C O U N T Y   O F   S A N   M A T E O

County Manager's Office

Board Date: January 27, 2004

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager

SUBJECT: **FY 2003-04 County Budget Update**

RECOMMENDATIONS

1. Accept the FY 2003-04 County Budget Update.

2. Provide direction regarding the preparation of the Two-Year FY 2004-05 and FY 2005-06 Budget specifically with regard to the County's estimated budget deficit of $79.7 million, including State Budget impact of $49.6 million.

Background

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 2004-05 and FY 2005-06 Recommended Budget will be submitted to the Board on May 28. Budget hearings will begin Monday, June 28.

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 for the next five fiscal years.

FY 2003-04 County Financial Status

Based on current estimates, the General Fund is expected to begin Fiscal Year 2004-05 with an additional $47 million, primarily from restored Vehicle License Fee (VLF) backfill and return of prior year Education Revenue Augmentation Fund (ERAF) contributions above mandated levels of school funding. The table on the following page provides a summary of all County funds followed by an explanation of the significant variances.

Major budget issues to consider in preparing the upcoming budget include the impact of the State's $16 billion deficit, approved negotiated salary and benefits increases for County employees, increased retirement contributions and other retirement related costs, including cashout of eligible leave balances (terminal pay) and retiree health.

FUND BALANCE SUMMARY

The following table provides a summary of updated FY 2004-05 Beginning Fund Balance estimates for the General Fund and other County funds. The total Fund Balance of $253.1 million represents 19.6% of the County's $1.3 billion budget. Significant variances to original Fund Balance estimates for each County agency are explained below.

County Agency by Fund (Dollars in Thousands)	*FY 2003-04 Working Budget*	*FY 2004-05 Budgeted Fund Balance*	*FY 2004-05 Updated Fund Balance*	*Unanticipated Fund Balance Variance **
Administration/Fiscal - General Fund	79,083	8,693	10,221	1,528
Criminal Justice - General Fund	226,015	8,893	8,484	(409)
Environmental Services - General Fund	28,473	1,048	688	(360)
Environmental Services - Other Funds	37,759	8,680	8,159	(521)
Health Services - General Fund	165,175	7,628	7,671	43
Health Services - Other Funds	16,665	3,582	2,587	(995)
Medical Center – General Fund Contrib	52,387	0	0	0
Medical Center Enterprise Fund	167,661	29	(2,983)	(3,011)
Human Services - General Fund	188,516	4,598	5,271	673
Public Works - General Fund	16,797	93	(151)	(243)
Public Works - Other Funds	114,944	48,333	34,958	(13,375)
Non-Departmental - General Fund	133,583	104,577	150,407	45,831
Non-Departmental - Other Funds	62,551	19,338	27,753	8,415
Subtotal General Fund	**$890,029**	**$135,529**	**$182,591**	**$47,062**
Subtotal Non-General Fund	**$399,580**	**$79,962**	**$70,474**	**($9,488)**
Total ALL Funds	**$1,289,609**	**$215,491**	**$253,065**	**$37,574**

* Unanticipated variance represents additions (surplus) or reductions (shortfall) to budgeted FY 2004-05 Beginning Fund Balance based on updated estimates prepared as part of this County Budget update.

Administration and Fiscal

Administration and Fiscal departments are estimated to carry over $10.2 million in Fund Balance, approximately $1.5 million more than budgeted next year. The updated Fund Balance estimate contains adjustments to cover $173,039 in terminal pay for employees who will retire this year.

The following factors have contributed net additional Fund Balance in Administration and Fiscal:

- high volume of changes in home ownership and re-financing resulting in $800,000 in increased document recording fees and savings totaling $178,474 from maintaining vacant positions in Assessor-County Clerk-Recorder's Office
- additional commissions revenue, primarily due to investing a portion of the bond proceeds from the Youth Services Center financing, will generate an estimated $189,736 for the Treasurer's Office
- carry-forward of unspent Property Administration Grant Program (AB589) appropriations to be used for property tax system upgrades will generate an additional $254,761 in the Controller's Office
- cost saving measures in the Employee and Public Services Department will generate an additional $159,139, however the Animal Licensing portion of $50,891 will be transferred to Environmental Services Animal Control in FY 2004-05
- shortfall of $259,611 in the County Counsel's Office due mostly to less than anticipated salary savings. Solutions to this shortfall will be identified during budget development

Criminal Justice

Criminal Justice departments are estimated to carry over $8.5 million in Fund Balance, approximately $409,000 less than budgeted next year. The updated Fund Balance estimate contains adjustments to cover the following items: $582,808 for terminal pay related to employees who will retire this year, $218,610 for Orange Level alert costs and $46,600 for Crime Lab fee system set-up costs.

The net Fund Balance shortfall in Criminal Justice is primarily in Probation, County Support of the Courts and the Coroner's Office. The shortfall in Probation ($949,036) is due to the depletion of Reserves this fiscal year to continue the Risk Prevention Program for an additional year. The shortfall in the Coroner's Office ($73,211) is due to extra help and overtime use related to vacancies resulting from the retirement of three investigators and the extended leave of one investigator. County Support of the Courts will have a net surplus of $500,000, consisting of $1.05 million in unanticipated Court revenues and an estimated overrun in special investigation costs for indigent defendants ($500,000), which includes costs related to an unusually high number of homicide cases. An Appropriation Transfer Request (ATR) will be brought to the Board to increase the budget for special investigation costs using unanticipated revenue. Another ATR will be prepared to budget the County's share of Undesignated Trial Court revenues obligated to the State, in the amount of $657,444, as part of a revenue shift approved last year in the State budget. Funds were appropriated in Non-Departmental for this purpose, and the ATR will move these funds to the County Support of the Courts budget.

Environmental Services

Environmental Services is estimated to carry over about $8.9 million in Fund Balance, approximately $882,000 less than budgeted next year. This shortfall is in both General and Non-General Fund Divisions. The shortfall within the General Fund Divisions is primarily in Planning and Building ($413,787), and is due to lower than anticipated revenue from permit fees. Although fees were increased this year, many applications for permits were submitted before the fee increases took effect.

Net shortfall within the Non-General Fund Divisions include:

- shortfall in the Parks Acquisition and Development Fund ($890,933) due to the completion of projects in the current year that won't be re-budgeted next year
- shortfall in the Fire Protection Fund ($365,835) due to the accelerated purchase of fire equipment in the current year
- surplus of $769,986 in the County Library due to higher than anticipated state aid reimbursements and the unanticipated return of prior year Education Revenue Augmentation Fund (ERAF) contributions above mandated levels of school funding

Health Services Agency

Health Services is estimated to carry over $10.3 million in Fund Balance, approximately $952,000 less than budgeted next year. Year-end estimates in the Health and Medical Center budget units assume full receipt of budgeted health realignment revenues. However, because of the issues surrounding the repeal of the VLF increase and the VLF "gap," VLF realignment revenues remain uncertain. A Countywide assumption has been made for a total shortfall in both Realignment and Non-Realignment VLF revenue, which has been addressed in the current year with the use of General Fund reserves. (More information on VLF status can be found in the Major Budget Issues section of this report.)

General Fund programs will generate a net Fund Balance surplus of $43,000. All programs except Correctional Health will meet or exceed FY 2004-05 budgeted Fund Balance. Correctional Health anticipates a Fund Balance shortfall ($93,851) and is expected to generate savings in order to address a projected overrun in Salaries and Benefits. This will be accomplished through a revised financial arrangement for the medical treatment of inmates at the Medical Center (SMMC), wherein the Sheriff's Office reimburses Correctional Health directly and then Correctional Health pays SMMC based on utilization at the same rate as the Health Plan of San Mateo (HPSM). The anticipated savings is based on lower estimated utilization. Further reductions in spending are now being implemented to mitigate the remainder of the shortfall.

The Emergency Medical Services Trust Fund anticipates a Fund Balance shortfall of $995,129 in the Senate Bill 12 (SB12) Program. SB12 collects traffic fines and forfeitures revenue, which is paid to physicians (including SMMC) for emergency room services provided to uninsured patients. Reserves in this fund have not been spent because the number of physician claims did not match available funding, and because State regulations created obstacles to timely reimbursement of claims. Recent legislation reflects the State's priority that a greater portion of funds go to the providers on a more timely basis by allowing quicker payments that cover a greater percentage of claims. In addition, legislation now requires that no more than 10% of collections may be held in Reserves. An ATR was approved by the Board of Supervisors on December 16, 2003 transferring $1,000,000 from Non-General Fund Reserves in this budget unit to be spent on the intended purposes of the legislation. This will reduce the amount of Fund Balance to be carried over next year, falling short of the amounts budgeted. Reserves will be reduced accordingly.

San Mateo Medical Center

The San Mateo Medical Center (SMMC) is estimated to end the current fiscal year with a Fund Balance deficit of $3 million. Net patient revenue is expected to be under budget by $477,202 due to lower than estimated patient census and reduced length of stay. Operating costs are anticipated to be over budget due to the following:

- $775,453 as a result of increased overtime, use of registry staff to cover regular workforce shortages, and increased staff time needed for regulatory requirements such as site visits and Joint Commission (JCAHO) preparation;
- $1,968,456 due to startup costs at the Burlingame Health Center, increased patient volume at the clinics, and higher than projected utilization of outside contract services.

Partially offsetting these overages is a savings of $238,601 in Fixed Assets, reflecting the delay of various information technology and capital projects.

As of the November financial statements, SMMC is projecting a shortfall of $5 million. Management at SMMC expect to reduce this to $3 million by year-end through close monitoring and continued efforts at revenue enhancement and cost/service reductions. If this deficit cannot be covered within the SMMC Enterprise Fund, there will need to be an increase in the General Fund subsidy of SMMC operations.

Human Services Agency (HSA)

HSA is estimated to carry over $5.3 million in Fund Balance, approximately $673,000 more than budgeted in FY 2004-05 due to savings generated from the following:

- An estimated $4.3 million in salary savings due primarily to vacancies.
- A savings of $1.1 million in Housing projects that won't be completed by year-end and will need to be reappropriated in FY 2004-05.
- Lower than budgeted allocations for childcare totaling $3.5 million.
- Lower than budgeted allocations for welfare and foster care assistance payments totaling $1.8 million.

Public Works

Public Works is estimated to carry over $34.8 million in Fund Balance, approximately $13.6 million less than budgeted next year. A shortfall in the General Fund ($243,374) is primarily due to unanticipated utility cost increases, including the payment of $42,000 in unbudgeted utility costs for the Crystal Springs facility. The Crystal Springs building was vacated and ready for demolition; therefore, rent and other costs associated with this facility were not budgeted. However, utility service was not discontinued when expected as the Crime Lab had evidence stored in refrigerators that needed to be moved, resulting in the payment of utility costs for several months. Energy cost savings measures will continue to be explored to reduce this General Fund shortfall.

The Fund Balance shortfall of $13.4 million in the Non-General Fund units is primarily due to aggressive construction schedules for capital improvements in the Sewer and Flood Control Districts and unanticipated project expenditures in the San Bruno Flood Control District. A Fund Balance shortfall in the Construction Services Fund of $231,237 is due to anticipated reductions in renovation/remodeling projects requested by County departments that will be carried over to FY 2004-05. A Fund Balance shortfall in the Solid Waste Fund of $410,750 is due to decreased waste tonnage at Ox Mountain and the six-month delay (to January 1, 2004) in implementation of the increase in the County Compensation Rate. A Fund Balance shortfall in the Half-Cent Transportation Fund of $698,750 is due to expenditures for road projects that were anticipated to be delayed until FY 2004-05. These shortfalls are partially offset by surpluses of $643,174 in the Airport Enterprise Fund, $576,167 in Vehicle and Equipment Services and $21,155 in the Road Funds.

Non-Departmental

Non-Departmental General Fund is estimated to carry over an additional $45.8 million, primarily from restored Vehicle License Fee (VLF) backfill and return of prior year Education Revenue Augmentation Fund (ERAF) contributions above mandated levels of school funding. These funds will be used to help balance the budget in FY 2004-05 given current assumptions of state funding losses and additional shift of property tax revenue to the schools.

The Non-General Fund budget units are estimated to bring in $8.4 million in additional Fund Balance, primarily from the reimbursement of project start-up/design costs of $6.5 million from the Youth Services Center bond proceeds, which will be set aside for debt service payments; carry forward appropriations of $1.4 million for capital projects that will not be completed this fiscal year, including the Hall of Justice Seismic Retrofit Project; and unbudgeted interest earnings in the Debt Service Fund of $400,000.

MAJOR BUDGET ISSUES AND UPDATES

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

- Impact of Governor's Budget Proposal
  - Additional Shift of Property Tax to ERAF
  - Status – Vehicle License Fee (VLF) Backfill Receipts
- Negotiated Salary and Benefits Increases
- Other Costs Related to Retired Employees
- Compensated Absences Liability

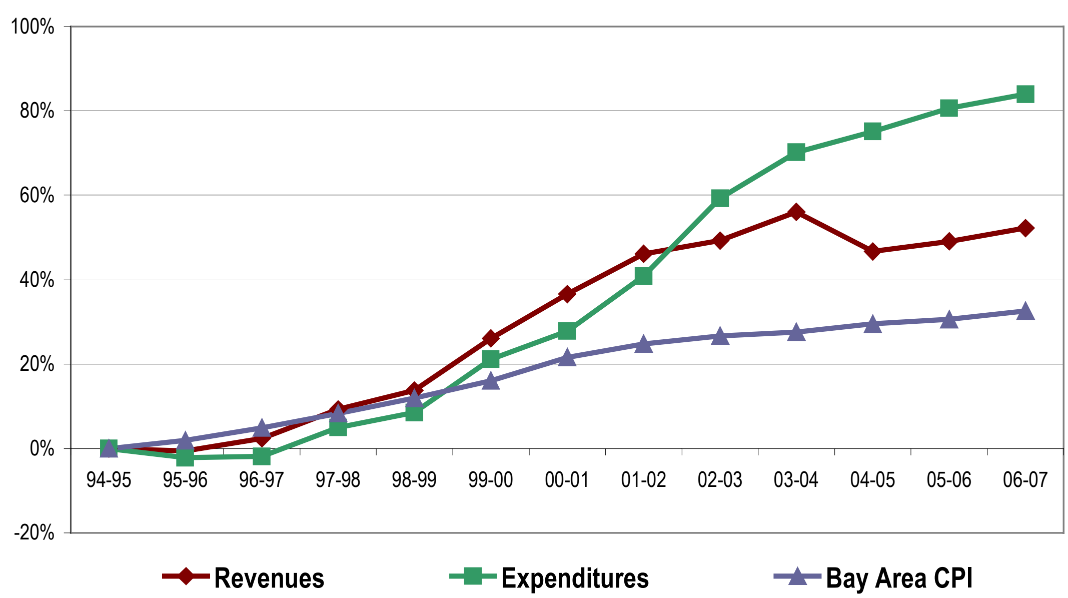
Updates for the following have been prepared to provide the Board with status:

- Substance Abuse and Crime Prevention Act – SACPA (Proposition 36)
- Probation Department-Risk Prevention Program Review
- Youth Services Center

General Fund Deficit – FY 2004-05 to FY 2006-07

General Fund expenditures have grown faster than revenues since FY 2002-03. Given the worst-case scenario with funding losses proposed in the Governor's January budget, as well as negotiated increases in Salaries and Benefits, the General Fund budget deficit for FY 2004-05 is estimated at $79.7 million, growing to $112.4 million in FY 2006-07.

Cumulative Change in General Fund Revenues, Expenditures and Bay Area CPI



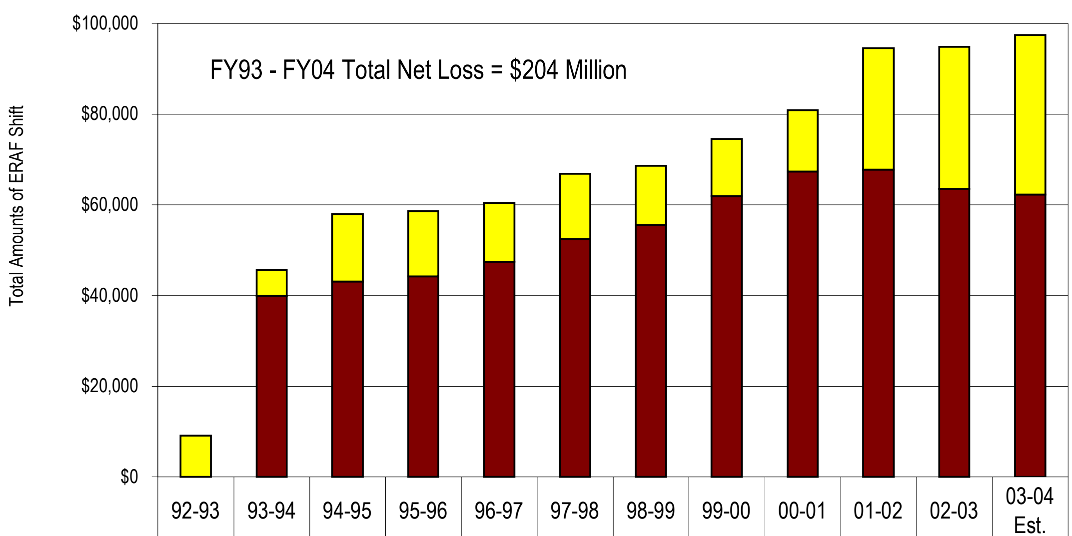
GENERAL FUND DEFICIT
FY 2004-05 through FY 2006-07

	Fiscal Year 2004-05		Fiscal Year 2005-06		Fiscal Year 2006-07	
BUDGET DEFICIT SUMMARY	**One-Time**	**Ongoing**	**One-Time**	**Ongoing**	**One-Time**	**Ongoing**
State Budget - Funding Losses (ongoing)		$49,600,000		$49,600,000		$49,600,000
Salary and Benefits Increases-FY0405		21,517,575		21,517,575		21,517,575
Salary and Benefits Increases-FY0506				23,536,759		23,536,759
Salary and Benefits Increases-FY0607						15,000,000
Retiree Health Costs (ongoing)		900,000		2,700,000		2,700,000
Retirement Cashout-Terminal Pay	4,650,000		2,000,000			
Medical Center Deficit	3,000,000					
Subtotal	7,650,000	72,017,575	2,000,000	97,354,334	0	112,354,334
TOTAL DEFICIT ONE-TIME AND ONGOING		**$ 79,667,575**		**$ 99,354,334**		**$ 112,354,334**

Impact of Governor's Budget Proposal

The Board was provided with a preliminary analysis of the Governor's January budget proposal at its January 13 meeting. We will continue to provide the Board with updates throughout the budget process. The most significant financial impacts to local government would be the continuation of the $1.3 billion loss created by the 90-day VLF gap, which is estimated at $12 million in the current year for our General Fund; and the Governor's proposal to shift $1.3 billion or 24% more property tax to the Education Revenue Augmentation Fund (ERAF), estimated at $24 million for our General Fund. This would be in addition to existing transfers of over $97.5 million annually to ERAF, $810 million total to date since the shift began in 1992. No allocation methodology has been formally developed for this $1.3 billion statewide shift. However, if the Governor's proposal is approved, the County would shift more in property taxes to the schools than it keeps for County services. The graph below shows the historical loss of property tax to ERAF, net of Public Safety Sales Tax (Proposition 172) revenue.

Net Loss in Property Tax Revenue ERAF Shift net of Public Safety Sales Tax Receipts (In Thousands)



	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04 Est.
Net Property Tax Loss	9,177	5,652	14,902	14,383	13,000	14,401	13,081	12,657	13,538	26,810	31,267	35,136
Prop 172 Revenue	0	39,953	43,093	44,278	47,491	52,500	55,610	61,936	67,366	67,790	63,604	62,321

Vehicle License Fee (VLF) Update

There are two portions of VLF that are currently budgeted in the General Fund: Non-Realignment VLF and Health Realignment VLF. Non-Realignment VLF, which was budgeted in Non-Departmental at $46 million annually, including backfill, is a discretionary general purpose revenue source which is used to support General Fund operations. Realignment VLF was budgeted at $14 million, with approximately 80% budgeted in the General Fund contribution to the Medical Center and 20% in Health Services (Public Health and Correctional Health). The following provides background and update on these revenues:

1. As part of preparing the County budget for FY 2003-04, a worst-case assumption was made that the backfill for Non-Realignment VLF would not be received during the year, and that General Fund reserves would be used to address this estimated $33 million shortfall. There were no assumptions made at the time regarding loss of backfill related to Realignment VLF since there was legislation being proposed to keep Realignment VLF whole.
2. The State pulled the VLF "trigger" on June 20 stating that there were insufficient funds for the VLF backfill to local government agencies. This increased VLF fees for car owners to pre-backfill levels, but with an effective date of October 1. This 90-day "gap" created a $1.3 billion shortfall statewide in the current fiscal year because no VLF backfill payments were made to local governments during this time period. This represents a loss of about $9 million in Non-Realignment VLF, including a portion for make-up payments toward Realignment VLF discussed in the next section.
3. Legislation was approved for Realignment VLF (AB 1752) which was supposed to make up this 90-day gap by increasing the realignment share of VLF revenues, with the money coming from Non-Realignment VLF allocations. While it was expected that the Realignment accounts would be made whole in the first quarter based on AB 1752, actual receipts have been lower. According to the State Controller's Office, this is most likely due to the higher than projected gap and the fact that payments from DMV have been lagging. We have been reassured that counties will receive their full VLF Realignment allocations this year. Given the paucity of information about how make-up payments will occur, and based on receipts year to date, a worst case scenario is that we will have a shortfall of $3 million in VLF Realignment revenues.
4. The Governor has since issued Executive Orders in November and December repealing the increase in VLF fees and ensuring the availability of funds for VLF backfill to local governments retroactive to October. Non-Realignment VLF receipts in January included the November backfill payment. The State Controller's Office has reassured us that, barring further changes made by the Administration, they should be catching up on October backfill payments once they receive all the necessary information from DMV.
5. Given the information above, estimated Total VLF shortfall in the current year is $12 million, which is significantly less than the original budget assumption of $33 million. The difference of $21 million will be restored to Fund Balance and used to balance next year's budget.

Negotiated Salary and Benefits Increases and Other Benefits Increases

As shown in the deficit summary, net General Fund costs related to increases in Salaries and Benefits in FY 2004-05 are $21.5 million. This includes wage increases, enhanced retirement and other increases to retirement contribution rates and other employee benefits.

Additional Retirement Costs – Terminal Pay and Retiree Health

The County currently has over 1,000 employees, almost 20% of the County workforce, who are eligible to retire (age 50 with 10 years of service). Over 600 of these employees are at least 55 years of age with 10 years of service. The deficit includes assumptions for costs that will be incurred when employees retire, including cashout of eligible leave balances (terminal pay) and County contributions to retiree health costs.

Liability for Compensated Absences

In preparing the County's financial statements for last fiscal year, the Controller's Office identified over $79 million in liabilities associated with compensated absences for all County employees. The $79 million represents the cash-equivalent of current balances in vacation, comp time, holiday and other types of leave that can be cashed out by an employee upon retirement or separation from the County (terminal pay) or, in the case of sick leave balances, converted to cover monthly retiree health premium payments. Estimates have been included in the General Fund deficit calculation using assumptions for anticipated number of employee retirements. These balances will be reviewed annually during the budget development process to determine the level at which these costs should be budgeted or reserved.

Substance Abuse and Crime Prevention Act – SACPA (Proposition 36)

During the first five months of FY 2003-04, San Mateo County's Prop. 36 expenditures grew to a level not sustainable with available funding. An analysis of program expenditures in July revealed that the expenditure rate at that time would result in annual expenditures of $4.7 million while available funds totaled $2.4 million (FY 2003-04 allocation of $1.9 million plus $500,000 in unspent FY 2002-03 roll-over funds). As a result, the Prop. 36 Implementation Committee has developed a plan to align the delivery of services with existing resources. The primary reason for the overrun is that many of the clients had much more severe treatment issues than anticipated by the legislation, requiring costly treatment modalities, most notably intensive out-treatment and residential treatment services. Based on anticipated spending through December 31, it was determined that there would be approximately $290,000 left from existing funds to address the needs of new clients entering the system January 1, 2004. The Committee was able to develop a plan that provides low-level, outpatient treatment to all clients through FY 2003-04 using the remaining balance of $290,000 and $200,000 from County Reserves. The plan is as follows:

- All existing clients in the old model will graduate out of the system by January 31; this will save the Prop. 36 budget approximately $90,000 (this is part of the $290,000 noted above).
- Effective January 1, all clients – beginning with those that haven't been referred to treatment yet, will enter the program under the new Model 2 design, as follows:
  - two individual counseling sessions – one hour intake and a half-hour exit
  - 12 weekly group treatment meetings
  - uniform curriculum to be developed with treatment providers
  - other self-help meeting attendance as ordered by the Court
  - depending on ability to pay, a court-ordered co-pay from clients to providers to cover unfunded costs
  - program compliance/non-compliance criteria to be determined
- The Probation Department would retain three of four Deputy Probation Officers to provide enforcement component (court reports, random testing, etc.) until June 30.
- The Human Services Agency (HSA) would retain an Alcohol and Drug Coordinator to provide program oversight (facilitate regular meetings and liaison with Departments and Providers, monitor data gathering, facilitate state reporting, monitor program expenditures, etc.). HSA would forgo funding for clinical assessments and miscellaneous Services and Supplies beginning January 1.
- A workgroup represented by Probation, HSA, County Manager's Office and Providers will evaluate the new model over the next six months, develop proposals for the FY 2004-05 Prop. 36 treatment model and report back to the Implementation Team on operations, outcomes and financial status.
- The Recommended Budget for FY 2004-05 will be at no Net County Cost.

Risk Prevention Program Review

The review of the Risk Prevention Program, a school-based juvenile diversion program administered by the Probation Department, is currently underway. The study will look at community need and program performance as well as comparable programs in other counties. Results will be presented to the Board as a part of the May Recommended Budget. This program has a Net County Cost of $1 million and is being provided above Proposition 172/Public Safety Sales Tax maintenance-of-effort requirements.

Youth Services Center

The County sold $155.4 million in lease revenue bonds in November to fund the building of the Youth Services Center. The General Fund was reimbursed for the $6.5 million it advanced from Reserves for planning and design services provided by Turner Construction. These funds have been set aside in the Debt Service Fund for future debt service payments estimated at $5.8 million in FY 2006-07 and $9 million in subsequent years. It is expected that grant revenue, reimbursements and funding from various sources will contribute to construction and debt service payments.

DISCUSSION OF BUDGET SOLUTIONS

The General Fund deficit is projected to grow from $79.7 million to $112.4 million by FY 2006-07 if there is no action taken to balance the budget. This worst-case scenario includes $49.6 million in ongoing loss of State funding and additional transfers of property tax revenue to ERAF. It also includes negotiated salary and benefits increases and other costs related to the retirement of employees, as well as an estimated $3 million year-end deficit in the Medical Center. To address the deficit over the next three years, the following approach is recommended:

- Spend down General Fund Contingencies and Reserves in the first two years
- Maintain a 3% balance for contingencies and another 3% for General Fund reserves ($47 million total)
- Provide ongoing solutions to the entire deficit by FY 2006-07

Countywide Solutions

- **General Revenue Growth** - Given historical revenue patterns (adjusted for one-time events) and available forecasts for local and state economic data, a slight increase in general purpose revenues is projected in FY 2004-05 followed by moderate increases in growth ranging from 3.6% in FY 2005-06 to 5.7% in FY 2008-09. General revenue growth should average $13.6 million or 4.4% annually over the next five years.

- **Ongoing Reduction in Salaries and Benefits** – it is recommended that a combination of the following solutions be implemented to bring ongoing salaries and benefits costs in line with available funding:
  - **Mandatory Time Off (MTO)** – MTO at 4% or 83.2 hours per employee would generate $9.5 million in savings. This option would need to be negotiated with represented bargaining units. Although savings are not anticipated from 24-hour/7-day operations such as the hospital, jail and juvenile hall, these departments would be given a salary savings target to generate overall savings for the County. Because MTO reduces the number of paid work hours, thereby reducing salaries and the level of retirement annuity received, those employees who commit to retirement within a specified timeframe will be exempt from MTO.
  - **Voluntary Time Off (VTO)**
  - **Selective elimination of vacancies**
  - **Layoffs**
  - **Negotiation of new salary schedules and retirement benefits be used to bring ongoing salary and benefit costs in line with available funding.**

- **Use of Reserves** – This provides a short-term solution until ongoing solutions are put in place by FY 2006-07.

- **No Increases to Internal Service Charges –** Departments such as Information Services (ISD), Employee and Public Services (EPS), Food and Nutrition Services and Public Works that provide services to other County departments have been directed to keep overall service charges flat in FY 2004-05. These departments will need to absorb more than $2 million in negotiated labor increases and other operating increases that would otherwise be charged to customers.

Options for Departmental Solutions

- **Elimination of Vacant Positions –** As of January 6, the County has 562 vacant positions. In a previous analysis conducted with departments, it was determined that 30% of vacant positions were not exempt from the hiring freeze. These are positions that are not fully funded by revenues or not in an exempt category (public safety, emergency services). If all non-exempt positions were eliminated (168 positions), a savings of $14 million would be generated.

- **Reductions in Contractual Services** – A 4% Net County Cost reduction in contractual services will generate approximately $650,000 in savings based on a preliminary analysis conducted with General Fund departments. A 4% reduction in Medical Center contracts would generate additional savings of $1.3 million.

- **Reductions in Discretionary Services –** Discretionary Services are defined as those that are (1) mandated with no specified service levels or maintenance-of-effort (MOE) requirements, (2) provided at levels above MOE requirements (overmatch), or (3) non-mandated. These services are funded by discretionary general purpose revenue in the General Fund, such as property tax, non-Realignment vehicle license fees and sales tax. An analysis of these services was recently conducted with departments. Of the $164 million in general purpose revenue allocated to discretionary services, $20.4 million is for non-mandated services. These are listed in Attachment A. The remaining $144 million is allocated toward categories 1 and 2 above, or “unfunded mandates”. The most significant overmatch exists in Public Safety. A 10% reduction in discretionary services would generate $16.4 million in savings.

AGENCY	Total Net County Cost	Total Discretionary Amount	DISCRETIONARY CATEGORIES Non-Mandated	Mandated w/ Overmatch	Mandated w/no MOE
Administration and Fiscal	$22,067,552	$18,406,305	$2,315,066	$0	$16,091,239
Criminal Justice	77,466,760	74,485,117	2,232,599	70,413,344 *	1,839,174
Environmental Services	6,642,258	6,157,469	5,289,900	0	867,569
Public Works	444,896	422,910	143,076	0	279,834
Health Services	31,235,656	16,600,931	2,550,769	422,607	13,627,555
Contribution to Medical Center (Net County Cost includes all General Fund sources)	52,387,250	38,423,303	0	0	38,423,303
Human Services	19,890,709	9,513,041	7,863,041	150,000	1,500,000
Total Operating Departments	**$210,135,081**	**$164,009,076**	**$20,394,451**	**$70,985,951**	**$72,628,674**
Operating Distribution		**100.0%**	**12%**	**43%**	**44%**

* Calculation of the Public Safety Sales Tax (Proposition 172) MOE requirement is currently being reviewed to reconcile any overmatch with Net County Cost amounts budgeted in each Criminal Justice department.

- **Indigent Health Care Costs** – the General Fund currently contributes over $52 million toward Medical Center operations. This represents about 33% of the Medical Center’s operating budget. The County is mandated to provide indigent health care under Welfare and Institutions Code section 17000. Medical Center staff are preparing an analysis of existing utilization and costs related to indigent care for use in discussions to determine an appropriate level of General Fund contributions for these mandated costs. These discussions will take place during the department’s preliminary budget meeting in March.

SUMMARY OF BUDGET DEFICIT WITH RECOMMENDED SOLUTIONS

The following table summarizes the deficit and recommended solutions for the next three fiscal years. Implementing these solutions would meet the goals of maintaining a 3% appropriation for contingencies and a 3% General Fund reserve, as well as providing ongoing solutions to the deficit by FY 2006-07.

Summary
General Fund Deficit and Solutions
FY 2004-05 through FY 2006-07

	FISCAL YEAR 2004-05		FISCAL YEAR 2005-06		FISCAL YEAR 2006-07		Three-Year
	One-Time	Ongoing	One-Time	Ongoing	One-Time	Ongoing	TOTALS
BUDGET DEFICIT:							
State Budget - Funding Losses		49,600,000		49,600,000		49,600,000	148,800,000
Salary and Benefits Increases-FY0405		21,517,575		21,517,575		21,517,575	64,552,725
Salary and Benefits Increases-FY0506				23,536,759		23,536,759	47,073,518
Salary and Benefits Increases-FY0607						15,000,000	15,000,000
Retiree Health Costs (ongoing)		900,000		2,700,000		2,700,000	6,300,000
Retirement Cashout-Terminal Pay	4,650,000		2,000,000				6,650,000
Medical Center Deficit	3,000,000						3,000,000
Deficit Subtotal	7,650,000	72,017,575	2,000,000	97,354,334	0	112,354,334	291,376,243
TOTAL DEFICIT ONE-TIME AND ONGOING		**$ 79,667,575**		**$ 99,354,334**		**$ 112,354,334**	**$ 291,376,243**
							0
COUNTYWIDE SOLUTIONS:							0
General Revenue Growth (cumulative)		6,865,000		17,813,000		31,981,000	56,659,000
Ongoing Reductions in Salaries and Benefits *		9,540,000		9,921,600		10,219,218	29,680,818
Additional Fund Balance (ERAF and restore VLF)	45,800,000						45,800,000
Use of Existing Non-Deptl Reserves			29,732,000				29,732,000
DEPARTMENT SOLUTIONS:							0
Departmental Reductions FY04-05		21,517,575		21,517,575		21,517,575	64,552,725
Departmental Reductions FY05-06				21,236,759		21,236,759	42,473,518
Departmental Reductions FY06-07	0					22,478,182	22,478,182
Solutions Subtotal	45,800,000	37,922,575	29,732,000	70,488,934	0	107,432,734	291,376,243
TOTAL SOLUTIONS ONE-TIME AND ONGOING		**$ 83,722,575**		**$ 100,220,934**		**$ 107,432,734**	**$ 291,376,243**
BALANCE		**$4,055,000**		**$866,600**		**($4,921,600)**	$0
							0
Non-Departmental Contingencies and Reserves	**$ 76,725,161**		**$ 51,048,161**		**$ 51,914,761**		**$ 46,993,161**

* Combination of Mandatory Time Off (MTO), Voluntary Time Off (VTO), elimination of vacancies, layoffs, and negotiation of new salary schedules and retirement benefits to bring ongoing salary and benefit costs in line with available funding

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, transient occupancy tax and vehicle license fees:

- Bay Area Consumer Price Index (CPI)
- Housing Affordability Index
- Median Home Price
- Office Space Availability and Asking Rates per Square Foot
- Assessment Appeal Filings
- Building Permits Issued
- Unemployment Rate
- Emergency Room Visits
- Public Assistance Caseloads
- San Francisco International Airport – Total Passengers

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. Bay Area Consumer Price Index (CPI) is projected to grow this fiscal year by 0.9%, the lowest in more than ten years, down from 1.9% in FY2003. California CPI went from 2.6% to 1.6%, and national CPI from 2.2% to 2.0%. Projections beginning in FY2005 show a gradual climb, with Bay Area CPI projected at 1.1% by FY2006.

General CPI Fiscal Year	*Bay Area % Change*	*California % Change*	*U.S. % Change*
2006*	1.1%	2.7%	2.3%
2005*	0.9%	2.6%	2.1%
2004*	0.9%	1.6%	2.0%
2003	1.9%	2.6%	2.2%
2002	3.2%	3.0%	1.8%
2001	5.5%	4.3%	3.4%
2000	4.2%	3.1%	2.9%
1999	3.6%	2.5%	1.7%
1998	3.4%	2.0%	1.8%
1997	3.0%	2.3%	2.9%
1996	1.9%	1.4%	2.7%
1995	2.0%	1.7%	2.9%
1994	1.7%	1.8%	2.6%
1993	3.1%	3.2%	3.1%
1992	3.8%	3.6%	3.2%
1991	5.0%	5.3%	5.4%

Source: FY91 to FY03 Bureau of Labor Statistics.
*FY04 to FY06 CA Dept of Finance projections for CA and U.S.
Bay Area CPI, Governor's Budget Forecast November 2003.

Housing Affordability Index

The housing affordability index is the most fundamental measure of housing well-being in the state. Only 19% of households in the Bay Area can afford to purchase a median-priced home, down from 22% the previous year. At 18%, San Mateo County, along with San Francisco, Contra Costa, Monterey and Marin counties, was one of the least affordable counties in the state. In contrast, 38% of households can afford median-priced homes in Sacramento, although affordability in this area has dropped over the last year as well.

Housing Affordability by Region	*November 2002*	*November 2003*
California	30%	25%
United States	58%	57%
SF Bay Area	22%	19%
Sacramento	43%	38%
Santa Clara County	28%	27%
Monterey Region	19%	17%
Alameda	22%	20%
Contra Costa	14%	13%
San Francisco	14%	12%
Marin	18%	18%
San Mateo	**19%**	**18%**
San Joaquin	33%	n/a
Stanislaus	40%	n/a

Source: CA Association of Realtors

Median Home Price

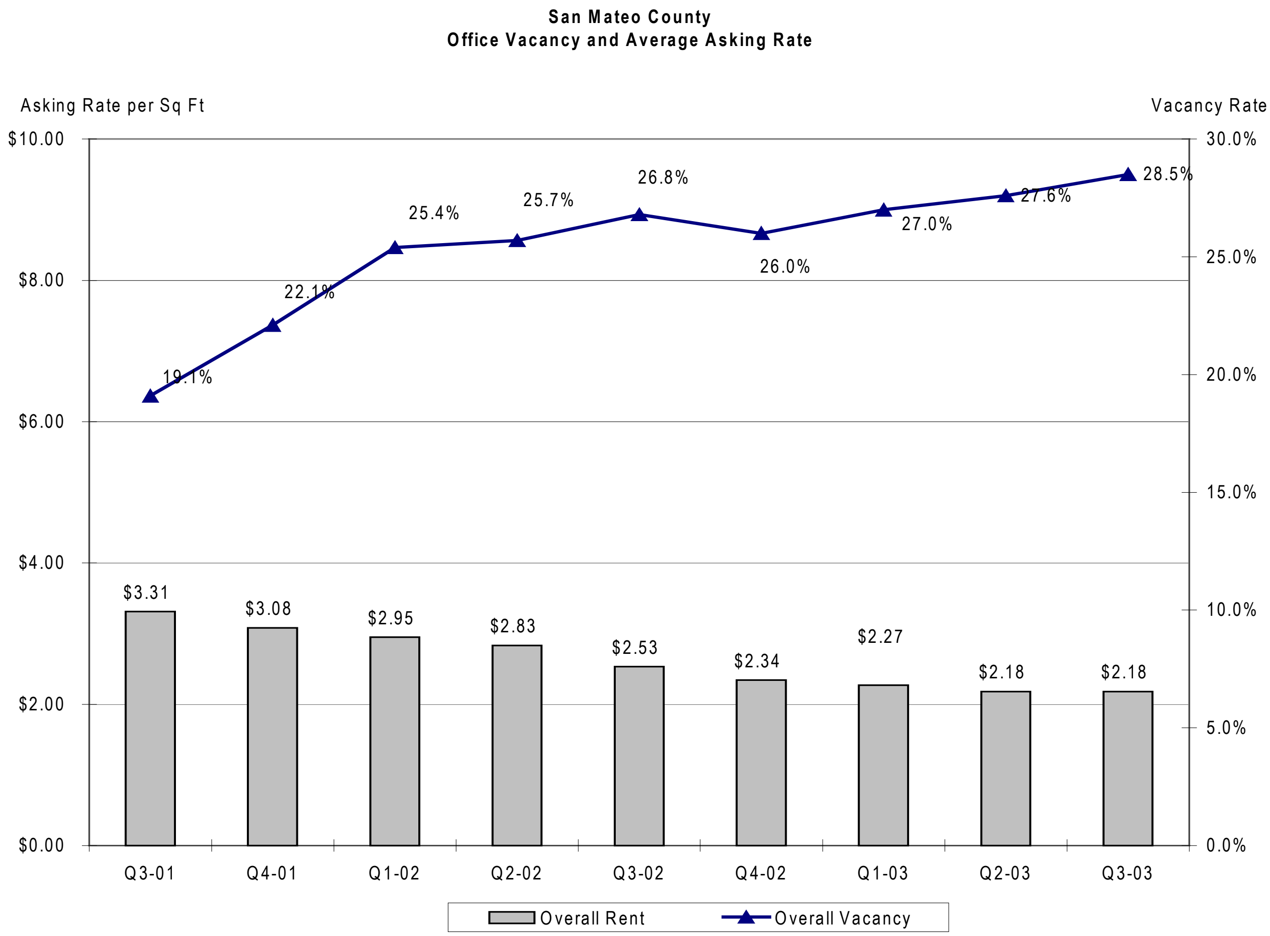
The median home price in the Bay Area climbed to $455,000 in November 2003, with San Mateo County increasing to $553,000. Prices of homes are rising in all parts of the Bay Area, up 9.4% from the previous year, with lower growth rates in San Mateo, San Francisco, Alameda and Marin counties. The number of homes sold was up 16.1% in the Bay Area in November 2003 compared to the same time last year. The California Association of Realtors anticipates that in 2004 the median price of single-family homes will continue to rise, however the number of sales will drop.

Median Home Price by County	*November 2002*	*November 2003*	*% Change*
Bay Area	416,000	455,000	9.4%
Alameda	407,000	423,000	3.9%
Contra Costa	352,000	404,000	14.8%
Santa Clara	446,000	487,000	9.2%
San Mateo	**522,000**	**553,000**	**5.9%**
San Francisco	568,000	573,000	0.9%
Marin	602,000	633,000	5.1%
Napa	398,000	480,000	20.6%
Solano	291,000	322,000	10.7%
Sonoma	342,000	412,000	20.5%

Source: DataQuick Information Systems www.dqnews.com/RRBay1203.shtm

Office Space Availability

Vacancy rates in the San Mateo County office market continue to rise, while asking prices continue to decline from a high of $6.75 per square foot at the end of 2000 to $2.18 in the third quarter of 2003. The Bay Area vacancy rate was at 28.5% during the third quarter. San Mateo County saw the largest increase in vacancy rates during the quarter than any other county in the Bay Area. The highest office vacancy rates in the county are in South San Francisco (51%), Redwood City (47.9%), Brisbane (31.8%), Menlo Park (31.8%), San Carlos (30.5%) and Belmont (30.5%). There are only three cities with vacancy rates below 20%, including Daly City (11.6%) Burlingame (16.7%) and San Mateo (19.8%). From a revenue perspective, the drop in the number of businesses and employees occupying office space in the county due to the downturn in the economy will result in reduced levels of various tax revenues.

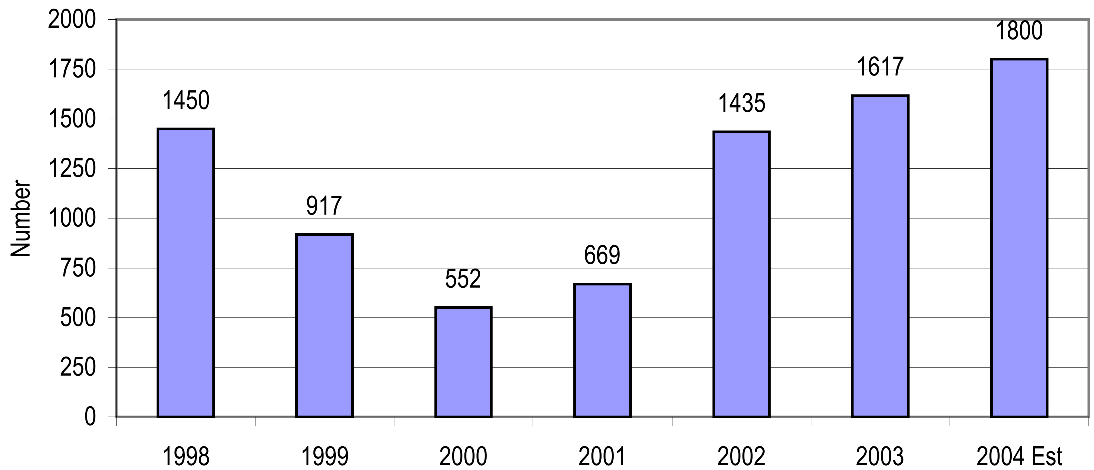


Source: BT Commercial Real Estate

Assessment Appeals Filings

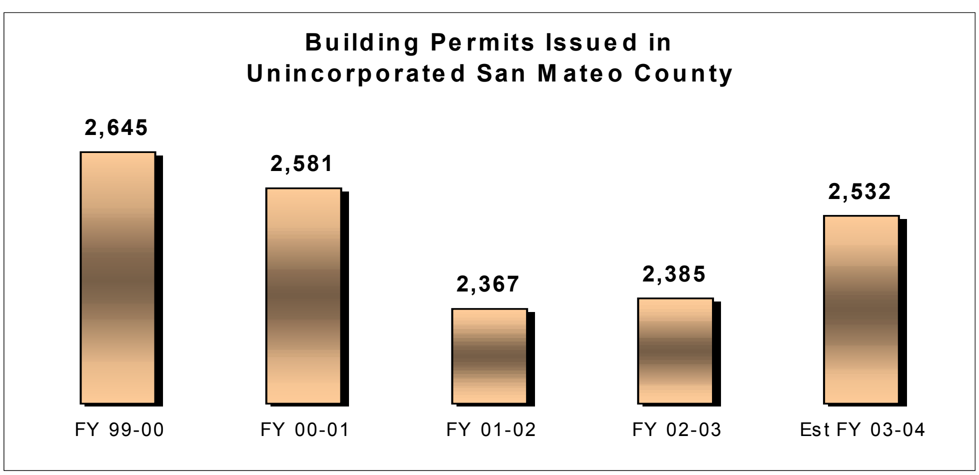
The were 1,617 assessment appeals filed with the Assessment Appeals Board as of December 2003. It is expected that the final number of filings in FY 2003-04 will be about 1,800, slightly higher than the previous year. The increase in number of filings could result in reductions in assessed values of property, which negatively affects property tax revenue for the County.

San Mateo County
Assessment Appeals
Filings FY 1998 to FY 2004 Estimate



Building Permits

It is estimated that the number of permits issued by the end of this fiscal year will be 6% higher than last year. While the number of permits is expected to increase, a corresponding increase in revenue is not anticipated, as the type of permits currently being processed has changed and are primarily for improvements to existing structures, rather than new structures, which generate higher revenues. Additionally, a high number of permit applications were filed prior to the implementation of the fee increases this fiscal year. These permits have fees calculated at substantially lower rates and will be issued based on fees in effect at the time of application.

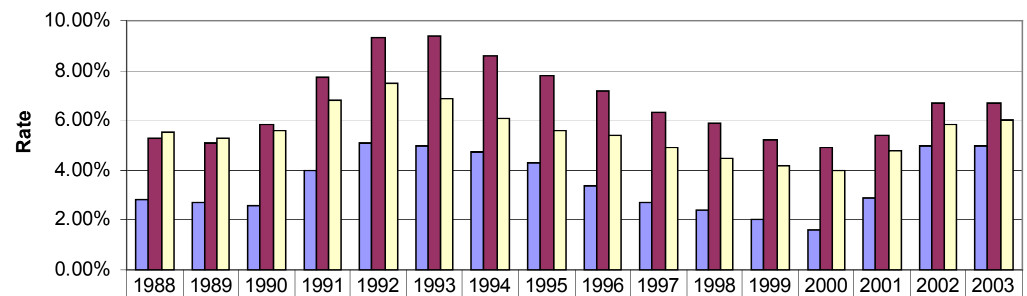


Source: San Mateo County Planning Department

Unemployment Rate

The latest unemployment figures show signs of leveling off. The unemployment rate in the County averaged 5.0% in 2003, the same rate as 2002. The County's rate remains one of the lowest in the state (5th lowest).

San Mateo County Unemployment (Annual)



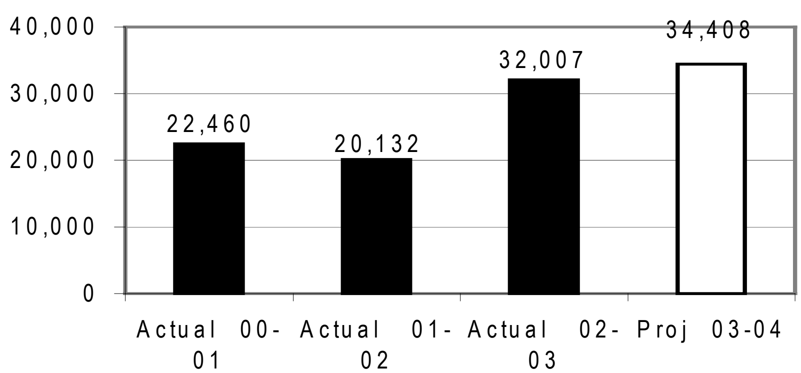
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
San Mateo	2.8%	2.7%	2.6%	4.0%	5.1%	5.0%	4.7%	4.3%	3.4%	2.7%	2.4%	2.0%	1.6%	2.9%	5.0%	5.0%
California	5.3%	5.1%	5.8%	7.7%	9.3%	9.4%	8.6%	7.8%	7.2%	6.3%	5.9%	5.2%	4.9%	5.4%	6.7%	6.7%
U.S.	5.5%	5.3%	5.6%	6.8%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%

Source: CA Employment Development Department

Emergency Room Visits

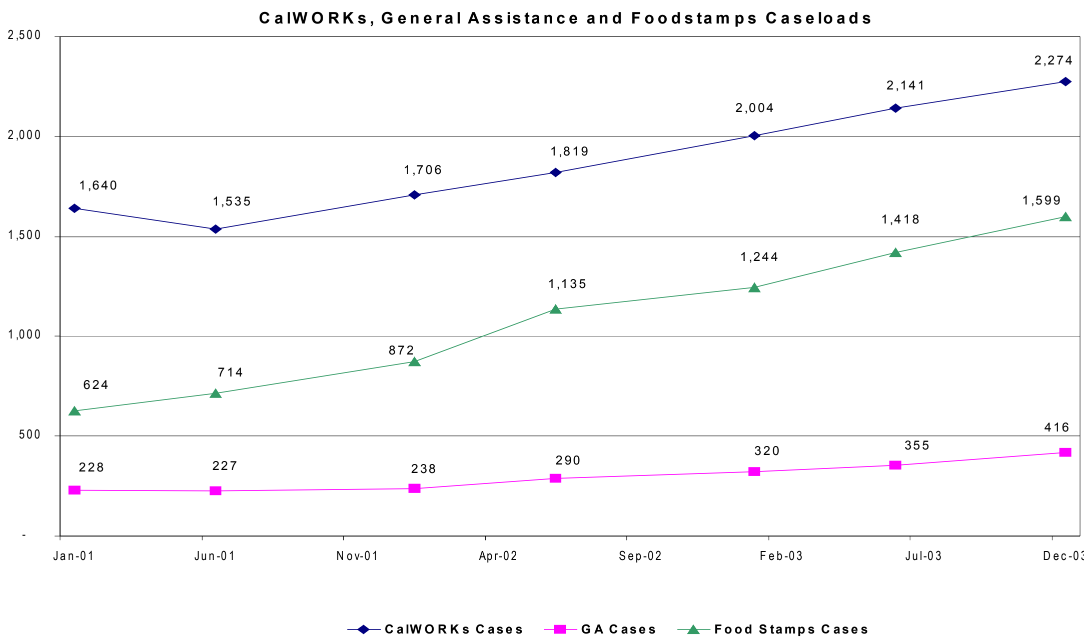
Largely reflecting increased unemployment and the corresponding loss of health benefits associated with the recent economic downturn, ER visits at the San Mateo Medical Center (SMMC) have increased dramatically, going up by 43% over the past two fiscal years—from 22,460 to 32,007. SMMC estimates this trend will continue in FY 2003-04 with a projected total of 34,408 visits, which represents a 7.5% increase from the prior year.

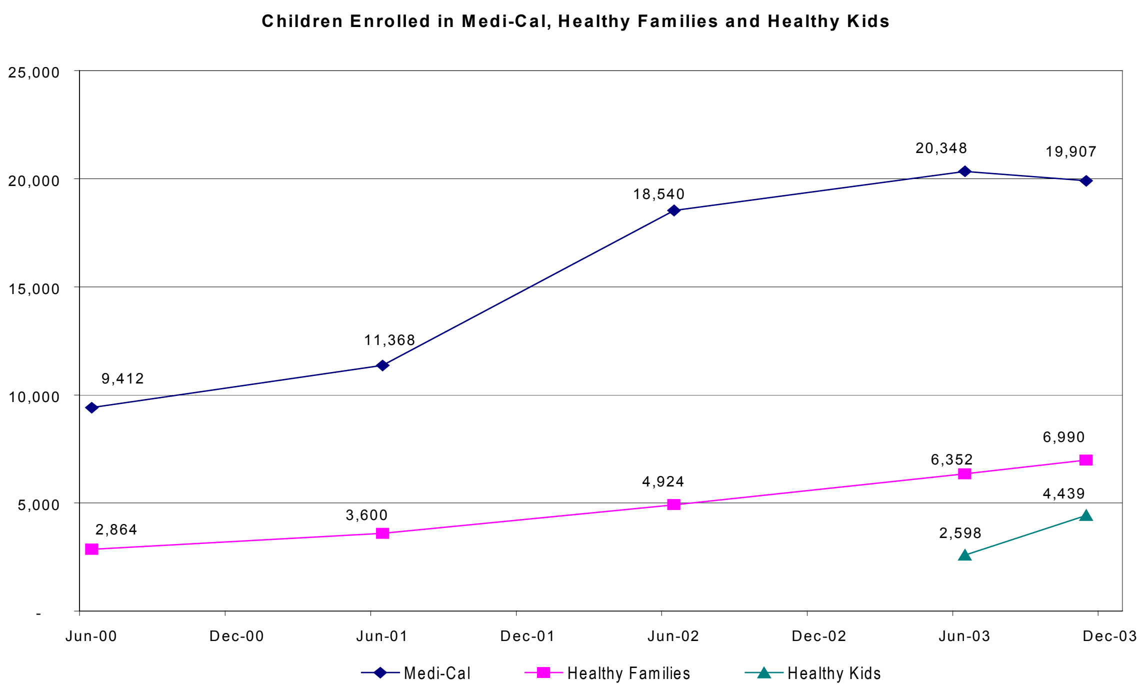
SMMC Emergency Room Visits



Public Assistance Caseloads

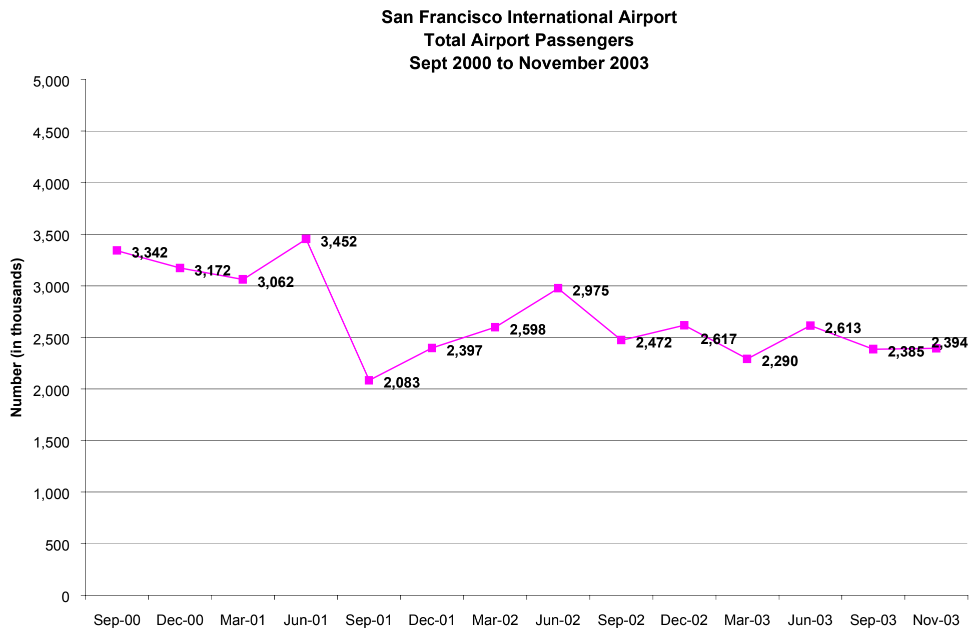
Caseload data shows continued increases in CalWORKS, General Assistance and Food Stamps. The number of children enrolled in Healthy Families and Healthy Kids are up, while enrollments in Medi-Cal are down. This could indicate that more families are earning too much to qualify for Medi-Cal but can be enrolled in Healthy Families or Healthy Kids which have higher income thresholds for eligibility.





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. The total number of passengers arriving and departing from the airport fell drastically in September 2001. Two years later, passenger activity has increased by 14.5%, still significantly lower than pre-September 2001 levels. More recent data for November 2003 indicates a 5% increase from the previous year, the first sign of a favorable trend in all of 2003.



Source: San Francisco Airport Media Office

HISTORICAL AND CURRENT YEAR GENERAL REVENUE TRENDS

The table below shows historical receipts in general revenue and Public Safety Sales Tax. Average annual growth was $10.9 million or 4.9% in the last five years. It is anticipated that the next five fiscal years will generate more moderate growth, averaging $13.6 million or 4.4% annually.

Revenue Source (Dollars In Thousands)	*FY99-2000 Actual*	*FY00-01 Actual*	*FY01-02 Actual*	*FY02-03 Actual*	*FY03-04 Estimate*	*Average Annual Growth*
AMOUNTS RECEIVED:						
Secured Property Tax	$89,037	$97,694	$110,468	$113,247	$120,861	$7,906
Unsecured Property Tax	9,878	11,536	12,200	12,437	12,313	597
Half-Cent Public Safety Sales Tax	61,936	67,366	67,790	63,604	62,321	1,341
Sales and Use Tax	15,665	18,243	14,598	14,332	13,139	21
Transient Occupancy Tax	540	766	666	590	611	57
Motor Vehicle License Fees	40,934	44,814	45,658	49,713	35,436	(172)
Other Revenue	25,101	35,257	34,509	35,339	24,980	1,212
TOTAL	**$243,090**	**$275,677**	**$285,889**	**$289,262**	**$269,660**	**$10,960**
GROWTH RATES:						
Secured Property Tax	9.5%	9.7%	13.1%	2.5%	6.7%	8.3%
Unsecured Property Tax	5.9%	16.8%	5.8%	1.9%	-1.0%	5.9%
Half-Cent Public Safety Sales Tax	11.4%	8.8%	0.6%	-6.2%	-2.0%	2.5%
Sales and Use Tax	20.2%	16.5%	-20.0%	-1.8%	-8.3%	1.3%
Transient Occupancy Tax	64.4%	41.9%	-13.1%	-11.4%	3.6%	17.1%
Motor Vehicle License Fees	12.8%	9.5%	1.9%	8.9%	-28.7%	0.9%
Other Revenue	32.7%	40.5%	-2.1%	2.4%	-29.3%	8.8%
TOTAL % Change from Prior Yr	**13.1%**	**13.4%**	**3.7%**	**1.2%**	**-6.8%**	**4.9%**

* Includes interest earnings, interfund revenue transfers, miscellaneous reimbursements and revenue that can fluctuate from year to year.

FIVE-YEAR FY 2005-09 GENERAL REVENUE PROJECTIONS

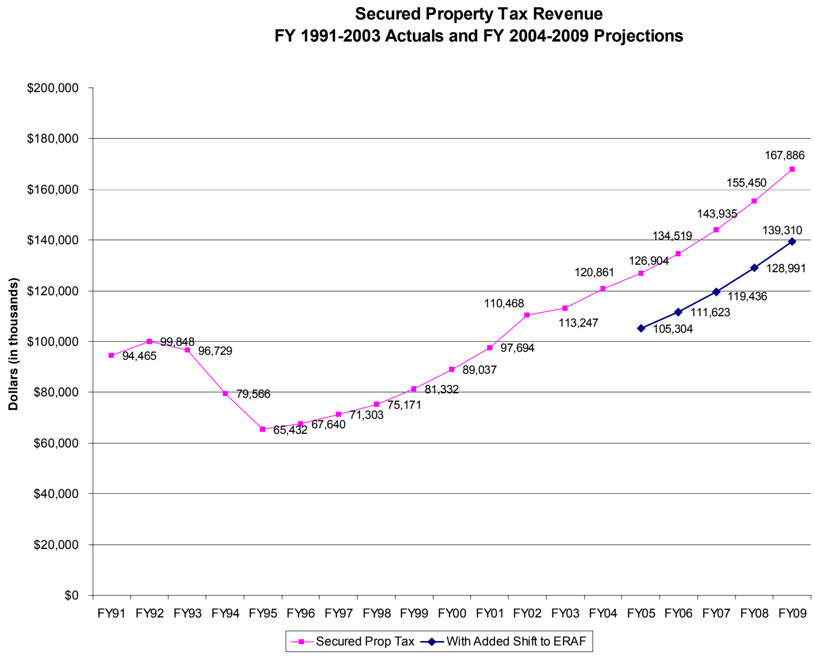
Given historical revenue patterns (adjusted for one-time events) and available forecasts for local and state economic data, a slight increase in general purpose revenues is projected in FY 2004-05 followed by moderate increases in growth ranging from 3.6% in FY 2005-06 to 5.7% in FY 2008-09. The table below shows that general revenue growth should average $13.6 million or 4.4% annually for the next five years. Following the table is a summary of factors that have significant influence on these revenue projections.

Revenue Source (Dollars In Thousands)	*FY04-05 Projected*	*FY05-06 Projected*	*FY06-07 Projected*	*FY07-08 Projected*	*FY08-09 Projected*	*Average Annual Growth*
AMOUNTS RECEIVED:						
Secured Property Tax *	$126,904	$134,519	$143,935	$155,450	$167,886	$9,405
Unsecured Property Tax *	12,436	12,684	13,065	13,457	13,861	310
Half-Cent Public Safety Sales Tax	65,301	66,868	69,543	73,716	78,139	2,535
Sales and Use Tax	13,533	13,939	14,496	15,221	15,982	569
Transient Occupancy Tax	630	648	668	688	709	19
Motor Vehicle License Fees	46,969	47,908	48,867	49,844	50,841	959
Other Revenue **	24,896	24,603	24,325	24,238	24,156	(165)
TOTAL	**$290,668**	**$301,170**	**$314,899**	**$332,614**	**$351,573**	**$13,631**
GROWTH RATES:						
Secured Property Tax *	5.0%	6.0%	7.0%	8.0%	8.0%	6.8%
Unsecured Property Tax *	1.0%	2.0%	3.0%	3.0%	3.0%	2.4%
Half-Cent Public Safety Sales Tax	-0.3%	2.4%	4.0%	6.0%	6.0%	3.6%
Sales and Use Tax	3.0%	3.0%	4.0%	5.0%	5.0%	4.0%
Transient Occupancy Tax	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Motor Vehicle License Fees	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Other Revenue **	-0.3%	-1.2%	-1.1%	-0.4%	-0.3%	-0.7%
TOTAL % Change from Prior Yr	**2.6%**	**3.6%**	**4.6%**	**5.6%**	**5.7%**	**4.4%**

* Does not include Governor's January budget proposal that would shift additional property tax to schools (ERAF).
** Includes interest earnings, interfund revenue transfers, miscellaneous reimbursements and revenue that can fluctuate from year to year.

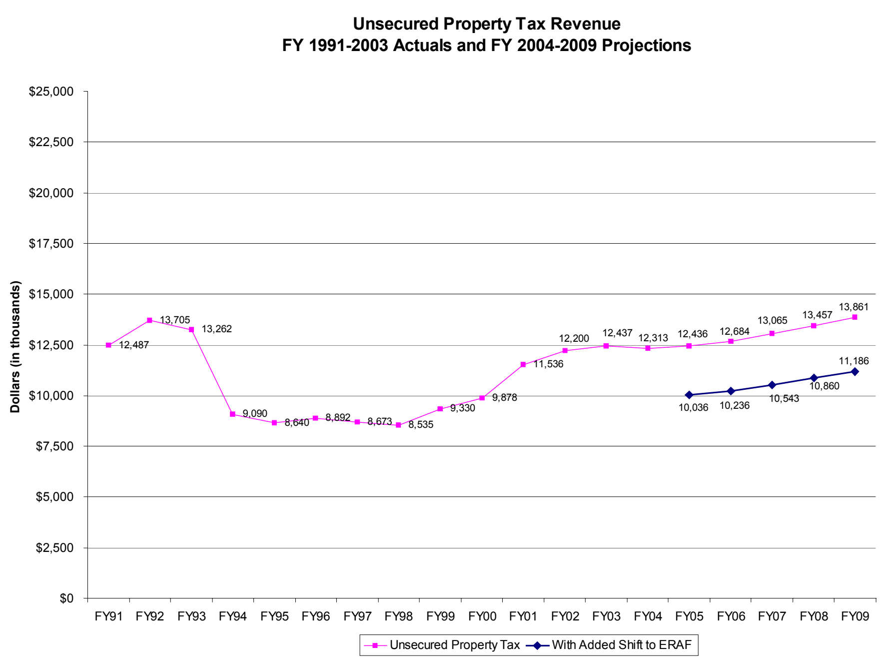
Secured Property Tax

This is our County's largest discretionary General Fund revenue source. Average secured property tax growth in the last five years was 8.3%, while projections for the next five years reflect $9.4 million or 6.8% average annual growth, assuming no additional shifts to ERAF. Another line has been added to the graph below to reflect the level of revenues projected using the assumption of a 24% increase to existing ERAF transfers. This additional shift would reduce this revenue source down to FY 2001 levels, wiping out four years of growth.



Unsecured Property Tax

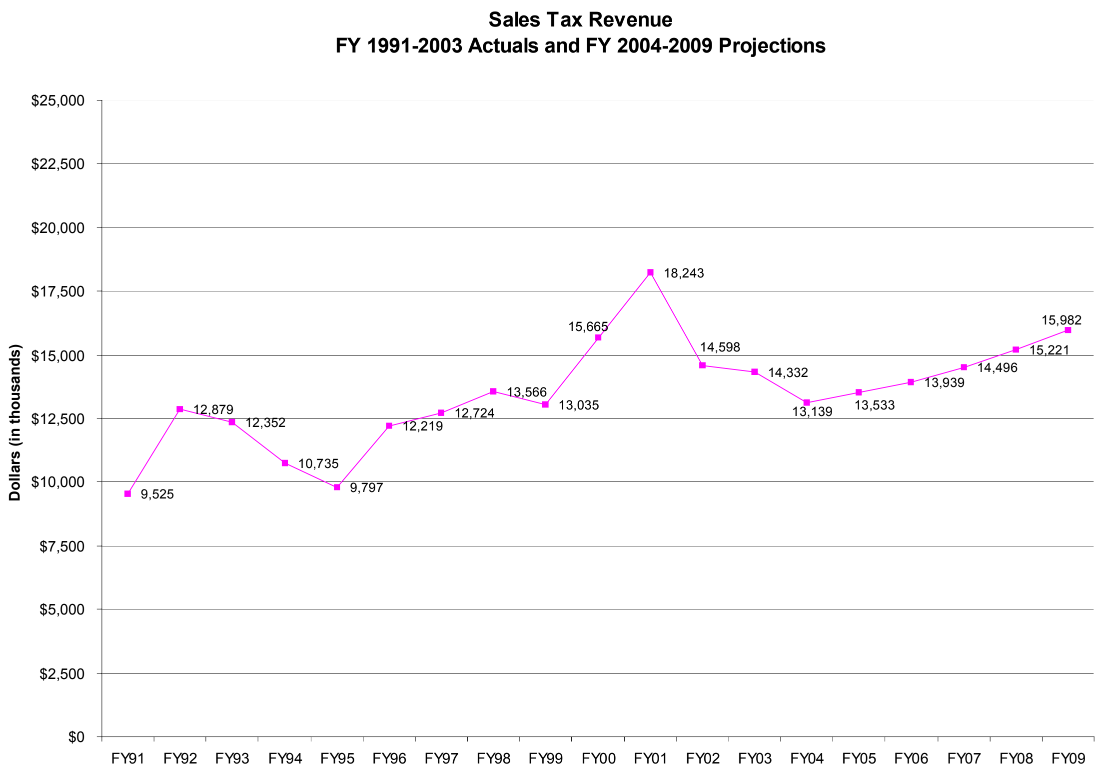
About 90% of unsecured property tax is generated from businesses at the San Francisco International Airport. Average growth in the last five years was 5.9%, primarily due to the construction of the new international terminal. Projections for subsequent years are moderate, with average growth of 2.4%. Additional ERAF transfers would reduce this revenues source to FY 2000 levels, wiping out five years of growth.



General Purpose Sales Tax (Non-Public Safety)

Sales tax receipts as of December were flat compared to last year. This indicates an overall improvement given that this revenue source was down by 10.1% this time last year, and down 20% the year before that. There is a one-quarter lag between the time a sales transaction takes place and the time taxes are collected and reported by the State Board of Equalization. We will be monitoring fiscal third quarter receipts closely as they reflect sales from the October to December holiday sales period, and should also reflect the loss of jet fuel sales to the city of Oakland. Average growth in the last five years was 1.3%. Growth in the range of 3-5% is projected beginning FY 2004-05.

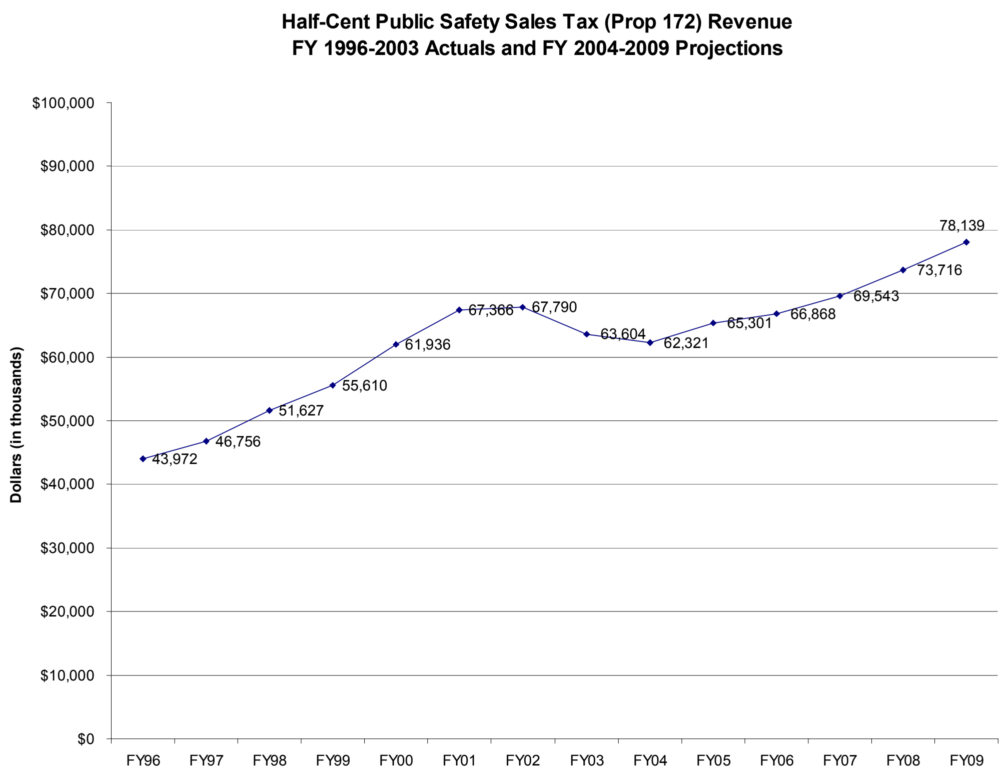
Approximately 60% of the County's sales tax revenue comes from point-of-sale transactions or sales occurring in businesses located in the unincorporated areas of the county; the remainder comes from a portion of sales tax generated in the cities. About 45% of point-of-sale revenues ($5 million annually) comes from businesses at San Francisco Airport, mostly from car rental agencies and jet fuel. Any decline in sales tax will have a negative impact on Public Safety Sales Tax revenue.



Public Safety Half-Cent Sales Tax (Proposition 172)

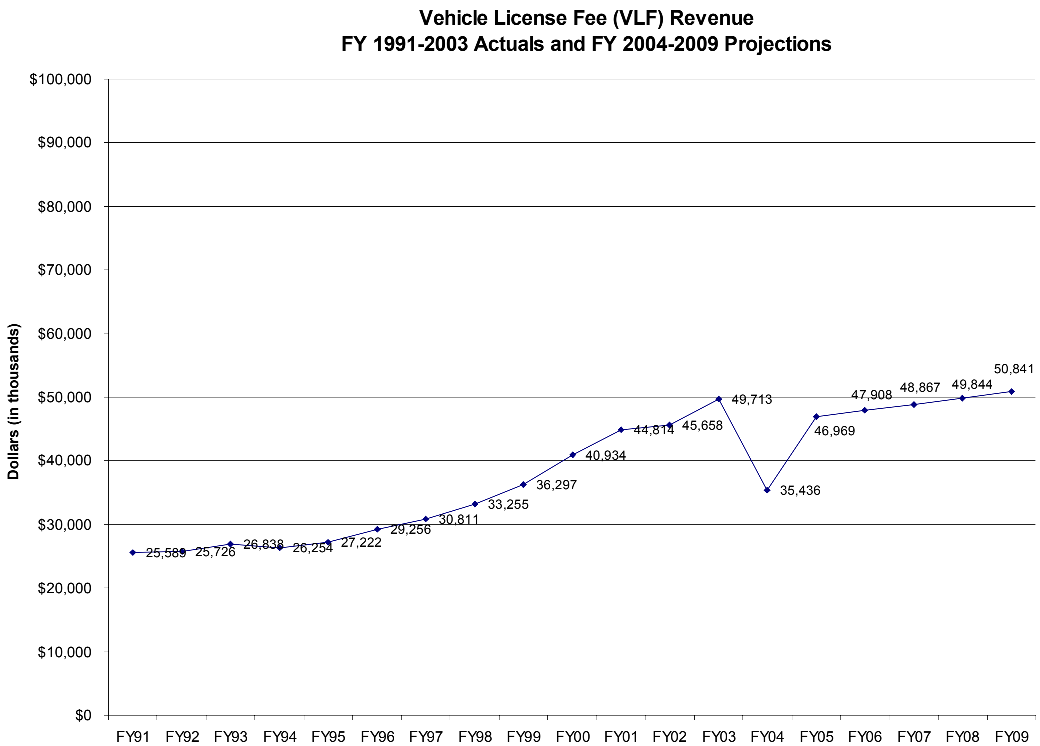
Current fiscal year receipts from this revenue source are down 3.7% through December compared to last year. A drop in our factor (from 2.92% to 2.64% of statewide taxable sales) and shortfall in this revenue were anticipated this year. Remaining reserves balances in the Public Safety Sales Tax Trust Fund will be used to cover this shortfall. Average growth for the last five years was 2.5%. We expect receipts to grow in subsequent years given projected growth in both county and statewide taxable sales. This revenue has been the primary funding source of negotiated labor increases in Criminal Justice departments such as the Sheriff, Probation, District Attorney and Coroner.

The County began receiving revenue from this tax in FY 1993-94 after the ballot initiative passed. Approximately 27% of Criminal Justice and 41% of Public Safety Communications expenditures are funded by this sales tax, which is distributed to the County based on its portion of statewide taxable sales.



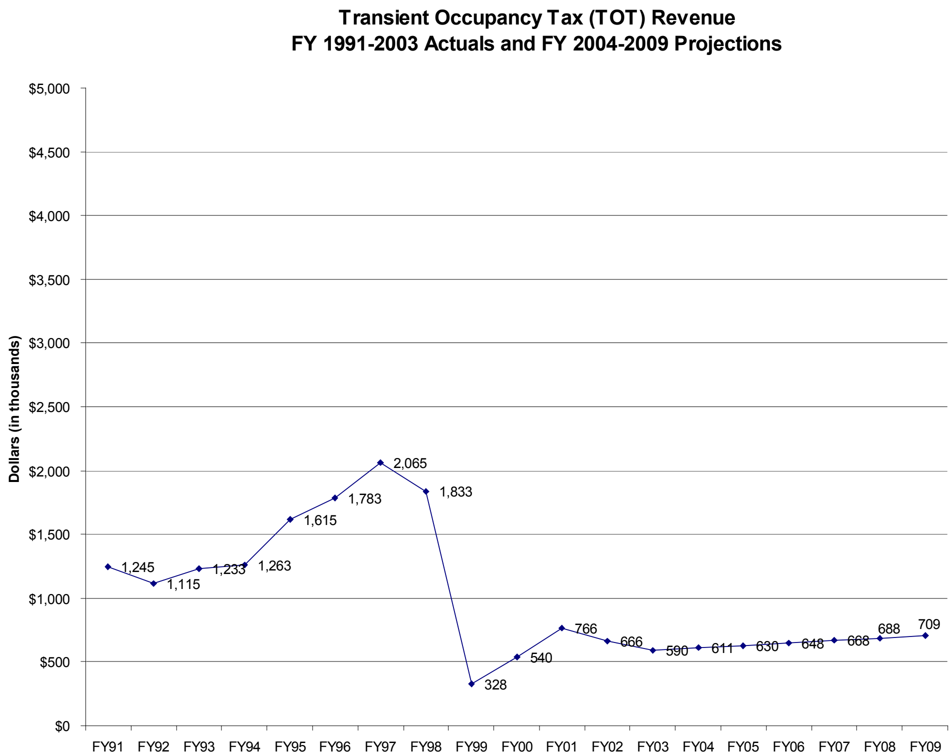
Vehicle License Fees (Non-Realignment VLF)

A VLF update has been provided in the Major Budget Issues section of this report. Current fiscal year receipts from this revenue source are down by 55.1% from last year, primarily due to the 90-day backfill "gap" and the delay in receiving catch-up backfill payments from the State Controller's Office. It is anticipated that the total General Fund VLF loss will be $12 million in the current year as reflected in the graph below, which has been addressed in the budget by utilizing reserves. The Governor's proposed budget contains VLF backfill for FY 2004-05. Assuming that we will receive base plus backfill next year, a cautious annual growth rate of 2% has been included in revenue projections from this source.



Transient Occupancy Tax (TOT)

Current fiscal year receipts from this revenue source are flat compared to last year. This indicates an improvement compared to last year when TOT receipts were down by 10.9% from the prior year. Average growth for the last five years was 17.1%, primarily due to the opening of the Costanoa Lodge and Camp in the unincorporated coast. We project moderate growth at 3% annually over the next five years.



ATTACHMENTS

ATTACHMENT A: Non-Mandated Services

ATTACHMENT A
Non-Mandated Services

ID	Department	Budget Unit/ Program Name	Total Net County Cost	Total Discretionary Amount *	NON-MANDATED	Comments on Non-Mandated Services
3930P	Environmental Services Agency (ESA)	Parks and Recreation - Operations and Maintenance	4,765,897	4,765,897	4,765,897	Includes maintenance of parks facilities, visitor services, interpretation, habitat management and restoration, trail maintenance and construction, landscaping, vegetation management, and medical, fire and law enforcement response for all County Parks.
	Human Services Agency (HSA)	HSA Family Strength	10,873,739	5,813,509	4,163,509	Non-mandated services: safety net services and homeless shelters ($930,000), county contribution to seven small child care contracts ($145,000) alcohol and drug treatment services ($2 mil), respite care for families of youth charged with a juvenile crime ($70,000), Receiving Home and other services to children and families in foster and adoptive homes ($1 mil);
	Human Services Agency (HSA)	HSA Community Capacity	3,430,790	3,430,790	3,430,790	Non-Mandated includes Core Services Agencies ($460,000), tobacco prevention services ($80,000), foster care recruitment and licensing costs ($80,000), and Family Resource Centers ($2.8 mil).
3285P	Probation Department	Camp Glenwood	1,860,498	1,860,498	1,860,498	The camp provides the most cost effective method of providing 24-hour residential supervision for high-risk delinquent males. Closing the camp would result in higher cost placements in and out of state as well as California Youth Authority commitments (the price of which is also going up)
5720P	Health Services Agency	Aging and Adult - Community-Based Programs	2,273,527	1,333,315	910,708	Non-Mandated Services: case management services to prevent institutionalization of dependent and older adults; representative payee services; and the Commission on Disabilities and associated community-based contracts. Also includes $122,222 in provider contractor COLAs given by the Board of Supervisors in a prior year.
1210P	County Manager/Clerk of the Board	County Mgmt-Memberships and Contributions	1,500,385	873,486	873,486	Non-Mandated includes $233,561 in membership dues to CSAC, ABAG, Criminal Justice Council and others; also includes contributions toward Homework Centers ($407,000), Parks Foundation ($132,000), ARTshare ($44,000), Fatherhood Collaborative ($25,000), Joint Venture Silicon Valley ($20,000, PCRC ($6,925), Sustainable SMC ($2,500) and Half Moon Bay Chamber ($2,500).

ID	Department	Budget Unit/ Program Name	Total Net County Cost	Total Discretionary Amount *	NON-MANDATED	Comments on Non-Mandated Services
6140P	Health Services Agency	Mental Health Adult Services	4,919,711	3,317,081	630,000	Non-Mandated Services: geriatric client care at Institutions for Mental Diseases (IMDs)—placements of dementia/neurobehavioral patients resulting from closure of the geropsychiatric unit at SMMC. Mandated services include pharmacy costs for IMD residents that are no longer claimable to Medi-Cal ($501,632) $470,000 for indigents with serious illness requiring hospitalization; and $501,910 in provider COLAs granted by the Board of Supervisors in prior years.
6130P	Health Services Agency	Mental Health Youth Services	5,373,387	5,003,721	604,719	Non-Mandated Services: unfunded portions of Mental Health/Probation services at Hillcrest, Prenatal to Three program, and Daly City Youth Health Center. Mandated services include $3 million in replacement of SB90/3632 funding for special education children (it is anticipated that there will be $2M reimbursement) and $158,009 for provider COLAs granted by the Board of Supervisors in prior years.
1720P	Employee and Public Services (EPS)	Human Resources	2,466,559	1,648,543	576,949	Non-Mandated Services: Benefits administrative program expenses ($72,803), organizational development and training programs ($394,253), modified work program ($10,625), Risk Management ($3,603) and the administration for the Commission on the Status of Women ($95,665).
3283P	Probation Department	Juvenile Hall	4,268,038	4,268,038	372,101	Lower cost alternatives to post-adjudication detention are the Community Care and Weekend Work Programs. These programs are not mandated, but save the County in custody costs.
1750P	Employee and Public Services (EPS)	Purchasing	522,313	402,642	322,114	Non-Mandated services include cost of procuring goods and services for County departments and outside agencies with no reimbursement for costs.
1760P	Employee and Public Services (EPS)	Mail Delivery	365,199	309,163	309,163	Non-Mandated Services include the distribution and processing of internal and U.S. mail for County departments.
	Human Services Agency (HSA)	HSA Economic Self-Sufficiency	5,287,041	268,742	268,742	Non-mandated services: employment services for GA clients ($200,000), homeless payments to CalWORKs clients ($45,000), and the Independent Living Program for youth in Foster Care ($23,000).
3910P	Environmental Services Agency (ESA)	Parks and Recreation - Administration and Support	248,209	248,209	248,209	Includes management of the Parks Operations and Maintenance Program, oversight of grants management, general administrative support for the Parks Division, oversight of park reservations, and performance of fiscal services for the Parks Division.
1730P	Employee and Public Services (EPS)	Public Safety Communications	692,185	669,197	221,862	Non-Mandated: subsidy for EPA (unrecovered costs of providing service).

ID	Department	Budget Unit/ Program Name	Total Net County Cost	Total Discretionary Amount *	NON-MANDATED	Comments on Non-Mandated Services
6320P	Health Services Agency	Correctional Health - Choices Program	218,483	218,483	218,483	Voluntary intensive chemical dependency treatment program for jail inmates.
6240P	Health Services Agency	Public Health - Family Health Services	5,316,971	186,859	186,859	Includes the following Non-Mandated Services: public health prevention and education-based nursing services to the community.
4510P	Public Works	Public Works - Administrative Services	143,076	143,076	143,076	Represents the County's contractual agreement with the Fair Oaks Community Center and the City of Redwood City.
3540P	Environmental Services Agency (ESA)	U.C. Cooperative Extension	126,733	126,733	126,733	Non-mandated includes administrative support, professional contracts, office supplies and facility rental charges.
3810P	Environmental Services Agency (ESA)	Planning and Building - Administration and Support	100,464	100,464	100,464	Represents uncommitted funding portion remaining for the preparation of the Midcoast Groundwater Study, which is a Non-Mandated Service being carried out at the direction of the Board.
3840P	Environmental Services Agency (ESA)	Planning and Building - Development Review Services	110,447	110,447	48,597	Non-Mandated Services make up the remainder of staff effort which include minor assignments and projects requested by the Board of Supervisors, Planning Commission and other agencies; special development projects; CEQA handbook revisions; review of outside environmental documents; resource planning; Zoning Ordinance review; some code compliance activities; and a portion of staff training and supervision.
1741P	Employee and Public Services (EPS)	Revenue Services Collections Unit	(110,552)	16,280	16,280	Immaterial. Amount of A-87 revenue in excess of Net County Cost; A-87 revenue is not reflected in this budget (in Non-Deptl)
1770P	Employee and Public Services (EPS)	Copy Center	(6,877)	(4,788)	(4,788)	Immaterial. This Program has a small amount of negative Net County Cost. Revenues received from charges to users exceed direct operational costs, and are used to offset costs, including overhead, budgeted in other EPS programs.
	TOTAL OPERATING NON-MANDATED				**$ 20,394,451**	

Non-Departmental	54,939,213	Non-Mandated includes Reserves in excess of minimum County Reserves Policy.

* Discretionary services are (1) mandated with no specified service levels or maintenance-of-effort MOE requirements, (2) provided at levels higher than mandated or MOE requirements (overmatch), or (3) non-mandated.