# A SILVER LINING
# ORANGE COUNTY TODAY

## SUMMARY

Dark clouds hovered over Orange County in late 1994 before and after bankruptcy was declared – the future of the County was in serious doubt. There were many questions. How could the County repair the system that must deliver needed services, stabilize financial responsibilities and restore confidence in County government? The repair process began when investment expert William Popejoy volunteered to become the CEO (Chief Executive Officer, now County Executive Officer) for one dollar per year. Additional executives from the Orange County business community also volunteered their time and expertise to negotiate with the financial markets to stabilize finances and debt obligations. Residents of the County should extend their respect and gratitude to these selfless, responsible volunteers, for the task was formidable. Although there is still a debt of nearly $1 billion, the County is able to operate and provide essential services to the community.

The implementation of sound fiscal business practices, the change from County Administrative Officer to County Executive Officer, and the Five-Year Strategic Financial Plan with annual Business Plans from each department of the County provided the necessary atmosphere for recovery. “Business as usual” became a thing of the past. Department processes have been streamlined. The CEO has the ability to review and prioritize department proposals for the Board’s consideration by providing a complete picture of the County and its stated goals. Wall Street and other investors were impressed and the County is moving steadily toward a full recovery while maintaining a commendable level of service to the residents of the County.

## PURPOSE / INTRODUCTION

The retirement of County Executive Officer, Jan Mittermeier, in 2000 presented an opportunity for the 2000-01 Orange County Grand Jury to examine the history of the CEO position and its relative merits. This report will review the condition of the County today, centering on the question of what form of County administration is best suited for continuing recovery.

## HISTORY / BACKGROUND

Prior to the bankruptcy, the administration of the County was under the direction of a County Administrative Officer (CAO). Because of limits on the authority of the CAO, the Board of Supervisors was involved in many of the daily business management decisions. Those responsible for the various departments went directly to the individual supervisors with requests for resource allocation. Department heads were essentially lobbyists who competed with each other for favor with the individual Board members.

The Board of Supervisors, faced with the problems of bankruptcy and encouraged by Mr. Popejoy, created the position of CEO to replace the CAO. With the exception of three departments, all appointed (non-elected) department heads are accountable to the CEO. All elected officials work through the CEO. The new duties of the CEO form of administration were begun by William Popejoy and then carried on and fine-tuned by Jan Mittermeier after her selection as CEO. This brought about the introduction of the following ideas and procedures to County government that have proven to be useful in the world of business:

- <u>Annual Business Plans</u>

  Most current managers believe in the effectiveness of the preparation of Business Plans. When asked if the Business Plans helped them, the following paraphrased responses were expressed:

  - My department views the Business Plan as a living document
  - It is beneficial – makes you think about the direction and goals of your department
  - Absolutely! Helps me chart the coming year. We go off-site to review the progress. I had never before done one in public service
  - The Business Plan was a marketing tool directed toward the public to restore their confidence in the County, showing residents that the County was willing and able to change
  - Yes. The Business Plan has helped staff define goals more clearly
  - I think it has helped us all to stay focused

  Many stated that they include their employees in the preparation of the Plan, giving the employees a better understanding of the department's goals, fiscal limitations, and a connection to the planning process.

  The Five-Year Strategic Financial Plan and the Business Plans have been well received by Wall Street. The County's bond rating was improved and the County was able to obtain more favorable loan rates which helps the County both now and in the future. Other California counties have expressed interest in the business tools being used by Orange County government.

- <u>Decentralization of Human Resources Division</u>
  The decentralization of Human Resources has created some problems for the smaller departments of the County. In these departments, an employee with additional human resources responsibilities may not be a specialist in this important function. This could leave the County vulnerable to labor-related lawsuits. On the positive side, some departments have been able to streamline the

hiring process. They know more directly what their needs are and can recruit specifically to fill those positions in a more timely fashion.

- Decentralization of Purchasing

  This change seems to be working well and is appreciated by all departments. Significant savings have been gained by enabling departments to select more appropriate items and needed quantities. There is more coordinated, on-going training occurring for this process.

- Off-site Meetings of Department Heads

  Management is quite pleased with the results of these meetings. It is an opportunity to meet other department managers in an informal setting. Some say the current cooperation among departments is a direct result of these meetings. Many agree that this cooperation is somewhat unique in large county government.

- Chief Financial Officer (CFO)

  The establishment of this position within the County Executive Office, responsible for the financial matters of the County, was essential. It has been said that if this position existed prior to the bankruptcy, the bankruptcy would not have occurred.

- Departments Reporting to the Board of Supervisors

  There are three departments directly reporting to the Board: County Counsel, Internal Auditor and El Toro Reuse. The Board decided that these three departments needed to remain under its direct control.

Questions were developed for this review, and members of the Grand Jury used them during interviews with the members of upper level County management who are required to create an annual business plan. The questions used were:

1. If you needed to have a proposal approved by the Board of Supervisors, would you prefer to go directly to them or have a CEO or a CAO handle it for you and why?
2. We have had the opportunity to review some of the Business Plans submitted. Do you feel that the preparation and submitting of a Business Plan has helped you in projecting your programs and activities for the coming year?
3. We understand that the program of annual Business Plans began with the change to CEO. With this change, were there any other ideas or procedures that you found to be helpful? Or found to be a pain?
4. Since you are responsible for the employees in your department, do you have the authority to do the hiring, firing, promoting, demoting, etc.? If the answer is yes, where have you found or would expect to find the most support, with a CEO or a CAO, and for what reasons?
5. In the event you would desire to propose or develop a new idea for your department and needed someone to critique it for you, would you prefer a CEO or CAO?

6. Do you feel that the job classification for the current CEO (forgetting the airport) is satisfactory, or should there be some changes and what would you suggest?
7. Would the abilities and personal qualities of a CEO or CAO be more important than what form of administration is in place?
8. We have been told that Orange County is unique since there is such cooperation and good feelings between department heads. Further, they have said that this did not exist when there was a CAO. Have you found this to be true and is it because of the CEO?
9. Do you feel that the change from CAO to CEO led to the rapid recovery from bankruptcy?
10. Since we are new to the Grand Jury and the workings of the county, please give us any ideas or remarks that you feel should be included in this survey. It is our desire to produce as credible a survey as possible and thank you for your help.
11. As you look into what the future might hold for you and Orange County, would you be more comfortable with a CEO or CAO?

Many of the current managers have been employed with the County since before the bankruptcy, but not necessarily in their current position nor in the same department. The principle question "which form of administration is best for Orange County, CAO or CEO", was answered with "CEO" in almost all cases. The authority of the CEO establishes the stability of the everyday business of the County and is attractive to those who look for timely answers to requests. The CEO has an overall view of the business of the County and that results in a more organized decision-making process. The success of the CEO, by William Popejoy, Jan Mittermeier, and now Michael Schumacher, is a testament to the merit of the office.

This group of leaders, our County managers, supported with the tools of the business world, has shown great improvement in carrying out the responsibilities of their departments when compared to the time prior to the bankruptcy. The residents of Orange County should know that the perils of the past are gone, proving that "in every dark cloud, one can find a silver lining".

## METHOD OF STUDY

Members of the Grand Jury conducted interviews with current and former upper level management of Orange County. A questionnaire was developed and the same questions were asked during each interview.

## FINDINGS

Under California Penal Code Sections 933 and 933.05, responses are required to all findings. The 2000-01 Orange County Grand Jury has arrived at three findings:

1. The CEO has the authority to run the County and its departments with most appointed department heads reporting directly to the CEO. Elected department heads work in concert with the CEO to evaluate their proposals. The CAO was an administrator with limited executive authority.

2. The County Executive Office promotes the use of business methods from the private sector in delivering services to Orange County residents.
3. The existing Five-Year Strategic Financial Plan, the change from CAO to CEO and the innovative business changes have been rewarded by favor on Wall Street, which took notice of the changes and gave the County a more favorable bond rating and loan opportunities.

The Board of Supervisors is required to respond to Findings 1, 2 and 3.

## RECOMMENDATIONS

In accordance with California Penal Code Sections 933 and 933.05, each recommendation must be responded to by the government entity to which it is addressed. These responses are submitted to the Presiding Judge of the Superior Court. Based upon the findings, the 2000-01 Orange County Grand Jury recommends that:

1. Orange County government continues with the current County Executive Office configuration, including the position of CEO.

2. Orange County continues using sound business methods, such as a strategic financial plan, annual business plans and off-site countywide management meetings, to plan a practical and fiscally sound future for the County.

The Board of Supervisors is required to respond to Recommendations 1 and 2.