



AN INCONVENIENT TRUTH ABOUT THE COUNTY'S STRUCTURAL DEFICIT

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SUMMARY

An inconvenient truth about San Mateo County's "structural deficit" is that ... there isn't one!

The Grand Jury has spent considerable time investigating various aspects of San Mateo County (County) finances. One subject of inquiry was the County's so-called "structural deficit." Another subject of inquiry was the process followed by the Board of Supervisors (Board) in advising the voting public about the County's financial condition when submitting tax proposals to them for approval. The Grand Jury reviewed the County budget and financial reports, interviewed County officials knowledgeable in the subject matter, posed written questions to County officials, which were answered, and conducted other appropriate research.

As a result of its investigation, the Grand Jury makes several findings, the principal ones being summarized here. The Board does not recognize in its budget all revenues the County anticipates receiving during a fiscal year. This has allowed the County to claim in recent years that it has a structural deficit. However, when all revenues, including something called "Excess ERAF," are counted, the County has not had an *actual* deficit since at least 2003. The County had a surplus of \$26 million in fiscal year 2012 and its net assets have increased every year for each of the last 10 fiscal years. The Board did not publicize the true condition of its finances as of the time tax Measures T, U, X, and A were voted on in 2012.

The Grand Jury makes several recommendations, including that the Board report in its budget all revenues it anticipates receiving in a fiscal year, including Excess ERAF. The Grand Jury further recommends that the Board as a body (as distinguished from individual Supervisors) refrain from stating that the County has or will have a deficit, structural or otherwise, unless all resources, including Excess ERAF, have been included in its calculation. The Grand Jury also recommends that the Board adopt a procedure regarding tax measures proposed for voter approval that requires the furnishing of current financial information that reflects all anticipated revenues and expenses.

GLOSSARY

Board– The Board of Supervisors, the governing body of the County that approves and adopts the budget.

Budget – The preliminary or final *Adopted Budget* for the County, as the context requires, for the stated fiscal year.

Controller – The County Controller, an elected official.

County – San Mateo County, California, or the government of San Mateo County, California,

appropriate to the context in which it is used.

CAFR – County *Comprehensive Annual Financial Report* for the stated fiscal year.

County Responses – Written responses by the County administration to written questions posed by the Grand Jury during its investigation.

Excess ERAF - The money generated when Educational Revenue Augmentation Funds exceed school funding requirements.

Fiscal year or FY – The period July 1 through June 30. For simplicity, a fiscal year will be referred to by the year in which it ends, e.g. FY 2011-2012 is FY 2012.

Grand Jury – The 2012-2013 County Civil Grand Jury.

Measure A – A one-half cent increase in the sales tax in the County for 10 years, estimated to generate an additional \$60 million in revenue annually, approved by the voters on November 6, 2012.

Measure T – A proposed business license tax of 2 and 2.5% of gross receipts on operators of vehicle rental businesses located in the unincorporated area of the County, approved by the voters on June 5, 2012.

Measure U – A proposed increase from 10% to 12% in the tax imposed on occupants of lodging within the unincorporated County who reside in such lodging for thirty consecutive calendar days or less, rejected by the voters on June 5, 2012.

Measure X – A proposed business license tax of 8% of gross receipts on operators of commercial parking facilities located in the unincorporated area of the County, rejected by the voters on June 5, 2012.

Structural Deficit – this term has various meanings as discussed in the subsection “What is a Structural Deficit” below.

Supervisor – An elected member of the Board.

BACKGROUND

During its orientation in July 2012, a County official told the Grand Jury that the County’s financial reserves were being depleted at a rate such that they would be exhausted in about five years unless County spending decreased, revenues increased, or both. This distressing news prompted the Grand Jury to investigate County finances, which then led to an examination of what policies the County may have in place regarding the furnishing of current financial information to the public in connection with revenue raising proposals.

METHODOLOGY

The Grand Jury's investigation considered the following information sources:

Documents and Reference Sources

- Ballot Arguments in Favor of Measures T, U, X, and A
- Budget
- CAFR
- County Responses
- Internet – various sources
- Numerous reports and articles

Interviews

- The Grand Jury interviewed appropriate elected and appointed officials of the County and the Controller's office.

Written Questions

- The Grand Jury posed written questions to County officials and reviewed their responses.

DISCUSSION

Introduction

This report examines the concept of a County structural deficit to determine its meaning, origin, and recent history. It also examines what procedures the County may have in place regarding the furnishing of current financial information to the public in connection with revenue raising proposals placed on the ballot. Finally, this report sets forth the Grand Jury's findings and recommendations for future action regarding the County's budget practices and procedures regarding revenue raising ballot proposals.

What is a Structural Deficit?

A typical definition of a "structural deficit is:

[a] budget deficit that results from a fundamental imbalance in government receipts and expenditures, as opposed to one based on one-off or short-term factors.¹ [Emphasis added.]

¹ Financial Times Lexicon, <http://lexicon.ft.com/Term?term=structural-deficit> (May 10, 2013).

The Grand Jury learned from its investigation that the County would not have a “fundamental imbalance in government receipts and expenditures” if it recognized in its budget *all* of the revenue it anticipates receiving during a given fiscal year. The County, however, does not recognize *all* of the revenue it anticipates receiving during a given fiscal year. Specifically, the County has chosen for budgeting purposes not to recognize some or all “Excess ERAF” it receives. Thus, to the County, a “structural deficit” is the difference between the amount the Board budgets to spend during a fiscal year and the amount it *chooses to recognize* that it will receive in revenue during that fiscal year. The concept of a structural deficit relates only to budgets. It has no relation to the financial results reported by the Controller in the CAFR.

For many years, the press has reported that the County has an ongoing structural deficit in its budget. (Note: The press does not distinguish between a “structural deficit” and any other kind of “deficit.” Its reporting refers to one kind of deficit – what the County calls the “structural deficit.”) For example:

- A September 16, 2010, article in The Daily Journal entitled “San Mateo County budget deficit grows, general fund increases \$18M” stated:

San Mateo County’s structural deficit grew to \$70 million in the last fiscal year despite a general fund increase of \$18 million over last year, according to county finance officials.² [Emphasis added.]

- A January 25, 2011, article in The Daily Journal entitled “County deficit to hit \$82m” stated:

San Mateo County’s ongoing budget deficit will hit \$82 million this fiscal year, not counting backfilling state cuts, replacing the women’s jail and future salary hikes.

Taken together, the structural deficit will be well over \$100 million by fiscal year 2015, said County Manager David Boesch.³ [Emphasis added.]

- A March 25, 2012, article in Peninsula entitled “New San Mateo County budget already starts \$28 million in the hole, board of supervisors told” stated:

Another year, another budget deficit.

That’s the message San Mateo Acting County Manager John Maltbie essentially gave the board of supervisors Tuesday during a presentation of the 2012-13 fiscal year budget.

Maltbie said the proposed budget comes up \$28 million short in revenue and

² http://archives.smdailyjournal.com/article_preview.php?id=141264 (May 8, 2013).

³ http://archives.smdailyjournal.com/article_preview.php?id=151121 (May 6, 2013).

unless steps are taken the deficit could grow to \$50 million by 2017.⁴ [Emphasis added.]

- A July 25, 2012, article in The Daily Journal entitled “Sales tax hike heads to vote” stated “The county now has 5,104 employees and a structural deficit approaching \$41 million by 2016-17 if left untouched.”⁵ [Emphasis added.]
- A January 30, 2013 article in The Daily Journal entitled “County narrowing structural deficit” stated:

San Mateo County is on track to narrow a structural deficit that once ballooned to triple digits to roughly \$21 million by fiscal year 2017-18 although unknowns about the economy and new jail funding could add more debt.⁶ [Emphasis added.]

Excess ERAF Explained

ERAF stands for Educational Revenue Augmentation Fund. Here is a short explanation of ERAF:

In 1992, the State of California found itself in a serious deficit position. To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to “educational revenue augmentation funds”

(ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools.⁷

Excess ERAF is real property tax revenue held in the Educational Revenue Augmentation Fund that has not been used to fund required education outlays. Amounts in excess of the required outlays are refunded to the County when the Controller calculates in January or February of each year the final amount of Excess ERAF.⁸ Excess ERAF is not held in a “reserve” account.

The County, together with Marin and Napa counties, are the only California counties that receive Excess ERAF. High real property values are one reason these counties generate Excess ERAF.

⁴ http://www.mercurynews.com/peninsula/ci_20262416/new-san-mateo-county-budget-already-starts-28 (May 6, 2013).

⁵ [http://archives.smdailyjournal.com/article_preview.php?id=1751786&title=Sales tax hike heads to vote&eddate=07/25/2012 05:00:00](http://archives.smdailyjournal.com/article_preview.php?id=1751786&title=Sales+tax+hike+heads+to+vote&eddate=07/25/2012+05:00:00) (May 6, 2013).

⁶ [http://archives.smdailyjournal.com/article_preview.php?id=1762350&title=County narrowing structural deficit](http://archives.smdailyjournal.com/article_preview.php?id=1762350&title=County+narrowing+structural+deficit) (May 6, 2013).

⁷ League of California Cities, *Fact Sheet: The ERAF Property Tax Shift*, <http://www.californiacityfinance.com/ERAFfacts.pdf> (April 11, 2013).

⁸ FY 2012 CAFR, p. 6.

Until the FY 2013 budget, the County did not include *any* Excess ERAF in its anticipated revenues, which it calls “resources,” in the budget. Beginning with FY 2013, the County began including in the budget about *one-half* of anticipated Excess ERAF in revenues.⁹ That leaves the remaining one-half of the Excess ERAF uncounted when the County makes its deficit calculation.

Why does the County treat Excess ERAF differently from other revenues it expects to receive such as property and sales taxes? Interviewees gave two answers.

First, most interviewees stated that they were concerned that “Sacramento” (the state government) is always looking for money and may take away or reduce the County’s Excess ERAF at any time. Some of these interviewees also believed that keeping Excess ERAF out of the budget would somehow “conceal” these revenues from Sacramento, thereby protecting them. Other interviewees were of the view that Sacramento knows all about Excess ERAF but believed these revenues are constitutionally protected from being reduced or taken away by the state.

Second, and more importantly, many interviewees believe that because Excess ERAF could be taken away or reduced by the state, the County should not rely on Excess ERAF as a continuing revenue source.¹⁰ These interviewees refer to Excess ERAF as “one-time” money, whether received or to be budgeted as such. Because it is one-time money, they reason that it should not be included in the budget as revenue and should be spent only on non-recurring, one-time items.

The following facts, however, undercut this position. Excess ERAF has been:

- Received by the County every year since FY 2004 and now comprises about 5% of the budget.¹¹
- Used to balance the budget for the five fiscal years 2009-2013. Balancing the budget has not been a one-time item (see Table 1 below).¹²
- Partially included as revenue in the FY 2013 budget (and for subsequent years as well) to be used for general purposes and not limited to one-time items.
- Used to pay for such routine items as adding positions in appraisal services and maintaining the property tax system.¹³

Table 1 below shows for FYs 2004-2013 the budget “structural deficit,” the amounts of Excess ERAF received by the County, and the amount of Excess ERAF used to balance the budget. If the amount of Excess ERAF exceeds the amount of the “structural deficit,” there is no *actual* deficit. Such has been the case for *every year* the County has received Excess ERAF.

⁹ County CAFR for FY 2012, p. vii.

¹⁰ Failure to recognize Excess ERAF in the Budget because it might be taken away is bit like telling your employer that you are unmarried because your spouse might divorce you.

¹¹ The FY 2013 Budget is 1,885,737,968. Excess ERAF for FY 2013 is \$98,380,010.

¹² County Responses.

¹³ County Responses.

TABLE 1¹⁴

Excess ERAF Received by County 2004-2013¹⁵

Fiscal Year	Structural Deficit	Excess ERAF Proceeds	Excess ERAF to Balance Budget
FY 2003-04	0	24,841,327	
FY 2004-05	0	47,526,159	
FY 2005-06	0	62,716,116	
FY 2006-07	3,211,925	52,109,243	
FY 2007-08	24,486,898	61,128,118	
FY 2008-09	46,297,635	66,303,145	8,596,163
FY 2009-10	69,108,411	87,848,255	35,553,580
FY 2010-11	74,637,457	79,279,986	55,099,894
FY 2011-12	43,042,319	81,207,924	43,042,319
FY 2012-13	54,082,420	98,380,010	40,000,000
TOTAL	314,867,065	661,340,283	182,291,956

Thus, for the FYs 2004-2013 inclusive, the County received \$661,340,283 in Excess ERAF, of which the County states it used \$182,291,956 to balance the budget during these years. This left a balance of \$479,048,327 for other County purposes.

One way to determine if the County has an *actual* deficit or a surplus is to look at the year-to-year balances of the Committed, Assigned, and Unassigned accounts of the County's General Fund. These accounts contain unrestricted funds that can be used by the County for any purpose. Table 2 below shows the totals of these accounts for the fiscal years indicated:

Table 2¹⁶

Recent Unrestricted Funds History

Fiscal Year	Total of Committed, Assigned, and Unassigned Accounts
2009	218,653,000
2010	241,474,000
2011	198,203,000
2012	235,876,000

There are a number of reasons why the amount of unrestricted funds can decrease from one year to the next such as occurred in FY 2011. One of the main reasons is an extraordinary expenditure. For example, the drop in unrestricted funds for FY 2011 is primarily attributable to a \$57 million cash expenditure by the County for the purchase of the Circle Star and new jail

¹⁴ All data in this table was provided in County Responses.

¹⁵ County Responses are the source of data for this table.

¹⁶ County CAFR for FY 2012, p. 134.

properties.¹⁷ As the figures show, the County’s unrestricted funds are not being dissipated because of any structural deficit.

Another way to determine whether the County has a deficit or a surplus is to examine the County’s year-to-year total “primary government net assets.” Table 3 below shows the totals of these assets for the fiscal years indicated:

Primary Government Net Assets

Fiscal Year	Total Of Primary Government Net Assets	Percent Change From Previous Year
2003	612,499,000	
2004	633,837,000	3.48%
2005	732,162,000	15.51%
2006	913,461,000	24.76%
2007	1,054,940,000	15.49%
2008	1,092,082,000	3.52%
2009	1,133,778,000	3.82%
2010	1,173,471,000	3.50%
2011	1,229,204,000	4.75%
2012	1,331,881,000	8.39%

As these figures show, the County’s financial picture, as measured by primary government net assets, has steadily improved. Contrary to concerns about a structural deficit, the County is doing well.

It appears that the County itself may be coming to this view. For example, the following statement is contained in the County Responses:

The "real" surplus, including one-time revenues and expenditures, can best be obtained by comparing Fund Balance in the Controller's Schedule 3 reports. The Fund Balance as of June 30, 2011 was \$254,422,776 and the Fund Balance as of June 30, 2012 was \$280,370,149, so the "real" surplus including all transactions was \$25,947,373. [Emphasis added.]

Further, Inter-Departmental Correspondence dated June 13, 2012, from the County Manager to the Board regarding the FY 2013 budget hearings contained the following statements:

The five-year plan included managed use of Reserves, new revenues and ongoing cuts in spending to eliminate the deficit and achieve structural balance by FY 2012-13. [Emphasis added.]

The FY 2102-2013 Recommended Budget, which includes \$40 million in Excess ERAF applied to ongoing revenues, is balanced. [Emphasis added.]

¹⁷ County CAFR for FY 2011, p. 6.

Tax Measures T, U, X, and A

On February 28, 2012, the Board adopted resolutions to place tax Measures T, U, and X on the ballot for the June 5, 2012, election.¹⁸

On July 24, 2012, the Board adopted a resolution to place Measure A on the ballot for the November 6, 2012, election.

These measures proposed either new taxes or increases in existing taxes. The Board does not have a procedure when it submits revenue proposals to the voters that requires the County to publicize prior to the election the most current information available regarding the County's finances. Neither does the Board have a procedure in place that requires it to try to agree upon a ballot argument in favor of the proposed measure(s) to be included in the Sample Ballot & Official Voter Information Pamphlet (Sample Ballot) for the relevant election.

California Elections Code § 9162(a) provides that “[t]he board of supervisors or any member or members of the board, or any individual voter who is eligible to vote on the measure, or bona fide association of citizens, or any combination of these voters and associations may file a written argument for or against any county measure.”

Several Supervisors availed themselves of this right with respect to Measures T, U, X, and A. Each of the arguments they supported is prefaced with the following statement: “Arguments in support of or in opposition to the proposed laws are the opinions of the authors.” So these arguments are those of individual Supervisors and are not necessarily the positions of the Board.

- The Arguments in Favor of Measures T and X contained in the Sample Ballot for the June 5, 2012 election contained the following statement:¹⁹

...San Mateo County continues to rely on reserves to balance our budget. Next year, San Mateo County will face another \$28 million budget deficit, an amount that could exceed \$50 million by 2017, even while utilizing reserves.²⁰ [Emphasis added.]

- The Argument in Favor of Measure U contained in the Sample Ballot for the June 5, 2012, election contained the following statement:

...San Mateo County continues to rely on reserves to balance our budget.²¹ [Emphasis added.]

- The Argument in Favor of Measure A contained in the Sample Ballot for the November 6, 2012, election contained the following statement:

¹⁸ <http://www.co.sanmateo.ca.us/bos.dir/BOSAgendas/Agendas2012/Minutes/022812m.pdf> (May 9, 2013).

¹⁹ Copies of the Ballot Arguments in Favor of Measures T, U, X, and A referred to in this section of the report are attached as Appendix A.

²⁰ Sample Ballot & Official Voter Pamphlet, Presidential Primary Election, Tuesday, June 5, 20, pp. 25, 39.

²¹ Sample Ballot & Official Voter Pamphlet, Presidential Primary Election, Tuesday, June 5, 20, p. 28.

...due to continued cuts from the State, San Mateo County faces an ongoing structural deficit of tens of millions of dollars – much of what we love about living here is at risk.²² [Emphasis added.]

The Board itself did not adopt a ballot argument in favor of the tax measures it proposed.

The County's Financial Condition as of the June 5 and November 6, 2012, Elections

On September 27, 2011, the Board adopted the budget for FY 2012. The budget had a structural deficit of \$50 million.²³ The budget did not take into account *any* Excess ERAF for that fiscal year²⁴.

In late January or early February 2012, the Controller advised the Board that the final Excess ERAF amount for FY 2012 was \$81,207,924. The Excess ERAF for FY 2012 exceeded the structural deficit by over \$31 million.

If the procedure set forth in Recommendation 5a below had been in place, this information would have been publicized as part of the process of placing these measures on the ballot for the June 5, election.

The results of the June 5, 2012, election were that Measure T passed by 190 votes out of 114,266 votes cast and Measures U and X failed.²⁵

As seen above, after recognizing Excess ERAF, the County acknowledges that FY 2012, which ended June 30, 2012, had a surplus of \$26 million, not a deficit.

The County adopted the FY 2013 preliminary budget in late June 2012. The County Manager advised the Board that the FY 2013 budget was “balanced.” For the first time, the budget recognized as revenue \$40 million of Excess ERAF, approximately one-half of the anticipated Excess ERAF for FY 2013.²⁶

The County Manager's inter-departmental correspondence dated July 19, 2012, that accompanied the Board package concerning Measure A confirmed, “the County had made significant progress in reducing costs and in eliminating its structural deficit, without additional revenue.” [Emphasis added.]

²² Sample Ballot & Official Voter Pamphlet, Presidential Election, Tuesday, November 6, 2012, p. 20.

²³ Inter-Departmental Correspondence dated September 20, 2011, from the County Manager to the Board regarding Final Budget Changes to the Fiscal Year 2011-12 Recommended Budget.

²⁴ County Responses.

²⁵ https://www.shapethefuture.org/elections/results/2012/june/official/JUN12_Final_06-19.pdf (May 9, 2013).

²⁶ Inter-Departmental Correspondence dated June 13, 2012, from the County Manager to the Board regarding Fiscal Year 2012-13 Recommended Budget Hearings.

The Board adopted the final budget for FY 2013 on September 25, 2012.²⁷ Unlike the FY 2012 budget, no mention of any structural deficit was made in the County Manager’s accompanying inter-departmental correspondence.²⁸

If the procedure set forth in Recommendation 5a below had been in place, this information would have been publicized as part of the process of placing the measure on the ballot for the November 6, election.

Measure A passed by 79,873 out of 259,449 votes cast.²⁹

A review of news articles regarding the tax proposals under consideration at the June 5 and November 6, 2012, elections did not reveal any public statements by any County official that the County had a surplus for FY 2012 or that the budget for FY 2013 was balanced.

FINDINGS

- F1. The County’s “structural deficit” is created solely because the County chooses not to recognize all anticipated revenues in a given fiscal year.
- F2. The public is best served when the County includes in the budget all anticipated revenues, and not just some.
- F3. In practice, the County has not restricted the use of Excess ERAF to one-time expenditures.
- F4. Excess ERAF is not “one-time” money.
- F5. The County can address concerns regarding the potential loss of Excess ERAF by limiting the purposes for which it is spent.
- F6. The County is in good financial condition since it has not had an *actual* deficit since at least FY 2003 and its primary government net assets have increased for each of the past 10 fiscal years.
- F7. County officials had the facts in hand prior to the June 5, 2012, election to know that there would be an *actual* surplus for FY 2012 but did not publicize this fact.
- F8. County officials had the facts in hand prior to the November 6, 2012, election to know that there was an *actual* surplus for FY 2012 and that the budget for FY 2013 was balanced, but did not publicize these facts.
- F9. County officials did not adequately inform the public of the County’s true financial condition prior to the June 5 or November 6, 2012, elections.
- F10. The public is best served if the Board, as the governing body of the County, as opposed to individual Supervisors, adopts a ballot argument in favor of measures it submits to voters for approval.

²⁷ <http://sanmateo.siretechnologies.com/sirepub/mtgviewer.aspx?meetid=104&doctype=MINUTES> (May 9, 2013).

²⁸ <http://sanmateo.siretechnologies.com/sirepub/cache/2/xwwp5ks01xkrjo4wc5ssswf2/1866105092013123303768.PDF> (May 9, 2013).

²⁹ https://www.shapethefuture.org/elections/results/2012/nov/official/NOV12_Final1203.pdf (May 26, 2013).

RECOMMENDATIONS

The Grand Jury recommends that the County's *Board of Supervisors* do the following:

- R1. Report in the budget as "resources" all revenues it anticipates receiving in a fiscal year, including, without limitation, Excess ERAF.
- R2. If the Board is concerned that Excess ERAF may be taken away or reduced by the state, it should budget Excess ERAF for only the following purposes:
 - a. Capital projects such as acquisition of real property and construction of, or major improvements to, buildings
 - b. Payment of County obligations with a finite life, other than bonded indebtedness, such as SamCERA's unfunded liability or other post-employment benefits.
 - c. Similar "one-time" expenditures
- R3. Refrain from stating that the County has or will have a deficit, structural or otherwise, unless it has taken into account all resources, including, without limitation, Excess ERAF, in making its calculation.
- R4. Be completely transparent with regard to any claim that the County has or will incur a deficit, structural or otherwise.
- R5. Adopt a procedure with respect to a measure it submits for voter approval that proposes to increase, extend, or impose a tax, fee, or other revenue raising means that:
 - a. Informs the public of the most current assessment of the County's deficit or surplus condition after accounting for all anticipated revenues, including Excess ERAF.
 - b. Requires the Board to exercise its best efforts to adopt a budget argument in favor of the measure and, if approved, submit the same to the County's Chief Elections Officer for inclusion in the appropriate Sample Ballot.

REQUEST FOR RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requests the Board of Supervisors to respond to the foregoing Findings and Recommendations, referring in each instance to the number thereof.

The Board of Supervisors should be aware that its comment or response must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.
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APPENDIX A

San Mateo County

Arguments in support of or in opposition to the proposed laws are the opinions of the authors.

Argument In Favor of Measure T	Rebuttal to Argument In Favor of Measure T
<p>The County of San Mateo provides a broad range of public safety, medical, and human services to over 720,000 residents.</p> <p>Unfortunately, the cost of providing these services is increasing, while state and federal support is dwindling. Due to the global economic downturn, many more local residents are in need, further stressing our safety net.</p> <p>To address these challenges, over the past six years San Mateo County has eliminated 500 positions, reduced departmental budgets, consolidated departments, closed county facilities, and negotiated reductions in labor costs to achieve over \$70 million in ongoing savings.</p> <p>Despite this progress, San Mateo County continues to rely on reserves to balance our budget. Next year, San Mateo County will face another \$28 million budget deficit, an amount that could exceed \$50 million by 2017, even while utilizing reserves.</p> <p>To meet the needs of our communities, we must find new revenues while continuing to pursue cost-cutting efforts. One way to help close the budget gap is the measure before you, a 2.5% business license tax on gross receipts of operators of vehicle rental facilities in the unincorporated County area.</p> <p>This measure would raise roughly \$7.75 million without significantly impacting the pocketbooks of County residents. The facilities subject to the tax generate over \$300 million in revenue annually, largely from visitors to our County, but currently pay taxes of barely 1% of that to the County in which they operate. At the same time, the vehicles from these facilities generate pollution and add traffic to our roads which impacts our local infrastructure. It's time for San Mateo County to derive a reasonable benefit to offset these impacts.</p> <p>By voting YES for this measure you are helping to ensure that San Mateo County will remain an enjoyable and prosperous place to live for many years to come.</p>	<p>The proponents of this new car tax claim that it will "raise roughly \$7.75 million <u>without significantly impacting the pocketbooks of County residents.</u>"</p> <p>Think again, <u>this new car tax will significantly impact the pocketbooks of San Mateo County.</u></p> <p>Hurts Our Local Economy Here's how: San Mateo County gets more than 10,000 direct jobs from the San Francisco Airport - far more than any other county. Tourism, hospitality and entertainment are critical parts of our local economy - providing 67,000 jobs and more than \$8 billion dollars. This new car tax on rental cars will hurt one of the core components of this center of job creation.</p> <p>A Poorly Written Law There is no end date on this new tax - it goes on forever - without any mandatory evaluation of its impact on the economy or of how the money is being spent.</p> <p>Politicians Can Spend It Any Way They Want - No Money is Guaranteed for Police, Fire or Schools When considering this new car tax, it's important to look at the fine print. Supporters say it will help the county to support essential services, but the money will go into the general fund to be spent in any way these politicians desire. <u>There is no requirement that this money be spent on essential services like police, fire or schools.</u></p> <p>Vote No on Measure T - this new car tax is poorly written and will hurt our local economy.</p>
<p>/s/ Adrienne J. Tissier March 15, 2012 President, San Mateo County Board of Supervisors</p>	<p>/s/ Daniel Varela March 22, 2012 Teamsters Local 853, Business Agent</p>
<p>/s/ Carole Groom March 15, 2012 Supervisor, San Mateo County</p>	<p>/s/ Michelle Rosas March 23, 2012 Small Business Owner</p>
<p>/s/ Anne E. Campbell March 16, 2012 San Mateo County Superintendent of Schools</p>	<p>/s/ John Roeder March 22, 2012 President, Silicon Valley Taxpayers' Association</p>
<p>/s/ Lennie Roberts March 16, 2012 Environmental Advocate</p>	<p>/s/ Kelly Hunt March 22, 2012 Regional Vice President Enterprise Rent-a-Car Company of San Francisco</p>
<p>/s/ James P. Fox March 16, 2012 Retired District Attorney</p>	<p>/s/ Jim McGuire March 23, 2012 Best Western Grosvenor General Manager</p>

San Mateo County

Arguments in support of or in opposition to the proposed laws are the opinions of the authors.

Argument In Favor of Measure U	Rebuttal to Argument In Favor of Measure U
<p>Visitors come to San Mateo County from all over the world and from throughout California. They come for our incredible natural landscapes, to do business with many of the international companies located here and to stay in proximity to both Silicon Valley and San Francisco.</p> <p>Every city in the county that hosts visitor serving hotels imposes a Transient Occupancy Tax paid by these visitors to support the services that make their visits pleasant and memorable and that also benefit local residents, such as police, fire, parks, libraries and street maintenance.</p> <p>The County of San Mateo is proposing to increase the local transient occupancy tax in the unincorporated area of the county from a rate of ten percent (10%) to twelve percent (12%), which will bring the county's rate in line with most other local cities.</p> <p>Due to the global economic downturn and the increased pressure on county services for the growing number of residents in need of assistance, an additional \$200,000 will provide a modest amount of new revenue to protect critical services provided through our hospital and clinics, public safety services, parks and libraries among many services.</p> <p>Over the past six years San Mateo County has eliminated 500 positions, reduced departmental budgets, consolidated departments, closed county facilities, and negotiated reductions in labor costs to achieve over \$70 million in ongoing savings.</p> <p>Despite this progress, San Mateo County continues to rely on reserves to balance our budget.</p> <p>The proposed increase to the transient occupancy tax will be paid primarily by visitors to our county, rather than by residents, but the revenues will stay local.</p> <p>San Mateo County is a wonderful place to live and visit. By voting YES on this measure, local residents will make a contribution toward ensuring it remains so for our residents and visitors alike.</p>	<p>Don't Be Fooled – Not One Dime for Police, Fire or Schools The proponents of this 20% tax hike are simply wrong. They repeatedly make the false claim that Measure U will benefit “police, fire, parks, libraries and street maintenance” and protect “our hospital and clinics, public safety services, parks and libraries.”</p> <p>Measure U Guarantees Nothing for Police, Fire or Schools The truth is that there is absolutely nothing in this tax scheme to ensure that the politicians use the tax dollars for essential services like police, fire and schools that deserve funding. If we have to raise taxes, we should insist on controls to ensure the money is spent on what matters most – education, public safety, and job creation.</p> <p>Measure U Allows Politicians to Spend More Money on Themselves Measure U lets politicians and bureaucrats do whatever they want with the money raised by this massive tax hike. It can be spent on anything – including cars, perks, salaries and pensions for politicians.</p> <p>Measure U is a Massive Tax Hike with No Oversight and No End in Site Just like there's no way to ensure the money from Measure U will end up funding what matters, there's no end date on this 20% tax hike. Measure U has no requirement to evaluate how badly it hurts our economy, or to study how badly the money is being wasted.</p>
<p>/s/ Adrienne J. Tissier March 15, 2012 President, San Mateo County Board of Supervisors</p>	<p>/s/ Michelle Rosas March 23, 2012 Small Business Owner</p>
<p>/s/ Donald A. Horsley February 15, 2012 Supervisor</p>	<p>/s/ John Roeder March 22, 2012 President, Silicon Valley Taxpayers' Association</p>
<p>/s/ Anne E. Campbell March 16, 2012 San Mateo County Superintendent of Schools</p>	<p>/s/ Juan Dominguez March 22, 2012 Small Business Manager</p>
<p>/s/ Lennie Roberts March 16, 2012 Environmental Advocate</p>	<p>/s/ Kelly Hunt March 22, 2012 Regional Vice President Enterprise Rent-a-Car Company of San Francisco</p>
<p>/s/ James P. Fox March 16, 2012 Retired District Attorney</p>	<p>/s/ Jim McGuire March 23, 2012 Best Western Grosvenor General Manager</p>

San Mateo County

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Argument In Favor of Measure X

The County of San Mateo provides a broad range of public safety, medical, and human services to over 720,000 residents.

Unfortunately, the cost of providing these services is increasing, while state and federal support is dwindling. Due to the global economic downturn, many more local residents are in need, further stressing our safety net.

To address these challenges, over the past six years San Mateo County has eliminated 500 positions, reduced departmental budgets, consolidated departments, closed county facilities, and negotiated reductions in labor costs to achieve over \$70 million in ongoing savings.

Despite this progress, San Mateo County continues to rely on reserves to balance our budget. Next year, San Mateo County will face another \$28 million budget deficit, an amount that could exceed \$50 million by 2017, even while utilizing reserves.

To meet the needs of our communities, we must find new revenues while continuing to pursue cost-cutting efforts. One way to help close the budget gap is the measure before you, an eight percent (8%) business license tax on gross receipts of operators of commercial parking facilities in the unincorporated County area.

This measure would raise approximately \$5 million without significantly impacting the pocketbooks of County residents and provide for local revenue that cannot be diverted by the state.

The San Francisco International Airport, where many vehicle rental facilities are located, is owned by the City and County of San Francisco and as a government pays no taxes to San Mateo County. San Francisco receives over \$30,000,000 annually from the airport while San Mateo County derives comparatively little. It's time for San Mateo County to share in the benefits.

By voting YES for this measure you are helping to ensure that San Mateo County will remain an enjoyable and prosperous place to live for many years to come.

- | | |
|--|----------------|
| /s/ Adrienne J. Tissier
President, San Mateo County Board of Supervisors | March 15, 2012 |
| /s/ Carole Groom
Supervisor, San Mateo County | March 15, 2012 |
| /s/ Anne E. Campbell
San Mateo County Superintendent of Schools | March 16, 2012 |
| /s/ Lennie Roberts
Environmental Advocate | March 16, 2012 |
| /s/ James P. Fox
Retired District Attorney | March 16, 2012 |

Rebuttal to Argument In Favor of Measure X

We heard all this before, in 2008. Those excuses were lame then, and they are lame now. The real cause of San Mateo County's ongoing budget deficits is irresponsible spending, particularly on employee salaries and benefits:

San Mateo County Budget, All Funds

	<u>2001-02</u>	<u>2011-12</u>	<u>Increase</u>
Revenue	\$949,133,697	\$1,353,464,134	43%
Salaries/Benefits	\$389,676,928	\$739,333,141	90%
\$ per Equivalent Full Time Employee	\$80,080	\$144,885	81%

No tax can keep up with this kind of spending!

We said this in 2008, but even we did not foresee an average County employee at \$144,000 in salary and benefits! In 2007, the County Manager warned:

“Rapidly increasing salaries and benefits are one of the factors causing the structural deficit ... Will future County salary and benefit increases be consistent with revenue growth and/or productivity increases?”

In the last two years alone, salary and benefit increases total over \$60 million, more than twice next year's projected \$28 million budget deficit. But instead of addressing this spending crisis, the County wants higher taxes?

New taxes will damage our local travel industry, worsen unemployment, and increase the already high cost of living in San Mateo County. Pushing the County's budget failures onto the backs of struggling workers is both cruel and senseless.

Proponents assert that higher taxes will somehow ensure San Mateo County remains “enjoyable and prosperous”. That's just silly.

Reject this hastily approved and ill-conceived measure.

VOTE NO on Measure X!

- | | |
|---|----------------|
| /s/ Michelle Rosas
Small Business Owner | March 23, 2012 |
| /s/ John Roeder
President, Silicon Valley Taxpayers' Association | March 22, 2012 |
| /s/ Juan Dominguez
Small Business Manager | March 22, 2012 |
| /s/ Kelly Hunt
Regional Vice President Enterprise Rent-a-Car Company of San Francisco | March 22, 2012 |
| /s/ Jim McGuire
Best Western Grosvenor General Manager | March 23, 2012 |

San Mateo County

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Argument In Favor of Measure A	Rebuttal to Argument In Favor of Measure A												
<p>From the Coastside to the Baylands and everywhere in between, we proudly call San Mateo County our home. However, due to continued cuts from the State, San Mateo County faces an ongoing structural deficit of tens of millions of dollars - much of what we love about living here is at risk.</p> <p>In response to this declining revenue over the past five years, San Mateo County eliminated over 500 positions, de-funded vital programs and according to the Civil Grand Jury, our Emergency Operations Center has fallen below acceptable standards. Current employees have done their part by agreeing to pay more for health care and retirement. Local leaders have cut the budget to the bone and further reductions to crucial emergency services and others could put residents at risk.</p> <p>By voting YES on Measure A we will generate the funding to Save our Services in San Mateo County, including:</p> <ul style="list-style-type: none"> • Child abuse prevention • 911 emergency dispatch • Healthcare for low-income children, seniors and the disabled • Fire prevention and response • Pre-school, after-school and library reading programs and homework centers for children and teens • Keeping county parks open • Ensuring hospitals and emergency rooms are seismically safe and remain open <p>By law, Measure A funds cannot be taken away by the State. An independent oversight committee and annual audits will ensure that every penny is accounted for and spent on crucial San Mateo County services like those listed in Measure A.</p> <p>Vote YES on A to provide locally controlled funds to sustain the quality of life we appreciate in San Mateo County by improving direct services in every community, including Atherton, Belmont, Brisbane, Broadmoor, Burlingame, Colma, Daly City, East Palo Alto, El Granada, Emerald Hills, Foster City, Half Moon Bay, Hillsborough, La Honda, Menlo Park, Millbrae, Montara, Moss Beach, North Fair Oaks, Pacifica, Pescadero, Portola Valley, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside.</p> <p>Join San Mateo County residents, business, community and healthcare leaders - vote YES on Measure A - Save Our Services.</p> <p>www.saveourservicesnow.org</p> <p>/s/ Adrienne J. Tissier August 15, 2012 President, Board of Supervisors</p> <p>/s/ Michael Garb August 15, 2012 Advocate for Children's Service and Abuse Prevention</p> <p>/s/ Maya Altman August 15, 2012 CEO, Health Plan of San Mateo</p> <p>/s/ Anthony L. Slimick August 16, 2012 President San Mateo County Firefighters Local 2400</p> <p>/s/ Julia Bott August 15, 2012 Executive Director, San Mateo County Parks Foundation</p>	<p>San Mateo County blames its "structural deficit" on "cuts from the State".</p> <p style="text-align: center;"><i>What a whopper!</i></p> <p>Actually, irresponsible spending on employee salaries and benefits is to blame:</p> <p style="text-align: center;"><u>San Mateo County Budget, All Funds</u></p> <table border="1" style="margin: auto; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 20%;"><u>2003-04</u></th> <th style="width: 20%;"><u>2012-13</u></th> <th style="width: 20%;"><u>Increase</u></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>\$984,815,521</td> <td>\$1,453,674,876</td> <td>48%</td> </tr> <tr> <td>Salaries/ benefits per permanent employee</td> <td>\$80,500</td> <td>\$135,761</td> <td><u>69%</u></td> </tr> </tbody> </table> <p style="text-align: center;">In 2007, the County Manager warned:</p> <p style="text-align: center;"><i>"Rapidly increasing salaries and benefits are one of the factors causing the structural deficit ... Will future County salary and benefit increases be consistent with revenue growth and/or productivity increases?"</i></p> <p style="text-align: center;"><i>Five years along, we know the answer to that question - NO!</i></p> <p>Proponents warn that "further reductions to crucial emergency services and others could put residents at risk".</p> <p style="text-align: center;">There's an ugly word for this threat: BLACKMAIL!</p> <p>San Mateo County Supervisors have chosen to cut staff and reduce services to citizens, rather than address the real issue:</p> <p style="text-align: center;"><i>Out-of-control San Mateo County employee compensation!</i></p> <p>Our Supervisors dare not annoy the public employee unions. Instead, they expect taxpayers to approve ever-increasing taxes to sustain public employee compensation almost twice that of the average taxpayer. Notice to taxpayers: <i>blackmail never stops!</i> They'll be back with more demands in future.</p> <p>Higher sales taxes hurt local businesses, and increase unemployment. Worse yet, they are regressive and hit the poor hardest of all.</p> <p style="text-align: center;"><i>Measure A proponents should be deeply ashamed of their support for a tax that so hurts the poor and rewards the well off.</i></p> <p style="text-align: center;"><u>VOTE NO ON MEASURE A!</u></p> <p>For more information: http://www.SVTaxpayers.org/measurea</p> <p>/s/ John Roeder August 17, 2012 President, Silicon Valley Taxpayers Association</p> <p>/s/ Harland Harrison August 27, 2012 Chair, Libertarian Party of San Mateo County CA</p> <p>/s/ Don Pettengill August 27, 2012 Half Moon Bay Resident</p>		<u>2003-04</u>	<u>2012-13</u>	<u>Increase</u>	Revenue	\$984,815,521	\$1,453,674,876	48%	Salaries/ benefits per permanent employee	\$80,500	\$135,761	<u>69%</u>
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COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager



Date: October 2, 2013
Board Meeting Date: October 8, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors
From: John L. Maltbie, County Manager
Subject: Response to 2012-13 Grand Jury Report

RECOMMENDATION:

Approve the Board of Supervisor's response to the 2012-13 Grand Jury report entitled: An Inconvenient Truth About the County's Structural Deficit.

BACKGROUND:

On July 22, 2013, the Grand Jury issued the above-referenced report. California law requires the Board of Supervisors to respond to the report's findings and recommendations by no later than October 21, 2013.

Acceptance of this report contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that all Grand Jury findings and recommendations are thoroughly reviewed by the appropriate County departments and that, when appropriate, process improvements are made to improve the quality and efficiency of services provided to the public and other agencies.

DISCUSSION:

I recommend that the Board of Supervisors direct staff to respond as follows to the report's findings and recommendations:

F1. The County's "structural deficit" is created solely because the County chooses not to recognize all anticipated revenues in a given fiscal year.

Response: Disagree. Since FY 2007-08, when the structural deficit began to materialize, the County has conservatively and prudently included one-half of the prior year's Excess ERAF proceeds in calculating its structural deficit projections as this revenue source is subject to formulaic and legislative risk. This is the only major funding source that has been treated this way, largely because historically only three counties in the State receive Excess ERAF. In fact, the legislative risk concerns over the

years was prescient. With the approval of the new school funding formula as part of the state budget, it is anticipated that excess ERAF may be greatly diminished in the very near future. In addition, it was recently learned that one of the three Counties that historically received ERAF—Napa County—is expecting to no longer receive excess ERAF moving forward.

F2. The public is best served when the County includes in the budget all anticipated revenues, and not just some.

Response: Disagree. The public is best served by the adoption and management of a sustainable budget, whereby ongoing funding sources sustain ongoing programs and services.

F3. In practice, the County has not restricted the use of Excess ERAF to one-time expenditures.

Response: Agree. Excess ERAF has been largely used to pay down unfunded liabilities and for one-time IT and capital improvements, but it has also been used to bridge the structural budget gap to maintain essential services and to provide high quality services to the public.

F4. Excess ERAF is not “one-time” money.

Response: Agree in part. See F1 above.

F5. The County can address concerns regarding the potential loss of Excess ERAF by limiting the purposes for which it is spent.

Response: Agree.

F6. The County is in good financial condition since it has not had an actual deficit since at least FY 2003 and its primary government net assets have increased for each of the past 10 fiscal years.

Response: Agree in part. The County would not have had a structural deficit if one hundred percent of Excess ERAF had been included in the budget calculations. However, due to stagnant property tax growth and declining sales tax and interest earnings growth from FY 2008-09 through FY 2010-11, the majority of Excess ERAF received was used to bridge the deficit, as described in the County’s response to finding F3 above.

F7. County officials had the facts in hand prior to the June 5, 2012 election to know that there would be an actual surplus for FY 2012 but did not publicize this fact.

Response: Disagree. In January 2012 the Board was presented with a structural deficit projection of \$50 million by FY 2016-17, and this projection included fifty percent

of Excess ERAF in the budget and the opening of the new Maple Street Correctional Center. This projection also did not include cost of living adjustments for most County employees, which was an unrealistic assumption. All things considered, even with the inclusion of one hundred percent of Excess ERAF, County officials could not have predicted anything better than a structurally balanced budget over the next five years.

F8. County officials had the facts in hand prior to the November 6, 2012, election to know that there was an actual surplus for FY 2012 and that the budget for FY 2013 was balanced, but did not publicize these facts.

Response: Agree in part. By November 2012, the County had an indication that Excess ERAF for FY 2012-13 exceeded \$80 million. However, the County was also aware that the Governor had proposed budget measures that could negatively impact future Excess ERAF. In any event, the Measure A tax was geared towards *maintaining* services, including child abuse prevention, health care for low-income children, seniors and disabled, emergency response (including capital improvements), pre-school and after-school programs and keeping parks open. The Measure A ballot initiative was not intended to relieve the County of its ongoing structural deficit, increase employee compensation, or fund the construction or operations of the Maple Street Correctional Center.

F9. County officials did not adequately inform the public of the County's true financial condition prior to the June 5 or November 6, 2012, elections.

Response: Disagree. See responses to findings F7 and F8.

F10. The public is best served if the Board, as the governing body of the County, as opposed to individual Supervisors, adopts a ballot argument in favor of measures it submits to voters for approval.

Response: Disagree. California law, including the Elections Code, clearly contemplates that the board of supervisors, or any member or members of the board of supervisors, may file a written argument for or against any county measure. This reflects the judgment of the Legislature and voters that the best interests of the County are served when either the Board of Supervisors or individual Supervisors have the unfettered ability to fully express their views for or against measures presented to the electorate. Whether the Board as a whole or individual Supervisors exercise this legislative authority is a case by case determination.

Recommendations:

The Grand Jury Recommends that the County Board of Supervisors do the following:

R1. Report in the budget as "resources" all revenues it anticipates receiving in a fiscal year, including, without limitation, Excess ERAF.

Response: The recommendation has been implemented. The County believes that it is prudent in appropriating anticipated revenues and that given the potentially volatility and at-risk nature of Excess ERAF, that one-half (or approximately \$40 million) is an appropriate level to include in the budget. This was done after considerable public input.

- R2.** If the Board is concerned that Excess ERAF may be taken away or reduced by the state, it should budget Excess ERAF for only the following purposes:
- a. Capital projects such as acquisition of real property and construction of, or major improvements to, buildings
 - b. Payment of County obligations with a finite life, other than bonded indebtedness, such as SamCERA's unfunded liability or other post-employment benefits.
 - c. Similar "one-time" expenditures

Response: The recommendation has been implemented. This is consistent with the Board's use of Excess ERAF and consistent with the recent budget action authorizing the County Manager to make additional lump sum pension contributions totaling \$140 million over the next years in addition to setting an inflated annual contribution rate of 38 percent of payroll.

- R3.** Refrain from stating that the County has or will have a deficit, structural or otherwise, unless it has taken into account all resources, including, without limitation, Excess ERAF, in making its calculation.

Response: The recommendation will not be implemented. A structural deficit or surplus calculation is the difference between ongoing revenues and ongoing expenditures; therefore, one-time revenues will never be part of any structural projection. Because Excess ERAF is at risk, some portion of that revenue should be considered one-time and not be part of the calculation.

- R4.** Be completely transparent with regard to any claim that the County has or will incur a deficit, structural or otherwise.

Response: The recommendation has been implemented. The County Manager's Office has been forthright with the Board, the public, and with labor, that past structural deficit projections did not include one hundred percent of Excess ERAF and we've clearly delineated the reasons why this revenue source should be treated conservatively and primarily spent on one-time items.

- R5.** Adopt a procedure with respect to a measure it submits for voter approval that proposes to increase, extend, or impose a tax, fee, or other revenue raising means that:
- a. Informs the public of the most current assessment of the County's deficit or surplus condition after accounting for all anticipated revenues, including Excess ERAF.
 - b. Requires the Board to exercise its best efforts to adopt a budget argument in favor of the measure and, if approved, submit the same to the County's Chief Elections Officer for inclusion in the appropriate Sample Ballot.

Response: Recommendation R5a has been implemented. The County agrees that, in connection with consideration of measures proposing to increase, extend, or impose a tax, the Board of Supervisors and the public should continue to fully consider the County's budget and other aspects of its financial situation, including the County's deficit/surplus conditions and the possible availability of Excess ERAF funds bear on the County's financial circumstances.

Recommendation R5b will not be implemented. The County disagrees with the proposal that the Board use its best efforts to adopt an argument in favor of a tax measure. As noted, California law, including the Elections Code, contemplates that the board of supervisors, or any member or members of the board of supervisors, may file a written argument for or against any county measure. The County believes that this reflects the judgment of the Legislature and voters that the best interests of the County are served when the Board of Supervisors as whole or individual Supervisors have the unfettered ability to fully express their views for or against measures presented to the electorate. The determination as to whether the Board as a whole or an individual Supervisor is the argument proponent is a case by case determination.

FISCAL IMPACT:

There is no Net County Cost associated with approving this report.