COUNTY OF SAN MATEO

County Manager's Office

Date: January 30, 2007
Board Meeting Date: February 6, 2007
Special Notice/Hearing: None
Vote Required: Majority

TO: Honorable Board of Supervisors

FROM: John L. Maltbie, County Manager

SUBJECT: FY 2006-07 County Budget Update – EXECUTIVE SUMMARY

RECOMMENDATIONS

1. Accept the FY 2006-07 County Budget Update.
2. Review key budget assumptions and provide direction for the preparation of the FY 2008 and FY 2009 Budget.
3. Accept the reports on the status of the Sheriff's Office Staffing Recommendation and the Alcohol and Other Drugs Strategic Plan.

Vision Alignment

Commitment: Responsive, effective and collaborative government
Goal 20: Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain. The County Budget Update contributes to this commitment and goal by providing information on the County's financial condition for the current fiscal year as well as issues and trends that will significantly affect future budgets. Projections for General Fund deficits and solutions are also provided for purposes of budget planning and management.

BACKGROUND AND DISCUSSION

The Board reviews the current 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 2008 and FY 2009 Recommended Budget will be submitted to the Board on May 25. Budget hearings will begin Monday, June 25.

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. It also provides a plan for managing General Fund deficits for the next four fiscal years.

FY 2006-07 County Financial Status

The FY 2007 budget for the County is $1.7 billion. Based on updated estimates, the County is expected to begin FY 2008 with $325.2 million in Fund Balance for all funds, an increase of $15 million from original estimates. The General Fund will start with $248.8 million in Fund Balance, which includes $26.3 million in unanticipated return of prior and current year Education Revenue Augmentation Fund (ERAF) contributions above mandated levels of school funding.

Local Economic Indicators

Unemployment and vacancy rates for office space are down in the county, indicating continued improvement in the local economy. Passenger activity at San Francisco International Airport is slightly higher than last year, and is expected to increase if Virgin America receives FAA approval to start domestic operations. This would result in more sales and property tax revenue for the County. The housing market continues to show signs of slowing down. Home sales and median home prices are down all over the Bay Area, with home sales down by almost 20% in San Mateo County. Growth rates in property tax revenue have been adjusted down from last year.

Despite the drop in home prices, only 20% of first-time homebuyers can afford a home in the county. Trends in public assistance caseloads are mixed, pointing to reasons unrelated to the drop in unemployment rates. PeninsulaWorks visits are down, but Medi-Cal and Healthy Families/Healthy Kids, CalWORKS, Food Stamps and General Assistance are up compared to last year. While more people are now employed, there remains a need for some level of public assistance. Inmate populations continue to be above prior year levels at Maguire and Women's Correctional Center due to gang-related crimes, longer average lengths of stay, and limited alternatives, treatment, and out-of-custody options, especially for women. Juvenile Hall population has declined from the prior year as a result of increased diversion and electronic monitoring efforts.

Major Budget Issues and Key Assumptions

Major budget issues include the impact of the Governor's proposed budget; unfunded pension and retiree health liabilities; impact of recent labor negotiations and double-digit increases in employee health premiums; continuation of loans to the Medical Center to address year-end budget deficits, and additional contributions to cover the growing gap between costs and revenues; additional relief pool staffing for the Sheriff's Office; annualized operating costs and debt service payments for the new Youth Services Center; continued implementation of task force recommendations for the Planning Department; and major capital projects on the horizon, with associated debt service, operations and maintenance costs, including: a new Women's Jail, new office building in the Redwood City campus, and replacement of the Burlingame Long Term Care facility.

Assumptions include 18 new positions for the Sheriff's relief pool over the next two years, costing $1.75 million in FY 2008 and $1.5 million in FY 2009. A staff report has been included. Assumptions also include 3% annual increases for community-based organizations in Health, Human Services and Probation through FY 2011. No funds have been included for the implementation of the Alcohol and Other Drugs Strategic Plan. A staff report describing the types of services that could be provided and number of clients served with additional funding in increments of $500,000, beginning with $1 million up to $2 million, has been included for the Board's consideration. No General Fund support has been included to address the budget deficit in the Fire Fund. The Board subcommittee on fire protection funding is continuing to explore options.

FISCAL IMPACT

General Fund costs are projected to grow by $46.2 million in FY 2008 and $25-30 million annually through FY 2011. To fund these costs, a combination of general revenue growth, use of reserves, and operating reductions will be needed to balance the budget. General revenues and Public Safety sales tax revenue are projected to grow annually by $15.9 million, which will partially fund the growth in costs. Excess ERAF and Non-Departmental Reserves of about $18 million per year will be used to balance the budget. In order to eliminate the structural deficit, departments will need to reduce operations, increase revenue, and/or use Reserves, in the amount of $5 million each year for the next four years. This multi-year plan will leave a Non-Departmental Reserves balance of $153.4 million or 11.4% of General Fund net appropriations by FY 2011. General Fund Departmental Reserves have a balance of $30 million.

Departmental reductions could be minimized or eliminated by controlling General Fund contributions to the Medical Center for services provided to medically indigent residents. General Fund Reserves can also be used to fully pay off the County's unfunded retiree health liability, which would significantly reduce annual required contributions. The payoff amount will be known at the end of February once a new actuarial valuation has been completed.