



Financial Highlights

County of San Mateo, Fiscal Year Ended June 30, 2006

A Message From The Controller

San Mateo County's economic outlook is positive. Consumer spending is rising slightly, tourism is gradually rebounding, and the unemployment rate continues to decline. However, local real estate sales are slowing and prices are slightly down.

Sales and use taxes, the prime indicators of consumer spending, increased by only 1% from 2005 to 2006. The County's tourism industry continues to revive, but at a slower pace than in the previous year. Passenger traffic at San Francisco International Airport (SFO) increased only 1.1% over the prior fiscal year. SFO, the surrounding hotels, and related tourism industries provide employment for thousands of workers and generate millions of sales tax dollars for the County.

Employment opportunities in the County also continue to rise. The unemployment rate for Fiscal Year (FY) 2005-06 was 4%, compared to 4.3% last year. There are indications that the unemployment rate will continue to decrease. The Bay Area Council surveyed Bay Area businesses and 39% of them had plans to hire additional employees.

Although the housing market has cooled, assessed property values continue to grow based on reappraisals due to sales. The median price of a single-family home in the County dipped slightly to \$875,000 in July 2006, but still remains high compared to \$567,360 for California and \$230,000 for the U.S. Affordable housing remains out of reach for most County residents. To address this problem, in April 2005, the Board of Supervisors of the County and participating cities initiated Housing Our People Effectively (HOPE), a 10-year plan to end homelessness in the County. With HOPE, \$1.56 billion could eventually be used to house 7,900 individuals and families.

The County funded the operations of the San Mateo Medical Center with \$54 million in FY 2005-06 to meet the ongoing demand for indigent health care. This annual cost is so great because the Medical Center provides a disproportionate amount of the charity health care compared to the other hospitals in the County. The subsidy is a significant burden for the County and makes it more difficult to manage the County finances.

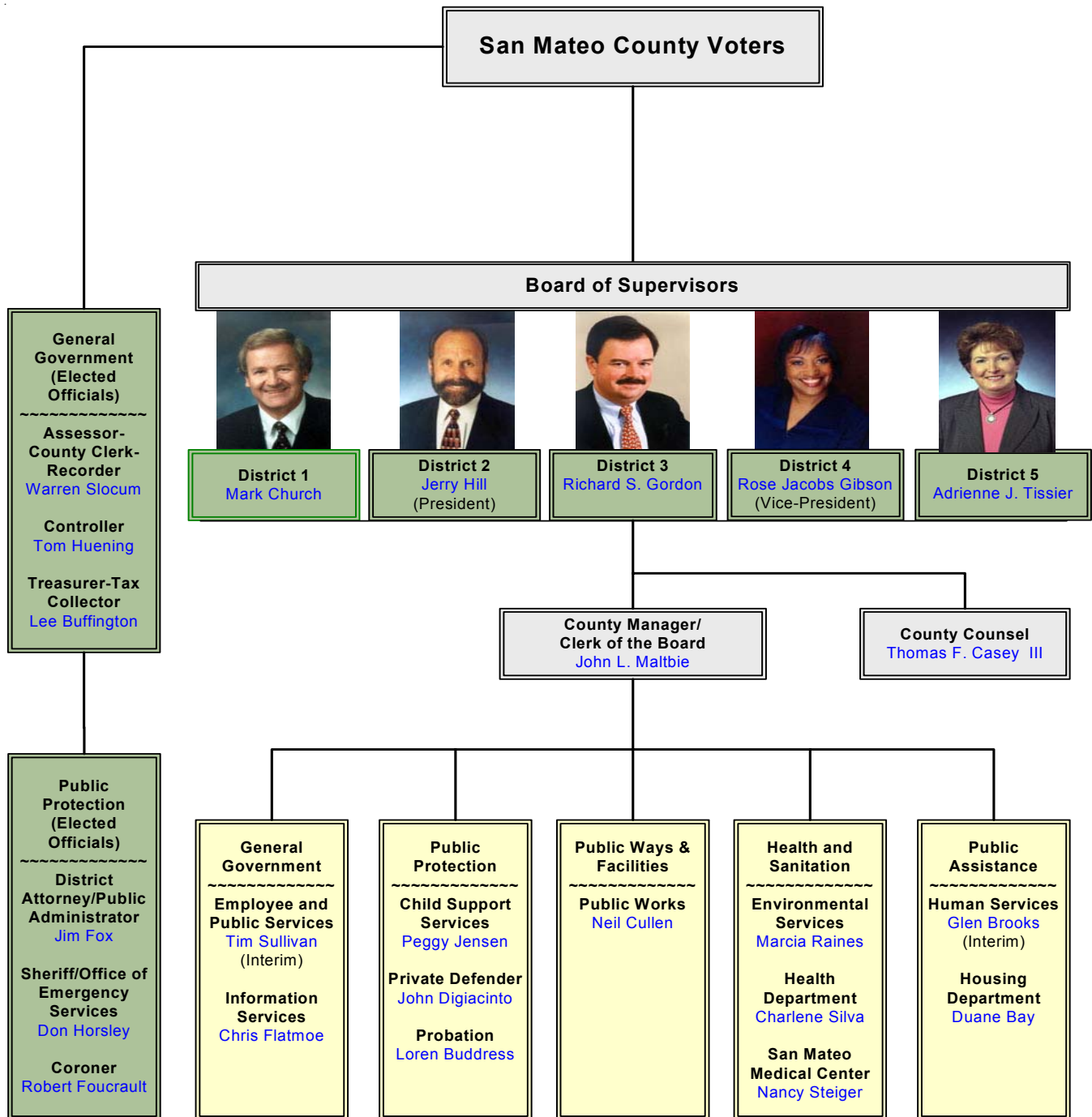
San Mateo County has ongoing obligations to complete funding of its employees' pensions and retirees' health care. Nevertheless, the County's overall financial position continues to be strong. It has significantly improved during the past year, despite various fiscal challenges in providing key services to County residents.

Tom Huening, CPA, Certified Public Finance Officer
Controller



"United" by John Sommers

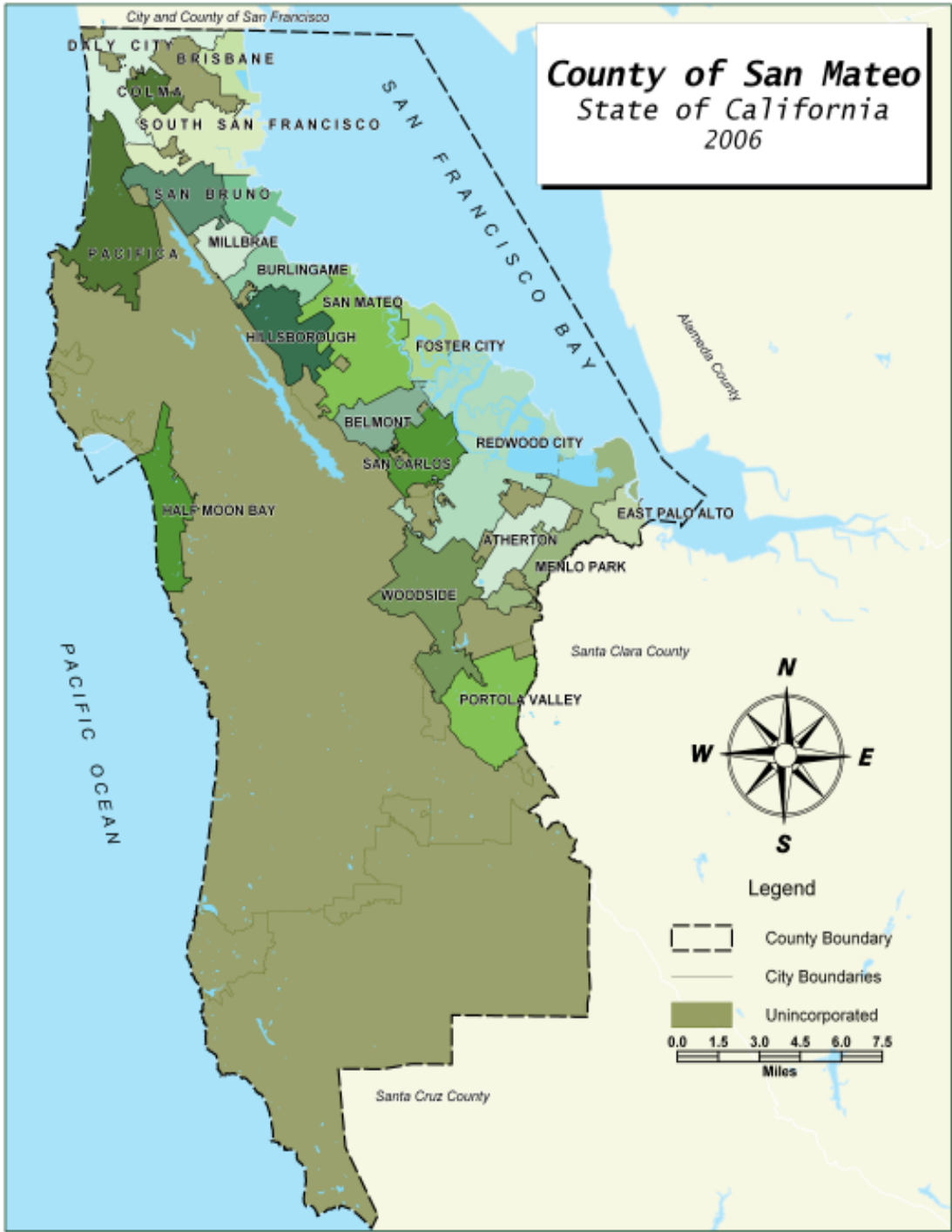
Who We Are



As of June 30, 2006

San Mateo County is governed by an elected Board of Supervisors, which sets policy and administers County government by ordinances and regulations. In addition to the five Board seats, the County has six elected officials: the Assessor-County Clerk-Recorder, Controller, Treasurer-Tax Collector, District Attorney/Public Administrator, Sheriff, and Coroner. All other department heads are appointed. The above organization chart is arranged according to the County's various functional units.

Where We Are



Who To Call For Information:

Controller	(650) 363-4777	Assessment Appeals Board	(650) 363-4573
Assessor-County Clerk-Recorder	(650) 363-4500	Tax Collector - Treasurer	(650) 363-4580

Real Estate and Property Taxes

Property Tax Revenue

The County's portion of total property tax revenue was \$298 million in FY 2005-06, compared to \$218 million in the prior fiscal year. In FY 2005-06, property in the County was valued at \$113 billion, or \$7.7 billion more than FY 2004-05. Assessed property values in FY 2006-07 are estimated to be \$123 billion, an increase of 8.6%.

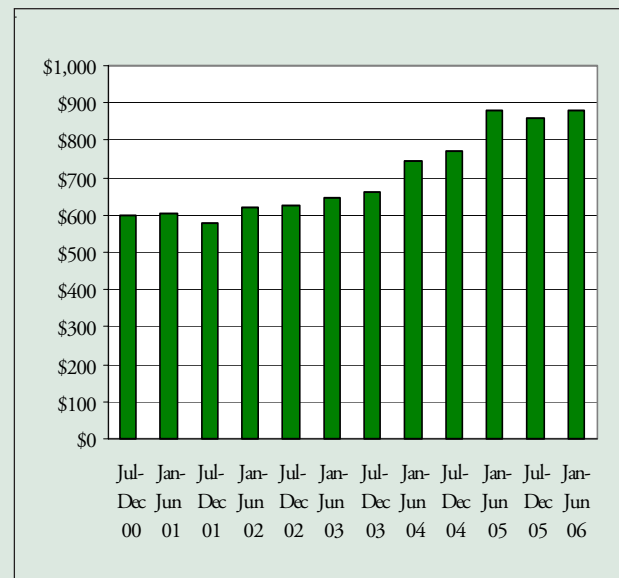
Top 10 Property Tax Taxpayers (FY 2006)

	Taxable Assessed Value (millions)	% of Total Taxable Assessed Value
United Airlines	\$1,652	1.46%
Genentech Inc.	1,615	1.43%
Pacific Gas & Electric	661	0.58%
Oracle	533	0.47%
Sun Microsystems	359	0.32%
Pacific Shores Development	325	0.29%
Wells REIT University Circle	293	0.26%
Type Electronics	288	0.25%
Westport Office Park LLC	240	0.21%
Gilead Sciences Inc.	224	0.20%

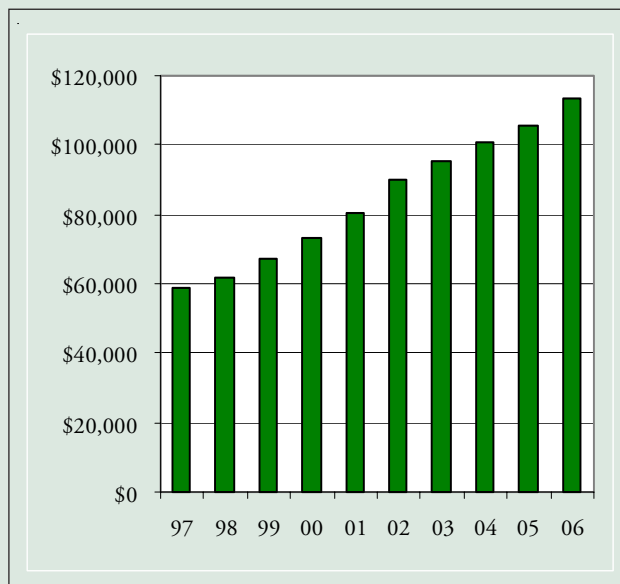
Residential Real Estate

Climbing interest rates and increasing housing inventory have slowed home sales in the County. However, it remains one of the highest-priced regions in the State and the nation. For July 2006, the median price of a single-family home in the County was \$875,000, compared to \$567,360 for California and \$230,000 for the U.S.

Median Price for a Single-Family Home in San Mateo County (in thousands)



Total Taxable Assessed Value of Property in San Mateo County (in millions)



"Home sales continuing to slide."

- San Mateo County Times, August 17, 2006

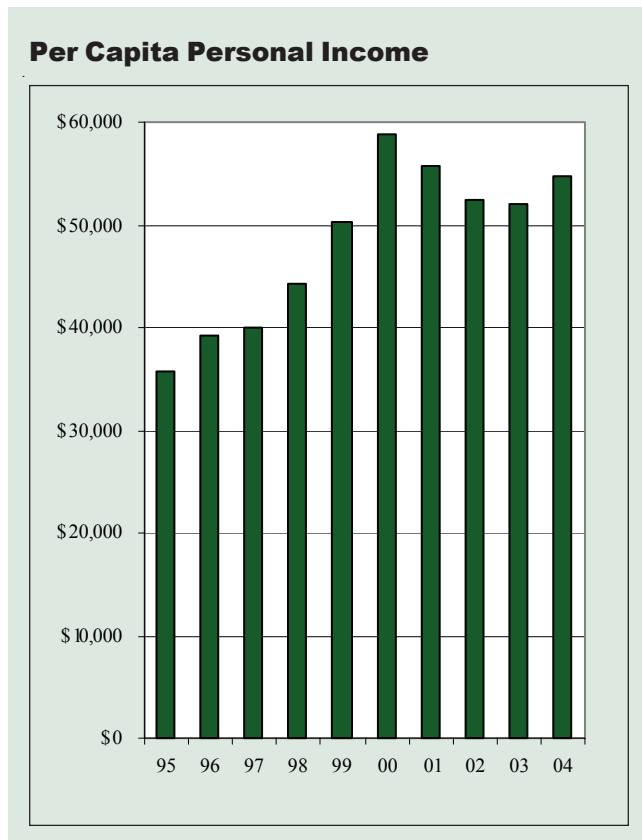
Commercial Real Estate

The vacancy rate for office space continues its downward trend. The rate as of June 2006 is 17.1%, the lowest in five years. The decline is primarily driven by the expansion of the biotechnology industry. In north county, where biotechnology firms are concentrated, the vacancy rate is only 11.4%, compared to 18.9% in central county and 18.5% in south county.

Key Indicators of the Local Economy

Income

The average per capita personal income in the County was \$52,103 in 2003 and \$54,807 in 2004. This average continues to be one of the highest in the nation and is the second highest in California.



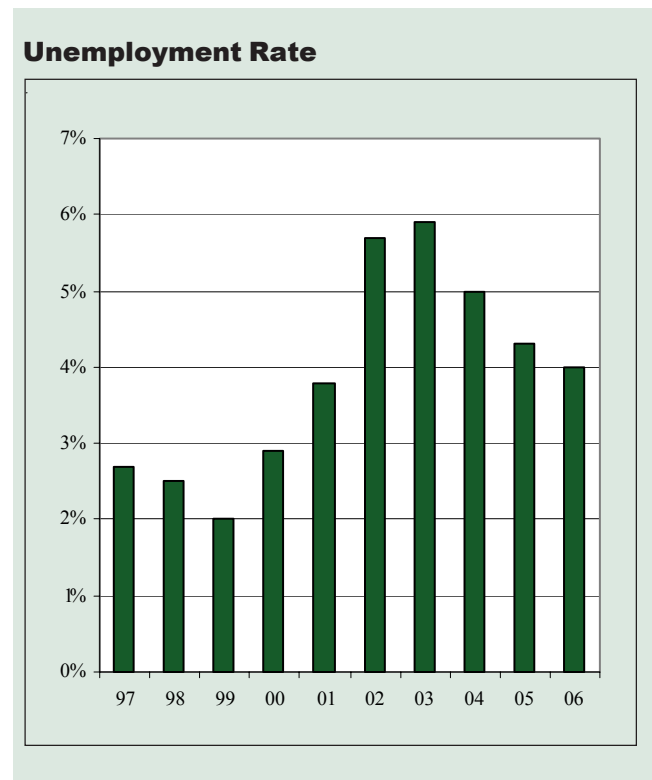
Tourism and Technology

The County has a diversified economic base, but its major industries are in the tourism and technology sectors. San Francisco International Airport (SFO) is located within the County's boundaries. The airport, airlines, and surrounding hotels are a major source of jobs; United Airlines is the County's largest employer. This sector also generates significant revenues for the County in the form of property taxes, sales taxes, and hotel taxes. The drop in air travel and tourism after the "9/11" event in 2001 significantly affected the County's economy, but this segment of local industry is gradually rebounding. The upward trend in SFO's total passenger volume slowed between FY 2004-05 and 2005-06, posting only a 1.1% increase. However, the volume is expected to get a boost in early 2007 when Virgin America makes SFO its home.

The County lies on the northern edge of Silicon Valley and is home to numerous software, biotechnology, and research companies. Major employers in the County include Oracle, Genentech, Applied Biosystems, and Electronic Arts. The County is also home to a large number of venture capital firms, concentrated along Sand Hill Road in Menlo Park, and many technology related startup companies, such as YouTube. The County's gradual economic recovery has paralleled the recovery in the technology sector.

Employment

With unemployment at 4.0% for FY 2005-06, the County's unemployment rate has declined for the third straight year. There are indications that the downward trend will continue. In a survey released by the Bay Area Council in August 2006, 39% of Bay Area businesses said they expect to hire additional employees over the next six months. The survey provided especially good news for the County - nearly two thirds of executives in the travel and leisure industry expressed confidence that the local economy would moderately improve during the next six months.



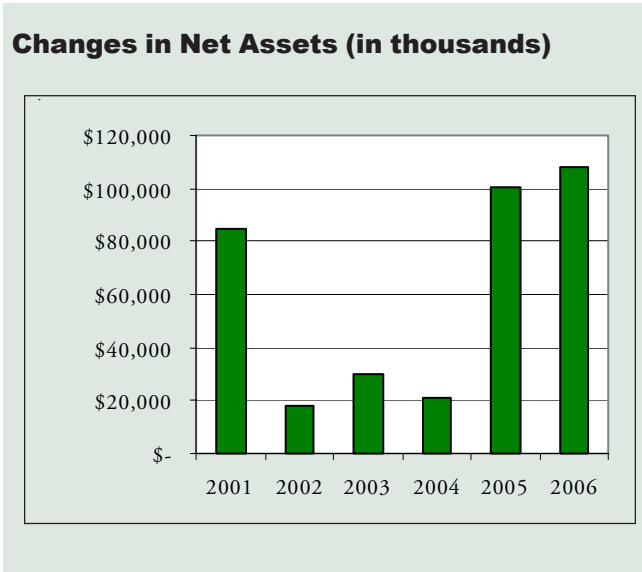
Financial Condition and Activity

Government-wide Financial Statements

Government-wide Financial Statements, which are comprised of the Statement of Net Assets and the Statement of Activities, provide readers with a broad overview of the County's finances, similar to a private-sector business.

Both of these statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or in part a portion of their costs through user fees and charges (*business-type activities*).

The Statement of Net Assets (Table 1) presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. The Statement of Activities (Table 2) provides information on the County's revenues and expenses, and reports the difference between the two as the change in net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the County's financial position is improving or deteriorating.



The County's net assets increased by 25% during FY 2005-06, mainly due to increases in property taxes, charges for services, grants and contributions, and a change in the method of accounting the County uses for reporting retiree healthcare benefits. Compared to the prior fiscal year, the County's overall financial position has improved.

Table 1 on page 7 shows the County's net assets, which fall into three categories:

- 37% of net assets are investment in capital assets, less related debt. Capital assets (land, buildings, infrastructure, and equipment) are used to provide services to citizens; consequently, these assets are not available for future spending.
- 8% are restricted net assets. These resources are subject to external restrictions on how they are used.
- 55% are unrestricted net assets. These resources may be used to meet the County's ongoing obligations to citizens and creditors.

"A financial snapshot is worth a thousand words."

- Anonymous

Table 2 on page 7 shows that total revenues surpassed total expenses by \$108 million.

- The County's total revenues increased by 4%, or \$44 million, from \$1,058 million to \$1,102 million.
- The County's total expenses increased by 4%, or \$37 million, from \$957 million to \$994 million.

Additional information of revenues and expenses can be found on pages 8 and 9.

Financial Condition and Activity

Table 1: Statement of Net Assets as of June 30, 2006

(Amounts in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		Variance
	2006	2005	2006	2005	2006	2005	
Total assets	\$1,585,216	\$1,487,235	\$86,455	\$75,105	\$1,671,671	\$1,562,340	7.00%
Total liabilities	<u>704,583</u>	<u>778,964</u>	<u>53,627</u>	<u>51,214</u>	<u>758,210</u>	<u>830,178</u>	-8.67%
Total net assets (as restated)	<u>\$ 880,633</u>	<u>\$ 708,271</u>	<u>\$32,828</u>	<u>\$23,891</u>	<u>\$ 913,461</u>	<u>\$ 732,162</u>	<u>24.76%</u>

Table 2: Statement of Activities for the Fiscal Year Ended June 30, 2006

(Amounts in thousands)

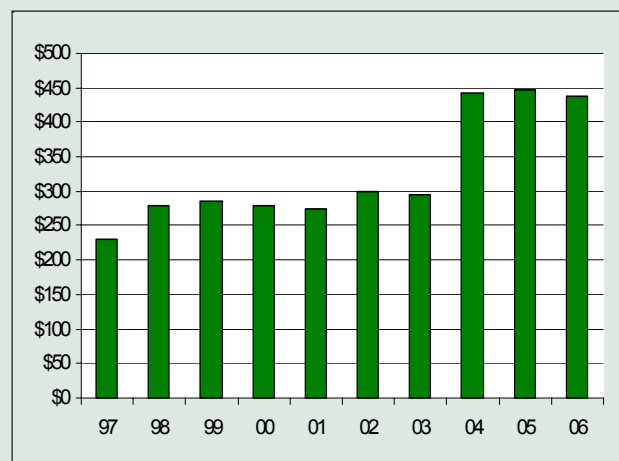
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		Variance
	2006	2005	2006	2005	2006	2005	
Total revenues	\$894,863	\$855,908	\$207,525	\$201,908	\$1,102,388	\$1,057,816	4.21%
Total expenses	<u>737,878</u>	<u>705,933</u>	<u>256,618</u>	<u>251,098</u>	<u>994,496</u>	<u>957,031</u>	3.91%
Change in net assets							
before transfers	156,985	149,975	-49,093	-49,190	107,892	100,785	7.05%
Transfers	<u>-49,291</u>	<u>-50,022</u>	<u>49,291</u>	<u>50,022</u>	<u> -</u>	<u> -</u>	0.00%
Change in net assets	<u>\$107,694</u>	<u>\$ 99,953</u>	<u>\$ 198</u>	<u>\$ 832</u>	<u>\$ 107,892</u>	<u>\$ 100,785</u>	<u>7.05%</u>

Outstanding Debt

In FY 2005-06, the County's total debt decreased by \$8 million to \$438 million. The County Debt Limit Ordinance limits annual debt service payments to 4% of the average annual County total budget for the current and the preceding four fiscal years. The County's debt service payments were \$27 million in FY 2005-06, well below the maximum allowable debt service limit of \$48 million.

The information on this page is derived from the County's Comprehensive Annual Financial Report (CAFR), which is presented in conformity with generally accepted accounting principles and contains more information. The CAFR is available at all public libraries in the County and online at www.co.sanmateo.ca.us/controller/cafr.

Total Debt (in millions)

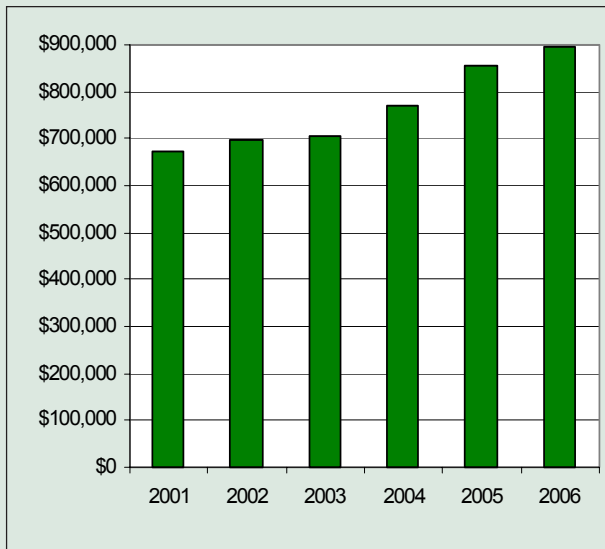


Revenues

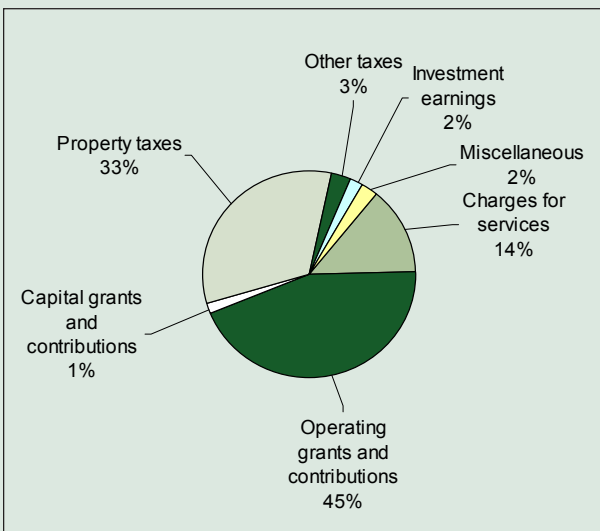
Governmental Activities - Revenues

Total revenues for governmental activities were \$895 million this year, 5% (or \$39 million) more than the prior year. Approximately 92% of the revenues come from three major sources: operating grants and contributions, property taxes, and charges for services.

Total Revenues (in thousands)



Revenues by Source (FY 2005-06)



Operating Grants & Contributions (\$393 million, 45% of total governmental activities revenues)

The majority of operating grants and contributions come from the federal and state governments. These revenues mostly support state-mandated services such as mental health care, public safety services, and public assistance. This money helps people obtain healthcare, live in a safe environment, attain low-cost housing, and find jobs. In FY 2005-06, operating grants and contributions increased by 3%, or \$11 million. This increase was mainly due to increased federal grants for consolidated homeland and regional security and increased realignment sales tax revenues for mental health youth services.

Property Taxes (298 million, 33% of total governmental activities revenues)

Property taxes are generated locally and consist of real and personal property taxes. In FY 2005-06, property taxes increased 37%, or \$80 million. In FY 2004-05, motor vehicle license fee revenue was permanently “swapped” with property taxes per state law. The “swapped” revenue was reported as part of the property taxes beginning in FY 2005-06 and accounted for about \$62 million (or 78%) of the increase. The remaining increase was primarily due to refunds from the Education Revenue Augmentation Fund. This fund was established under state law in 1992 to redirect property tax revenues from the County, cities, and special districts to public education programs. Once school districts and programs are paid the maximum allowable, the law requires the excess funds to be refunded to local agencies.

Charges for services (\$123 million, 14% of total governmental activities revenues)

Charges for services include candidate filing fees, returned check charges, tax administration fees, private defender fees, geotechnical fees, agricultural inspection fees, fingerprinting fees, lab fees, and other charges for services. In FY 2005-06, charges for services increased 2%, or \$2 million.

Business-type Activities – Revenues

The County operates four programs that are classified as business-type activities: San Mateo Medical Center, Airports, Coyote Point Marina, and the Housing Authority. The revenues from business-type activities rely to a significant extent on fees charged to customers, with the exception of the Medical Center. In FY 2005-06, total revenues for business-type activities increased by \$6 million, or 3%.

Governmental Activities – Expenses

Total expenses for the governmental activities were \$738 million, which was \$32 million or 5% more than the prior year. Approximately 84% of the total expenses related to services provided for public protection, public assistance, and health and sanitation.

Public Protection (\$254 million, 35% of total governmental activities expenses)

Public protection expenses include costs incurred by the Sheriff, District Attorney, Probation, Coroner, County Fire, and Public Safety Communications. Public protection expenses increased \$10 million, or 4%, over the prior year.

Public Assistance (\$195 million, 26% of total governmental activities expenses)

The County provides community accommodations such as alcohol and drug services, low-cost housing and homeless services, job search and training, family resource assistance expenses increased \$11 million, or 7%, over the prior year.

“County has HOPE for homelessness cure.”
- San Mateo Daily Journal, March 29, 2006

Health and Sanitation (\$173 million, 23% of total governmental activities expenses)

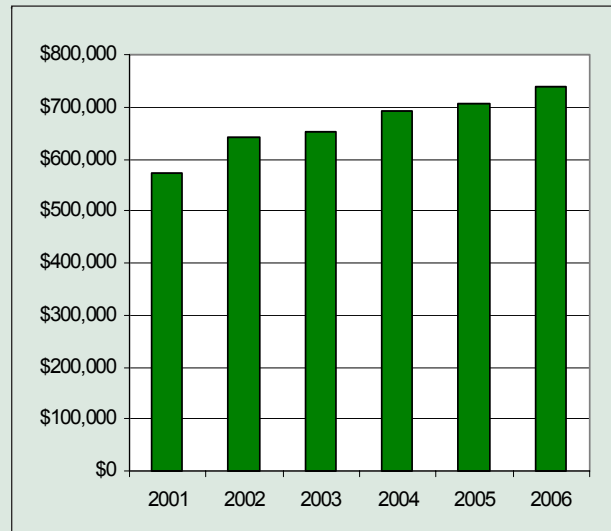
Health and sanitation expenses include costs associated with mental health services, the Prenatal to Three Initiative, environmental health services, the AIDS program, and other health services. Health and sanitation expenses increased \$3 million, or 2%, over the prior year.

Business-type Activities – Expenses

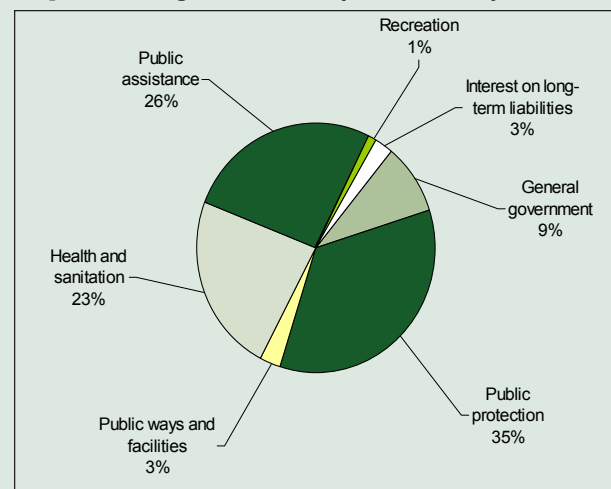
In FY 2005-06, total expenses increased 2%, or \$6 million. Most of the increased expenses were incurred by the San Mateo Medical Center. Escalating healthcare costs contributed to over \$10 million of additional expenses over the prior year.

The information on pages 8 and 9 is derived from the County’s Comprehensive Annual Financial Report (CAFR), which is presented in conformity with generally accepted accounting principles and contains more information. The CAFR is available at all public libraries in the County and online at www.co.sanmateo.ca.us/controller/cafr.

Total Expenses (in thousands)



Expenses by Function (FY 2005-6)



Major Initiatives



Newly Constructed Youth Services Center

Youth Services Center

In FY 2004-05, the County began constructing a new Youth Services Center (Center) to provide comprehensive facilities to better meet the needs of County youth and their families. The Center was funded by a federal juvenile justice grant of \$21 million, several smaller grants, and the sale of lease revenue bonds totaling \$155.4 million. The new Center opened in September 2006 after the completion of main facilities, which include a 180-bed juvenile hall, 30-bed girls' camp, group homes containing 24 beds, juvenile courts, a community school, and probation administration offices. Still to be built is a receiving home. The initial debt service payment of \$5.2 million will be made in FY 2007-08, and annual payments of \$9.0 million will begin in FY 2008-09. The annual cost of operating the center is about \$6.3 million

Implementation of the Mental Health Services Act Plan

In November 2004, California voters passed the Mental Health Services Act (MHSA), which imposed a 1% income tax on personal income in excess of \$1 million, with the money to be used for providing mental health services in the State. The Act required each county to develop a comprehensive three-year plan for new and expanded services. The County received a favorable review from the State in January 2006, and began implementing programs in Spring 2006. MHSA funding will be used to support programs for the seriously mentally ill, expanded community-based services, outreach, engagement activities targeting unserved ethnic minor-

ity and non-English speaking communities, school-based services, and much more. The first full year of services will be funded by \$6.5 million in MHSA funds and \$3.5 million in additional leveraged revenues.



Recently Hired Community Service Workers

“Not everything that can be counted counts, and not everything that counts can be counted.”

- Albert Einstein

Major Initiatives

Mainframe Computer Migration

The County's mainframe computer supports several software systems, including critical applications such as the Criminal Justice Information System and the County's payroll system. The mainframe is no longer a viable hardware platform because vendor support is being phased out. Funding for migration from the mainframe to alternate hardware platforms, estimated to be \$6.5 million, will come from the Information Services Department reserves and non-departmental funds. This migration will result in lower computing costs countywide.



Controller Tom Huening at the County's Data Center



Belmont Apartments, A HOPE Project

Housing Our People Effectively

In April 2005, Supervisors Mark Church and Jerry Hill initiated Housing Our People Effectively (HOPE), a 10-year plan to end homelessness in the County. The goal of HOPE is to help secure permanent housing for 7,900 individual and family households in the County who have been homeless or are at severe risk of becoming homeless. Full implementation may cost \$1.56 billion over ten years. The funds will be redirected from existing sources, or new sources of revenue will be developed. Some costs may be offset by a reduction in expensive emergency services, such as housing and medical care.

Women's Jail Replacement Plan

The Women's Correctional Center in Redwood City is chronically overcrowded, and the inmate population is steadily increasing. The facility had an average daily population of 133 during 2005 and the population reached 161 by September 19, 2006. This is nearly double the State Board of Corrections capacity rating of 84 inmates. The upward trend in non-sentenced female population is expected to continue. The Sheriff and the Board of Supervisors have established a Jail Planning Committee to plan for the eventual replacement of the facility. As a first step, a consultant has been selected to prepare the needs assessment.

About the Popular Annual Financial Report

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

PRESENTED TO

County of San Mateo
California

for the Fiscal Year Ended
June 30, 2005



Shirley J. Hoff
President
Jeffrey A. Lane
Executive Director

This *Financial Highlights* publication provides the public with an easy to read overview of the County's financial condition. To view the publication online, visit www.co.sanmateo.ca.us/controller/pafr. The information contained in this report is derived from the County of San Mateo's *Comprehensive Annual Financial Report* (CAFR). The CAFR contains more detailed information about the County's finances, and copies of the report are available at all public libraries in the County and at www.co.sanmateo.ca.us/controller/cafr.

I hope you will take the time to provide us with your thoughts or ideas for improvement after reading this year's report. Drop me a note at the address below, call my office at (650) 363-4777, or e-mail me at thuening@co.sanmateo.ca.us. I look forward to hearing from you.

Tom Huening, CPA, CPFO
Controller, County of San Mateo

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to San Mateo County for its Popular Annual Financial Report for the fiscal year ended June 30, 2005. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. San Mateo County has received a Popular Award for the last four consecutive years (fiscal years ended 2002-2005). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

Controller Tom Huening, CPA, CPFO
County of San Mateo
555 County Center, 4th Floor
Redwood City, CA 94063

RETURN SERVICE REQUESTED