

AUDIT & FINANCE COMMITTEE

Independent Management Audit

During the course of its investigations, the 2001/2002 El Dorado County Grand Jury concluded that there were several aspects of county government that deserved a more in-depth investigation than the Grand Jury was equipped to undertake.

Accordingly, with financing approved by the Board of Supervisors (Board), the Grand Jury retained the Harvey M. Rose Accountancy Corporation (HMRAC) to investigate and report on issues as directed by the Grand Jury. One of these issues was a review of the County's budget process (Budget Process).

The HMRAC report on the Budget Process is contained in its entirety within the Audit & Finance Committee section of the 2001/2002 Grand Jury's Final Report. The Grand Jury carefully reviewed and considered both the factual findings and the recommendations contained therein, unanimously concurs with those findings and recommendations, and adopts them as its own.

Responses Required for All HMRAC Findings

El Dorado County Board of Supervisors

Responses Required for All HMRAC Recommendations

El Dorado County Board of Supervisors

Commendation

The Grand Jury commends the Board of Supervisors for its willingness to authorize and fund the Grand Jury's independent Budget Process audit. The Board's willingness to engage in and to permit such analysis and potential self-criticism evidences a high degree of civic responsibility, to the benefit of the people of El Dorado County.

Analysis of El Dorado County's Budget Process

Prepared for the
FY 2001-02 Grand Jury
County of El Dorado

By the
Harvey M. Rose Accountancy Corporation

May 2002

Harvey M. Rose

Accountancy Corporation

1390 Market Street, Suite 1025, San Francisco, CA 94102 (415) 552-9292 • FAX (415) 252-0461

North Hollywood, CA
(818) 503-7191

May 10, 2002

Mr. Michael Day, Foreperson
Members of the FY 2001-02 El Dorado County Grand Jury
P. O. Box 472
Placerville, CA 95662

Dear Foreperson Day and Members of the FY 2001-02 El Dorado County Grand Jury:

The Harvey M. Rose Accountancy Corporation is pleased to submit this Analysis of El Dorado County's Budget Process.

This report contains details of our review of the budget process, fourteen findings identifying areas that could be improved in the process and eighteen recommendations specifically identifying how these improvements should be achieved. The four areas of findings and recommendations pertain to the need for a countywide strategic plan and goals and objectives to guide the budget process, capital project management and reporting in the budget and throughout the year, budget timing, information and analysis, and internal service fund budgeting and reporting.

Thank you for choosing the Harvey M. Rose Accountancy Corporation to conduct this analysis. We are available at any time to respond to any questions about this report.

Sincerely,

Frdd Brousseau
Project Manager

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Introduction

Purpose and Methods

The FY 2001-02 El Dorado County Grand Jury retained the Harvey M. Rose Accountancy Corporation to conduct a review of the County's budget process. The objectives of the review were to review the process and its key milestones to determine:

- if the finally adopted budget reflects policies, goals and objectives established by the Board of Supervisors;
- if the process of creating the budget is efficient and involves sufficient analysis to identify the most cost-effective use of resources;
- if the process establishes management accountability; and
- if information provided to the Board of Supervisors at budget time and throughout the year facilitates rational budgetary decision-making.

To accomplish this, the following methods were employed. Interviews were conducted with key parties involved in the process including each member of the Board of Supervisors, the Interim Chief Administrative Officer, the Auditor-Controller and selected department heads and budget officers. Numerous budget-related documents were reviewed including:

- the County budget instructions for FY 2001-02 and 2002-03 prepared by the Chief Administrative Office
- the proposed FY 2001-02 budget and workplan document
- Budget Addenda documents for FY 2001-02
- the final budgets for FY 2001-02, Mid-Year Budget Status Reports and presentation materials presented to the Board of Supervisors for FY 2000-01 and 2001-02
- the independently prepared financial statements for the County for FY 2000-01 (the most recent year available while this project was underway)
- various budget related documents including budget request forms and ad hoc reports available from the county's financial information systems
- capital project monitoring documents used by the General Services and Transportation departments

County procedures were compared to State law and regulations governing the budget process and comparisons were made to practices in selected other counties. The review was conducted between March and April 2002.

Overview of County budget

For FY 2001-02 El Dorado County has budgeted \$250,073,563 in revenues and uses. On the expenditure side, this consists of \$246,321,223 in specific budgeted costs for the various County departments and \$3,752,340 in appropriated contingencies. On the revenue side, the \$250 million is comprised of 11 sources such as property taxes, licenses

and permits, intergovernmental revenue and carryover funds from the previous year (fund balance). Exhibit 1.1 shows budgeted revenues of \$220,669,990 for FY 2001-02, by source. The difference between the \$220,669,990 shown and the total \$250,073,563 in budgeted revenues is \$29,403,573 in fund balance carried forward from FY 2000-01.

Exhibit 1.1
Budgeted Revenues for FY 2001-02
El Dorado County

Source	Amount	% Total
Current Secured Property Taxes	\$32,054,017	14.5%
Current Unsecured Property Taxes	899,767	0.4%
Other Taxes	<u>13,354,928</u>	<u>6.1%</u>
<i>Total Taxes</i>	<i>46,308,712</i>	<i>21.0%</i>
Licenses and Permits	7,755,097	3.5%
Fines, Forfeitures and Penalties	2,423,749	1.1
Use of Money & Property	1,847,731	0.8%
<i>Intergovernmental Revenue:</i>		
State	70,983,076	32.2%
Federal	28,777,865	13.0%
Other	500,559	0.2%
Charges for Services	42,833,880	19.4%
Miscellaneous Revenues	2,386,600	1.1%
Other Financing Sources	16,852,721	7.6%
Residual Equity Transfers —		
Total	\$220,669,990	100.0%

Source: Final Budgets for FY 2001-02; El Dorado County Auditor-Controller

As shown in Exhibit 1.1, the State is the primary source of revenue for the County. Following that are property and other taxes, charges for services (development impact fees, planning and building fees, mental health service fees, and others), and Federal funds.

Exhibit 1.2 shows budgeted expenditures for FY 2001-02, by function. As can be seen in the table, public protection comprises the largest share of the County's budgeted expenditures with general government and public ways and facilities second and third in magnitude. The County's contingency appropriation of \$3,752,340 is also shown. This contingency amounts to 2.4 percent of total budgeted General Fund expenditures.

Exhibit 1.2
Budgeted Expenditures for FY 2001-02, by Function
El Dorado County

Function	Amount	% Total
General Government	\$60,467,389	24.2%
Public Protection	67,826,132	27.1%
Public Ways and Facilities	44,005,027	17.6%
Health and Sanitation	31,695,872	12.7%
Public Assistance	39,033,680	15.6%
Education	2,398,404	1.0%
Recreation & Cultural Services	894,719	0.4%
TOTAL	\$246,321,223	-
<u>Contingency Appropriation</u>	\$3,752,340	1.5%
<u>TOTAL BUDGETED</u>	<u>\$250,073,563</u>	<u>100.0%</u>

Source: Final Budgets for FY 2001-02; El Dorado County Auditor-Controller

Another way of viewing the County's budget is by fund, as presented in Exhibit 1.3. The table shows that most of the County budget is comprised of the General Fund and the Roads-Transportation Fund (80.2 percent of the total budget). All funds except the General Fund are restricted legally to certain purposes. The Board of Supervisors has discretion over the uses of the General Fund only. The Board has authority over the amounts appropriated for various uses such as salaries, professional services, supplies, etc within the other funds, but only for the purpose for which the fund is legally designated. General Fund monies on the other hand can be appropriated to any department or for any purpose within the County structure.

Exhibit 1.3
Budgeted FY 2001-02
Expenditures and Revenues
by Fund, El Dorado County

<u>Fund</u>	<u>Amount</u>	<u>% Total</u>
General	\$157,249,680	62.9%
Roads-Transportation	41,367,152	16.5%
Health Department	19,719,350	7.9%
Mental Health Services	10,463,260	4.2%
Community Services	8,026,027	3.2%
Accumulated Capital Outlay	5,403,519	2.2%
Erosion Control	4,413,840	1.8%
County Road District Fund	2,617,875	1.0%
Tobacco Settlement	487,860	0.2%
Planning: EIR Development Fees	300,000	0.1%
Special Aviation	20,000	0.008%
<u>Fish and Game</u>	<u>5,000</u>	<u>0.002%</u>
TOTAL	\$250,073,563	100.0%

Source: Final Budgets for FY 2001-02; El Dorado County Auditor-Controller

Introduction

It should be noted that a significant portion of the General Fund is actually used to match State, federal and other external funding so the Board does not actually have full discretion over all of General Fund monies.

As in all counties, much of the El Dorado County budget process is governed by State law and regulations and follows a sequence of events for the most part repeated each year.

The California Government Code contains a number of deadlines that govern the County's budget process and timetable. Highlights of these requirements include the following:

Estimates of revenues and expenditures are to be provided to the County's auditor or administrative officer by June 10 of each year (§ 29040)

A tabulated version of the estimated revenues and expenditures, or a budget, is to be provided to the Board of Supervisors by June 30 of each year (§ 29062)

The Board of Supervisors shall act on the budget by July 20 of each year (§ 29063)

Copies of the budget shall be prepared and made available to the public by August 10 of each year (§29065)

The Board of Supervisors shall notice the public on or before August 10 of each year of public hearings on the proposed budget (§29066)

On or before August 20 of each year public budget hearings must commence. (§29080)

The budget must be adopted by the Board of Supervisors by August 30 of each year (§29088)

Unfortunately, these timing requirements do not coincide with the State budget cycle so some budget decisions have to be prepared without benefit of the finally adopted State budget.

El Dorado County has designed its budget process to enable it to meet these State mandated deadlines. The County's process includes:

Some departments begin preparation of their revenue estimates and program plans starting in the fall

Budget instructions prepared by the Chief Administrative Officer are provided to all departments in February

Completed department budget requests are provided to the Chief Administrative Officer by April

The Auditor-controller prepares estimates of non-departmental revenues in April and May

Chief Administrative Office staff reviews the budget requests during April and May

The Chief Administrative Officer's proposed budget is transmitted to the Board of Supervisors by June 15

The Board of Supervisors accepts the proposed budget in June

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Budget addenda requests are prepared by departments and submitted to the Chief Administrative Office in early August

Budget addenda reports and documents are submitted to the Board of Supervisors in August

Budget addenda hearings take place in September

Acknowledgments

The County's budget documents and midyear reports are very extensive documents, thoughtfully organized and containing much useful information. Preparation of these documents certainly requires a great deal of work by County staff and the Chief Administrator's Office. This process is made more difficult at present because the Interim Chief Administrative Officer's prior position of Assistant Chief Administrative Officer is vacant, temporarily reducing the number of staff positions available for budget analysis and preparation. Preparation of the budget document must take place at the same time as the Chief Administrative Office meets its other ongoing responsibilities.

The auditors wish to acknowledge the Interim Chief Administrative Officer who was extremely helpful in the conduct of this review. He was generous with his time and provided numerous budget related documents and reports for review and analysis.

1. Long Range Strategic Planning and the Budget

- F1.1 The County does not have a long range strategic plan with goals and objectives set by the Board of Supervisors to guide the allocation of County funds and resources. Without this, budget and program priorities are set primarily by County staff without the benefit of structured input from elected officials and the public. This has been particularly true in past years when the budget was adopted with very little discussion at the Board of Supervisors public hearings.
- F1.2 For the current fiscal year, FY 2001-02, the Board of Supervisors chose to hold more extensive public hearings as part of the budget addenda process and received detailed presentations from all departments. While these hearings allowed for more interaction between the Board and the departments than has taken place in the recent past, this process would be even more valuable if the budgets submitted by the departments were prepared under policy direction already provided in a long range strategic plan. Another benefit of a strategic plan is providing a common set of goals and objectives for all County employees.
- F1.3 As part of a multi-year strategic planning effort, a process for measuring individual department performance and plan outcomes is needed. This would also enhance the budget process by providing the Board of Supervisors with meaningful performance measures for each department and a method for measuring the effectiveness of allocated funds.

Many organizations, public and private, engage in a strategic planning process to accomplish the following: 1) confirm and refine the mission statement of the organization with which all employees and stakeholders agree; 2) establish a vision for the future of the organization; 3) develop goals, objectives and action plans to ensure accomplishment of the mission and vision; and 4) establish a mechanism for measuring and reporting on actual organization performance relative to the goals, objectives and action plans.

Generally, strategic plans are multi-year in nature with a five year horizon being fairly typical. A strategic planning process for El Dorado County should include the following steps:

- o Assessing the current state of County operations including resources available and strengths and weaknesses of the organization
- o Identifying likely future trends that will affect the County (e.g., population growth in El Dorado and neighboring counties, changes in State funding formulas, likely incorporation of cities, impacts of new technology, etc.)
 - a Identifying likely future service needs and resources available to meet those demands (i.e., likely revenue streams)
- o Establishing service goals and objectives consistent with the mission and vision for the future
- o Establishing a system for measuring the County's success in meeting the stated goals and objectives

Section 1: Long Range Strategic Planning and the Budget

Currently El Dorado County does not have a long term strategic plan. Some departments such as the Information Services Department have developed plans specific to their departments and programs but there is no overarching plan for the County as a whole. A countywide plan would be valuable for budget purposes as it would help guide the allocation of resources consistent with established goals and objectives.

Under the present system, department heads can set goals and objectives for their departments and Board members may provide direction on a case by case basis through budget hearings or other forums where department heads and Board members interact. But there is no formalized process by which the public and the Board as a group reach consensus and establish priorities that provide clear direction to all departments.

A multi-year approach helps get around the limitations of the single year budget process that often doesn't address projects and initiatives that span more than one year. Typical multi-year projects in the county include capital projects, service delivery improvements, improvements in administrative activities, computer installations and upgrades, and other initiatives. While final appropriations still have to be made in the annual budget to fund multi-year projects and initiatives, providing directives in a strategic plan will help guide funding decisions in the budget process and will provide direction to department managers about their priorities.

The County needs a system to measure department performance

Measuring accomplishment of the goals, objectives and action plans in a strategic plan is probably one of the greatest benefits of embarking on such an effort and it is directly linked to the budget process. First, it makes the strategic plan a much more meaningful, results-oriented process. While establishing mission and vision statements, goals and objectives and action plans are all worthwhile activities, they can become meaningless if there isn't a method of measuring and reporting results. Setting an overall goal for the County such as making the County safe from crime is fine, but adding a method for measuring whether or not this occurs gives the process much greater impact. This could be measured in crime rate trends, arrest rates, successful prosecution and sentencings, community perception of safety, and other measures. These type of measures can be tied to the budget process through, for example, reviewing law enforcement officers per capita, arrests resulting in successful prosecutions, response times, and other measures. The budget can be adjusted accordingly to improve these measures to meet the service goals of the strategic plan.

For each department, the proposed El Dorado County budget includes a mission statement, workload indicators, written summaries of all major programs, and staffing information. This is useful information but what is missing are goals and objectives for the department and outcome measures to provide meaning to the workload indicators. The workload indicators, shown for the proposed, current and previous two fiscal years, generally measure caseload but not program outcomes. For example, the Probation Department budget for FY 2001-02 shows 33 workload indicators for eleven program areas. The program areas include Juvenile Hall, Juvenile placement, Group Homes/Foster homes, Adult Court, Adult Supervision and others. Workload indicators include measures such as number of court disposition reports, number of intake hearings, average daily population at Juvenile Hall, number of Adult Court reports, number of

Section 1: Long Range Strategic Planning and the Budget

adult probationers supervised, number of number of felony sentencing reports prepared and others.

The problem with the workload indicators in the Probation Department's budget is that none of them allow for an assessment of department outcomes. For example, a common objective for probation departments is to rehabilitate the probationer so they don't commit the same crime again and have subsequent encounters with the criminal justice system. To measure this objective, recidivism rates should be presented in the budget document rather than just the number of probationers supervised by the department. A high recidivism rate might indicate that Probation Department efforts are not succeeding and would lead to discussion about the level of funding for this effort and whether or not it is adequate and if the Department needs to operate its programs differently to achieve greater success.

The Probation Department's number of court reports workload indicator also measures work but not outcomes. It is not possible to tell from the numbers alone if the department is doing a good job of producing its reports for court. Two of the most important factors for court reports generally are whether they are delivered to the court timely and whether they contain the information needed by the judiciary to facilitate decision-making. Useful performance measures for this work might include number of reports delivered to the court on time and the results of a survey of the court's satisfaction with the content of the reports. As with the previous example, this type of information would enable a more informed discussion of the appropriateness of funding levels and program management.

Having broad countywide goals and objectives in a strategic plan would also help guide departments such as the Probation Department in that their goals, objectives and funding allocations and requests would need to be linked to the countywide goals and objectives. For example, countywide goals and objectives related to the Probation Department might be to improve coordination between all of the County criminal justice agencies and expansion of alternative programs to keep nonviolent offenders out of jail. The Probation Department would need to respond to these goals and objectives by presenting its coordination efforts with other departments, and development or expansion of alternatives to incarceration programs.

Another link between the strategic plan and the budget is that the strategic plan should include financial goals and objectives for the County. These could include target reserve levels, target user fee recovery rates, a countywide approach to one-time revenues, approaches to funding levels for internal service funds, policies regarding deficit spending and others.

Departmental strategic planning in El Dorado County

As mentioned above, El Dorado County's Information Services Department produced a strategic plan in 2000. The plan was prepared in response to a request from the Board of Supervisors and it states that it will be regularly updated. The purposes of the plan are to: anticipate future information processing needs and provide a strategy for meeting those goals; define an optimum sequence of events to achieve the strategy; facilitate common understanding and support for the department's future direction and goals by all key stakeholders (customers, staff, County management); provide a framework to manage and control the working environment; and,

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achieve optimum effectiveness and efficiency of resources. Its goals for the future include: expanding basic intranet/internet services; sharing and integrating data; providing business support data in multiple formats; providing multi-level integrated computing services; re-engineering business processes; guaranteeing the integrity and availability of County data; and, maintaining adequate and appropriate resources.

The Information Services plan and any other department strategic plan in the County should be used as underpinnings to a countywide strategic plan. The countywide plan would provide higher level goals and objectives and individual department plans would be more specific and detailed regarding their particular services. The various individual department plans should be consistent with the countywide plan prepared by the Board of Supervisors. As suggested for the countywide strategic plan, individual department success in meeting the goals and objectives in their plans should be measured on an annual basis.

Strategic planning in other jurisdictions

As mentioned above, many private and public organizations have prepared and are implementing strategic plans. The public organizations include counties and cities throughout the country. In California, one of the more extensive county strategic plans was prepared in Riverside County. The plan, entitled Strategic Vision 2020, addresses the County's mission and business, vision for the next twenty years and guiding principles, service delivery priorities, service goals and strategies, inter-governmental relations, environmental issues, financial management fundamentals, land use planning principles, and related matters. Since many departments in the county have also prepared strategic plans, the Countywide plan incorporates all of those plans. The Riverside plan addresses limits to County service and highlights what the County cannot do as well as areas where it should excel.

Maricopa County, Arizona initiated a strategic planning process in 2000 that integrated planning, budgeting and performance measures. For this effort, each department was required to prepare a strategic plan that included the following:

- a The County mission and vision statement
- 0 A department mission and vision statement¹
- 0 Department goals
- 0 Identification of department issues
- 0 Identification of all key programs in each department including:
 - D Program name
 - Program purpose
 - Key results for the program (usually a quantifiable measure)
 - Activities and services within each program
 - Outputs for each activity
 - Actual results for each activity compared to key result expectations
- D Cost per output

¹ The department vision statement was optional in the Maricopa County plan.

Section 1: Long Range Strategic Planning and the Budget

Quarterly reports are produced for each department in Maricopa County. A sample report for the Maricopa County Information Systems department is shown as Attachment 1. As can be seen, performance data is not available yet for each key activity in this program. But efforts are now underway to regularly collect this data and to tie it to a cost efficiency factor shown at the end of the attachment.

There is a range of approaches for El Dorado County to consider in establishing a strategic planning process but the key elements should include:

- o statement of purpose or mission;
- o vision for the future;
- o goals, objectives and action plans for accomplishing the mission and vision statements; and,
- o a system for measuring results linked to the budget process.

The plan's goals and objectives will also drive the budget process as each department will be expected to show how they are contributing to the strategic plan's goals and objectives through their activities.

Recommendations

It is recommended that the Board of Supervisors:

- R1.1 Direct the Chief Administrative Officer to implement a strategic planning process for the County to include: an assessment of strengths and weaknesses of the County organization; input from all key stakeholders; a mission statement and vision for the future of the County; goals, objectives and action plans to achieve the mission and vision; and, a system for measuring and reporting the County's success in achieving the goals and objectives;
- R1.2 Include financial goals, objectives and policies for the County in the recommended strategic plan addressing issues such as target reserve levels, cost recovery targets for County user fees, deficit spending policies and others;
- R1.3 Direct the Chief Administrative Officer and department heads to develop goals and program objectives for their departments consistent with the countywide goals and objectives developed in the strategic plan;
- R1.4 Direct the Chief Administrative Officer and department heads to include links in their budgets and funding requests to the strategic plan goals and objectives and to develop and report related performance measures for their departments based on outcomes rather than workload;
- R1.5 Conduct an annual evaluation and update process where accomplishment of plan goals and objectives is evaluated for the previous year and the plan is updated and revised for the future;

Section 1: Long Range Strategic Planning and the Budget

R1.6 Incorporate strategic plans developed by individual departments into the countywide plan.

Costs and Benefits

The primary costs of implementing the above recommendations would be staff time. The County may choose to retain an outside facilitator for some workshops and compilation of information for which there would be direct costs. The benefits of the recommendations would include development of common objectives and direction for all County managers and employees, less time wasted by staff trying to second guess the wishes of the Board of Supervisors, and a system for measuring department performance and methods for linking budget allocations to achievement of agreed upon goals and objectives.

Responses Required_ for Findinp_s

F1.1 through F1.3 El Dorado County Board of Supervisors

Responses R~uired for Recommendations

R1.1 through R1.6 El Dorado County Board of Supervisors

Program Purpose: The purpose of the Information Technology Program is to provide IT leadership and services to the client departments so that management can obtain maximum benefit from the IT resource.

Key Results: % Customers Satisfied with Applications Development Service Request Outcome.

Activity Name: DESKTOP SUPPORT

Activity Purpose: The purpose of the DESKTOP SUPPORT activity is to provide management and support of the entire desktop life cycle to clients so that they can benefit from a stable computing platform.

Services that comprise the Activity:

- Desktop Upgrades
- Hardware Configuration & Pricing
- Desktop Virus Protection
- Distributed Equipment
- Help Desk Contacts
- Repaired Equipment
- Acquired Equipment
- Desktop Guidance
- Infrastructure Data Archiving & Recovery
- Technical Guidance (Desktop Hardware & Software)
- Desktop Installations
- Hardware & Software Inventory
- Network Server Services
- Office Automation Tools
- Personal Data **Storage**

Performance Measures:

RESULT: % of Available Server Services (24X7)

Actuals FY 00: Actuals FY 01:
Anticipated FY 02: 98 Mid Yr Forecast:
Projected FY 03:

Qrt	Result	YTD	Comments
1	99.72		
2	99.81	99.75	
3			
4			

Calculation: of hours "up" / total number of server hours per quarter. (NOTE: 90 days in the quarter.)

Data Source: MS Systems Management Server (SMS), Altiris, Help Desk Tracking software and Internal Server logs.

Activity Leader: Jack Coffin

RESULT: % of Available Server Services During Prime Business Hours (12X5)

Actuals FY 00: Actuals FY 01:
Anticipated FY 02: Mid Yr Forecast:
Projected FY 03:

Qrt	Result	YTD	Comments
1	100		
2	100	100	
3			
4			

Calculation: # of hours "up" / total number of server hours in the quarter. (NOTE: 60 work days in the quarter.)

Data Source: MS Systems Management Server (SMS), Altiris, Help Desk Tracking software and Internal Server logs.

Activity Leader: Jack Coffin

OUTPUTS: Number of installed and redeployed desktops

Actuals FY 00: Actuals FY 01:

Anticipated FY 02: 5600 Mid Yr Forecast:

Projected FY 03:

Qrt	Result	WD	Comments
1	1426		
2	1527	1 1635	
3			
4			

Calculation: # of PCs in the installed base + # of replacement and new PCs deployed + : of PCs "waterfalled" within installed base.

Data Source: MS Systems Management Server (SMS), Altiris, SupportMagic Call Tracking software.

Activity Leader: Jack Coffin

DEMAND: Expected number of installed and redeployed desktops

Actuals FY 00: Actuals FY 01:

Anticipated FY 02: 5600 Mid Yr Forecast:

Projected FY 03:

Qrt	Result	YTD	Comments
1	1465		
2	1587	1 1682	
3			
4			

Calculation: -- of PCs in the installed base + t of replacement and new PCs deployed + # of PCs "waterfalled" within installed base.

Data Source: MS Systems Management Server (SMS), Altiris, SupportMagic Call Tracking software.

Activity Leader: Jack Coffin

EFFICIENCY: Cost per installed and redeployed desktop

Actuals FY 00: Actuals FY 01:

Anticipated FY 02: Mid Yr Forecast:

Projected FY 03:

Qrt	Result	YTD	Comments
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4

Calculation: Number of installed and redeployed desktops divided by the annual budget of the PC/LAN Solutions and Support Team.

Data Source: MS Systems Management Server (SMS), Altiris, SupportMagic Call Tracking software and the budget system.

Activity Leader: Jack Coffin

2. Capital Projects

- F2.1 Using County budget documents it is not possible to determine the status of capital projects or whether the projects are over or under budget. Capital project status reporting in the budget would be improved by including comparisons of originally proposed and actual costs and project timing.
- F2.2 Funding and priority setting for El Dorado County's facility and transportation capital projects takes place without benefit of a multi-year capital improvement or facility master plan. As a result, department managers can set project priorities without formalized direction from the Board of Supervisors and the public. These priorities may or may not reflect the highest and best use of limited resources in the opinion of Board members and the public but a method doesn't exist to reach consensus, formalize and update those priorities.
- F2.3 Both the General Services and Transportation departments have relatively new directors who have developed project tracking systems that allow for better project status reporting. The Department of Transportation has a five year capital project plan prepared in 1995 but it has never been updated. Staff is currently preparing a new document for review by the Board of Supervisors. With adoption of this plan and a similar one that County management reports is in the planning stages for County facility projects, project priorities will be clearer, the budget process simplified and department accountability for completing projects on time and on schedule improved.

There are two primary types of multi-year capital projects in El Dorado County. First are construction and rehabilitation of County facilities such as parks and public buildings that are the responsibility of the General Services Department. Second are road, bridge and transportation system projects that are the responsibility of the Department of Transportation. These projects often span multiple years so their presentation in the budget document is different than presentation of annual operating revenues and expenditures for most departments.

County Facility Projects

The budget for the General Services Department includes a list of County facility projects categorized as either carryover or new. This list is first presented in the proposed budget submitted to the Board of Supervisors in June and then updated for the budget addenda report in September. Differences between the two lists for FY 2001-02 are shown in Exhibit 2.1.

Exhibit 2.1
Difference in General Services Department
Capital Projects between the
Proposed and Addenda Budget Documents
FY 2001-02

	Proposed Budget	Budget Addenda	Change
# Carryover Projects	45	72	27
Carryover Funding	\$2,077,786	\$2,827,090	\$749,304
# New Projects	22	43	21
New Funding	\$1,181,900	\$2,358,761	\$1,176,861
# Projects Total	67	115	48
Funding Total	\$3,259,686	\$5,185,851	\$1,926,165

Source: FY 2001-02 Proposed Budget & Workplan and Budget Addenda Report

As can be seen, there is a significant change in the number of projects and funding levels between the two documents. This reflects the timing of the two budget documents. The proposed budget presented to the Board in June has to be submitted to the Chief Administrative Officer by the departments by the end of March/early April. The September budget addenda information is prepared five to six months later. By then, more construction activity has taken place during the prime construction season and the department has more information regarding which projects will be carried over to the next year. In addition, the original budget submission does not include carryover parks projects at all which added 19 more carryover projects and \$371,456 in costs to the carryover projects in the budget addenda. With a 59 percent change in funding between the June and September lists, the Board's approval of projects in June is somewhat meaningless.

Besides changes between the two lists, it is not possible to tell from either the status of the carryover projects in terms of time or costs. The lists simply present all projects with no indication of whether they are 10 percent or 90 percent done, when project completion is expected, or whether they are under or over budget. The lists are not prioritized so it is not possible to tell the order in which projects will be worked on and completed.

While there are many projects in progress and compilation of information on these projects can be complex, a simple report showing the original budget and schedule compared to actual costs and schedule could be readily compiled from Department records with a column for briefly explaining significant variances in time or cost. The Department already maintains a project tracking list for use internally by management. This document could be modified for reporting to the Board and for inclusion in the budget documents.

In addition to better reporting of the status of projects, the General Services Department needs a multi-year master plan, approved by the Board of Supervisors, that establishes project priorities and includes estimated funding and timing for each project over a multi-year period such as five years. With agreed upon project priorities, Department management would have clear direction about how to allocate their resources. Project priorities and available funding would also be

better aligned with such a plan as it would allow for determination of what should be done given limited resources and what cannot be done.

New projects could still be added and planned projects deleted after the plan is adopted if priorities change or funding becomes unavailable. The difference would be that the process would be formalized so the Board would have to make a conscious choice to delete a project rather than a project remaining on the list but never getting done. The interim Chief Administrative Officer reports that plans are underway at the time of preparation of this report to commence preparation of such a plan, including financing plans, for County facilities.

Department of Transportation Capital Projects and Maintenance Work

Transportation capital projects are presented in a different format in the budget than General Services projects. In the FY 2001-02 budget addenda document, the Department presents a list of approximately \$24 million worth of capital improvement projects. For each project, a breakdown of project costs (labor, overhead, fixed assets, etc.) and the project's revenue source(s) are presented. The budget addenda document submitted to the Board of Supervisors in September lists 25 capital projects but does not show the timing or funding status of any of the projects or sequencing or priorities for the coming year (see Attachment 2).

As with the General Services Department budget, information is not presented comparing planned and actual costs and timing of the Department's capital improvement projects. Nor are projects prioritized in accordance with a multi-year plan approved and updated by the Board of Supervisors. A five year roads capital improvement project plan was prepared in 1996 but it has not been updated since according to Department of Transportation management.

The Department's planned road maintenance projects are also shown with the same cost breakdown as presented for capital projects and with revenue source(s) identified (see Attachment 3). Though these projects tend to be single year in scope compared to capital improvement projects, the work to be done such as patching and overlay, chip seal and traffic signal maintenance, is not prioritized by long term County goals such as achieving an average road condition on the County network by a certain date in the future. If specific priorities such as these were established in a multi-year plan, the Department would have a stronger basis to justify the allocation of its maintenance dollars. Like most counties in California, El Dorado County faces extensive deferred maintenance costs in excess of available resources for road and bridge work. Officially adopted agreed upon priorities are all the more important when need exceeds resources available.

The Department of Transportation has prioritized its capital improvement projects by three tiers of priority and is in the process of preparing a new multi-year capital improvement plan. The Department is intending to use this document as a budgetary document as well as a work program so that project priorities and resources available will be linked. Department management's goal is to update the plan annually in advance of the April submittal to the Chief Administrative Officer and Board of Supervisors.

Section 2: Capital Projects

To develop the annual plans and budgets for the two departments' capital improvement plans, a process is needed in advance and in lieu of the budget hearing process in September. By September, or budget adoption time, it is too late to add capital projects which often require a fair amount of advance work to obtain funding or to plan in relation to resources available.

Midyear planning workshops with the Board of Supervisors

With five year plans in place for both departments, workshops should be held with the Board of Supervisors in January or at a more convenient time but well in advance of budget submission and adoption. The purpose of the workshops should be to revise and update the plans in accordance with any changes in circumstances, funding or Board priorities. From that point on, the plan for the next year should be established and budget submission and adoption should reflect the agreements reached at those workshops. This would make for a more clear and streamlined budget process for capital improvement projects as most of the projects and funding levels would have been previously agreed to or modified well in advance of the Board of Supervisors review and approval of the proposed budget.

The Department of Transportation does prepare a monthly report on its capital projects but this report does not include a comparison of planned and actual project timing and costs. While this does not need to be provided to the Board and public on a monthly basis, it would be useful to present it at budget time and once more during the year such as at the annual planning workshop discussed above. Similarly, the General Services Department should prepare such a report for Board review twice a year, once at its planning workshop and again at budget addenda submission time. The list of projects included in the proposed budget in June should match that resulting from the January planning workshop and then be updated for the addenda process in September based on actual projects completed during the prime construction period and identification of carryover projects.

Recommendations

It is recommended that the Board of Supervisors:

- R2.1 Direct the Director of Transportation to complete its draft five year capital improvement plan now in progress and direct the General Services Director continue with reported efforts to develop such a plan for County facilities. The plans should include proposed priorities for projects, identification of revenue sources for projects, and proposed time schedules and milestones;
- R2.2 Follow a process of collecting input from the public and other County departments on the proposed five year plans, and adopt both documents to guide the two department's work plans and budgets;
- R2.3 Implement a process where the five year plans for both departments are reviewed and updated annually in a workshop with the Board of Supervisors that takes place well in advance of the budget review and hearing process so that department management can

Section 2: Capital Projects

secure funding and other resources in a timely manner to ensure that the highest priority projects are able to be accomplished in the targeted time frame; and,

- R2.4 Direct the Directors of Transportation and General Services to develop and provide reports twice a year; once when the proposed budget is submitted to the Board and once at the recommended annual planning workshops, showing all projects in process, comparing original and actual costs and timing, and explaining any variances in either.

Costs and Benefits

The General Services Department is planning to use the services of an outside consultant in preparation of their multi-year facilities plan. The cost for this is unknown as of the writing of this report. There would not be any other new direct costs associated with the above recommendations. Benefits would include a better use of resources by focusing the General Services and Transportation departments on specific agreed upon capital project priorities and road maintenance work, a more streamlined budget process for capital projects, and greater accountability by department managers for delivery of projects on time and budget.

Responses Required for Findings

F2.1 through F2.4 El Dorado County Board of Supervisors

Responses Required for Recommendations

R2.1 through R2.4 El Dorado County Board of Supervisors

COSICENIER 305 DOF - CAPITAL PROJECTS

EL DORADO COUNTY
WORK PROGRAM
2001-2002 BUDGET YEAR

08/24/2001

1A1RK ORDER	DESCRIPTION	LABOR	SERVICES L SUPPLIES	DINER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRAFUND TRANSFERS\$	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
<u>SUPPORT TO OTHER GOVERNMENT AGENCIES</u>											
52101	CONTRIBUTION TO OTHER AGENCY	0	0	50,000	0	0	0	0	50,000	STATE-RSIP 182.9	50,000
53108	US 50 WEST BOUND-PONDEROSA 6 N SHINGLE SIGNALIZATION	0	1,556,300	22,000	0	0	0	114,580	1,692,880	STATE-RSIP 182.6d1 CALTRANS RA2 1 STATE SYSTEM TIM	300,000 300,000 1,092,880
53110	NWY 50 IIOV LANE EDN 10 SHINGLE SPRINGS	0	0	0	0	0	0	5,000	5,000	RA2 1 STATE SYSTEM TIM	5,000
53112	FORHI ROAD IMPROVEMENTS - CITY	0	0	150,000	0	0	0	0	150,000		150,000
CATEGORY TOTAL		0	1,556,300	222,000	0	0	0	119,580	1,897,880		1,897,880
<u>CAPITAL IMPROVEMENT PROJECTS</u>											
71317	MISSOURI FLAT INTERCHANGE PSR	0	457,880	28,500	0	0	0	99,620	586,000	FUND BALANCE EDCTC CARRYOVER RA2 1 STATE SYSTEM TIM	96,706 489,294
71318	EDIT BLVD INTERCHANGE PSR	0	581,000	1,524,000	0	0	0	145,000	2,250,000	EL DORADO HILLS RIF/SALMON FAL OTHER FINANCING SOURCES	750,000 1,500,000
71319	CAMINO INTERCHANGE	0	0	0	0	0	0	41,669	41,669	FUND BALANCE EDCTC CARRYOVER RA2 2*5 STATE TIM FEE	31,669 10,000
71329	UNITE ROCK RD REALIGII4EIT	0	27,500	2,500	0	0	0	120,000	150,000	EL DORADO HILLS RIF/SALMOII FAL	150,000
71350	EDIT BLVD E/B DIAGONAL	0	2,134,901	682,500	0	0	0	38,849	2,856,250	EL DORADO HILLS RIF/SALMOII FAL	2,856,250
71351	BIKEPATH-HARVARD WAY/CLERMONT 70 E011 CSO PARK	0	128,953	500	0	0	0	29,666	159,119	SMVAQ COMV AIR QUALITY)	39,780

COSICENTER 305 DOI - CAPITAL PROJECTS

EL DORADO COUNTY
WORK PROGRAM
1001-2002 BUDGET YEAR

08/24/2001

WORK ORDER	DESCRIPTION	LABOR	SERVICES L SUPPLIES	0111ER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRAFUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
										TRANSPORTATION ENHANCEMENT ACT	103,719
										0111ER GOVT AGENCIES	15,620
71352	BIKEPATII-EL DORADO HILLS BLVD/IRAHCISCO TO GOVERNORS	0	47,300	3,700	0	0	0	64,000	115,000	SHVAQ (DMV AIR QUALITY)	13,225
										TRANSPORTATION ENHANCEMENT ACT	101,775
71353	PONDEROSA RD 0 IHly 50 ROUTE ADOPTION	0	49,500	500	0	0	0	50,000	100,000	RAZ 1 STATE SYSTEM - TIN	100,000
72100	ROAD REHABILITATION	0	3,608,527	0	0	0	0	0	3,608,527	FUND BALANCE - UNRESTRICTED	309,649
										FUND BALANCE GOVERNORS CONGEST	1,755,690
										TRANSPORTATION TAX IDA	43,188
										OPERATING TRANSFERS IN	1,500,000
72332	EL 00 HILLS NORTHERLY ALLIGNMENT	0	0	0	0	0	0	40,000	40,000	EL DORADO HILLS RIF/SALMON FAL	40,000
72334	MISSOURI FLAT/PLEASANT VALLEY CONNECTOR	0	98,750	1,065,425	0	0	0	101,438	1,265,613	TIN	1,265,613
72335	LATROBE ROAD - WHITE ROCK 0 WETZEL OVIATT	0	464,344	4,500	0	0	0	663,156	1,132,000	EL DORADO HILLS RIF/SALMON FAL	1,132,000
72343	CAMERON PARK DRIVE PHASE 11	0	0	0	0	0	0	95,000	95,000	TIN	95,000
72353	GRII VLY RD WIDENING/SIADOWFAX 10 BROWNS RAVINE	0	4,041,999	1,465,724	0	0	0	166,184	5,673,907	EL DORADO HILLS RIF/SALMON FAL	1,352,382
										TIN	1,588,326
										RISC REIMBURSABLE	430,000
										LONGTERM ADVANCE	2,303,199
72354	GREEN VALLEY RD WIDENING COMMERCIAL AREA B	0	169,691	411,301	0	0	0	174,693	755,685	TIN	294,717
										LONGTERM ADVANCE	460,968
72355	GREEN VALLEY RD WIDENING MORMON ISLAND TO FRANCISCO	0	39,500	2,000	0	0	0	106,000	147,500	EL DORADO HILLS RIF/SALMON FAL	89,975
										TIN	57,525
73346	IIVY 49/FOWLER LN INTERIM INTERSECTION	0	1,299,900	12,016	0	0	0	11,557	1,323,473	CALTRANS	77,000

COSTCENTER 305 DOT - CAPITAL PROJECTS

EL DORADO COUNTY
WORK PROGRAM
2001-2002 BUDGET YEAR

08/24/2001

1RIRK ORDER	DESCRIPTION	LABOR	SERVICES L SUPPLIES	OTHER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVEANEAD CIAROE	INTRAFUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
										II E S (HAZARD ELIH SEC)	500,000
										RAZ 1 STATE SYSTEM TIM	746,473
73349	GREEN VALLEY NO 41 MORMON ISLAND	0	1,720,499	667,369	0	0	0	70,001	2,457,869	EL DORADO HILLS RIF/SALMON FAL TIM	1,046,708 669,206
										CIP INIRA DEPARTMENT	65,000
										MISC REIMBURSABLE	11,086
										LONGTERM ADVANCE	665,869
73351	METAL BEAM GUARDRAILS - 7 LOCATIONS	0	0	0	0	0	0	15,000	15,000	II E S (HAZARD ELIH SEC)	15,000
77103	BRIDGES/GRIT VLY RD-RECONST GROG 0 DRY CRK	0	18,278	256,000	0	0	0	54,110	328,388	FUND BALANCE RSTP CARRYOVER IIBRR (IDLY BRIDGE RE/REII)	135,091 193,297
77108	BRIDGES/BRIDGEPORT SCHOOL RD-REPLACE BRGE	0	398,804	27,000	0	0	0	49,780	475,584	FUND BALANCE RSTP CARRYOVER RSTP STATE EXCHANGE HBRR (IIWY BRIDGE RE/REN)	163,706 205,286 106,592
77109	GR11 VLY RD BRIDGE 0 TENNESSEE	0	140,000	10,500	0	0	0	24,500	175,000	FUND BALANCE RSTP CARRYOVER RSTP STATE EXCHANGE IIBRR (NWY BRIDGE RE/REII)	35,088 83,912 56,000
77110	SALMON FALLS BRIDGE 2 AMERICAN RIVER	0	139,800	4,684	0	0	0	20,200	164,684	FUND BALANCE RSTP CARRYOVER RSTP STATE EXCHANGE HORN (IIWY BRIDGE HIRER)	11,566 11,470 141,648
77112	BRIDGES - HT MURPHY 0 AMERICAN RIVER	0	135,000	0	0	0	0	23,606	158,606	FUND BALANCE RSTP CARRYOVER RSTP STATE EXCHANGE IIBRR (IIWY BRIDGE RE/REII)	28,606 10,000 120,000
77113	BRIDGE BARRIER RAILING	0	98,000	0	0	0	0	23,022	121,022	FUND BALANCE RSTP CARRYOVER RSTP STATE EXCHANGE IIBRR (IIWY BRIDGE RE/REII)	3,545 11,241 106,236

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COSTCLYTER 305 DOT - CAPITAL PROJECTS

EL DORADO COUNTY
 WORK PROGRAM
 2001-2002 BUDGET YEAR

08/24/2001

MARKING	UESCR11-Ttoil	LABOR	SERVICES A SUPPLIES	OTHER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRAFUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
79999	COHIIHGEHCY - PROJECTS 1101 COMPLETED	0	0	0	0	0	0	-626,186	-626,186	TIM	-626,186
CATEGORY TOTAL		0	15,800,126	6,168,719	0	0	0	1,600,865	23,569,710		23,569,710
SUBTOTAL		0	17,356,426	6,390,719	0	0	0	1,720,445	25,467,590		25,467,590
TOTAL AVOWED COST		0	17,356,426	6,390,719	0	0	0	1,720,445	25,467,590		25,467,590
TOTAL		0	17,356,426	6,390,719	0	0	0	1,720,445	25,467,590		25,467,590

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COSICENTER 306 001 - ROADS

EL DORADO COUNTY
 WORK PROGRAM
 2001-2002 BUDGET YEAR

08/24/2001

IA)RK ORDER	DESCRIPTION	LABOR	SERVICES L SUPPLIES	OTHER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRAFUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
<u>ROAD MAINTENANCE PROJECTS</u>											
41100	IRAF SIG L LGT MATHWS RD	11,628	161,650	0	0	1,663	5,145	0	180,086	DEPARTMENT DISCRETIONARY	180,086
41101	SIGNAL MAINT - TO	0	13,000	0	0	0	0	0	13,000	DEPARTMENT DISCRETIONARY	13,000
43100	INSTALL NEW SGH, SIRP L SFTY DEV/WS RD	76,654	18,050	0	0	11,689	36,155	0	142,578	DEPARTMENT DISCRETIONARY	142,578
43101	INSTALL SGH, SIRP A SFTY OEV/CATTLE GUARD INSTALL TO	3,037	3,150	0	0	319	986	0	7,492	DEPARTMENT DISCRETIONARY	7,492
44100	PATCHING/OVERLAY PAIC11111G (BASE RECONST.)	265,812	344,356	0	0	123,300	116,585	0	850,061	DEPARTMENT DISCRETIONARY	550,061
44101	PATCHING/WS O/L PATCH - 10 (BASE RECONST.)	99,209	192,385	0	0	74,493	53,504	0	419,591	DEPARTMENT DISCRETIONARY	419,591
45136	CONTRACT OVERLAY-EL DORADO HILLS BUS PARK	0	36,000	0	0	0	0	0	36,000	MISC REIMBURSABLE OPERATING TRANSFERS IN	18,000 18,000
46100	CHIP SEAL/WS RD	297,113	481,153	0	0	139,783	131,667	0	1,049,716	DEPARTMENT DISCRETIONARY	1,049,716
46101	CHIPSEAL TO	0	230,000	0	0	0	0	0	230,000	DEPARTMENT DISCRETIONARY	230,000
48100	PAVEMENT MANAGEMENT SYSTEM	43,714	1,900	0	0	1,476	14,588	0	61,678	DEPARTMENT DISCRETIONARY	61,678
48101	MAINTAINED MILEAGE	13,214	150	0	0	36	4,346	0	17,746	DEPARTMENT DISCRETIONARY	17,746
48102	ROUT MAIN/RD SUR POT HILLS	536,044	302,926	0	0	313,323	251,899	0	1,404,192	DEPARTMENT DISCRETIONARY	1,404,192
48103	ROUT MAIN/AC GERMS	3,834	9,297	0	0	2,226	1,827	0	17,184	DEPARTMENT DISCRETIONARY	17,184
48104	ROUT MATH/CRACK SEALS	27,778	30,300	0	0	18,111	14,016	0	90,205	DEPARTMENT DISCRETIONARY	90,205
48105	ROUT MAIN/RD SUR GRAD	7,895	0	0	0	3,696	3,331	0	14,922	DEPARTMENT DISCRETIONARY	14,922
48107	ROUT MAIN/ORUSII L WEED	162,995	0	0	0	87,839	75,470	0	326,304	DEPARTMENT DISCRETIONARY	326,304

COSTCENTER 306 DOT - ROADS

EL DORADO COUNTY
 WORK PROGRAM
 2001-2002 BUDGET YEAR

08/24/2001

Work OROLIT	DESCRIPTION	LABOR	SERVICES R SUPPLIES	OTHER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRATUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
48108	ROUT MAIN/RD SIDE DITCH	156,884	1,208	0	0	86,882	72,512	0	317,486	DEPARTMENT DISCRETIONARY	317,486
48109	ROUT MAINT/ DRAINAGE EASHEIII	759	0	0	0	369	333	0	1,461	DEPARTMENT DISCRETIONARY	1,461
48110	ROIL MAIN/SWEEPING	41,701	1,200	0	0	24,884	20,122	0	87,901	DEPARTMENT DISCRETIONARY	87,907
46111	ROUT MAIN/CLN-RPR CULVERT	280,924	22,647	0	0	140,067	125,593	0	569,231	DEPARTMENT DISCRETIONARY	569,231
68111	ROUT HAITI/TNCE, GORL, OAR REP	8,354	10,000	0	0	4,066	3,664	0	26,084	MISCELLANEOUS SERVICES/INSPECT DEPARTMENT DISCRETIONARY	5,000 21,084
48114	ROUT RAIN/SIGH HAIRY - 115	278,130	24,467	0	0	78,784	128,779	0	\$10,160	MISCELLANEOUS SERVICES/INSPECT DEPARTMENT DISCRETIONARY	5,000 505,160
48115	ROUT MAIN/CNTRLR L MRK HAITI - WS	334,573	129,117	0	0	66,208	155,792	0	705,690	DEPARTMENT DISCRETIONARY	705,690
48116	ROUT MAIN/DEAD ANIMAL REMOVAL	0	15,000	39,000	0	0	0	0	54,000	DEPARTMENT DISCRETIONARY	54,000
48118	ROOT MAIN/BRDG MAIN	79,741	56,417	0	0	38,849	34,975	0	209,984	DEPARTMENT DISCRETIONARY	209,984
46119	YARD MAINTENANCE	10,777	4,097	0	0	5,434	4,799	0	25,107	DEPARTMENT DISCRETIONARY	25,107
48122	ROOT MAINT/EROSION	1,639	1,400	0	0	1,256	902	0	5,197	DEPARTMENT DISCRETIONARY	5,197
48123	EMERGENCY RESPONSE	4,810	0	0	0	2,347	2,110	0	9,267	DEPARTMENT DISCRETIONARY	9,267
48124	ROUT HAIRY/ SPRAYING	22,784	48,067	0	0	11,098	9,993	0	91,942	DEPARTMENT DISCRETIONARY	91,942
48127	DURAPATCHING	126,642	53,193	0	0	68,777	58,383	0	306,995	DEPARTMENT DISCRETIONARY	306,995
48129	SIGN REMOVAL IN ROW	4,149	0	0	0	148	5,828	0	10,125	DEPARTMENT DISCRETIONARY	10,125
48131	SIGN MAINTENANCE - TO	6,789	2,900	0	0	1,063	3,287	0	14,039	DEPARTMENT DISCRETIONARY	14,039

WORK ORDER	DESCRIPTION	LABOR	SERVICES SUPPLIES	OTHER CHARGES	FIXED ASSETS	VEHICLE USAGE	OVERHEAD CHARGES	INTRAFUND TRANSFERS	TOTAL	REVENUE SOURCE	REVENUE AMOUNT
48132	CENTERLINE HAIRY - TO	16,870	22,950	0	0	3,724	8,017	0	51,561	DEPARTMENT DISCRETIONARY	51,561
48134	ROUT MAIHT/FNCE,GURL,PAR REP TO	380	0	0	0	190	167	0	737	DEPARTMENT DISCRETIONARY	737
48135	R0111 MAIIII/BRIDGE HAIRY T	3110	0	0	0	190	167	0	737	DEPARTMENT DISCRETIONARY	737
48901	SAFETY PROJ - 2 WAY LEFT TURN LN/PLEASANT VLY RD E/O O.S.	0	10,000	0	0	0	0	0	10,000	DEPARTMENT DISCRETIONARY	10,000
45902	SAFETY PROJ - 2 WAY LEFT TURN LM/SUNSET TO FRENCH CRK	0	15,000	0	0	0	0	0	15,000	DEPARTMENT DISCRETIONARY	15,000
48903	SAFETY PROJ - LEFT RUN L11/GREEN VLY 0 W DEER VLY	0	10,000	0	0	0	0	0	10,000	DEPARTMENT DISCRETIONARY	10,000
48904	SAFETY PROD - ALL WAY SLOP/COLD SPROS 0 GOLD HILL	0	15,000	0	0	0	0	0	15,000	DEPARTMENT DISCRETIONARY	15,000
48908	SAFETY PROJ - LRDSPE ISLANDS/CCC TO DUMP/SPREAD ROCK	0	30,000	0	0	0	0	0	30,000	DEPARTMENT DISCRETIONARY	30,000
49100	SNOW REMOVAL/WS	90,408	45,213	0	0	30,828	35,275	0	201,724	DEPARTMENT DISCRETIONARY	201,724
49101	SNOW REMOVAL/TO	697,396	76,437	4,768	0	271,154	217,112	0	1,266,867	DEPARTMENT DISCRETIONARY	1,266,867
49275	DOT/FOREST SERVICE CUL-DE-SACS	31,031	69,615	0	0	7,839	26,067	0	134,552	DEPARTMENT DISCRETIONARY	134,552
CATEGORY TOTAL		3,744,080	2,488,245	43,768	0	1,642,119	1,623,396	0	9,541,600		9,541,608
SUPPORT TO OTHER GOVERNMENT AGENCIES											
50000	CAPITAL IMPROVEMENTS	59,230	0	0	0	0	52,850	-112,080	0		
52101	CONIRIOUTION TO 0111ER AGENCY	0	0	86,000	0	0	0	0	86,000	TRANSPORTATION TAX IDA	86,000
CATEGORY TOTAL		59,230	0	86,000	0	0	52,850	-112,080	86,000		86,000

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3. Budget Timing, Information and Analysis

- F3.1 The Board of Supervisors receives very comprehensive, well organized reports on the status of the budget at mid-year but no further formal reports until they receive the proposed budget for the next fiscal year in June. As stewards of the County's financial resources, more regularly produced status reports and updates should be provided with less detail than the mid-year reports but with enough information to allow the Board to monitor performance and receive early warnings of potential fiscal problems.**
- F3.2 The County's financial information system allows for production of a wide variety of ad-hoc reports and analysis of expenditures and revenues accessible to all department managers. A monthly report to the Board showing actual expenditures and revenues by department, with a projection of the County's financial position at year end, could easily be produced and would facilitate more Board and public involvement in monitoring the County's fiscal status. It would eliminate surprise developments such as the increase from \$12.5 to \$21.5 million in fund balance available reported between the proposed and budget addenda for FY 2001-02. Information of this sort would also provide a basis for other questions and analyses of situations when revenues or expenditures are not at the level originally projected.**
- F3.3 The analysis of the proposed budget each year consumes many months of staff time but largely focuses on incremental appropriations requested by the departments or recommended by the Chief Administrative Officer but not the baseline budget. Oftentimes, savings can be realized in the baseline budget by improving the efficiency of operations, reorganizing or consolidating programs or increasing revenues. One of the most effective means of identifying opportunities for savings in the baseline budget is through departmental performance audits.**

The major points of public presentation and discussion about the County's budget are: 1) the mid-year budget report to the Board of Supervisors; 2) presentation of the proposed annual budget in June; 3) presentation of the addenda budget in August; and, 4) budget hearings in September. At all four points, a great deal of useful information is provided to the Board covering all departments, revenue sources and operational issues. The information is prepared by the Chief Administrative Officer and, in the past, discussion about the contents were largely between the Board and the Chief Administrative Officer and the Auditor-Controller. For the FY 2001-02 budget, the process was expanded when the Board of Supervisors requested that each department make a presentation about their budget and operations.

The mid-year budget report provided in February 2002 contained discussion of projected fund balance, expenditures and revenues by department, a discussion of expected increases in health benefits costs, detailed revenue projections (summarizing projections prepared by the Auditor-Controller), capital project highlights, a discussion of the State budget, a regional economic forecast, salary projections for FY 2002-03, and departmental savings. It provides a good deal of information of interest to the Board of Supervisors, department managers and the public.

Section 3: Budget Timing, Information and Analysis

The proposed budget document for the subsequent fiscal year is provided in June of each year and includes detailed revenue projections and proposed expenditures for each department. Information for each department is also presented including staffing detail, descriptions of all major programs operated by the department, workload indicators, actual revenues and expenditures for the previous two fiscal years and proposed revenues and expenditures by major programs or costs centers for all departments. An overview of the County's financial situation is presented including detailed revenue estimates for the budget year, changes in State and other funding sources, and roll ups of expenditure data by fund and functional areas.

The third and final budget report prepared by the Chief Administrative Officer is provided in August. This report provides final revenue and expenditure estimates for the year after the State budget has been adopted and actual fund balances are known based on better and more complete prior year actual data.

While all three reports provided to the Board of Supervisors include a substantial amount of useful information, there are no routinely produced reports between these three to keep the Board abreast of the overall fiscal situation of the County and to have early warnings of potential problems. Budget related items do come up at Board meetings if an individual department is requesting mid-year supplemental funding or if the supervisors request information on a particular department or a budget related topic. However, fiscal information is not otherwise routinely reported in a standardized report to the Board to allow for comparisons and trend analyses throughout the year.

Timing of County Budget Review and Approval

Department budget staff spend many months of the year going through their internal budget review and preparation processes and then explaining and defending their proposals to the Chief Administrative Office before they are submitted to the Board of Supervisors. Then, for many departments, there are additional analyses and expenditure plans to be prepared between June and September as actual fund balance amounts become known, the State budget is adopted and other adjustments are made. The net result is a lengthy process consuming more than half the year and a budget mostly prepared six months earlier being reviewed by the Board of Supervisors in September.

While the County is subject to State timing requirements governing the preparation and adoption of the budget, attempts should be made to complete more of the budget process in June so that fewer staff hours are consumed in duplicative efforts between June and September and so the budget reviewed and discussed by the Board of Supervisors is more current. A review of changes between the proposed and addenda budget for FY 2001-02 shows that budget appropriations increased by \$23 million between June and September. Most of the change, or 77.3 percent, was in the General Fund and Roads Fund. Exhibit 3.1 presents the changes for all funds.

Section 3: Budget Timing, Information and Analysis

Exhibit 3.1
Changes between Proposed and Addenda Budget
By Fund, FY 2001-02

Fund	Proposed Budget	Addenda Budget	Difference	Total Difference
Roads Fund	\$31,856,908	\$41,367,148	\$9,510,240	41.2%
General Fund	147,900,815	156,236,963	8,336,148	36.1%
Health Department	17,128,851	19,719,350	2,590,499	11.2%
Accumulated Capital Outlay	3,673,718	5,403,519	1,729,801	7.5%
Mental Health Services	9,749,849	10,463,260	713,411	3.1%
Tobacco Settlement		487,860	487,860	2.1%
Road District	2,460,871	2,617,875	157,004	0.7%
Community Services	7,986,053	8,026,027	39,974	0.2%
Special Aviation	20,000	20,000	-	0.0%
Fish & Game	5,000	5,000	-	0.0%
EIR Development Fees	300,000	300,000	-	0.0%
Erosion Control	4,918,455	4,413,840	(504,615)	<u>-2.2%</u>
TOTAL	\$226,000,520	\$249,060,842	<u>\$23,060,322</u>	<u>100.0%</u>

Source: Proposed and Addenda Budgets, FY 2002-03

The \$9.5 million in Roads Fund monies was mostly from capital project carryovers and increases in estimated fund balance. For the General Fund, the increase was primarily generated from carryover fund balance, mostly due to a combination of capital project carryover, actual expenditures being less than budgeted, and actual revenues being more than budgeted the previous year. The fourth largest contributor to the increase, Accumulated Capital Outlay, was also the result of an increase in fund balance available compared to what was estimated in the proposed budget due to more projects being carried over from the previous year than anticipated in June.

By producing more detailed projections of revenues and expenditures throughout the year, particularly in the second half, and projecting year-end fund balance monthly, the County's estimates of carryover fund balance in June should become more accurate and closer to the amounts now not identified until September. With better tracking and reporting of capital project expenditures and timing, as recommended in Section 2 of this report, and monthly projections of year-end fund balance for the Roads and Accumulated Capital Outlay funds, the discrepancy between the June and September budget for capital project carryover funds should also be decreased. The net result of more accurate forecasting would be fewer changes between June and September and less work for all County staff in creating and analyzing a second budget document with numerous revisions for the September hearings.

Though the State budget could be and probably will be changed to some extent between June and September, most of it should be known and in place by June based on the Governor's budget. County estimates of the budget in June should be reasonably accurate for most of the State funding received. The County should endeavor to reduce discrepancies between the two budgets

Section 3: Budget Timing, Information and Analysis

and complete most of the budget process in June, with only some minor changes to be approved in September.

While production of the three budget reports that the Board now receives involves a substantial amount of work for the Chief Administrative Officer and department fiscal staffs, other regularly provided information between these three reports is needed. Current budget information is readily available on the County's Financial Management Information System (FAMIS) and could be produced without extensive staff work. Of key importance for a monthly report is:

1. Budgeted vs. actual expenditures and revenues by department and major revenue source
2. Explanations of major variances between budgeted and actual expenditures and revenues
3. Projected expenditures, revenues and fund balances, by fund, for year end
4. Key performance indicators

This information would provide ongoing assessments of the County's fiscal situation and individual department performance and would serve as a supplement to the annual budget review and approval process by making the Board aware of issues affecting certain revenues or individual departments during the year. The Interim Chief Administrative Officer directed all department heads in April 2002 to undertake detailed re-computations of their estimated year-end Net County Costs to improve the forecast for FY 2002-03.

Even though monthly reports at the early part of the year would generally not be too revealing with so little time passed since budget adoption, the Board should still receive these reports as they will serve as the foundation for subsequent reports during the year. As the year progresses, the Board may want to request other special reports with more detail on a certain department or revenue or an issue such as turnover or workers compensation claims if a particular department is experiencing a high rate of claims.

The County needs to analyze its baseline programs and budgets

Another type of information that would be useful to inform the annual budget process is evaluations or performance audits of individual departments and programs conducted throughout the year. This would provide the Board with more detail that could be used at budget time regarding all aspects of individual department operations and provide a stronger basis for decisions about baseline department funding levels.

The budget review process assumes that a baseline level of funding will be provided for all departments. The discussion in the proposed budget regarding funding changes almost entirely deals with incremental funding levels, or additions to the base level of funding. As in most counties, the Chief Administrative Office's analysis of budget requests submitted by the departments is focused primarily on any increases to the baseline budget but generally does not question the existing level of funding. Comments in the proposed budget document focus on increases or changes in the budget and recommendations on what new positions or programs should be funded, if any. For the most part there is no discussion or recommendations to decrease funding of the baseline budget through improved efficiency and/or increased revenue.

Section 3: Budget Timing, Information and Analysis

There is an implicit assumption in the budget review that existing allocation levels should not be changed.

In fact in many instances changes could be made to department operations or business processes and costs reduced through efficiency improvements or revenues increased through improved collections or establishing fee levels that capture more of the costs actually being incurred. One way of identifying such changes is through detailed review of department operations through performance auditing.

Performance auditing can briefly be described as a review of all aspects of a department's operations to determine if the department is operating in compliance with all applicable laws and as efficiently, effectively and economically as possible. Performance audits can be conducted by outside consultants or in-house staff. While regular conduct of performance audits might represent a new cost to the County, if new staff is hired or consultants are used,¹ over time audits should more than pay for themselves with cost savings and/or revenue increases for the departments reviewed. Another benefit would be improved service levels for the public by identifying improvements in business processes and methods of streamlining operations.

El Dorado County engaged a consultant to conduct a performance audit of the Department of Transportation and is planning one soon for the Department of Social Services. Efforts such as these should be continued and expanded to include all other departments on a multi-year cycle.

Performance audits should take place throughout the year but their recommendations could be used in the budget process by identifying areas where departments could operate more efficiently particularly in the base budget. For example, a recently conducted analysis of Sheriff's Department staffing conducted independent of their budget preparation process recommended adding more permanent positions to reduce overtime. An analysis of a department's management structure might reveal an opportunity to consolidate and reduce management positions based on an analysis of duties performed. An audit of user fees charged by the County might show that they are not fully recovering costs and should be adjusted accordingly.

In some jurisdictions performance audits are conducted on an ongoing basis so that all departments are audited over a certain number of years. Other counties select audit topics annually based on an assessment of the risk or exposure of each department and the potential impact of realizing improvements in that department. Other jurisdictions conduct performance audits as the need arises. An ongoing performance audit program in El Dorado County would have multiple benefits including improved service levels, reduced costs of operations and making resources available for other purposes.

¹ The County should explore the possibility of conducting performance audits with existing audit staff through re-prioritization of their current duties. If this is possible, new costs would not be incurred.

Recommendations

It is recommended that the Board of Supervisors:

- R3.1 Direct the Chief Administrative Officer and/or the Auditor-Controller to begin producing monthly fiscal status reports showing a comparison of budgeted and actual expenditures and revenues by department, projected expenditures and revenues through year end, projected year-end fund balance for each of the County's funds based on the latest actual revenues and expenditures, and selected key performance indicators for individual departments;
- R3.2 Direct the Chief Administrative Officer to develop and implement a plan to reduce differences between the proposed budgets in June and September and reduce County staff time spent preparing for the second budget hearing by using the recommended monthly projections of revenues, expenditures and fund balance and by more closely monitoring capital project progress and funding in the second half of the fiscal year;
- R3.3 Direct the Chief Administrative Officer to implement a performance audit program to be conducted either in-house by staff in the Auditor-Controller's office, staff reporting directly to the Board of Supervisors, by consultants, or a combination of in-house staff and external consultants; and,
- R3.4 Establish a performance audit schedule using a risk assessment approach where all departments are evaluated against a set of criteria to indicate where the largest benefits are likely to occur from conducting performance audits.

Costs and Benefits

The costs of implementing the above financial forecasting recommendations would primarily be existing staff time. The benefits would include staff time now spent preparing for the September budget addenda process becoming available for other purposes and more of the budget process being complete in June.

The costs of an ongoing performance audit program would depend on whether new staff is hired and, if so, the number and level of audits to be conducted in a year. Assuming two to three audits would be typical and two to three staff positions, estimated costs would be between \$100,000 and \$200,000 per year. To the extent existing audit staff could be used for this purpose by re-prioritizing their activities rather than adding new staff, additional costs would not be incurred. The benefits of a performance audit program should greatly exceed the costs in terms of cost savings and revenue increases identified through the performance audit process.

Section 3: Budget Timing, Information and Analysis

Responses Required for Findings

F3.1 through F3.3 El Dorado County Board of Supervisors

Responses Required for Recommendations

R3.1 through R3.4 El Dorado County Board of Supervisors

4. Internal Service Funds

- F4.1 The County budget includes two internal service funds; the risk management fund covers centralized County insurance costs and the fleet management fund covers the County's vehicle maintenance and replacement services. Internal service fund costs are not as predictable as operating departments because they rely on forecasts of future needs and variables such as the number of employees who will need health services or be injured on the job, the extent to which claims will be filed against the County and the number of vehicles that will need to be replaced. The budget for these two funds in FY 2001-02 is approximately \$20.9 million and together the County maintains reserves for these two funds of another approximately \$16 million. This level of expenditure and reserves represents a larger budget than most County departments.
- F4.2 Key information on assumptions used for these funds is not fully disclosed in the proposed and addenda budget documents to assist the Board of Supervisors in determining the appropriate level of appropriations and reserves for these funds. The budget does not present actual expenditures for previous years or projections of expenditures for subsequent years. Without this information it is not easy to determine if appropriate funding and reserves are in place. If too much is budgeted and reserved, budget resources are tied up that could otherwise be used for other purposes. If too little is budgeted, the County may need to reduce expenditures elsewhere or use contingency funds to meet its insurance or fleet obligations.
- F4.3 The Risk Management budget for FY 2001-02 includes reserves based on five year projections for the County's risk management fund. The basis for these projections should be provided to the Board of Supervisors, who should then adopt a County policy regarding appropriate reserve levels for each type of insurance.
- F4.4 Historical and projected vehicle purchase expenditures are not presented in the budget. Such information would help the Board determine an appropriate level of funding and reserves for the County's vehicle replacement fund.

Internal service funds are defined as funds used to account for the financing of goods or services provided by one department or agency to other departments or agencies, on a cost reimbursement basis. El Dorado County has two such funds: 1) Risk Management and 2) Vehicle Replacement. The Risk Management fund is used to account for payments from all County departments to cover their share of the County's costs for general liability, employee health and workers' compensation insurance. The costs covered by the monies in this fund include claims payments, legal costs, insurance premiums for excess insurance¹, a third party administrator and staff and indirect costs of the County Risk Management Office.

¹ The County is self-insured but buys third party commercial insurance only for incidents above a certain dollar threshold. This helps prevent any dramatic swings in pay outs from year to year.

Section 4: Internal Service Funds

The fleet management fund charges each department for the costs of maintaining and acquiring and maintaining the department's vehicles and heavy equipment. The charges also cover the costs of County fleet management staff and related indirect costs.

Key budgetary decisions to be made for these internal service funds are: a) the level of appropriation to include in the budget to meet annual expenses; and, b) the level of reserves to include in the fund to cover known future liabilities. Charges to customer departments are based on appropriated annual expenditures and a proportionate share of reserves.

Annual appropriations are needed to cover the operating costs for a single budget year. Reserves are established for internal service funds to cover known or expected costs beyond what is expected in the budget year. Particularly with insurance, costs can be paid over multiple years. Although costs can be estimated for a claim filed in the current year, the case may not actually be settled for several years out. The risk management fund reserve provides funds for these type of situations and for unexpected pay outs in the event that a large claim against the County is settled sooner than expected or an unpredicted unusually high employee disability payment has to be made in a single year. Commercial excess insurance is also purchased by the County to cover high cost unusual cases. Fleet management fund reserves might be used if a number of vehicles or heavy equipment unexpectedly need replacement in addition to what is expected in the County vehicle replacement schedule.

Insurance expenditures are determined with input from actuaries who produce multi-year projections of likely future pay outs based on historical loss and expenditure data, known claims filed, demographics of the work force, changes in law and other contributing factors. For fleet management, maintenance and replacement costs can be projected based on existing fleet characteristics such as age and mileage plus any projected increases in fleet size or mix needed based on new or expanded programs or workload in the County.

Risk Management Fund

As mentioned above, El Dorado County's risk management fund is comprised of three components:

- 1) employee health insurance;
- 2) general liability; and
- 3) workers' compensation.

Each represents a significant cost to the County but the budget document does not present details on the three components. Instead, the County risk management fund is presented in aggregate with no breakdown of how much of the total cost is attributable to each component. Total budgeted expenditures for FY 2001-02 were approximately \$18.1 million for all components of the risk management program. This amount is separate from the reserves kept in the risk management fund to cover known and projected insurance liabilities in future years. The budget document does not report the approximately \$12 million reserved for the risk management fund nor does it report how much of this is attributable to each of the three components of the fund.

Details on the risk management fund should be presented in the proposed budget for a number of reasons. First, it is important for the Board of Supervisors to know which costs are increasing, which are decreasing, and what, if anything, County management has done or can do to control these costs. For example, employee health insurance costs are expected to increase significantly in the next year, an issue that was widely discussed in the budget hearings for FY 2001-02, but it would be useful to present these costs in the context of overall health insurance costs, separate from general liability and worker's compensation costs.

Increases in workers' compensation costs cannot always be controlled but a large increase may raise questions about the extent to which County management has implemented safety training programs for employees. Similarly, a rise in risk management costs should be reviewed to determine if certain exposures resulting in frequent claims have been effectively dealt with by management.

The proposed budget document for FY 2001-02 presents information about the Risk Management office that is part of the Chief Administrative Office. The document presents revenues and costs for the Risk Management office, including County staff, claims payments and other administrative cost, as follows:

Exhibit 4.1
Risk Management Revenues and Costs
Presented in the Proposed FY 2001-02 Budget
FY 1999-00 through FY 2001-02

	Actual	Approved	CAO Recommended
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
Revenues:			
Charges to Departments	\$12,764,911	\$14,824,755	\$17,194,416
Use of Money & Property	684,255	594,007	527,506
Fund Balance	-	1,199,008	366,515
Other Sources	1,500	4,000	1,500
<u>Miscellaneous</u>	<u>103,356</u>	<u>166,667</u>	
Total	\$13,554,022	\$16,788,437	\$ 18,089,937
Expenditures:			
Salaries & Benefits	378,356	415,759	427,897
Services & Supplies	13,914,111	16,165,149	17,427,744
Other Charges	159,663	207,531	231,094
<u>Intrafund Transfers</u>	<u>2,390</u>		<u>3,200</u>
Total	\$14,454,520	\$16,788,439	\$18,089,935

As can be the Services and Supplies expenditure line items of \$17.4 million for FY 2001-02 represents the bulk of risk management annual costs. Since this is such a large amount and is comprised of a number of different costs, more detail should be provided in the budget including

Section 4: Internal Service Funds

how much is for claims payments, legal services, the third party administrator, excess insurance premiums, and other costs, for each of the three risk management fund components.

Staffing for the office and workload indicators are presented in the proposed budget document as is a description of the office's programs and the Chief Administrative Officer's recommended changes in the budget.

Determining Appropriate Reserve Levels for Internal Service Funds

The revenue discussion includes the statement that the fund will be relying less on fund balance than it has in the past for health and worker's compensation. The discussion reports that reserves for the General Liability program are greater than what is needed and that Worker's Compensation reserves are lower than needed according to an actuarial analysis performed for the County. The Chief Administrative Office reports that it has prepared a five year plan to achieve reserves at a 70 percent confidence level for both the General Liability and Worker's Compensation fund. The 70 percent confidence level is described as a reserve level that will statistically be sufficient or better in 70 percent of the cases and inadequate 30 percent of the time.

While it is laudable that the budget discloses the imbalance in reserves found in the two funds and a plan to correct it, the discussion has some deficiencies from a public decision making perspective. First, the actual amount of reserves in the two fund components are not presented in the budget nor is the fiscal impact of adopting the 70 percent confidence level approach clearly laid out. Alternative reserve scenarios are not presented so that the Board could see the fiscal impact of choosing other approaches to funding reserves for these funds at the 70 percent confidence level.

The choice of a lower reserve level, which would not prevent the County from meeting its current year claims payment obligations, could potentially mean millions of dollars available for other purposes in the budget. On the other hand, the Board of Supervisors may want to adopt a higher reserve level policy that would require increasing the charges paid by departments to increase reserve levels in the fund. To make an informed decision, the budget should include the following:

- o Current amounts in reserve, shown separately for Workers' Compensation, General Liability and Health Benefits
- u Three years of projected actual expenditures for the budget year and the next five to ten years, shown separately for Workers' Compensation, General Liability and Health Benefits
- u The amount needed to fund reserves at alternative confidence levels, covering the spectrum of possible approaches ranging from no reserves for future year expenses if a "pay as you go" policy is adopted, funding to cover the current year and some future costs, funding to cover the current year and some but not all projected future costs, and funding to cover the current year and all projected future costs.

Section 4: Internal Service Funds

Counties and public jurisdictions have varying policies on reserves. On one end of the spectrum, some counties and other public jurisdictions simply budget for their expected payments in the budget year. Others choose to maintain reserves to fully cover all known current and future liabilities and some counties choose a position between these two.

The Board of Supervisors should be involved in deciding the level of reserves for each of these funds. To inform this decision, the budget document should include information in a table such as presented in the example in Exhibit 4.2:

Exhibit 4.2
Example of Information
to Provide to the Board of Supervisors
for Consideration of Alternative Insurance Reserve Levels
for Internal Service Funds

Confidence level	Reserves required 000s
Pass you o	None
<u>20%</u>	\$3,000
35%	\$3,500
50%	\$4,000
65%	\$4,500
70%	\$5,000
80%	\$5,500
<u>100%</u>	<u>\$6,000</u>

The County's financial statement for the fiscal year ending June 30, 2001 showed that the Risk Management fund had approximately \$12.9 million in cash reserves for future costs. The liability for noncurrent insurance payments was reported in the financial statement as \$11.9 million. In other words, there was enough cash in the fund to cover all known and projected pay outs for the current and future years that would have to be paid if the County suddenly went out of business and never received any more payments from its customer County departments. Since the likelihood of the County actually going out of business is quite small, the Board may want to consider a lesser reserve level. By presenting the projected pay outs for future years in the proposed budget, the Board would be better informed for deciding the optimal level of reserves.

A summary of information that should be presented is shown in the following two exhibits. The numbers are for illustration purposes only and do not reflect the actual or projected expenses of El Dorado County. The information in Exhibit 4.3 would provide a snapshot of retained earnings, annual revenues, annual costs, and cash reserves on hand for the future and projected future liabilities, all in one table.

Exhibit 4.3
Example of cash reserve, revenue and expenditure
information to be presented in the proposed
General Liability and Workers' Compensation Fund budgets
(in 000s)

	<u>General</u>	<u>Workers'</u>
	<u>Liability</u>	<u>Compensation</u>
a Retained earnings: end of FY 00-01	\$2,900	\$3,600
b Revenues from <u>charges</u> to <u>departments</u> FY 01-02	3,700	4,200
c Total funds available (a+b)	6,600	7,800
• FY 01-02 Claims pay outs/legal costs,	2,000	2,600
• FY 01-02 Third party administrator costs	400	300
• FY 01-02 Excess insurance costs	1,500	1,000
• FY 01-02 Staff and administrative costs	150	200
h Total costs FY 01-02 (d through g)	4,050	4,100
i Retained earnings: end of FY 01-02 c-h	2,550	3,700
J Cash reserves on hand	6,600	3,300
k Future Year Liabilities	6,500	4,200

Note: Amounts shown are for illustration purposes only and are not actual El Dorado County amounts.

Actual historical expenditures should be shown to provide information about typical annual expenditures, what is likely to be needed in future years and to help determine how much cash should be kept in reserve to meet those expenses.

Exhibit 4.4
Example of payment data to be presented in budget
for General Liability and Workers' Compensation Funds (in 000s)

Fiscal Year	<u>General</u>	<u>Workers'</u>
	<u>Liability</u>	<u>Compensation</u>
1995-96	1,500	1,600
1996-97	1,700	1,500
1997-98	1,800	1,900
1998-99	2,000	1,900
1999-00	2,700	2,500
2000-01	2,500	2,700

Information such as that shown in Exhibit 4.4 should be presented to the Board of Supervisors to identify average annual expenditures in the past and as a basis for future projections. The historical numbers would have to be tied to some sort of appropriate index such as number of employees to determine an average cost per employee and then project forward based on expected increases in the County work force. Other variables should also be considered in the projections such as changes in County services that might result in changes in risk exposures.

Fleet Management Fund

Fleet management fund information in the budget document is less comprehensive than risk management fund information. The fleet management function is a function of the General Services Department and is included in that department's budget. Because the department covers so many functions, such as capital projects, communications, purchasing, airports and parks and grounds, and because the expenditure level is lower, the level of reporting is lower for fleet management than risk management.

In spite of its smaller size, similar information should be presented in the budget as discussed for risk management. The budget document should include cash on reserve (approximately \$3.7 million as of June 30, 2001), annual revenues and historical and five year projected fleet maintenance and replacement costs. Unlike insurance costs, the County would not have future vehicle maintenance and replacement obligations if it went out of business but some reserve level is appropriate to cover unanticipated expenses such as replacement of critically needed vehicles before their expected replacement dates due to accident or unplanned repair costs exceeding the vehicle's value. This information and reserve options would assist the Board of Supervisors in making decisions on funding levels and appropriate charges to customer departments for this fund.

Recommendations

It is recommended that the Board of Supervisors:

- R4.1 Adopt a policy establishing reserve levels for the three components of the risk management fund and the total fleet management fund based on information provided by the Chief Administrative Officer including: (a) a year by year schedule of all known and estimated liabilities for the health benefits, workers' compensation and general liability funds; and, (b) the amount needed to fund reserves at alternative confidence levels ranging from "pay as you go" to fully funded;
- R4.2 Require the Chief Administrative Officer to provide details on historical and projected claims payment expenditures each year in the proposed budget for all internal service funds, with the three components of the risk management fund presented separately;
- R4.3 Require the Chief Administrative Officer to clearly present the amounts in reserve each year by each internal service fund or component thereof;
- R4.4 Require the Chief Administrative Officer to provide more detail on the approximately \$17 million in annual Services and Supplies expenditures for the risk management fund and each of its component funds.

Costs and Benefits

There would be no new direct costs associated with the above recommendations. Benefits would include better information about internal service fund funding levels provided to the Board of Supervisors and the public and, potentially, one time funds available for other purposes if the Board should choose to reduce reserve levels allocated to the funds.

Responses Required for Findings

F4.1 through F4.4 El Dorado County Board of **Supervisors**

Responses Required for Recommendations

R4.1 through R4.4 El Dorado County Board of Supervisors