Fiscal Year 2018 County Executive's Budget Message

May 1, 2017

To: Board of Supervisors

From: Jeffrey V. Smith
County Executive

Subject: Fiscal Year 2017-2018 Recommended Budget

The next four years will be challenging and risk filled times for the County of Santa Clara. We expect to see threats from the federal government, waning support from the state, and a current economy that cannot continue at the current rate. These forces, combined with the increasing need for our services, will press us to accelerate our efforts to change the way that we function.

After more than a decade of cuts and reductions, we have enjoyed five years of rebuilding. However, five years of fiscal health is not long enough to address all of the unattended issues and service improvements so necessary for a high functioning County delivery system. We will continue to focus on the importance of a learning organization, realizing that there will be times when we will merely need to "power through" unwelcome challenges.

Winston Churchill said, "Never let a good crisis go to waste." I am afraid that we will all become very familiar with that situation. The County will grow and improve, but to do that effectively and efficiently today and the near future will require stamina, resolve, and innovation from all the County family.

The County of Santa Clara has always provided the services that hold the fabric of our society together. While cities in California primarily exist to protect property, counties exist to protect people and the community in which they live. The approximately 20,000 county employees provide excellent medical services, public health protection, behavioral health care, assurance that food is healthy and available, environmental protection, child and adult protection services, family reunification, assistance to those in need, homelessness prevention and treatment, park services, libraries, emergency response to disasters, protection of minority communities and those under threat, access to a fair criminal justice system, and scores of other services. Many of those services are expected by our residents and taken for granted. However, they require a lot of work from very committed employees. We ask our employees to keep the needs of their clients as their highest priority at work. My job is to assure that the employees have the support and direction that they need to do that.

The policy direction for this large service organization is provided by the Board of Supervisors. The Adopted Budget is the most complete and detailed policy direction from the Board. That's why we take the development and presentation of this Recommended Budget very seriously.

FY 12-13 was the first Budget in years that allowed us to begin to rebuild the organization. At that point, the physical infrastructure was, in most areas, obsolete. We had aging and obsolete information technology systems. Reductions in positions in the face of increased service needs has resulted in the incorrect mix of abilities in many parts of the organization, and a number of ineffective management structures, wrongly sized service teams, and overwhelmed employees. During tough times, we succeeded in our efforts to protect the jobs of employees, using the mechanism of inplacement, but the persistent threat of layoffs had caused a deep sense of fear and mistrust amongst all employees. The organization became siloed and non-resilient.

In FY 12-13, the Recommended Budget was about $4 billion, total. That year, the county had about 15,000 employee positions, new and old. In the decade before that, almost $1.8 billion had been reduced from spending, to keep spending in line with minimal growth in revenues. For FY 17-18, the Budget will measure around $6.5 billion, and we will recommend approximately 20,000 positions. We have allocated over $1 billion in one time funds in the last five years to invest in our infrastructure, fund long term liabilities and implement new technology systems.

The Recommended Budget for FY 17-18 asks the Board to continue to invest in essential programs as in previous years, as well as to appropriate resources needed to close a variety of gaps in service. Many of those gaps are related to meeting urgent needs in the jail, or the chronic needs of maintaining County facilities and organizational infrastructure needed to implement the policy direction of the Board.

This year there is a paradoxical mixed budget message-reassurance with a call to action and a reminder of past challenges. I believe it is important for the County to hear this call and address it in a strategic way. We, as a whole, must have a clear recognition of our strengths, weaknesses, opportunities, and threats in order to move forward productively.

Most significant Strengths:

- committed, caring, and skilled employees who do the best that they can with the tools that they have to care for their clients
- a community that has been supportive of our mission
- policy driven leadership by the Board of Supervisors
- new resources after the dissolution of Redevelopment, the passage of Measures A each in 2012 and 2016, and new efficiencies at VMC, combined with the implementation of the Affordable Care Act (ACA)
- an organization that is large enough to have stability and small enough to be agile

Key Weaknesses:

- residual mistrust, fear, and frustration in the workforce after years of cuts
- increasing needs in the community as the gulf between plenty and poverty has increased
- challenges in adding new initiatives that can integrate with existing services in an appropriate way, rather than simply adding programs which may overlap with current ones
- increasing expenditures that are unavoidable
- inefficient and bureaucratic processes that have created a difficult culture

Selected Opportunities:

- revamp the criminal justice system to minimize incarceration
- become the most efficient, effective, patient-centered health system in the nation
- solve the homelessness crisis
- create a model healthy and dynamic community

- internalize the Center for Leadership and Transformation concepts to create a learning organization that enables the most innovative and effective county government in California

Critical Threats:

Internal to the County

- high cost of jail transformation as a result of litigation
- difficulty responding to the increasingly competitive healthcare market in the region
- challenges providing whole person care because of county silos
- history of invisibility of the County in the community
- resistance to change

External to the County

- attempt to repeal ACA
- attack upon local jurisdictions from the federal government
- attempt by the State to eliminate the Coordinated Care Initiative
- disappearing Road Fund
- economic uncertainty locally and regionally

Critical Issues in FY 17-18

Although the County is well on its way addressing most of the above issues, there are a few related concerns that are time-sensitive problems. Specifically, both federal and state actions have placed the County of Santa Clara in a difficult position. Although this Recommended Budget has been developed with a keen awareness of these issues, it is quite possible that further action by other levels of government may require that we make significant changes to our budget recommendations in June.

Affordable Care Act

For many of our clients, the ACA has been a great benefit. With the expansion of Medi-Cal and subsidized insurance, thousands of residents have been able to obtain preventative and urgent medical care. The health insurance exchange, called Covered California, has also allowed thousands of working individuals to afford health insurance. Because our health system caters to patients who are either insured by government programs or who are underinsured, ACA has increased the County system's workload and reimbursement.

The draconian effort by the Trump administration to repeal ACA is clearly a risk to the health of our patients because many of them will lose insurance. We can also expect a great risk to the financial stability of the County health system because funding will decrease but need will not. Although the recent legislative effort to repeal the ACA was a failure for the Trump administration, there is little doubt that there will be future efforts along the same line, which may succeed in doing grave damage to the program. That would be a disaster. However, even the inept legislative actions and the political rhetoric have, and will continue, to do damage because they discourage qualified individuals from taking full advantage of their benefits. The health of thousands of residents and hundreds of millions of dollars needed to protect their health are potentially at risk as the result of these unwise federal actions.

Administratively, our intent is to continue to offer and provide robust healthcare services. If we lose federal funding, we will have to cut elsewhere in order to subsidize VMC.

"Sanctuary" Jurisdiction Executive Order

On January 25th, President Trump issued an Executive Order targeting so-called "sanctuary" jurisdictions. With this Order, the President is attempting to coerce local jurisdictions to violate the constitutional rights of their residents by threatening to withhold federal funding unless the local jurisdictions implement the federal administration's aggressive immigration enforcement agenda. This approach is akin to extortion and is clearly illegal. The Order usurps Congressional authority over spending and violates core principles of federalism that are at the very heart of our Constitution.

The amount of money at risk is enormous: over $1.7 billion could be at risk. Although attorneys for the federal government are now suggesting that the Executive Order's reach is limited, the language of the Order is sweeping. And because the County uses its General Fund revenues to front nearly all of these costs, getting reimbursed later by the federal government, the risks are immediate and substantial. The Order's threatened reductions in funding to the County would devastate our ability to provide services and severely damage the economy of the region.

The County of Santa Clara and others are in the midst of legal action in order to block the implementation of the Executive Order. On April 25th, Judge Orrick issued a preliminary injunction that will prevent enforcement of the Executive Order. The injunction provides significant immediate relief. However, the underlying litigation will continue and appeals are possible. The ultimate decision about the litigation may not occur for more than a year.

The President may also attempt to issue another Order that will be challenging. If the preliminary injunction is overturned or there are other significant legal developments, I may need to modify the Recommended Budget in order to assure that the Board has a prudently balanced budget.

The President's "Skinny" Budget

In mid-March, the OMB published a very sketchy "Skinny" Budget from the President. It is typical, in an administration transition year, for the President's Budget proposal to be streamlined. However, this year, the 62-page document provides essentially no detail that can be used in order to determine its effect upon local jurisdictions if it were adopted.

Thankfully, the work is so rudimentary and amateurish that it is certain that such a budget will be impossible to get through Congress. However, the one clear focus of the "Skinny" Budget is the President's intent to add $54 billion to the military budget. Such an increase in defense cannot be accomplished without doing very significant damage to the rest of the Budget. Since Social Services and Health are the largest components of federal spending, it is likely that those areas will be targeted unless Congress is willing to eliminate or skeletonize entire discretionary departments.

There is no way to know for sure how the ultimate federal budget will affect the County. However, based upon our expenditures in programs that are funded partially or completely by federal resources and that are likely targets for a Republican Congress, it is not hard to see that about $500 million would end up at risk.

End of In Home Supportive Services Maintenance of Effort (IHSS MOE)

The termination of the IHSS MOE and restoration of the prior IHSS cost sharing ratio is projected to shift over $600 million in IHSS General Fund costs back to counties in FY 17-18. This shift in costs will create significant short and long term fiscal challenges for counties. While the State has signaled an intent to work with counties, the Governor has not released a plan for providing fiscal relief to counties. Short term fiscal relief could entail a one time grant or loan from the General Fund. However, because the end of the IHSS MOE also creates long term fiscal challenges for counties, the Legislature might consider ongoing modifications to counties' share of costs for the IHSS program.

In the County of Santa Clara, the elimination of this program could cost the General Fund over $60 million in FY 17-18 and result in less ideal care for many of our clients. In the Recommended Budget, we have suggested two reserves in order to deal with this uncertainty-one in case of a likely result in which the local cost is reduced but not eliminated, and one to be used in the worst-case scenario.

Road Fund

The County Road Fund has been shrinking yearly for some time. This is because the state gas tax collections have decreased as fuel efficiency has increased. During the FY 17-18 Budget preparation, we initially projected a shortfall of $15.5 million in this fund-which would have required elimination of half of the department in order to balance with reductions alone. Because such an approach is unacceptable, we initially recommended a loan of that amount from the General Fund to the Road Fund.

However, toward the end of March, the Governor and Senator Beall were able to pass a bill that will fix this problem going forward. Therefore, we are not recommending a loan to the Road Fund. Although this is a positive outcome, it is possible that there may be some cash flow problems in the fund as the new tax is implemented and disbursed. Thus, we will be watching the cash flow in the Road Fund, and prepare to utilize a loan in the future if needed.

Measure of Success

The executive team, 150 plus leaders throughout the organization, took a somewhat different approach to the development of the FY 17-18 Recommended Budget when compared to prior years. In order to deal with the above listed strengths, weaknesses, opportunities, and threats while we continued to provide the thousands of ongoing County services, we began the budget process in August and focused upon the development of Measures of Success that will ultimately actually demonstrate how the County is doing.

The annual Budget expresses County priorities by allocating funding on a priority basis. However, with thousands of different services, funded in different ways, from different resources, and represented in different parts of the Budget; it is difficult to tell how successful we have been in actually accomplishing last year's County priorities.

So, this year, we asked the executives to think about their part of the organization from the perspective of their clients and develop measurements that would, over time, give us an idea of how well we were doing from the client perspective. We knew that we could not measure all County services. That would merely create a blur of data. We wanted to develop measures that would provide information to the reader.

Since we know that there is no right way or wrong way to develop these measures, we recognize that the effort is a work in progress. As you read through the Recommended Budget, you will note that success is relatively easy to measure in some parts of the organization and very difficult to define and measure in other parts of the organization. Some client services consist of processes, so process measures are sufficient to measure success (i.e., number of identified property transactions that cause a need for reassessment by the assessor). Other services are complex, and have multiple processes and outcomes that are not necessarily determined by the actions of the County. These services can be difficult to express with some measure of County success (i.e., homelessness).

This year we asked the executives to "give it their best." We knew that the definition of measures of success would be an ongoing effort. The approach we all take to success will change over time, as new measurements become available. In fact, that change over time and reassessment of the definition of success is actually the true benefit of this process. By constantly thinking about what defines success, and how we can measure it, the County will learn more about the needs of our clients and how we can both get a better result and know what it takes to satisfy those needs. Instead of merely following procedure, we will be encouraged to challenge the effectiveness of current organizational thinking. The goal of the effort is not to create a pretty spreadsheet with lots of numbers. The goal is to create an environment in which we all focus our attention upon the needs of the client, and learn how to meet those needs. As with our Center for Leadership and Transformation efforts, the Seven Vision Elements, and the Just Culture effort; our goal is to create and promote a learning organization that is constantly focused upon the mission, but able to persistently deal with new mandates, unexpected change, and changing client needs.

Specific Budget Themes for FY 17-18

In FY 17-18, my recommendations include allocations to support projects started years ago, as well as many new efforts. The recommendations include a renewed effort to protect the County from specific known threats. And, as always, the recommendations flow from the direction of the Board of Supervisors. These are some key focus areas addressed in the Recommended Budget:

- improving our correctional facilities and programs
- providing support for the homeless, and creating affordable housing
- supporting whole person care for our clients most in need
- building back both the human capital and physical aspects of the County's infrastructure
- supporting the internal service departments so that they can deal with the County's ongoing expansion
- ongoing transformation of County processes, culture, and structure to create efficiency and effectiveness (see separate CLT section)
- building in reserves to protect the County from federal and state economic threats

The Correctional System & Facilities

After a number of close looks at the entire criminal justice system in the County of Santa Clara, we have identified various issues that we are systematically addressing. The goal is to provide “state of the art” services to inmates and other clients. The priority is to keep people out of jail, facilitate their re-entry after they are released, and provide appropriate services while they are still incarcerated.

We are in the midst of multiple physical plant projects at both the Main Jail and at the Elmwood Jail. Some of these projects will improve ADA access to the facilities. Some will make the facilities more suicide-proof and safer. Some will rehabilitate sections of the jails that have been damaged. Others will add space for programming and medical care.

In addition, we are in the midst of planning and reviewing a large construction project that will build an entirely new jail tower in the Civic Center location. This tower is intended to replace the current Main Jail South.

Department of Corrections Operations

Many policies and procedures either have been, or are going to be, updated in order to deal more effectively with our inmate population. The changes will be in all aspects of the operations of the jails - custody, health, programming, classification, booking and discharge.

In this budget, you will also see recommendations to add personnel, equipment, and training in order to implement these changing operations effectively and efficiently. Although we continue to have vacancy issues with filling correctional deputy positions, we are also making recommendations that should increase the cohort of employees.

Affordable Housing and Homelessness

With the passage of Measure A 2016, the County became the only organization in the region with sufficient resources to effectively address homelessness and the lack of affordable housing in the county. This Budget recommends the additional allocation of approximately $14 million of general funds to provide expanded services to the homeless, supplementary housing programs and supportive housing service reserves, in addition to the $950 million in affordable housing bonds passed in the fall of 2016.

Employee Service Agency (ESA)

This will be the fourth year in a row that I have recommended the addition of critical staff to the Employee Services Agency. The need is clear.

Over the years during which the total employee count increased significantly, we have not commensurately increased the size of ESA to maintain service levels. Compounded with increasingly complex personnel rules and regulations, and competition in the region for new employees, this lack of growth in such a critical department means that resources are not adequate to address all manner of personnel actions, such as hiring, disciplinary proceedings, job specification updates, and every manner of Human Resources, Labor Relations, and Employee Benefits work. When the workload exceeds the County's capacity to address it, service provision is absorbed throughout the County, and both clients and employees feel the impact. Both employees and their supervisors spend an inordinate amount of time on personnel-related matters, either directly or indirectly.

By adding staff to ESA, the County will be able to better make progress toward our goal of being the employer of choice in the region, a goal shared by everyone in the County.

Technology Projects

The priorities of information technology in the County include a combination of replacing legacy systems, bringing in "cloud," or software as a service platforms, to improve the digital infrastructure, and on upgrading old tools to improve our capacity for learning, analyzing data, and attaining outcomes for our clients that are considered a best practice. Technology is not a luxury, but a necessity, and we have had tremendous success to date with the electronic medical record and its associated data warehouse to improve our ability to care for patients and analyze the highest users of service.

To bring our information technology capacity up to a market level, we have identified well over 150 new projects that must be implemented within the near future. Some of these projects are large, some small. All of them represent additional one-time and ongoing work layered upon the current efforts. As with most new large IT systems, the procurement and implementation of these projects will require extensive coordination, cooperation, planning, and communication amongst multiple departments, consultants and stakeholders. This Budget contains recommendations for one time and ongoing funding for only the highest priority projects. However, modernizing how services are delivered will require a steady flow of new projects in the foreseeable future.

Procurement

For years, the procurement system in the County has been fragmented. Some goods and services are purchased by the Procurement Department, some are purchased by the operating departments without central help, and some are purchased with both the Procurement Department and the operating department working together. We desire to develop a standard across the board for procuring goods and services that both meets the needs of transparency and fairness, as well as one that is manageable and efficient.

During the recession, we did not adequately address the need for resources required to procure complex services and goods such as those related to technology. In FY 16-17, we commissioned an outside firm to assess our procurement system structure, policies, and procedures. As experts in the field, we asked them to make recommendations to implement new processes and procedures, including those governing procurement. The new approach will be a "centrally lead" one, such that the policies and procedures for procurement are standardized and overseen in the County Executive's Office. Operating departments and the Procurement Department will continue to be involved in procurement, however, the coordination of such efforts will be monitored and lead from a central perspective.

Conclusion

As we prepare for FY 17-18, I am quite unsettled. The future is uncertain and risky. This is not because of anything that the County of Santa Clara has done or will do. Rather, the unsettled and erratic new federal administration is the primary source of risk this year. Having an executive team in the White House that is inexperienced, uneducated about policy and operations, making decisions based on ideology and falsehood rather than reality is beyond the pale.

There is no question that the County of Santa Clara is better positioned to deal with these risks than any other county or city in the nation. However, it is also true that we must be ever-vigilant and prepared for the unexpected, as well as for routine threats. The County will vigorously pursue a strategy that both defends our clients from harm, and continues to expand our capacities and capabilities to offer stellar service to the residents of the County of Santa Clara.