

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

180



FROM: Executive Office

SUBMITTAL DATE:
March 23, 2016

SUBJECT: Report on Budget Solutions and Approval of Amendment No. 2 with KPMG, LLP for a Countywide Department Review for one (1) year [All Districts]; [Total \$2,700,100]; 100% General Fund

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the attached reports;
2. Approve the attached Contract for services with KPMG to evaluate other potential savings solutions;
3. Direct the Executive Office to return by May 16, 2016, with a report identifying other potential steps to address the FY2016-17 budget shortfall; and
4. Approve and direct the Auditor-Controller to make the budget adjustments for FY2015-16, as shown on Schedule A.

BACKGROUND:

Summary

On February 2, 2016, during the presentation to the Board of the Mid-Year Budget Report, we presented a summary of the budget challenges for the coming year and discussed potential solutions. These solutions included savings which might be realized as a result of recommendations coming out of the public safety review being conducted by KPMG.

(continued)

Paul McDonnell
County Finance Director

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 758,200	\$ 1,941,900	\$ 2,700,100	\$ 0	Consent <input type="checkbox"/> Policy <input checked="" type="checkbox"/>
NET COUNTY COST	\$ 758,200	\$ 1,941,900	\$ 2,700,100	\$ 0	

SOURCE OF FUNDS: Contingency - General Fund 100%	Budget Adjustment: Yes
	For Fiscal Year: 15-16 & 16-17

C.E.O. RECOMMENDATION: APPROVE

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Benoit, seconded by Supervisor Washington and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Tavaglione, Washington, Benoit and Ashley
 Nays: None
 Absent: None
 Date: March 29, 2016
 xc: E.O., Auditor

Kecia Harper-Ihem
Clerk of the Board
By: Deputy

Prev. Agn. Ref.: 3-25 of 07/07/15 | District: ALL | Agenda Number:

16-4

FISCAL PROCEDURES APPROVED
PAUL ANGULO, CPA, AUDITOR-CONTROLLER
BY: Susana Garcia-Bocanegra

FORM APPROVED COUNTY COUNSEL
BY: GREGORY P. PRIAMOS
DATE: 3/24/16
Departmental Concurrence

- A-30
- Positions Added
- 4/5 Vote
- Change Order

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FORM 11: Report on Budget Solutions and Approval of Amendment No. 2 with KPMG, LLP for a Countywide Department Review for one (1) year [All Districts]; [Total \$2,700,100]; 100% General Fund

DATE: March 23, 2016

PAGE: 2 of 3

BACKGROUND:

Summary (continued)

In addition, Supervisor Ashley presented a sixteen point plan, the discussion of which prompted other suggestions by Board members. It was determined that a response to the sixteen point plan would come forward on the same agenda as the KPMG study, which is also scheduled for today. A summary report on various components of our budget solution follows below and a discussion of the sixteen point plan is attached.

Recap of Budget Challenge

The County is facing a budget deficit of \$50 to \$100 million. The primary components are approximately \$40 million in additional costs to meet the terms of the prisoner class action lawsuit and \$25 million representing a carryover of the structural deficit embedded in the FY2015-16 budget. Furthermore, the past practice of funding public safety cost increases would add roughly \$35 million to that. Meanwhile revenues are expected to grow by \$15 million.

The core budget strategy presented in the Mid-Year Report is to freeze Net County Costs (NCC) or discretionary General Fund Departmental allocations at current levels. At the same time, implementation of recommendations arising out of the KPMG study and other savings measures should help offset potential shortfalls as a result of freezing NCC at current levels for the public safety departments.

Summary of EO Approach to Identify Budget Solutions

Our fundamental approach is to review key areas of county operations and implement changes that could result in greater efficiencies and budgetary savings. Areas for review will be prioritized by their impact on the General Fund. We will engage outside experts to assist in larger, more complex initiatives, following on the success of the review of RUHS system by Huron Consulting. The KPMG public safety review follows that model. KPMG has also been engaged in a review of Internal Service Fund practices (see attached report) and included in this item is a contract to conduct a strategic review of other county operations for potential cost savings approaches.

We are also looking at internal funding sources for realignment/redirection to help fund the shortfall. Examples of this would include shifting funding within the Health System budget to maximize the use of non-general fund dollars (e.g., AB 109) to meet the increased detention health costs and accelerating the flow of dollars out of restricted sub-funds into their associated budget units, to reduce the need for NCC dollars.

KPMG Public Safety Report

KPMG was engaged to conduct a comprehensive review of the public safety departments to provide the Board and other stakeholders with input on the direction of those departments. One critical area of concern was the identification of potential operational efficiencies which could stretch the county's public safety dollars. Another key area was the evaluation of the practices and billing methods with respect to our contract cities. That report is listed as a companion item on today's agenda and does indeed identify potential savings.

The Sixteen Point Plan

A review of the sixteen point plan presented by Supervisor Ashley is attached. A number of items are largely policy items and do not require significant additional review. Those are clearly identified and the Board can take them up in the course of addressing the associated policy items. For example, employee compensation can be addressed in the context labor-management negotiations as contracts come up for renewal. The plan included the formation of a Board Subcommittee to address budget matters. The committee has been formed and has begun meeting; we would expect that reports from the committee would be made to the full Board for consideration. Other matters will require further analysis and review, such as departmental restructuring and consolidation. We are recommending utilizing KPMG to assist in that effort.

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Report on Budget Solutions and Approval of Amendment No. 2 with KPMG, LLP for a Countywide Department Review for one (1) year [All Districts]; [Total \$2,700,100]; 100% General Fund

DATE: March 23, 2016

PAGE: 3 of 3

KPMG ISF Review

KPMG has been engaged to provide an initial evaluation of our practices with respect to internal service funds (ISFs). A copy of that report has been attached. Additional work is necessary to address the recommendations included in that report and will be folded into the Strategic Review discussed below.

New Strategic Review

To date the County has conducted outside reviews of two of its largest operations, the health system (Huron) and the public safety departments (KPMG). Additional areas of county operations are candidates for similar reviews. We have asked KPMG to prepare a scope of work to conduct a countywide Strategic Review Roadmap to help guide the county's effort. That review has a not-to-exceed amount of \$2,700,100, and is currently expected to include a review of nine county departments.

Impact on Residents and Businesses

Engaging outside experts to evaluate county operations should produce recommendations to improve the cost-effectiveness and quality of those operations for the benefit of all our citizens. Cost saving measures will allow us to maintain or improve the quality of service in the facing of funding shortfalls.

SUPPLEMENTAL:

Additional Fiscal Information

The services performed for Amendment No. 2 is a not-to-exceed amount of \$2,700,100. Funding for this contract will be provided from contingency funds. A budget adjustment will be processed in the Third Quarter Report.

Contract History and Price Reasonableness

Purchasing released Request for Proposal EOARC-036 on behalf of the Executive Office, sending solicitations to forty companies and advertising on the County's Internet site, seeking qualified consultants to perform a financial, organizational and operational performance review of the Riverside County criminal justice system to assist the Board of Supervisors in developing its budgetary priorities and allocations.

The County received five proposals that were reviewed by an evaluation team consisting of executives from the Executive Office, Economic Development Agency, Orange County Probation Department and San Bernardino County Purchasing Department. Each bid response was evaluated based on the criteria set forth in the RFP: overall response to the RFP requirements, bidders experience and ability, cost & fees, references, financials, clarification, exceptions, deviations and credentials, resumes, licenses, permits, and certifications.

All five vendors gave presentations to the evaluation team, and based on the interview and presentation, KPMG, LLP provided a comprehensive solution to perform the assessment of the criminal justice system organizational and operational performance, financial review; and review the law enforcement contract city rates. During the contract negotiations, County Purchasing reviewed the KPMG cost proposal and negotiated a six percent cost reduction. The KPMG staff has extensive experience in national security, law enforcement and working with justice agencies to be more efficient and proactive

ATTACHMENTS:

1. Analysis of Sixteen Point Plan
2. KPMG ISF Report
3. KPMG Contract for Strategic Review
4. Schedule A

COUNTY OF RIVERSIDE
AMENDMENT NO.2 TO THE AGREEMENT
WITH
KPMG LLP

Original Contract Term:	October 6, 2015 through July 31, 2016
Amendment Date:	March 29, 2016 through March 31, 2018
Amendment Amount:	\$2,700,100
Contract Total:	\$19,191,700
Contract ID:	EOARC-94620-001-07/16

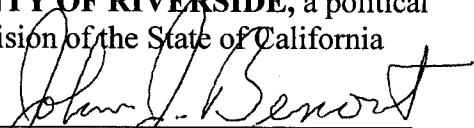
The Agreement between County of Riverside herein referred to as COUNTY and **KPMG LLP**, herein referred to as CONTRACTOR, entered into as of October 6, 2015, is hereby amended. The COUNTY represents to CONTRACTOR that COUNTY has the authority to issue this amendment to CONTRACTOR in accordance with all applicable law, regulations, rules, policies and requirements. The Agreement is amended as follows:

1. Amend Section 2.1 of the Agreement to add the following sentence at the end: "CONTRACTOR shall complete all services required under Attachment A-2 by March 31, 2017."
2. Section 3.1 is deleted in its entirety and replaced with the following: "The COUNTY shall pay for services performed, products provided and expenses incurred in accordance with the terms of Exhibit B, Payment provisions. Maximum payments by COUNTY to CONTRACTOR shall not exceed \$19,191,700 including all expenses. The COUNTY is not responsible for any fees or costs incurred above or beyond the contracted amount and shall have no obligation to purchase any specified amount of services or products. Unless otherwise specifically stated in Exhibit B, COUNTY shall not be responsible for payment of any CONTRACTOR'S expenses related to this Agreement."
3. Section 3.3 Add the following: "CONTRACTOR will be paid in ten (10) installments as set forth in Attachment B-2, for the scope of services under Attachment A-2."
4. Exhibit A (Scope of Service) Attachment A-2 to this Amendment is added to Exhibit A.
5. Exhibit B (Payment Provisions) Attachment B-2 to this Amendment is added to Exhibit B.
6. All other terms and conditions of the Agreement not modified herein shall remain unchanged.


COUNTY OF RIVERSIDE
AMENDMENT NO.2 TO THE AGREEMENT
WITH
KPMG LLP

IN WITNESS WHEREOF, the Parties hereto have caused their duly authorized representatives to execute this Amendment.

COUNTY OF RIVERSIDE, a political
subdivision of the State of California

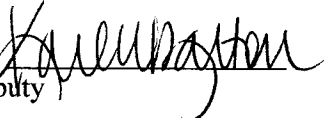
By: 
John J. Benoit, Chairman
Board of Supervisors
Dated: MAR 29 2016

KPMG LLP

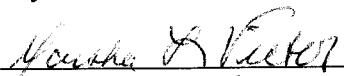
By: 
Name: MC PHERSON
Title: PRINCIPAL
Dated: 3.29.2016

ATTEST:

Kecia Harper-Ihem
Clerk of the Board

By: 
Deputy

APPROVED AS TO FORM:
Gregory P. Priamos
County Counsel

By: 
Deputy County Counsel

COUNTY OF RIVERSIDE
AMENDMENT NO.2 TO THE AGREEMENT
WITH
KPMG LLP
ATTACHMENT A-2 ADDITIONAL SCOPE OF WORK
COUNTY WIDE DEPARTMENTS

The CONTRACTOR'S approach to executing this scope of work Exhibit A-2 will be conducted in accordance with the COUNTY'S agreement with CONTRACTOR approved by the COUNTY Board of Supervisors and executed thereby on October 6, 2015 ("Agreement"), and the preceding Request for Proposal #EOARC-036 under which CONTRACTOR was selected in a competitive procurement process.

Exhibit B of the Agreement included an "Optional Services 1" provision for COUNTY to request assistance from CONTRACTOR with "further in-depth review of specific areas" selected by COUNTY. COUNTY requests that CONTRACTOR extend the scope of its assessment activities in Exhibit A to other COUNTY departments in the three (3) groups indicated below (collectively "Countywide Review"):

1. Internal Support: Information Technology, Human Resources, Economic Development Agency, Facilities Management, and Purchasing/Fleet Departments.
2. Health & Human Services: Public Social Services and Detention Health Departments.
3. Regulatory & Development: Code Enforcement, Planning, and Animal Control Departments.

Per section 17 of the Agreement, the COUNTY Executive Officer or designee shall administer this effort on behalf of the COUNTY and serve as liaison to facilitate and/or make all relevant management decisions necessary for CONTRACTOR to perform assessments of COUNTY Departments indicated above.

COUNTY understands that CONTRACTOR is unable to provide public advocacy, lobbying, or interpretation on matters regarding implementation of laws, regulations, or other policies undertaken by COUNTY as part of the recommendations that may result from CONTRACTOR'S work efforts.

CONTRACTOR PERFORMANCE

CONTRACTOR shall complete the following tasks similar to those included in Part 1 of Exhibit A for the Departments selected by COUNTY to be in scope for this Countywide Review effort.

1. For each department, review and analyze publicly available or readily accessible background data on topics including, but not limited to, current and prior year's budget, current programs and services, departmental policies, procedures and practices, staffing levels and resource allocation, and workload and workload trend information;

COUNTY OF RIVERSIDE
AMENDMENT NO.2 TO THE AGREEMENT
WITH
KPMG LLP

2. Review budget information including administrative overhead, and regular and special program administrative costs to assist the Board of Supervisors in developing budgetary priorities and allocations;
3. Compare all of the above to similar sized counties, with a focus on California jurisdictions and available departmental data;
4. Evaluate core functions to determine baseline and enhanced departmental services based on leading practices and state and local requirements;
5. Assess cost benefit models for services and programs where available;
6. Identify strengths, weaknesses and opportunities for improvement;
7. Recommend priorities and phasing of improvements;
8. Identify areas for further in-depth analysis;
9. Identify areas for collaboration and sharing of resources among criminal justice departments;
10. Recommend leading practices, business models and strategies for implementation;
11. Develop financial and service delivery performance measures, matrixes, and benchmarks to measure progress and ensure sustainability; and,
12. Prepare a final report.

COUNTY will provide CONTRACTOR with the necessary oversight, coordination, and information (as available) to allow CONTRACTOR to fulfill its Countywide Assessment work activities, including:

- a. Designation of a COUNTY Program Manager by the COUNTY Executive Officer to make all management decisions and provide direction related to CONTRACTOR work efforts.
- b. Administrative support by COUNTY personnel for reproduction, meeting coordination, appointment scheduling, and facilitation of information requests to COUNTY departments.
- c. Assistance in obtaining the following COUNTY data and information, if available:
 - i. Map of departmental offices and station locations.
 - ii. Number of staff and classifications at each location.
 - iii. Types of services provided at each location and policies and procedures for the delivery of services.
 - iv. County data on trends in population, demographics and development growth.
 - v. Historic and current departmental caseload data, staffing levels and if appropriate, response types and times.
 - vi. Strategic planning documents and previous consultant reports for service levels, staffing levels, etc.
 - vii. Labor contracts and MOU's.
 - viii. Applicable COUNTY and departmental policies and ordinances.
 - ix. Workers compensation and risk management information.

COUNTY OF RIVERSIDE
 AMENDMENT NO.2 TO THE AGREEMENT
 WITH
 KPMG LLP

ATTACHMENT B-2 ADDITIONAL PAYMENT PROVISIONS
COUNTY WIDE DEPARTMENTS

The CONTRACTOR'S professional fees to complete the Countywide Review scope of work described in Attachment A-2 over an estimated period of ten (10) months are indicated below. CONTRACTOR'S compensation will be structured as Firm-Fixed Price total amount.

	Amount	Invoice Due Date
Estimated Payment Schedule (Assuming early April 2016 Start):		
Description		
Payment 1 for services provided in April 2016	\$379,100	June 1, 2016
Payment 2 for services provided in May 2016	\$379,100	July 1, 2016
Payment 3 for services provided in June 2016	\$379,100	August 1, 2016
Payment 4 for services provided in July 2016	\$226,880	September 1, 2016
Payment 5 for services provided in August 2016	\$226,880	October 1, 2016
Payment 6 for services provided in September 2016	\$226,880	November 1, 2016
Payment 7 for services provided in October 2016	\$226,880	December 1, 2016
Payment 8 for services provided in November 2016	\$226,880	January 1, 2017
Payment 9 for services provided in December 2016	\$214,200	February 1, 2017
Payment 10 for services provided in January 2017	\$214,200	March 1, 2017
TOTAL	\$2,700,100	

Schedule A

Decrease appropriations:

10000-1109000000-581000

Appropriation for contingencies

\$758,200

Increase appropriations:

10000-1100100000-524660

Consultants

\$758,200



JAY E. ORR
COUNTY EXECUTIVE OFFICER

MEMORANDUM

COUNTY OF RIVERSIDE EXECUTIVE OFFICE

GEORGE A. JOHNSON
CHIEF ASSISTANT COUNTY EXECUTIVE OFFICER

ROB FIELD
ASSISTANT COUNTY EXECUTIVE OFFICER
ECONOMIC DEVELOPMENT AGENCY

MICHAEL T. STOCK
ASSISTANT COUNTY EXECUTIVE OFFICER
HUMAN RESOURCES

ZAREH SARRAFIAN
ASSISTANT COUNTY EXECUTIVE OFFICER
HEALTH SERVICES

PAUL MCDONNELL
ASSISTANT COUNTY EXECUTIVE OFFICER
COUNTY FINANCE DIRECTOR

TO: Board of Supervisors

FROM: Jay Orr, Executive Officer

DATE: March 24, 2016

RE: Analysis of Supervisor Ashley's Sixteen Point Plan

Introduction

During the presentation of the Mid-Year budget Report to the Board on February 2, 2016, we presented a summary of the budget challenges for the coming year and discussed potential solutions. These solutions included savings which might be realized as a result of recommendations coming out of the public safety review being conducted by KPMG. In addition, Supervisor Ashley presented a sixteen point plan, the discussion of which prompted other suggestions by board members. It was determined that a response to the sixteen point plan would come forward on the same agenda with the KPMG study, which is also scheduled for today. The following is an initial evaluation of Supervisor Ashley's plan.

The Sixteen Point Plan

- 1. A hiring freeze for all general fund departments including public safety until July 1, 2018, except Special Districts and Enterprise funds like: Riverside University Health System; RC Flood Control and Water Conservation District; RC Waste Resources District; Department and RC Parks District and Department; Prison Health Care per the settlement and maintaining current employee levels at the Indio Jail for use in opening and operating the new ECDC.***

In FY2015-16, through mid-February, the County has added 1,065 employees with a total salary cost of \$48M. If a hiring freeze was implemented, with no replacements for employees that leave the County and using the general rule of NCC being 25% of total General fund, the net potential savings would be \$12M. The potential savings would be offset by hiring in those areas consistent with current Board policy, such as the ramp up to meet the needs of the prisoner settlement.

Our recommendation is to develop a position control regime which caps employee growth, allows for attrition and takes into account the amount of NCC contributed to each budget unit.

2. Not approve any new Labor Contracts with salary increases for at least two more years; holding fringe benefits as flat as possible.

Keeping salary increases low is essential to achieving fiscal stability. The Board should negotiate in good faith towards this end. The following is a summary of the status of our current labor contracts.

LIUNA	06/30/2016
SEIU (Reg.)	11/30/2016
SEIU (P.D.)	11/30/2019
DDAA	06/30/2017
RSA LEU	06/30/2016
RSA PSU	06/30/2016
LEMU	06/30/2017

3. Negotiate lower and/or longer interval step increases, based more on merit, for all Labor Contracts and to apply the same formula to non-represented employees.

The General Fund budget for Salaries is \$1,010,754,757. Last year, the actual cost of Salaries was \$909,450,356. While all employees are not eligible for step increases, if 50% of the employees were to receive 1 step, rather than a 2 step increase, based on FY 15/16 Final Budget, the savings would be approximately \$27M. Since NCC funds approximately 25% of the General fund budget, it represents a \$6.8M savings,

Changing the regime of step increases will require modification of existing labor contracts.

4. Reduce and control wage overtime costs including public safety.

Last year, the County incurred \$56M in overtime (OT) costs. Public Safety had 80%, Health and Human Services comprised of 18% with the remaining 2% being General Government. Elimination of the OT will have savings, however, the Public Safety portion includes overtime incurred due to contracts with the cities, with Patrol and Fire being the primary areas. Those areas represent approximately \$15M in costs. Using the general rule of NCC funding 25% of the General Fund, if all other overtime was eliminated it would represent a \$10M savings.

Overtime is a tool used by several agencies to cover staffing needs in cases of emergency and lack of coverage. Some overtime will still be required and could cut into the potential savings. The OT in departments like DPSS and Mental Health is eligible for reimbursement under State and Federal programs. Since the overtime costs incurred by public safety will presumably be incorporated in the KPMG Public Safety review, we will take a closer look at OT in other departments.

5. Rapidly implement savings solutions as recommended by the Public Safety Review consultant KPMG, LLP. Utilize the Public Safety Review consultant to work side by side with the public safety departments to implement and monitor changes for a suitable interval to lock in efficiency recommendations as was done with Huron consulting contract.

KPMG recommendations will be presented on March 29, 2016. A collaborative approach with the public safety departments to implement the recommendations will be key.

6. Deploy our Board's CALFIRE committee to negotiate a long due, more favorable agreement with CALFIRE.

We are recommending a detailed review of the CALFIRE administrative fee.

7. Use the Fire Department consultant to implement, monitor and lock in any efficiency solutions as was done with the Huron consultant.

The Fire Department is conducting a "coverage study" which analyzes the source of response to calls made. The results could indicate that county stations are responding to a significant number of calls within city jurisdictions and that additional reimbursement from the cities is necessary. We would recommend holding off on any further operational reviews until this effort has been completed.

8. All Capital Projects required to have 4/5th vote and all purchases above \$75,000 to require a 4/5th vote until July 1, 2018, except for Special Districts and Enterprise Departments.

We would suggest holding off on this until we have a clearer picture regarding the FY2016-17 budget. An across the board approach will increase our administrative burden and slow down county operations. In 2015, 1,573 Purchase Orders were issued that were over \$75K totaling \$519M. These items would need to be added to the Board agenda in some form. From a business operations perspective, while it provides greater scrutiny on these purchases, it will also add additional load to the departments taking items to Board meeting and delay the process of purchasing. Our recommendation is to direct departments to submit only "essential" purchases in the coming budget and to review those closely during the budget process.

9. Minimize travel for lobbying, conventions and seminars as approved by the Executive Office.

Last fiscal year, the County General fund incurred \$2.9M in travel expenses. Some of this is required training and other is discretionary. If all travel was eliminated and the general rule of NCC funding being 25% of General fund, the potential savings would be \$735K. Some travel is required for regular meetings at the State and other entities. In addition, some training is also mandated by State and Federal agencies. Elimination of all travel and training will hamper meeting the requirements. Department heads should be directed to limit travel to only the most essential trips.

10. Reduce CID 2015-16 Budgets by \$50,000 for each Supervisor saving \$250,000. Reduce CID Budgets for at least the next two fiscal years.

Potential NCC Savings = \$250K

11. No salary increases for the Board of Supervisors, management, and non-represented, including public safety employees, until after July 1, 2018, except Special Districts and Enterprise Departments.

No COLA increases are scheduled in the upcoming years for management and unrepresented employees. Merit increases for this group would total \$1.7 next year. Using the 25% factor savings to the general fund would be approximately \$425,000.

12. Consider closing on Fridays utilizing a 4 day work week.

EDA was asked to do an estimate of annual savings. The County wide savings for closing on Fridays is \$377,611. Using the general rule of NCC funding being 25% of General fund, the potential savings would be \$94K. Some buildings are required to be open 24/7 and might mitigate some of the savings. Another mitigating factor is that some buildings have other governmental agencies renting and the buildings will require utilities. Considering the minimal level of savings, we would recommend against this.

13. Consider Employee furloughs.

The FY2015-16 General Fund budget for Salaries is \$1,010,326,231. If all General Fund department employees are furloughed 1 day per period, the potential savings are \$25M. Potential NCC Savings = \$25M.

This does not include the cost of covering essential services such as patrol and the jail system and the hospital which all require 24 hour staffing and the potential for overtime for employees covering for employees on furlough, all of which would reduce the savings. At the same time furloughs can only be implemented after negotiations.

14. Consider restructure and consolidation of County Departments as was successfully done with the Riverside University Health System.

Additional options for consolidation and or restructuring will be undertaken as part of a Strategic Review to be conducted by KPMG.

15. Explore other revenue sources without raising taxes.

The Executive Office has a number of proposals under review and will bring any forward that are worthy of further consideration.

16. Chairman Benoit to appoint an Ad Hoc committee including two Board members to act as liaison between the Full Board and the Chief Executive Office and Elected County officials like the Sheriff and the District Attorney.

An Ad Hoc Committee comprised of Supervisors Ashley and Tavaglione has been established and has met several times.

Audit, Advisory & CSS
KPMG LLP
3689 Coolidge Court,
Suite 1
Tallahassee, FL 32311

Telephone|850 385-5414

Paul McDonnell
Chief Financial Officer
County of Riverside
County Administrative Center
4080 Lemon Street, 4th Floor
Riverside, California 92502

Draft

March 23, 2016

Dear Mr. McDonnell:

Draft Summary of ISF Rate Setting Process Evaluation

Following are our draft observations and recommendations:

Observation #1: There is lack of trust on the part of the rate user agencies regarding the quantity and quality of the information received from ISF agencies. There is also a belief on the part of the ISF agencies that the user agencies don't understand what they do – the budget and service demand constraints they operate under. The user agencies want more transparency regarding rate cost composition, and the ISF agencies would like to make a business case to the user agencies regarding their service catalogue, and how their cost of operation is reflected in their service rates. There is an overall lack of communication, and lack of understanding of the process and the cost composition of the rates being charged. The County needs to “get everyone in the same room”, and on the same page.

Recommendation: The County should develop an internal rate-setting policies and procedures manual, and conduct a series of facilitated sessions including representatives from all ISFs and user agencies. The manual and facilitated sessions would help to establish a baseline understanding of the process, common understandings of cost elements and costing methodologies (and how they are manifested in the rates), and



reduce the back and forth counterproductive communication during the process and through the year as rates are charged and costs are reimbursed.

Observation #2: There is “cost shifting” occurring between General Fund agencies, and a lack of control on the part of user agencies over allocated costs. The ISFs are obligated to recover the full cost of providing services, and they pass those costs on to the user agencies. The user agencies must deal with these costs in their own budgets, and have no (or very limited) control over them, in addition to no control over the use of the ISF itself. Most of the ISF cost increases are due to personnel salary increases, which are then passed on to user agencies, who have their own salary increase issues to deal with in their budget formulations. The unintended consequence of shifting costs from one (internal service) General-funded agency to another (external service) agency is that services to the public may be impacted. Since these ISF costs are transferred to user agencies as Appropriation Two costs, they (the user agencies) are responsible for funding these costs over which they have little control. As such, Appropriation One funds are sometimes used to “cover” these ISF costs, which can, and does, impact direct services to the public.

Recommendation: Treat ISFs as County General Fund departments for the purposes of measuring the budgetary impact of rate setting and cost flow between agencies. Among the General Fund agencies, approach the budget holistically, and recognize the impact of cost shifting - who bears the burden of the cost, and who has control over the cost. Once costs are distributed, align resources (funding) to reflect overall County budgetary policy. Recognize that if a cost is shifted to a General Fund agency that has no control over the cost nor the resources to pay for it, it does not become the agency’s problem, it remains a County problem. That having been said, the County should continue to “fully load” charges to non-General Fund supported agencies, and entities outside the County,



since the resources to pay for these billed services come from a funding source other than the General Fund.

Observation #3: From a detailed audit of the rates in the two ISFs examined, the rates appear to be reasonable in terms of accurately reflecting and allocating the costs of the respective agencies. We did not, in our audit, consider whether salary levels were reasonable for the respective position classifications, nor did we measure productivity and utilization, or the services being provided in terms of whether they were necessary or mandated by law. The rates as they are accurately reflect the costs as they are. What the rates do, however, is allocate the costs among the service users, and based on the type of rates being charged, there may be winners and losers. A user agency's assessment that their rates are too high reflects the share of costs they are receiving given the perceived level of service received, rather than the costs themselves being excessive.

Recommendation: In order to determine the opportunity for cost savings or cost take-out (that would then be reflected in lower overall rates), the County should do a detailed analysis of the ISF budgets using zero-based budget processes, taking into account services mandated by law and available best-practice comparisons. The process should determine core missions and mission-critical activities, and budgets constructed reflecting available resources and County policy. Once budgets are established, rates should be set that will ensure full cost recovery (see Observation #4), or if not, Board policy regarding the level of subsidization. Lastly, ensure that user agencies have the resources to reimburse the ISFs for the requisite level of service.



Observation #4: The two ISFs that we examined (EDA Facilities Management and RCIT) constructed user rates by two different methodologies. EDA custodial/maintenance charges user agencies by the hour using a fully loaded productive hourly rate. Agencies pay for only the time spent delivering services. Since the rate is a single blended hourly rate, lower-level services will be over-charged, and higher-level services will be undercharged. However, since no one is 100% productive apart from paid leave (sick, vacation etc.), there will be by definition unrecovered cost, and the divisions can never recover the full cost of providing services. This has implications for funding of ISF reserves. RCIT, on the other hand, bills the full cost of each functional service by rates based upon allocated costs by device, by license, etc. While RCIT recovers the full cost of providing service, because the rates are based upon average utilization levels of service, there will be winners and losers, and some agencies will in effect subsidize others. The dramatic rate increases from FY 15 to FY 16 experienced by some user agencies were merely the result of including all paid time, rather than productive time, into the rates as well as shifting to an average level of utilization. Also, the average utilization levels that are assumed in the rates do not take into account agencies that have their own IT shops, and require a reduced level of service.

Recommendation: EDA should adjust their rates to account for the non-productive time inherent in all staff work time. This will enable them to recover the full cost of service, and also serve as a metric for determining the amount of non-productive time “baked” into the rates.

RCIT should adjust their rates to account for known structural differences in service utilization, agencies that have their own IT staff and who require an overall reduced level of service. This will of course raise rates for others, but it will make the overall rate structure more equitable.



*County of Riverside
Draft Summary of ISF Rate Setting Process
Evaluation
March 23, 2016*

I will forward the draft report in finished format to you on Friday as discussed. I look forward to discussing the draft with you and finalizing the report.

My appreciation for the great cooperation we received from County staff in conducting this study.

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'Chris Polischuck', followed by a horizontal line.

Chris Polischuck
Director



**COUNTY OF RIVERSIDE
FISCAL YEAR 2016 / 17**

BUDGET SOLUTIONS

PRESENTED BY THE
COUNTY EXECUTIVE OFFICE
MARCH 29, 2016

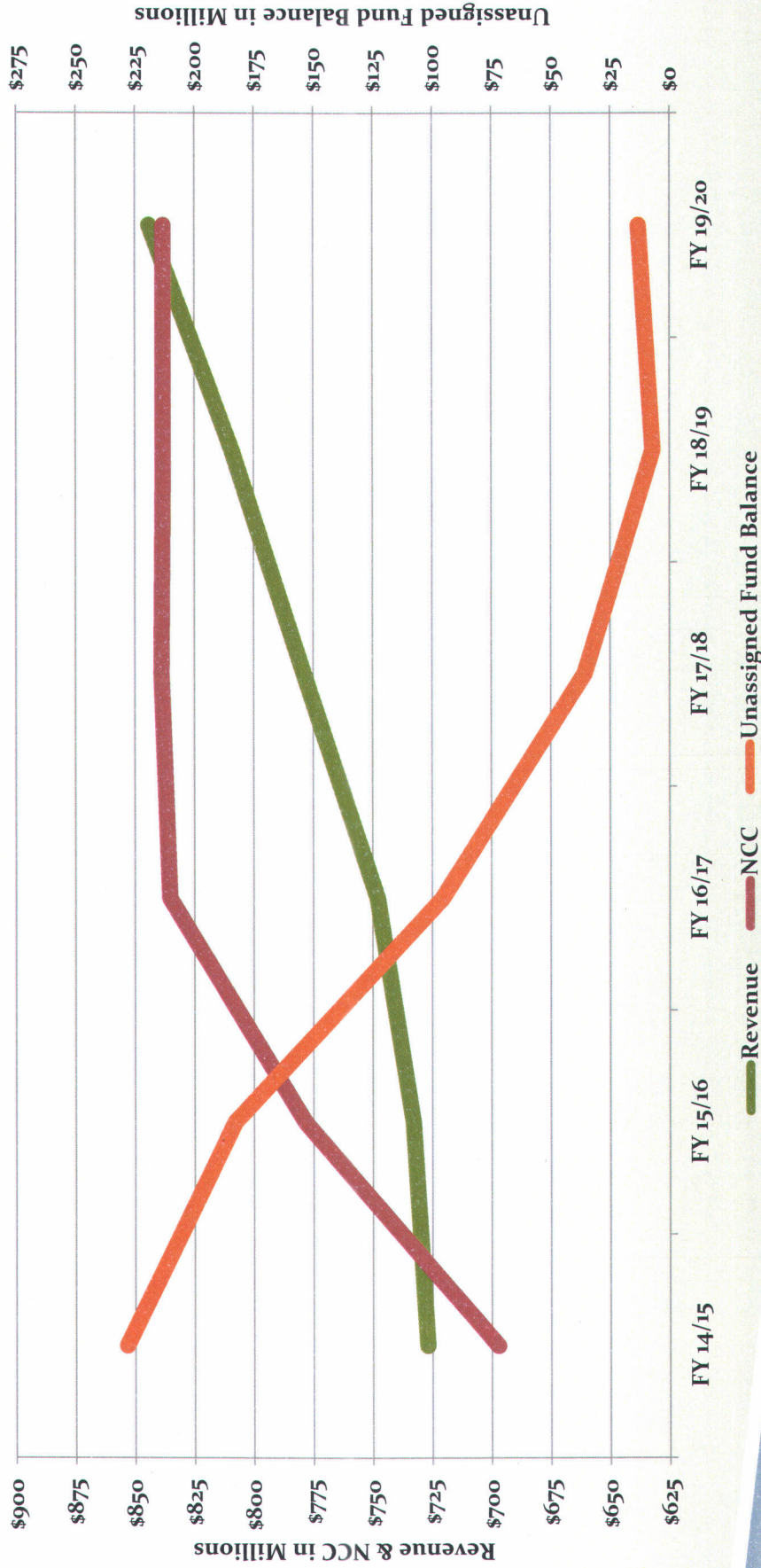
03.29.2016
16-4

RECAP OF BUDGET STATUS

- ▶ Expenses have grown faster than revenues.
- ▶ Maintaining the current spending practices would result in a multi-year structural deficit.
- ▶ The costs of meeting the prisoner health settlement only exacerbate that situation.
- ▶ Capping spending is essential to getting back on the track to fiscal sustainability.
- ▶ Finding savings in the Public Safety budget is essential.
- ▶ Other areas of expenditure also have the potential for savings.

DISASTER LOOMS WITHOUT ADJUSTMENTS

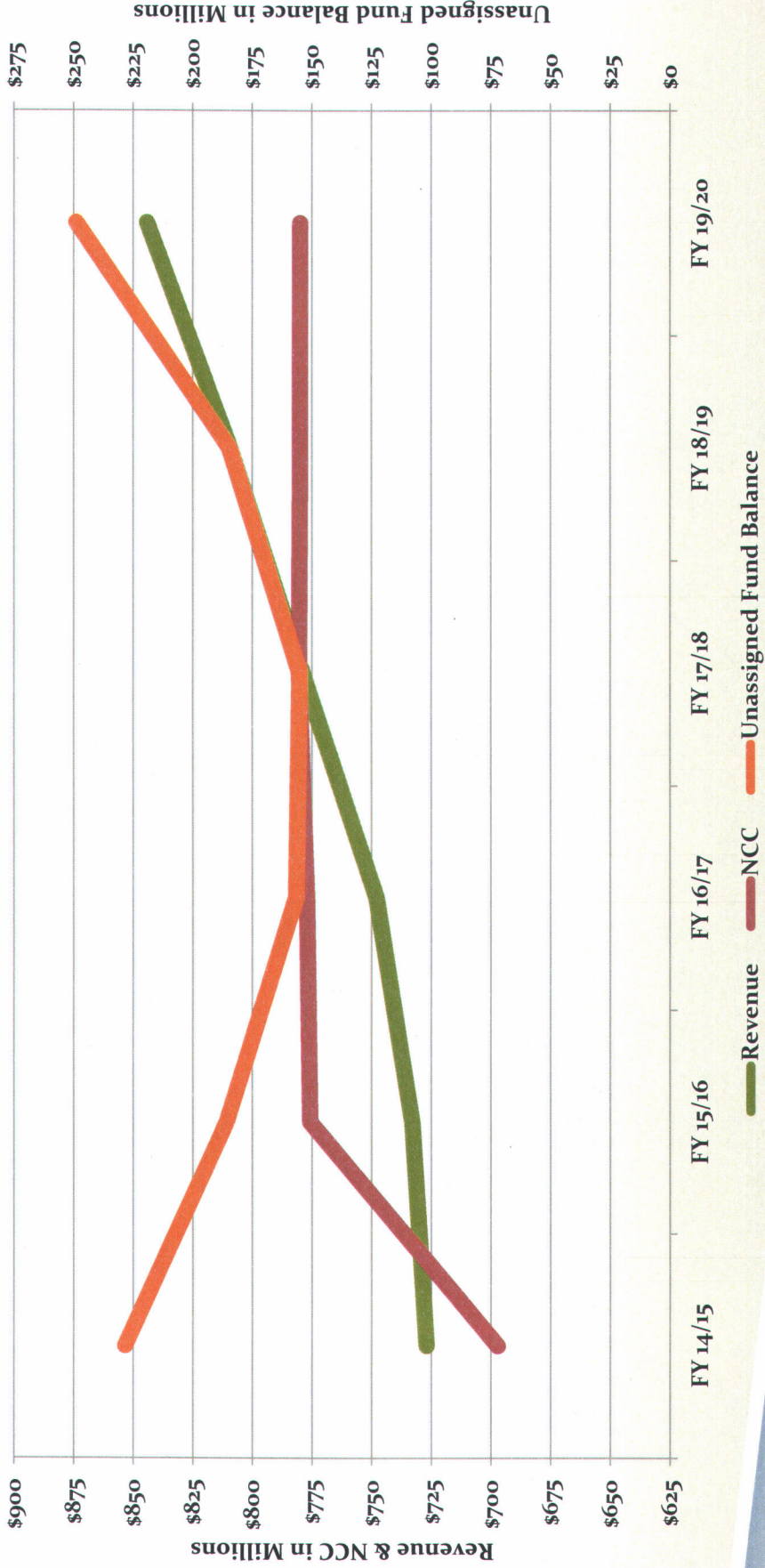
Multi-Year Forecast



For assumptions, see Appendix A

CAPPING SPENDING IS THE ANSWER

Multi-Year Forecast



For assumptions, see Appendix B

THE BUDGET SOLUTION

(PRESENTED FEBRUARY 2ND)

- ▶ Rollover current NCC spending levels - *Direction given to departments.*
- ▶ Limit the amount of “add backs” - *So far so good!*
- ▶ Limit labor cost increases - *DDA labor contract sets the tone.*
- ▶ Identify public safety savings (KPMG & Cal Forward studies)
 - Full cost recovery of city contracts
 - Operational efficiencies

That report indicates potential savings do exist.

- ▶ *We plan to look at other areas of operations for potential savings.*
- ▶ Phase opening of ECDC in 2018 (2 housing units initially).
- ▶ Use one-time funding for one-time expenditures.

KEY COMPONENTS OF FY 16/17 BUDGET

- ▶ Flat NCC for all except RSO.
- ▶ Sheriff's baseline NCC adjusted to reflect FY 15/16 deficit.
- ▶ Budget includes a draw on reserves of \$29.1 million (18%).
- ▶ It will be imperative for all departments to stay on budget.

KPMG REVIEW OF OTHER DEPARTMENTS

- ▶ Other county departments are in need of an in depth review to identify potential efficiencies.
- ▶ We've done a preliminary review of ISF rate formulation, but need a closer look at their operational costs.
- ▶ A review of other county departments will follow.
- ▶ An outside firm can bring the expertise and resources to move quickly to perform this assessment.
- ▶ We will work with the departments to recover the costs of the study wherever possible.

RECOMMENDATIONS

- ▶ Receive and file the attached reports;
- ▶ Approve the contract with KPMG to conduct a strategic review of county operations; and,
- ▶ Direct staff to return by May 16th with a report identifying other potential steps to address the FY 16/17 budget shortfall.

APPENDIX A: ASSUMPTIONS FOR DISASTER SCENARIO

- ▶ Discretionary revenues increase by only 2% in FY 16/17, and by only 4% from FY 17/18 forward.
- ▶ Funding Sheriff's full request to add an additional \$38 million in FY 15/16 (zeroing out Contingency and drawing further on reserves), plus another \$30 million in FY 16/17, with no cost savings.
- ▶ Some additional funding to address settlement regarding detention health & behavioral health assumed in FY 15/16, jumping in FY 16/17, then smaller additions in FY 17/18 & FY 18/19 offset by Prop 172.
- ▶ Most FY 15/16 one-time additions reversed out of FY 16/17 allocations and departmental requests for additional funding not included.
- ▶ Distribution of all Prop 172 revenue & reserves in FY 16/17 & FY 17/18.
- ▶ Draw down of \$87.4 million in general fund reserves in FY 16/17, \$59.7 million in FY 17/18, \$28.8 million in FY 18/19, and a modest \$6.1 million restoration of reserves only beginning in FY 19/20.

APPENDIX B: ASSUMPTIONS FOR CAPPED SPENDING SCENARIO

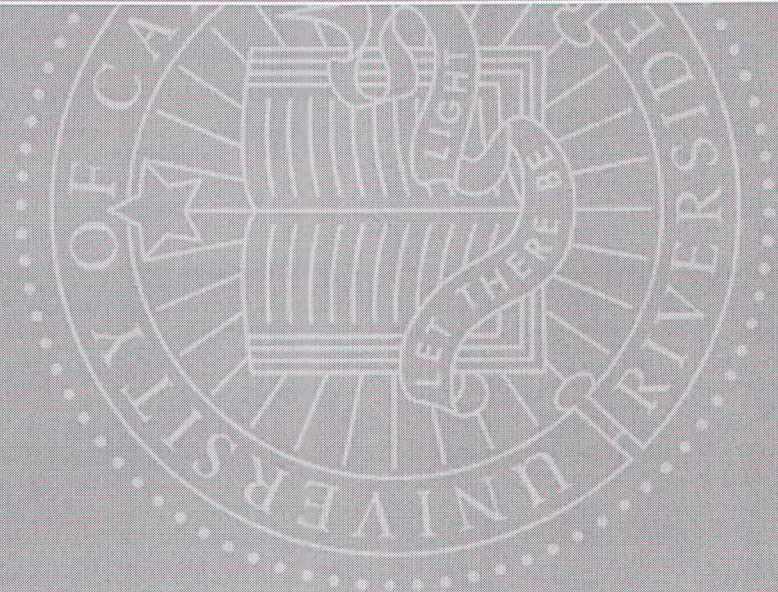
- ▶ Discretionary revenues increase by only 2% in FY 16/17, and by only 4% from FY 17/18 forward.
- ▶ Sheriff's labor and ISF increases addressed in FY 15/16, then achievement of cost savings assumed beginning in FY 16/17.
- ▶ Some additional funding to address settlement regarding detention health & behavioral health assumed in FY 15/16, jumping in FY 16/17, then smaller additions in FY 17/18 & FY 18/19 offset by Prop 172.
- ▶ Most FY 15/16 one-time additions reversed out of FY 16/17 allocations and departmental requests for additional funding not included.
- ▶ Distribution of all Prop 172 revenue & reserves in FY 16/17 & FY 17/18.
- ▶ Draw down of \$29 million in general fund reserves in FY 16/17 and \$1.5 million in FY 17/18, with restoration of reserves beginning in FY 18/19.

UCR

**Presentation to
Riverside County Board of
Supervisors**

**Kim A. Wilcox
Chancellor**

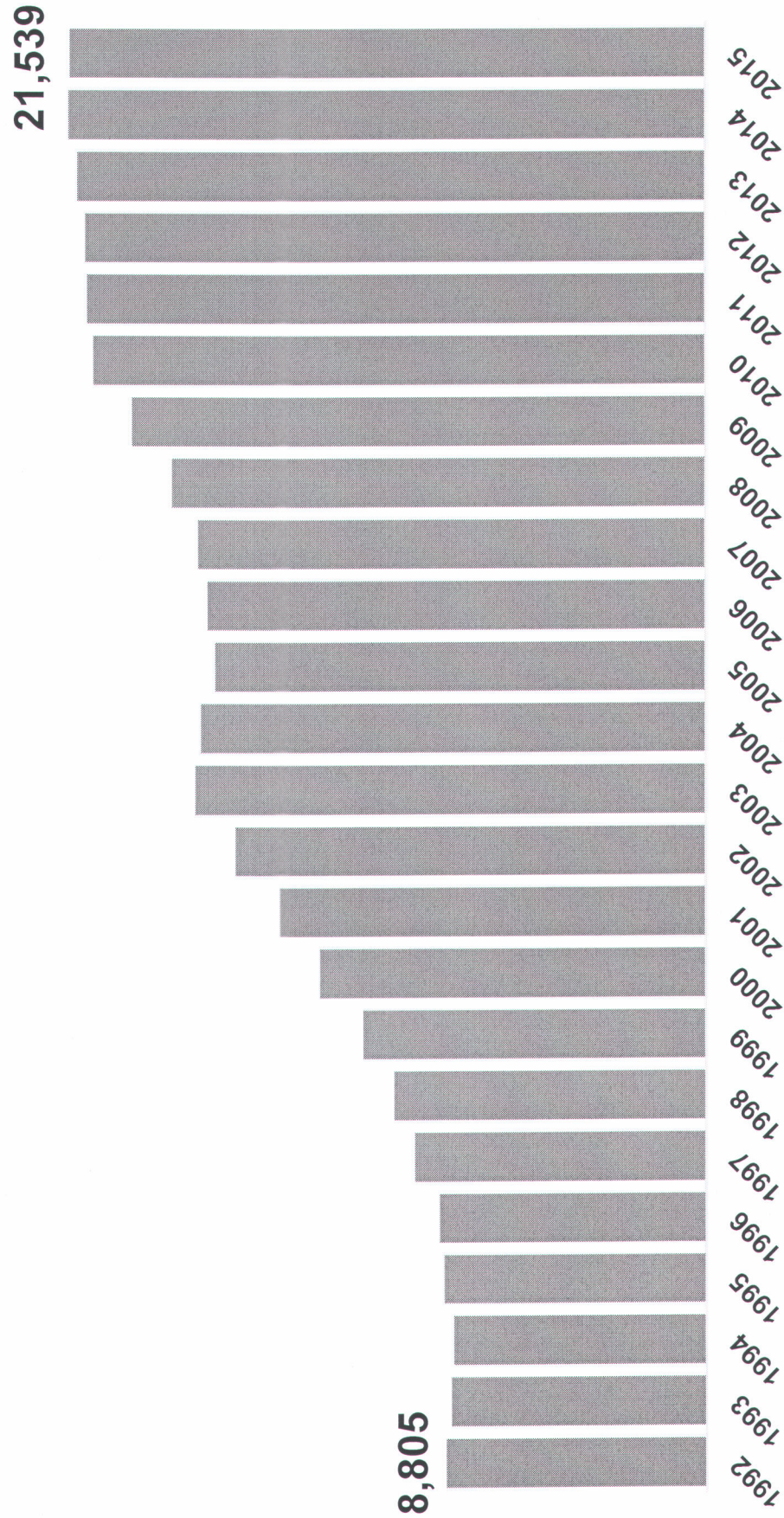
Tuesday, March 29, 2016



UNIVERSITY OF CALIFORNIA, RIVERSIDE



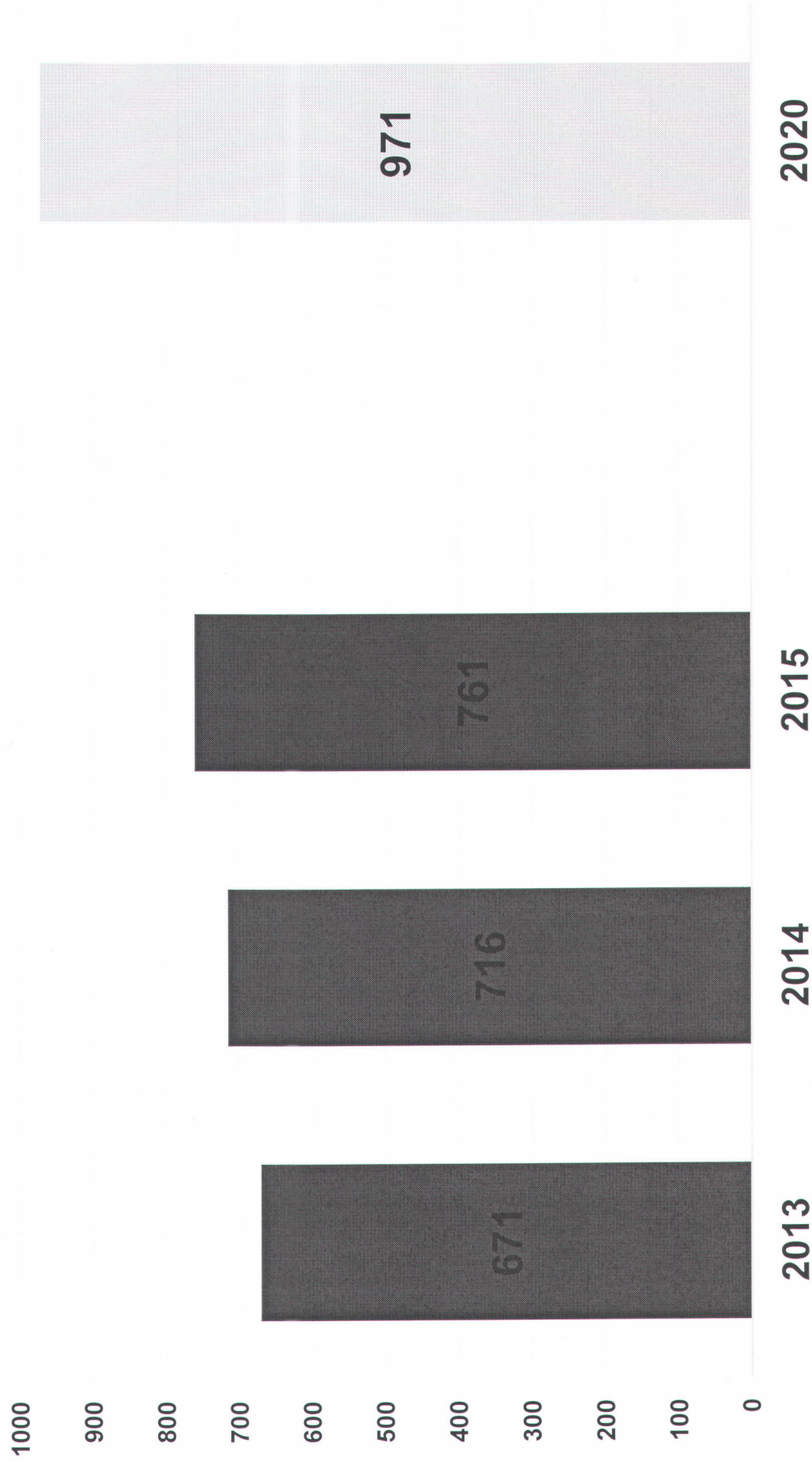
UCR enrollment: 1992 to present



Source: sara.ucr.edu and legacy-its.ucop.edu/uwnews/stat/



Faculty growth

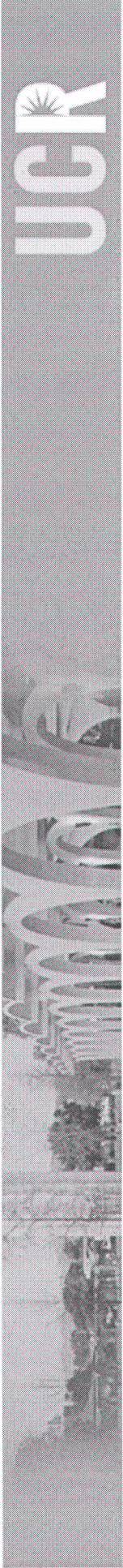


Sources: Institutional Research Faculty Headcounts; Planning and Budget New Faculty Hiring Plan

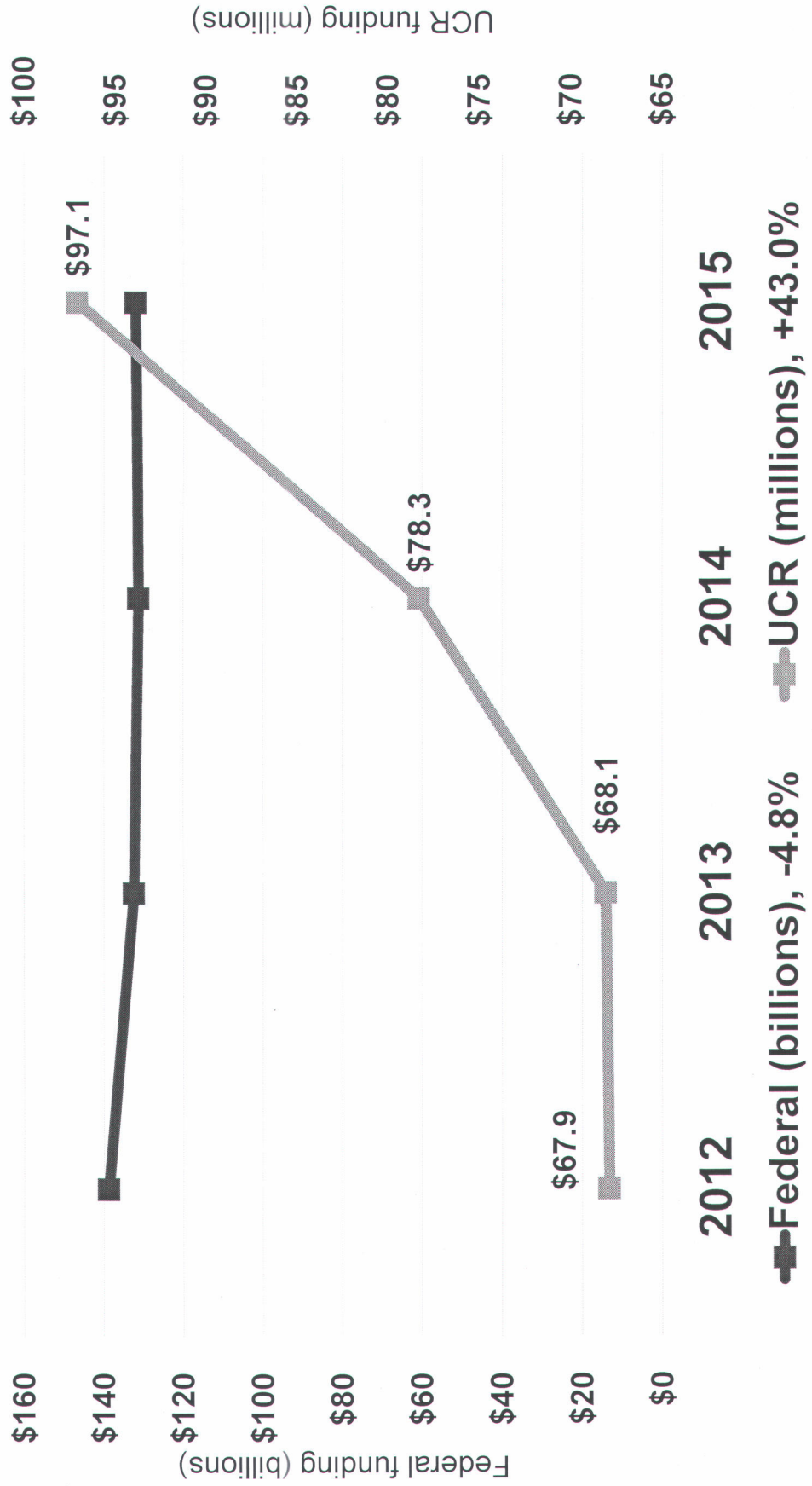


A world-class university





Expanding research





Athletics: Building champions



Michael Salazar drafted by Montreal Impact—5th straight year Highlander drafted in MLS



Troy Percival—2nd season as baseball head coach



Investing for today and the future



Budget Subcommittees Concept

- This concept is intended to more effectively evaluate agency/department budgets throughout the year, in more depth than is typically possible in a single public meeting and/or workshop, and to facilitate better input, analysis, and oversight from the Supervisors.
- Four budget subcommittees are being proposed, in categories that generally group well together and have relatively even workloads. It is similar to the official County Departmental Organization Chart, with some exceptions, including combining the Health Care departments with Social Services departments, moving our special districts (Flood, Parks and Waste) into the Public Works Subcommittee, and distributed the Elected Official departments into their proper policy categories (DA and Sheriff into Public Safety, and Assessor, Auditor, and Treasurer into General Government).
- Two Supervisors would sit on each subcommittee. Four of the five Supervisors could chair a subcommittee (likely leaving out the Chair of the Board), three Supervisors would sit on two committees each, and two Supervisors would only have to sit on one (likely the Chair would be one of those two).
- The two Supervisors sitting on the Criminal Justice/Public Safety Subcommittee would also sit on the Ad Hoc Criminal Justice Working Group, if it is created per recommendation of C-1 and C-11 in the KPWG report.
- Unless otherwise needed, subcommittees could meet once in each of the first and second quarters to evaluate and review specific programs and agencies, and then more often (monthly?) in the third and fourth quarters while the next budget is being prepared.
- Meetings could include the two Supervisors (plus relevant staff members), the Executive Office budget analyst for each department being discussed, representatives from the Finance Department and the Auditor's office, and the respective Department heads with their own budget analyst.

Supv. Jeffries

03.29.2016

Criminal Justice/Public Safety Subcommittee

(Same Supervisor as Ad Hoc Criminal Justice Working Group)

Sheriff

District Attorney

Probation

Emergency Management

Fire

Public Defender

Animal Control

General Government/Other Subcommittee

Board of Supervisors

Clerk of the Board

Executive Office

County Counsel

Human Resources

Information Technology

Purchasing/Fleet Services

Registrar of Voters

Assessor/Clerk/Recorder

Auditor/Controller

Treasurer/Tax Collector

Health and Human Services Subcommittee

Riverside University Health System

Behavioral Health

Public Health

Environmental Health

Department of Public and Social Services

Child Support Services

Office on Aging

Veteran's Services

Public Works Subcommittee

Flood Control

Parks

Waste Resources

TLMA

Ag Commission

Planning

Building and Safety

Code Enforcement

Transportation

Environmental Programs

Economic Development Agency