

May 10, 2012

Honorable Board of Supervisors:

It has been 4 years since I last submitted a Recommended Budget to your Honorable Board. The environment in which the County of San Mateo operates has changed significantly. Despite this, the twin beacons guiding our work remained fixed and immutable--to protect the public health and safety of the community and to be good stewards of the resources entrusted to us.

The County has responded to the Great Recession by reducing services, improving productivity, restructuring labor costs and reorganizing operations. Our response has assumed that as the economy strengthened operations would return to normal. But the depth and breadth of this recession has exposed long-term economic, political and societal problems that remain.

In California the recession has revealed the institutional weakness in the governance of the state. These weaknesses have resulted in the state failing to balance the demands of a rapidly growing, multi-cultural population with available resources in order to keep pace with the world's most innovative economy. This is due to the long-term consequences of Proposition 13, ballot-imposed earmarks creating new spending obligations, the super-majority requirements to close costly special interest loop holes or enact new taxes and extreme partisanship. What remains, is a dysfunctional state, lacking the vision and the institutional means to move adeptly and with alacrity to ameliorate the impacts of the recession.

The Great Recession, a decade of war in the Middle East and an aging population have left the Federal government with unsustainable deficits. We should expect in the coming years the Federal government to shift more responsibilities to state and local governments without the necessary funding to fulfill the obligations.

The result of all this is an increasingly disillusioned citizenry that believes that governments, at all levels, have promised much more than they can deliver.

In the 1980's the General Synod of the Church of England was debating the controversial question of admitting women to the priesthood. A speaker from the floor of the Chamber spoke passionately, "In this great matter," he cried, "as in so much else in our country why cannot the status quo be the way forward?" What we are experiencing are changes for which the past is not a prelude to the future. As much as we may wish it wasn't so, we can't go back to the way things were, it is up to us to make our own future.

### **Overview**

The Recommended Budget and Financial Plan for FY 2012-13 is \$1.835 billion, an increase of 4.5 percent over the budgeted amount for the current fiscal year and \$18.4 million less than the actual amount spent in FY 2010-11. The General Fund is \$1.225 billion, an increase of 2.9 percent over FY 2011-12 and \$28.4 million less than the actual amount spent in FY 2010-11. We estimate that the General Fund will end the fiscal year with a small surplus of \$3.9 million, for a total fund balance of \$258 million. The Net County Cost (NCC) will increase by approximately \$22.6 million over the prior year, including \$17.1 million in one-time expenses for the closure of the Burlingame Long-Term Care (BLTC) facility. The Capital Projects Budget in Non-departmental will increase from \$15.5 million to \$41.9 million.

This budget is consistent with the Five-year Budget Plan and with the Board's subsequent directions during the Preliminary Budget Review in March. Revenue and expense estimates for the next fiscal year are within the ranges given to the Board in January. The County will be using \$40 million in ERAF funds to balance the budget rather than

the \$53 million that had been projected due to increasing tax receipts and a larger fund balance. This assumes the passages of Measures T, U and X in June and negotiating labor agreements resulting in lower salary and/or benefits costs. The County will realize most of the cost savings from the business process re-engineering projects now underway.

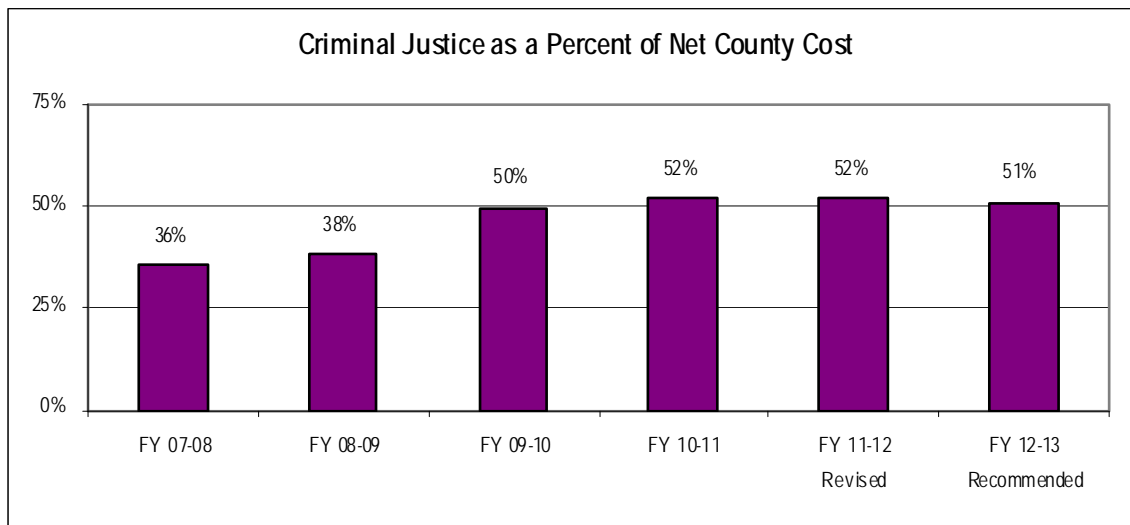
In the May Revise, Governor Brown reports a continued diminution in state revenues. This has caused the gap to grow from January's estimate of \$9.2 to \$15.7 billion. The Governor proposes significant reductions in health, human services, corrections and to overall state operations. These reductions, for example, will directly impact the care provided to our most vulnerable -- seniors, children and the mentally ill. Additionally, the Governor proposes reducing the number of permanent state employees by 15,000, to 341,106 and reducing the work week to four days totaling 38 hours. If the Governor's proposed tax measures fail in November, additional reductions will be required

### **Budget Changes**

This budget reflects key changes in how the County conducts its business. These changes are part of an ongoing reassessment of all County services, costs and organization:

#### **1. Criminal Justice**

Public safety is one of government's most important responsibilities. Yet in an era of diminished resources the County must decide how best to allocate funds to ensure the provision of both public safety and other essential services. It is not an either or proposition! How do we achieve the goal of having less crime and fewer victims while using public resources wisely?



In recent years the Board has had to consider this question in connection with the need to replace the aging woman's jail, and reduce jail overcrowding while working to create the capacity to house inmates formerly sentenced to state prison. After careful deliberation the Board decided to construct a new jail and to make a concerted effort to rehabilitate those incarcerated.

Last year the Governor signed into law Assembly Bills 109 and 117 which represent sweeping changes to state prisons and County jail systems. Together, public safety realignment provides for the early release of some inmates from state prison and requires people convicted of less serious felonies to be incarcerated in county jails instead of state prisons.

These bills help the state alleviate prison overcrowding and reduce state expenses by shifting the responsibility to local governments.

As part of the legislation the County is required to adopt a Local Implementation Plan (LIP) and Budget for managing this population. Next year we anticipate that the County will receive \$10 million from the state for criminal justice realignment. To date there have been 228 inmates returned to the County under the supervision of the Probation Department and 148 inmates have been sentenced to County jail for crimes that previously would have resulted in state prison sentences. The average sentence is 18 months in jail and 17 months on probation.

By using evidence-based correctional sanctions and programming, criminal justice realignment gives counties the opportunity to break the cycle of building and filling more jails. We must seize this opportunity! According to experts, 70 percent of offenders commit a new crime within three years of release. The Community Corrections Partnership (CCP) has identified reducing recidivism (defined in the LIP as an arrest for a new crime within three years of release) as a key factor in improving public safety and reducing the jail population and its attendant costs.

This budget includes \$5.1 million for additional reentry services. These funds are critical to reducing recidivism. The strategy of the CCP in implementing reentry programs is, "a collaborative approach that seeks to reduce recidivism and ensure public safety by coordinating services and in/or out-of-custody supervision. In this approach, multidisciplinary teams (MDT) work together to engage supervisees as *early as possible* and ensure that supervision and services are complementary in order to help supervisees succeed."

The Court's policies on pre-trial incarceration and post-trial sentencing have a major impact on the jail population. It is critical that we continue to engage the Court to identify and resolve any systemic problems that impede its ability to make timely decisions that affect the length of stay of inmates. We also need to work with the Court and the Sheriff to identify those tools that will give the Sheriff the most flexibility in managing the jail population.

The Court should be commended for its innovation in implementing Drug Court, Mental Health Court and Veterans Court. The Court has also worked with the County to design and utilize programs like Bridges and Choices that have helped those under Court supervision to achieve and maintain sobriety and become productive citizens.

The Recommended Budget includes \$44.2 million for the design of the new jail. Important considerations include constructing a facility that meets our minimum needs while providing additional space for expansion should that become necessary and adequate space for reentry services and transitional beds.

My office is working with the Sheriff to prepare a revised operating budget that will include the costs of financing the facility. We will be analyzing a different (and less costly) skill mix for staffing the facility, and examining different approaches for the delivery of auxiliary services. We will present that budget to the Board in the autumn.

The Sheriff should be commended for aggressively working with the cities of San Carlos, Half Moon Bay and Millbrae to provide County law enforcement services to these communities. These new contracts along with the existing Portola Valley and Woodside contracts, have improved law enforcement services in these communities and saved the cities and the County money by achieving economies of scale.

I believe that the future success of local governments depends on our willingness to share services for the benefit of mutual constituents. There are continuing discussions between the City of Pacifica and the Sheriff regarding law enforcement services. The County and cities are also discussing the feasibility of consolidating law enforcement dispatch services into the County's Emergency Dispatch Center (there will be sufficient space in the new Emergency Dispatch Center to accommodate this possibility).

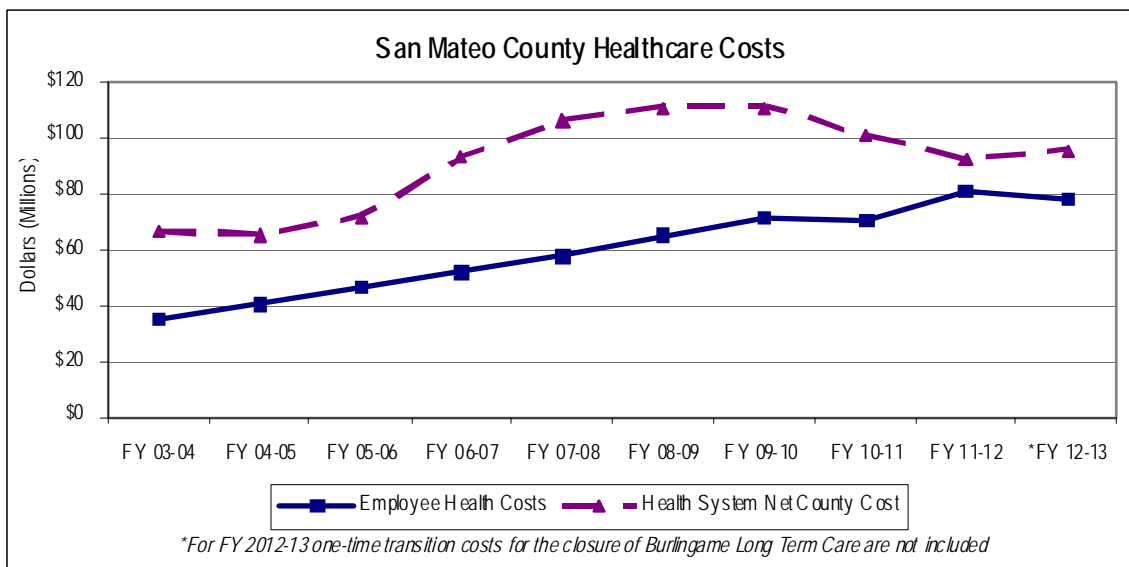
The County should facilitate shared services agreements wherever feasible. The goal should be to maintain or improve fire, police and emergency medical service and reduce costs. This can be accomplished by ensuring that the governance structures for these arrangements enable the individual agencies to control service levels and costs.

## 2. Health and Human Services

Protecting the health and well-being of the community is also a primary responsibility of County government. Both the Health System and the Human Services Agency provide essential services to our County's most vulnerable populations. The Great Recession has dramatically increased demands for many of these services but diminished resources have hampered the County's ability to respond.

Today, in the United States we spend an average of \$8,200 per person per year on medical conditions and health insurance. In 1950, health care expenses represented about 4.6 percent of GDP, by 2009, that figure had jumped to seventeen percent. Thirty percent of the total cost of health care is generated by only one percent of the population and fifty percent of the cost is generated by five percent of the population. Despite the enormous amount of money spent on health care, the leading health care indicators in the U.S. lag behind many other nations. The dramatic rise in health care costs has significantly increased the County costs.

The chart below shows the impact of these increases on the County's budget. Taken together, they limit our ability to respond to other social problems, diminish our prevention efforts and reduce our ability to provide other essential services. We must find a way to reverse or at the very least moderate these trends.



Recently Professor Walter Bortz, author of The Next Medicine: The Science and Civics of Health, spoke at the SMMC Medical Staff Annual Dinner about the need for a paradigm shift in the delivery of health care away from a "disease-centric to a health-centric" model focusing on prevention and exercise.

According to Bortz, less than two percent of all health care expenditures are devoted to prevention and yet prevention is intrinsic to good health. He believes that prevention and exercise can reduce the incidence of heart disease, many forms of cancer, diabetes, arthritis and brain diseases, thereby saving billions of dollars in unnecessary costs.

Bortz also believes that modern medicine causes needless suffering and expenses by rushing to intervene in too many conditions. For instance he cites a recent study of prostate cancer patients in which one of four treatments were used: surgery, radiation, chemotherapy and watchful waiting. The results revealed that there was no difference in clinical outcomes between the most aggressive and most conservative approaches to treatment despite the huge differences in cost, time and effort.

There has been no area of the economy that has received more scrutiny nor undergone more changes than the health care industry and the practice of medicine. These changes have had and will continue to have a profound impact on the County. In response we need to accelerate our work to move from a “disease-centric to a health-centric” model of health care. We need to think through how we are organized and staffed to deliver health care to our patients and to nurture and develop long-term, strategic partnerships with other providers that can reduce costs and improve patient care.

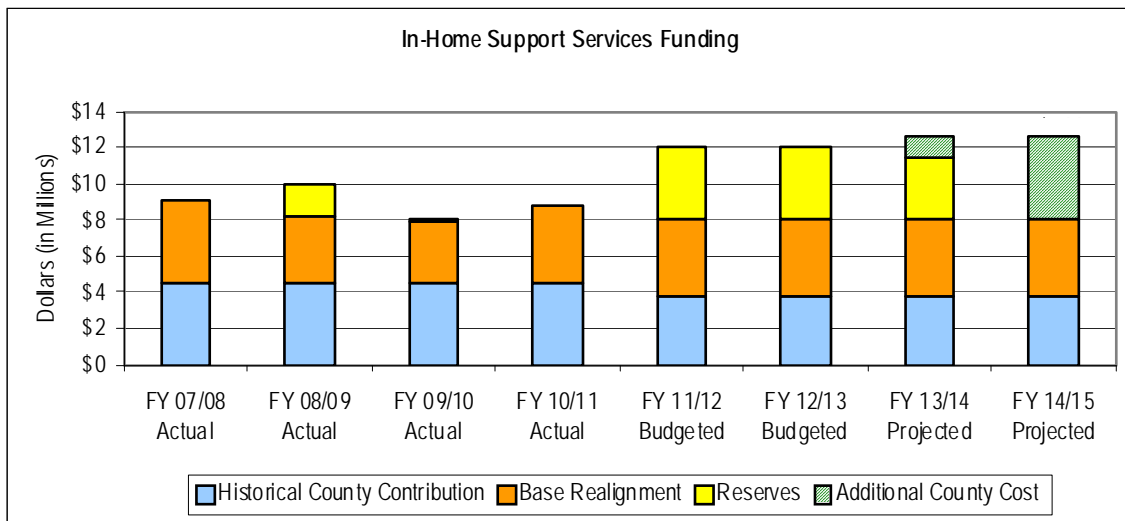
The San Mateo Medical Center relies heavily on an extensive system of outpatient clinics to keep patients healthy and reduce expensive hospitalizations for acute and psychiatric care and emergency room visits. The Health System continues to emphasize the importance of prevention and early intervention through programs such as: Pre-Three, HIV/Aids, Teenage Pregnancy Prevention, the Children’s Health Initiative, Childhood Obesity Prevention and Diabetes Management. Altogether prevention and early intervention programs make up approximately 2.6 percent of the Recommended Budget.

The Health System should be commended for being one of only a few counties in the State with a reduction in obesity rates over the past 5 years. While nearly one-third of children are still overweight or obese, the rate in the County has gone down by 5.6 percent. This is an indication that the work conducted by Get Healthy San Mateo County to create environments where the healthy choice is the easy choice is making a difference.

We know that our population is aging, and given a choice, everyone would prefer to stay out of institutions for as long as possible. We also know that many of the home and community based programs that we have operated historically through the Health System, for example In-Home Supportive Services (IHSS), Behavioral Health full service partnerships, and the Ron Robinson Senior Care Center, have been successful at keeping people out of institutions. Unfortunately, for Medical patients the only option is to place them in an institution because their Medi-Cal health coverage will only pay for hospital and long-term nursing care, not the supports that allow people to remain in the community.

Through the County’s advocacy, and the advocacy of many others, the state is changing course. San Mateo County and the Health Plan of San Mateo (HPSM) have received approval from Federal and state authorities to be one of four pilot programs for long-term care integration for Medi-Cal/Medicare “Dual” beneficiaries. Long-term care integration will allow many more Medi-Cal/Medicare beneficiaries to remain at home.

The Duals Pilot benefits will not be immediate and may be delayed due to the state’s reluctance to allow counties more flexibility in managing this program. The Duals Pilot will not change the requirement that the County provide 17 percent of the cost of the IHSS program to draw down 83 percent of the funding from the Federal and state governments. The expected County cost of the program for FY 2012-13 is \$11,658,548. The County’s General Fund contribution remains at \$3,702,306 (\$4.0 million from Realignment Reserves will be used in FY 2012-13 to help pay for the County’s cost of the program). The County match will draw \$54.8 million in Federal and state IHSS funding to San Mateo County. At the current funding level, the IHSS program will exhaust all of its reserves by March 2014. Therefore, to meet its legal obligation, it is projected the County will need to contribute an additional \$1.2 million in FY 2013-14 and an additional \$5 million in FY 2014-15. The Health System will continue to manage utilization of the program and advocate for more financial flexibility in managing the program.



There are several initiatives underway at SMMC that will improve efficiency, increase revenue and/or reduce costs: revenue cycle improvements to increase the speed with which bills are sent out, improve the accuracy of the bills, and respond more effectively to denials of bills, (increased revenue-\$5.9 million); purchasing efficiencies (e.g., by limiting selections to generic products or to items with volume discounts) at SMMC (services and supplies cost savings-\$1.9 million); and improved patient throughput at SMMC clinics to increase visits (increased revenue- \$1.7 million).

The Health System continues to work with the Sequoia and Peninsula Health Care Districts to fund programs and projects that benefit the residents of their districts. The Recommended Budget includes funding from Sequoia for the Children's Health Initiative (\$1.35 million) and health care for uninsured adults (\$2.0 million) and from Peninsula \$165,000 for psychiatric programs. The Peninsula Health Care District Board is still considering a County proposal for \$2.3 million to fund health care for uninsured adults.

Assemblyman Gordon's Bill, AB 2418, is in the Assembly Appropriations Committee. If the bill becomes law all health care districts without hospitals would have to spend a minimum of 95 percent of their annual property tax revenue on health care related programs and projects. As greater demands are placed on the County's Health System, it is critical that the health care districts support the community's greatest health care needs.

The Health System and Human Services have begun the process of change in planning for the implementation of the Patient Protection and Affordable Health Care Act (ACA) passed by Congress in 2009. The Recommended Budget includes the necessary funds to complete the redesign of the intake eligibility determination process for all clients including the estimated 42,000 residents who will qualify for coverage under the Act, by ensuring the enrollment process is user friendly and efficient. This includes funds for remodeling HSA offices to accommodate the redesigned business processes and additional clients.

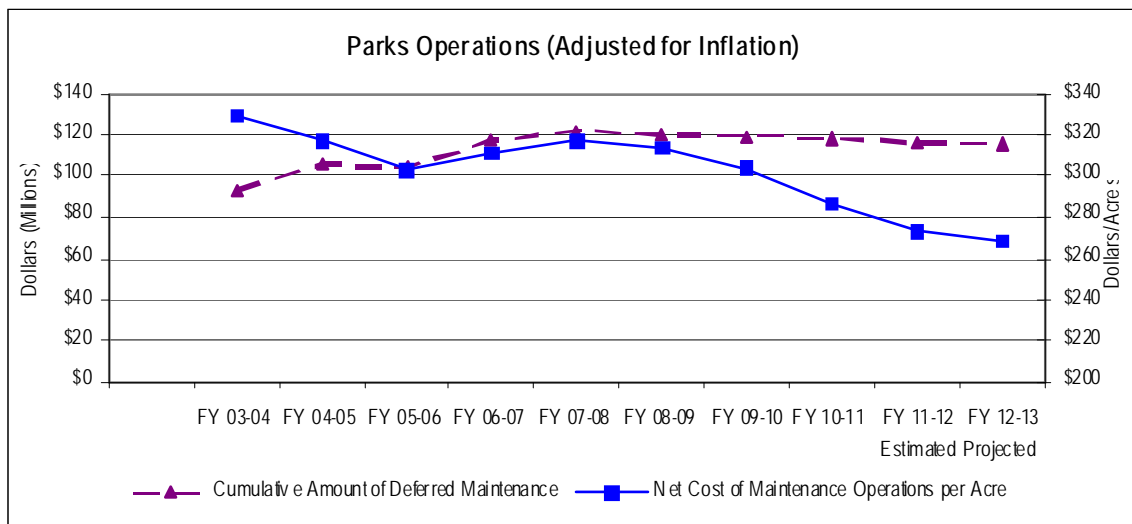
If the Supreme Court upholds the law 8,000 to 13,000 previously uninsured County residents will have health insurance and potentially relieve the County of its fiscal responsibility for health care for these patients. However, the Health System will still have to provide care to approximately 20,000 adults and children who are not covered by the reform, as well as people who are unable or unwilling to apply for Federal coverage. In addition, the Health System faces the loss of \$46 million as the Federal government moves monies it currently spends to support public hospitals to pay for coverage. While it is difficult to predict the impact of the law on County costs, our best estimate is that it will be revenue neutral.

One of the goals of ACA is to moderate the rate of increase in health care costs. However, even if the Court upholds the law we cannot be sure it will achieve this goal. Therefore, the County must continue to implement programs that emphasize prevention and healthy living as a strategy for improving public health and reducing County costs.

No place is this more evident than in the availability of affordable, quality child care and early learning. The continued state budget reduction in CalWORKS is particularly problematic to high-cost counties like ours. The CalWORKS reductions to child care are dramatic and could have long-lasting consequences. As a result, in partnership with our schools and the Silicon Valley Community Foundation, I will bring back to you in the fall, a comprehensive redesign of early learning and child care program delivery. For each child, for every parent working towards self-sufficiency, and for the strength of our economy, nothing is more important than an educated and skilled workforce. That begins with opportunities for meaningful early learning.

### 3. Parks

Since FY 2008-09 the Parks budget has declined by approximately 15 percent and its staff reduced by about 20 percent. As funding has declined our facilities have suffered from deferred maintenance.



Although Parks does not fall into the category of public health or safety, many residents value County Parks and believe it is a vital service. The Parks system is funded almost exclusively from the General Fund and competes for funding with many other important County services. This has resulted in a Parks system that is woefully underfunded.

We need to re-think our approach to parks and open space. The County expects to assume responsibility for the operation of Devil's Slide as a pedestrian and bicycle trail next spring, adding new responsibilities to a Parks system that is already struggling.

The Board has established an ad hoc committee that is working with the County Manager's Office and Public Works to take a comprehensive look at the Parks system. This review should include an analysis of how the Parks should be operated in the future and how to tackle the growing list of deferred maintenance projects now estimated at more than \$100 million.

There are at least two different approaches to this task. The first is to assume that Parks will continue to operate as we have and to rebuild its most pressing infrastructure needs by dedicating a greater portion of General Fund revenue for this purpose. To accomplish this, the Board would have to reduce funding for other General Fund services or identify a

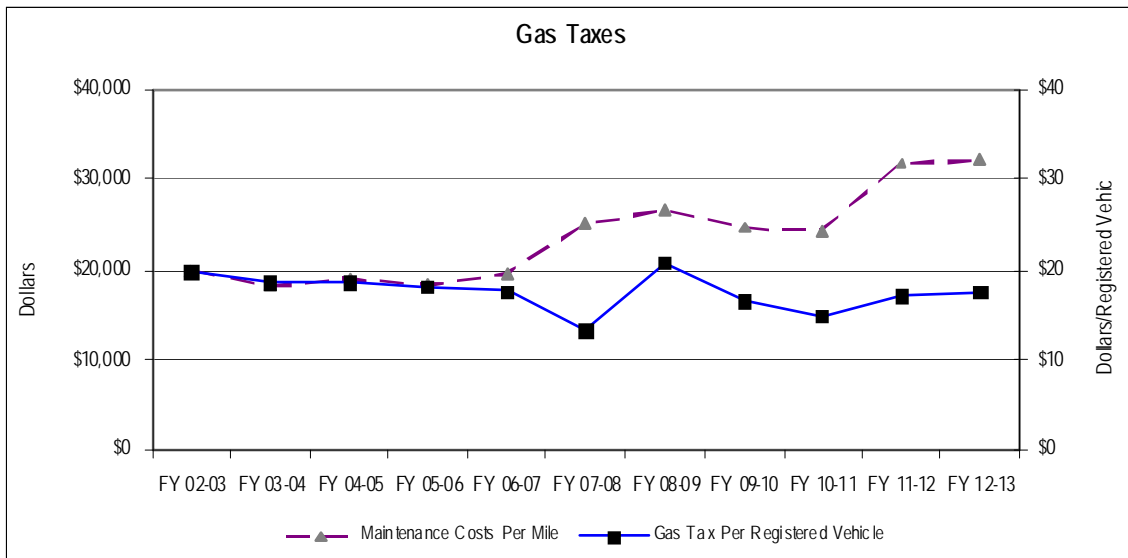
major new funding source or sources. The second approach is to radically redefine the nature of the Parks system so that it can be operated within available fiscal resources. This would undoubtedly result in a Parks system that is much more passive and less robust than in prior years. (Similar to the Mid-Peninsula Open Space District operating just trails.)

I am convinced that any long-term strategy for Parks must include seeking out strategic partnerships with cities, the Golden Gate National Recreation Area, the Mid-Peninsula Open Space District and the State of California. Although all these agencies are operating with constrained resources we share common constituents and patrons, value preserving the natural environment and understand the importance that open space and recreational opportunities play in the health and well-being of the community.

Despite the County's severe financial constraints the Board may want to consider providing some additional, limited, short-term funding to ensure the safe and adequate operation of the Parks system pending the ad hoc committee's review. The Recommended Budget does include sufficient funds to keep Flood Park open for one more year.

**4. Streets and Transportation**

The County is responsible for maintaining 315 miles of public roads. Some roads are in rural areas some are in urban neighborhoods. As can be seen from the following chart the value per mile of gas tax for road maintenance has declined dramatically over the last three years. This is due to improving vehicle gas mileage and rapidly increasing costs for materials and maintenance. These trends will continue as the cost of petroleum products escalate and more hybrids, alternate fuel and electric vehicles use the roads.



The gas tax is the primary revenue used to finance road maintenance and improvements. The Recommended Budget includes \$11 million in gas tax revenue for the next fiscal year. Gas taxes were originally intended to pay for the public costs necessary to build and maintain a network of streets and roads for use by private vehicles. This was intended to be a pay-as-you-go system funded by the users. This tax has been in place since the 1920s and is levied on a per gallon basis. The tax rate has not been increased since 1947.

In light of California's extensive system of freeways and streets, the impact of AB 32, the Global Warming Solutions Act of 2006, on mileage fleet standards and the continued dependence of the economy on vehicular transportation, we need a new strategy for raising funds for street maintenance. This strategy needs to be statewide because of the complicated network of freeways, streets and roads that must be seamlessly interconnected.



In the meantime, the County's road system continues to deteriorate and the potential liability for accidents and damage to vehicles caused by poor road conditions grows. Until the state develops a comprehensive infrastructure strategy for transportation the County needs a new strategy for road maintenance that can be implemented within the existing Road Fund resources.

Public Works uses a Pavement Condition Index to determine the condition of road surfaces. The County uses this information to prioritize road projects. The County needs to re-think the standards used to maintain roads. The standards should reflect the available resources and the intensity of road way use. For some neighborhood streets this might mean that the basic standard of maintenance would be lower than it is today. Under this scenario if residents want a higher level of maintenance it would have to be financed through assessment districts.

## **5. Fire**

The Fire Fund is financed by a property tax levy in the unincorporated area of the County not covered by fire protection districts. In recent years escalating costs and a significant decline in unsecured property taxes have resulted in deficits in the Fund. In the current fiscal year \$1.8 million from the General Fund was used to balance the Fire Fund.

The use of General Fund money to supplement the Fire Fund raises a question of equity. The General Fund is supported by property taxes collected from all County residents including those living within cities and fire protection districts. These residents are also taxed for fire protection by their own jurisdictions. It can be argued that using County General Funds to supplement fire protection for residents living in the unincorporated area forces city and fire district residents to pay twice for fire protection.

In order to reduce the deficit in the Fire Fund the Recommended Budget eliminates a County funded engine company at the Tower Road Station. This will save \$1.1 million a year. Two other engine companies--one funded in part by residents of the Highlands and one funded by CalFire will remain housed at this station. In addition, the City of San Mateo has an engine company located within one-half mile of the Tower Road Station with automatic deployment responsibilities to this neighborhood.

The County is also in discussions with the Cities of Redwood City and San Carlos over the possible consolidation of three nearby fire stations into one centrally located station. If successful it would be possible to close the Cordilleras Station with a possible savings of \$500,000 a year. The soonest that any savings could be realized is in one to two years. Until then a General Fund subsidy of the Fire Fund will be necessary.

## **6. Capital Improvements**

The total cost of the FY 2012-13 Capital Projects budget is \$87 million. The total budget includes \$27.8 million in re-appropriated capital projects from the prior fiscal year, including \$9.7 million for Circle Start tenant improvements and seismic upgrades, \$44.2 million for the new jail, \$15 million for new projects. The new projects include Alpine Trail (\$2.0 million), Devil's Slide (\$2.0 million), Seal Cove paving (\$400,000), and the San Mateo Medical Center ground floor remodel to add long-term care beds (\$2.1 million).

The Capital Projects budget in Non-Departmental Services will increase from \$15.5 million to \$41.9 million due primarily to the aforementioned Circle Star improvements, the new jail, parks and trails improvements, and SMMC long-term care beds.

The County is planning on issuing lease revenue bonds this autumn to refinance \$40 million in outstanding tax-exempt lease revenue bonds from 1997, 1999 and 2001. It is anticipated that by refinancing these bonds in today's market, the County could generate approximately \$5 million in savings over the next twenty years. In addition, the County will reimburse itself approximately \$33 million for the purchase, seismic upgrade and tenant improvements for Circle Star South. The County will also explore the option of issuing \$20 million in taxable bonds to reimburse itself for the purchase of Circle Star North. Finally, the County is also planning on financing the replacement of the 78 year-old Skylonda Fire Station at approximately \$3 million. The station is barely functional in its current state of disrepair.

CalFire will reimburse the County for one-half of the replacement cost in annual lease payments. Replacement of the 53 year-old Pescadero Fire Station will be recommended after the flooding issues in the area have been resolved. Depending on the final decision with regard to Circle Star North, the financing will range between \$75 - \$95 million. The financing for the new jail, which may include reimbursement for the purchase of the Woodhouse site, will likely occur in the summer or early fall of 2013. My staff is currently working on an RFP to establish a financing team for both issuances.

The County also utilizes a Five-year Facilities Capital Plan, which serves as a planning tool to track all future capital projects and their estimated costs. In September, my office will present your Board with a Five-Year Facilities Capital Plan for your consideration and approval.

### **Redevelopment Agencies**

The dissolution of redevelopment agencies will have long-lasting impacts on local governments. In the short-run the financial impact on the County appears to be revenue neutral. However, I am worried about the long-range impacts of dissolution on revenue growth.

Redevelopment has long been a point of contention between cities and other property taxing agencies. Throughout California there are many examples of abuses of redevelopment law and lax state oversight. However, the process to dissolve Redevelopment Agencies has pitted local agencies against one another, weakened the bonds of community and made more difficult the ability of local governments to work together in the future. It has shifted discussions away from community-wide needs as each agency focuses on maximizing its own revenues.

The state's action to dissolve redevelopment agencies, as necessary as it may have been, has left unanswered several critical questions about the future of economic development funding, low and moderate housing and local government revenue growth. The future prosperity of our region depends on finding new ways to promote and incentivize economic development that will require local governments to work together as partners.

### **Two-Year Budget and Performance Management**

Beginning in 2013, we will be transitioning to a two-year budget cycle in order to direct resources toward the accomplishment of the community's most important outcomes identified through Shared Vision 2025. To do this we must be able to define what's most important, get better at knowing what works and what doesn't, and allocate our resources accordingly.

During the "off-budget" years, we will focus County resources on program reviews and performance improvement initiatives. We need to identify a short list of progress measures that the Board finds useful in fulfilling its oversight responsibilities. These measures will be used to set goals and prepare the budget for the next two years. We will report on progress during the year through the Director's Reports and semi-annual Board workshops.

### **Organizational Change**

Three years ago when I spoke at the commencement of San Francisco State University MPA Graduates, I said that local governments would need to be more proactive, creative and nimble to succeed. To these attributes I would now add more collaborative, resourceful and focused.

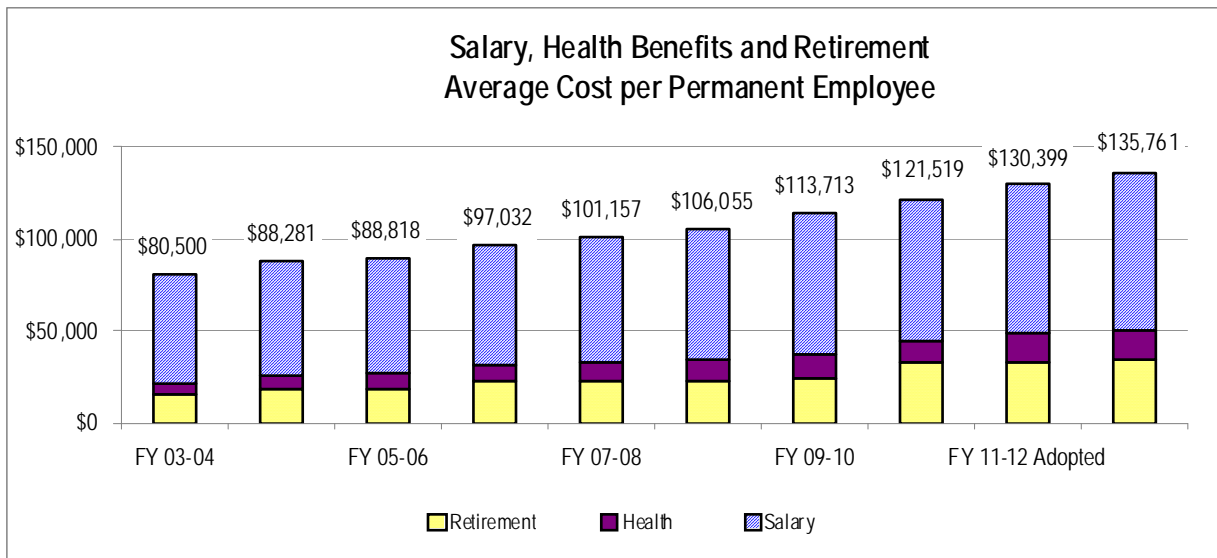
The challenges the County faces are both deep-seated and interrelated. It is not just about lack of resources. It is about the changing needs and priorities of the community. It is about the fundamental problems facing society and government's role in dealing with them. In essence, it is about how County government is organized and delivers public services.

This budget represents a transition in how the County will respond to the profound challenges that confront us as we move from short-term, stopgap measures to more strategic and fundamental actions. For the County to fulfill its mission we need a paradigm shift in thinking about the challenges before us. We need to re-conceptualize everything that we do. We need re-think the very nature of the organization that we call "County government" as well as our

relationships with other organizations. This will not be an easy or a comfortable process--change never is. But we must confront the world as we find it, not as we would like it to be.

We need to focus our efforts on the primary mission of County government: protect the health and safety of the community and be good stewards of the resources entrusted to us. To do this we must be both financially stable and viable. This means we need to re-think what we do, why we do it and how we do it. We need to distinguish between the roles of policy and service delivery. In their 1992 book Reinventing Government, David Osborne and Ted Gaebler described this dichotomy as "steering rather than rowing," This powerful concept has profound implications on the County's approach to service delivery in the future.

Salaries and benefits represent about forty percent of all County expenditures. It is the single largest expense item in the budget. While most employees of the County have not received a cost-of-living increase in four years, the cost for this line item will have increased thirteen percent by the end of FY 2012-13 due to merit increases, health care premium increases and retirement system contribution increases. During this same period tax revenues were essentially flat. This is not sustainable. Ultimately, salaries and benefits have to be consistent with available resources. They also have to be consistent with comparable jobs in the community.



This notwithstanding we should resist a disturbing trend in the private sector--for too many jobs there seems to be a race to the bottom in wages. Declining wages, automation and off-shoring of jobs have resulted in a shrinking middle class and the growing gap between the rich and poor. This too has profound implications for our society.

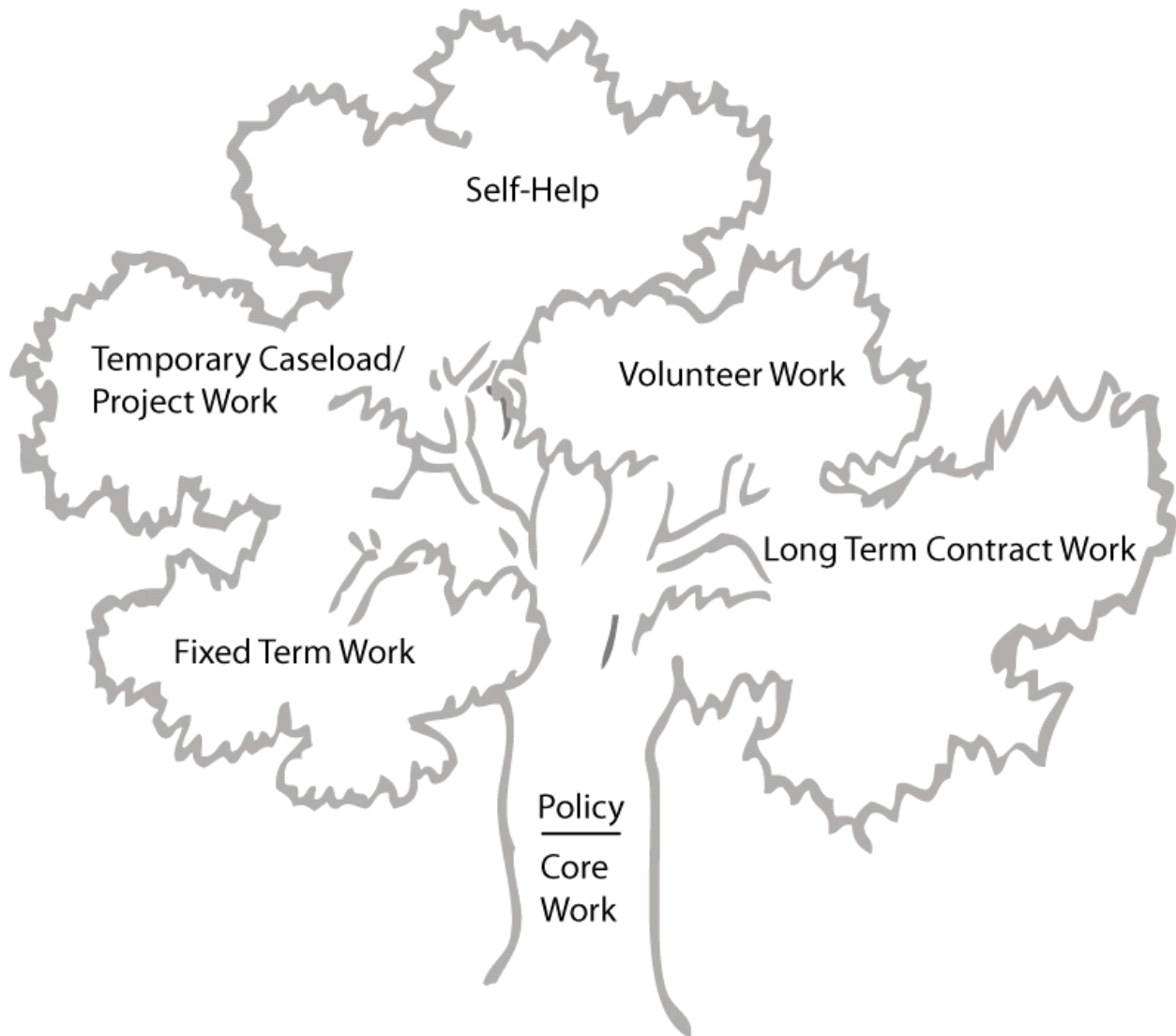
Historians have often observed that a strong middle class has contributed to the financial and political stability of our country. In 1914, Henry Ford astounded the business world by effectively doubling the wages of his assembly-line workers to \$5 a day and reducing their workday from 9 to 8 hours. Ford reasoned that since it was possible to mass-produce inexpensive automobiles more of his employees would buy them if their wages were raised. The \$5 day helped better the lot of all American workers and contributed to the emerging middle class. In the process he changed manufacturing forever.

So we are left with what appears to be a conundrum--pay fair and competitive wages and reduce services or provide robust services and reduce wages. Ford said, "It's not the employer who pays the wages. Employers only handle the money. It's the customer who pays the wages." So it is for government--the taxpayers pay the wages for public

employees. I believe the way to solve this dilemma is for the County to re-think the nature of County government. This may mean that in the future there will be fewer County employees, performing different tasks, in a different way.

Restructuring requires changing how work is done. The County is well along in its business process re-engineering. As we begin to change how work is done we also need to restructure the organization through which work gets done.

As I reflect on the nature of County's government I can envisage an organization that is like a tree.



The tree trunk or core is made up of those whose work is directly linked to the development and enactment of public policies and those who deliver mission-critical services. Branching out from the core I foresee work being performed by workers whose affiliation with the County is lessened by their distance from the core. The six branches emanating from the core represent the different employment relationships the County could have with its work force.

#### 1. Policy/Core Work

This could be a smaller group than the present County workforce of approximately 5,300 permanent full and part-time employees. These are people who are essential to the organization and with whom the organization expects to

have a long-term relationship. Salaries and benefits for this group should be commensurate with their importance to the operation of the organization and the level and complexity of the work expected of them.

## 2. Fixed Term Work

The next category would include workers performing work that needs to be performed by public employees, but who would do so for a fixed term, similar to military enlistments. Some of these jobs would be much like the work done by today's permanent employees, except in this model, employment would end at a certain point in time. The County would have the option to extend the term or rehire the person, depending upon need. We would expect a more rapid turnover of employees in this category due to the more temporary nature of the relationship between the employee and the organization. There would also be costs associated with training a more transient workforce. Some workers in this category might resemble apprentices who join the organization to learn or enhance a skill and then move into the core or move on to another organization. Other workers might be more mature, experienced individuals who bring skills to the County that they have developed in other organizations. Salaries and benefits for these workers would reflect the more temporary nature of their affiliation with the organization.

## 3. Long Term Contract Work

This category would include long-term contractors whose workers are employees of private organizations that have an on-going relationship with the County. These arrangements would be similar to contracts the County has with the Private Defender Program, Humane Society, CalFire and Community-Based Organizations (CBOs).

## 4. Temporary Caseload/Project Work

This category would consist of temporary workers hired to either meet intermittent caseload demands or undertake special projects. This category would also include contractors hired for special projects i.e., construction, technology or professional engagements.

## 5. Volunteer Work

This relationship with the organization would include organized volunteers providing a variety of services. Currently, the Sheriff's Department and Library make extensive use of volunteers.

## 6. Self Help Work

The last category is work I would describe as "self-help." Over the years governments have undertaken responsibilities that were formerly within the purview of families and individuals. With diminished resources we will need to re-engage citizens in such work.

The changes that I have described above cannot be accomplished overnight and will be unsettling, even painful, for some. The County will need to engage the unions and the employees in meaningful and ongoing discussions about the future nature of work and how we should organize to accomplish it. Ultimately, some of these changes would require voter approval of a charter amendment.

## Conclusion

Over the course of the last five years the Board has made many difficult decisions regarding service levels, and employees have made significant sacrifices by foregoing salary increases and having benefits reduced. By the end of FY 2012-13 the County will have eliminated a net of 766 positions or about a one-sixth of its work force. While there is some improvement in the local economy and stabilizing of revenues the County still faces many financial challenges. We must confront these challenges while navigating the uncharted waters of change.

There is a story about Sherlock Holmes and Watson going camping. In the middle of the night Holmes wakes up Watson and says, "Watson what do you see?" Watson said, "I see all the beauty and wonders of the universe." Holmes said, "Watson you fool our tent was stolen!" Like Holmes' tent the world we once knew is gone. It is up to us to design the world of tomorrow. We can no longer assume that what once worked well will work well in the future. Help will not be forthcoming from Washington, D.C. or Sacramento.

I am convinced that the only way forward is to remake the organization in a way that will provide financial stability and flexibility to meet the uncertainties ahead of us. The way we are organized and staffed to meet our responsibilities is a means not an end. The organizational structure must facilitate our work and not inhibit us. As an organization we will need to be both surefooted and nimble, strategic and focused with laser-like precision on our core businesses and clients. We will need to understand that we will not be able to do everything we once did and certainly not everything in the same way it was done before. We will need to utilize all available resources in the best way possible to meet the greatest needs of our community.

Charles Handy wrote in the Age of Paradox, "Change comes from small initiatives which work, initiatives which, imitated, become the fashion. We cannot wait for great visions from great people, for they are in short supply at the end of history. It is up to us to light our own small fires in the darkness."

I want to thank the men and women who work for San Mateo County for their sacrifices and commitment to public service and to the people of our community. I want to thank the County's management team for leading by example and continuing to do more with less. I want to thank the men and women that work in the County Manager's Office - Dave Holland, Reyna Farrales, Peggy Jensen, Mary McMillan, Jim Saco, Joanne Ward, Betsy Jack, Jack Yaco, Michael Bolander, Shanna Collins, Danielle Lee, Deanna Haskell, Beverly Thames, Connie Juarez-Diroll, Alicia Garcia, Marshall Wilson, Mina Lim, Joy Limin, and Rebecca Romero for their hard work in putting together this document and for always providing timely and accurate information on a myriad of subjects. Finally, I want to thank the Board of Supervisors for the nearly impossible job that you do in setting the direction and making tough decisions on complex matters. Most of the public does not see the long hours that a Board Member works or how conscientious you are in deliberating public policy. I also want to thank you for asking me to return for "one final lap" as County Manager. It's been a privilege to work for this County and for the Board of Supervisors. I look forward to working with you in the coming year to begin the process of transforming the organization to successfully meet the challenges ahead of us.

Sincerely,



John L. Maltbie,  
County Manager