

COUNTY ADMINISTRATOR'S OFFICE

MICHAEL D. JOHNSON
COUNTY ADMINISTRATOR
COUNTY OF SOLANO



COUNTY ADMINISTRATOR'S OFFICE
580 W. TEXAS STREET
FAIRFIELD, CA 94533-6375
(707) 421-6100
FAX (707) 421-7975

October 1, 2004

Honorable Judge Peter Foor
Solano County Superior Courts
Hall of Justice
600 Union Ave.
Fairfield, CA 94533

Dear Judge Foor,

The following responses are submitted as requested in the Grand Jury Report of 2003/04. The County Administrator's response covers (3) three areas: County and City Budget Review; East Vallejo Fire Protection District and the Vallejo Veteran's Memorial Building.

County and City Budget Review

Finding #1 - The total Solano County 2003/04 Budget is \$786,441,725. Of that amount, the General Fund is \$188,675,041. Since the County receives the majority of revenues earmarked for specific programs, it is credited directly to the appropriate department and not to or through the General Fund. The reserve for the General Fund is \$24.9 million or 13.2%. The Board of Supervisors' goal is to have a \$10 million General Fund reserve. However, reserves for operating departments vary with no apparent goal set by policy.

CAO Response to Finding #1

The County Administrator agrees with the finding. The operating departments that have reserve funds have been managed appropriately.

Recommendation #1 - Increase the General Fund reserve to no less than 15%.

CAO Response to Recommendation #1

The County Administrator appreciates the Grand Jury's input but the recommendation will not be implemented. While the County Administrator is in agreement as to the need to maintain adequate reserves, the level recommended by the Grand Jury is not justified. The County's current reserve goal is to reach a General Reserve of 5% of the total Budget (less interfund transfers) and a General Fund Contingency of 5% of the General Fund. For the FY2004/05 Final Budget, the

General Fund contingency is 11.5% of the General Fund budget while the General Fund reserve is at 4.4% of the total Budget. When added together, this amount exceeds 24% of the General Fund budget and 7% of the total County Budget.

Recommendation #1a - Establish a 5% reserve in each department.

CAO Response to Recommendation #1a

The recommendation will not be implemented because the Grand Jury's recommendation to establish a 5% reserve in each department is adequately met by the establishment of contingency at the fund level. The County Budget Act does not require the establishment of reserves at the department level and in Solano County, reserve accounts are established at the fund level within each fund. Generally, funds budgeted in General Fund Contingency are adequate to manage any extraordinary events that may affect a department's budget. If the department is able to provide sufficient justification, the Board may, by a 4/5th vote, use contingency to increase a department's budget at any time during the year. By following this practice, the need for maintaining individual reserves in departmental budgets is eliminated.

Further, the County has been able to carefully monitor expenditures and project revenues, which have contributed significantly to the County's stable financial position. The grand jury's recommendation to establish a 5% reserve in each department is adequately met by the establishment of a contingency at the fund level.

Finding #2 - The County develops a Five-Year Fiscal Forecast model budget for the General Fund. It is not detailed but is established by totals of general categories and makes various assumptions about tax increases, license and permit revenues, state reductions, Public Employees Retirement System (PERS) increases and net expenditure increases. Each operating department does not submit multi-year budgets or a similar fiscal forecast.

CAO Response to Finding #2

The County Administrator agrees with the finding.

Recommendation #2

The County budget procedure is primarily established on a year-to-year basis. Presently, reductions are taking place to deal with the expected shortfall in the 2003-2004 budget with minimal plans for future projected deficits. It is recommended that a multi-year detailed budget forecast be prepared, based on the current facts, figures and trends that are available with the input of all operating departments. Each year the plan should be reviewed and updated to reflect current trends.

CAO Response to Recommendation #2

The recommendation will not be implemented because of fiscal uncertainties due to State budget reductions. In the early 1990's, the County began to budget on a two-year basis, but due to the State's fiscal crisis in the early 1990's, this process was abandoned because the County lost millions in revenues as the State balanced its

budget through taking a considerable portion of the County's local property tax base to establish the Educational Revenue Augmentation Fund (ERAF), which relieved the State of a portion of its school funding obligation. Recently, as the County was finally reaching pre-ERAF property tax revenues level, the current State fiscal crisis hit.

Since FY1992/93, there have been very few years in which the County has not had to make major budget decisions based on annual state budget actions. During this time, the County has been very successful in maintaining its financial stability by carefully controlling expenditures and monitoring revenues. The current fiscal climate requires the County's financial administrators to be on top of fiscal issues on a current basis. Therefore, we have established a Mid Year and Third Quarter review to ensure we understand all of the fiscal issues impacting the County on a current basis.

Due to the ongoing unstable fiscal condition of the State, the County Administrator has recommended that we maintain sound levels of Contingency and Reserves, while maintaining the one-year budget cycle so the County is able to quickly respond to any state budget impacts.

Finding #3 - A Five-Year Plan is prepared and updated each year for capital improvements. Funding sources are identified.

CAO Response to Finding #3

The County Administrator agrees with the finding.

Recommendation #3 - Continue the present procedure which provides protection of current county assets and meets future infrastructure needs. Insure that on-going maintenance costs to support and maintain capital improvements are included in future operating budget forecasts.

CAO Response to Recommendation #3

The County Administrator concurs with the Grand Jury's recommendation. Staff is currently researching methods to not only fund the new projects contained in the Five Year Capital Improvement Program, but to also identify a stable source of funding to provide for ongoing major maintenance of existing facilities.

Finding #4 - Department budgets are established by line items. However, the amounts projected are often overspent, transferred or not expended. The bottom line of the budget is the single source that dictates the financial status of the department.

CAO Response to Finding #4

The CAO partially agrees with this Finding. The net county cost (bottom line) reflects the fiscal management of the departments, reflecting adequate controls on accounts which the Department has discretion to utilize as necessary.

Recommendation #4 - If line item procedures are used to establish a budget, the department should make projections and expenditures accordingly. Transferring funds from one line item to another should be discouraged, tightly controlled and should require the authorization.

CAO Response to Recommendation #4:

The Recommendation will not be implemented. While the County Administrator agrees with the Grand Jury in some limited situations, line item control of departmental budgets by the Board of Supervisors/County Administrator is impractical and inflexible. It is the County philosophy that department Heads should be held accountable for the overall operation of their respective departments. If at the beginning of the budget process, the Board, CAO and department head are in agreement as to programs/services for the following fiscal year and agree on the resources to accomplish the program goals, then the department should have the discretion and flexibility to utilize all its allocated resources to accomplish its mission.

However, department budgets are still controlled at the classification level such as Salary & Benefits, Services and Supplies, Others Charges and Fixed Assets. Appropriations cannot be moved from one budget classification to another without CAO or Board approval (e.g.: from Salaries to Services & Supplies, from Services & Supplies to Fixed Assets, etc.). The County budget policy also requires department heads to request budget changes from "frozen" line items such as Extra Help, Insurances, Information Technology charges and cost allocation plan charges.

In addition, because there are literally dozens of closely related line item categories within the County Budget, it becomes very impractical and costly to require higher approval for most line item transfers. As long as the department is using the funds appropriately within the category, department heads should have the flexibility move resources from one related line item to another to allow them to manage their programs and operations.

East Vallejo Fire Protection District

Finding #1 - The current agreement between the EVFPD and the City of Vallejo results in a bill for services (\$417,823) that is less than the cost of providing these services (\$551,507) as estimated by the City of Vallejo. Thus the taxpayers in the City of Vallejo are subsidizing the cost of fire protection services for the taxpayers in the EVFPD.

EVFPD Response to Finding #1

The District disagrees with the conclusion of this finding. The District does agree that The Vallejo Fire Department submitted an invoice to the District in 2002/2003 in the amount of \$417,823, using the formula in the Fire Protection Services Agreement. However, the District has not been provided with documentation

supporting the estimated service cost and formula in the Grand Jury Report that states an estimated cost of \$551,507. The District cannot substantiate the Grand Jury's finding that the City of Vallejo is subsidizing fire protection services in EVFPD without completing an analysis using a verifiable and agreed to formula or methodology. The methodology presented in the Grand Jury report would need to be modified substantially in order to provide meaningful numbers.

Recommendation #1 - The City of Vallejo and the Solano County Board of Supervisors negotiate a new agreement for services that fairly compensates the city for the actual cost of providing fire protection services.

EVFPD Response to Recommendation #1

The recommendation requires further analysis however the current Agreement which was renewed by the City of Vallejo in 2001, provides that all revenue and income generated in the District will be paid to the City of Vallejo for fire protection services. The District's ability to pay for fire protection services is constrained by the property taxes generated in the District. The allocation of property taxes generated in the District for Fire Protection, were determined by formula established by State law following Proposition 13. Three of the Tax Rate Areas within the District were formerly designated as a Redevelopment Areas. These areas should experience growth in assessed value of properties and generated growth in tax revenue.

Although the members of the County Board of Supervisors sit as the District Board of Directors, the District operates as a separate entity; negotiations would therefore be between the District Board of Directors and the City.

Finding #2 - The EVFPD serves an unincorporated urban area almost entirely within the sphere of influence of the City of Vallejo. The EVFPD Board was dissolved ten years ago and the district exists only to pass through tax revenue from the County to the City of Vallejo to fund fire protection services.

EVFPD Response Finding #2

The District partially disagrees with the Finding. The District agrees that the District is within the Sphere of Influence of the City of Vallejo, however the District does not agree that it exists only to pass through tax revenue. The District operates under the authority of the Uniform Fire Protection Law of 1987 as a rural fire protection district. The District is managed by the Board of Supervisors and contracts with the City of Vallejo to provide fire protection services.

Recommendation #2 - The City of Vallejo and the Solano County Board of Supervisors should review the status of the EVFPD with a view toward determining the most equitable and efficient method of providing fire services to these areas. This should be done in conjunction with the LAFCO guidelines which include the following considerations:

- Does the district tailor its services better than a city?
- Does the district link its costs to benefits better than a city?
- Is the district more responsive to its constituents than a city?
- Are there inefficiencies or redundancies?
- Is a district more accountable than a city?
- What are the funding mechanisms and would a change reduce existing services?

EVFPD Response Recommendation #2

The recommendation will be implemented by LAFCO, which has the authority and requirement under the Government Code to complete a Municipal Services Review of the EVFPD. The Cortese-Herzberg Local Government Reorganization Act of 2000, requires LAFCOs to conduct reviews of municipal services and make nine written determinations. The determinations include analysis of: infrastructure needs; growth and population projections; financing constraints; cost avoidance; rate restructuring; opportunities for shared facilities; consolidation or reorganization of service providers; management efficiencies and accountability and governance.

LAFCO has recently selected a firm to conduct a comprehensive review of all County Fire Districts. The review which will include East Vallejo Fire Protection District is scheduled to be completed and presented to the Commission on March 7th, 2005.

Finding #3 – The Grand Jury received maps of the area comprising the EVFPD from the County, the City of Vallejo and LAFCO. Certain core areas appear on all three maps. However, other areas including Sandy Beach, a section bordering the Napa River north of the Mare Island Strait, an area north of Columbus Parkway, west of Sulfur Springs Creek and an area on the east side of Vallejo bordering the Cordelia Fire District did not appear on all three maps, creating some uncertainty about the areas covered by the EVFPD and the responsibility for paying for fire protection services.

EVFPD Response to Finding #3

The District partially agrees with the Finding. The District boundaries have changed due to annexations and detachments which have occurred. These changes may not have been included in the map that the Fire Department provided to the Grand Jury.

Recommendation #3 – The City of Vallejo and the Solano County Board of Supervisors should ensure that they are in agreement about the contracted area covered by the EVFPD.

EVFPD Response to Recommendation #3

Recommendation will be implemented. The Department of Resource Management will confer with the Vallejo Fire Department regarding the information that is needed and will update the map showing all parcels in the Tax Rate Areas that are included

within the District. The Department will provide the Grand Jury the updated map and an updated list of all parcels and street addresses in the District.

Vallejo Veterans Memorial

Finding #1 – The Superior Court interlocutory judgment of 1998 requires, in essence, that repairs be made to the existing facility or that alternative dedicated facilities be provided for the veterans. No solid headway has been made in six years.

CAO Response to Finding #1 –The County Administrator disagrees partially with this finding. We appreciate the Grand Jury’s comments that they believe the efforts to provide a veteran’s facility are proceeding in “good faith”. As stated in the response from the County General Services Department, the Department has been evaluating a number of options for the Vallejo Veteran’s facility over the past year. These include rehabilitation of the existing Memorial Building at 444 Alabama Street as well as locating to another appropriate building in Vallejo.

Recommendation #1- That all concerned muster their will and Solano County finally adopt a plan which is mutually agreeable to the interested parties, is backed by committed funds and is time-specific to achieve a dedicated Vallejo veteran’s facility.

CAO Response to Recommendation #1

The recommendation to adopt a plan which is mutually agreeable to the interested parties and which is backed by committed funds will be implemented. While the Property Manager is aggressively pursuing alternatives, there are external factors that will determine how quickly this will be accomplished. These include ability to evaluate sites and negotiate agreements with property owners and developers, and gaining agreements with Veterans groups. The reality is that identifying a source of funding for the facility is a significant challenge for the County and is not an issue of “will” but rather of “ability”.

Finding #2 – The Court judged that the County “can permit the use of such building for other purposes so long as such use does not interfere with the ordinary and accustomed use of such building by the veterans’ associations.” Fiscal benefits, precedents in the existing Memorial Hall and practices in other veterans’ centers support such a policy.

CAO Response to Finding #2

The County Administrator agrees with the finding that the Courts found that the County may permit uses in the building that do not interfere with the ordinary and accustomed use of the building by veteran’s associations.

Recommendation #2 – That “house rules” for a new or refurbished facility provide for multiple uses, so long as the veterans’ ordinary and accustomed uses have first priority.

CAO Response to Recommendation #2

This recommendation will be implemented. The County Administrator agrees with the Department of General Services response to the Grand Jury on this recommendation.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Johnson", written in dark ink.

Michael D. Johnson
County Administrator