



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: August 17, 2009
BOARD MEETING DATE: August 25, 2009
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: David S. Boesch, County Manager
SUBJECT: **Budget Balancing Principles**

RECOMMENDATION:

Adopt a Resolution approving budget balancing principles for Fiscal Years 2010 through 2013 to eliminate the General Fund structural budget imbalance.

BACKGROUND:

Over the last two years, your Board took thoughtful, deliberate and strategic actions to stem the growth in the County structural budget imbalance, including approving a five-year plan to eliminate the gap by Fiscal Year 2013, implementing a hiring freeze, reducing department budgets, using reserves to pay down unfunded retiree health liabilities, and shrinking the General Fund contribution to the Medical Center.

At the conclusion of June budget hearings, your Board re-adopted the following policies and strategies to remain in effect to eliminate the structural imbalance by 2013:

- Continue the existing hiring freeze through June 30, 2010, requiring departments to maintain plans for a 5% vacancy rate and 2% operating reserves, and hiring freeze updates to the Board at mid-year as part of the County Budget Update;
- Continue preparing five-year forecasts for local discretionary revenues and net county costs at mid-fiscal year to update projected structural deficit calculations;
- Undertake no new expenditures without a corresponding source of new revenue or cost reductions;
- Cap the annual growth in net county costs to match projected growth in local discretionary revenues;
- Maintain operating reserves and contingencies at levels that meet or exceed the County Reserves Policy;
- Eliminate or avoid General Fund subsidies to Fire and other special funds;



- Reduce General Fund contributions to San Mateo Medical Center to a level consistent with state law and subsidy levels found in other public hospital systems, with a target of \$50 million by 2013; and
- Limit the future use of property taxes (excess ERAF) returned to the County from the state to one-time uses, including but not limited to, priority technology and capital improvements as identified in the Countywide IT Strategic Plan and Capital Improvement Program, debt reduction, productivity and cost avoidance projects.

Despite these efforts, the County continues to face significant financial challenges. The nation is mired in an economic slump, unemployment continues to increase, the state has reduced and diverted funds, our retirement fund has suffered significant investment losses, and local property and sales tax revenues have fallen. These financial challenges come as demand for our safety-net services rise due to the same economic forces that harm our budget.

Conservatively, the County's structural budget gap was projected at \$100 million in April 2009. As a result, immediately following the adoption of the County's 2009-10 Budget, department leadership came together in a day-long collaborative leadership retreat to frame the budget challenge and begin the process of developing scenarios for 10-20-30 percent reductions in Net County Cost, or General Fund allocations.

DISCUSSION:

As the County, organized labor and community partners work together to seek ways to reduce costs, it's imperative to remind ourselves of the reason for our organization's existence: to serve our community. With that in mind, for your consideration is a set of budget balancing principles to guide the process to eliminate the \$100 million General Fund imbalance over the next three fiscal years. The intent is to help everyone make proposals and recommendations with the same idea in mind: to serve others. With a modest reserve, the County remains in an enviable position of being able to thoughtfully plan for and strategically implement reductions over the next several years.

Adoption of budget balancing principles contributes to the Shared Vision 2025 outcome of a Collaborative Community, where leaders forge partnerships, inform and engage residents, and demonstrate fiscal stewardship by sustaining core services for future generations and for the most vulnerable members of our community.

FISCAL IMPACT:

Adoption of these principles will guide the elimination of the \$100 million budget gap.