Review of the County of Santa Clara
FY 2017-18 Recommended Budget

Prepared for the
Board of Supervisors of the
County of Santa Clara

Prepared by the
Board of Supervisors Management Audit Division
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June 6, 2017

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County of Santa Clara

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June 6, 2017

To: Board of Supervisors

From: Management Audit Manager

Subject: **Analysis of the County of Santa Clara FY 2017-18 Recommended Budget**

Review Process

The attached report presents the independent review and analysis of the County of Santa Clara FY 2017-18 Recommended Budget by the Management Audit Division of the Board of Supervisors. To prepare this report, we analyzed all County departmental budgets that are wholly or partially financed, directly or indirectly, by the General Fund. Other funds, including the Valley Medical Center Enterprise Fund and various special and internal service funds were also analyzed. In addition, we reviewed the most recent FY 2016-17 SAP accounting system revenue and expenditure reports through Accounting Period 10, the FY 2017-18 Recommended Budget document, and other materials and work papers prepared by staff of the County Executive's Office and individual departments.

Comparative Summary of the FY 2017-18 Recommended Budget

The following is a high-level summary of the County Executive's FY 2017-18 Recommended Budget as compared with the County budget adopted by the Board of Supervisors for FY 2016-17:

- Expenditures – All Funds:
  The FY 2017-18 Recommended Budget includes $6,535,768,708 in net expenditures for all funds, which is $384,145,203 (6.2 percent) more than the $6,151,623,505 budget adopted in FY 2016-17.

- Positions – All Funds:
  The Recommended Budget for FY 2017-18 also includes 18,246.5 positions, or 527.8 positions (3.0 percent) more than the 17,718.7 positions approved by the Board as of July 1, 2016.

- Expenditures – General Fund:
  The General Fund portion of the FY 2017-18 Recommended Budget includes $3,397,340,624 in net expenditures, which is $209,660,580 (6.6 percent) more than the $3,187,680,044 budget adopted in FY 2016-17. The General Fund accounts for about 52 percent of the total Countywide FY 2017-18 net budget. When combined with the Valley Medical Center Enterprise Fund budget, the combined funds

account for 78.6 percent of the total Countywide FY 2017-18 net budget.

- Positions – General Fund:
  The Recommended General Fund Budget for FY 2017-18 includes 10,351.4 positions, or 320.2 positions (3.2 percent) more than the 10,031.2 positions approved by the Board as of July 1, 2016.

- Revenues:
  FY 2017-18 County-wide revenues increased from $5,754,629,427 to $6,113,835,193, which is an increase of $359,205,766, or 6.2 percent. General Fund revenues increased from $2,789,254,338 to $2,991,515,199 which is an increase of $202,260,861, or 7.3 percent.

- Valley Medical Center:
  The FY 2017-18 Recommended Valley Medical Center net budget amounts to $1,744,433,844 or 26.7 percent of the entire County budget, and includes 6,157.0 authorized positions, which represents 33.7 percent of the total County workforce.

The attached table summarizes our revenue and expenditure recommendations by budget unit. Detailed explanations of our recommendations are provided in the body of the report. In total, this report includes recommendations that amount to $4,879,645 in revenue increases and $27,208,432 in expenditure decreases, for a combined net benefit to the County of $32,088,077.

To put our findings in context, we note that the reduction of the CalPERS assumed rate of return will put significant pressure on County finances over the next five years. Estimated average increases in the County's CalPERS pension costs range from $56.7 million to $68.5 million *per year*, as shown in the following table.

Estimated Annual CalPERS Cost Increases

Combined Safety and Miscellaneous Plan Estimates				
	5 Year Increase	Average Annual Increase	Average Annual Increase Last 5 Years	Change in Annual Growth Rate
Low	283,765,780	56,753,156	20,416,723	278%
Mid	313,109,577	62,621,915	20,416,723	307%
High	342,453,374	68,490,675	20,416,723	335%

Source: Management Audit Division analysis of Controller's Office estimates

The Management Audit Division would like to thank the Office of Budget and Analysis and various departmental staff for their cooperation, responsiveness and assistance during our review of the FY 2017-18 Recommended Budget.

SUMMARY OF MANAGEMENT AUDIT DIVISION RECOMMENDATIONS

FY 2017-18 BUDGET REVIEW

Budget Unit	Department Name	Revenue/Expenditure Account	Revenue Increases	Expenditure Decreases/(Increases)	Net Savings	Page No.
Multiple	General Fund Depts & VMC	Excess Funding of Vacant Positions		5,000,000	5,000,000	N/A
Multiple	General Fund Depts & VMC	Excess Funding of New Positions		6,744,629	6,744,629	N/A
130	Employee Services Agency	Labor Reserves		111,249	111,249	212
135	Fleet Services	Bulk Fuel		1,000,000	1,000,000	181
145	Information Services Department	One-Time Funded Projects		11,459,000	11,459,000	153
217	Criminal Justice Support	Public Safety Sales Tax	3,000,000		3,000,000	315
246	Probation	Other Grants and Aid	145,517		145,517	359
415	Behavioral Health Services	Mental Health Patient Fees	234,128		234,128	488
502	Social Services - Agency Office	Reserves		1,393,554	1,393,554	396
502	Social Services - Agency Office	Services and Supplies		1,500,000	1,500,000	396
921	Valley Medical Center	Interest on Deposits	1,500,000	0	1,500,000	519
TOTAL			**$4,879,645**	**$27,208,432**	**$32,088,077**	

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Various General Fund and VMC Budget Units — Various Pages

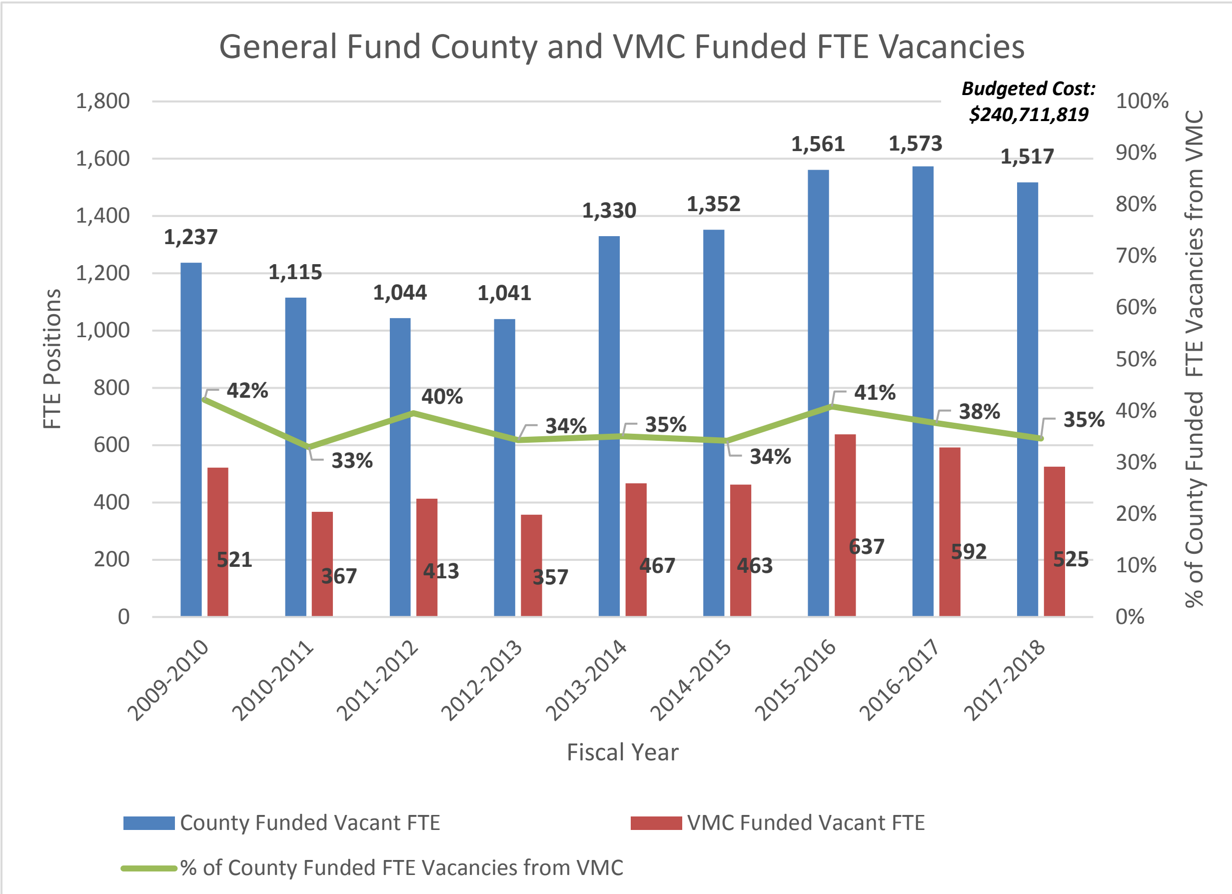
5107000 — **Salary Savings**

County Executive Recommended	Management Audit Proposed	Available General Fund Increase
($77,266,748)	**($82,266,748)**	**$5,000,000**

The FY 2017-18 Recommended Budget allocates $240,711,819 of General Fund dollars to salaries and benefits for positions that were vacant as of April 28, 2017. This is approximately 8.7 percent of General Fund and Valley Medical Center total salaries and benefits allocated to unfilled positions. This does not include new positions requested in the FY 2017-18 budget. A portion of the $240.7 million of "savings" will be used to pay for alternative staffing strategies, such as extra help and overtime, in the departments that have vacancies.

There is a long history of a large number of funded, vacant full-time-equivalent positions in the County General Fund and Valley Medical Center (VMC) budgets. Since FY 2009-10, these positions have averaged approximately 1,308, including the 1,517 in FY 2017-18. This trend is shown in Chart 1.

Chart 1



As shown in Chart 1, General Fund and VMC vacant positions that are vacant but continued in the Recommended Budget include 1,517 full-time-equivalent positions. Typically, Valley Medical Center's positions make up at least a third of these funded vacancies. Vacancies are persistent throughout the year.

We note that the Board of Supervisors adopted a policy to eliminate positions that have been vacant for five or more years, and some positions have been removed from the budget under this policy. In addition, each year the Office of Budget and Analysis (OBA) evaluates long-term vacancies. Despite these changes, the overall volume of County-wide vacancies has not changed much. This is because the large number of vacant positions is not caused primarily by failure to fill old positions, but rather by a volume of authorized positions that exceed the County's ability to maintain as filled.

This phenomenon is demonstrated by Exhibit 1a and 1b, which present information in detail and at a high level. These exhibits show, for each month, the total vacancies County-wide, the average vacancies per Department, and the maximum number of vacancies in a Department (in each case, Valley Medical Center) for FY 2016-17 through May 8. We present both the full-time equivalent (FTE) positions and the total count of positions. As the table shows, the overall average vacancy rate for the fiscal year, through May 8, was 2,104.3 FTEs. The spike in vacancies in July 2016 was due to the addition of new positions in the FY 2016-17 budget.

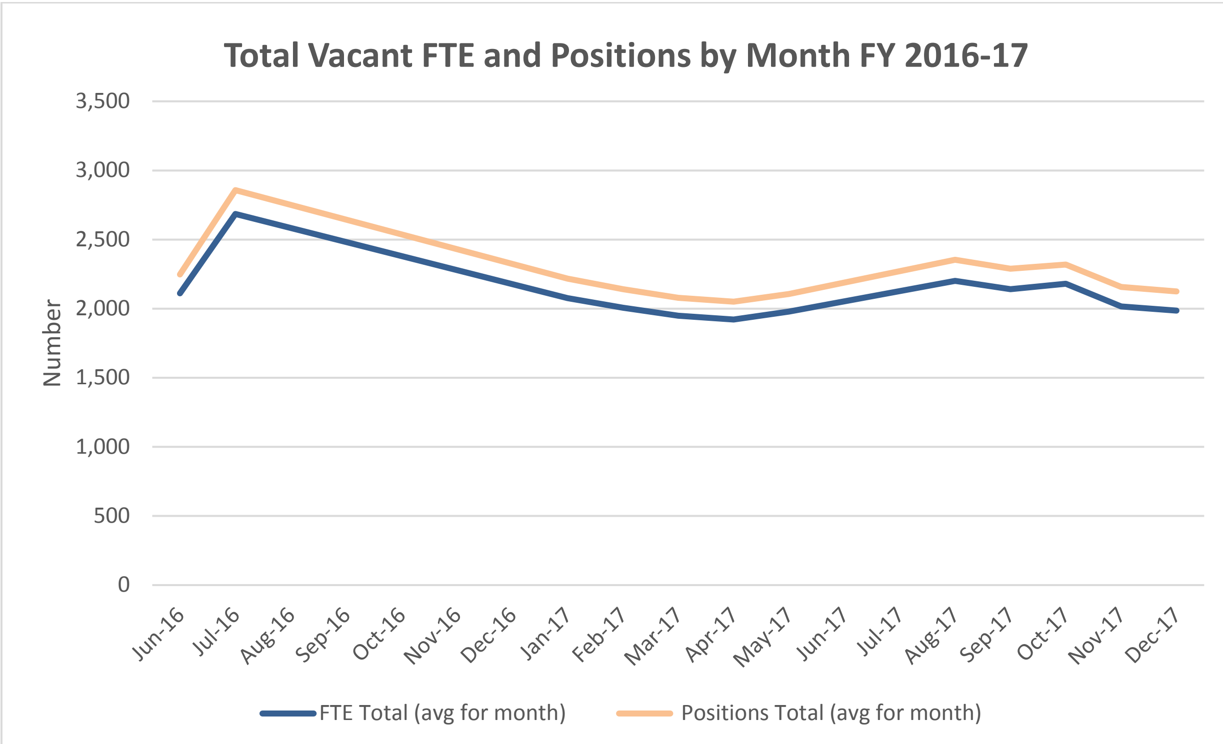
Exhibit 1.a

<u>Detail of Vacant Positions by Month – FY 2016-17 to May 8</u>

Vacancies By Month*													
		Overall Average	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
FTE	**Total** (avg for month)	**2,104.3**	2,110.7	2,685.1	2,201	2,141.3	2,180.8	2,016	1,984.9	2,076.6	2,006.5	1,949.4	1,921.4	1,977.8
	Average	**42.9**	43.1	54.8	44.9	43.7	44.5	41.1	40.5	42.4	40.9	39.8	39.2	40.4
	Max	**680.8**	698.4	827	753	704.7	689.4	666.8	656.3	685.5	643.1	624.1	609	612
Positions	**Total** (avg for month)	**2,245.2**	2,247	2,857.5	2,352.7	2,288	2,320	2,157	2,125	2,217	2,142	2,078.5	2,050.5	2,107
	Average	**45.8**	45.9	58.3	48	46.7	47.3	44	43.4	45.2	43.7	42.4	41.8	43
	Max	**779.4**	790	929	862	806	787	766	757	787	746	719	701	703
*excludes fire units and unstaffed budget units													

Source: Vacancy Reports by Pay Period furnished by the Employee Services Agency.

Exhibit 1.b



The difficulty in filling positions is due to a wide range of factors. Some are “external” factors, such as aging of the County workforce, and the high cost of local housing. There are also a wide variety of “internal” factors, some of which vary by Department. These include restrictions and workload compression created by labor agreements, failure of some Departments to interview qualified job applicants timely, mismatch between Department needs and employment criteria, antiquated Department technology, lack of data regarding successful and unsuccessful recruitments, retentions and separations, and numerous other factors.

OBA administratively addresses the budgeting of vacant positions by reducing the total salaries and benefits with a negative line item in most Department budgets. This line item partially offsets the appropriation to vacant positions that are not filled at the start of the year, and the savings that occurs as positions become newly vacant during the fiscal year. (A separate negative line item accounts for a portion of the one-time savings associated with the time it takes to hire for brand new positions created July 1.) Board policy sets this “negative” line item at between three and six percent of salaries and most benefits.

For purposes of this evaluation, we adjusted the budgeted vacant position values for those departments for which no salary savings has been budgeted in FY 2017-18. In some cases, such as certain internal service functions, no salary savings has been recommended.

This reduced amount is $239,445,669. Of this amount, OBA removed $77,266,748 for “salary savings” due to vacancies. Therefore, the recommended budget includes about 67.7 percent of the amount necessary to fully fund vacant positions, or $162,178,921.

Each year, the administration acknowledges that there is additional “surplus” budget for salaries and benefits, but is reluctant to reduce it further for various factors. First, a portion of this excess is used to fund overtime and extra help that may be required to carry out work that cannot be done otherwise due to positions that are vacant. We estimate the portion of this amount that is not already budgeted in FY 2017-18 is $75.7 million.

Assuming a similar trend in FY 2017-18, this “excess” expenditure for overtime and extra help would reduce the $162,178,921 of savings from funded vacant positions to $86,456,414. This is the estimated amount that is allocated to vacant positions in FY 2017-18 that will not be spent to backfill those same vacancies. It is from this “net” savings that we propose taking the recommended $5.0 million. This would still leave an estimated $81,456,414 “cushion” for capital projects, unanticipated changes in vacancies or other factors. This recommendation would take 5.8 percent of the estimated net savings to re-appropriate to more pressing needs. We believe this recommendation is conservative and reasonable.

Table 1

Vacant Position Funding and Adjustment for Salary Savings

	Recommended Appropriations for Vacant Positions	Recommended Reduction for Vacant Positions	Recommended Excess for Vacant Positions
	$239,445,669	**$(77,266,748)**	**$162,178,921**
Est. Unbudgeted Overtime and Extra Help Costs		**0**	**$(75,722,507)**
Estimated Net Actual Salary Savings		**0**	**$86,456,414**
Mgt Audit Proposed Reallocation of Savings		**$(5,000,000)**	**$(5,000,000)**
Net		**($82,266,748)**	**$81,456,414**

A second factor in the administration's reluctance to reduce funding of vacant positions is the use of "savings" from vacant positions to pay for capital improvements. The administration is working to implement a more comprehensive strategy to plan for and fund capital improvements, but those improvements are too recent for the Recommended Budget for FY 2017-18. We note, therefore, that the Recommended Budget includes capital project funding of $163,200,000 and there is a history of surplus funding of capital projects at year end.

As previously shown in Chart 1 and Exhibits 1.a and 1.b, the County always has a substantial number of vacant positions, regardless of the year or the time of year. Note that the $239.5 million does not include the cost of any of the new positions proposed in the FY 2017-18 Recommended Budget. (Of the new positions that are proposed in the FY 2017-18 Recommended Budget, about 74 percent are in the classifications within the same department that have at least one, and sometimes numerous, existing vacancies. This separate issue is addressed in the following section of this report.)

We believe there is enough excess funding of vacant positions after accounting for spending on capital projects and spending on overtime and extra help to make strategic, focused reductions (as opposed to across the board) in the funding of vacant positions. By recovering $5 million of these funds, the County could allocate those General Fund dollars to a one-time funding needs or to ongoing services. We do not have a recommendation as to specific departments where reductions should be made, but leave that to the discretion of the administration.

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County-wide New Positions N/A

5107100		**One-Time Budgeted Salary Reduction**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
($7,228,554)	**($13,973,183)**	**$6,744,629**

The FY 2017-18 Recommended Budget includes 487.60 new full-time equivalent (FTE) positions that will serve in various County departments. Of these, 276.00 FTEs are funded by the General Fund, 188.60 FTEs are funded by Valley Medical Center's Enterprise Fund (which is subsidized by the General Fund), and 23.00 FTEs are funded by other funds or are fully self-supporting. Total personnel costs for all 487.60 new FTEs is $68,375,330, less one-time budget salary reduction of $7,228,554 which is reflected as a negative line-item in the salaries and benefits grouping of appropriations to account for recruitment time, resulting in net personnel costs of $61,146,776 for new positions. This reduction included only $46,036 against the cost of 188.6 new positions at Valley Medical Center.

The FY 2017-18 Recommended Budget assumes that all 487.60 new FTEs will start work by October 1, 2017, and makes virtually no adjustment for hiring time for Valley Medical Center (VMC). Based on the actual time to hire for those positions that were added to the FY 2016-17 budget and have been filled, the actual average time to hire new staff was 4.1 months overall and 3.6 months at VMC. Therefore, we recommend that the Board of Supervisors increase salary savings by $6,744,629 for a more realistic start date of November 1, 2017, as shown in Table 1 below. These savings would go entirely to the General Fund as new VMC positions are entirely General Fund-supported, and the amount of our proposed reduction accounts for the fact that about 60 percent of the proposed cost of the new positions are covered by non-General Fund revenue or reimbursements.

Table 1

Start Date	FTEs	Total Cost	Salary Savings	Net Cost
October 1, 2017	487.60	$ 68,375,330	$ 7,228,554	$ 61,146,776
November 1, 2017 *	487.60	$ 68,375,330	$ 13,973,183	$ 54,402,147
Difference			**$ 6,744,629**	

**Except VMC. Its salary savings are based on the October 1 start date, which is explained below.*

Departments are unlikely to fill all 487.60 new FTEs by October 1, 2017 for the following reasons:

1. Approximately 404.1 new position FTEs were included in the FY 2016-17 Adopted Budget. Of these 335.00 FTEs have been filled as of May 31, 2017, based on information provided by the Employee Services Agency (ESA).[1] On average, it took 107 days (or 3.6 months) to fill new positions at Valley Medical Center, and 123 days (or 4.1 months) to fill other new positions at various other County departments. Our recommended expenditure decrease of $6,744,629 includes three months of savings for VMC ($5,763,182), where virtually no savings are currently budgeted, and one additional month of General Fund portion only savings for other departments ($981,447), where an average of three months of savings are currently budgeted.

2. The 487.60 proposed new FTEs fall into 182 classifications (or classes) of County positions. There were 806.60 funded vacant FTE positions in 113 of the 182 classes of new positions as of April 24, 2017, based on information provided by ESA. These vacancies decrease the likelihood that all 487.60 new FTEs will start work by October 1, 2017, as ESA reportedly encourages departments to fill their oldest vacancies first; in which case, departments would have to first fill 806.60 existing vacant FTEs in the same classes where 360.10 FTEs of the 487.60 new FTEs (or 74 percent) are being added.

   Note that 277.10 FTEs of the 487.60 new FTEs (or 56.8 percent) are in the same classes and in the same departments where 545.60 vacant FTEs existed as of April 24, 2017, as shown in the Attachment to this section.

3. Currently, ESA has active applicant lists for only 56 of the 182 classes of new positions (or 30.8 percent). There are no active lists for 126 classes of new

[1] Based on a special report generated by the Employee Services Agency for the Management Audit Division (Position Status Report, ESA, May 31, 2017).

positions, which account for 260.50 FTEs of the 487.60 new FTEs in the FY 2017-18 Recommended Budget (or 53.4 percent).

4. All but two currently active applicant lists will expire by October 1, 2017, and even if all of these lists are extended beyond October 1, 2017, ESA must generate applicant lists for 132 classes of new positions (including six active lists that do not have enough candidates) before October 1, 2017, in order for departments to have lists from which to hire applicants by October 1, 2017.

277.10 New Position FTEs
In the Same Classes and Same Departments
Where 545.6 Vacant Position FTEs Existed as of April 24, 2017

Budget Unit	Job Code	Job Title	Vacant Position FTEs	New Position FTEs
BU 107 - County Executive				
	B1N	SR MGMT ANALYST	2	1
	B1P	MGMT ANALYST	2	2
	C60	ADMIN ASSISTANT	1	1
	C8D	PRNPL FIN AND ECONOMIC ANALYST	1	1
	C98	PUBLIC COMMUNICATION SPEC	1	1
	X71	VETERAN SERVICES REP II	1	3
		Subtotal BU 107	**8**	**9**
BU 120 - County Counsel				
	D66	LEGAL SECRETARY II	4	2
	U27	ATTORNEY IV-COUNTY COUNSEL	6	2
		Subtotal BU 120	**10**	**4**
BU 130 - Employee Services Agency				
	B3N	PROGRAM MGR II	1	1
	B3P	PROGRAM MGR I	1	2
	C11	EQUAL OPPORTUNITY OFFICER	1	4
	C18	LABOR RELATIONS REP	1	4
	D5D	HUMAN RESOURCES ASST II	1	5
		Subtotal BU 130	**5**	**16**
BU 140 - Registrar of Voters				
	G97	ELECTION SPECIALIST	1	2
		Subtotal BU 140	**1**	**2**
BU 145 - Information Services Department				
	B1N	SR MGMT ANALYST	1	1
	B77	ACCOUNTANT III	2	1
	G26	SR SYSTEMS SOFTWARE ENGINEER	3	3
	G3A	SR INFO TECHNOLOGY PROJECT MGR	3	1
	G4N	WEB DESIGNER	1	1
	G5F	SOFTWARE ENGINEER III	6	1
	G85	SR BUSINESS INFO TECH CONSULT	4	1
		Subtotal BU 145	**20**	**9**
BU 190 - Communications Department				
	D09	OFFICE SPECIALIST III	1	2
		Subtotal BU 190	**1**	**2**
BU 202 - District Attorney				
	D09	OFFICE SPECIALIST III	1	1
	D6G	VICTIM/WITNESS ADVOCATE	2	1
		Subtotal BU 202	**3**	**2**
Bu 204 - Public Defender				
	F14	LEGAL CLERK	2	1
	U15	ATTORNEY IV- PUBLIC DEFENDER	3	3
	V73	SR PARALEGAL	1	6
	V78	PUBLIC DEFENDER INVEST II	0.5	1
		Subtotal BU 204	**6.5**	**11**
BU 230 - Sheriff's Department				
	U61	SHERIFF'S SERGEANT	8	1
		Subtotal BU 230	**8**	**1**
BU 240 - Department of Correction				
	G74	CUSTODY SUPPORT ASSISTANT	2	5
		Subtotal BU 240	**2**	**5**

Budget Unit	Job Code	Job Title	Vacant Position FTEs	New Position FTEs
BU 246 - Probation Department				
	X48	SUPV PROBATION OFFICER	2	1
	X50	DEPUTY PROBATION OFFICER III	7	4
		Subtotal BU 246	**9**	**5**
BU 262 - Agricultural & Environmental Management				
	B1N	SR MGMT ANALYST	1	1
	V1C	AEM OPERATIONS AIDE	0.5	1
		Subtotal BU 262	**1.5**	**2**
BU 293 - Medical Examiner-Coroner				
	P46	ASST MEDICAL EXAMINER-CORONER	1	1
		Subtotal BU 293	**1**	**1**
BU 410 - Public Health				
	B19	HEALTH PROGRAM SPEC	5	1
	D09	OFFICE SPECIALIST III	1	1
	J26	HEALTH EDUCATION SPECIALIST	2	2
	S51	COMMUNICABLE DISEASE INVEST	2	3
	W71	SR HEALTH CARE PROG ANALYST	1.5	2
		Subtotal BU 410	**11.5**	**9**
BU 414 - Custody Health Services				
	S75	CLINICAL NURSE III	14.8	2
	S93	HOSPITAL SERVICES ASST II	0.5	1
		Subtotal BU 414	**15.3**	**3**
BU 415 - Behavioral Health Services				
	C82	SR HEALTH CARE PROGRAM MGR	2	1
	C83	HEALTH CARE PROGRAM MGR II	6	1
	D1F	HEALTH SERVICES OFFICE SUPV	1	1
	D2E	HEALTH SERVICES REP	4	1
	D2J	MENTAL HEALTH PEER SUPPORT WRK	8.5	2
	E33	MENTAL HEALTH COMMUNITY WORKER	2	2
	P67	REHABILITATION COUNSELOR	8	1
	P93	CLINICAL PSYCHOLOGIST	0.5	0.5
	R13	PSYCHOSOCIAL OCC THERAPIST	0.5	2
	Y41	PSYCHIATRIC SOCIAL WORKER II	11.5	3
		Subtotal BU 415	**44**	**14.5**
BU 501 - Social Services Agency				
	B1N	SR MGMT ANALYST	4	2
	B1P	MGMT ANALYST	5	1
	C60	ADMIN ASSISTANT	2	1
	C76	OFFICE MGMT COORD	1	1
	D03	DATA OFFICE SPECIALIST	2	1
	D49	OFFICE SPECIALIST II	11	1
	D72	CLIENT SERVICES TECHNICIAN	13	1
	V65	SSA APPLCTN DEC SUPP MGR	1	2
	V8B	WELFARE FRAUD INVESTIGATOR	1	1
	Y22	SOCIAL WORK TRAINING SPECLST	2	1
	Y23	SOCIAL WORK SUPERVISOR	3	2
	Y27	EMPLOYMENT COUNSELOR	5	2
	Y3C	SOCIAL WORKER III	37	9
	Y50	PROJECT MGR	1	1
		Subtotal BU 501	**88**	**26**
BU 710 - Parks & Recreation Department				
	T16	PARK MAINTENANCE WORKER II	4	1
	T31	PARK INTERPRETER	0.5	1
		Subtotal BU 710	**4.5**	**2**
BU 921 - Santa Clara Valley Medical Center				
	B3N	PROGRAM MGR II	1	1
	C2D	CLINICAL RESEARCH ASSOCIATE	1	1

Budget Unit	Job Code	Job Title	Vacant Position FTEs	New Position FTEs
	C60	ADMIN ASSISTANT	2	1
	D1E	SR HEALTH SERVICES REP	7.5	2
	D2E	HEALTH SERVICES REP	30	15
	D48	PATIENT BUSINESS SERV CLERK	4	2
	G1P	BUSINESS INFO TECH CONSULTANT	2	16
	G5D	INFORMATION TECH PROJ MGR	1	3
	G82	STOCK CLERK	3	1
	G84	CENTRAL SUPPLY DISTRIBTN SUPV	2	1
	H18	JANITOR	7.6	14.5
	H67	FOOD SERVICE WORKER I	2	4
	J05	CODER II	1.5	3
	J67	HEALTH INFORMATION CLERK III	5.5	1
	M47	GENERAL MAINT MECHANIC II	1	3
	P40	PHARMACIST SPECIALIST	4.6	3
	P41	PHYSICIAN-VMC	40.4	1
	P55	PSYCHIATRIST	23.5	1
	R11	PHYSICAL THERAPIST II	0.5	3
	R1A	OCCUPATIONAL THERAPIST II	0.5	2
	R1D	RECREATION THERAPIST II	1	1
	R1F	SR CLINICAL LAB SCIENTIST I	2.5	2
	R1S	RESPIRATORY CARE PRAC II	2	2.5
	R29	PHARMACY TECHNICIAN	11.5	3
	R74	MEDICAL LABORATORY ASST II	1.5	2
	S18	PATIENT SERVICES CASE COORD	5	1
	S59	NURSE PRACTITIONER	18.3	4
	S75	CLINICAL NURSE III	73	22.6
	S85	LICENSED VOCATIONAL NURSE	24	11
	S93	HOSPITAL SERVICES ASST II	15.4	16.5
	S9T	PATIENT TRANSPORTER	2	7
	W71	SR HEALTH CARE PROG ANALYST	3	1
	Y03	MEDICAL SOCIAL WORKER II	3	0.5
	Y41	PSYCHIATRIC SOCIAL WORKER II	3.5	1
		Subtotal BU 921	**306.3**	**153.6**
	Grand Total		**545.6**	**277.1**

Budget Unit 130 – Employee Services Agency Page 212

Expenditure Account 5703000		Labor Reserves
County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$111,249	$0	($111,249)

Labor reserves are funds meant to support the cost of supplemental retirement benefit plans that apply to a select group of highly compensated County employees. This reserve was set up as a mechanism to absorb these retirement benefit costs if the relevant departments did not retain sufficient salary savings in their Object 1 budget for salaries and benefits. During our review of the County Executive's Recommended Budget for Fiscal Year 2016-17, we recommended reducing ESA's Labor Reserve by $2,100,000 as most of these employees subject to this retirement benefit are budgeted under VMC. We also recommended appropriately budgeting for these personnel costs under VMC's Object 1 budget for salaries and benefits. The County Executive agreed with this recommendation, leaving a little over $111,000 to support a small group of employees in the County Executive's Office, the Medical Examiner-Coroner's Office, and Behavioral Health.

As we noted in last year's recommendation, and as we observed in this year's budget review, these labor reserves have not been used in the past five years. Indeed, the County Executive's Recommended Budget for the three departments relying on this reserve anticipate sufficient salary savings to absorb beyond $111,000, as highlighted in the table below.

Estimated Salary Savings from the
County Executive's Recommended Budget for Fiscal Year 2017-18

Department	Estimated Salary Savings
County Executive	$703,657
Medical Examiner-Coroner	$192,016
Behavioral Health Services	$2,420,753
Total	$3,316,426

Since each Department's excess estimated salary savings is beyond the $111,000 reserve, and seeing that such labor reserves have not been used in recent history, we recommend dissolving this reserve.

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Budget Unit 135 – Fleet Services — Page 181

Expenditure Account 5285100 — **Bulk Fuel**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$4,560,000	**$3,560,000**	**($1,000,000)**

Every year, the single largest budgeted account for Fleet services and supplies is the cost of bulk fuel for the County's approximately 1,600 vehicles in inventory. There are many factors that impact the price and cost of gasoline including the volatility of the oil market and fuel efficiency in fleet vehicles. Since these external factors continually change, we believe that our five year trending analysis of actual expenditures accounts for fuel budget needs.

As displayed in the table below, the annual cost of fuel has declined 36 percent from about $5.0 million in Fiscal Year 2012-13 to about $3.2 million in Fiscal Year 2015-16. Based on actual expenditures through April 2017, we project total year-end expenditures for Fiscal Year 2016-17 to decline further to just over $3 million.

Bulk Fuel Expenditures from Fiscal Years 2012-13 through 2016-17

Fiscal Year	Actual Expenditures through April	Year End Actual Expenditures	Increase from April to Year End
FY 12-13	$4,071,765	$4,960,178	22%
FY 13-14	$4,059,246	$5,073,673	25%
FY 14-15	$3,248,932	$4,092,730	26%
FY 15-16	$2,500,164	$3,197,953	28%
FY 16-17	$2,356,457	$3,063,394*	30%*

Source: BU 135 SAP general ledger records
*Expenditures from April through the end of each fiscal year increased anywhere from 22 percent to 28 percent each year. Every year, this increase climbed an additional two to three percent, so we projected a 30 percent increase for the close of Fiscal Year 2016-17.

The last time the Management Audit Division recommended expenditure reductions to Fleer Services' bulk fuel budget was for our review of the Fiscal Year 2013-14 Recommended Budget. That year, using the same five year trending analysis, we recommend reducing the budget from $5.7 million to $5.3 million. Actual year-end expenditures amounted to about $5 million as displayed in the table above.

We believe fuel expenses will continue to decline due to fuel efficiency. In Fiscal Year 2016-17, Fleet Services replaced 46 vehicles with modern fuel efficient models, and 77 vehicles are planned for similar replacement in Fiscal Year 2017-18. This is consistent with the department's measure of success which aims to increase the percentage of the department's green fleet from 18.3 percent this year, to 23 percent in Fiscal Year 2017-18. Based on our five year expenditure analysis and the observation that the overall Object 2 budget for services and supplies has not exceeded $11 million since Fiscal Year 2013-14, we recommend reducing bulk fuel expenditures by $1,000,000, which would also reduce the services and supplies budget from $12.9 million to $11.9 million.

Budget Unit 145 – Information Services Department Page 153

Expenditure Account 5851000 **One-Time Funded Projects**

County Executive Recommended	Management Audit Proposed	Expenditure Decrease
$22,918,000	**$11,459,000**	**($11,459,000)**

During our review of ISD's recommended budget for Fiscal Year 2016-17, the Management Audit Division observed the department's difficulty in utilizing appropriated monies for one-time funded projects supported by the General Fund. The department explained that this underutilization was caused by the lack of resources to manage these projects. In response to our recommendation for reducing one-time funded expenditures for Fiscal Year 2016-17, the County Executive's Office explained that these funds were needed to demonstrate commitment to vendors and for the prompt completion of these planned projects.

While reviewing the department's expenditures for one-time funded projects for FY 2016-17, the Management Audit Division found that ISD does not track expenditures for one-time projects under the One-Time Funded Projects general ledger account, but instead records expenditures in various different ledger accounts. Since individual transactions occur under the salaries and benefits budget, as well as the services and supplies budget, the audit team was unable to reconcile how much of the $67.4 million budgeted in Fiscal Year 2016-17 was expended. However, using records provided by ISD, of the $80.8 million budgeted for IT projects in FY 2016-17, only $18.3 million was expended, with $9.8 million in encumbrances, equating to an unspent balance of $52.6 million as of May 2017. At the time of this report, the audit team requested details on the amount being requested to rollover into Fiscal Year 2017-18, but details were not provided by the department.

Although OBA significantly reduced the one-time funded project budget from over $67 million to $22.9 million for Fiscal Year 2017-18, the audit team does not expect the department to expend these funds and the undetermined rollover amount due to similar limitations as Fiscal Year 2016-17. Without further evidence that ISD maintains the staffing, resources, or firm contractual commitments to complete these one-time funded projects, we recommend reducing the budget by 50 percent to $11,459,000. This would not impact the department's overall services and supplies budget which would drop from $73.5 million to $62 million, whereas actual annual expenses have not exceeded $44 million within the past five years. However, in recognition of OBA's response to this recommendation, provided to us on June 6, 2017, we agree with their alternative recommendation to hold off on reducing the budget pending a comprehensive update on the status of technology projects during the midyear budget review.

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Budget Unit 217 – Criminal Justice System-Wide Costs Page 315

Revenue Account 4420100 **State-Public Safety Sales Tax**

County Executive Recommended	Management Audit Proposed	Revenue Increase
$205,000,000	**$208,000,000**	**$3,000,000**

Public Safety Sales Tax is received by the County as result of Proposition 172, approved by California voters in 1993, which added 0.5 percent to the State's sales tax to fund public safety programs. Although the tax revenue can only be used to fund certain County departments, it operates as a General Fund revenue, because the departments involved also receive significant support from discretionary General Fund sources, such as property taxes.

The County of Santa Clara, as a geographic location, receives a percentage of the revenue collected State-wide from the tax, based on the County's level of taxable sales, relative to taxable sales in the other 57 counties. Of the Public Safety Sales Tax coming to the County as a geographic area, 94 percent is retained for County programs, while 6 percent is distributed to various cities within the County.

For the current fiscal year, we concur with the Office of Budget and Analysis that receipts will fall slightly short of the $205 million budgeted, to a level of between $202.2 million to $202.8 million. We note that $1 million to $1.5 million of this shortfall is a result of a change in how the State distributes the revenue. In the past, each fiscal year's revenue was distributed based on taxable sales differences among the counties in the calendar year prior to the fiscal year for which the revenues are being distributed. That is, in FY 2015-16, these revenues were distributed based on counties' taxable sales results in Calendar Year 2014. Earlier this year, the State changed its method. For the current fiscal year, and going forward, the State will use whatever distribution percentage is in effect at any given time, based on the most current information available from the Board of Equalization. For the current fiscal year, that has resulted in the first six months of revenues being distributed based on Calendar Year 2014 taxable sales results, and the final six months being based on 2015 taxable sales results. We expect this pattern to continue for the foreseeable future.

One practical effect of this change is to moderate the effects of changes in taxable sales from one calendar year to the next, since the distribution in the fiscal year is based on a combination of results from the prior two calendar years. The change also makes this revenue somewhat easier to project, because the necessary data is more readily available.

Projecting Public Safety Sales Tax is a two-step process.

First, the County of Santa Clara's share of the revenue pot must be determined, relative to the other 57 counties. Second, the size of the State-wide revenue collection to be distributed in the coming fiscal year must be estimated.

In terms of the County's share of the revenue, for Calendar Year 2015, final results from the State Board of Equalization show that the County accounted for 6.508 percent of taxable sales. For Calendar Year 2016, the Management Audit Division projects that the County's share of the State-wide revenue will increase to 6.526 percent. This estimate is based on preliminary Board of Equalization information obtained through the Hdl Companies, a County consultant. We adjust the preliminary information to account for timing issues, such as certain retailers reporting sales figures for multiple quarters at the same time, which makes the preliminary data typically higher, for both County and Statewide taxable sales, than the final figures will be.

In terms of the overall amount of revenue to be distributed, the primary driving factor is taxable sales in the State as a whole. Management Audit staff reviews estimates of this from various economists. As an example, the California Department of Finance, in the May revise for the FY 2017-18 State budget, estimated taxable sales for next year will increase by 3.7 percent over the current year. The Legislative Analyst Office, which reviews the May revise, estimated a 4.1 percent increase. Other economists are in a similar range. Using the various estimates, and applying our estimated share of the State-wide revenues which the County will receive, we estimate Public Safety Sales Tax revenues at between $208 million and $214 million. To be conservative, we are recommending budgeting the lower figure, $208 million, which is based on the May revise estimate of taxable sales.

Budget Unit 246 – Probation Department — Page 359

Revenue Account 4580100		Other Grants & Aids
County Executive Recommended	Management Audit Proposed	Revenue Increase
$954,483	$1,100,000	$145,517

Through April of the current fiscal year, $1,363,189 had been received in this revenue account, and receipts in this account for Fiscal Year 2015-16 totaled $1,789,579. The revenue account comes from two sources. First, a $471,000 State allocation was received in the current fiscal year for Post Release Community Supervision of offenders. The Department reports that this was a one-time allocation under the State Budget Act, which is not likely to be repeated.

The other source of funds is reimbursement for claims under a State law, SB 678, under which a State Corrections Performance Incentives Fund pays for evidenced-based County programs that reduce recidivism among adult felony probationers. The program is funded by monies the State saves from probationers not being returned to State prison.

The County receives these funds in four quarterly payments each year. For FY 2015-16, the four payments totaled $1,287,329. For the current fiscal year, the three payments received so far total $891,575. Assuming a payment of $300,000 for the fourth quarter, which is conservative based on previous experience, total receipts in the current year should reach $1,191,575. To be conservative, we are recommended a budget increase only to $1,100,000, for an increase of $145,517. The Department stated: “We are working with OBA regarding this year’s revenue projections including SB 678 and will adjust this budget line accordingly.” This statement indicates that the Department also believes the revenue will likely be higher than currently budgeted for next year.

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Budget Unit 415–Behavioral Health Services Department Page 488

4719100 – MH Patient Fees

County Executive Recommended	Management Audit Proposed	Revenue Increase
$0	**$234,128**	**$234,128**

Starting in February 2018, upon implementation of its new billing system, the Behavioral Health Services Department (BHS) will begin billing $20,068,146 of self-pay patient debt for the first time.[1] However, the FY 2017-18 Recommended Budget does not include any amount of revenue from this change in billing practice. Santa Clara Valley Health and Hospital System (SCVHHS) administrators advised us that although self-pay accounts have never been billed, they do not expect to collect any revenue from this debt mainly because the self-pay patients in question have serious mental health issues that affect their ability to pay bills. However, we believe that once billing of the debt occurs, a portion of self-pay accounts will remit payment. This is because 2.8 percent of Valley Medical Center debt accounts that are deemed “self-pay” accounts by VMC in fact have a payer that is identified by the Department of Revenue. This amounts to 50 accounts per month.

The Department of Revenue finds that these “self-pay” patients are eligible for coverage under Medi-Cal, but are unaware of this. Once the payer is identified, the County can retroactively bill for costs incurred as long as a year prior. In other cases, patients may in fact have insurance or be eligible for other programs for low-income persons, but they may not have known they were eligible. We think that this lack of knowledge of eligibility for programs or insurance coverage may be more pronounced among individuals with serious mental health disorders.

We recommend adding $234,128 in revenue to the Recommended Budget to reflect the change in billing practice, and the eight months that the new billing system will be active in FY 2017-18. This assumes that 2.8 percent of the $20,068,146 is due from an individual who has a third-party payer but is unaware of the coverage, based on billing beginning in February 2018.

[1] Self-pay patients are individuals who are responsible for paying their own bills. Generally speaking, they are not covered by federal programs or insurance companies.

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BU 502 Social Services Agency – Agency Office[1] Page 396

Reserve Account 570500		Reserves for Future Operations
County Executive Recommended	**Management Audit Proposed**	**General Fund Increase**
$1,393,554	**$0**	**$1,393,554**

Countywide Reserves

The purpose of a reserve is to mitigate financial risks. General Fund reserves in the FY 2017-18 Recommended Budget total $266.3 million. This amount equals 9.36 percent of all General Fund revenues, net of "pass through" dollars that are not used to support General Fund operations.

Table 1 below shows these reserves by Budget Unit and purpose, and shows the percent of General Fund revenues.

Table 1

Reserves in FY 2017-18 Recommended Budget[1]

Budget Unit	Purpose	Reserve	Percent
910	Contingency	142,317,286	53.4%
119	Special Programs - Many purposes	107,627,785	40.4%
263	Facilities	14,537,000	5.5%
501	Soc Svcs - Children's Shelter Closure	1,393,554	0.5%
415	Behavioral Health Services - Pay for Success	352,159	0.1%
130	Human Resources - Labor	111,249	0.0%
		$ 266,339,033	100.0%
Net General Fund Revenues in FY 2017-18 Rec Budget		$ 2,846,345,729	
General Fund Reserves as Percentage of Net GF Revenues		9.36%	

1) Excludes reserves for non-General Fund departments such as Parks and Recreation and the County Library. Total Countywide reserves equal $298,485,923.

[1] Budget Unit 502 in the physical budget document, Budget Unit 501 in the County Budget system.

Departmental Reserves

In FY 2010-11, the Social Services Agency reserved in the adopted budget $1,393,554 General Fund dollars for the purpose of ensuring that adequate funding was available to accommodate the closure of the Children's Shelter. The shelter property was declared surplus in 2011 and sold to a private school. According to Agency personnel, none of the $1,393,554 reserve has ever been used.

The Recommended Budget for FY 2017-18 includes this same reserve. The Agency indicated that although it is no longer needed in relation to the Children's Shelter, the funds are necessary in FY 2017-18 because of the development of a temporary Receiving and Intake Center on Enborg Lane pending the development of the East Valley Receiving and Intake Center (RAIC).

East Valley RAIC

The Fiscal Year 2018-2022 Five Year Capital Improvement Plan (CIP) includes funding for the East Valley project, with a total budget in FY 2017-18 of $1 million. This entire $1 million is included the FY 2017-18 Recommended Budget as a new expense in the Social Services Agency Office budget. In addition, there is $3.5 million included in the Recommended Budget of the Facilities Department for the same project in FY 2017-18, for a total of $4.5 million. Per the CIP, an additional $90 million, in aggregate, is planned for the project in years two through five. The source of the funding for that work has not been finalized, although staff report that the primary funding source is expected to be the General Fund.

Enborg Lane RAIC

The Agency reports that a temporary RAIC on Enborg Lane will be adapted to accommodate children for stays of up to three days, pending State approval. This facility will be used until the East Valley RAIC is completed. As plans have not been fully developed for the funding, timing and cost of these RAIC facilities, we recommend removing the reserve.

Pay for Success

The "pay for success" reserve in Behavioral Health will be moved from reserves in FY 2017-18 to partially cover contractor services for the Department's clientele. The Department reported that the reserve was necessary to cover costs; based on our analysis, the amount included in the Recommended Budgeted as a contract expenditure for this vendor is not sufficient to cover the cost of the associated contractual amounts. It is therefore likely that the reserved amount will be used in FY 2017-18. Similarly, we are not proposing changes to the other Departmental reserves, except for the labor reserve, which is addressed in another section of this report.

Basis for Recommendation

The Management Audit Division recommends that the $1,393,554 that was reserved for the closure of the Children's Shelter in FY 2010-11 be dissolved. The factors we considered when making this recommendation include:

- The risk the reserve was originally established to mitigate no longer exists
- The reserve has never been tapped since its inception
- Without this reserve, there will still be General Fund reserves equal to 9.31 percent of all General Fund revenues (net of pass-through dollars) to mitigate potential risks in Social Services or other functions in FY 2017-18

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Budget Unit 502 – Social Services Agency — Page 396

Multiple Expenditure Accounts		**Services and Supplies**
County Executive Recommended	**Management Audit Proposed**	**Expenditure Decrease**
$147,056,221	**$145,556,221**	**($1,500,000)**

The FY 2017-2018 Recommended Budget for the Social Services Agency's (SSA) Agency Office services and supplies is $147,056,221, a three percent decrease from the FY 2016-2017 budget. However, the data show there is room to decrease appropriations further without affecting service delivery.

SSA Services and Supplies - Budgets, Actuals, and Projections					
FY 2015-16 Budget	**FY 2015-2016 Actual**	**FY 2016-2017 Budget**	**SSA Projection FY 2016-2017 Actual**	**Our Projection FY 2016-2017 Actual**	**FY 2017-2018 Recommended Budget**
143,330,099	127,638,024	151,398,974	141,210,704	135,098,257	147,056,221
Difference Budget - Actual		**Difference Budget - SSA Projection**		**Difference Recommended Budget - Our Projection**	
$15,692,075		$10,188,270		$11,957,964	

For FY 2015-2016, the Agency Office finished the year $15,692,075 under its services and supplies budget. For the current fiscal year, SSA's own projection shows actual services and supplies expenditures of $141,210,704, which is $10,188,270 under the FY 2016-2017 allocation.

If SSA's self-projection of FY 2016-2017 services and supplies actuals is accurate, the FY 2017-2018 Recommended Budget would provide a four percent increase in spending. Our suggested expenditure decrease of $1.5 million dollars would still deliver a three percent increase in the services and supplies allocation from their self-projection, and nearly an eight percent increase from our own estimates of their FY 2016-2017 services and supplies actuals.

We have identified several areas where the $1.5 million savings could be made including:

5275200 PC Hardware – The recommended budget is $2.3 million, a nine percent increase from the FY 2016-2017 budget. However, the average annual expenditure since 2012 is $1.1 million.

5235440 GSA Maintenance – The recommended budget is $919,282, but there has been $0 in expenditures in the last five years. Because there is no history of expenditures, we are not sure of the intended use of the funds.

5283000 Administrative Cost – Expenditures have not gone above $650 in the past five years, but the recommended budgeted is $112,970. The actual expense each year is related to a conference.

5282000 Special District Services – In the last five years, there has been mostly $0 expenditures, with spending never surpassing $4,400. These expenses are for fire inspections. However, the recommended budget is $66,000.

The Agency has indicated that there are expenses against these budgeted costs elsewhere in the Agency or in the budget. However, there are additional areas of SSA's Recommended Budget with similar discrepancies between actual expenditure trends and the recommended budget that could be adjusted to meet the suggested $1.5 million decrease in services and supplies expenditures. Given past spending trends, we are confident this recommended expenditure decrease is reasonable and achievable without harming SSA's operations.

Budget Unit 921 – Valley Medical Center — Page 519

Revenue Account 4301100		Interest-Deposits
County Executive Recommended	Management Audit Proposed	Revenue Increase
$0	$1,500,000	$1,500,000

Through April 30 of FY 2016-17, Valley Medical Center's Capital and Enterprise Funds[1] combined had an average daily cash balance of $7.2 billion. These funds earn interest, which, for the first three quarters of the fiscal year, totaled $1,148,007. The average quarterly earnings in the current fiscal year therefore total $382,669. Assuming earnings continue at this rate, the Valley Medical Center's funds would earn an estimated $382,669 in the final quarter. Adding this amount to first three quarters' actual earnings yields an estimate of interest earnings for FY 2016-17 of $1,530,676. This projection is consistent with the actual FY 2015-16 earnings, which totaled $1,494,967.

We note that interest rates are rising. For example, the quarterly rate as of March 2017 for the Local Agency Investment Fund (LAIF) was 0.78 percent. This is the highest quarterly LAIF rate since September, 2009.

The Controller-Treasurer's projected earnings rate for FY 2017-18 is 1.26 basis points, which, on an average daily cash balance of $7.2 billion, would equate to approximately $1.1 million of earnings on the Valley Medical Center (VMC) funds.

However, based on the trend of rising interest rates, and the recent actual and projected earnings of approximately $1.5 million per year, we recommend that 1) interest earnings of $1.5 million be included in the final adopted budget for VMC, and that 2) the General Fund subsidy to VMC be reduced by $1.5 million.

[1] Funds 59 and 60, respectively.