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May 27, 2008

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County Finances Strong As County Manager Releases His Final Budget

REDWOOD CITY, Calif. – Retiring San Mateo County Manager John Maltbie and Assistant County Manager David Boesch unveiled a two-year budget today that begins the process of eliminating the County's structural budget deficit, which is projected to grow to \$92.1 million by 2013 if current spending continues to exceed growth in local revenues. The County continues to see a drop in property-related revenues and public safety sales tax revenues compared to last fiscal year.

The Fiscal Year 2009 budget is \$1.73 billion with 5,860 positions. It is \$4 million and 12 positions less than last year, and was balanced by using \$26.4 million in General Fund reserves and \$8 million in ongoing operational reductions.

The use of one-time reserves is in line with the five-year deficit elimination plan the Board of Supervisors approved in December when the County also implemented a hiring freeze that directed departments to hold 5 percent of positions vacant and maintain 2 percent in reserves. Reserves will be used in the next four years to balance the budget until the structural deficit is eliminated in 2013 with ongoing reductions and expected improvement in local revenues.

The Fiscal Year 2010 budget is \$1.7 billion with 5,853 positions.

Reserves are projected to remain healthy at \$209.3 million or 21.1 percent of budgeted spending. The County recently received the highest issuer rating for a California county from Moody's (Aa1) and one of the highest ratings, along with Marin and San Diego counties, from Standard and Poor's (AA+). But Maltbie and Boesch advise the local housing economy is clearly showing signs of slowing, with more than 1,000 properties being reassessed downward by \$350 million.

According to the latest report from DataQuick, April home sales in San Mateo County were down 15.9% from last year and the median sales price was down by 17%, from \$810,000 to \$672,500. This means lower property-related revenues from document recording fees and property transfer taxes, and lower property tax revenue in the future. Slower statewide sales have also affected local revenues for public safety.

The State budget crisis will result in \$7.4 million in reduced funding to the County for the coming fiscal year. This does not include the impact of the Governor's May Revision, which could result in

at least \$23.2 million in additional cuts in funding for health and human services, criminal justice and child support services.

“While the County’s fiscal sun may have disappeared behind a gathering storm,” Maltbie said, “there is still time to get our fiscal house in order. Doing so now will avoid the much more difficult choices neighboring cities and counties are having to make. The crisis facing the City of Vallejo isn’t only due to poor financial decisions; it was also due to the failure to act on the consequences of those decisions in a timely manner.”

Maltbie and Boesch recommend continued fiscal discipline by using the following principles and strategies to eliminate the deficit by 2013:

- * Undertake no new expenditures without a corresponding source of new revenue or cost reductions
- * Cap the growth in net county costs to 5 percent to match expected growth in local revenues, a strategy that will require service reductions if growth in salaries and benefits exceed 3 percent per year
- * Maintain operating reserves of at least 15 percent, in addition to contingency reserves of 3 percent in the General Fund
- * Eliminate or avoid General Fund subsidies to County Fire and sanitation districts
- * Reduce General Fund contributions to San Mateo Medical Center to a level consistent with state law requirements and subsidy levels found in other public hospital systems, with a target of \$50 million by 2013
- * Limit the future use of property taxes returned to the County from the state to priority technology and capital improvements, debt reduction, and other expenses that are not ongoing.

The Fiscal Year 2009 budget for the General Fund, the County’s main operating fund, includes the following major adjustments:

- * 3 percent increase in salaries and benefits, including \$20.6 million in negotiated increases
- * \$8 million in budget reductions from departments; this represents a 0.7 percent reduction in the General Fund
- * \$2.1 million in annualized debt service for the Youth Services Center
- * \$1.5 million to add 9 positions to the Sheriff’s Office for overtime relief
- * \$1.5 million additional General Fund contribution, for a total of \$2.7 million, toward Healthy Kids, the County’s program to provide health coverage to children ages 0-18 with family income of up to 400 percent of the federal poverty level
- * \$1.1 million for a 3 percent increase to contracts with community-based organizations that provide direct services to health, human services and probation clients
- * \$1 million to maintain the automated time keeping system and payroll system
- * \$750,000 toward implementation of the Alcohol and Other Drug Strategic Plan
- * \$608,323 negotiated increase for the Private Defender contract with the San Mateo County Bar Association to provide indigent legal defense
- * \$4 million one-time contribution toward the La Honda Landslide Assessment District
- * \$640,000 to upgrade the County’s payroll system
- * \$115,000 for the Executive Leadership Academy to prepare managers for executive level positions

The Fiscal Year 2009 budget for the San Mateo Medical Center, a separate fund, is \$244.2 million with 1,350 positions, and includes the following major adjustments:

- * Over \$7 million in savings by holding 70 positions vacant and eliminating 19 positions
- * \$3.6 million in State budget reductions to Medi-Cal rates
- * \$240,000 savings by outsourcing transportation services to provide more consistent and reliable service to patients
- * \$190,000 savings by installing a cook-chill system to prepare meals more efficiently with fewer staff
- * Over \$4 million in additional revenue and savings from implementation of the following Health System Redesign initiatives:
 - o Over \$1 million in new Medi-Cal and Medicare revenue through more efficient eligibility and enrollment and improved billing and collection rates
 - o \$1 million in additional revenue from the Health Plan of San Mateo by increasing intergovernmental transfers in order to draw down additional federal funds
 - o \$500,000 in additional revenue from the expansion of pediatric services, including increasing clinic hours during the evenings and weekends
 - o \$500,000 in additional revenue from the expansion of senior care services to serve an additional 2,000 patients
 - o \$500,000 savings by moving patients to more appropriate levels of care

Other major budget issues identified by Maltbie and Boesch in their budget message include:

- * The need to revisit the number of beds in the new jail to address overcrowding at Maguire Jail, replace the Women's Jail and homeless shelter on Maple Street, and create re-entry programs to reduce recidivism and achieve permanent self-sufficiency, after receiving notice the County's AB900 application for funds has been denied
- * Necessary implementation of Board-approved recommendations to redesign the health system for the entire county, in order to create a Community Health Network for the Underserved and reduce General Fund contributions to the Medical Center
- * Funding for a study that will recommend concrete actions to reverse the trends in disproportionate representation of minority children in the County's child welfare and juvenile justice systems
- * Rate increases for sanitation districts, which must be approved so the General Fund does not subsidize these services
- * Exploration of an increase in tipping fees and Environmental Health fees, as well as incentives for departments to reduce waste, to financially stabilize the Solid Waste Fund
- * Additional reimbursement from the Courts for participation in the Employee Transit Subsidy program, to financially stabilize the Half-Cent Transportation Fund
- * A \$100 million backlog in road projects due to lower gas tax revenues, the delay in distribution of Proposition 1B bond proceeds due to the State's financial status, and higher costs for petroleum-based products and transporting road materials
- * Need to manage costs to provide emergency medical ambulance services, through the request for proposals process and contractor selection for these services
- * Public Safety Communications implementation of wireless 911, one-year SMART 911 pilot and contract negotiations with the new ambulance services provider
- * Funding for succession planning initiatives, which will be prioritized by the Succession

- * Planning Implementation and Evaluation Committee in time for September Revisions
- * Restructuring the Youth Services Center bonds to remove them from the auction rate securities market and stabilize future debt service payments
- * Prioritizing capital and technology projects with the Five-Year Capital Improvement Program (CIP) and Five-Year Countywide Information Technology Strategic Plan

The San Mateo County Board of Supervisors will hold three days of public hearings on the Recommended Budget beginning June 23, 2008, at 9 a.m. in the Board's Chambers, 400 County Center, Redwood City. The public is encouraged to attend.

The Recommended Budget is available for viewing at www.co.sanmateo.ca.us/budget and at the County Manager/Clerk of the Board office, 400 County Center, Redwood City. A schedule showing when budgets for specific departments will be discussed is available at both sites.

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