SEPARATE DEPARTMENT FEASIBILITY STUDY

B.1 INTRODUCTION

In 2005, the Orange County Grand Jury, in their report entitled "Harbors, Beaches and Parks: Riches to Rags?" found that "Harbors, Beaches, & Parks (HBP)'s status as a division of the Resources & Development Management Department (RDMD) subjects it to an additional layer of bureaucracy and HBP funds are being used to subsidize RDMD overhead." Pursuant to this finding, the Grand Jury recommended that "(a)utonomy for HBP should be explored in light of the needs of the county. . ." The purpose of this evaluation is to provide a summary-level analysis of the organizational and financial impacts associated with HBP becoming a stand-alone department.¹

As will be discussed in detail below, many factors play a role in effectively evaluating the costs and benefits of a stand-alone HBP from the increased visibility and accountability of HBP, to the decreased role of RDMD in managing County resources, to the increased overall cost to the County of creating and maintaining a separate department.

B.2 PROJECT APPROACH AND METHODOLOGY

This study focuses on both the qualitative and quantitative aspects of HBP becoming a stand-alone County department. To that end, the evaluation is designed to answer two key questions:

- □ What are the organizational impacts of a stand-alone department?
- □ What are the financial impacts of a stand-alone department?

To answer these questions, a work plan was developed in coordination with both HBP and RDMD that involved four main tasks:

□ Task 1 – conduct interviews with County, RDMD and HBP staff and stakeholders. The purpose of these interviews was to obtain feedback on the

¹ This study is designed to provide a high level summary of the qualitative and quantitative costs associated with a standalone department. This study is not designed to provide the County with an actual projection of revenues and expenditures associated with a stand-alone department. Instead, this study provides an estimate of the magnitude of the potential financial impacts of HBP moving forward as a stand-alone department. This study relied solely on RDMD and HBP staff to provide for and ensure the accuracy of all financial data used within this study.

organizational issues associated with HBP's status as a Function within RDMD and the potential costs and benefits of becoming an independent department.

- □ Task 2 review HBP financial and budget data as well as RDMD's preliminary analysis of the financial aspect of HBP becoming a separate department. Interviews were conducted with HBP and RDMD/Administration staff to develop a methodology for analyzing the financial impacts associated with HBP becoming a stand-alone department.
- □ Task 3 based on the methodology agreed to in Task 2, interviews were conducted with RDMD and HBP staff to evaluate the following issues associated with an independent department (1) required administrative staffing, (2) the cost of HBP contracting back with RDMD to provide certain Operational and Maintenance tasks should that option be necessary and (3) the direct and indirect costs that would no longer be charged to HBP and the impact on both HBP and RDMD.
- □ Task 4 development of our draft findings. These findings were discussed with representatives from HBP and RDMD prior to the issuance of a final report.

B.3 FINANCIAL ANALYSIS

The financial impact of HBP as a stand-alone department would primarily affect two organizations: HBP and RDMD. The analysis below provides a categorization of the potential costs and savings to HBP and RDMD of a stand-alone department and an estimate of their magnitude.² For purposes of analysis, potential costs have been divided into three categories of expenses:

- Administrative and Overhead Expenses (both direct and indirect) the expenses associated with maintaining an administrative function within HBP, less the expenses associated with retaining the provision of some of those and other management services from RDMD
- □ RDMD Operations and Maintenance Charges the additional overhead costs associated with contracting back with RDMD for operations and maintenance (O&M) and other services
- One-Time Charges the one-time start-up costs associated with hiring the required administrative staff

County of Orange Harbors, Beaches and Parks Draft Strategic Plan – Appendix B

² Given the scope of the engagement, the study of financial impacts is limited to estimating the costs/savings to HBP of becoming a separate department.

As is summarized below, HBP would potentially save approximately \$200,000 annually by becoming a stand-alone department.³ At the same time, RDMD would be responsible for either reducing or reallocating approximately \$3.5 million of indirect costs that are currently allocated to HBP. A considerable portion of these indirect costs would be reduced based on the fact that RDMD will have a significant reduction in staff. However, a portion of those expenses related to overall RDMD management and administrative expenses would not be fully eliminated. As a result, these remaining indirect costs would be passed along to other RDMD Functions.

Administrative Costs

Currently, RDMD provides HBP with most of its internal administrative services. These services are charged to HBP by through direct and indirect charges. These services include: Information and Technology Services, Financial Development Services, Human Resources, Accounting Services (through Auditor-Controller), Special Services and Purchasing. In order to project the potential administrative costs associated with a separate HBP, the current services being provided by RDMD were evaluated, what staffing would be required to perform those services in a new department, and the cost impact of those services.

In terms of new staffing, we estimate that HBP would likely be required to hire 29 new positions to replace the administrative services currently being provided by RDMD staff. Attached as Exhibit B is a summary of these positions by service area, classification and total S&EB cost. The total S&EB costs estimated with these 29 positions is approximately \$2.2 million. When additional office space and office supplies are allocated for these new employees, the total estimated cost of these administrative positions is approximately \$2.6 million. Conversely, RDMD would be able to reduce their administrative staffing since they will no longer be providing those services to HBP. However, because some of the administrative functions being lost involve shared job responsibilities among multiple RDMD Functions, it is not likely that RDMD would be able to reduce its staff in the same amount as would be projected to move to HBP.

Currently, RDMD charges HBP for their current administrative and management services in three different ways:

□ Services budgeted for within HBP's S&EB -- the purchasing function is currently budgeted within HBP's S&EB costs in the approximate amount of \$460,000.

³ Attached as Exhibit A is a spreadsheet summarizing the financial impact to HBP of becoming a stand-alone department. These figures are meant to provide a general magnitude of impact of HBP becoming a separate department. These figures are not meant to represent figure which could be inserted into a potential budget for a stand-alone HBP, as a future more detailed analysis would be required.

- □ Directly Billed Administrative Services these services are billed to HBP for administrative services on an actual basis and account for approximately \$535,000.
- □ Indirect Costs -- a portion of the administrative service costs -- as well as HBP's share of the overall RDMD management costs -- are billed to HBP through an allocation of indirect costs. These indirect costs represent approximately \$3.5 million annually.

Using the foregoing calculations, HBP would avoid approximately \$1.9 million in charges for administrative and management services currently being provided by RDMD. This costs avoidance is largely the effect of no longer being allocated indirect costs by RDMD. Conversely, however, RDMD would incur a significant portion of those indirect costs that are currently being paid for by HBP. While a portion of those indirect costs would be eliminated through staff reductions in RDMD associated with the administrative functions being moved to HBP, a portion of those costs would not be avoided. Specifically, RDMD would still incur virtually all of its indirect costs associated with the overall management of RDMD and a portion of those administrative costs that could not be reduced since the impacted positions perform functions for multiple RDMD Functions, not solely HBP.

Operations and Maintenance Costs

HBP contracts for a large portion of its O&M services from RDMD's Public Works Function. Currently, HBP only pays for the actual S&EB costs associated with those services, without any overhead charges applied.⁴ Were HBP to become a separate department, HBP would be required to pay this additional overhead charge associated with receiving those services or provide for those services internally by hiring their own operations and maintenance staff

In FY05/06, HBP received approximately \$2.6 million in services from RDMD that would likely be contracted for from RDMD if HBP became a separate department.⁵ Based on a projected RDMD overhead rate of 66.51%, HBP would be responsible for an additional \$1.7 million dollars of costs for the same services it currently receives without an overhead rate applied. These additional costs would make RDMD whole for the services that are currently being provided.

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⁴ Board policy dictates that charges for services between departments must approximate the true cost of providing those services. As such, charges for services between departments include both the S&EB costs associated with providing those services, but also the associated overhead costs. This policy, however, does not apply to inter-departmental charges even where those charges are between different revenue funds.

⁵ At least for the first year, HBP would need to procure all maintenance and operations services directly from RDMD. In the future, it may be possible for HBP to provide some or all of those services by contracting with private contractors or developing the ability to provide those services within HBP by acquiring the necessary staff, equipment and facilities.

One-Time Costs

Finally, HBP would incur a series of one-time costs associated with becoming a separate department. These costs include the purchase of IT equipment to maintain, office supplies, and payroll costs that would occur on a one-time only basis. The sum of these costs is estimated to be approximately \$390,000.

Summary of Financial Impacts

HBP could anticipate saving approximately \$200,000 annually by becoming a separate department. This financial savings is calculated by combining (1) costs savings of approximately \$1.9 million associated with providing their own administrative services and avoiding RDMD indirect costs and (2) additional costs of approximately \$1.7 million in additional O&M charges. This potential savings to HBP, however, must also take into account the potential financial impact to RDMD.

B.4 ORGANIZATIONAL IMPACTS

Also central to the analysis of the impact of HBP operating as a separate department is the organizational impact this separation would have on HBP, RDMD and other County departments. This section will highlight the key impacts on multiple agencies with an emphasis on the direct impacts to HBP and RDMD.⁶

Organizational Background

This mission of HBP is to act as "a steward of significant natural and cultural resources, Orange County Parks manages and operates a system of regional parks, beaches, trails and historic sites that are places of recreation and enduring value." Currently, HBP is responsible for the preservation and management of 38,000 acres of parkland and open space and is responsible for providing regional recreational facilities and managing historical and natural resources including the operation of regional parks, wilderness parks, nature preserves, beaches, harbors, recreational trails, native habitat and historical sites. HBP has approximately 250 employees devoted to these tasks. As already mentioned, organizationally, HBP is a Function of RDMD.

RDMD has a similar, but broader mission for the County. The focus of RDMD is "to provide, operate and maintain quality public facilities and regional resources and safeguard the quality of life through stewardship of the environment, application and enforcement of building, water and grading regulations and planning of strategically balanced communities." In that capacity, RDMD is responsible for managing five

⁶ This organizational analysis results from interviews with staff from both within RDMD and HBP, but also to other County representatives and stakeholders. It is important to note that it was not within the scope of this analysis to provide a detailed evaluation of the current working relationship between RDMD and HBP and how that might impact the overall analysis.

different operational Functions: HBP, Watershed and Coastal Resources, Public Works, Agricultural Commissioner and Planning & Development Services. While each of these operational Functions has a unique task, the core reason for combining these divisions into one department was to create a centralized agency to provide a coordinated management of the County's public resources and facilities. At times, these Functions may overlap, benefiting from a coordination of efforts that is facilitated by being under the leadership of one department. That coordinated effort may, at times, involve RDMD having to balance competing interests and make decisions that ultimately result in operational compromises.

Organizational Impact -- HBP

From an organizational perspective, HBP would likely benefit from becoming a separate department. As with any organizational change of this nature, independence provides the leader of an organization greater control over key strategic and operational decisions while at the same time affording more direct access to the elected officials responsible for the oversight of the agency. How great an impact such factors contribute to providing a better quality service to the public if difficult to ascertain and depends greatly upon the degree to which the existing organizational structure impedes the ability of the agency to quickly and effectively manage its operations. Below represent the primary organizational benefits to HBP of becoming a separate department:

- □ HBP would have more direct control over the implementation of its mission and operational goals While HBP and RDMD share many of the same goals and objectives, an independent HBP Department would be able to more effectively focus on its own mission and goals. Both from an operational decision-making perspective and a financial management perspective, HBP would have one less layer of review of its strategic and operational decision-making. Being housed within another department, HBP issues can become compromised in circumstances where other functions have competing interests or goals.
- □ *HBP may experience increased organizational efficiency* Under the current structure, key financial and administrative decisions are both subject to an additional layer of review, but also may be delayed based on the needs of another RDMD division competing for scarce resources. While its difficult to estimate the impact, past examples of organizational challenges have included:
 - Changes in staffing levels must first be approved by RDMD prior to review by CEO budget and the Board resulting in a more prolonged and less predictable hiring process.

- Work requests submitted to shared Operations and Maintenance staff may be delayed pending the completion of non-HBP projects.
- ☐ Greater accountability to CEO and Board The result of becoming an independent department is more direct oversight by the CEO and the Board. Rather than having issues first vetted by RDMD, HBP would report directly to the CEO and the Board resulting in a more direct oversight and understanding of the agency in terms of implementation of Board and CEO directives. Examples may include more comprehensive review of the HBP budget and business plan as well as decisions related to staffing levels, capital projects and large-scale operational decisions.
- □ *HBP may benefit from slightly lower administrative costs* As will be discussed more fully below, over the course of time, HBP may benefit financially from slightly lower overall administrative costs. This benefit would largely derive from no longer paying indirect costs associated with the overall management of RDMD.

Organizational Impact -- RDMD

The potential impact on RDMD of a stand-alone HBP is mixed. On the one hand, RDMD could potentially benefit from a reduced span of control in the management of its existing divisions; on the other hand, the ability to more directly coordinate all public resource and facility decisions becomes less effective. When combined with the potential financial impact associated with a separate HBP, RDMD would likely be negatively affected by the loss of HBP. Below is a summary of key impacts on RDMD:

- □ *RDMD may benefit from a reduce span of control* A potential benefit to RDMD would be reduced number of Functions to manage. This reduction in overall functional responsibilities may allow RDMD to more effectively manage the remaining Functions.
- □ RDMD will lose some ability provide a coordinated approach to resource management, especially as it relates to development projects RDMD was formed to provide coordinated management of countywide resources and facilities. By creating a separate department, RDMD would potentially lose the ability to more effectively plan for public works projects that affect beaches, harbors and parks, especially in the area of Planning Development Services and Watershed. For example, Planning Development Services is responsible for providing one countywide response to development applications and projects. This task often includes balancing multiple County priorities necessarily resulting in compromising some County priorities in favor or other County concerns. Competing issues that are now resolved by RDMD internally may, in some circumstances, be raised to the CEO or Board level to achieve final resolution.

□ *RDMD Functions will incur higher administrative and indirect costs* – As set forth above, the removal of HBP from RDMD would likely result in the remaining RDMD divisions paying for a higher level of overall indirect costs.

Organizational Impact – Countywide

Other County departments would also be impacted by the creation of a new department, in particular County support functions such as CEO HR, CEO budget, CIO, etc. These functions would likely experience some increase in workload since issues previously addressed in a coordinated manner by RDMD would now be addressed individually with HBP. While the benefit of this additional workload is difficult to evaluate, it could result in more effective administrative functions within HBP as more direct attention would be spent on HBP issues.

Similarly, the Board and the CEO would also devote more time on HBP projects. This additional exposure could result in increased accountability and more direct input on HBP projects, but would also require a larger time commitment from the CEO's Office and the Board both in the oversight an additional department, but also the attendant administrative obligations that arise from a separate department. CEO budget, IT, and HR would all experience some increased level of activity with a new department.

Benchmarking

Finally, as part of the overall strategic planning study, we reviewed the financial and organizational structures of eight other counties. It is interesting to note that no consensus exists among the eight counties as to the most effective organizational structure. Among the other counties, three were independent agencies and five were subordinate to a larger department. The counties surveyed included San Diego, Kern, Ventura, Riverside, San Bernardino, Los Angeles, Marin and Sacramento.

B.5 CONCLUSION

The organizational and financial impacts of a separate HBP department are varied and impact different County agencies in unique ways. From an HBP perspective, the benefits of becoming a separate department are clear:

Greater autonomy in planning for and implementing HPB's vision and
mission;
Increased organizational efficiency;
Greater public visibility of HBP issues and projects; and
More effective administration, greater accountability and greater Board input
on HBP programs and projects

With these benefits come with a series of competing impacts including a potential loss in the overall coordination of public resources and facilities by RDMD, a potentially negative financial impact to RDMD and an increased burden on County internal services.

In the end, the issue of whether HBP should become a stand-alone department can best be analyzed by considering the following questions:

- □ Do HBP issues receive sufficient attention from the Board and CEO's Office to ensure that HBP projects (1) are effectively and efficiently managed by HBP staff and (2) are planned for and implement in a manner consistent with the Board's overall vision for the County's harbors, beaches and regional parks?;
- ☐ Would a change in organizational structure lead to more effective overall management of the County's natural and historic resources, including harbors, beaches and regional parks?; and
- □ Do the benefits associated with an independent HBP department articulated above outweigh the potential impacts to RDMD?

The issues surrounding a stand-alone HBP are complex. The ultimate decision should seek to provide an organizational structure will allow HBP, RDMD and the County to most effectively pursue the mission of protecting and promoting natural resources, historic resources and public facilities.

DRAFT

November 2006

HBP Separate Department Analysis Financial Impact

Additional Expenses (Annual)

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S&EB	\$2,190,411
Additional Office Space	\$105,792
Miscellaneous Costs	\$262,623
Total Annual Expenses	\$2,558,826

Additional Cost of Contracted Services with RDMD

Watershed	\$49,914
Road	\$364,133
Flood	\$761,637
RDMD	\$544,970
Total Additional Cost of Contracted Services	\$1,720,653

Total Additional Expenses (Annual) \$4,279,479

Stand Alone Cost Savings

Indirect Costs	\$3,482,772
Direct RDMD Services	\$420,196
Accounting Services	\$116,905

Purchasing \$461,196 (removed from S&EB)

Total Expense Savings \$4,481,069

Estimated Annual Cost Savings to HBP

\$201,590

ONE-TIME COSTS

Office Start Up Costs	\$145,000
IT Start Up Equip	\$226,500
Payroll Start Up	\$17,182

Total One Time Costs \$388,682

HBP Separate Department Analysis Additional HBP Administrative Positions **Annual Financial Impact**

ADMIN MANAGER		All S&EB data obtained from RDMD and assumes mid-range salary
Aministrative Manager II	\$128,141	
Secretary II	\$42,166	
IT		
Info Systems Supervisor	\$104,016	
Senior Systems/Programmer Analyst	\$96,184	
Systems/Programmer Analyst I	\$74,800	
Systems/Programmer Analyst I	\$74,800	
Systems/Programmer Analyst II	\$82,756	
Systems/Programmer Analyst II	\$82,756	
Info Systems Technician	\$95,768	
ACCOUNTING SERVICES		
Administrative Manager I	\$101,794	
Accountant/Auditor II	\$61,044	
Senior Accounting Assistant	\$47,100	
Accounting Technician	\$50,644	
Accounting Specialist	\$44,784	
TIPO		
FDS	2101 =01	
Administrative Manager I	\$101,794	
Administrative Manager I	\$101,794	
HR		
Administrative Manager I	\$101,794	
Administrative Manager I	\$101,794	
Senior Personnel Services Coordinator	\$56,728	
Office Specialist	\$44,784	
CDECIAL CEDVICES		
SPECIAL SERVICES	6101704	
Administrative Manager I	\$101,794	
Office Assistant	\$39,632	
Warehouse Worker	\$39,978	
PURCHASING		
Administrative Manager I	\$101,794	
Procurement Contract Specialist	\$69,156	
Buyer II	\$62,600	
Accounting Asst II	\$42,166	
Accounting Specialist	\$44,784	
Accounting Specialist	\$44,784	
Accounting Office Sup I	\$48,282	
Total S&EB	\$2,190,411	

ANNUAL OFFICE SPACE RENT

Assumes \$2.32/sq. ft. per month multiplied by 200~sq. ft. per manager and 100~sq. ft. per non-manager (Current stds and rates obtained from RDMD Real Estate)

Managers (9)	\$50,112
Staff (20)	\$55,680
Total Office Space Costs	\$105,792

MISCELLANEOUS COSTS

Office Expenses	\$188,223
Software Licenses	\$42,900
Optional Benefit Plan	\$31,500
Total Miscellaneious	\$262,623

TOTAL ANNUAL COSTS \$2,558,826

ONE-TIME COSTS

Total One Time Costs	\$388,682	
Payroll Start Up	\$17,182	
IT Start Up Equip	\$226,500	
Office Start Up Costs	\$145,000	Assumes \$5,000 start up cost per new FTE