

T5b

AGENDA COVER MEMO

To: Board of County Commissioners

Agenda Date: February 26, 2003

Department: County Administration

Presented by: Anette Spickard, Management Analyst 1

Title: IN THE MATTER OF APPROVING A GAIN SHARING PILOT
PROJECT FOR DEPARTMENTS BUDGETED WITHIN THE
DISCRETIONARY GENERAL FUND

I. MOTION

Move approval of Order 03-02-26-__ to establish a gain sharing pilot project for discretionary general fund departments.

II. ISSUE

Shall Lane County establish a gain sharing pilot project in alignment with the adopted Lane County Strategic Plan section A4: *Promote continuous quality improvement?*

III. DISCUSSION

A. Background

As part of the implementation of the Lane County Strategic Plan, the County Administrator convened a committee of county employees and department directors to develop a gain-sharing process in alignment with section A4 of the Plan. The committee members were: Jan Clements (Sheriff), Rick Schulz (Sheriff's office), Doug Harclerod (District Attorney), Jim Gangle (Assessor), Tony Black (Information Services), Dale Wendt (Public Works), Lynne Schroeder (Youth Services), and Anette Spickard (CAO). The charge to the committee was to develop a process that would encourage general fund departments to conserve limited general fund dollars without compromising services to the public. If successful, the department would be eligible to carry forward a portion of the savings into the next fiscal year for one-time projects that would improve service delivery to the public.

The committee held several meetings to come to a consensus on the basic framework and assumptions required for a successful gain sharing process. The committee reviewed the general concepts with the Leadership Team on October 29 and December 3, 2002 to receive additional direction and approval to move

forward with the full proposal and have it reviewed by the Finance and Audit committee on January 28, 2003. The Finance and Audit committee voted 2-0 to recommend the gain sharing pilot project to the full Board for approval, with one revision. The committee requested that the term of the pilot project be for three years.

B. Analysis

The gain sharing pilot project will include departments whose budgets are within the general fund. The pilot project would last three years beginning with fiscal year 2003-04 and ending with fiscal year 2005-06. At the end of the pilot project term, the process will be evaluated for results and renewal.

The process itself would occur as follows. Upon close out of the fiscal year, the actual net general fund use of each department would be compared against the amount approved to spend by the Board of Commissioners. If the amount of actual net general fund use (adjusted for non-discretionary balances) was less than approved, that savings would be split 50/50 between the general fund and the department. The Finance and Audit committee would review the gain share allocations. After F&A review, the gain share allocation would be approved by the full Board through the Supplemental Budget process. At that time, it would be appropriated to the "Reserves for Future Projects" account within the department budget.

Use of the reserve funds for department projects would be subject to the approval of the Board through a Supplemental Budget process or through the annual Budget adoption process. Eligible projects would be: one-time capital purchases; investments in process improvement efforts; or the department could opt to retain the funds in the reserve account over several fiscal years in order to save for an identified large one-time project. Funds could not be used to add personnel or items that would create additional ongoing operational expenses.

The gain-sharing concept has both benefits and concerns that should be considered by the Board of Commissioners prior to approving the gain sharing pilot project.

Benefits:

- Implements section A4a and A4b of the Lane County Strategic Plan. (See attached.)
- Encourages long term planning for service delivery improvements by general fund departments. (process improvements, save over time for large capital investments)
- Empowers managers to be entrepreneurs.
- Creates incentive to meet and exceed Financial Plan target of 2% "lapse".

- Provides flexibility to general fund departments to respond to service delivery needs over time.
- Treats general fund departments in the same manner as departments budgeted within other funds. (Road Fund, Health and Human Services, Regional Information Services)
- Improves budget process by decreasing amount of add packages without funding, and can make progress toward addressing items on unmet needs inventory in the General Fund.

Concerns:

- Savings are a result of happenstance, and not a product of proactive management decisions.

Response: The amount of the net general fund savings will be calculated by County Administration and will be thoroughly reviewed with the department and the Finance and Audit committee. During that review, the department will describe the actions taken during the year to accomplish the savings.

- Departments could deliberately over budget expenses and under budget revenues to artificially create savings.

Response: During the budget preparation process, department budgets are thoroughly reviewed by the Management Analysts in County Administration for reasonableness and adherence to Leadership Team budgeting parameters. In addition, the Budget Committee and the Board review department budgets. During any of these stages, it is expected that any questions regarding a department's budget will be identified and resolved prior to adoption.

- What happens if a department has used more net general fund during a fiscal year than allowed?

Response: The amount of overspending will be identified and presented to the Finance & Audit committee by County Administration as part of the overall report on gain sharing allocations. The amount of overspending will be appropriated as a negative resource carry-forward or a negative in the department's budget. The Finance & Audit committee can work with a department on a plan of corrective action to, in effect, repay the general fund for the over expenditure.

- Reduces amount of discretionary general fund dollars available for appropriation by Commissioners and Budget Committee during annual budget adoption process.

Response: While the funds are appropriated to a department specific reserve fund, the funds are still considered discretionary general fund and fall within the Board's discretion to redirect as they feel is appropriate for the county's best interest. However, department directors feel that with the gain sharing incentive, the 50/50 split with the general fund will create

more “lapse” at the end of the year than the current 2% expectation built into the Financial Plan. These results would provide increased flexibility for the Board and Budget Committee as well as the departments.

C. Alternatives/options

1. Implement the gain sharing pilot project proposal as presented.
2. Request revisions to any portion of the pilot project proposal and have staff return with an amended proposal for further discussion.
3. Choose not to implement the pilot project proposal.

D. Recommendation

The County Administrator recommends implementation of the pilot project.

IV. Implementation/Follow Up

Upon approval by the Board of Commissioners, the County Administrator will send a memo and copy of the gain sharing process and guidelines to the directors of all eligible departments. After the close of the 2003-04 fiscal year, the Budget and Planning staff of County Administration will present the first gain sharing calculation and recommendation to the Finance and Audit committee for review.

V. Attachments

Board Order
Strategic Plan section A4
Gain Sharing pilot project and process flow chart

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER 03-02-26-) **IN THE MATTER OF APPROVING A GAIN**
) **SHARING PILOT PROJECT FOR**
) **DEPARTMENTS BUDGETED WITHIN THE**
) **DISCRETIONARY GENERAL FUND**
)
)

WHEREAS, Lane County desires to provide citizens with efficient and cost effective services; and

WHEREAS, Lane County adopted a Strategic Plan in March 2001 that specifically promotes continuous quality improvement and the implementation of a gain sharing program to recognize process improvement efforts; and

WHEREAS, the Lane County Leadership Team on October 29, 2002 and December 3, 2002 gave direction to County Administration to develop a gain sharing pilot project; and

WHEREAS, the Finance and Audit committee of the Board of Commissioners reviewed the gain sharing pilot project on January 28, 2003 and recommends approval of the pilot project for discretionary general fund departments for the fiscal years 2003-04 through 2005-06; now therefore

IT IS HEREBY ORDERED that the County Administrator implement the attached gain sharing pilot project for discretionary general fund departments. The period of the pilot project will begin with fiscal year 2003-04 and will end with fiscal year 2005-06.

ADOPTED by the Lane County Board of Commissioners this ____ day of February, 2003.

Peter Sorenson
Chair, Board of Commissioners

APPROVED AS TO FORM
Date 2/18/03 for county
[Signature]
OFFICE OF LEGAL COUNSEL

**IN THE MATTER OF APPROVING A GAIN SHARING PILOT PROJECT FOR DEPARTMENTS
BUDGETED WITHIN THE DISCRETIONARY GENERAL FUND**

- The applications support current revenue generating processes and/or the applications has the potential to generate new revenue.
 - There is an established customer base (perhaps professionals) that use personal computers.
 - There are customers who expect to pay for the service (and may experience savings in time and money by using the Internet).
 - There is an existing database to support the application.
 - A framework of countywide user policies and fees are in place.
- d. Applications that appear to meet these criteria include:
- Assessment, taxation
 - Deeds and records
 - District Attorney Case Management System information
 - Law enforcement data for media access
 - Land Management Services (permits, etc.)
 - Engineering plans and specs
 - Highway traffic volume counts
 - Food handler exams

A4: Promote continuous quality improvement

- a. Lane County Government encourages continuous process improvement efforts initiated by work units in County departments.
We will work to establish rewards for successful innovations initiated by both individual employees and teams of employees, and to remove barriers that could inhibit innovation.
"Gain sharing" programs and procedures will be explored to encourage process improvement efforts
- b. Under these programs a meaningful portion of any demonstrable cost savings resulting from work unit process improvement initiatives will be budgeted to support investment in further process improvements and efficiencies or enhancements in the quality of working conditions for the relevant work unit(s) or department(s), or to support overall County allocation priorities.
- c. The purpose of process improvement is not the displacement of employees from their positions. However, when vacancies occur, it is in the best interest of the County and its citizens to review work processes and to determine whether the vacant positions and associated resources can be better utilized.
- d. As part of the County's Succession Plan, we will focus on retaining current employees and ensuring they possess the knowledge, skills and abilities to perform their jobs well. To this end, the County will develop career ladders and work to encourage employees to become prepared for desired promotional opportunities. Additional strategies will be considered to motivate employees to pursue appropriate training, which will increase their chances for success in their work and better qualify them to fill future vacancies.
- e. We will look for ways to build on the research and experience of others (e.g., U of O's "3PM", the Graduate School of Business, other higher education institutions, external consultants, other comparable public agencies, etc.) to assist County departments in conducting process improvement efforts and other efficiency initiatives.

B. Resource Planning and Allocation

Before Lane County can allocate its resources effectively, it must first identify what its key resources are. Chief among the key resources are the employees and volunteers who provide services to Lane County's citizenry. Next are the information and technology resources that the County has or can develop for staff and the public and the lands, facilities and other physical holdings entrusted to the

GAIN SHARING PILOT PROJECT

**Lane County Administration
February 2003**

Purpose:

To implement section A4a and A4b of the Lane County Strategic Plan to reward departments for effective management efforts that result in cost savings and/or revenue increases for the General Fund without compromising service to the public.

Allocation Process:

After the close of each fiscal year, County Administration will apply the gain sharing formula to each eligible department. The results will be reported to the Finance and Audit Committee for review and approval to submit to the Board of Commissioners as a Supplemental Budget request. The Board of Commissioners will have the ultimate authority to approve and appropriate all gain share allocations to eligible department budgets.

Process to use Gain Share allocations:

The gain share allocation will be appropriated to the "Reserves for Future Projects" account within a department's budget. When the department is ready to use the funds for an approved project they will request Board of Commissioner approval to transfer the funds out of reserves and into the department's operating budget. This can be done through board resolution, a supplemental budget, or the annual budget committee process.

Allowable uses of Gain Share allocations:

Gain share allocations are considered one-time resources and shall only be used by departments for one-time projects as approved by the Board of Commissioners. Gain share allocations are considered discretionary General Fund dollars and may be re-appropriated at the discretion of the Board of Commissioners. Allocations shall not be used to increase ongoing operational expenses. A department may retain the allocation in the "Reserve for Future Projects" account for more than one fiscal year to save money for an approved one-time project that will occur at a future date.

Timeframe: FY 2003-04 through FY 2005-06.

Eligible Departments:

Departments who are budgeted within the general fund during the pilot project timeframe. For FY 2003-04, those departments are:

- Sheriff's Office
- District Attorney
- Youth Services
- Assessment and Taxation
- Management Services
- County Counsel
- Information Services
- County Administration
- Commission on Children and Families
- Justice Courts
- Public Works-Land Management Division

Definitions:**Actual Net General Fund Use**

The difference between total actual revenues collected and total actual expenditures incurred in a fiscal year. This is calculated using final audited figures after the fiscal year has been closed out.

Budgeted General Fund Use

The difference between total revenue appropriations and total expenditure appropriations as adopted and amended by the Board of Commissioners by June 30.

Non-Discretionary resources

Resources that are restricted and/or dedicated for a specific purpose and cannot revert to the General Fund reserve account at the end of the fiscal year. At the close of the fiscal year, any remaining non-discretionary resource and the associated expense are carried forward into the next fiscal year and are excluded from gain sharing.

Formula:

1. Actual Net General Fund Use less Budgeted General Fund Use = Total Savings (or Total Deficit if negative)
2. Total Savings (Total Deficit) less Non Discretionary resources = Net Savings (Net Deficit)
3. Net Savings x 50% = Department allocation to "Reserves for Future Projects."
4. Net Savings x 50% = Amount retained in General Fund reserves.
5. Net Deficit x 100% = Amount of reduction to department resources available for use in ensuing fiscal year.

