandem with rising vacancy rates.



Source: NAI BT Commercial

San Francisco Airport – Total Passengers

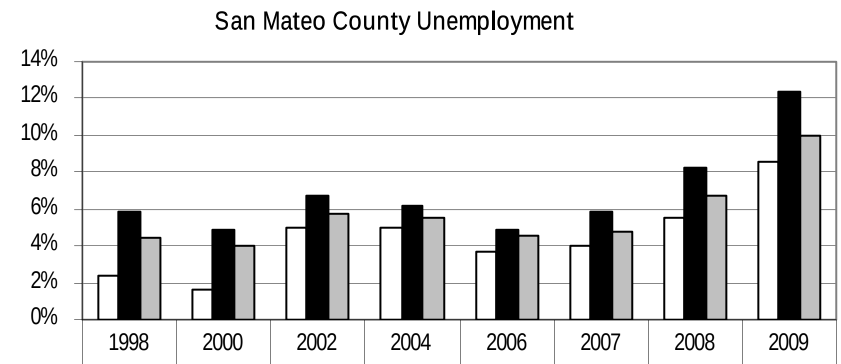
A significant portion of the County's unsecured property tax and sales tax revenues come from businesses at San Francisco International Airport, so it is important to monitor patterns in airport activity. In December 2009, the total number of passengers arriving and departing from the airport was up 3.8% at 3.1 million compared to December 2008 at 3.0 million. Annual passenger activity is about the same as the prior year with 0.1% growth and 37.45 million total passengers from January to December 2009 compared to 37.40 million as of December 2008. Annual passenger activity is up 4.5% from total passengers in 2007 of 35.8 million.



Source: http://www.flysfo.com/web/page/about/news/pressres/stats.html

Unemployment Rate

Unemployment rates at the local, state and national levels are up from last year. San Mateo County unemployment is up from 5.5% in December 2008 to 8.6% in December 2009, with 32,400 unemployed. The county continues to have one of the lowest unemployment rates in the state, second only to Marin County with 7.8% unemployment in December 2009.

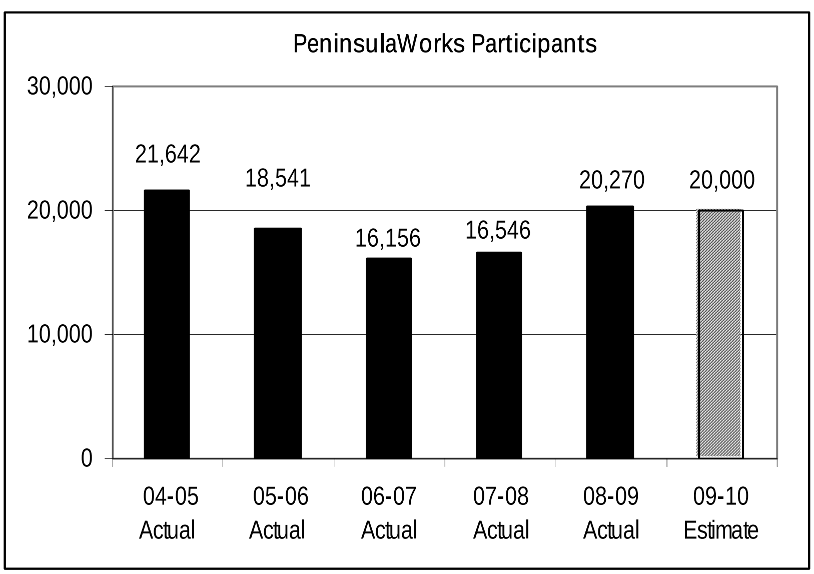


	1998	2000	2002	2004	2006	2007	2008	2009
□ San Mateo	2.4%	1.6%	5.0%	5.0%	3.7%	4.0%	5.5%	8.6%
■ California	5.9%	4.9%	6.7%	6.2%	4.9%	5.9%	8.3%	12.4%
▨ U.S.	4.5%	4.0%	5.8%	5.5%	4.6%	4.8%	6.7%	10.0%

Source: http://www.calmis.ca.gov/file/lfmonth/countyur-400c.pdf

PeninsulaWorks Participants

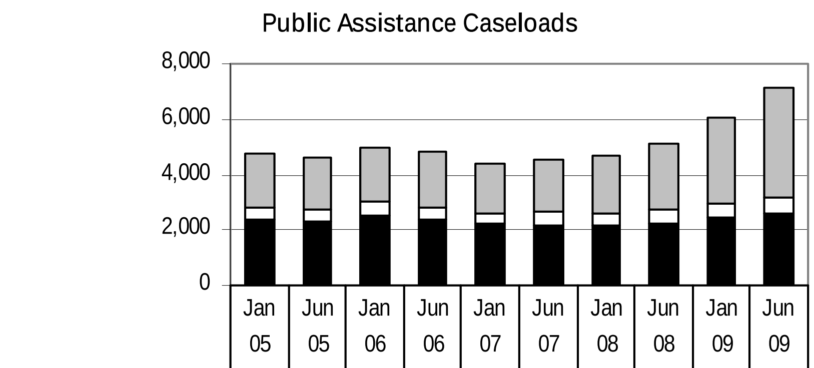
The number of clients seeking career counseling, skills assessment, and job search assistance increased 23% from FY 2007-08 to FY 2008-09 as the County's unemployment rate nearly doubled for the period. Continuing unemployment and job cutbacks by County employers increased demands for workforce development and training services. The Human Services Agency began to significantly increase the resources available to the community by applying for stimulus funds beginning April 2009. The Human Services Agency projects that approximately the same number of job seekers will utilize PensinsulaWorks centers in FY 2009-10, although future participation may be curbed by funding cuts and job center closures.



Source: Human Services Agency

Public Assistance Caseloads

The point-in-time caseload data for June 2008 compared to June 2009 shows a 72% growth in the number of Food Stamp (only) cases. As one of the few public assistance programs that has experienced some level of benefit expansion, recently through ARRA funding, more families and individuals are seeking supplemental nutritional assistance from Food Stamps. In October 2008, the eligibility provisions were eased, allowing more applicants to qualify. HSA's initiatives to increase outreach, to promote collaboration with community partners for assisting residents with the application process, and to educate key community liaisons about Food Stamps have resulted in more residents getting Food Stamp assistance. CalWORKs and General Assistance cases have increased 14% and 8% respectively since June 2008 as the economy fell into recession and unemployment rates climbed.

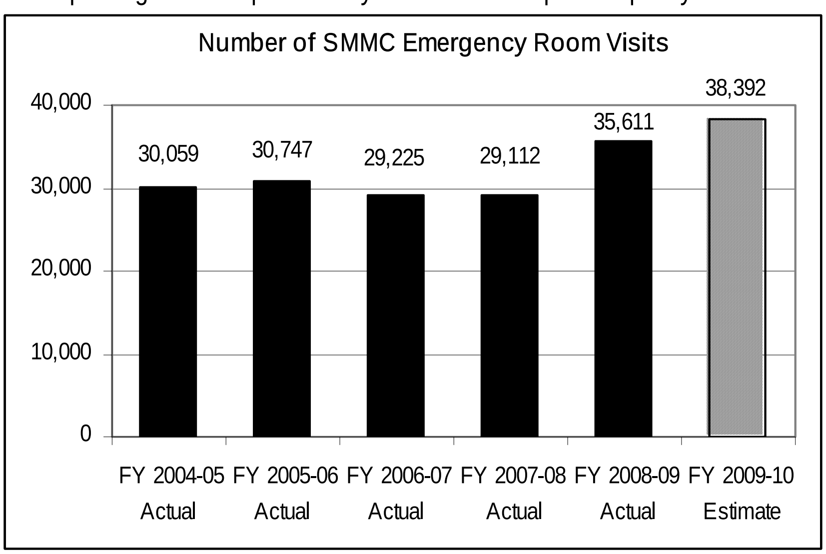


	Jan 05	Jun 05	Jan 06	Jun 06	Jan 07	Jun 07	Jan 08	Jun 08	Jan 09	Jun 09
Food Stamps Cases	1,951	1,806	1,990	1,969	1,786	1,847	2,037	2,334	3,121	4,004
GA Cases	429	448	459	439	424	480	485	519	501	559
CalWORKS Cases	2,406	2,325	2,542	2,405	2,205	2,194	2,141	2,252	2,419	2,577

Source: Human Services Agency

Emergency Room (ER) Visits

Medical and Psychiatric Emergency Room visit volume at SMMC increased 14% over the last year with 19,196 visits between July and December 2009, compared to 16,846 for the same period in the prior year. These volume increases persist in spite of SMMC's new Urgent Care Clinic, opened in September 2009, which sees approximately 125 individuals in a five-day week. In addition, 4,100 people are on a waiting list for primary care visits. The increases in visit volume are primarily due to rising unemployment and loss of employer-sponsored health insurance. Anticipated State budget cuts in Medi-Cal as well as the continued recession are anticipated to further impact volume increases. In response, the clinic system is in the process of improving flow and productivity to be able to expand capacity.

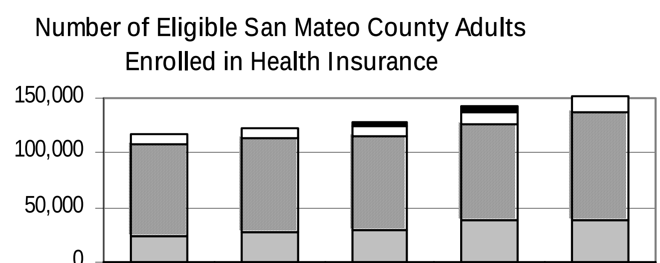


Source: San Mateo SMMC

Health Insurance Enrollments Adults and Children

The prolonged recession has resulted in increased enrollment in public healthcare coverage programs as employer-sponsored health coverage has been lost along with the loss of jobs. The Health System continues to lead efforts in identifying individuals who are eligible for public health insurance, enrolling them in appropriate programs in partnership with the Human Services Agency, and assisting clients in accessing needed care. Several community enrollment sites have been established throughout the County and application assistance is available seven days a week including evening and weekends. The enrollment locations include schools, family centers, and all free and low-cost clinics in the County. There are over 50 Certified Application Assistors (CAAs) in the County assisting families with both enrollment and re-enrollment into the various health programs. With One-e-App, the web-based application processing system, CAAs have conducted phone enrollments with families unable to come in for in-person appointments. In addition, a health coverage hotline established by the Health System receives approximately 2,000 calls per month. The Health System continues to partner with community-based organizations to conduct new member orientations throughout the County in which important information on preventive care is discussed and families are encouraged to utilize their health benefits.

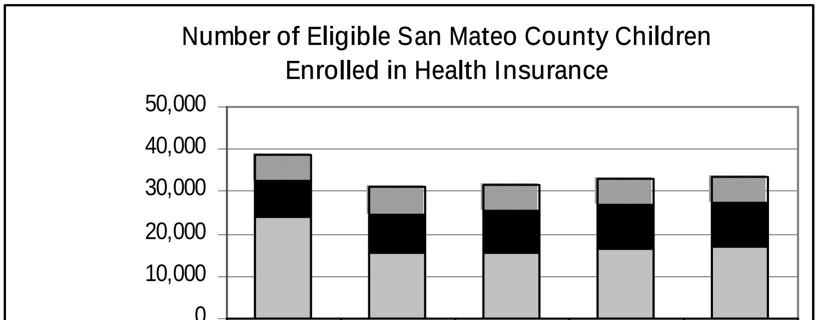
The ACE Program—the County's Section 17000 program that provides coverage for healthcare services to persons living below 200% of the federal poverty line who are not eligible for other programs – is an important component of the array of public coverage programs. The network includes SMMC, Ravenswood Family Health Center and other providers contracted to offer specialty services. Effective January 1, 2009, the administration of the ACE program was transferred to Health Plan of San Mateo. The marked growth in ACE County enrollment is an indicator of the impact of the economic downturn on the demand for safety net healthcare services. The growth in the ACE County program is mitigated somewhat by higher than targeted enrollment in the ACE Coverage Initiative program, which is supported by a State/Federal grant awarded to San Mateo County and nine other California counties.



	05-06 Actual	06-07 Actual	07-08 Actual	08-09 Actual	09-10 Estimate
ACE Coverage Initiative	0	0	3,419	5,226	6,715
ACE County*	9,686	10,407	8,852	10,411	14,136
Medicare	83,289	84,741	86,191	87,656	98,956
Medi-Cal	24,468	27,874	29,499	38,917	38,522

*Formerly referred to as County WELL Program - Source: Health System, Human Services Agency

Another key element of this effort is the Children's Health Initiative, which will have enrolled approximately 6,000 children in the Healthy Kids (HK) insurance program by the end of FY 2009-10. The projection for HK enrollment was based on the steady growth of this program since its inception in 2002. The Health System has seen this growth flatten during FY 2008-09 and decline slightly in 2009-10. It is believed that this reflects the higher proportion of families who qualify for programs available to those at the lower ends of the economic spectrum (Medi-Cal and Healthy Families), as well as changes in immigration patterns to San Mateo County as the availability of employment has decreased. In addition, the average number of HK members turning 19 and aging out of the program has increased in the past two years. In 2006, there were approximately 21 HK members turning age 19 every month. In the past twelve months, approximately 36 HK members are aging out per month. The Health System continues to assess its outreach and enrollment approaches to assure that it is reaching children who could qualify for coverage.



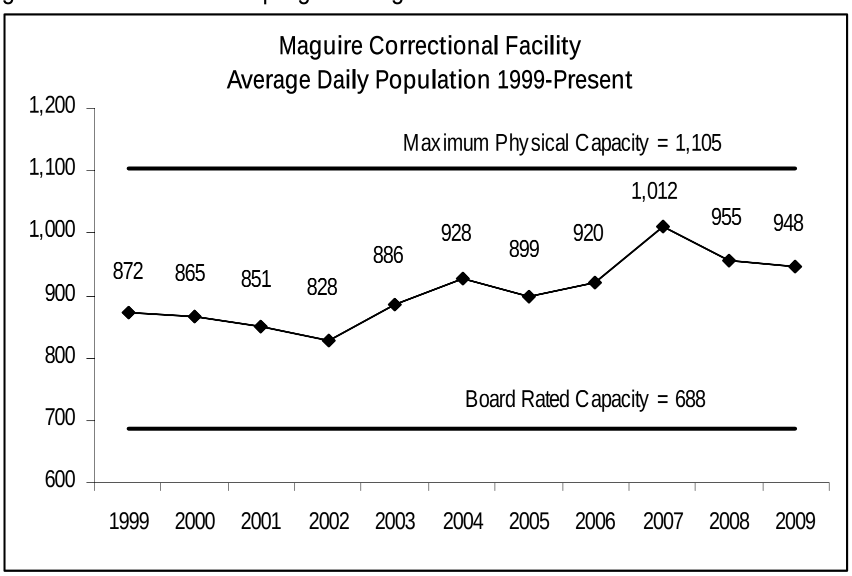
	05-06 Actual	06-07 Actual	07-08 Actual	08-09 Actual	09-10 Estimate
Healthy Kids	6,073	6,315	6,414	6,080	5,954
Healthy Families	8,585	9,246	9,910	10,472	10,245
Medi-Cal*	24,058	15,397	15,402	16,274	17,064

*The Children's Medi-Cal data above only accounts for beneficiaries enrolled in Full Scope No Share-of-Cost Medi-Cal.

Source: Health System, Human Services Agency

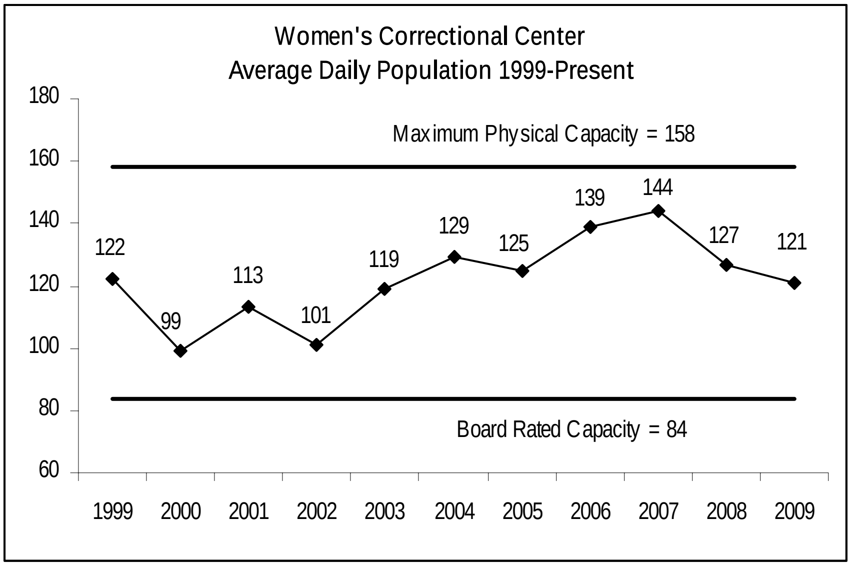
Jail Populations

The Sheriff, County Manager's Office, and the Board Criminal Justice Committee continue to monitor jail population trends and seek alternatives to further reduce inmate population and/or average length of stay. The average daily population at Maguire has decreased slightly by 0.7% from 955 inmates in 2008 to 948 inmates in 2009. This reduction could be attributed to several factors; reduction in annual bookings into our jail by local law enforcement agencies, effective countywide community re-entry efforts that focus on identifying sentenced in-custody inmates for referral to community placement from inside the facility, along with enhanced inmate programming and services.



Source: Sheriff's Office Daily Population Report (CJIS)

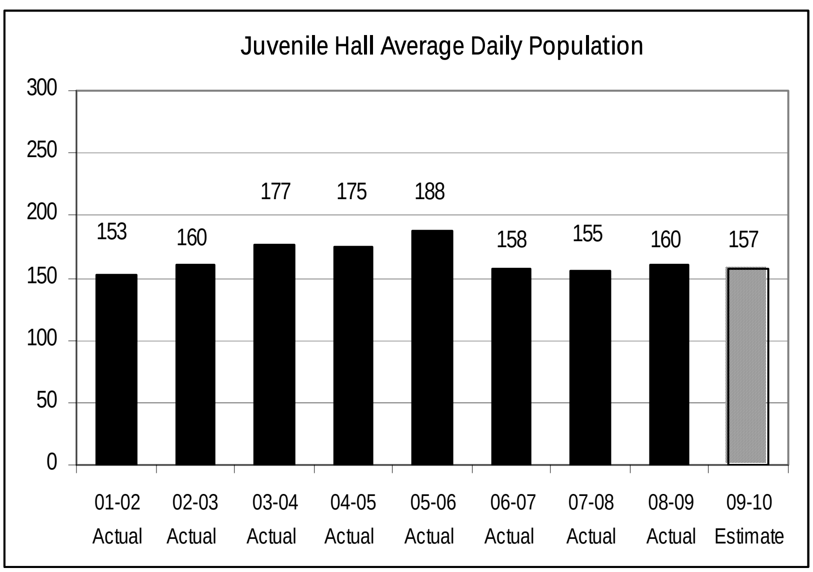
The ADP for women decreased 4.7% from 127 in 2008 to 121 in 2009. This could be attributed to several factors; reduction in annual bookings into our jail by local law enforcement agencies, effective countywide community re-entry efforts that focus on identifying sentenced in-custody inmates for referral to community placement from inside the facility, along with enhanced inmate programming and services. This is a significant accomplishment considering, historically, there exists limited alternatives to jail for women offenders, limited intermediate out-of-custody options, and limited treatment options for women who either cannot pay for treatment, have children, or both.



Source: Sheriff's Office Daily Population Report (CJIS)

Youth Services Center Population

After a sharp decline in the average daily population (ADP) in FY 2006-07, the ADP at the Youth Services Center increased 3.2% from 155 in FY 2007-08 to 160 in FY 2008-09. This increase is primarily due to changes at the state level as California began to downsize Department of Juvenile Justice facilities, leading to a greater number of youth with serious offenses needing to be housed in local juvenile facilities. Due to this change, youth can now stay at the Youth Services Center for several years instead of being sent to state facilities.



Source: Probation Department Institutions Management

STRUCTURAL BUDGET DEFICIT AND MAJOR BUDGET ISSUES

FY 2010-11 through FY 2014-15 General Fund Budget Planning

The structural deficit for FY 2009-10 is currently projected at $87 million, including $20 million to potentially backfill State budget reductions. The following table summarizes the General Fund structural deficit and recommended solutions for the next five fiscal years. The deficit is projected to grow to $150 million mainly from the change in assumptions regarding the Medical Center subsidy, which increases the deficit by $22 million. The solutions set forth below, to address a $100 million structural budget deficit, would draw down on Non-Departmental Reserves and Contingencies by $172 million. The General Fund would meet the minimum Reserves requirement of $100 million or 10% of Net Appropriations under this plan. However, because the deficit has grown to $150 million, additional ongoing solutions totaling $50 million would need to be developed and implemented by FY 2013-14.

General Fund Projected Structural Budget Deficit FY 2011 to FY 2015					
Dollars (in thousands)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
FY 2009-10 Structural Deficit With Out State Cuts	$ 66,985	$ 66,985	$ 66,985	$ 66,985	$ 66,985
PROJECTED EXPENDITURE INCREASES					
Salaries and Benefits Increases-Cumulative	$ 49,286	$ 58,007	$ 70,753	$ 97,889	$ 117,616
Medium Security Facility Reopening	5,200	5,200	5,200	5,200	5,200
Capital Improvements to Existing Facilities	250	513	788	1,078	1,381
Ongoing Debt Service-Existing Facilities	(200)	(152)	(103)	(53)	(3)
Technology Maintenance/Upgrade Existing Apps	142	292	448	613	786
Private Defender Program - Contract Increases	-	-	633	1,284	1,955
Structural Fire Fund Deficit	114	236	362	488	614
Non-AB 939 Programs Funded by General Fund	1,246	1,246	1,246	1,246	1,246
Backfill State Budget Reductions	20,000	20,000	20,000	20,000	20,000
Projected Expenditures Subtotal	$ 76,038	$ 85,342	$ 99,328	$ 127,745	$ 148,796
PROJECTED REVENUE GROWTH					
General Revenue Growth-Cumulative	$ (532)	$ 5,300	$ 12,595	$ 21,358	$ 30,373
Public Safety Sales Tax Rev Growth-Cumulative	-	485	974	1,468	1,967
New AB 939 Revenues	1,175	1,175	1,175	1,175	1,175
Department Salary and Benefit Offsets-Cumulative	10,164	12,070	14,937	20,796	25,150
Reduction in Medical Center Subsidy	6,657	6,657	6,657	6,657	6,657
Projected Revenues Subtotal	$ 17,464	$ 25,686	$ 36,338	$ 51,454	$ 65,322
PROJECTED STRUCTURAL BUDGET DEFICIT	$ 125,559	$ 126,640	$ 129,974	$ 143,275	$ 150,458
SOLUTIONS					
One-Time Solutions / Reserves	$ 90,527	$ 51,640	$ 29,974	$ -	$ -
Department Reductions / Multi-Department Strategies	35,032	50,000	50,000	50,000	50,000
Concessions from Labor	-	25,000	25,000	25,000	25,000
New Revenues (Sales Tax, UUT, Business Lic Tax)	-	-	25,000	25,000	25,000
TOTAL SOLUTIONS	$ 125,559	$ 126,640	$ 129,974	$ 100,000	$ 100,000
REQUIRES ADDITIONAL SOLUTIONS	$ -	$ -	$ -	$ 43,275	$ 50,458

Key Assumptions

- General purpose revenues will grow at an average annual rate of $5.9 million or 1.6% from FY 2010-11 through FY 2014-15. At this point in time, Property Tax In-Lieu of VLF revenue has been reduced $6.5 million in FY 2009-10 and in future years as this represents the General Fund's potential shortfall in this revenue source should the Community College District turn basic aid. This is discussed in greater detail under "Major Budget Issues".
- Public Safety Sales Tax revenue (Prop. 172) is projected to come in at $48.5 million in FY 2009-10, which represents mid-90's levels and is $19 million below highs of $67.5 million in FY 2000-01 and FY 2001-02. This revenue is kept flat at $48.5 million in FY 2010-11 with minimal growth of 1% per year through FY 2014-15.
- State reductions totaling $20 million, beginning in FY 2009-10, are included in the deficit. No assumptions are made for Governor's January budget proposal; this will be updated as the State budget process continues and more information is known.
- Average annual General Fund increases in Salaries and Benefits of $5.8 million, not including increased Retirement contributions. Annual increases consist of negotiated increases for the Deputy Sheriff's and Sergeants and salary step and health cost increases across all departments. No assumptions have been made for negotiated increases beyond what has already been ratified with the employee bargaining units; a 1% increase in employee salaries would amount to $4.7 million in additional Salary and Benefit costs.
- Average Employer Retirement Contribution Rates will increase from 23.6% to 34% effective July 1, 2010. This will increase General Fund contributions by $37 million. The contribution rate is expected to remain relatively flat for the following two years then increase to 39.3% (additional $15 million) in FY 2013-14 and 41.7% (additional $9 million) in FY 2014-15.
- Retiree healthcare costs are expected to remain stable over the next five years at $11 million per year.
- Debt service payments, which decrease in FY 2010-11 due to the recent refunding, remain relatively flat.
- Reopening of the Medium Security Facility in La Honda with an annual operating cost of $5.2 million is included in FY 2010-11 through FY 2014-15.
- The calculation of the Medical Center subsidy is treated like Net County Cost in all other divisions of the Health System, meaning that the subsidy is reduced by 10% and the General Fund picks up 65% of all negotiated Salary and Benefit increases. Over the course of the five year projection, this change increases the structural budget deficit by $23 million as the projected subsidy in FY 2014-15 will be $73 million; the previous target was $50 million.
- No annual increases to Community-Based Organizations are included.
- Private Defender Program contract costs are assumed to remain flat in FY 2010-11 and FY 2011-12 with 3% annual increases thereafter.
- Structural Fire Fund deficit is projected to increase 6.5% per year, from $1,238,594 in FY 2009-10 to $1,852,516 by FY 2014-15, based on projected vehicle replacement and facility replacement debt service.
- Solid Waste Fund's structural deficit has been eliminated with the implementation of the new AB 939 fee. The AB 939 fee will now cover the cost of programs previously funded by tipping fees from the Solid Waste Fund, including Public Work's Solid Waste Management and Diversion programs and Environmental Health's Household Hazardous Waste and Local Enforcement Agency programs. The General Fund will assume responsibility for funding non-AB 939 programs, including vector control, OES and hazardous materials response, operation of the transfer station in Pescadero, and other programs specific to the unincorporated area of the County. The ongoing Net County Cost impact is projected to be $71,000.

Updates on Budget Balancing Strategies:

- Net County Cost in General Fund operating department budgets will be reduced by $35 million in FY 2010-11. This is in addition to reductions the previous two years totaling $23.5 million.
- To close the remaining gap, other ongoing solutions totaling $65 million include additional department reductions, countywide multi-departmental strategies, concessions from labor, and exploration of new revenues. To the extent that the County isn't successful in obtaining concessions from labor or new revenues, department reductions go deeper. As noted previously, additional ongoing solutions totaling $50 million will need to be developed prior to FY 2013-14.
- Non-Departmental General Fund Contingencies and Reserves, totaling $172 million, will be used by FY 2012-13. Remaining General Fund Reserves and Contingencies are projected to be $100 million or 10% of Net Appropriations by FY 2012-13.

HISTORICAL AND CURRENT YEAR GENERAL FUND REVENUE TRENDS

The table below shows historical receipts and current year estimates for General Fund revenue and Public Safety Sales Tax. Average annual growth was $12.2 million or 4.1% over the last five years.

Revenue Source (In Thousands)	FY05-06 Actual	FY06-07 Actual	FY07-08 Actual	FY08-09 Actual	FY09-10 Estimate	Average Annual Growth
AMOUNTS (In Thousands):						
Secured Property Tax	$139,153	$154,067	$165,963	$179,501	$181,512	$10,428
Unsecured Property Tax	8,963	8,705	8,565	9,544	9,650	(140)
Sales Tax (includes property tax in-lieu)	14,834	16,702	18,302	19,811	15,614	248
Public Safety Sales Tax (Prop. 172)	63,774	63,713	62,476	57,557	48,454	(2,763)
Transient Occupancy Tax	772	907	750	937	951	50
Property Transfer Tax	8,487	8,193	6,011	3,842	4,657	(691)
Property Tax In-Lieu of VLF	62,238	63,081	67,927	73,503	67,780	3,541
Other Revenue	52,405	46,952	41,847	38,804	30,051	1,518
TOTAL General Purpose Revenue	$350,625	$362,320	$371,840	$383,498	$358,669	$12,192
GROWTH RATES:						
Secured Property Tax	7.6%	10.7%	7.7%	8.2%	1.1%	7.1%
Unsecured Property Tax	-13.4%	-2.9%	-1.6%	11.4%	1.1%	-1.1%
Sales Tax (includes property tax in-lieu)	3.2%	12.6%	9.6%	8.2%	-21.2%	2.5%
Public Safety Sales Tax (Prop. 172)	2.4%	-0.1%	-1.9%	-7.9%	-15.8%	-4.7%
Transient Occupancy Tax	10.2%	17.6%	-17.4%	25.0%	1.6%	7.4%
Property Transfer Tax	4.6%	-3.5%	-26.6%	-36.1%	21.2%	-8.1%
Property Tax In-Lieu of VLF	24.3%	1.4%	7.7%	8.2%	-7.8%	6.8%
Other Revenue	133.3%	-10.4%	-10.9%	-7.3%	-22.6%	16.4%
TOTAL % Change	17.8%	3.3%	2.6%	3.1%	-6.5%	4.1%

FIVE-YEAR FY 2011 – FY 2015 GENERAL FUND REVENUE PROJECTIONS

Given historical revenue patterns (adjusted for one-time events), current trends and forecasts for local and state economic data, as well as growth factors from the Assessor's Office, General Fund revenues are projected to grow an average of $5.9 million or 1.6% annually for the next five years.

Revenue Source (In Thousands)	FY10-11 Projected	FY11-12 Projected	FY12-13 Projected	FY13-14 Projected	FY14-15 Projected	Average Annual Growth
AMOUNTS (In Thousands):						
Secured Property Tax	$179,696	$183,290	$187,873	$193,509	$199,314	$3,561
Unsecured Property Tax	9,168	9,168	9,351	9,538	9,729	16
Sales Tax (includes property tax in-lieu)	15,926	16,245	16,570	16,901	17,239	325
Public Safety Sales Tax (Prop. 172)	48,454	48,938	49,428	49,922	50,421	393
Transient Occupancy Tax	951	971	990	1,010	1,030	16
Property Transfer Tax	4,750	4,845	4,942	5,041	5,142	97
Property Tax In-Lieu of Vehicle License Fees	67,102	68,444	70,156	72,260	74,428	1,330
Other Revenue	29,209	29,673	30,050	30,435	30,828	155
TOTAL General Purpose Revenue	$355,257	$361,574	$369,359	$378,616	$388,130	$5,892
GROWTH RATES:						
Secured Property Tax	-1.0%	2.0%	2.5%	3.0%	3.0%	1.9%
Unsecured Property Tax	-5.0%	0.0%	2.0%	2.0%	2.0%	0.2%
Sales Tax (includes property tax in-lieu)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Public Safety Sales Tax (Prop. 172)	0.0%	1.0%	1.0%	1.0%	1.0%	0.8%
Transient Occupancy Tax	0.0%	2.0%	2.0%	2.0%	2.0%	1.6%
Property Transfer Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax In-Lieu of Vehicle License Fees	-1.0%	2.0%	2.5%	3.0%	3.0%	1.9%
Other Revenue	-2.8%	1.6%	1.3%	1.3%	1.3%	0.5%
TOTAL % Change	-1.0%	1.8%	2.2%	2.5%	2.5%	1.6%

Governor's January Budget Proposal

On January 8, 2010, the Governor released his proposed budget for FY 2010-11. Facing an estimated $18.9 billion General Fund deficit ($6.6 billion in FY 2009-10 and $12.3 billion in FY 2010-11) the plan includes $19.8 billion in solutions with a $1 billion reserve. Building on two-years of deficits, the proposal would make an additional $8.5 billion in reductions to health, human service and public safety programs, relies upon $6.9 billion in new federal funding and shifts some $3.8 billion from other programs. A number of the Administration's proposals would require voter approval at the June 2010 ballot; including the proposed shifting of Propositions 10 and 63 funds and earmarking 10 percent of the state General Fund for higher education coupled with the privatization and contracting-out services for state prisons.

A "trigger" provision is pulled if the additional federal funds are not secured by July 15, 2010. Those reductions include: elimination of CalWORKS, In-Home Supportive Services, Healthy Families, and Transitional Housing Placement for Foster-Youth Plus programs; Medi-Cal eligibility reduced to the minimum allowed under federal law; shifting local Proposition 63 funds to mental health services; implementing banked parole for low-risk serious and non-violent offenders; and redirection of county savings associated with CalWORKS and IHSS reductions.

Over the past two years, County partnership programs have been reduced by $120 million. The Governor's FY 2010-11 Proposed State Budget would result in further reductions with significant impacts on County services. Preliminarily, County staff is projecting potential state budget reductions of approximately $92 million that include:

- $46 million in programs reductions, "trigger" cuts and funding shifts onto the Health System;
- $29 million in program and "trigger" reductions to Human Services Agency;
- $16 million in payments to Public Works through a transportation funding tax swap;
- $620,000 in reductions for public safety programs including reductions to the Citizen's Option for Public Safety, Youthful Offender Block Grant, Juvenile Probation and Camps, and Juvenile Justice Crime Prevention Act programs.

Upon releasing his final budget, the Governor also declared a fiscal emergency and called for a Special Session to address the current year budget gap. The Legislature has 45 days to act. The Governor's revenue estimates project the state will have sufficient cash to repay the scheduled May and June 2010 $8.8 billion Revenue Anticipation Notes (RANs). However, the State Controller anticipates the state will again face cash flow shortage as early as March 2010 and, absent corrective action, will face significant challenges meeting all General Fund cash needs beginning July 2010. The County Manager's Office will continue to work closely with our Departments over the comings months to provide a thorough analysis of the state budget balancing proposals in order to keep your Board apprised of potential impacts on our programs, services, and revenues.

A report regarding the State Budget is included as a separate Board item on this agenda.

Accelerated Time Line – Mid-Year Position Reductions

Since the adoption of the FY 2009-10 budget in September last year, General Fund revenue receipts continue to fall short of budget estimates. Revenue from the half-cent Public Safety Sales Tax (Proposition 172) is estimated to come in $12.5 million or 20.6% below budget due to continued declines in statewide sales. This marks the third year that this revenue source has dropped from the prior year.

Given continued declines in revenue, your Board approved an accelerated timeline to more quickly address the structural deficit in the current fiscal year. We are recommending the elimination of 64 vacant positions at this time, for savings of $1.8 million for the remainder of the fiscal year, and $6.4 million on an ongoing basis. The positions and impacts are outlined in Attachment A. Six of the positions are Management, which is in line with the percentage of total County positions that are Management.

The reduction of 64 positions brings the total number of positions deleted since FY 2008 to 306. There are 391 vacant positions remaining, for a Countywide vacancy rate of 7%. With mid-year reductions, there are now six departments that are below the 5% hiring freeze target (Child Support Services, District Attorney, Housing, LAFCo, Parks, Probation). A second round of position reductions, including filled positions, could be brought to your Board as early as March 23 if additional budget shortfalls are identified and mid-year state budget reductions are required.

Program Reductions – Department Budget Targets

On January 8, 2010, Net County Cost targets were distributed to departments. The targets reduce department budgets by $35 million. Despite these reductions, Net County Cost will increase $16 million due to net increases in Salaries and Benefits of $39 million (primarily due to increasing Retirement contributions) and decreases in Public Safety Sales Tax (Prop. 172) of $12 million.

Departments will be meeting with the County Manager's Office the week of March 8-12 in preparation for Board Budget Study Sessions on March 23 and March 30. At those sessions, departments will have an opportunity to apprise the Board of their proposed budget reduction strategies and the impacts that those strategies will have on services and performance.

Multi-Departmental Solutions

The following multi-departmental and Countywide initiatives are underway or are planned to begin in the current fiscal year. It is anticipated that new revenues and savings from these efforts will be budgeted beginning in Fiscal Years 2010-11 or 2011-12. A quarterly progress report will be provided to the Board.

- Administration and Support Services Review
- Span of Control and Staff Benchmarking Analysis
- County Facilities Master Plan
- Cost Recovery and Standard Methodology for Fees and Charges for Services
- Managing for Competitiveness Policy
- Shared Services with other Public Agencies
- Contracts Review

Labor Costs

Negotiated Salary and Benefits Increases – The chart below shows budgeted Salaries and Benefits for the past two years, the current FY 2009-10 budget, and estimates for the next two years for the entire County and the General Fund. Salaries and Benefits for the entire County are projected to increase by $49.1 million in FY 2010-11 for a total of $765.2 million. The General Fund will increase by $40.4 million for a total of $582.1 million. This is primarily due to a 44% increase in retirement rates, from 23.6% of payroll to 34% of payroll, but also includes negotiated salary increases for the Deputy Sheriff's Association and the Sergeants, and salary step adjustments and health benefit cost increases for all employee groups. No salary increases are included for any other bargaining units.

Fund Level	FY 2007-08	FY 2008-09	FY 2008-09	FY 2009-10	FY 2010-11
All Funds	676,901,135	707,629,493	716,127,074	765,187,565	774,570,591
All Funds % Inc	7.6%	4.5%	2.9%	6.9%	1.2%
General Fund	511,078,048	535,077,232	541,682,848	582,091,764	589,530,075
General Fund % Inc	7.9%	4.7%	1.2%	7.5%	1.3%

Retirement Contribution Rates and Unfunded Pension Liability – Based on the most recent actuarial valuation as of June 30, 2009, the County's blended annual retirement contribution rate will increase from 23.6% of payroll to 34% of payroll, resulting in increased retirement costs of $45.3 million for all County funds and $36.5 million for the General Fund. The reason for the increase is due to investment losses incurred by Sam*CERA* since the recession began in the fall of 2008. Prior to the onset of the recession, the plan was funded at 79.1%. As of June 30, 2009, the plan was funded at 63.9%. The actuarial accrued liability (AAL) for benefits was $2,987,712,000, and the actuarial value of assets was $1,909,679,000, resulting in an unfunded actuarial accrued liability (UAAL) of $1,078,033,000. At its November 2009 meeting, the Retirement Board voted to continue the current practice of smoothing gains and losses over a five-year period with a 20% corridor.

Gains and losses falling outside of the 20% corridor are fully recognized in the determination of the actuarial asset value. The UAAL is amortized over a fifteen year period. Some jurisdictions have changed the methodology to reduce the contributions in the short-term by expanding the corridor or lengthening the smoothing or amortization periods, or some combination thereof. Changing these assumptions has the effect of increasing costs on the back-end of the amortization period. Further, lowering contributions could result in unrealized investment gains at a time when the market is in recovery. Though it results in increased costs in the short-term, the County Manager's Office concurs and fully supports the actions of the Retirement Board. Assuming a 7.75% earnings rate over the next four fiscal years, the retirement rates are expected to increase to 41.7% of payroll by FY 2014-15 as additional losses are recognized through the smoothing process. By contributing more now, we improve our chances of mitigating future increases.

New Revenues

Based on feedback provided by the Board at its January 26 meeting, the County Manager's Office will form an advisory committee to work with consultant(s) to explore and analyze revenue generating alternatives. The consultant(s) will focus their work in three primary areas: (1) validation of revenue derived from each alternative, (2) determining the best strategy for the County in terms of tax types and timing, and (3) public outreach strategies to ensure success. Going forward, the Board will be regularly apprised of these ongoing efforts.

The table below, which was provided to the Board at its January 26, 2010 meeting, shows what a 1% tax would generate for some of the alternatives being considered (note that "Countywide Sales Tax" is based on a ¼ cent sales tax increase):

Countywide Sales Tax (1/4 cent)	$30,000,000
Utility Users Tax (Phone, Wireless, Electric, Gas, Water & Cable)	$2,000,000
Commercial Parking Facility Operators (Measure Q)	$500,000
Vehicle Rental Businesses (Measure R)	$3,000,000
Uniform Business License Tax	TBD*
Transient Occupancy Tax	$100,000

*Rates can be based on a number of variables, including gross revenue and number of employees, and may include rate and/or payment caps. The ultimate structure will largely determine the amount of tax generated.

Major Budget Issues

The following issues will have a significant impact on the County Budget in the current and subsequent fiscal years:

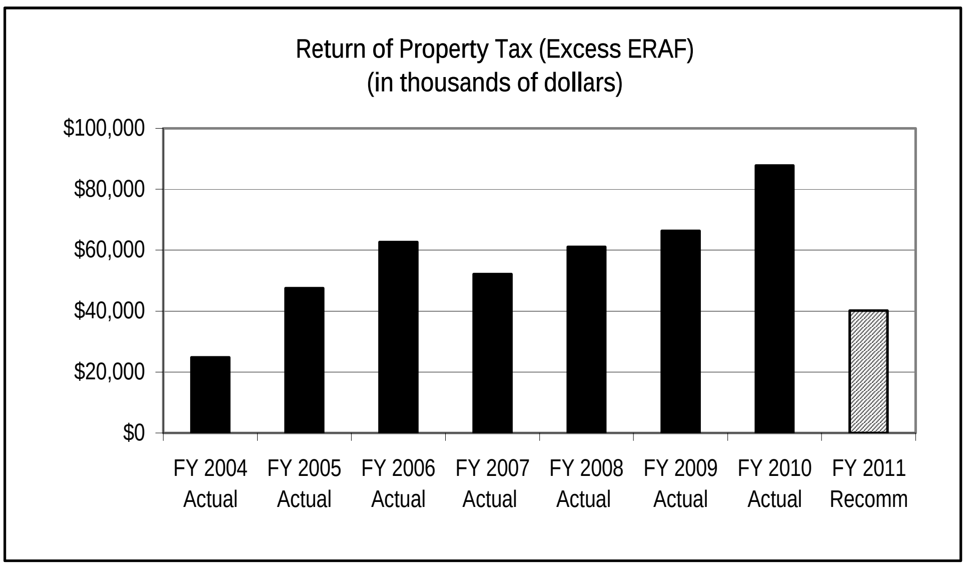
- San Mateo Medical Center (SMMC) Financial Status
- Educational Revenue Augmentation Fund (ERAF) Revenues
- Property Tax In-Lieu of VLF (Vehicle License Fee Swap)
- New AB 939 Fee
- Fire Protection Fund Revenue Shortfall
- Replacement Jail / Re-Entry Facility Planning

San Mateo Medical Center (SMMC) – A resolution is attached eliminating the assumption that the General Fund subsidy to the San Mateo Medical Center will be reduced to $50 million and stating that budget targets for the Medical Center will be calculated in the same manner as budget targets for all other divisions of the Health System. This has been supported by the Board's Finance & Operations Committee to recognize the Medical Center as an operating division of the consolidated Health System and to address demands for services in the current economic environment. It will, however, increase the structural deficit by $22 million over the next five years.

SMMC is working aggressively to achieve its budget target and is projected to end this fiscal year within budget. The Medical Center ended FY 2008-09 with a $10 million surplus and is in discussions with the County Manager's Office regarding the disposition of the surplus funds, including reimbursing the General Fund for some portion of prior year loans. A variety of initiatives led by the Health System Redesign process, recommendations of Health Management Associates, as well as general efficiency improvements will help achieve the projected on-target budget this year. The current focus is on maximizing revenues through the revenue cycle and improving accounting practices including in the areas of reporting and developing staffing models based on industry standards. Additional goals for FY 2009-10 include completing a comprehensive revenue and risk assessment and ensuring reserves sufficient to mitigate risks. Remaining Health Management proposals will be used to explore additional revenue and efficiency opportunities.

Educational Revenue Augmentation Fund (ERAF) Revenues – Since FY 2003-04, the General Fund has received $402.5 million in Excess ERAF revenue, including this year's allocation of $87.9 million. In May 2008, ERAF funds totaling $145 million were used to pre-fund the County's Retiree Health Trust at CalPERS and $154 million has been set aside in reserves. Approximately $100 million has been used for one-time projects and to balance prior year budgets. Every January the County Controller distributes 50% of the estimated Excess ERAF for the current year, the remaining balance due from the previous fiscal year and a residual balance held in reserve relating to prior years. The County has adopted a policy of appropriating the remaining 50% from the current year in the following year's budget. This explains the reduction in FY 2010-11 in the chart below.

With the recent decline in property taxes, increased enrollments in some school districts, and the State's budget situation, the County continues to recommend the use of ERAF for one-time purposes, especially given the volatility in basic and non-basic aid status. See "Property Tax In-Lieu of VLF" below.



Property Tax In Lieu of VLF (Vehicle License Fee Swap) – Under Proposition 98, approved by the voters in 1988, each school district was guaranteed certain minimum threshold funding based on various factors including but not limited to enrollment. Further, beginning in the FY 1992-93 and FY 1993-94, counties were required to divert AB 8 property tax revenues (which otherwise would have been distributed to cities and counties) into local "ERAF" accounts from which school districts would be funded to satisfy the State's educational funding obligations. A school district with adequate local property tax revenues is referred to as a "Basic Aid District" and does not receive ERAF monies. A school district with insufficient local property tax revenues to satisfy the State's guaranteed funding level (sometimes referred to as a "Revenue Limit District") receives ERAF funds to make up the difference between its guaranteed funding level and the local property tax revenues that it received.

In 2004, SB 1096 eliminated the types of VLF backfill payments previously paid to counties and cities and replaced them with property tax revenues ("In-Lieu VLF amounts"). As a result, the property taxes used to pay the In-Lieu VLF amounts are diverted from each county's ERAF, and if insufficient funds exist in a county's ERAF, then additional funds are transferred directly from Revenue Limit Districts' local property tax revenues. All In-Lieu VLF amounts that are transferred from the districts' ad valorem property taxes are then backfilled by the State. The In-Lieu VLF amount received by counties and cities is adjusted each year based on the growth (or decline) in gross taxable assessed valuation from year to year.

Under this system, as the number of Basic Aid Districts in a county increases, the pool of property tax revenues from which the In-Lieu VLF amount can be paid (whether from ERAF or from the ad valorem property taxes received by Revenue Limit Districts) correspondingly shrinks, making it possible for a county to have all Basic Aid Districts and therefore no ERAF account from which to pay the In-Lieu VLF amount or to have so few Revenue Limit Districts that neither the ERAF account nor the property taxes received by such Revenue Limit Districts is sufficient to pay the In-Lieu VLF Amount.

It is the second situation above that the County and cities within San Mateo County potentially face in FY 2009-10 and beyond. If and when the Community College District becomes a "Basic Aid" district, it appears that even if the Controller used all ERAF funds and all property tax revenues for Revenue Limit Districts to fund the In-Lieu VLF amount, the County and cities would still face a VLF shortfall of $11 million. The County's share would be $6.5 million.

On January 21, 2010, the Controller's Office was informed by the State Chancellor's Office that, contrary to the College District's prior estimates, they did not believe that the Community College District would turn basic aid in FY 2009-10. The State Chancellor's Office's conclusion was based on its determination of the District's revenue limit, its estimates of local revenues, and State budget adjustments. A final determination of the District's basic aid status will be determined in April 2010. If the State Chancellor's Office is correct, then there will be sufficient funds to cover the full In-Lieu VLF payments in the current fiscal year. However, the State Chancellor's Office projects that the District will likely achieve basic aid status in FY 2010-11. Further, the County foresees a general trend of increasing numbers of school districts achieving basic aid status, which absent any changes to existing statutes, will inevitably lead to a shortfall in VLF for the County and cities. As such, the County is in the process of reaching out to other counties throughout the State in order to explore potential legislative solutions to address the VLF shortfall issues discussed herein.

New AB 939 Fee – The Solid Waste Fund has been operating with a structural deficit for the past several years. Several measures have been taken to reduce the Solid Waste Fund's expenditures, including: moving the Children's' Health Initiative expenditure (previously budgeted at $2.7 million) to Non-Departmental Services and incorporating the payment for County facility garbage collection into the rent charges. Solid Waste Fund revenue has been generated from a pass-through fee associated with the disposal charges at the Ox Mountain landfill. The fee was negotiated as part of a multi-year agreement between the County and the landfill owner/operator, which expired on December 31, 2009.

On December 1, 2009 the County established an AB 939 Fee, which is imposed and collected on each ton of solid waste disposed of at landfills within the unincorporated areas of the County. The Ox Mountain landfill is currently the only active landfill in the County. The new fee is effective January 1, 2010 and will originally be set at the previous pass through fee of $7.02 per ton and will increase on July 1, 2010 to $9.83 per ton. AB 939 established solid waste diversion goals for California's cities and counties and only programs consistent with these goals can be supported by the fee. The Household Hazardous Waste and state-mandated Local Enforcement Agency programs administered by Environmental Health will be fully funded by the fee, resulting in a Net County Cost reduction of $1,175,000. Non-AB 939 Programs previously funded by the Solid Waste Fund that must now be assumed by the General Fund include vector control, Office of Emergency Services (OES) and hazardous materials response, operation of the transfer station in Pescadero, and other programs specific to the unincorporated area of the County, resulting in a Net County Cost increase of $1,246,000. The net cost impact to the General Fund is $71,000. It is anticipated that the remaining Fund Balance in the Solid Waste Fund will be sufficient to support the costs associated with closing and monitoring the Pescadero and Half Moon Bay landfills. This work is anticipated to cost $2 million.

Fire Protection Fund Revenue Shortfall – A dedicated funding source to supplement Property Tax revenues needs to be identified to maintain existing fire services in the County's unincorporated areas. The General Fund began subsidizing Fire Protection in FY 2005-06 and through FY 2008-09 has transferred $2,856,318 to the Structural Fire Fund with $915,000 appropriated in FY 2009-10. CALFire, the County's Fire Department through a contract with the State, has worked to keep labor and operations expenditures flat through this fiscal year, but anticipated capital and equipment upgrades are expected in the coming years. Property Tax revenues that accrue to the Structural Fire Fund have been unable to keep pace with costs due to the disproportionate amount of unsecured property taxes in the Structural Fire tax rate area. Unsecured Property Taxes are expected to remain flat at best through the recession cycle, and fell significantly in FY 2008-09. The Board of Supervisors has affirmed its commitment to find a stable source of funding for Fire Protection and the eventual end of General Fund support. The Board Finance and Operations Committee continues to explore a variety of strategies that may include a combination of new revenues, reductions in services or consolidation of services provided by CALFire.

Replacement Jail / Re-Entry Facility Planning – A needs assessment was completed in February 2008 resulting in a projected rated capacity recommendation of 1,356 by year 2011. Assumptions were given that a 15% to 20% level of increased diversion would be realized and, based on these assumptions, a rated capacity of 776 was recommended for the new replacement jail facility. Of the 776 recommended beds, 88 beds will be dedicated to transitional housing. Inmates housed in the transitional housing unit will participate in programs to assist with re-entry into the community, vocational training, and parenting classes. Through architectural design, staffing, and collaboration with community service providers, an opportunity for family reunification will be available.

The Jail Planning Unit (JPU) facilitated community outreach meetings to inform the public and local officials about the current jail overcrowding and replacement jail project, about potential jail sites and selection criteria. As part of the County's continued efforts to involve the community, a Jail Planning Advisory Committee (JPAC) was formed. JPAC serves as a sounding board for the community to comment on important issues relating to the replacement jail and consists of eleven members, five of which are appointed by the Board of Supervisors and six that are appointed at large.

Other activities of the JPU included: the selection of a project manager to oversee the construction disciplines of the project; an addition of a Sheriff's Sergeant to oversee the operational disciplines of the project; the completion a preliminary site selection and evaluation matrix; the touring of seven correctional facilities across the country in order to evaluate correctional best practices; the participation in the National Institute of Corrections jail planning seminar; and, most recently, the completion of the National Institute of Correction's Jail Design and Construction course. The functional program consultant assisted the JPU and the newly created Jail Functional Planning Group with the development of operational scenarios, jail functionality and staffing analysis.

<u>Employee Communications and Engagement</u>
The County Manager's Office and Human Resources have been meeting monthly with employee organizations since January 2008 to provide regular updates on the State and County budgets. The Board awarded 11 employees with STARS Awards in January out of a total of 78 suggestions submitted in September last year. The employee suggestions were initially reviewed by County departments and then evaluated by a labor-management review team that recommended the awards.

The County Intranet will be updated to provide more budget information and ways to communicate with employees throughout the budget process. Employee forums will be conducted this month for the purpose of providing employees with an update on the County's budget challenges and next steps. The forums have been scheduled at various locations to make it as convenient as possible for everyone to attend.

Thursday, February 18 at 2:30 - Daly City - PeninsulaWorks, Diamond and Sapphire Rooms
Monday, February 22 at 2:30 - Redwood City - Human Services Agency, Redwood and Oak Rooms
Tuesday, February 23 at 4:30 - Redwood City - County Center, Room 101
Wednesday, February 24 at 2:30 - Belmont - Human Services Agency, Harvard and Notre Dame Rooms
Thursday, February 25 at 2:00 - San Mateo - Probation, Chief's Conference Room
Friday, February 26 at 3:30 - San Mateo - Health System, Room 100

ATTACHMENTS:
A) FY 2009-10 Mid-Year Vacant Position Reductions and Impacts
B) Salary Ordinance Amendment – Eliminating 64 Vacant Positions
C) County Reserves Policy – Board Memo and Attachments
D) San Mateo Medical Center Budget Assumptions – Board Memo and Resolution

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
Healthy Community				
Health System	24	0	24	Public Health Nurse – Aging and Adult Services The Linkages program caseload has been cut by 50% this Fiscal Year and the program will be eliminated as of June 30, 2010. This impacts approximately 40 clients. The staff has been moved to another vacant position. Social Worker III - Aging and Adult Services The Linkages program caseload has been cut by 50% this Fiscal Year and the program will be eliminated as of June 30, 2010. This impacts approximately 40 clients. The staff has been moved to another vacant position. Social Worker III - Aging and Adult Services This position in Intake has been vacant for over one year due State funding cuts. Deputy Public Guardian Con III - Aging and Adult Services The position has been vacant for over a year and workload has been reassigned. Patient Services Assistant II – Behavioral Health and Recovery Services Reduced administrative support and phone coverage. Two (2) Psych Social Workers - Behavioral Health and Recovery Services Reduced services to Spanish-speaking and African American families in South County and reduced supervision and increased risk of incidence at Canyon Oaks. Fiscal Office Asssistant - Behavioral Health and Recovery Services Timely administration of fiscal functions may be compromised. Marriage Family Therapist II- Behavioral Health and Recovery Services Reduced level of services on the Functional Family Therapy Team to prevent recidivism and out-of-home placement Residential Counselor I- Behavioral Health and Recovery Services Reduced supervision and increased risk of incidence at Canyon Oaks. Marriage Family Therapist I- Behavioral Health and Recovery Services Mental Health Services out of Youth Services Center (YSC) for children and youth in juvenile justice system will be reduced. Nurse Practitioner – Correctional Health This reduction will put an increased burden on remaining staff and may affect the division's ability to meet accreditation and meet Title XV requirements. Staff Nurse - Correctional Health This reduction will put an increased burden on remaining staff and may affect the division's ability to meet accreditation and meet Title XV requirements. Psychologist II- Correctional Health This reduction will put an increased burden on remaining staff and may affect the division's ability to meet accreditation and meet Title XV requirements. Program Counselor II – Correctional Health This reduction will put an increased burden on remaining staff and may affect the division's ability to meet accreditation and meet Title XV requirements.

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
				Environmental Health Specialist III – Community Health Program Position has remained vacant due to the 5% vacancy requirement. Two (2) Health Benefits Analyst II – Health Policy and Planning Position has remained vacant due to the 5% vacancy requirement and in anticipation of budget reductions. Fiscal Office Assistant – Community Health Program The position's duties in Animal Licensing have been reassigned to other positions. Licensed Vocational Nurse – Medical Center This position had remained vacant under the 5% vacancy requirement and anticipated budget reductions. Workload has been reassigned. Two (2) Medical Services Assistants – Medical Center These positions have remained vacant under the 5% vacancy requirement and anticipated budget reductions. Workload has been reassigned. Creative Arts Therapist – Medical Center This position had remained vacant under the 5% vacancy requirement and anticipated budget reductions. Workload has been reassigned. Nurse Practitioner-U – Medical Center This position had remained vacant under the 5% vacancy requirement and anticipated budget reductions. Workload has been reassigned.
Public Safety Communications	3	0	3	Public Safety Communications (PSC) will be eliminating 3 vacant communication dispatcher positions to meet the budget reductions target for FY 2010-11. PSC had 7 vacant communication dispatcher positions that have been held frozen over the last year. The impact of reducing the positions has a high demand on existing dispatch staff but no services will be reduced. It has been a priority to keep the Communications Center staffed at an adequate level in order to provide the best possible service delivery. PSC staff has been covering the workload for vacant shifts in order to maintain service and is planning on filling the other 4 vacant positions next fiscal year. Overtime costs that are currently being used to cover the vacancies will be decreased once PSC is fully staffed and new hires are trained.
Probation	1	0	1	The Probation Department will eliminate a .50 FTE Deputy Probation Officer position. There is no impact to the department since the position is to correct an oversight in position control management over-fill issue and due to a change in job share assignments.

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
Sheriff's Office	4	0	4	<u>Criminalist</u> Criminalists in the laboratory perform a variety of forensic work in the laboratory, and in the field. We elected to maintain the vacancy within the laboratory in anticipation of a budget reduction in the Sheriff's Office. The loss of the position has resulted in increased turn around time in the processing of evidence, and the loss of revenue generated by the position. <u>Office Assistant</u> The Corrections Division is eliminating one Office Assistant position, #03960 from 31021. The impact on the organization will be additional workload spread between sworn and non sworn positions. Currently our other LOSs and the newly created compliance officer are doing the work the Office Assistant did in the past. <u>Administrative Assistant</u> The Fiscal Division is eliminating one Administrative Assistant. This position was responsible for grant application and management. Holding this position vacant has resulted in the reallocation of responsibilities. We have held this position vacant in anticipation of budget reductions. The responsibilities are now shared between various divisions & positions with a majority of the responsibilities/workload being assigned to the department's Contracts Manager. This new assignment requires that the Contracts Manager receive additional training in order to assume the full duties of the position. With the assistance of the Deputy Director, and other employees assigned to Fiscal functions, it is hoped that grant reporting deadlines will continue to be met. The department will continue to apply for funding opportunities, but the workload will be spread amongst those divisions that are interested in applying for the grants. <u>Legal Office Specialist</u> The handling of Auto Desk letters, Tow Rotations and contact with the tow yards will now have to be handled by the detective who is already assigned to juvenile cases, auto cases and missing person cases. Transcripts required for criminal cases that were being done by two LOS' will now be done by one. There was more than enough of this type of work for two LOS'. Two days of the week (T-TH) are dedicated to sex offender registration and paid for through the Adam Walsh Grant. The loss of the LOS position means the remaining LOS will not have more than 2-3 hours a week to dedicate to this work. The Victim Letters that were done by two LOS' will now be done by one LOS. Basic background investigations for school districts, adult schools and youth athletic leagues will now be handled by one LOS. The work load amounts to approximately 500 backgrounds a year and the bureau was having a difficult time processing these in a timely manner with both LOS' working on them. The two LOS positions backfill the Office Assistant (OA) position when the OA is on break or out on sick leave or vacation leave. With only one LOS there will be no LOS work completed during these time frames. Clerical functions such as preparing cases for forwarding to the DA's Office have been done by a LOS. This includes coping reports, running suspect rap sheets and attaching complaint instruction forms for processing by the court officer. This clerical function has recently been done by detectives due to our vacant LOS position. Detectives are increasingly spending time duplicating their own CD's, tapes and other discovery items for the DA's Office as our one and only LOS has been tasked with other responsibilities. Due to the shortage of our LOS, other clerical functions that have had to be accomplished by detectives themselves include (partial list only): delivery of materials to the DA's Office, pick-up of jail phone call CD's, forwarding of reports to other law enforcement and allied agencies, maintaining DVFCU restraining order case files, TRAK flyer dissemination, and major case binder organization.

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
Prosperous Community				
Human Resources	3	1	2	Management Analyst and Human Resources Technician Given the reduction in recruitment activity, resulting from the County's hiring freeze and the introduction of the Generalist Model, the department will reduce one vacant Management Analyst and one vacant Human Resources Technician position in the Personnel Services Division. If recruitment activity increases, the impact to services will result in departments experiencing delays in filling positions and a decrease in service levels, primarily relating to specialized services i.e., recruitment, class/comp studies and training. Information Technology Analyst The reduction of one vacant Information Technology Analyst assigned to Training and Development Division to assist with Learning Management System activities will result in delayed response times and the necessity for departmental LMS Coordinators to assume additional responsibilities.
Human Services Agency	15	2	13	Elimination of one Human Services Manager II Elimination of one Management Analyst II Elimination of one Senior Shelter Care Counselor – E Elimination of one Shelter Care Counselor Elimination of 10 Social Worker III positions Elimination of one Accountant II The reduction of HSA's personnel by 15 vacant positions, many of which have been held vacant since the implementation of the hiring freeze, is expected to have minimal impact to client services. Many of the positions are administrative in nature and workloads have already been redirected to other staff in preparation for this action.
Livable Community				

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
Planning	3	1	2	The position of C/CAG and Special Projects Manager that was responsible for transportation and special projects work for C/CAG has been vacant since December 2007 and its elimination will have no fiscal or workload impact. The vacant Building Inspector III position to be eliminated has been vacant since FY 2007, and its elimination will impact the Section's performance by increasing the wait time for requested inspections, providing fewer inspections as a result of fewer inspectors in a geographic County area, reducing public assistance to answer questions regarding their permits or interpretation of the building codes, increasing review times for simple plan checking services that inspectors provide, and increasing inspection assistance by management. The deletion of the vacant Planning Technician position in the Current Planning Section, assigned primarily to provide phone and counter service to the public, has remained vacant since the promotion of its former incumbent to Planner I in January 2009. Since then, the Current Planning staff has covered that function as part of their regular public counter rotation duties, which has resulted in less time available to be spent on processing permit applications and working on projects, thus lengthening turnaround times to complete required work.
Environmentally Conscious Community				
Parks Department	2	0	2	Elimination of an Administrative Secretary III will reduce LAFCO's ability to respond in a timely manner to the public, other agencies and the LAFCO Commission, and possibly delay some projects. It will also increase LAFCO Director's workload and shift it towards clerical work (answering phone, copying, typing, filing, mailing, etc.), Commission support/staffing, and basic level research. For Parks, it will reduce clerical support for parks managers 25% or shift that work to existing staff. Some parks projects such as GovDelivery and LMS enhancements will be delayed. To mitigate some of these impacts, some of the LAFCO Commission duties will be shifted to the Parks Executive Secretary. Deletion of the Lead Gardener position will result see reduced Vegetation Management capabilities. Herbicide application will need to be shifted to another certified staff member or contracted out at additional expense. Routine tasks such as landscape maintenance and mowing will need to be shifted to park staff resulting in a modest but probably noticeable reduction in customer service and facility maintenance in the north county parks. Some landscape maintenance such as sprinkler repair and planting will need to be deferred resulting in loss of some lawn and landscaped areas.
Collaborative Community				
County Management	4	2	2	Assistant County Manager-Unclassified, Executive Secretary The Assistant County Manager and Executive Secretary positions have been held vacant since 2008; workloads have been redistributed to the County Manager and Deputy County Managers and support staff. Copy Center Operator The number of copies requested by departments from the Copy Center has declined by 18% since 2007 and is expected to continue declining due to increased use of e-mail and electronic document management system. CJIS Project Director The CJIS Program Director position is no longer needed for reasons to include the completion of the County mainframe elimination project as well as a decrease in IT projects in criminal justice. Coordination for the few criminal justice IT projects will be provided by ISD.

Agency / Department	Total Count	MGR	Non-Mgr	FY 2009-10 Mid-Year Vacant Position Reductions With Impact to Program Performance
Information Services	2	0	2	<u>Accountant II</u> The number of IT projects is expected to decrease due to budget restraints. While the Accountant II position dedicated to project accounting has been vacant since August of 2009, the work has been done by contractual and other staff. This service will be phased out, workload will be redistributed to other administrative and project staff. <u>Office Specialist</u> The consolidation of Core IT services into a single division, Support Services, allows for the consolidation of admin functions as well. Where we have office support for core IT in San Mateo and Redwood City, we can now support with a single position in our Redwood City offices. One vacant position that has been filled contractually will be eliminated, the workload will be distributed to administrative staff.
Treasurer Tax Collector	3	0	3	<u>Office Assistant II</u> The Office Assistant II position has been held vacant since 2008. Part of the workload associated with this position was eliminated through technology and part was reassigned to an Office Specialist. Services have not been negatively impacted. <u>Fiscal Office Assistant II (FOA II)</u> Two FOA II positions have remained vacant since 2009; workloads have been redistributed to an Office Specialist (OS) and an FOA II. These two positions have also absorbed some responsibilities associated with a vacant Fiscal Office Specialist (FOS) position. Reclassification of the OS and FOA II to FOS is in progress. Filling the vacant FOS position may be required within the next year or two to allow better distribution of fiscal duties, improve processing time and guard against deterioration of accuracy within the unit. Services have not been negatively impacted.
Total County	64	6	58	

ORDINANCE NO.
BOARD OF SUPERVISORS, COUNTY OF SAN MATEO,
STATE OF CALIFORNIA

* * * * * *

AN ORDINANCE AMENDING ORDINANCE NUMBER 04475

The Board of Supervisors of the County of San Mateo, State of California,

ordains as follows:

SECTION 1. Part 13 of the Ordinance is amended as indicated:

ORGANIZATION 12000 COUNTY MANAGER'S OFFICE

1. Item B201, Assistant County Manager - Unclassified, is decreased by 1 position for a new total of 0 positions.

2. Item E476, Executive Secretary - Confidential, is decreased by 1 position for a new total of 0 positions.

3. Item E310, Copy Operator, is decreased by 1 position for a new total of 0 positions.

4. Item V050S, Communications Dispatcher Series, is decreased by 3 positions for a new total of 40 positions.

5. Item D110, Information Technology Manager, is decreased by 1 position for a new total of 0 positions.

ORGANIZATION 15000 TAX COLLECTOR/TREASURER

1. Item E334S, Office Assistant Series, is decreased by 1 position for a new total of 1 position.

2. Item E346S, Fiscal Office Assistant Series, is decreased by 2 positions for a new total of 0 positions.

ORGANIZATION 17000 HUMAN RESOURCES

1. Item D184S, Management Analyst Series, is decreased by 1 position for a new total of 16 positions.

2. Item E013, Human Resources Technician - Confidential, is decreased by 1 position for a new total of 5 positions.

3. Item V235, Information Technology Analyst, is decreased by 1 position for a

new total of 0 positions.

ORGANIZATION 18000 INFORMATION SERVICES

1. Item E030S, Accountant Series, is decreased by 1 position for a new total of 0 positions.

2. Item E337, Office Specialist, is decreased by 1 position for a new total of 0 positions.

ORGANIZATION 30000 SHERIFF

1. Item E375, Legal Office Specialist, is decreased by 1 position for a new total of 41 positions.

2. Item E089, Administrative Assistant II - E, is decreased by 1 position for a new total of 2 positions.

3. Item E334S, Office Assistant Series, is decreased by 1 position for a new total of 3 positions.

4. Item H029S, Criminalist Series, is decreased by 1 position for a new total of 12 positions.

ORGANIZATION 32000 PROBATION

1. Item C001S, Deputy Probation Officer Series, is decreased by 1 position for a new total of 162 positions.

ORGANIZATION 38000 PLANNING

1. Item D171, C/CAG and Specialist Projects Manager, is decreased by 1 position for a new total of 0 positions.

2. Item J057S, Building Inspector Series, is decreased by 1 position for a new total of 6 positions.

3. Item R065S, Planner Series, is decreased by 1 position for a new total of 10 positions.

ORGANIZATION 39000 PARKS AND RECREATION

1. Item E003, Administrative Secretary III, is decreased by 1 position for a new total of 0 positions.

2. Item L005, Lead Gardener, is decreased by 1 position for a new total of 0 positions.

ORGANIZATION 55500 HEALTH POLICY AND PLANNING

1. Item E483S, Health Benefits Analyst Series, is decreased by 2 positions for a new total of 23 positions.

ORGANIZATION 57000 AGING AND ADULT SERVICES

1. Item F040, Public Health Nurse, is decreased by 1 position for a new total of 4 positions.

2. Item G098S, Social Worker Series, is decreased by 2 positions for a new total of 27 positions.

3. Item G217S, Deputy Public Guardian/Conservator Series, is decreased by 1 position for a new total of 21 positions.

ORGANIZATION 61000 BEHAVIORAL HEALTH AND RECOVERY

1. Item E411S, Patient Services Assistant Series, is decreased by 1 position for a new total of 19 positions.

2. Item G040S, Mental Health Caseworker Series, is decreased by 3 positions for a new total of 129 positions.

3. Item B112S, Mental Health Caseworker Series - Unclassified, is decreased by 1 position for a new total of 2 positions.

4. Item E346S, Fiscal Office Assistant Series, is decreased by 1 position for a new total of 1 position.

5. Item G027S, Residential Counselor Series, is decreased by 1 position for a new total of 17 positions.

ORGANIZATION 62000 COMMUNITY HEALTH

1. Item J048S, Environmental Health Specialist Series, is decreased by 1 position for a new total of 18 positions.

2. Item E346S, Fiscal Office Assistant Series, is decreased by 1 position for a new total of 3 positions.

ORGANIZATION 63000 CORRECTIONAL HEALTH

1. Item F009S, Patient Care Series, is decreased by 2 positions for a new total of 29 positions.

2. Item F116S, Psychologist Series, is decreased by 1 position for a new total of 3 positions.

3. Item G107S, Program Counselor Series, is decreased by 1 position for a new total of 7 positions.

ORGANIZATION 66000 SAN MATEO MEDICAL CENTER

1. Item F009S, Patient Care Series, is decreased by 4 positions for a new total of 561 positions.

2. Item F029, Creative Arts Therapist, is decreased by 1 position for a new total of 7 positions.

ORGANIZATION 7000 HUMAN SERVICES

1. Item E030S, Accountant Series, is decreased by 1 position for a new total of 6 positions.

2. Item D091, Human Services Manager II, is decreased by 1 position for a new total of 13 positions.

3. Item D184S, Management Analyst Series, is decreased by 1 position for a new total of 12 positions.

4. Item G063, Senior Shelter Care Counselor - E, is decreased by 1 position for a new total of 2 positions.

5. Item G061S, Shelter Care Counselor Series, is decreased by 1 position for a new total of 15 positions.

6. Item G098S, Social Worker Series, is decreased by 10 positions for a new total of 100 positions.

SECTION 2. The changes in this ordinance are effective at the start of the first pay period 30 days following adoption.

COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office

DATE: February 4, 2010
BOARD MEETING DATE: February 9, 2010
SPECIAL NOTICE/HEARING: No
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: David S. Boesch, County Manager

SUBJECT: **Update of County Reserves Policy**

RECOMMENDATION:
Adopt updates to the County Reserves Policy.

BACKGROUND:
The Board of Supervisors approved the original County Reserves Policy in April 1999. The policy has remained unchanged since that time. In light of the current economic crisis and the County's recent reliance on one-time Reserves to balance the budget, the Board directed staff during the June 2008 budget hearings to review reserves policies of other jurisdictions for updated best practices and to revise the policy to outline consequences for departments that fall below the two percent reserves requirement.

DISCUSSION:
The County's Fund Balance and Reserves policies help reduce the negative impact on the County during times of economic uncertainty and potential losses of funding from other governmental agencies. Fund Balance and Reserves are viewed as one-time sources of funding which are only used for one-time purposes or as part of a multi-year financial plan to balance the budget. The County avoids operating deficits that are created through dependency on one-time funding for ongoing expenditures. The revised County Reserves Policy includes minimum requirements for Non-Departmental and departmental reserves, General Fund appropriation for contingencies, reserves for countywide capital improvements and automation projects, and provides guidelines for the use of these funds. At its January 20, 2010 meeting, the Board's Finance & Operations Committee reviewed the updated Policy and recommended that it be forwarded to the full Board for adoption.

Review of State/Local Reserves Policies
Staff selected eighteen counties and five cities within the State of California for comparison purposes. The agencies were primarily selected based on one or more of the following characteristics: their close geographic proximity to the County, their comparable population to the County, or their reputation as a high achieving

organization, including nine recipients of the Government Finance Officers Association's (GFOA) Distinguished Budget Presentation Award. In comparing our policy with these jurisdictions, the following areas were reviewed: (1) minimum reserves percentage required by the policy, (2) basis for calculating reserves requirement (Revenues, Expenditures, or Fund Balance), (3) whether General Fund operating departments appropriate reserves, and (4) minimum reserves requirement for operating departments.

The findings can be found in the attached table and are summarized as follows: nineteen jurisdictions have a formal policy while four do not and only two jurisdictions (Orange and San Diego counties) allow General Fund operating departments to appropriate reserves; however, neither has a minimum reserves requirement. Perhaps the most interesting finding was the different methods used by counties and cities for determining the minimum reserves requirement. Similar to San Mateo County, seven jurisdictions base their minimum reserves requirement exclusively on expenditure appropriations (including five GFOA Award recipients), eight base their calculation exclusively on general purpose discretionary revenues, one bases its calculation exclusively on fund balance, and three use some combination of fund balance, revenue and/or expenditure appropriations. The counties with the highest reserves requirement percentages generally used revenues or fund balance as their basis. For example, Contra Costa County's reserves requirement is 15% of general purpose revenues. Translating San Mateo County's three percent contingency and two percent departmental reserve requirements from Net Appropriations to general purpose revenues equals 15.8%. The average reserves/contingencies requirement for all surveyed jurisdictions is 5% of Net Appropriations when applying the various methodologies to the County's budget. The most stringent policy of those surveyed is that of Ventura County which calls for a minimum general reserve of 1% of total appropriations, a contingency of $2 million, and a minimum reserves requirement of 10% of total General Fund revenues, with a General Fund reserve goal of 15%. Ventura County currently falls short of its 10% minimum reserves requirement with 8.7% of General Fund revenues.

Workgroup Conclusions

Although a case could be made for any of the methodologies used as the basis for calculating the reserves requirement, the use of Net Appropriations takes into consideration the entire budget, including State and federally funded programs, as well as programs funded by local sources, such as fees and charges for services. The exclusive use of general purpose discretionary revenues takes changes in all other revenue sources out of the equation and fund balance is much too volatile during economic downturns. For these reasons the Workgroup believes the continued use of Net Appropriations as the basis is the preferred method; however, we do recognize that departments may have material one-time grants and contract expenditures appropriated for non-core services that may inflate the reserves requirement beyond what is reasonably attainable for those departments to achieve.

Given the current budget situation, it can be assumed with some degree of certainty that over the next three years departments will draw down significantly on their reserve balances. With that in mind, the Workgroup recommends that the two percent departmental reserves requirement remain in place, as well as the Non-Departmental three percent contingency requirement, but that a Non-Departmental General Fund reserve of five percent be established to ensure that the County's General Fund reserve balances do not drop below ten percent. The Workgroup also finds it prudent to increase the amount set aside for Countywide Capital Improvements and Automation Projects, and recommends that these amounts be increased from $1 million each to $2 million each, for a total set aside of $4 million.

Recommended Updates to the County Reserves Policy

The major recommended changes to the updated County Reserves Policy are as follows:

- Non-Departmental General Fund Reserve Requirement – Policy establishes a new reserve requirement in Non-Departmental Services of five percent of Net Appropriations. This new requirement is in addition to the three percent General Fund contingency, two percent departmental reserve requirement, and set asides for countywide capital improvement and automation projects.
- Reserve for Countywide Capital Improvements and Automation Projects – The minimum reserve requirement to be set aside in Non-Departmental Services will be increased from $1 million to $2 million for both countywide capital improvement and automation projects, resulting in a total reserve requirement of $4 million.
- Reserves Replenishment Plan – Should departments fall below the two percent minimum requirement, they must develop a multi-year financial plan that details how they intend to replenish their reserves to the two percent minimum within three-year years or a mutually agreed upon timeframe. Departments that are unable to demonstrate progress towards achieving the minimum requirement shall be subject to enhanced fiscal oversight, including quarterly budget updates to the County Manager's Office.
- Calculation of Two Percent Reserves Requirement – Net Appropriations will continue to be the basis for calculating the minimum Reserve Requirement. However, material/one-time grant funds and revenue derived from service contracts that do not represent core departmental services will also receive consideration for exclusion, with final approval resting with the County Manager's Office.
- Excess ERAF (Educational Revenue Augmentation Fund) – Excess ERAF is recognized as a separate component of Non-Departmental Services' Fund Balance and Reserves and its uses are limited to one-time and short-term purposes.

Adoption of the updated County Reserves Policy contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring fiscal accountability, healthy reserve balances and the responsible use of reserves.

FISCAL IMPACT:

Based on the County's FY 2009-10 Adopted Budget, the revised policy would require a minimum General Fund reserve requirement of $104.7 million (or 10.3% of Net Appropriations). The County's General Fund reserves balance is currently $217.6 million (21.4% of Net Appropriations).

Attachments:

Reserves Policy Comparison with other Jurisdictions
Updated County Reserves Policy

Organization County	Policy	Total	Appropriation Basis	Can Dept. Appropriate Reserves?	Dept Minimum Req
Alameda	General reserve of 1% of discretionary revenue	1%	Revenue	No	No
Contra Costa	Minimum unreserved GF balance of 5% of GF revenues and minimum GF balance of 10% of GF revenues	15%	Revenue	No	No
Los Angeles	"Rainy Day" fund of 3% of total annual fund balance and 10% reserve cap of on-going locally generated revenue	13%	Revenue and Fund Balance	No	No
Marin	A minimum of 5% of its GF operating budget	5%	Expenditures	No	No
Monterey	Annual contingency funding of 1% of adopted revenues to serve as "rainy day funds"; General Fund strategic reserve of 10% of adopted revenues	11%	Revenue	No	No
Napa	A minimum of 3% of GF appropriation into an operating contingency and reserves of 10% of GF appropriations	13%	Expenditures	No	No
Orange	Reserves of 10% of ongoing general purpose revenues	10%	Revenue	Yes, for specific programs and uses	No
Riverside	Budget policy target of 15% of discretionary revenue for the size of one designation (economic uncertainty) and 4% of discretionary revenue for contingency	19%	Revenue	No	No
Sacramento*	No policy	N/A	N/A	N/A	N/A
San Diego*	General reserve at 5% of budgeted general purpose revenues; general fund contingency at 2% of general purpose revenues; general fund unappropriated, unreserved, undesignated fund balance at 10% of budgeted general purpose revenues; no target for management reserves	17%	Revenue and Fund Balance	Yes, management reserves	No
Santa Barbara*	Allows for certain GF departmental designations, but the general policy is for all savings and unanticipated revenue to fund balance then strategic reserves	N/A	Fund Balance	No	No
Santa Clara	Contingency reserve of 5%	5%	Revenue	No	No
Santa Cruz	No policy	N/A	N/A	N/A	N/A
San Mateo*	**GF net appropriations of 3% and departmental reserves of 2%**	**5%**	**Expenditures**	**Yes**	**2%**
Shasta	General reserve target balance of 5% of unrestricted General Fund resources	5%	Revenue	No	No
Sonoma*	Total GF discretionary reserves of 5%-15% of GF operating revenues	15%	Revenue	No	No
Stanislaus*	Not less than 5% of GF appropriations for the preceding three fiscal years	5%	Expenditures	No	No

Organization County	Policy	Total	Appropriation Basis	Can Dept. Appropriate Reserves?	Dept Minimum Req
Ventura	Minimum general reserve for GF is 1% of total appropriations; GF contingencies of $2 million; GF designations of 10% of total revenues with long term goal of 15% of total appropriations	11%	Revenue and Expenditures	No	No
City					
Fresno*	Adopted GF appropriations of 5%	5%	Expenditures	No	No
Los Angeles*	Contingency reserve of 3% of GF adopted budget and emergency reserve account of 2% of GF adopted budget	5%	Expenditures	No	No
Oakland*	GF appropriations of 7.5%	7.5%	Expenditures	No	No
Sacramento	No policy	N/A	N/A	N/A	N/A
San Jose*	Central fund reserve amount of a minimum of 3% of the operating budget	3%	Expenditures	No	No
City/County					
San Francisco	No policy	N/A	N/A	N/A	N/A

*Government Finance Officer's Association Distinguished Budget Presentation Award Recipient

LONG-TERM FINANCIAL POLICIES

The primary fiscal agents for the County—the Board of Supervisors, County Manager, Controller, Assessor and Treasurer—have made public access to financial information a priority. The County's budget, budget information, Comprehensive Annual Financial Report (CAFR) and Popular Annual Financial Report (PAFR) are available on the County website, www.co.sanmateo.ca.us. Residents can look up the assessed value of their property or pay their property taxes online. Board meetings (including budget hearings) air on Peninsula TV, a local access cable channel operated by a consortium of public agencies.

COUNTY RESERVES POLICY

The Board of Supervisors approved the County's original Reserves Policy in April 1999. The creation of the 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. The Board of Supervisors approved the revised policy on DATE REVISED POLICY IS APPROVED BY THE BOARD OF SUPERVISORS to align the policy with the current fiscal environment. Fund Balance and Reserves are viewed as one-time sources of funding which are only used for one-time purposes or as part of a multi-year financial plan to balance the budget. The County avoids operating deficits that are created through dependency on one-time funding for ongoing expenditures. The revised policy includes minimum requirements for Departmental Reserves, General Fund Appropriation for Contingencies, Reserves for Countywide Capital Improvements and Reserves for Countywide Automation Projects, and provides guidelines for the use of these funds.

Departmental Reserve Requirements

1. Use of One-Time Funds - One-time funds will not be used to fund ongoing operations, unless in the context of a multi-year financial plan to balance expenditures and Reserves.

2. Minimum Departmental Reserve Requirements - The minimum Departmental Reserves requirement is two (2) percent of Net Appropriations. Departmental Reserves will only be used for the following:

   a. one-time emergencies;

   b. unanticipated mid-year losses of funding;

   c. short-term coverage of costs associated with unanticipated caseload increases; and

   d. short-term coverage of costs to minimize employee lay-offs provided there is a long-term financial plan.

3. Reserves Replenishment Plan - Departments must obtain approval from the County Manager's Office prior to using Reserves which puts them in the position of falling below the two (2) percent Reserves requirement. Approval of funding Reserves below the two (2) percent requirement would be contingent upon review and approval of a multi-year financial plan that details how the department intends to replenish their Reserves to the two (2) percent level within three years or a mutually agreed upon timeframe by the department and County Manager's Office. Department plans must address the use of excess Fund Balance with the first priority being the replenishment of Reserves. This plan will be reviewed annually at the budget meeting with the County Manager's Office to determine if progress is being made to achieve the two (2) percent level. Departments that are unable to demonstrate progress towards achieving the two (2) percent requirement shall be subject to enhanced fiscal oversight, including quarterly budget updates to the County Manager's Office.

4. Calculation of Two (2) Percent Reserves Requirement - Net Appropriations will be the base for calculating the minimum Reserve requirement. Any exceptions will be made on the basis of materiality of adjustment and impact on direct ongoing operations. Material/onetime grant funds that must be appropriated should be excluded from the two (2) percent Reserves calculation. Revenue derived from service contracts that do not represent core departmental services will also receive consideration for

exclusion, with final approval resting with the County Manager's Office. With the exception of required grant matching funds, grants and service contacts will not be backfilled by the County's General Fund should funding be eliminated or reduced. The two (2) percent requirement for each department will be determined at the time that the final budget is formally adopted by the Board of Supervisors.

5. Guidelines for Fund Balance in Excess of Minimum Reserve Amount - Fund Balance generated in excess of the two (2) percent minimum departmental Reserves requirement can only be allocated to the following:

    a. Appropriate in Departmental Reserves for future one-time purposes;

    b. Purchase of fixed assets;

    c. Sinking fund for future replacement of assets;

    d. Deferred maintenance;

    e. One-time departmental projects;

    f. Reserve for audit disallowances;

    g. Local match for grants;

    h. Seed money for new departmental programs provided there is a plan that includes identification of future ongoing funding sources and outcome measures; and

    i. Short-term coverage of operational costs in order to maintain program integrity and prevent employee lay-offs in conjunction with sections 1 and 2 above.

6. Deferred or Incomplete Projects - Unexpended one-time funds from deferred or incomplete projects, including grant funds, can be carried over to the next fiscal year at 100% of the amount not spent. These will be exempt from the Fund Balance Policy's 75/25 split.

7. Service Departments and Non-General Fund Departments - Fund balance generated by service departments shall be evaluated by the Service Charges Committee, including representatives from the County Fiscal Operating Committee, following the end of each fiscal year to recommend how they should be applied. Application of funds will be done in a way that maximizes cost reimbursement through claiming and fairly allocates any impacts on the A-87 cost plan.

    Internal Service Funds can maintain Reserve balances for future purposes including, but not limited to, vehicle and equipment replacement costs and risk management claims.

    As a goal, County Enterprise Funds, Special Revenue Funds and Special Districts should generate revenue sufficient to support the full direct and indirect costs of these funds above and beyond General Fund subsidy or contribution levels approved by the Board.

<u>General Fund Non-Departmental Reserve Requirements</u>

1. General Fund Reserves – Shall be maintained at a minimum of five (5) percent of total General Fund Net Appropriations for one-time purposes or as part of a multi-year financial plan to balance the County's budget. The five (5) percent requirement may include Excess ERAF (Educational Revenue Augmentation Fund) reserves. After Contingencies, the second priority for excess Fund Balance at the end of each fiscal year is to replenish this amount so that it is at or above the five (5) percent level.

2. Appropriation for Contingencies – Shall be maintained at three (3) percent of total General Fund Net Appropriations for one-time emergencies and economic uncertainties. In order to maintain the highest possible credit rating, the first priority for excess Fund Balance at the end of each fiscal year is to replenish this amount so that it is maintained at the three (3) percent level.

3. Reserve for Capital Improvements – In order to preserve the County's capital assets, a minimum reserve of $2 million, which will include half of the Capital Facilities Surcharge, shall be maintained and appropriated annually for countywide capital improvements as specified in the County's Capital Improvement plan. The five-year plan will be updated annually during the budget process.

4. Reserve for Countywide Automation Projects – A minimum reserve of $2 million shall be maintained and appropriated annually for countywide automation projects that will generate long-term ongoing savings and reductions to Net County Cost. Projects will be determined during the budget process.

5. Amounts in Excess of above Requirements - Fund Balance generated in excess of the above requirements, including all Excess ERAF, can only be allocated or maintained as Reserves for the following one-time or short-term purposes:

   a. Capital and technology improvements

   b. Reduction of unfunded liabilities, including Retirement and Retiree Health obligations;

   c. Debt retirement;

   d. Productivity enhancements;

   e. Cost avoidance projects;

   f. Litigation;

   g. Local match for grants involving multiple departments;

   h. Innovation and Entrepreneurial Fund – creates one-time and short term incentives for team efforts that generate ongoing savings or revenues in new and creative ways; including one-time investments in infrastructure and other areas, with established parameters regarding payback periods and returns on investment.

   i. Seed money for new programs involving multiple departments provided there is a plan that includes identification of future ongoing funding sources and outcome measures; and

   j. Other purposes deemed to be fiscally prudent for the County as identified and recommended by the County Manager's Office to the Board of Supervisors.

COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Health System

DATE: January 27, 2010
BOARD MEETING DATE: February 9, 2010
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors

FROM: Jean S. Fraser, Chief, Health System

SUBJECT: Budget Assumptions for San Mateo Medical Center Budget 2010-2014

RECOMMENDATION:
Adopt a Resolution (1) revising expenditure assumptions for fiscal years 2010-2014 by eliminating the assumption that the general fund contribution to the San Mateo Medical Center will be reduced to $50 million and (2) stating that the budget targets for the San Mateo Medical Center division will be equivalent to those of the other divisions of the Health System.

BACKGROUND:
On December 16, 2008, your Board provided direction to the County Manager on a multi-year approach for eliminating the County's structural deficit by fiscal year 2013. Included in the Power Point presentation to the Board were several revenue and expenditure assumptions for the fiscal years 2009-10 through 2013-14 which included, among other items, a reduction in general fund contributions to the San Mateo Medical Center (SMMC) from $72 million to $50 million. The assumption has been repeated in other presentations to your Board since then without a specific focus on that assumption. In light of the recession and other factors, the Health System is requesting that the assumption be revised.

DISCUSSION:
Since December 2008 the recession has resulted in the loss of jobs and health insurance coverage in San Mateo County such that there is an increased demand for the services of the San Mateo Medical Center. Yet the assumption that SMMC can operate with a general fund contribution reduced to $50 million has not been revisited.

For example, in July 2008, 12,465 county residents were enrolled in the WELL program (since renamed the ACE program), which is the program by which the County meets its state mandate to provide medical care to low-income uninsured residents. As of January 1, 2010, 20,362 county residents are now enrolled in the ACE program, for a 60% increase. Similarly, since July 2008, county wages and benefits have increased at annual rates of between 3.5% and 11.1%, and medical inflation has routinely outpaced general inflation by two or more percentage points. Meanwhile, the County has already reduced the General Fund support to SMMC by $5.7 million, or by 7%, in addition to requiring SMMC to cover the entire increase in salaries and benefits for staff members.

The Health System believes that the budget assumption of an additional General Fund $16 million reduction to $50 million, plus the requirement that SMMC cover 100% of salary and benefit increases, is no longer realistic in light of the increased demand for SMMC services and rising costs. We are asking your Board to eliminate it and to make the SMMC budget target equivalent to the other Health System divisions. The budget target for the other Health System divisions (with the exception of the County contribution to the In-Home Supportive Services Program), is a 10% General Fund reduction plus each division has to absorb 35% of the increase in salaries and benefits.

This would still cut the contribution to SMMC by $6.7 million, and require SMMC to absorb a $2.5 million increase in salary, retirement and other benefits for staff, for a total budget gap of $9.2 million. This estimate does not include any state or federal cuts or increases in service, supplies or other costs.

Approval of the Resolution contributes to the Shared Vision 2025 outcome of a healthy community in which our neighborhoods are safe and provide residents with access to quality health care and seamless services by developing budget targets for the San Mateo Medical Center that reflect the recent economic developments and the increasing service need for community members who may have lost their jobs and health insurance coverage.

The resolution has been reviewed by your Board's Finance and Operations Committee.

County Counsel has reviewed and approved the Resolution.

FISCAL IMPACT

The Resolution will align the SMMC budget target for 2010-11 through 2013-14 with the other divisions of the Health System. The budget target from the County Manager for all Health System Divisions (except SMMC and the In-Home Supportive Services Program) for FY 2010-11 is a 10% Net County Cost reduction from the NCC from FY 2009-10 and absorption of 35% of the increase in salaries and benefits for county staff. The difference between a General Fund contribution to SMMC of $50 million and absorbing 100% of the increase in salaries and benefits, and a 10% reduction and absorbing 35% of the increase in salaries and benefits, would be approximately $14.5 million.

RESOLUTION NO. ____________

BOARD OF SUPERVISORS, COUNTY OF SAN MATEO, STATE OF CALIFORNIA

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RESOLUTION (1) REVISING EXPENDITURE ASSUMPTIONS FOR FISCAL YEARS 2010-2014 BY ELIMINATING THE ASSUMPTION THAT THE GENERAL FUND CONTRIBUTION TO THE SAN MATEO MEDICAL CENTER WILL BE REDUCED TO $50 MILLION AND (2) STATING THAT THE BUDGET TARGETS FOR THE SAN MATEO MEDICAL CENTER DIVISION WILL BE EQUIVALENT TO THOSE OF THE OTHER DIVISIONS OF THE HEALTH SYSTEM.

RESOLVED, by the Board of Supervisors of the County of San Mateo, State of California, that

WHEREAS, on December 16, 2008, this Board provided direction to the County Manager on a multi-year approach for eliminating the County's structural deficit by fiscal year 2013; and

WHEREAS, there were several revenue and expenditure assumptions for the fiscal years 2010-2014 which included, among other items, a reduction in general fund contributions to the San Mateo Medical Center from $72 million to $50 million; and

WHEREAS, the downturn of the economy of the nation and of the State has resulted in loss of jobs and health insurance coverage in the community and in increased demand for the services of the San Mateo Medical Center; and

WHEREAS, services provided at the San Mateo Medical Center have been structured consistent with the vision of the Blue Ribbon Task Force on Adult Health Care Coverage Expansion and with the work of the Health System Redesign Initiative;

and

WHEREAS, the structural budget deficit and other economic developments have worsened the County's fiscal outlook and now require a broader, county-wide approach to maintain public services and the fiscal health of the County;

WHEREAS, this Board's shared vision is for a healthy community and to provide residents with access to quality health care and seamless services;

NOW THEREFORE, BE IT RESOLVED, by this Board of Supervisors that (1) the expenditure assumptions for fiscal years 2010-2014 are revised to eliminate the assumption that the general fund contribution to the San Mateo Medical Center will be reduced to $50 million and (2) that the budget targets for the San Mateo Medical Center division will be equivalent to those of the other divisions of the Health System

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