FINANCIAL HIGHLIGHTS
County of San Mateo, California
Fiscal Year Ended June 30, 2012

Page

County Profile

San Mateo County, one of the nine counties in the San Francisco Bay Area, was established by an Act of State Law in 1856. The County occupies 455 square miles and contains 20 cities on a peninsula bounded by San Francisco to the North, Santa Clara County to the South, San Francisco Bay to the East, and the Pacific Ocean to the West.

Sandwiched between two large urban areas, the County is a pleasant mix of suburban and rural areas. Most of the County's residents live in the suburban corridor east of the Santa Cruz Mountains, which bisect the County. The western part of the County remains primarily rural and has some of California's most beautiful coastline.

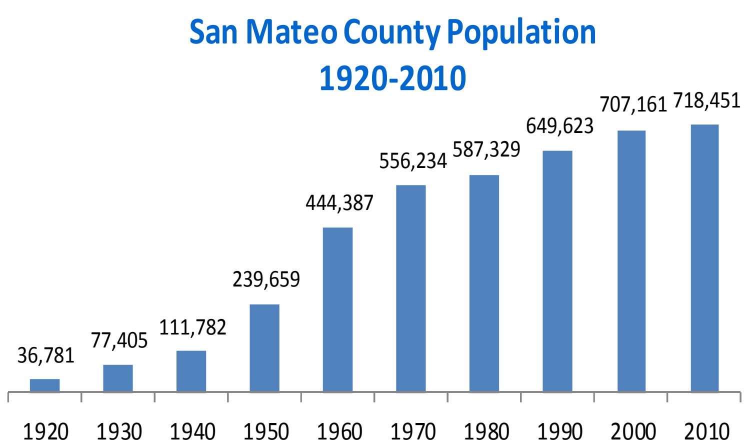
The County is governed by a five-member Board of Supervisors elected by San Mateo County voters. Each Supervisor must reside within a separate geographic district. The five districts in the County are roughly equal in population but vary in size.

The County has long been a center for innovation. It is home to numerous colleges and is within the "golden triangle" of three of the top research institutions in the world: Stanford University, the University of California at San Francisco, and the University of California at Berkeley.

Supervisors are elected to staggered four-year terms with a maximum of three terms in office. They appoint the County Manager to carry out the Board's policies and goals and to oversee the County's operation.

Voters also elect six additional County officials. They are the Assessor-County Clerk-Recorder, District Attorney, Controller, Coroner, Sheriff, and Treasurer-Tax Collector. The County's Chief Probation Officer and the Superior Court Executive Officer are appointed by the Superior Court of the San Mateo County.

The County plays a dual role that differs from cities. Cities generally provide basic services such as police and fire protection, sanitation, recreation programs, planning, street repair, and building inspection. The County, as a subdivision of the State, provides a vast array of services for all residents. These services include social services, public health protection, housing programs, property tax assessment, tax collection, elections, and public safety. The County also provides basic city services for residents who live in unincorporated areas.



Published by Controller Bob Adler, CPA (650) 363-4777 Badler@smcgov.org

“Coming together is a beginning, staying together is progress, and working together is success.”

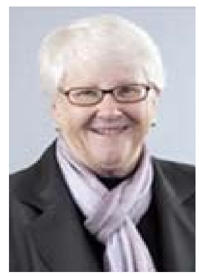
- Henry Ford,
Founder of the Ford Motor Company -

SAN MATEO COUNTY BOARD OF SUPERVISORS

Dave Pine
District 1

dpine@smcgov.org

(650) 363-4571



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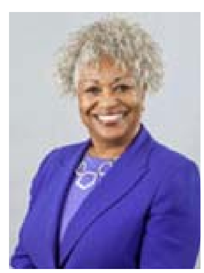

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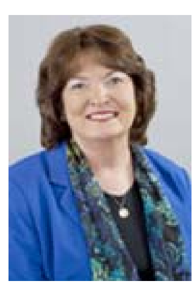

Adrienne J. Tissier
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Future Employee Benefit Obligations. The landscape for public defined benefit pension plans remains difficult to analyze because of the large amounts involved and the complexity and variety of the methods used to calculate these obligations. However, one thing can be said with certainty, the unfunded actuarial liabilities (the present value of promised benefits minus the assets held to pay these promises) have become significant and worrisome to taxpayers and the Board of Supervisors.

An analysis of the full pension and other post-employment benefit liabilities, including outstanding Pension Obligation Bonds (POBs) for the County, ten other local counties and the State show that the County’s funded ratio of 73.3% is higher than the average funded ratio of 70.6%, and is significantly better than the State’s ratio of 59.4%. The County’s unfunded liability for pension and other postemployment benefits at June 30, 2011 was $931.6 million. That calculates to a per capita liability of $1,285. The per capita liability for the State was $4,349.

There are many factors that impact the County’s pension obligations. The actuaries for SamCERA, the County’s pension plan, use an estimated “discount rate” (rate of return on assets held and future payments toward the unfunded liabilities) of 7.5%. For every 0.25% reduction in the discount rate, the County’s annual required contribution would increase by about $13 million. For example, if the County paid $13 million over and above the required annual contribution for the next fiscal year, it would be equivalent to assuming a decrease of 0.25% from the assumed 7.5% discount rate, a 7.25% discount rate.

The newly passed California’s Public Employees’ Pension Reform Act (PEPRA) of 2013 will primarily impact County employees hired after January 1, 2013. In the long run PEPRA should slow the growth in State and local pension liabilities. The number of employees in the current, more expensive retirement plans will diminish over time as will the liabilities associated with their future pension benefits.

The issuance of POBs by some government entities may have improved their pension liability standing. However, these entities essentially borrowed in order to buy pension assets/investments. These POB liabilities are being repaid, with interest, but are not included in the calculation of unfunded pension liabilities. Additionally, many of the assets purchased by pension plans from the proceeds of these POBs lost significant value in the Great Recession. Now many of these entities that issued POBs have not only large unfunded pension liabilities but also must pay off these bonds. Fortunately, the County never issued POBs and is therefore not in this position.

Controller Bob Adler and 2012 Employee of Year, Maria Locon

To address future benefit obligations the County has reduced its workforce, kept salaries stable, avoided pension spiking schemes, kept current with its annual required contributions, and never issued POBs. Despite all these efforts the County will continue to face high annual employer contribution rates for benefit obligations into the foreseeable future.

To reduce these anticipated high contribution rates, the County can use one-time discretionary revenues. An example is excess Educational Revenue Augmentation Funds which can be used to pre-pay retirement and other postemployment benefits. These revenues, in large measure, are currently used for operational purposes and capital acquisitions.

The State is constantly exploring ways to “take-back” local revenues to close its budget gaps. The State is also likely to continue to shift responsibilities to local governments without paying the full cost of these responsibilities (e.g., the shift of inmates from State to local facilities) and to find ways to obligate local revenues for the State’s budget shortfalls.

Increasing payments, while discretionary revenues are still available, to fund long-term obligations will reduce the unfunded liabilities. More significantly, prepayments reduce the required annual contribution in future years. For example, an additional payment of $40 million for the next five years to the County’s pension plan would reduce the employer contribution by approximately 3.2% and have the same impact as decreasing the discount rate by 0.75% for each year these prepayments are made. After five years of paying an additional $40 million annually, the future annual required contribution to SamCERA would be reduced annually by approximately $17 million ongoing.

“As employers try to maintain the balance between containing costs and offering competitive total rewards packages, they are realizing that their future health care benefits choices are not quite as simple as ‘paying or playing.’”

- Ron Fontanetta,
Senior Health Care Consulting Leader
at Towers Watson -

The Governmental Accounting Standards Board has released Statements 67 (for defined benefit pension plans) and 68 (for employers with defined benefit pension plans) to bring public pension accounting more in line with private sector rules. As part of the change, the discount rate for public plans will be more in line with the discount rate and investment rate of return for private plans (which use separate rates of return for assets held versus liabilities). These pronouncements are expected to have a material impact to the liabilities reported in the County's Government-wide financial statements.

Vehicle License Fee. In 1992 the State enacted legislation that shifted responsibility for funding education to local governments. This legislation required County Auditor-Controllers to shift local property tax revenues from local taxing agencies to the Educational Revenue Augmentation Fund (ERAF) trust fund.

Effective fiscal year 2004-05, California law was revised such that local entities no longer received Vehicle License Fees (VLF) directly from the State. Instead VLF are paid from ERAF and property tax revenues of non-basic aid school districts. As non-basic aid schools turn basic aid (when local property taxes equal or exceed the minimum annual funding required by the State), they no longer contribute to VLF. Thus, there may not be sufficient monies from ERAF and non-basic aid school districts to pay VLF due to the County and cities.

In fiscal year 2011-12, $203,960 out of the total $125,046,133 VLF payable to the County and cities was not paid due to insufficient funds in ERAF and property tax revenues. The County's share of this $203,960 VLF shortfall was $120,666.

If additional school districts become basic aid in future years, the VLF shortfall could grow significantly, which in turn decreases the discretionary revenues available to the County and cities. Factors that can cause a school district to become basic aid include: increased local property tax revenues (from the recently dissolved redevelopment agencies and an improving economy), State reductions in annual school district revenue limits, and a reduction in school populations.

The table below uses FY 2011-12 data to show the school districts closest to becoming basic aid and the associated estimated decrease in the VLF funds to the County and cities. As can be seen, these may be a profound, detrimental impact to the County and its cities.

Summary. The County has explored processes to tackle budget challenges from different perspectives. Rather than focus on spending cuts, the emphasis has switched to exploration of ways to maximize the value of dollars expended. The County has also collaborated with external service providers and nonprofit partners to identify methods that will improve the efficiency and effectiveness of service delivery. In the years to come County management continues to face significant financial challenges, but will no doubt continue to meet these challenges with innovation, collaboration, and prudent fiscal management as it has done in the past.

Bob Adler

Bob Adler, CPA
San Mateo County Controller

Top 5 San Mateo County Non-Basic Aid School Districts
Closest To Becoming Basic Aid in FY 2011-12[1]

Non-Basic Aid School District	Additional Property Taxes Needed To Become Basic Aid	County's Share of VLF Loss (A)	Cities Share of VLF Loss (B)	Total VLF Loss (A) +(B)
Bayshore	514,283	962,014	668,519	1,630,533
San Carlos	597,290	7,687,144	5,341,913	13,029,057
Burlingame	1,194,195	7,707,553	5,356,096	13,063,649
Millbrae	1,716,737	5,871,189	4,079,978	9,951,167
Pacifica	3,614,153	7,064,671	4,909,347	11,974,018
		$ 29,292,571	**$ 20,355,853**	**$ 49,648,424**

1. The amounts above are based on the school districts P-2 2012 reports, w hich are subject to further revisions upon issuance of the State annual reports in Feb/March 2013

Affordable Care Act

Driven in part by the U.S. Supreme Court's recent decision on the Affordable Care Act (ACA), all health care providers, including the County's San Mateo Medical Center (Medical Center) will be required to make major changes in the way they deliver care. The ACA is designed to provide health care insurance coverage for most Americans.

The ACA makes health care coverage affordable for lower-income Americans in two ways: by expanding Medicaid (called Medi-Cal in California) to cover more individuals, and by providing subsidies for low and middle income Americans to purchase health insurance through State-established health insurance marketplaces called "Exchanges".

In the County it is estimated that 47,000 uninsured residents will qualify for health insurance through the ACA, though a smaller number will actually participate. Approximately 13,000 County residents will qualify for Medi-Cal as eligibility expands to all documented residents with income below 138% of the Federal Poverty Level (FPL), which is $15,024 in 2012 for a single adult. Currently Medi-Cal is only available if the income threshold is met and one is disabled, elderly, or a minor. It is estimated that 34,000 residents will qualify for federal subsidies to purchase private health insurance through the State Exchange. Estimates of the percentage of people eligible for coverage who will actually participate range between 50-70%.

The ACA does not cover undocumented residents. In California, counties are responsible for arranging healthcare for the medically indigent. The County's Access and Care for Everyone (ACE) healthcare program for indigents is available for adult residents with incomes at or below 200% of the FPL and assets of $2,000 or less. The County also provides health insurance to all children living in households with incomes at or below 400% of the FPL.

The County estimates that 16,000 adult residents and 4,500 children will continue to be uninsured and thus the County's responsibility after the ACA's implementation. This compares to 28,000 adults and 5,000 children currently enrolled in ACE and Healthy Kids.

The ACA is financed through a broad range of sources including: new taxes/fees on healthcare sector manufacturers; penalties on individuals and employers who do not obtain or offer health insurance coverage; increased Medicare taxes on the wealthiest Americans; and phased-in reduction of payments to hospitals that see a disproportionate share of uninsured and Medicaid patients. This reduction in the amount of disproportionate share payments will represent a significant decrease in federal and State payments to the County, especially the Medical Center.

The Human Services Agency (HSA) also has its own challenges with ACA implementation. HSA will be responsible for up to 13,000 more Medi-Cal enrollments each year, which represents a 14% increase in Medi-Cal caseload. The net financial effect of the ACA on the County is unclear at this point. On one hand the Medical Center expects to transition some patients from ACE to Medi-Cal (approximately 8,000 current ACE enrollees). On the other hand, the payments to the County for running a disproportionate share hospital will decrease over time. At this point the County expects an overall neutral financial effect from the law's implementation, but there is a much financial uncertainty.

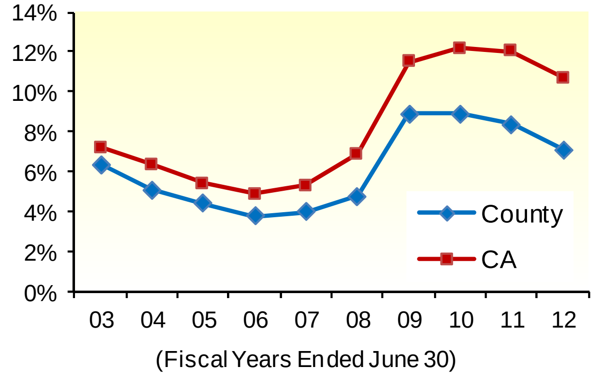
Economic Indicators

Employment

The County had an estimated 27,600 unemployed residents as of June 2012.

- The County's unemployment rate was 7.1% for June 2012, below the prior year's average of 8.4%.
- This compares with an unadjusted unemployment rate of 10.7% for California and 8.4% for the U.S. for June 2012.
- Among California's 58 counties the County recorded the second lowest unemployment rate as of June 2012.

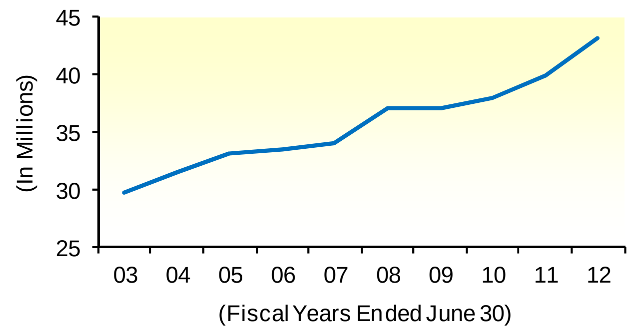
Unemployment Rate



Tourism

San Francisco International Airport remains a significant economic engine in the region by providing tens of thousands of jobs. The Airport's total passenger volume rose 7.7% to 43.1 million for June 2012 from 40.0 million for June 2011.

SFO Total Airport Passengers



Residential Property

- The County's median single-family home price rose 8.9% to $826,250 as of June 2012, from $758,500 as of June 2011.
- The County's median condominium price rose 10.4% to $425,000 as of June 2012, from $385,000 for as of June 2011.
- The California median single-family home price rose 8.1% to $320,540 in June 2012, from $296,410 in June 2011.

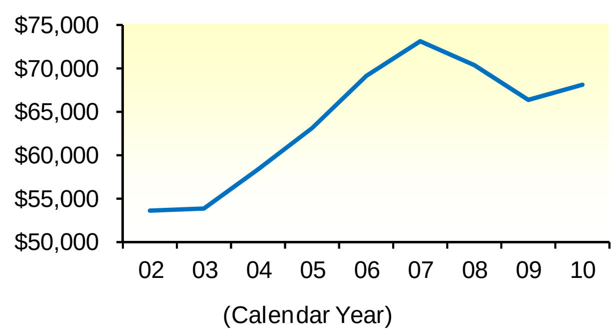
Commercial Property

- The vacancy rate in June 2012 was at 14.1%, up from 13.5% in June 2011. The June 2010 vacancy rate was 17.1%.
- The average asking rate for space rose 12.5% to $3.32 per square foot per month as of June 2012, up from $2.95 per square foot per month as of June 2011. The rate at June 2010 was $2.65 per square foot per month.

Income

- The County's estimated median family income was $99,043 for 2011 (latest available data) compared to $101,753 for 2010 per the U.S. Census Bureau.
- The County's per capita personal income increased to $67,964 in 2010 (latest available data), a 2.6% increase from $66,254 in 2009.

Per Capita Personal Income



Economic Climate

The 2012 year began on a positive note. A marked improvement in market sentiment, combined with monetary policy easing in developing countries, was reflected in a rebound of economic activity in both developing and advanced countries. Industrial production, trade, and capital goods sales all returned to positive territory following the slow growth in the fourth quarter of 2011.

Developing countries led the rebound which helped to pull the Euro Area into marginally positive Gross Domestic Product (GDP) growth in the first quarter. Since the beginning of May 2012, however, much of this progress has been called into question by a re-igniting of Euro Area jitters, which roiled financial markets around the globe. The resurgence of tensions in the Euro Area is a reminder that the after effects of the 2008/2009 crisis have not yet played out fully.

In spite of these global economic uncertainties, GDP for the United States is expected to gradually increase over the next years while the national and local unemployment rates slowly decrease. While world GDP growth is estimated to be 2.5%, 3.0%, and 3.3% for 2012, 2013, and 2014, respectively, growth for the United States is projected to be a little lower at 2.1%, 2.4%, and 2.8% for the same periods.

"The global economy currently faces serious challenges and policy action is needed to restore confidence and put the economic recovery onto a sustainable growth path."

- Global Post 11/12/12 -

Employment

The U.S. unemployment rate was projected to decrease to an estimated 8.0% to 8.2% for 2012, 7.6% to 7.9% in 2013, and 6.7% to 7.3% in 2014. For September 2012, the actual national unemployment rate of 7.8% was 1.2% lower than in September 2011 when it was 9.0%.

California's August 2012 unemployment rate of 10.6% was the third highest in the nation, even though the State's unemployment rate decreased by 1.3% from a year earlier when it was 11.9% (August 2011). The unemployment rate in the County was 6.8% in August 2012 (the second lowest unemployment rate of all Counties in the State), which is down from August 2011 when the rate was at 8.1%.

Housing Market

In the latest sign that the housing market is on the mend, August 2012 was the strongest month for Bay Area home sales in six years. The number of homes sold in the Bay Area increased by 14% compared to August 2011. This represents the 11th straight month sales have registered a year-over-year increase.

The County's median single-family home price rose 8.9% to $826,250 as of June 2012, from $758,500 as of June 2011. The improving real estate market in the County should continue to increase assessed property values, which in turn will increase future property tax revenues.

"Bay Area housing market continues its rebound."

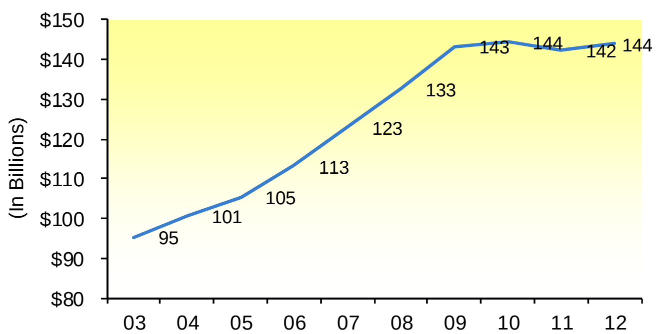
- Steven Johnson, Bay Area News Group 9/15/12 -

Property Tax

Given that property tax revenues make up the County's largest source of general fund revenues, the health of the local real estate market and the associated changes in property assessed values are key indicators of the financial outlook for the County.

The FY 2012-2013 net Property Assessment Roll values ($147.26 billion as of January 1, 2012) for the County increased 3.33%, or $4.75 billion compared to last year's property tax roll. This increase in property assessment value translates to an increase in property tax revenues of about $47.5 million that are shared by all local agencies: schools, cities, special districts and the County. The $47.5 million increase in property tax revenues does not take into account refunds, which are difficult to predict for any fiscal year. For example, in FY 2011-12 the County processed $36.2 million in refunds.

Total Taxable Assessed Value

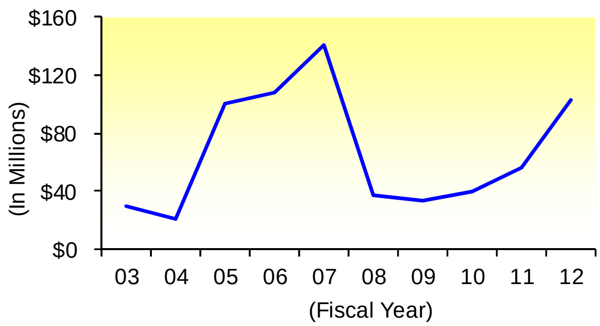


County's Net Assets (In Millions)

	Governmental Activities 2012	Business-type Activities 2012	Total 2012
Assets:			
Current and other assets	$ 993	$ 116	$ 1,109
Capital assets	779	62	841
Total assets	1,772	178	1,950
Liabilities:			
Long-term liabilities	436	12	448
Other liabilities	135	35	170
Total liabilities	571	47	618
Net assets:			
Invested in capital assets, net of related debt	459	59	518
Restricted	191	2	193
Unrestricted	551	70	621
Total net assets	$ 1,201	$ 131	$ 1,332

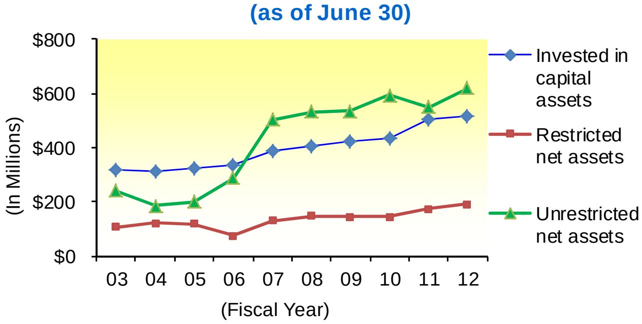
Net Assets. Increases or decreases in net assets may serve as a useful indicator of whether the County's financial position is improving or deteriorating. As of June 30, 2012, the County's total net assets has reached $1.3 billion, an increase of $103 million or 8% from the previous year.

Change in Net Assets



- $518 million, or 39%, is invested in capital assets and not available for future spending.
- $193 million, or 14%, is subject to external restrictions on how it may be used.
- $621 million, or 47%, may be used to meet the County's ongoing obligations.

Net Assets (as of June 30)



Net assets represent the difference between assets and liabilities.

Governmental activities are normally supported by taxes and intergovernmental (Federal, State and other local governments) revenues.

Business-type activities usually rely heavily on fees charged to recipients of the services with shortfalls paid from governmental funds.

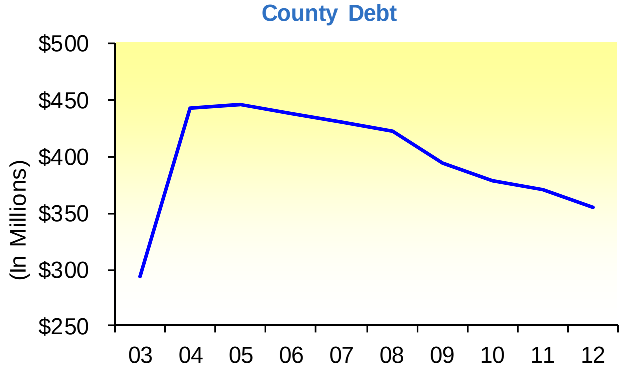
Capital Assets. The County's total investment in capital assets was $841 million as of June 30, 2012.

- $556 million, or 66%, was invested in structures and improvements.
- $132 million, or 16%, in infrastructure.
- $153 million, or 18%, in other capital assets.

Long-Term Debt. The County's total long-term debt was $356 million as of June 30, 2012.

- $327 million, or 92%, in lease revenue bonds (rated from AA to AAA by Standard and Poor's Corporation).
- $23 million, or 6%, in certificates of participation.
- $6 million, or 2%, in notes payable and other long-term liabilities.

County Debt



This report is derived from the County's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. The CAFR provides more detailed information and is prepared in conformity with generally accepted accounting principles. The CAFR is available at:
http://www.co.sanmateo.ca.us/controller/2012cafr

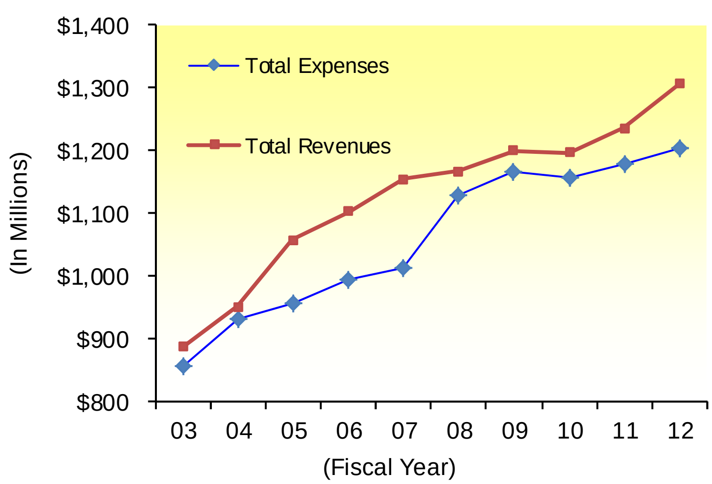
The County received an unqualified ("clean") opinion from the Grand Jury independent auditors for the 2012 fiscal year.

As noted on the preceding page, the County's net assets increased by $103 million, or 8%. This amount reflects the difference between County's total revenues and total expenses for the fiscal year ended June 30, 2012.

Change in Net Assets
(In Millions)

	Fiscal Years 2012	2011	2010
Revenues:			
Program revenues:			
Charges for services	$ 280	$ 266	$ 279
Operating grants and contributions	594	566	497
Capital grants and contributions	6	5	5
General revenues:			
Property taxes	366	342	357
Other taxes	27	23	22
Unrestricted interest/investment earnings	11	10	12
Miscellaneous	24	24	25
Total revenues	1,308	1,236	1,197
Expenses:			
Program expenses:			
General government	72	68	71
Public protection	340	329	308
Public ways and facilities	19	19	19
Health and sanitation	222	215	229
Public assistance	199	207	202
Recreation	9	10	9
Interest on long-term liabilities	17	18	16
San Mateo Medical Center	252	241	233
Airports	3	3	3
Coyote Point Marina	1	1	1
Housing Authority	71	69	66
Total expenses	1,205	1,180	1,157
Change in net assets	103	56	40
Net assets - beginning	1,229	1,173	1,133
Net assets - ending	$1,332	$1,229	$1,173

Change in Net Assets
(as of June 30)



Revenues are monies the County receives from a variety of sources.

Program revenues are derived directly from County programs and encompass:

- Charges for services paid by the recipients of goods and services offered by County's various programs.
- Grants and contributions that are restricted to meet the operational or capital requirements of County programs.

General revenues are revenues that are not classified as program revenues such as property taxes.

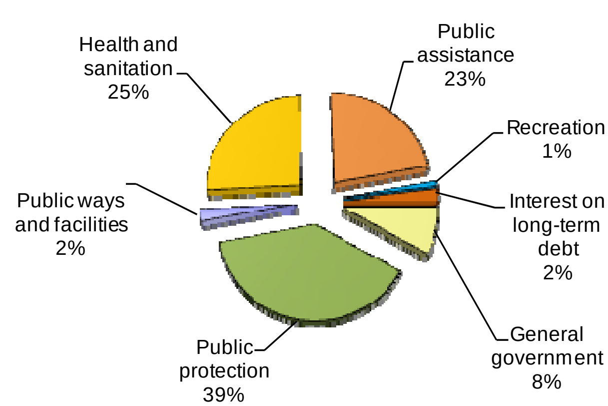
Expenses are monies spent on providing services to the County's residents. Such services can either be "governmental" activities or "business-type" activities.

Governmental activities are normally supported by taxes and intergovernmental revenues and cover various services including:

- General government - Include costs incurred by the County's administrative offices.
- Public protection - Protect the public through law enforcement, custody of criminals, and re-socialization of offenders.
- Public ways and facilities - Maintain County roads, bridges, and other infrastructure.
- Health and sanitation - Build a healthy community and provide health care to vulnerable populations.
- Public assistance - Assist individuals and families to achieve economic self-sufficiency, promote community and family strength, and ensure child safety and well-being.
- Recreation - Provide residents with access to park sites and recreation facilities.

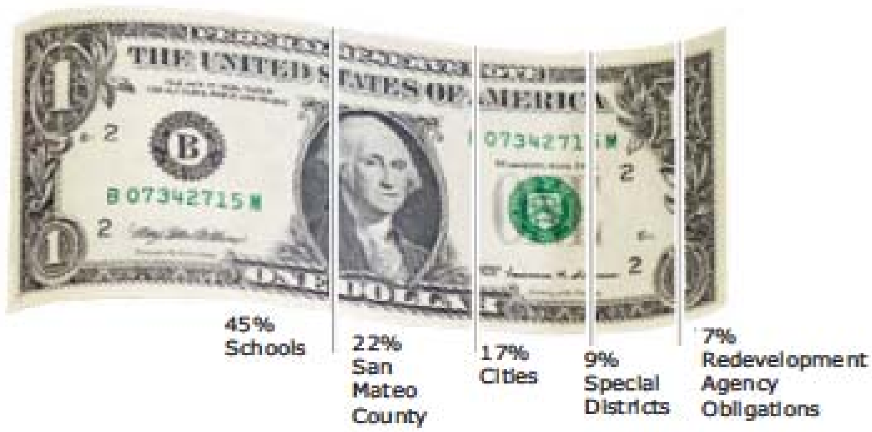
Business-type activities include those services provided by San Mateo Medical Center, Airports, Coyote Point Marina Recreation, and Housing Authority. Theoretically speaking, such activities rely heavily on fees charged to recipients of the services.

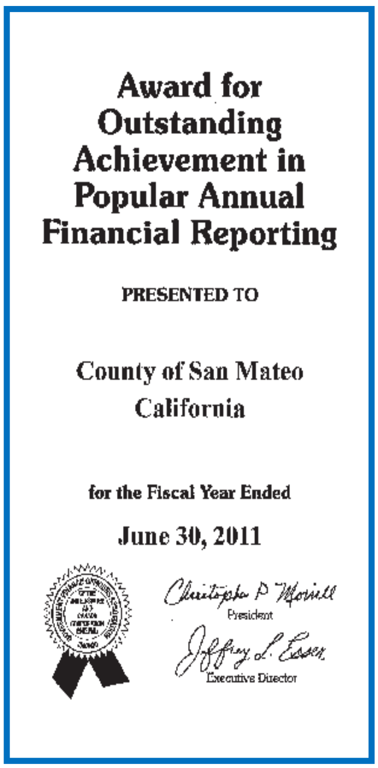
Governmental Activtities - Expenses
For the Fiscal Year Ended June 30, 2012



Financial Summary

Property tax is the County's largest discretionary General Fund (main operating fund) revenue source. The picture below depicts how each dollar of property tax collected is allocated:




Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

County of San Mateo
California

for the Fiscal Year Ended

June 30, 2011

President

Executive Director

Award for Outstanding Achievement

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 Financial Highlights publication for the fiscal year ended June 30, 2011. This Award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive this award, 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 this award for the last ten consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements and are submitting it to the GFOA.