San Mateo County
Board of Supervisors
Finance and Operations Committee

Mark Church, Chair
Rich Gordon, Vice-Chair

Reyna Farrales, Deputy County Manager
John Beiers, Chief Deputy County Counsel
400 County Center, Redwood City
650-363-4123

TO: Finance and Operations Committee

FROM: Reyna Farrales, Deputy County Manager

SUBJECT: Finance and Operations Committee Meeting—Agenda for July 15, 2009

TODAY'S DATE: July 9, 2009

Meeting Date: Wednesday, July 15, 2009
Time: 11:00 a.m. – 12:00 p.m.
Place: Board of Supervisors Conference Room, First Floor
Hall of Justice, 400 County Center, Redwood City

1. Call to Order

2. Oral Communications and Public Comment

3. Accept Preliminary Report from June Budget Hearings – Tax Measures (attachment)

4. Discussion on Investment Analysis and Review of Investment Function from Alan Biller and Associates - Accept Report and Refer to County Treasurer for response (Continued from the meeting of June 17, 2009) (attachment)

5. Discussion of Management Review Recommendations from Mejorando Group – Assessor-County Clerk-Recorder-Elections Department – Accept Report and Refer to Assessor for response (Continued from the meeting of June 17, 2009) (attachment)

6. County Budget Update

7. Other Business

8. Adjourn

A COPY OF THE SAN MATEO FINANCE AND OPERATIONS COMMITTEE AGENDA PACKET IS AVAILABLE FOR REVIEW AT THE CLERK OF THE BOARD'S OFFICE, HALL OF JUSTICE, 400 COUNTY CENTER, FIRST FLOOR. THE CLERK OF THE BOARD'S OFFICE IS OPEN MONDAY THRU FRIDAY 8 A.M. - 5 P.M, SATURDAY AND SUNDAY – CLOSED.

MEETINGS ARE ACCESSIBLE TO PEOPLE WITH DISABILITIES. INDIVIDUALS WHO NEED SPECIAL ASSISTANCE OR A DISABILITY-RELATED MODIFICATION OR ACCOMMODATION (INCLUDING AUXILIARY AIDS OR SERVICES) TO PARTICIPATE IN THIS MEETING, OR WHO HAVE A DISABILITY AND WISH TO REQUEST AN ALTERNATIVE FORMAT FOR THE AGENDA, MEETING NOTICE, AGENDA PACKET OR OTHER WRITINGS THAT MAY BE DISTRIBUTED AT THE MEETING, SHOULD CONTACT MARIE PETERSON, FINANCE AND OPERATIONS COMMITTEE CLERK, AT LEAST 72 HOURS BEFORE THE MEETING AT (650) 363-4634 AND/OR mpeterson@co.sanmateo.ca.us. NOTIFICATION IN ADVANCE OF THE MEETING WILL ENABLE THE COUNTY TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING AND THE MATERIALS RELATED TO IT. ATTENDEES TO THIS MEETING ARE REMINDED THAT OTHER ATTENDEES MAY BE SENSITIVE TO VARIOUS CHEMICAL BASED PRODUCTS.

If you wish to speak to the Committee, please fill out a speaker's slip. If you have anything that you wish distributed to the Committee and included in the official record, please hand it to the Deputy County Manager who will distribute the information to the Supervisors and staff.

San Mateo County
Board of Supervisors
Finance and Operations Committee

Mark Church, Chair
Rich Gordon, Vice-Chair

Reyna Farrales, Deputy County Manager
John Beiers, Chief Deputy County Counsel
400 County Center, Redwood City
650-363-4123

MEETING DATE: July 15, 2009

TO: Finance and Operations Committee

FROM: Reyna Farrales, Deputy County Manager

SUBJECT: **Preliminary Report from June Budget Hearings – Tax Measures**

At the June budget hearings, President Church requested that an item on revenue measures such as the parking tax and vehicle rental tax (Measures Q and R on the November 2008 ballot) be agendized for the next Finance and Operations Committee meeting.

County Counsel has prepared the attached memorandum regarding rules governing the placement of revenue raising matters on the ballot.

Also, as part of the County's multi-year budget balancing plan to eliminate a projected $100 million structural deficit by Fiscal Year 2012-13, our office is working with the Revenue Enhancement Workgroup, one of the employee budget workgroups that are co-led by County staff and labor representatives, on suggestions regarding new revenue sources. The workgroup has done some research already and will be prepared to present a report to the Finance and Operations Committee at a future meeting.

Attachment

COUNTY OF SAN MATEO
INTERDEPARTMENTAL CORRESPONDENCE

To: Supervisor Mark Church and Supervisor Rich Gordon
Finance and Operations Committee of the Board of Supervisors

From: County Counsel

Subject: Rules Governing the Placement of Revenue Raising Matters on the Ballot

Date: July 8, 2009

State law provides that a business license tax may be enacted as either a general tax, requiring a majority vote of the electorate, or a special tax, requiring a two-thirds vote of the electorate. The proceeds of a general tax may be expended for any public purpose, while a special tax may be expended only for the purposes designated in the ballot measure.

A special tax may be placed on the ballot at any scheduled election, or a special election may be called for consideration of the special tax. On the other hand, under the provisions of Article XIIIC, section 2 of the California Constitution and Government Code section 53724, a general tax must first be approved by a two-thirds vote of the Board of Supervisors, and then may only be considered at a "regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by unanimous vote of the governing body."

The next general election for members of the Board is June 8, 2010, at which time an election will be held to fill the seats for Districts 2 and 3. In order to be placed on the June 2010 ballot, any tax measure would have to be fully and finally approved by the Board by March 12, 2010. Additionally, a general tax measure could go on the ballot at the November 2, 2010 election, although it would be prudent to consider the November date only in the event that there is a runoff election for one or both of the open Board seats. If a general tax is not placed on the ballot in 2010, the next opportunity for a general tax election would be June 2012, absent the declaring of an emergency by the Board. We have attached a calendar showing scheduled elections for 2010, 2011 and 2012.

Please feel free to give me a call if you would like to discuss this matter in more detail.

MICHAEL P. MURPHY, COUNTY COUNSEL

Attachment

Cc: David Boesch, County Manager

L:\CLIENT\BOARDSUP\2009\Memo F&O Comm re Revenue Raising Ballot Measures.doc

SMC Scheduled Elections - 2010, 2011, 2012

2010 Regularly Scheduled Elections	**Last Day to Place Measure**
June 8 - Gubernatorial Primary	March 12, 2010
November 2 - Gubernatorial General	August 6, 2010

2010 Special Elections	*Last Day to Place Measure*
April 6	*January 8, 2010*

2011	**Last Day to Place Measure**
November 8 - UDEL	August 12, 2011

2011 Special Elections	*Last Day to Place Measure*
March 8	*December 10, 2010*
June 7	*March 11, 2011*

2012	**Last Day to Place Measure**
February 7 - Presidential Primary	November 11, 2011
June 5 - State Primary	March 9, 2012
November 6 - Presidential General	August 10, 2012

2012 Special Elections	*Last Day to Place Measure*
April 3	*January 6, 2012*
June 5	*March 9, 2012*

San Mateo County
Board of Supervisors
Finance and Operations Committee

Mark Church, Chair
Rich Gordon, Vice-Chair

Reyna Farrales, Deputy County Manager
John Beiers, Chief Deputy County Counsel
400 County Center, Redwood City
650-363-4123

MEETING DATE: June 17, 2009

TO: Finance and Operations Committee

FROM: Reyna Farrales, Deputy County Manager

SUBJECT: **Alan Biller Report – Lehman Analysis and Investment Function Review**

RECOMMENDATION

Accept Report from Alan Biller and Associates on Analysis of Lehman Investment Decisions and Review of Treasurer's Investment Function, and Refer to County Treasurer for Response.

BACKGROUND

In response to the Lehman bankruptcy, the Committee initiated a comprehensive process of reviewing and revising the County's Investment Policy in order to minimize risks, create greater diversification and improve the safety and stability of pooled funds The firm of Alan Biller and Associates was selected through a Request for Proposals process to perform the following work:

(1) Review the events and analyses that led to the decisions to invest in and hold Lehman securities in the County Investment Pool, and determine whether investments were at all times in conformance with the Investment Policy;

(2) Recommend improvements to the current Investment Policy, incorporating best practices as well as input from Investment Pool participants, County Investment Policy Workgroup and County Treasurer; and

(3) Recommend improvements to the existing organization structure, oversight practices, fees and resources applied to the management of similar sized portfolios relative to industry best practices;

DISCUSSION

Mr. Biller and his associates presented their recommendations regarding improvements to the County Investment Policy (Item 2 above) at the Committee's May 19 meeting. The recommendations were forwarded to the County Treasurer for the next revision of the County Investment Policy.

Mr. Biller has completed the remaining work for Items 1 and 3 above. The report is attached and a presentation of findings and recommendations will be made at the June 17 Committee meeting. In summary, major findings and recommendations include the following:

- The County Investment Pool was in compliance with CA Government Code and the Investment Policy from June 2007 to August 2008.
- Rationale to invest in Lehman securities was sound. Lehman had been a staple in the Pool for many years and was an issuer with whom the Treasurer's Office was familiar.
- Aggregate issuer exposure of 10% or greater (for Lehman and other issuers) was inconsistent with industry best practices and arguable in conflict with the Prudent Investor Rule
- The level of staffing is similar to what was found in comparable California counties and similarly sized external institutional money managers
- The Assistant Treasurer should have back-up for value-added portfolio management
- The County has adequate systems and software to manage the Pool effectively
- Persons performing compliance reporting should report to someone other than the Assistant Treasurer
- Existing oversight structures do not ensure adequate oversight; the addition of an independent advisory firm is recommended
- Supplemental information should be provided as part of comprehensive reporting to the Board, oversight committee and Pool participants
- Fee information from other jurisdictions was limited so in-depth analysis wasn't feasible
- The County should explore the feasibility of hiring an independent money manager to actually manage the Pool
- The County should explore the feasibility of creating multiple investment pools

I'd like to thank Lee Buffington, Charles Tovstein and their staff for all their contributions toward this analysis and identification of areas for improvement.

It is recommended that the Committee accept the report with comments, and refer to the County Treasurer for response.

cc: David Boesch, County Manager
Lee Buffington, Treasurer-Tax Collector
Charles Tovstein, Assistant Treasurer
Michael Murphy, County Counsel
John Beiers, Chief Deputy County Counsel
Members, Investment Advisory Committee
Members, County Investment Policy Workgroup

Alan Biller and Associates
INVESTMENT CONSULTANTS

County of San Mateo Investment Pool

Investment Consultant's Report

June 17, 2009

535 Middlefield Rd, Suite 230
Menlo Park, CA 94025
650.328.7283

Alan Biller
Sam Ginsburg
Raj Sinkar

TABLE OF CONTENTS

SECTION 1
INTRODUCTION

SECTION 2
TASK 1: REVIEW OF DECISION TO INVEST IN LEHMAN SECURITIES

SECTION 3
TASK 2: RECOMMENDATIONS FOR INVESTMENT POLICY

SECTION 4
TASK 3: RECOMMENDATIONS TO IMPROVE EXISTING ORGANIZATIONAL STRUCTURE AND OVERSIGHT PRACTICES

SECTION 1

INTRODUCTION

ALAN BILLER AND ASSOCIATES
INVESTMENT CONSULTANTS

June 17, 2009

Board Finance & Operations Committee, County of San Mateo
400 County Center
Redwood City, CA 94063

Board Finance & Operations Committee,

This document is our final report on the special project to address several issues raised by the County Investment Pool's losses on certain Lehman securities. Specifically, we report here the findings and recommendations we have developed in the course of completing the following three tasks:

1. Review the events and analyses that led to the decisions to invest in and hold Lehman securities in the County Investment Pool, and determine whether investments were at all times in conformance with the Investment Policy.

2. Recommend improvements to the current Investment Policy, incorporating best practices as well as input from Investment Pool participants, County Investment Policy Workgroup and County Treasurer, with particular attention to the risk management process and guidelines with regard to individual security, sector and portfolio diversification, escalation procedures (when out of Investment Policy guidelines or compliance) consistent with an investment pool where stability of capital is most important.

3. Recommend improvements to the existing organizational structure, oversight practices, fees and resources applied to the management of similar sized portfolios relative to industry best practices.

Section 2 addresses Task 1, Section 3, Task 2 and Section 4, Task 3.

We would like at this point to thank everyone – especially Reyna Farrales, Charles Tovstein, and Lee Buffington – for their invaluable assistance, without which the project would have been completely infeasible. This is not to say that any of those who helped us agree with our findings or recommendations. For those we alone are responsible.

Thank you for the opportunity to be of service to the Board and the County.

Cordially,

Alan D. Biller

Alan Biller

SECTION 2

REVIEW OF DECISION TO INVEST IN LEHMAN SECURITIES

Task 1 was to review the events and analyses leading to the decisions to invest in and hold Lehman securities in the County Investment Pool ("Pool"). In addition, we were charged with determining whether investments were at all times in conformance with the Investment Policy ("Policy").

In reviewing decisions to invest in Lehman securities, we focused our analysis on 2008, the year in which market concerns about Lehman's viability first surfaced and when it actually collapsed. To determine whether the investments were at all times in conformance with the Policy, we checked month-end holdings from June 2007 to August 2008 against the investment guidelines outlined in the Policy.

Summary Findings

- The Pool was in compliance with California Government Code and the Policy from June 2007 through August 2008.

- Rationale to invest in Lehman securities was sound. Lehman had been a staple in the Pool for many years and was an issuer with whom the Treasurer's office was familiar.

- However, aggregate issuer exposure of 10% or greater (for Lehman and other issuers) was inconsistent with industry best practices and arguably in conflict with the Prudent Investor Rule.

Discussion

Investment Rationale

The rationale for continuing to invest in and hold Lehman securities was quite simple: the Government was not going to let Lehman fail. After all, in March 2008 it had orchestrated a shotgun takeover of Bear Stearns, and in the summer saved Fannie Mae and Freddie Mac by placing them into conservatorship. When it was taken over by JP Morgan, Bear Stearns was the fifth largest investment bank. The Fed maintained that Bear was too big to fail and that the repercussions of its collapse would have been catastrophic. As the fourth largest investment bank, Lehman was larger than Bear Stearns, a bigger participant in the mortgage-backed securities market and even more intertwined with the global economy. Based on this, it was quite logical to conclude that the government would not allow Lehman to fail because its failure could be more catastrophic than the Bear Stearns failure.

In addition, following Bear Stearns, the Fed took the (then radical) step of opening the discount window, previously open only to commercial banks, to investment banks in order to allow firms like Lehman to be assured of short-term financing. The message was clear: the Government would do whatever it could to avoid a financial meltdown. For its part, to protect itself and to signal that it was viable, Lehman issued large amounts of long-term debt and also raised additional equity.

Finally, even as concerns about Lehman's viability spread, many investors were reassured by the fact that several strong firms appeared to be seriously interested in taking it over. Heading into the September 13, 2008 weekend, the frontrunners were Bank of America and Barclays, two of the largest (and then considered to be among the strongest) banks in the world. Thus, along with many well respected fixed income managers, the Assistant Treasurer reasonably assumed that on the following Monday one of these banks would be the new owner. He and many others were wrong. What set the Pool apart was not that it was wrong, but that its mistake was so costly.

An argument can definitely be made that during the summer as Lehman's problems were being publicized the conservative approach would have been to cease purchasing of its securities and selling what was owned. In hindsight we know that this would certainly have been the better course.

In fairness, it should be noted that the Pool's exposure to Lehman in September was lower than it had been in August. Indeed, of the 9 Lehman securities that were responsible for the Pool's loss, only 2 were purchased in 2008 (accounting for 16% of the total dollar loss). All of the others purchased in 2008 were either overnight or had very short maturities and were paid as scheduled.

The Assistant Treasurer has advanced three reasons for continuing to purchase these securities: 1) they were short-term; 2) at the time, he thought Lehman was a stable credit, and 3) they were within guidelines. As for the Lehman securities already in the Pool, it did not appear sensible to sell at a potential loss given the widely held, rational view that Lehman would not be allowed to fail and that debt holders would be made whole in any bailout or takeover.

Credit Analysis

A natural question is whether the Treasurer's office performed proper credit analysis (i.e. reviewing Lehman's financial stability and ability to make good on its debt) before and after purchasing the Lehman securities. The Assistant Treasurer utilizes multiple sources of market and company specific data, e.g., the Bloomberg system and periodicals like the Wall Street Journal. However, while the Assistant Treasurer has access to the tools and data required for credit analysis, lack of documentation prevents us from opining whether or to what extent it was (and is) actually performed on any individual security.

In any event, the issue of the quality of the Assistant Treasurer's credit analysis was moot by the summer of 2008 because it was then common knowledge that Lehman was in bad shape. At that point the decision to purchase and hold Lehman securities was less a function of its fundamentals than of a belief that it would be rescued.

Compliance with CA Government Code and Investment Policy Statement

We find that the County's Policy in 2007 and 2008 complied with California Government Code. With respect to compliance with Policy, we examined the month-end holdings for the specified period for any guideline violations (not just pertaining to Lehman). Only two exceptions were found: 1) 10.09% exposure to Deutsche Bank CDs in September 2007 (single CD issuer limit was 10%) and 2) 40.44% aggregate exposure in Commercial Paper and Floating Rate Notes in July 2007(Commercial Paper and Floating Rate Notes were limited to 40% in aggregate). We deem these breaches of the Policy limits to be immaterial. Thus we find that, except for these two insignificant items, the Pool was in compliance with the Policy from June 2007 – August 2008. There were no guideline violations involving Lehman securities during this period.

Prudent Investor Rule

Under California Government Code Section 27000.3, the County Treasurer is subject to the Prudent Investor standard and as such:

> "shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors that a *prudent person acting in a like capacity would use to safeguard the principal and maintain the liquidity needs* of the County and the other depositors." [emphasis added]

From May 2008 through August 2008, aggregate exposure to Lehman was over 10%. (Note that there were other exposures equal to or greater than 10%. The most extreme was a 21.5% exposure to Wells Fargo in August 2007. See the Appendix for a list.)

While this was within the limits set by the California Government Code and the County Policy, we believe this high exposure was in conflict with the Prudent Investor Standard. In our experience, institutional fixed income manager account guidelines typically limit single corporate issuer exposure to 5%. In practice (and especially after the WorldCom debacle) many limit actual positions to 1 - 2%.

When we asked the Assistant Treasurer why he took the Lehman exposure as high as he did, especially given the news surrounding Lehman, he repeated the same reasons he gave for continuing to invest in short-term Lehman securities during the summer of 2008: 1) the securities were short-term, 2) Lehman was a stable credit at the time and 3) the securities were within guidelines.

This explanation appears to confuse the issues of where to invest and how much to invest. While it may justify the decision to continue investing and holding short-term Lehman securities, in our opinion it does not justify the exposure level.

The heart of the Prudent Investor Rule is the directive to act in the same manner as would a prudent person in a like capacity, similarly situated. While standards of prudence evolve, a reasonable standard is set by the practice of respected institutional money managers. And as noted above, they tend to limit individual issuer credit exposure to 1 - 2%.

Since in the respect of their objectives (preservation of capital and liquidity over yield/return) money market funds and the Pool are similar, the rules governing money market fund investments are another appropriate guide to prudent practice. (That the Pool can hold longer maturity securities than money market funds does not alter the basic similarity of their objectives.) Money market funds are governed by SEC Rule 2(a)7, which among other things limits (with only one narrow exception) total investment in the securities of any non-US Government/Agency issuer to 5%. If industry practice is to limit issuer exposure below 5% and money market funds are prohibited from exceeding this percentage, in our opinion it was not prudent for the Pool to exceed it. We note that the Treasurer's office now limits aggregate non-US Government/Agency issuer exposure to 5%.

TASK 1
APPENDIX: Exposures > 10%

Issuer	Exposure (%)	Date
Deutsche Bank	10.09	09/30/07
	11.83	11/30/07
	10.78	12/31/07
	17.59	01/31/08
	13.38	02/29/08
	10.06	04/30/08
General Electric	11.06	10/31/07
	10.83	12/31/08
Lehman Brothers	11.42	05/31/08
	11.40	06/30/08
	11.57	07/31/08
	10.05	08/31/08
Morgan Stanley	10.18	03/31/08
	10.73	05/31/08
Union Bank of California	10.42	05/31/08
Wells Fargo	21.50	08/31/07
	18.87	11/30/07
	15.22	12/31/07
	16.46	01/31/08
	10.78	06/30/08

SECTION 3

RECOMMENDATIONS FOR INVESTMENT POLICY

Task 2 is to outline our recommendations regarding possible improvements to the current investment policy ("Policy"), i.e., the draft policy presented by the County Treasurer to the Investment Advisory Committee ("Committee") on April 20, 2009. Although we have discussed most of these ideas with the Treasurer, one should not infer that he agrees with all of them.

Roles of Investment Policy

Among other things, an Investment Policy should balance among several often competing objectives and desires:

- Money managers prefer to be as unfettered as possible,

- Investors want to impose limits on the manager's range of action, and also have a clear statement and understanding of how the manager actually invests.

In addition, the Policy can serve as:

- A communication vehicle to the many stakeholders who do not participate in the County Investment Advisory Committee meetings, and

- A basis for structuring reports that clearly reveal the important quantitative aspects of the way in which the portfolio is being managed.

Summary of Policy Recommendations

Note that our draft Policy (attached) omits a few recommendations (denoted by **) which have been left to the Treasurer to add as appropriate. The draft includes numerous specific recommendations and editing changes not listed here. We have moved many items from their present locations to ones considered more appropriate and have removed text which appeared repetitious as well as some explanatory material which more properly belongs in footnotes or in a glossary.

1. *Improve information flow to the Investment Committee*
   - The Policy should reflect likely actual practice rather than just the limits contained in the California Government Code ("Code").

   - **Consider adding a table comparing Policy and Code limits to highlight where the Policy is more conservative.

   - Include limits on or targets for the Pool's *effective duration* so that stakeholders can understand the planned range limits of its interest-rate sensitivity.

   - Clarify that there is only one Pool and that three separate "pools" are defined only for the purpose of allocating fees.

   - State that the Treasurer will report to the Committee a plan of action if a security is downgraded, rather than reporting only the fact of a downgrade. (This occurs in practice, but is not required by the Policy.)

   - Identify performance benchmarks, e.g. 3 month Treasuries, and relevant peer universes, e.g., Local Agency Investment Fund (LAIF) and other CA county pools.

2. *Reinforce the priority of protecting principal*
    - Rank objectives in priority order: e.g., protect principal, maximize returns.

3. *Clarify authorized investments*
    - Consider stating that investments not on the approved list cannot be purchased. Alternatively, permit the Treasurer to purchase only up to X% (e.g., 2%) in total of investments that are permitted by the Code but not on the County approved list. (This allows the Treasurer to take advantage of emerging opportunities, while limiting the risk of doing so. Any such purchases should be reported to the Committee and mentioned in the monthly investment reports.)

    - ** Permit investment in certain instruments (e.g., munis) which might be attractive under particular circumstances, even if current practice is not to purchase them. This is already being done for Mortgage-Backed Securities (MBS) and Collateralized Mortgage Obligations (CMOs).

        - Make the authorized investment List and Table consistent. E.g., the Table includes "shares of beneficial interest in diversified management companies", and restrictions on MBS/CMO's, neither of which are on the List.

        - Require that any mutual fund investments be consistent with the Policy.

    - State that all investments (other than bank CDs) must trade in a liquid, secondary market or be self-liquidating within 30 days.

    - Specify that the mortgages underlying CMOs must have government backing.

4. *Tighten portfolio construction policy*
    - Tighten issuer exposure limits, e.g., AAA or A1/P1 – 5%, AA - 3%, A - 1%.

    - Consider lowering Agency and Governed-Sponsored Enterprises (GSE) per-name limits. (e.g., to 25%)

    - Limit credit exposure by setting maximum aggregate exposure to commercial paper, negotiable certificates of deposits (CDs), bankers' acceptances (BAs), asset-backed (ABS) and mortgage-backed securities (MBS), and corporate securities.

    - **Consider reducing the maximum maturity of negotiable CDs.

    - Reduce the maximum term of repos, e.g., to 92 days.

    - Add issue limits.

    - Lower maximum maturity for Treasuries and Agencies/GSEs to 5 years.

    - Update counterparty requirements. The $500 MM minimum asset size for CP, negotiable CDs and BAs should be increased, e.g., to $5 BN.

5. *Improve format*
    - Move “performance standard” out of the “authorized investments” section.

    - **Move longer explanatory material to footnotes, endnotes, or a glossary.

6. *Add the securities lending policy*
    - This can be in the body of the Policy or in an appendix, incorporated by reference. It should include:
        - A list of the allowable collateral (cash and Treasuries)

        - Restrictions on investing collateral, e.g. Treasuries up to 1 year maturity. (If more than cash and Treasuries are allowed, investments are subject to Policy limits.)

        - Minimum qualifications to be the County’s securities lending Agent, e.g., that the Agent be the Pool’s custodian and be one of the largest 5 - 7 Trust banks.

        - Require that the Agent indemnify the Pool against borrower default.

        - Require that the Agent accept the lending policies in writing. A copy of the signed acceptance should be attached to future Policies.

COUNTY
OF
SAN MATEO

POOLED FUND
INVESTMENT
POLICY

2009

TABLE OF CONTENTS

I.	**Introduction**	**3**
II.	**Prudence**	**4**
III.	**Objectives**	**4**
IV.	**Maturity and Average Life**	**5**
V.	**Credit Ratings**	**6**
VI.	**Issuer Concentration**	**6**
VII.	**Authorized Investments**	**7**
VIII.	**Method of Accounting and Return Allocation**	**12**
IX.	**Procedures and Control**	**13**
X.	**Limits on Honoraria, Gifts and Gratuities**	**18**
Schedule I:	**Securities Lending**	**20**

SAN MATEO COUNTY INVESTMENT POLICY

I. INTRODUCTION

The San Mateo County Treasurer's Investment Policy is filed annually with the County Board of Supervisors and the Treasury Oversight Committee, as required by the California Government Code sections 53545(a)(1) and section 27133. *This Investment Policy and all subsequent amendments will be communicated in writing by the Treasurer to the pool participants*.

The responsibility for conducting the County's investment program resides with the *San Mateo County* Treasurer *("the Treasurer")*, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.

It is the policy of the ~~San Mateo County~~ Treasurer ~~("the Treasurer")~~ to invest public funds in a manner which will provide ~~the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants achieving the highest possible~~ *first, the maximum security of principal invested; second, adequate liquidity; third, maximum return* ~~yield~~ while conforming to all applicable statutes and resolutions governing the investment of public funds. To ~~meet the needs of liquidity and long term investing~~ *accomplish this,* the County has established the County Investment Pool *("the Pool").* ~~This fund is suitable for planned expenditures or capital funds.~~ *Although the Pool is managed as one account, for purposes of allocating fees only, it is treated as if it were comprised of three separate "pools".*

Voluntary Participants will be accepted for participation in the *Pool* so long as they meet the following requirements:

A. A public agency
B. Domiciled in the County of San Mateo.
C. Agree to abide by the approved San Mateo County Pooled Fund Investment Policy.
D. Acknowledge changes to the policy annually in writing and meet the minimum balance requirements.

Agencies, whose jurisdiction includes, *but are not domiciled in,* San Mateo County ~~but are not domiciled in San Mateo County~~, may participate in the ~~San Mateo County Pooled Fund~~ *Pool* with the approval of the Treasurer and the County Treasury Oversight Committee.

~~To meet the needs of liquidity and long term investing, the County has established the County Investment Pool. This fund is suitable for planned expenditures or capital funds. The securities in this pool may have a longer individual maturity but will have a dollar weighted average maturity of no more than two years.~~

~~"Dollar weighted average portfolio maturity" means the weighted sum of every portfolio investment's number of years to maturity. The word "Maturity" refers to the instrument's stated legal final redemption date – not coupon reset dates, put dates, or calls dates.~~

II. PRUDENCE

When ~~investing, reinvesting, purchasing, exchanging, selling or~~ *managing* public funds, the Treasurer shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors that a prudent person acting in a like capacity would use to safeguard the principal and maintain the liquidity needs of the County and the other depositors.

As outlined in Government Code section 27000.3, the standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing the portfolio. Investment officers shall act in accordance with written procedures and the ~~investment policy~~ *Policy*, exercise due diligence, report in a timely fashion and implement appropriate controls for adverse development.

III. OBJECTIVES

The primary objectives of the Treasurer's investment activities *in priority order* shall be:

1. **Safety of Principal** - The Treasurer shall seek to preserve principal and minimize capital losses by minimizing credit ~~risk~~ and market risk as follows:

   Credit Risk - Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be minimized by diversifying the fund among issues and issuers. ~~so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants~~. *Further, the Pool shall be managed so that it at all times maintains the highest credit rating from at least one of the three leading nationally recognized credit rating organizations (S&P, Moodys and Fitch).*

   Market Risk - Defined as the risk of market value fluctuations due to changes in ~~the general level of~~ interest rates. ~~Because longer-term securities generally have greater market risk than shorter-term securities,~~ *M*arket risk will be ~~minimized~~ *managed* by ~~establishing~~ *setting* the *maximum* Weighted Average Maturity of the pool at two years *and the maximum effective duration at 1 year*. The maximum allowable maturity for any instrument in the pool at time of purchase is ~~10~~ *5* years (Treasuries and Agencies only). ~~Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.~~

2. **Liquidity –** *The Pool is designed to meet participants' short-term cash requirements by holding a large portion in money market securities and to meet longer term, planned needs (e.g., capital expenditures) by attempting to match maturities.* ~~The pool attempts to match maturities with capital expenditures and other planned~~

~~outlays. The nature of the planning process behind these expenditures is relatively predictable and less volatile than is the case for pass-through money. This allows leeway for some of the underlying investments in the County Pool to maintain a somewhat longer duration.~~

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes. Any request to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer and will normally be released at 20% per month. In accordance with California Government Code section 27136 et.seq, and 27133 (h) et.seq, such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.

3. **~~Yield~~** ***Return***- The ~~County pool~~ *Pool* is designed ~~as an income fund~~ to maximize ~~the~~ return ~~on investable funds~~ over various market cycles, consistent with *the overriding objectives of protecting principal and providing adequate liquidity. The return objective is to obtain a rate of return throughout budgetary and economic cycles that is better than 3-month Treasuries and LAIF, and comparable to similar California county pools.* ~~limiting risk and prudent investment principles. Yield will be considered only after the basic requirements of safety and credit quality have been met. The County Pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured on the basis of total return that could encounter negative returns.~~

IV. MATURITY AND AVERAGE LIFE

The maximum allowable maturity of instruments in the ~~County pool~~ *Pool* at the time of investment will be ~~10~~ *5* years *(*Treasuries and Agencies only*)*, ~~and~~ the maximum dollar weighted average maturity of the ~~fund~~ *Pool* will be 2 years*, and the maximum effective duration will be 1 year*. ~~The focus of this fund is on income and value in the yield curve. On the basis of risk/reward, there is very little yield incentive to move out on the yield curve beyond intermediate maturities. The policy of maintaining a maximum dollar weighted maturity of 2 years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum 2 year average maturity limits the market risk to levels appropriate to an intermediate income fund. The word "Maturity" refers to the instrument's stated legal final redemption date - not coupons reset dates, put dates, or call dates.~~

At least 50% of the Pool will mature within 1 year and at least 25% of the Pool will mature within 90 days.

Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by Government Code sections 53601 and 53635 but are not included in the requirements listed above; such securities shall be clearly designated in the appropriate investment journals and reports.

V. CREDIT RATINGS

Credit ratings *by one or more nationally recognized securities rating organizations* will be applied at the time of purchasing a security. In the event of a split-rated security, the lowest rating will be used. A subsequent downgrade in a security's credit rating will not constitute a violation of the investment policy. ~~Securities downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable period of time.~~ *If a security is downgraded while in the Pool (even if not below the minimum rating permissible at the time of purchase), each case will be evaluated on its own merits and the Treasury Oversight Committee will be promptly notified of the downgrade and plan of action.*

VI. ISSUER CONCENTRATION

No more than 5% of ~~the Fund's~~ either the *Pool's or its Securities Lending collateral investment portfolio, both at market* ~~market value~~ *(not just at time of purchase)* may be invested in securities ~~of any one issuer,~~ (including but not limited to CP, CDs, Corporate Notes, BAs) ~~combined~~ *of any one issuer.* U.S. Treasury securities and U.S. Government sponsored enterprises (FNMA, FHLMC, FHLB, TLGP) are exempt from this restriction as are overnight Repurchase Agreements. *For securities that come to exceed this limit subsequent to purchase, the requirement that they be brought down to 5% applies only to the extent that the excess is tradable in a liquid market in standard trading units.*

No more than ~~40%~~ *25%* of the Fund's market value may be invested in securities of any one U.S. Government Agency or U.S. Government sponsored enterprise.

~~OBJECTIVES~~

~~The primary objectives of the Treasurer's investment activities shall be:~~

1. ~~**Safety of Principal** - The Treasurer shall seek to preserve principal and minimize capital losses by minimizing credit risk and market risk as follows:~~

   ~~Credit Risk - Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be minimized by diversifying the fund among issues and issuers. so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.~~

   ~~Market Risk - Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities,~~ *M*~~arket risk will be minimized by establishing the Weighted Average Maturity of the pool at two~~

~~years. The maximum allowable maturity for any instrument in the pool at time of purchase is 10 5 years (Treasuries and Agencies only). Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.~~

~~2. **Liquidity** - The pool attempts to match maturities with capital expenditures and other planned outlays. The nature of the planning process behind these expenditures is relatively predictable and less volatile than is the case for pass-through money. This allows leeway for some of the underlying investments in the County Pool to maintain a somewhat longer duration.~~

~~3. **Yield** - The County pool is designed as an income fund to maximize the return on investable funds over various market cycles, consistent with limiting risk and prudent investment principles. Yield will be considered only after the basic requirements of safety and credit quality have been met. The County Pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured on the basis of total return that could encounter negative returns.~~

~~4. **Leverage** - The Treasurer shall not leverage the County pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. Security lending is authorized by this policy and will be limited to a maximum of 20% of the portfolio.~~

VII. AUTHORIZED INVESTMENTS

Subject to the limitations set forth in California Government Code sections 53600 et seq. ~~which may be amended from time to time~~ *as amended*, the Treasurer may invest in the following instruments, subject to the limits described in the following section. *Subject to all other limits imposed by this Policy, the Treasurer is allowed to purchase investments not on the authorized list so long as in his opinion it is prudent to do so. Such purchases are limited in aggregate to 2% of the market value of the Pool at all times. The rationale for the purchase shall be documented in writing and promptly reported to the Treasury Oversight Committee and included in the regular reports. Except for CDs all investments shall trade in a liquid market or be self liquidating within 30 days.*

The Treasurer shall not leverage the Pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. However, subject to guidelines attached to this Policy, securities lending is permitted but limited to a maximum of 20% of the Pool, valued at market.

1. **U.S. TREASURY SECURITIES**
   United States Treasury bills, bonds, notes or certificates of indebtedness, for which the full faith and credit of the United States is pledged for the payment of principal

and interest. The maximum maturity of U.S. Treasury Securities is ~~10~~ *5* years at the time of purchase.

2. **U.S. GOVERNMENT AGENCY/SPONSORED ENTERPRISE SECURITIES**
Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government sponsored enterprise. The maximum maturity for Agency Securities is ~~10~~ *5* years at the time of purchase.

3. **COMMERCIAL PAPER**
Commercial paper must be rated either A1/P1/F1 by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of *at least* single A if applicable. Eligibility is further limited to U.S. organized and operating corporations with assets in excess of ~~$500 million~~ *$5 billion*, and having an A rating or better on the issuer's debt other than commercial paper and may not exceed 270 days maturity. Purchases may not represent more than 5% of the outstanding paper of the issuing corporation. Purchases of commercial paper ~~normally~~ will not exceed 40% of the ~~fund's~~ *Pool* ~~investable money~~.

4. **NEGOTIABLE CERTIFICATES OF DEPOSIT**
Negotiable certificates of deposit must be rated either A1/P1/F1 by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of *at least* single A if applicable. These certificates are issued by a U.S. National or State chartered bank or state or federal association (as defined by section 5102 of the California Financial Code) or by a state licensed branch of a foreign bank. Eligible foreign banks must have branches or agencies in the U.S. Issuers must be a corporation with total assets in excess of ~~$500 million~~ *$5 billion.*

5. **BANKERS ACCEPTANCES**
Bankers Acceptances must be rated A1/P1/F1 by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of *at least* single A if applicable. ~~BAs are primarily used to finance international trade. BAs are timed drafts (bills of exchange) drawn on and accepted by a commercial bank.~~ ~~Purchases of~~ BAs shall not exceed 180 days maturity. Issuing banks must be rated *at least AA/Aa* by two of the nationally recognized rating services. Issuers must be a corporation with total assets in excess of ~~$500 million~~ *$5 billion.*

6. **COLLATERALIZED ~~CERTIFICATES OF~~ *TIME* DEPOSIT*S***
Collateralized Certificates of Deposit must comply with Bank Deposit Law, Government Code section 16500 et seq. and 16600 et seq.

7. **ASSET-BACKED AND MORTGAGE-BACKED SECURITIES**

Asset-backed and Mortgage-backed securities shall have a maximum remaining maturity of five years or less.

~~The issuer of these securities must be rated "AAA" by at least two of the three nationally recognized rating services. Securities shall have a maximum remaining maturity of five years or less.~~

Asset-Backed Securities

The allowable types of asset-backed securities include the following:

-Equipment lease back certificates.
-Consumer receivable backed bonds.
-Auto loan receivable backed bonds.

The issuer of these securities and the securities themselves must be rated "AAA" by at least two of the three nationally recognized rating services.

Mortgage-Backed Securities

Mortgage-backed securities must be either agency pass-throughs or Collateralized Mortgage Obligations (CMO) *where the underlying mortgages have US Government backing*.

~~The allowable types of Asset- *and Mortgage*-Backed Securities include the following:~~

~~-U.S. Government Agency Mortgage passthrough securities.~~
~~-Collateralized Mortgage Obligations (CMO) *where the underlying mortgages have US Government backing*.~~
~~-Equipment lease back certificates.~~
~~-Consumer receivable backed bonds.~~
~~-Auto loan receivable backed bonds.~~

8. **CORPORATE SECURITIES**

Corporate Securities must be rated A or better by two of the three nationally recognized rating services, ~~Securities in this classification must~~ be registered with the Securities and Exchange Commission, and be publicly traded or at least have undergone shelf registration. The maximum maturity for any corporate securities is five years. Yankee ~~(foreign)~~ Notes are allowable if they are ~~dollar denominated and~~ registered with the Securities and Exchange Commission. ~~for sale in the United States. If a corporate security is downgraded while in our portfolio, each case will be evaluated on its own merits and the investment committee will be notified~~.

Maximum aggregate issuer exposure at time of purchase is:

- *5% for AAA rated*
- *3% for AA rated*
- *1% for A rated*

9. **REPURCHASE AGREEMENTS**

Repurchase Agreements *("Repos")* will only be executed with dealers with whom the County has written agreements and who report to the Market Reports Division of the Federal Reserve Bank of N.Y. (Primary Dealers). All transactions will be *"Tri-party"*, collateralized at 102% of current value plus accrued interest and ~~will be~~ marked to market daily. *The maximum term of a Repo shall not exceed 92 days*. Acceptable collateral for these transactions will be Treasuries or cash with a maximum maturity of five years or less. *Reverse Repos are not permitted.*

~~For purposes of this section, the term "Repurchase Agreement" means a purchase of a security by the County pursuant to an agreement by which the seller will epurchase the securities on or before a specified date and for a specified amount and will deliver the underling securities to the County by book entry, or by third party custodial agreement. The custodian, in a tri-party repurchase agreement, shall maintain a debt rating of at least A by one of the three nationally recognized rating services. When the transaction is unwound, the transfer of the underlying securities will revert back to the counter party's bank account by book entry. The term "Counter party" means the other party to the transaction with the County. The term "Securities" in a repurchase agreement means securities of the same issuer, description, issue date and maturity. The maximum term of a repurchase agreement shall not exceed on year.~~

10. **LOCAL AGENCY INVESTMENT FUND**

The Local Agency Investment Fund is an investment fund run by the Treasurer of the State of California to pool local agency investments. LAIF will be used as a comparative fund to the ~~County's pool~~ *Pool.*

11. ***SHARES OF BENEFICIAL INTEREST***

Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601 and that meet Securities and Exchange Commission 2(a)7 standards ("Money Market Funds") are permitted. (For purposes of applying Policy concentration limits, there is no "look through" to the underlying holdings.)

12. ***FURTHER LIMITATIONS ON CREDIT EXPOSURE***

The following types of authorized investments are limited to 60% of the Pool in aggregate:

- *Commercial Paper*
- *Negotiable CDs*
- *Bankers Acceptances*
- *Asset-Backed and Mortgage-Backed Securities*
- *Corporate Securities*

The pool may not purchase more than 5% of an asset-backed, mortgage-backed or corporate issue.

~~**PERFORMANCE STANDARDS**~~
~~The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. The Treasurer's investment strategy is considered active.~~

~~This Investment Policy and all subsequent amendments will be communicated by the Treasurer to the pool participants and acknowledged in writing.~~

~~Strategy: Allowable Instruments, Flexibility, Qualifications~~

~~Subject to the limitations set forth in California Government Code sections 53600 et seq. which may be *as* amended from, time-to-time, the Treasurer may invest in the following instruments, subject to the limits of flexibility described on the following page.~~ *Restrictions on the use of authorized investments are summarized in the following Table. Note that a) the indicated percentage limits are based on the Pool's market value, not just at time of purchase, and b) "Aggregate" means the total of all the Pool's securities issued by a single issuer and/or its affiliates.*

INSTRUMENT	RATING	-------------	LIMITATIONS	--------
		% of Fund	% of Fund per Issuer	Maturity
U.S. Treasury Obligations		100	100	~~10~~ *5* years
Obligations of U.S. Agencies or government sponsored enterprises		100	~~40~~ *25*	~~10~~ *5* years
Bankers Acceptances Domestic *or Foreign* ~~($500 million minimum assets)~~ ~~*Foreign ($500 million minimum assets)~~	A1 / P1/ F1	~~15~~ *30 of which Foreign max. is 15* ~~15~~	5 Aggregate ~~5 Aggregate~~	180 days ~~180 days~~
Collateralized time deposits within the State of California		30	5 Aggregate	1 year
Negotiable certificates of deposit		30	5 Aggregate	5 years
Commercial paper	A1 / P1 / F1	40	5 Aggregate	270 days or less
Repurchase Agreements secured by U.S. Treasury or Agency obligation (102% collateral)		100	~~50~~ *10 per broker/dealer, including all other exposures*	~~1 year~~ *92 days*
~~Reverse Repurchase agreements~~		~~20~~	~~20~~	~~92 days~~

Corporate *securities* ~~bonds and medium term notes~~ ~~including asset-backed bonds (two agencies)~~	A	30	Aggregated *with the issuer's other securities:* AAA – 5, AA – 3, A – 1	5 years
Asset- and Mortgage-Backed securities	*AAA or Government, Agency or GSE*	*20*	*5 except for US Government, Agency or GSE - backed*	*5 years*
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601 *and that meet SEC 2(a)7 requirements ("Money Market Funds")*		10	5 Aggregate	
~~Mortgage Backed Securities/CMO's:~~ ~~No Inverse Floaters~~ ~~No Range Notes~~ ~~No Interest only strips derived from a pool of Mortgages~~	~~A~~	~~20~~	~~5 Aggregate~~	~~5 years~~

<u>*The following table has been added to limit *issue* exposure</u>

INSTRUMENT	LIMITATIONS
	% of Fund per Issue
U.S. Treasury Obligations	15
Obligations of U.S. Agencies or government sponsored enterprises	15
Bankers Acceptances Domestic *or Foreign*	2.5
Collateralized time deposits within the State of California	NA
Negotiable certificates of deposit	2.5
Commercial paper	2.5 for maturities greater than 30 days
Repurchase Agreements secured by U.S. Treasury or Agency obligation (102% collateral)	5
Corporate securities	2.5
Asset- and Mortgage-Backed securities	5 for US Government, Agency or GSE
Local Agency Investment Fund (LAIF)	NA
Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601 *and that meet SEC 2(a)7*	NA

requirements ("Money Market Funds")	

~~Maturity and Average Life of the County Pool~~

~~The maximum allowable maturity of instruments in the County pool at the time of investment will be 10 5 years (Treasuries and Agencies only), and the maximum dollar weighted average maturity of the fund will be 2 years. The focus of this fund is on income and value in the yield curve. On the basis of risk/reward, there is very little yield incentive to move out on the yield curve beyond intermediate maturities. The policy of maintaining a maximum dollar weighted maturity of 2 years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum 2 year average maturity limits the market risk to levels appropriate to an intermediate income fund. The word "Maturity" refers to the instrument's stated legal final redemption date - not coupons reset dates, put dates, or call dates.~~

~~Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by Government Code sections 53601 and 53635 but are not included in the requirements listed above; such securities shall be clearly designated in the appropriate investment journals and reports.~~

VIII. METHOD OF ACCOUNTING AND RETURN ALLOCATION

1. For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market. Gains or losses from investment sales will be credited or charged to investment income at the time of sale.

2. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.

3. ~~Yield~~ *Return* is calculated on an accrual basis using a 365-day calendar~~. Earnings are calculated~~ as follows:

$$\frac{\text{(Earnings* + Capital Gains) - (Banking Cost +Fees+Amortized Premiums + Capital Losses)}}{\text{Average Daily Pool Balance}}$$

* Earnings equal net interest payments + accrued interest + accreted discounts

4. *For the purpose of allocating fees, the Pool* will be divided into three parts, *Pools 1, 2, and 3*. The basis for this designation will be the nature of the funds and amount of banking activity generated by the account. Funds that generate specific banking charges such as payroll, extra reporting, etc. will be assigned to Pool 1, and will be charged fixed and variable banking costs as well as administrative fees before interest allocation. Pool 2 is made up of funds that do not generate excessive banking costs. Pool 2 funds are charged fixed banking costs and administrative fees. Pool 3 funds represent those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.

IX. ***PROCEDURES AND CONTROLS*** ~~Controls~~

~~**Investment Authority and Responsibility:** The responsibility for conducting the County's investment program resides with the Treasurer, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.~~

County Treasury Oversight Committee: The Board of Supervisors, in consultation with the Treasurer, hereby establishes an eight member County Treasury Oversight Committee pursuant to California Government Code section 27130 et seq. Members of the County Treasury Oversight Committee shall be selected pursuant to California Government Code section 27131. The Treasury Oversight Committee will meet at least three times a year to evaluate general strategies and to monitor results and shall include in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the funds. All actions by the Treasury Oversight Committee will be governed by rules set out in section 27131 et seq. of the California Government Code.

Membership in the County Treasury Oversight Committee will pay particular attention to California Government Code sections 27132.1, 27132.2, 27132.3 and 27132.4, which read as follows:

> 27132.1 A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.
>
> 27132.2 A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.
>
> 27132.3 A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers or with financial services firms during the period that the person is a member of the committee or for three years after leaving the committee.

27132.4 Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (chapter 9 (commencing with section 54950) of Part 1 of Division 2 of Title 5).

Reporting: The Treasurer shall submit monthly, quarterly and annual reports to the Treasury Oversight Committee and all Pool participants. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code.
~~The Treasurer will prepare a monthly report for the County pool~~ *Pool* ~~participants and members of the County Treasury Oversight Committee stating~~ *For each investment the reports will include* the type of investment, name of the issuer, maturity date, par and dollar amount of the investment, *and current market value*. For the total ~~pooled investment fund~~ *Pool* the report will list average maturity, *effective duration, cost* and ~~the~~ market value, *realized and unrealized gains and losses, purchases and sales, deposits and withdrawals, sector and issuer concentrations (at market).* In addition, the Treasurer shall prepare a quarterly cash flow report which sets forth projections for revenue inflows, and interest earnings as compared to the projections for the operating and capital outflows of depositors. This projection shall be for at least the succeeding 12 months.

Annual Audit of Compliance: The County Treasury Oversight Committee shall cause an annual audit to be conducted of the portfolios, procedures, reports and operations related to the County pool in compliance with California Government Code section 27134.

~~**Loss Control**: While this Investment Policy is based on the Prudent Person Rule, the Treasurer shall seek to enhance total portfolio return by means of active portfolio management. In any professionally managed portfolio occasional controlled losses are inevitable. and these must be realized and judged within the context of overall portfolio performance. Losses shall be allocated as otherwise described in this investment policy.~~

Credit Quality: Should any *investment* ~~financial institution, represented in the portfolio~~ be downgraded by any of the major rating services to a rating below those established in this investment policy, the Treasurer must immediately make an informed decision as to the disposition of that asset and will *promptly* advise the County Treasury Oversight Committee. The situation will be monitored daily by the Treasurer until final disposition has been made.

Approved Brokers: The Treasurer will maintain a current list of approved brokerage firms to conduct business with the County. ~~All financial institutions~~ *Those* on the approved list will be evaluated individually, ~~with preference given to primary dealers~~ and *all will* possess a strong capital *base* and credit ~~base~~ *rating* appropriate to their operations. *Preference will be given to Primary Dealers.* The Treasurer will forward a copy of the County Investment Policy to all approved vendors and require written acknowledgment of the policy from the vendor.

No ~~broker, brokerage, dealer or securities~~ firm can be on the approved list that has, within any consecutive 48-month period, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local Treasurer, any member of the ~~governing board of the~~ ~~local agency~~ *County Board of Supervisors or the Treasury Oversight Committee*, or any candidate for those offices.

Transaction Settlement: Payment of settlement in a securities transaction will be against delivery only. A due bill or other substitution will not be acceptable. All securities purchased from the brokers/dealers must be held in safekeeping by the County's safekeeping agent or appropriate third party.

~~**Method of Accounting:**~~

~~1 For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Accounting shall be on a unit value ("mutual fund") basis; and for calculating participant returns, all investments shall be carried at current market. Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market.~~

~~2 Gains or losses from investment sales will be credited or charged to investment income at the time of sale.~~

~~3. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.~~

~~4 Yield is calculated on an accrual basis using a 365-day calendar. Earnings are calculated as follows:~~

$$\cancel{\frac{(\text{Earnings}^* + \text{Capital Gains}) - (\text{Banking Cost} + \text{Fees} + \text{Amortized Premiums} + \text{Capital Losses})}{\text{Average Daily Pool Balance}}}$$

~~* Earnings equal net interest payments + accrued interest + accreted discounts~~

~~5. The County pool *the Pool* will be divided into three parts, Pool 1, Pool 2 and Pool 3. The basis for this designation will be the nature of the funds and amount of banking activity generated by the account. Funds that generate specific banking charges such as payroll, extra reporting etc. will be assigned to Pool 1, and will be charged fixed and variable banking costs as well as administrative fees before interest allocation. Pool 2 is made up of funds that do not generate excessive banking costs. Pool 2 funds are charged fixed banking costs and administrative fees. Pool 3 funds represent those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.~~

~~**Withdrawal Requests:** The Treasurer will honor all requests to withdraw funds for normal cash flow purposes. Any request to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the Treasurer and will normally be released at 20% per month. In accordance with California Government Code section 27136 et.seq, and 27133 (h) et.seq, such requests for withdrawals must first be made in~~

~~writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.~~

Internal Controls: The Treasurer has established a system of controls designed to prevent losses of pooled funds due to fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees of the County. The controls include:

1. Procedures for investment activity which include separation of transaction authority from accounting and operations and requiring clear documentation of activity.
2. Custodial safe keeping as prescribed in Government Code 53601.
3. Independent audit, both external and internal.
4. Clear delegation of authority.
5. Written confirmations of all telephone transactions.
6. Establishment of written ethical standards and rules of behavior.

~~**Performance Evaluation:** The Treasurer shall submit monthly, quarterly and annual reports to the Treasury Oversight Committee and all Pool participants. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code.~~

Safekeeping: *The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures.* ~~All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery-versus-payment (DVP) basis.~~
~~All securities shall be held by a~~ *The* third party custodian *shall be* designated by the Treasurer and approved by the Treasury Oversight Committee.

All investment transactions, including collateral for repurchase agreements, ~~entered into by the Treasurer~~ shall be conducted on a delivery-versus-payment (DVP) basis. A due bill or other substitution will not be acceptable. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information. **:** ~~The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures.~~

Safekeeping procedures shall be reviewed annually by the Treasurer's office and an external auditor. Surprise audits of safekeeping and custodial procedures should be conducted at least once a year.

~~Procedures to be followed in the execution of Investment Authority:~~

Transactions: The Treasurer will obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries, when issued securities, and new issues. In those cases the Bloomberg screen will be printed as close to the physical transaction as possible. In the case of money market or agency paper being purchased to fill a specific maturity, a best effort will be made to obtain differential bids.

1. All transactions are documented as to date, time and vendor, signed by the originator and will include the following information:
   A. Buy or sell
   B. Specific description of security involved (CUSIP)
   C. Settlement date
   D. Price
   E. The total amount of funds involved
   F. Delivery instructions
   G. On non-treasury or agency transactions a notation will be made on the transaction ticket of competitive bids and offers
   H. Broker/dealer

2. This information is given to the Investment Specialist to be used as follows:
   A. To contact the dealer to verify the information on the trade with the dealer's instructions. Any misunderstanding is clarified at that time.
   B. To provide the County's custodian bank with the specifics of the pending transaction to assure a smooth settlement.
   C. To compare with the daily custodian transaction report to assure there are no errors.
   D. To generate the internal entries necessary for the movement of funds to complete the transaction.
   E. To compare with the broker's confirmations when they are available.

3. At the end of the day the Investment Specialist summarizes all of the day's transactions in a "Daily Cash Flow Report" that is available the first thing on the following morning. This report includes:
   A. A summary of all the day's investment transactions.
   B. A listing of the day's wires in and out.
   C. A listing of all state automatics and other deposits received during the day.
   D. If the pool has "Repo's" out, a statement as to the current earnings rate.
   E. An estimate of the total anticipated clearings for the day.
   F. A listing of the day's Treasurer's deposits and tax receipts.

~~4. The Treasurer will obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries, when issued securities, and new issues. In those cases the Bloomberg screen will be printed as close to the physical transaction as possible. In the case of money market or agency paper being purchased to fill a specific maturity, a best effort will be made to obtain differential bids.~~

Repurchase Agreements ~~and Reverse Repurchase Agreements~~ with broker/dealers will be done through a "Tri-party Custodian Agreement" that has been approved in writing by the Treasurer. All Repurchase ~~and Reverse Repurchase~~ Agreements with commercial banks will be governed by a Public Securities Association (PSA) agreement that has been approved in writing by the Treasurer.

Confirmations resulting from securities purchased or sold under a Repurchase ~~or Reverse Repurchase~~ Agreement shall state the exact and complete nomenclature of the underlying securities bought or sold, as well as the term structure (i.e. maturity) of the transaction.

Securities Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy. *Guidelines for securities lending and the investment of collateral are attached to this Policy as Schedule 1. Securities on loan must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.*

5. ~~Securities on loan under the County Security Lending Program must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank~~.

~~6. All transactions will be executed on a Delivery versus Pay Bases (DVP). The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.~~

~~7. Safekeeping procedures shall be reviewed annually by the Treasurer's office and an external auditor. Surprise audits of safekeeping and custodial procedures should be conducted at least once a year.~~

~~8. Security Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy.~~

X. Limits on Honoraria, Gifts and Gratuities:

In accordance with the California Government Code section 27133 (d) et seq., this Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Investment Group and Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of $280 per calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms. Any violation must be reported to the State Fair Political Practices Commission.

Schedule 1 - Securities Lending

Securities Loans

- *No more than 5% of the Pool can be on loan to any single counterparty.*
- *A single loan shall not exceed 3% of the total portfolio.*
- *The maximum maturity of a securities loan shall not exceed 92 days.*

Collateral

Acceptable Collateral

US Treasuries and Agencies and cash.

Collateral Investment

The only authorized investments are shown in the following Table. No floating or reset notes are permitted.

"Fund" means the actual market value of all securities lending collateral.

INSTRUMENT	***RATING***	***-------------***	***LIMITATIONS***	***------***
		% of Fund	*% of Fund per Issuer*	*Maximum Maturity*
U.S. Treasury Obligations		*100*	*100*	*1 year*
Obligations of U.S. Agencies or government sponsored enterprises		*100*	*25*	*1 year*
Repurchase Agreements secured by U.S. Treasury or Agency obligation (102% collateral)		*100*	*10 including all other exposures*	*overnight*
Bankers Acceptances Domestic or Foreign	*A1 / P1/ F1*	*30 of which Foreign max. is 15*	*5 Aggregate with all other issuer securities*	*180 days*
Commercial paper	*A1 / P1 / F1*	*40*	*5 Aggregate with all other issuer securities*	*270 days or less*

Other

Agent Qualifications

The only acceptable Agent is the Pool's custodian bank.

Contract Provisions

The Agent must indemnify the Pool against borrower default.

The Agent must acknowledge and accept the Policy in writing. A copy of this acceptance will be attached to future Policies.

The Agent must submit monthly reports showing securities out on loan (terms and borrowers), defaults, earnings and the percent by sector of Pool assets out on loan as well as information on the collateral investments (including market values, income and realized and unrealized gains and losses).

Oversight

The Treasurer shall include copies of the Agent's most recent report with his reports to the Treasury Oversight Committee.

SECTION 4

RECOMMENDATIONS TO IMPROVE EXISTING ORGANIZATIONAL STRUCTURE AND OVERSIGHT PRACTICES

Task 3 is to recommend improvements to the existing organizational structure, oversight practices, fees and resources applied to the management of similar sized portfolios relative to industry best practices. While we are aware that there may be various impediments to implementing all these recommendations, in the following we outline several practices which we think might serve the County well. (Note that throughout we continue to refer to the Pool Investment Policy simply as the Policy.)

Staff

Six people including the Assistant Treasurer have trading authorization, a level of staffing similar to that found in comparable California counties and similarly sized external institutional money managers. In our opinion the Treasurer's office is well-staffed to handle routine transactions. However, as only the Assistant Treasurer handles value-added strategy and trading, should he be unavailable, trading opportunities would be restricted. Nonetheless, we expect that the Pool would continue to operate normally, albeit with slightly lower returns, for at least 1 – 1½ months. (The Assistant Treasurer believes that it would do so for at least 4 months.)

Our main concern is that there is only one person (the Assistant Treasurer) with any experience in value-added portfolio management. (While the Assistant Treasurer does discuss the markets and the portfolio with the Treasurer, the Treasurer is not a market professional.) In contrast, all commercial institutional managers have one (or more) portfolio managers and at least one high-level back-up who assist in such areas as strategy research and development, market and economic assessment, credit analysis and risk monitoring, and who can act as sounding boards for the more senior officers. Because of their close involvement in formulating strategy and tactics, these assistants are able to execute the defined portfolio strategy for extended periods of time.

Systems and Software

In our opinion, the County has adequate systems and software (including Bloomberg for credit analysis and market data and Advent Axys for portfolio management and reporting) to manage the Pool effectively. Compliance checking is performed manually. In general we prefer automated systems but given the limited complexity of the Pool, in our opinion one is not currently required. (Many of the sophisticated compliance systems used by professional money managers cost more than a million dollars a year.)

Compliance

Compliance monitoring is performed daily by an Investment Specialist and the Assistant Treasurer. The Investment Specialist manually prepares an exposure worksheet, which is given to the Assistant Treasurer every morning before he begins trading. While it appears that manual compliance checking is commonplace among California counties, larger ones tend to have more formal and comprehensive procedures. San Diego County, for example, has a 3-person investment accounting group which codes the portfolio guidelines into the Bloomberg system and uses this system to check compliance daily. As noted above, we do not think it necessary to move to a more automated system. However, best practice is to have compliance report to someone other than the portfolio manager, here the Assistant Treasurer.

Oversight

At present, two different sorts of oversight are carried out by two separate bodies:

- The Board of Supervisors is empowered by the California Government Code to approve the Policy.

- The Treasury Oversight Committee (or, for San Mateo, the Investment Advisory Committee) reviews the Investment Policy annually and periodically monitors compliance with it. However, the Committee has no substantive authority and essentially functions merely as a communication vehicle for a subset of Pool participants.

In our opinion, this arrangement does not ensure adequate oversight. What is needed is an independent investment advisory firm to conduct regular oversight and report its findings to both the Board of Supervisors and the Investment Committee. We understand that the County is in the process of retaining (or has just retained) such a firm.

Some interviewees have suggested that a parallel committee that meets more frequently should be created to help the Investment Committee with oversight. It has also been suggested that the make-up of this committee be based on the percentage of assets in the Pool, so that those participants with a greater stake in the Pool have greater representation. However, the addition of an independent advisory firm negates the need for a parallel committee. The biggest weakness of the current oversight structure is that oversight is not being conducted by anyone with portfolio management experience. A parallel committee would not necessarily remedy this deficiency. Furthermore, why should one expect the parallel committee to meet more frequently when the Investment Committee had to reduce the frequency of its meetings due to poor attendance? Finally, meetings for the Investment Advisory Committee, Board Finance and Operations Committee, and Board of Supervisors are all open to the public. We believe there is ample opportunity for stakeholders to have their voices heard should they choose to do so.

Reporting

Comprehensive reporting is one of the key methods of effective investment oversight. The County Board of Supervisors should exercise its Code Section 53646(c) rights to obtain reports that cover all the key quantitative aspects of the Policy as well as other common measures of investment performance. Reports should be delivered well ahead of formal presentations so that the outside investment advisor can review them and prepare written comments for the Board and/or the Investment Committee.

Market value reporting in government funds is becoming increasingly used and the Lehman loss may further accelerate the trend. The thrust of the following recommendations is for the Board of Supervisors to obtain more market value summary information than has been reported in the past. In addition to a list of portfolio securities, market values, book yield, cost and purchases and sales, reports should include analysis showing compliance with Policy guidelines as to quality, sector distribution, etc. and changes that may indicate emerging problems, such as downgrades or market value changes of more than 5%. Furthermore, the reports should separate realized gains/losses from interest received and report ratings and unrealized gains/losses for each security. We also think it would be beneficial to report the income from short term trading (e.g. income earned from securities held for 5 days or less).

In terms of format, reports should contain a list of tables, exhibits and/or appendices (all of which should be numbered) so a reader can easily find any item of interest. Summary tables should precede detailed securities listings or appear in appendices at the end of the report.

Advent Axys “ tran codes” and “S/D codes” should be explained in a glossary at the end of the report.

The list below supplements, but for the most part does not replace, the data currently provided by the Treasurer.

A. Financial Performance

1. Trading Performance: The total dollars gained or lost in trading (purchasing securities not intended to be held to maturity), and the impact on Pool return.

   “Short-term” and “Long-term” gains are irrelevant for tax-exempt entities, but may be part of Advent’s standard reports. Trading results would be better reported with a summary table that has total gains and losses for securities held for various amounts of time, for example 5 days or less, 6-14 days, 15-31 days, 32-92 days, 93-365 days, and over 365 days. Original-issue discount and interest bought or sold would be excluded from this report.

2. Pools 1, 2, 3 total return for the period:
   a. Calculated according to mutual fund accounting standards so they are comparable with common financial indicators. All securities should be carried at current market.

   b. Calculated according to LAIF and other public fund standards.

3. Statement of percentage fees applied to Pools 1, 2 and 3 assets.

4. Pool 3 performance compared to appropriate benchmarks such as LAIF, other Calif. Counties (probably on a delayed basis), etc.

B. Aggregate Risk Measures

Tables summarizing many appropriate measures of aggregate risk. See Appendix for samples modeled after ones used by many top institutional fixed income managers.

C. Specific Issuer or Issue Exposure Listings

1. All issuers with holdings totaling 1% of the portfolio value or more, including short- and long-term debt ratings and all issuers (Treasury, Agency, GSE, and Private Sector) sorted with the largest holdings first.

2. All issues in which the Pool holds 1% or more of the amount outstanding, including short- and long-term debt ratings, sorted with the largest percentage first.

3. All securities which were upgraded or downgraded while in the Pool, along with the amount held at the time the rating changed, both in dollars and percent of the Pool, sorted with the largest holdings first.

4. All holdings of securities rated AA- or below, sorted by credit rating.

Fees
The County charges Pool participants 0.125% annually, plus banking fees based on the number of transactions. Based on data supplied by the Treasurer, even this does not cover the full cost of managing the Pool. With the help of the Deputy County Manager, we attempted to gather comparable data from seven other California counties. Unfortunately, only three responded. The two which charge asset-based fees charge less than the Treasurer's office: San Bernardino, 0.06% and Sacramento, less than 0.10%.

San Bernardino's fees cover the cost of outside management, Bloomberg, banking and rating agency services and direct/indirect County staff. Since the Treasurer says that Pool fees do not even cover Pool costs, it would appear that the cost difference between the two counties is even greater than the difference in their quoted rates. Unfortunately, the available data does not permit us to explore this in greater depth. (Contra Costa charges 1/3 of the interest earned plus $20 per transaction for moving funds in or out of its pool. While this appears to be significantly more expensive than the San Mateo Pool, lack of information about just what those fees cover prevents us from determining whether this is actually the case.)

Outside Management Alternative
We understand that the County has retained (or is in the process of retaining) PFM as an independent investment advisor to help oversee the Pool. We recommend that the County at least explore the feasibility of going further, specifically hiring an independent money manager to actually manage the Pool. In our view this potentially has the following advantages:

1. Depth of management, system and analytical resources.

2. Best practices for control, documentation and reporting.

3. Cost savings. To manage a single approximately $2 billion portfolio, well regarded institutional money managers (e.g., BGI, Wells Capital, PIMCO and Goldman Sachs) quote around 0.08%. Although it is not clear how much moving to external management would reduce County overhead (if at all), the County may deem an additional 0.08% of cost as a fair premium for institutional-quality management.

4. Dedicated client service. This allows portfolio managers to focus solely on management of the portfolio, while delegating service-related activities to those with the time and experience.

Multiple Pools
Several interviewees have asked whether the Pool should be managed as separate portfolios according to varying degrees of risk and investment horizon. For example, school district short-term working funds might be in a money market like portfolio while money earmarked for long-term capital construction might be managed with a longer duration.

The Assistant Treasurer has maintained that such a structure would create unnecessary complexity. It is beyond the scope of this project to evaluate these burdens. A full analysis of the feasibility of running multiple pools involves developing detailed projections of the pattern and size of funds flows; again, a task beyond the scope of this project. However, we think that the idea is definitely worth investigating; and that as a first step the County gauge the interest of the Pool participants to determine whether the potential size of the additional pools would allow for economical management. (Note that should the County decide to use an outside money manager, the size of the individual pools may not be an issue. E.g., investments might be in larger commingled funds, or trading might be done on a block basis with other accounts.)

TASK 3
Appendix: Sample Report Tables

Table 1 – Distribution of Risk (at Market Value)

Credit Rating	Gov't: Treasury and FFC[1]	AAA/A1/P1/F1	AA	A	Total
$ (MM)					
% of Total					
Avg. Maturity					
Avg. Effective Duration					
Maturity Distribution: ($ MM and %)					
0-92 days					
93-182 days					
183-365 days					
1-2 years					
3-4 years					
4-5 years					
***5-7 years*[2]**					
7-10 years					
Total					
Effective Duration Distribution: ($ MM and %)					
0-92 days					
93-182 days					
183-365 days					
1-2 years					
3-4 years					
4-5 years					
***5-7 years*[2]**					
7-10 years					
Total					

[1] FFC = Full Faith and Credit
[2] 5-7, 7-10 years only if allowed by the investment policy

Table 2 – Risk Statistics by Type of Security

Type of Security	Gov't: Treasury and FFC[1]	Other GSEs	CP	CD's	Etc. (add columns as necessary)	Total
$ (MM)						
% of Total						
Avg. Maturity						
Avg. Effective Duration						
Maturity Distribution: ($ MM and %)						
0-92 days						
93-182 days						
183-365 days						
1-2 years						
3-4 years						
4-5 years						
5-7 years[2]						
7-10 years						
Total						
Effective Duration Distribution: ($ MM and %)						
0-92 days						
93-182 days						
183-365 days						
1-2 years						
3-4 years						
4-5 years						
5-7 years[2]						
Total						

San Mateo County
Board of Supervisors
Finance and Operations Committee

Mark Church, Chair
Rich Gordon, Vice-Chair

Reyna Farrales, Deputy County Manager
John Beiers, Chief Deputy County Counsel
400 County Center, Redwood City
650-363-4123

MEETING DATE: June 17, 2009

TO: Finance and Operations Committee

FROM: Reyna Farrales, Deputy County Manager

SUBJECT: **Mejorando Group Report – Management Review of Assessor-Clerk-Recorder-Elections (CARE) Department**

RECOMMENDATION

Accept the Report from the Mejorando Group on the Management Review of the Assessor-Clerk-Recorder-Elections Department, and Refer to the Assessor for Response.

BACKGROUND

At its November 4, 2008 meeting, the Finance and Operations Committee accepted the scope of work for the management review of the Clerk-Assessor-Recorder-Elections (CARE) Department. The Mejorando Group was selected to conduct the review, after interviews were completed with four firms on the County's roster of management consulting firms.

According to the County Assessor, there were several issues impacting CARE, including:

- Increased demand from the public and key stakeholders for timely, frequent, accurate information regarding property tax revenue, assessed value, and recorded documents, etc.
- Changing needs for expertise in property value appraisals, appeals, and revenue forecasting due to the complexity of certain economic sectors (e.g. biotechnology, airlines, etc.) and trends in the general economy.
- The need for succession planning in light of recent and anticipated retirements and some difficulty thus far in filling certain key positions.
- Concerns about the organizational fit and impact of having the Elections function as part of the Department.
- Structural budget challenges, which face the Department and the County as a whole.

DISCUSSION

Patrick Ibarra with his team from the Mejorando Group have completed the CARE management review. The report is attached. Mr. Ibarra will be presenting findings and recommendations at the Committee's June 17 meeting. A series of targeted recommendations include:

- A sound rationale for pursuing a more systematic approach to succession planning including the use of a Pilot Program which concentrates on developing potential successors for at-risk positions.

- An interim organizational structure to group similar activities while pursuing a long term departmental reorganization to enable development of natural successors for future deputy director vacancies as well as blending similar work activities to ensure consistency.
- Several strategies to transfer valuable knowledge about the CARE way of doing business especially in the area of the Special Assistant to the Assessor.
- A two-pronged approach consisting of a mentor and specific training to accelerate the performance of the Fiscal Services Manager.
- Maintaining the Elections Division in CARE for the foreseeable future while providing a proposed approach to evaluate other options in the future that includes a heavy emphasis on public participation.
- Integrating the Shared Vision 2025 and utilizing the Applied Strategic Planning approach to craft a planned approach of responding to the various forces imposing change on CARE services and operations.

Also included is a Change Management Implementation Plan which suggests the creation of a Change Management Coalition as a group to oversee implementation, along with a suggested sequence of recommendations both short- and long-term.

I want to thank Mr. Slocum and his staff for contributing their time and expertise toward completion of the review. We recognize that much of the work on the review was done along with many other priorities of the department, so are grateful for the CARE management team's leadership and support of continuous improvement efforts like this management review.

It is recommended that the Committee accept the report with comments, and refer to the Assessor for response.

cc: David Boesch, County Manager
Warren Slocum, Assessor
John Beiers, Chief Deputy County Counsel
Members, CARE Management Review Project Team

County of San Mateo
Office of Assessor-County Clerk-Recorder (CARE)

Management Review

Patrick Ibarra

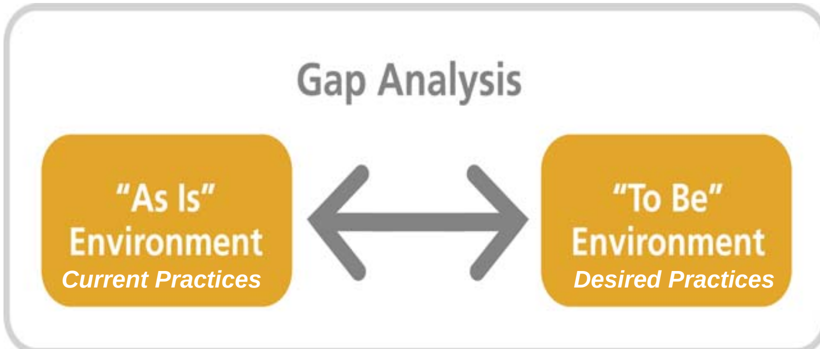
June 17, 2009

Issues of Today & Tomorrow

- Increasing service demands
- Evolving technology
- Aging workforce & loss of knowledge
- Competitive marketplace & demographic changes
- Future of Elections function
- Ebb and flow of budgets

2

Basis of Approach



Current Practices

- Based on a number of statistical comparisons, CARE is performing very well
- E-government services are strong
- Lack of bench strength for Special Assistant to Assessor
- Existing succession planning program under utilized
- 90% of supervisors are 50 years of age or older
- Only San Mateo and Ventura counties with directly elected Chief Elections Officer
- Inconsistency in developing potential Deputy Directors
- Role of Financial Services Manager
- Knowledge transfer efforts not systematic

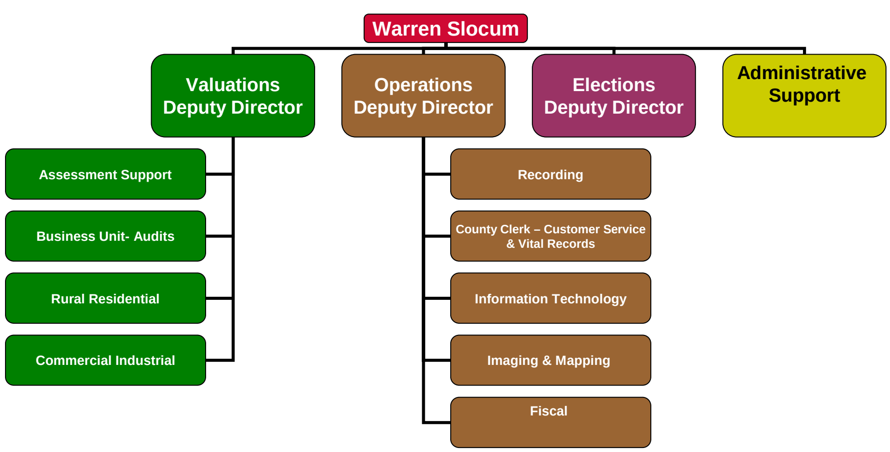
Recommendations

- Maintain Elections and revisit possible modifications in future
- Implement a Succession Planning Pilot Program for at-risk positions – Deputy Director, Support Service Supervisor & Principal Appraiser
- Encourage potential supervisors to attend First Line Supervisory Academy
- Begin transfer of knowledge of Special Assistant to a small group of potential successors
- Enlist a mentor and seek additional training for Fiscal Services Manager
- Frozen positions released when budgets strengthen
- Hold periodic all-employee meetings
- Integrate the Shared Vision 2025 in pursuing Strategic Planning

mejorando group

5

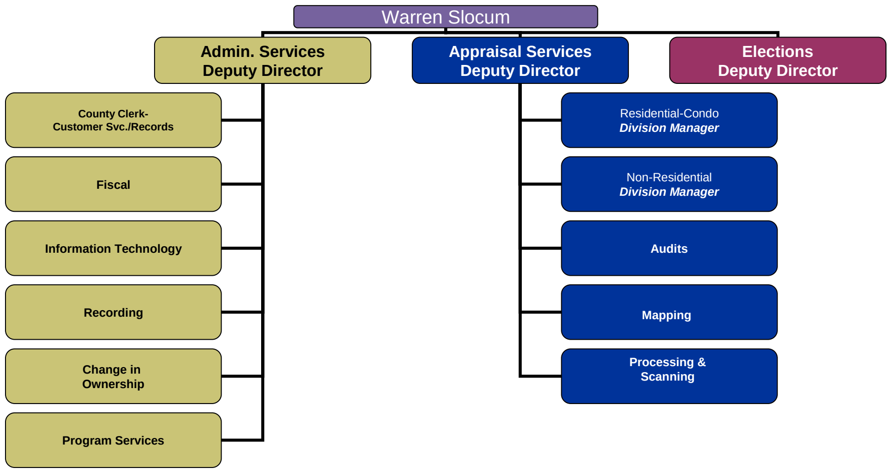
Interim Organization



mejorando group

6

Long-Term Organization



Change Management Plan

1. Change Management Coalition
2. Cohesive Change Management Strategy
3. Short-Term
4. Long-Term
5. Periodic Updates

FINAL REPORT

May 22, 2009

San Mateo County

Management Review of CARE

Submitted By:

Patrick Ibarra
The Mejorando Group
7409 North 84th Avenue
Glendale, AZ 85305
925-518-0187

www.gettingbetterallthetime.com

Table of Contents

Cover Letter 4

Executive Summary 6

Project Approach

Background 10

Scope 10

Work Plan 12

Work Phases 12

CARE Department 17

Strategy 17

Structure 22

Work Processes & Management Practices 26

CARE Divisions 28

Elections 28

Clerk-Recorder 35

Appraisal Services 38

Fiscal Services 42

Succession Planning Program 44

Workforce Demographic Analysis 47

Succession Planning Process – Pilot Program 50

Training and Development 60

Knowledge Management Transfer Program 66

Change Management Implementation Plan 81

May 22, 2009

David Boesch
County Manager
County of San Mateo
400 County Center
Redwood City, CA 94063

Re: CARE Management Review

Dear David:

On behalf of the Mejorando Group, I am pleased to provide the Final Report which captures current practices and offers a series of recommendations that upon implementation, will address those areas specified in the RFP. As the final report it incorporates many of the comments submitted by County staff members about the draft version.

We provide a series of targeted recommendations which include:

- A sound rationale for pursuing a more systematic approach to succession planning including the use of a Pilot Program which concentrates on developing potential successors for at-risk positions.
- An interim organizational structure to group similar activities while pursuing a long term departmental reorganization to enable development of natural successors for future deputy director vacancies as well as blending similar work activities to ensure consistency.
- Several strategies to transfer valuable knowledge about the CARE way of doing business especially in the area of the Special Assistant to the Assessor.
- A two-pronged approach consisting of a mentor and specific training to accelerate the performance of the Fiscal Services Manager.
- Maintaining the Elections Division in CARE for the foreseeable future while providing a proposed approach to evaluate other options in the future that includes a heavy emphasis on public participation.
- Integrating the Shared Vision 2025 and utilizing the Applied Strategic Planning approach to craft a planned approach of responding to the various forces imposing change on CARE services and operations.

We include a Change Management Implementation Plan which suggests the creation of a Change Management Coalition as a group to oversee implementation, along with a suggested sequence of recommendations both short- and long-term.

I am extremely pleased with the collaboration we experienced on this project. I recognize that a project of this magnitude can be disruptive for internal staff that is focused on their primary roles and responsibilities. I appreciate the sharing of yours and theirs time, thoughts and expertise.

I welcome the opportunity to continue our partnership with you and the employees of San Mateo County and CARE providing assistance with implementation if needed. If you have any questions or need more information, please feel welcome to contact me at 925-518-0187 or via e-mail at patrick@gettingbetterallthetime.com.

Sincerely,

Patrick Ibarra
Partner

EXECUTIVE SUMMARY

San Mateo County sought a consultant to conduct a management review of the Office of the Assessor-County Clerks-Recorder (CARE). Presently, there are over 120 employees who choose daily to commit themselves to the mission of CARE which is to "register County citizens to vote and efficiently conduct honest elections; ensure equitable treatment of County property owners by accurate and fair valuation of land, improvements and businesses; and create an accurate public record of recorded transactions relating to people and property within San Mateo County."

According to the County Assessor, there are several issues impacting CARE, including:

- Increased demand from the public and key stakeholders for timely, frequent, accurate information regarding property tax revenue, assessed value, and recorded documents, etc.
- Changing needs for expertise in property value appraisals, appeals, and revenue forecasting due to the complexity of certain economic sectors (e.g. biotechnology, airlines, etc.) and trends in the general economy.
- The need for succession planning in light of recent and anticipated retirements and some difficulty thus far in filling certain key positions.
- Concerns about the organizational fit and impact of having the Elections function as part of the Department.
- Structural budget challenges, which face the Department and the County as a whole.

A comprehensive approach to information gathering ensued and involved a review of a number of documents and individual interviews with a large group of stakeholders.

CURRENT PRACTICES

Based on an analysis of the information gathered, several areas are identified which relate to the scope of services. In summary, it was determined that:

1. The most recent strategic plan was adopted in 2002.
2. An analysis reveals that based on a number of statistical measures the San Mateo County Elections Division is performing very well.
3. San Mateo and Ventura Counties are the only two jurisdictions among those surveyed for this project that directly elect the Chief Elections Officer; all other counties have a Chief Elections Officer who is appointed.
4. Appraisal Services is performing quite well especially during difficult circumstances and changing economic conditions.

5. There appears to be insufficient grooming of potential successors for the Special Assistant to the Assessor who serves in a quasi-Chief Appraiser role over commercial property.
6. Many of the existing web-based/on-line services CARE provides are consistent with a number of other counties in California.
7. The various components of the County's Succession Planning Program (i.e. Management Development Program, Career Counseling, and Employee Development, to name a few) are under utilized by CARE employees.
8. According to the County's Learning Management System which tracks usage by employees, much of the training that CARE department employees complete is primarily technical in nature.
9. Process to develop prospective Deputy Directors has been inconsistent with no apparent position (i.e. job classification) in existing organizational structure that would generate potential successors.
10. Recruitment efforts for replacement of Deputy Director(s) have been unsuccessful.
11. 18 of 20, or 90%, of those employees in supervisory and management positions are 50 years of age or older. 55%, or 11 of the 20, are 55 years of age or older.
12. Prior to retirement of experienced CARE staff members, their institutional knowledge is not effectively transferred to other members of the department.
13. Based on the current budget situation which presents a host of new challenges, the role of the Financial Services Manager requires skills in the areas of relationship-building and possessing in-depth knowledge about CARE operations and determining impacts from potential budget reductions.
14. Software systems between CARE, the Controller and Tax Collector are not synchronized leading to inefficiencies.
15. The process used to acquaint new employees with their role and responsibilities in support of CARE operations is inconsistent and incomplete.
16. The Clerk-Recorder is an active user of technology to deliver services and a strong advocate of e-Government initiatives. In researching other jurisdictions, San Mateo County is comparable with the range and delivery mechanisms (i.e. the internet) of Clerk-Recorder services.
17. As compared to other jurisdictions, the Clerk-Recorder operation is highly productive with regard to the most frequent services delivered including Workload per Capita for Number of Documents Recorded. Workload per capita for Number of Pages Filmed or Scanned and Workload Per Capita for Number of Vital Records Copies Issued.
18. Most employees perceive upper management as not being receptive to change and not actively seeking input and feedback from employees on issues of major significance. The level of employee involvement in the organization's improvement efforts is seemingly limited to management.
19. Desire expressed for more frequent communication delivered by members of senior management about department-related issues.
20. Desire expressed for more inclusion of employees in addressing department-related issues.

RECOMMENDATIONS

The recommendations proposed are based on our analysis and experience of what works in other jurisdictions, along with the unique culture that reflects the CARE Department. In crafting recommendations, our team is very mindful to develop those that are practical, tactical and impactful so individual performance is improved and organizational effectiveness enhanced. Furthermore, we offer targeted and substantive recommendations focused on the highest priority areas identified in the RFP.

The following list is an inventory of proposed recommendations. Under the category of Change Management Implementation Plan which begins on page 81 of this report, a sequence of execution is suggested for consideration.

1. Participate in an Applied Strategic Planning process intended to craft a planned approach of responding to the various forces imposing change on CARE services and operations.
2. In the short-term consider adopting an interim organizational structure conceived by the CARE management team, including a few modifications. The value is to group similar activities into blended groups where natural synergies will most likely generate improved performance.
3. In the long-term, reorganize the department to consolidate Appraisal Services and reclassify two positions currently on the Countywide Hiring Freeze list to Program Services Manager II who will serve as Division Managers. This is designed to create a job classification that will develop potential deputy directors. Other dividends will be realized as a result of this reorganized organizational structure.
4. Maintain Elections in CARE and revisit possible modifications at the point in the future when Mr. Slocum decides not to seek re-election. A process to purse options is offered for review and includes a heavy emphasis on public participation.
5. Enlist the aid of a mentor and identify additional training for the existing Fiscal Services Manager. These techniques are intended to accelerate the incumbent’s performance and will translate to the Fiscal Services Manager being a visible and influential partner to senior management and enable CARE to effectively navigate the budgeting process.
6. Implement a Succession Planning Pilot Program focused on developing potential successors for at-risk positions of Deputy Director, Assessor-Recorder Support Services Supervisor and Principal Appraiser.
7. Employees who are either currently or are interested in becoming a supervisor should attend the County’s First Line Supervisory Academy or other supervisory preparatory courses.
8. Immediately enlist a small group of potential successors to the current Special Assistant to the Assessor and involve each of them in a series of planned development activities to extract valuable institutional knowledge.

9. Continue to utilize the job rotational program.
10. Require Training and Development Plans each year for every employee.
11. Encourage employees to determine competency-training match prior to registering for training workshops.
12. Utilize a variety of Knowledge Management Transfer strategies and techniques to mitigate the impacts of seasoned employees departing with the CARE way of doing business.
13. Support existing efforts by the Clerk-Recorder's Office in the following areas:
    a. In FY 2009-10 begin recording electronically land records from both business and government entities.
    b. Continue to expand e-Government initiatives.
    c. Continue to explore opportunities to streamline and automate functions.
    d. Continue excellent customer service by working closer with the public and private industry.
14. Based on the composition of workforce demographics for the Elections Division as soon as the budget situation improves the two positions included on the Countywide Hiring Freeze list should be considered high priority for hiring.
15. As soon as fiscally possible, other positions currently on the Hiring Freeze list should be released and be considered high priority for hiring.
16. Collaborate with County Human Resources Department and co-create a robust and beneficial on-boarding process designed for newly hired employees.
17. Continue discussions with the Controller and Tax Collector to institute synchronized software systems.
18. Periodically engage employees in all Divisions about the importance and influence of Outcome Based Measurements for their respective operations.
19. Hold periodic all-employee meetings that encompass a range of issues which pertain to the employee's level of understanding about those factors impacting CARE services including the budget situation, new department or County-wide technology, etc.
20. Utilize the recommendations offered in the Assessment Practice Survey currently being completed by the California State Board of Equalization.

PROJECT APPROACH

Project Background

San Mateo County sought a consultant to conduct a management review of the Office of the Assessor-County Clerks-Recorder (CARE). Presently, there are over 120 employees who choose daily to commit themselves to the mission of CARE which is to "register County citizens to vote and efficiently conduct honest elections; ensure equitable treatment of County property owners by accurate and fair valuation of land, improvements and businesses; and create an accurate public record of recorded transactions relating to people and property within San Mateo County."

According to the County Assessor, there are several issues impacting CARE, including:

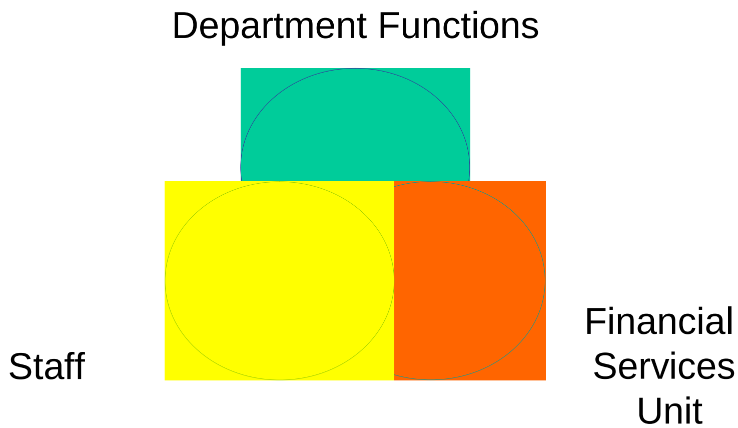
- Increased demand from the public and key stakeholders for timely, frequent, accurate information regarding property tax revenue, assessed value, and recorded documents, etc.
- Changing needs for expertise in property value appraisals, appeals, and revenue forecasting due to the complexity of certain economic sectors (e.g. biotechnology, airlines, etc.) and trends in the general economy.
- The need for succession planning in light of recent and anticipated retirements and some difficulty thus far in filling certain key positions.
- Concerns about the organizational fit and impact of having the Elections function as part of the Department.
- Structural budget challenges, which face the Department and the County as a whole.

The magnitude of impacts resulting from these issues prompted a management review of CARE.

Project Scope

Based on the issues already identified by the County Assessor, two areas have been identified for focus in the management review: Organizational Structure and Process/System Review. Embedded within these two areas are three sub-topics which are the centerpiece of the review:

Three Areas of Focus



Current department functions and staff areas are fairly broad while, conversely the Financial Services Unit is specific. Consequently, the management review will cover much of CARE's operation.

The purpose of this assessment was to conduct an analysis of the particular Department's programs and processes to identify areas of strength, weakness, and where improvements may be needed. We examined each of the areas identified in the RFP and focused on several subjects that, upon an in-depth review, revealed the strengths and areas for improvement. These subjects included:

- **Goals, Mission, and Objectives**
- **Organizational Structure**
- **Staffing Levels**
- **Service Delivery**
- **Succession Planning**
- **Employee Training and Development**
- **Managerial Effectiveness**
- **Communications**

The Mejorando Group understands that each recommendation developed must be practical and capable of being implemented. As such, our analysis does not focus exclusively on quantitative analysis but also considers factors such as the strengths of the current situation, external constraints to change, and the time and financial resources required to implement recommendations. ***We believe our value to San Mateo County on this project will be our ability to develop recommendations that can be implemented and produce measurable improvements.***

Work Plan

Our work plan started with documenting the 'As Is' environment of CARE's operation. Capturing current practices with a fairly high level of confidence is essential prior to embarking on pulling the levers for change. As part of our effort to capture current practices, we then benchmarked the 'As Is' to other best practice organizations and processes to determine differences through a "gap analysis" which is depicted in Figure 1. Finally, our team developed a series of recommendations for gap-closing strategies.

Figure 1

A significant element in crafting recommendations is to factor in the impact of the issues on CARE that were listed in the Scope section of the RFP. These issues were incorporated into our analysis to ensure our recommendations concentrate on that which has been deemed of the highest concern by key stakeholders within the County organization.

Our study and analysis will produce a compelling business case for change with practical recommendations for improvements -- in strategy, policy, process, and technology. We shall present the business case for change in the final report. Just as important, our final report will include approaches, methodologies, and strategies to successfully implement change to ensure the desired changes become integral to San Mateo County's strategies, policies, people, process, technology, organization, and culture.

Work Phases

Our methodology was comprised of (6) phases:

1. ***Kick-off/Launch meeting:*** As an important initial step, prior to identifying the 'As Is', a meeting was held at which all department employees were invited to attend. The purpose was to communicate the scope of the project, role of employees, address questions, make clarifications, and overall, try and reduce the anxiety sometimes held by employees about projects of this nature.

2. ***Document the "As Is"/Current Practices environment***: Capture how work is currently being performed by evaluating process flows, work volumes, hand-offs, critical steps, performance standards, job tasks and requirements, number of staff currently performing processes, and the number of work "hand-offs." We sought to document the "As Is"/Current Practices environment by collecting and analyzing certain data.

    - ***Document Analysis:*** This particular aspect of the Project Approach was essential in increasing the understanding by team members of the CARE operation's work processes and functions. The list of documents provided included:

        - Business/Strategic Plan for CARE
        - Technology Master Plan for CARE or a County-wide Plan that may include discussion about CARE operations and services.
        - Annual Workforce and Succession Planning report generated by Human Resources for CARE
        - Budget Report, 2008-2010
        - Previous consulting reports completed on Department
        - County Human Resources Department Strategic Plan 2008-2010
        - Policy and Procedure Manuals that govern operations and services
        - San Mateo County Assessment Practices Survey, September 2005 completed by California State Board of Equalization
        - Training completed by CARE employees in 2007 and 2008
        - Statistical Measures for Appraisal services for all counties in California
        - Election Report generated by State of California Secretary of State
        - Variety of CARE Department Workforce demographics
        - Assessment Appeals Board (level of activity)
        - County of San Mateo Civil Service System Rules
        - Collective Bargaining Agreements
        - Copy of blank Performance Appraisal form
        - Customer Satisfaction Survey Reports
        - Information about Employee Development Pilot Program administered by County Human Resources Department
        - Job Announcement uses for past recruitments of Deputy Director position
        - Position descriptions for those persons responsible for Financial Forecasting.
        - Mid Year Trend Report FY 2008-2009
        - FY 2008-2009 Performance Measures Quarterly Report
        - CARE web site traffic statistics

In addition to the documents provided by CARE, additional research was gathered by team members that pertained to comparable jurisdictions.

- ***Interviews:*** Members of the Project Team met with several key stakeholders to obtain their perspective about the strengths and opportunities for improvement with respect to CARE operations, services and programs that relate to the project scope. These types of meetings helped provide the project team a more in-depth understanding of the issues surrounding CARE. Interviews were held with the following persons:

    1. County Supervisor Mark Church
    2. County Supervisor Richard Gordon
    3. David Boesch, County Manager
    4. Reyna Farrales, Deputy County Manager
    5. Jim Saco, Budget Manager
    6. Donna Vaillancourt, HR Director and members of her staff who support CARE and/or are involved with County succession planning efforts.
    7. Warren Slocum, Chief Elections Officer and County Clerk-Recorder-Assessor
    8. Angelina Hunter, Deputy Assessor-County Clerk-Recorder, Appraisal Division
    9. Theresa Rabe, Deputy Assessor-County Clerk-Recorder, Document Processing and Support Services
    10. David Tom, Deputy, Deputy Assessor-County Clerk-Recorder, Elections
    11. Terry Flinn, retired Deputy Director and current Special Assistant to the Assessor
    12. Andrew Wright, Consultant to CARE
    13. Jacqueline Chen-Lee, Financial Services Manager, CARE
    14. Carol Marks, Director of Communications and Special Programs, CARE
    15. Narda Barrientos, Elections Supervisor, CARE
    16. Lee Thompson, County Counsel
    17. Chris Flatmoe and Pete Owen, Information Technology Department
    18. Rocio Kiryczun, Financial Services Manager, Human Resource Department
    19. Walter Martone, Deputy Director of Administration, Public Works Department

- ***Focus Groups:*** Group interviews were held with staff members most familiar with core functions of CARE. The methods utilized were designed to elicit their perspectives about issues or obstacles the Department is experiencing in delivering services and potential solutions. Frank input and constructive feedback from these stakeholders is essential to this project's success and the ability of the Department to implement and sustain changes.

1. Appraisal Real Property
2. Appraisal Business Property
3. County Clerk-Recorder
4. Elections

A meeting was also held with members of the project team including:

1. Reyna Farrales, Deputy County Manager
2. Conrad Fernandes, County Manger's Office
3. Audrey Ramberg, County Manager's Office
4. Joanne Ward, County Manger's Office
5. Andrew Wright, Consultant, CARE
6. Chet Overstreet, Human Resources
7. Kanchan Charan, Controller's Office

3. ***Benchmark to other best practice organizations- conducting a Gap Analysis****:* Utilizing information gathered about similar size public sector organizations, a gap analysis was completed that documents differences between the "As Is" and the Best Practices. A list of organizations which served as the sources for obtaining "benchmark" information include nine counties in California (several of these were suggested by Mr. Slocum) and seven from other States:

    1. Orange County, CA (pop. 3,098,121)
    2. Riverside County, CA (2,030,333)
    3. Sacramento County, CA (1,406,804)
    4. San Bernardino County, CA (2,028,013)
    5. San Diego County, CA (2,941,454)
    6. San Francisco County, CA (744,041)
    7. San Joaquin County, CA (653,333)
    8. Santa Clara County, CA (1,731,281)
    9. Ventura County, CA (779,720)

    A number of other urban counties from outside California are also included in this Management Review. However, their operations varied greatly and accompanying performance measures were not readily available for comparison purposes:

    - Arlington County, Virginia (198,756)
    - Clark County, Nevada (1,756,033)

- Johnson County, Kansas (511,330)
- Lake County, Illinois (688,037)
- Maricopa County, Arizona (3,724,924)
- Mecklenburg County, North Carolina (818,744)
- Montgomery County, Maryland (917,181)

4. ***Design the "To Be" environment****:* Based on the gap analysis, potential solutions to close the gaps and move the organization closer to realizing improvements are identified.

5. ***Recommend strategies and a detailed implementation plan****:* A report is being provided that provides a detailed plan identifying recommendations to be implemented in the short-term and long-term.

6. ***Provide assistance with implementation as needed****:* We firmly believe that by collaborating with San Mateo County staff in addressing issues as they arise, providing clarity about particular aspects of our Implementation Plan, there is a stronger likelihood that the Implementation Plan will be successful and outcomes will be realized.

REPORT FORMAT

The balance of this Report is divided into three sections:

- CARE Department as a whole
  - Strategy – evaluation of current strategy influencing CARE operations and suggested recommendation
  - Structure – assessment of current organizational structure and proposed reorganization
  - Work Processes and Management Practices – analysis of processes and practices guiding daily work of department employees and suggested recommendations

- CARE Divisions
  - Elections
  - Appraisal Services
  - Clerk-Recorder
  - Fiscal Services operation

- Succession Planning
  - Workforce Demographic Analysis
  - Pilot Program
  - Training and Development
  - Knowledge Management Transfer Program

CARE DEPARTMENT

STRATEGY

CURRENT PRACTICES

The most recent strategic plan was adopted in 2002 and while CARE, like all San Mateo County departments are active in the County sponsored Outcome Based Management, which does integrate some aspects of strategic planning it does not substitute for the benefits derived from organizational members participating in a more robust strategic planning process.

Organizations, such as CARE, are continually presented with unexpected opportunities and unanticipated problems. Hard choices must be made, sometimes quickly, often under conditions in which little is certain. It can be easy to become distracted by these challenges expending time, money, and energy on activities that divert people's attention from the organization's principal goals. To avoid these distractions, organization members – including staff from top to bottom – need to understand clearly what the organization's goals are and what it will take to achieve them. This is where strategic planning plays a pivotal role. Strategic planning allows organizations to make fundamental decisions that guide them to a developed vision of the future. The result of this effort, the strategic plan, serves as the basis for action – a road map that directs all resources toward the desired future.

RECOMMENDATION

The approach recommended will provide CARE with both the clarity of direction in which to move and the people energy to initiate that movement. We view the most effective approach to be that of ***Applied Strategic Planning*** which is described as the process by which the department's members (i.e. the employees) envision its future and develop the necessary means and operations to achieve that future. Consequently, the importance of thinking strategically is essential for all members of the planning group if their work is to be successful. Since many times employees even with the best of intentions have little time to invest in strategic thinking, as opposed to spending a majority of their time and energy putting out brush fires, the practice of thinking strategically will be an incredible opportunity to contribute. The process of Applied Strategic Planning engages the imagination of employees toward the creation of audacious goals and identification of practical means by which to achieve them. The existing Outcome Based Management and Shared Vision 2025 should be included in the Applied Strategic Planning process.

There are seven steps involved as part of the Applied Strategic Planning process:

1. Planning to Plan

Purpose is to address several critical questions prior to initiating the Planning process including who should be involved in the planning group, how and when the process should be initiated, how others in the organization who are not directly involved in the planning process will be informed about the process, the time frame for the process, and whether the culture of the organization generally supports a planning process.

In order for the plan to be implemented and to achieve excellence, groundwork must be established early in the process. A reasonable plan executed in a high-quality fashion will always produce an outcome that is superior to a high-quality plan executed in a casual manner.

2. Values and Culture

Values are the underlying principles or standards that guide all human actions – personal and organizational. What individuals believe is worthwhile determines their decisions and actions. This segment will involve an examination of both the values of each person involved in this process on an individual basis and those of the organization as a whole. Included in the 2001 Business Plan is a list of five values and mission resources:

- Facilities
- Finance
- Mission-Driven Programs
- People
- Technology

These can be an excellent resource as a means to revisit and possibly reconfirm the values which exist today in CARE. Clarity at the personal level provides the necessary foundation for understanding and responding to the values of the department. The desired outcome of this step is the adoption of a Department Values Statement.

3. Mission Statement Verification

CARE currently has a Mission Statement which reads "To register County citizens to vote and efficiently conduct honest elections; ensure equitable treatment of County property owners by accurate and fair valuation of land, improvements and businesses; and create an accurate public record of recorded transactions relating to people and property within San Mateo County." Based on the values clarification that occurred in the previous step, the intent here is to verify the accuracy of the existing mission statement and make changes where needed. Other questions which will be answered that will help modify the existing mission statement are:

- What are the needs and wants of CARE's customers?
- How does CARE go about in fulfilling the wants and needs?
- Why does CARE exist?

A powerful mission statement can unleash the passion of employees who are seeking to find meaning in their daily work life. The mission statement shall be crafted so it's clear, credible and understandable, flexible but focused, and brief.

4. Strategic Business Modeling

Strategic Business Modeling is the next step in the planning process, where the planning group develops the specific, detailed plans and procedure that will lead CARE from the present to the envisioned future.

Strategic Business Modeling defines the vision of the ideal future in tangible, measurable tools. It specifies what business CARE is, and will, be in; how success is to be measured; what needs to be done in order to reach such success; the mileposts that must be met to achieve that success; and how the organizational structure, staffing, and culture have to change. In other words, the strategic business model is a detailed plan for how CARE can and will reach its intended goals – how it will fulfill its mission. Strategic business modeling is a time of high creativity as the planning group seeks to describe fully the ideal future for the CARE.

5. Performance Assessment

After the planning group has articulated the desired future and how that can be achieved, the group then turns its attention to a detailed examination of the existing condition of the department. This performance assessment must answer the critical question of how well the department is performing in conducting its current operation of service delivery. Without such a review it will not be possible to determine the department's capacity to realize its desired future. In addition to gathering additional information, the planning group would rely on segments of this report which evaluate current practices about CARE operations.

6. Gap Analysis and Closure

The clear understanding of both the future state desired by the department and its current capacity presents a critical question: How large is the gap between the department's present capacity and its desired future? An external and internal SWOT analysis will be undertaken. Gap Analysis and Closure asks the tough questions of whether the desired future is achievable, given the present condition of the department and what it will take to close this gap. Identification of the size of the gap indicates whether the desired future state represents a stretch goal or mission impossible. The Gap Closure will generate an Action/Strategic Plan consisting of targeted strategies and tactics.

7. Implementing the Plan

The process of strategic planning requires implementation if it is to be of any use to CARE. The Action/Strategic Plan will provide a "blueprint" for decision making. The planning group will also determine how best to present the Plan to department employees.

It is **recommended that each Division – Appraisal Services, Clerk-Recorder and Elections prepare their own Strategic Plan in draft form**. The idea is that those persons most familiar with Division activities are well-suited to contribute towards the creation of a strategic plan and will minimize the likelihood that specific Division priorities will be inadvertently minimized. **Subsequent to the draft for each Division,**

personnel from each Division will convene and craft one overall Strategic Plan for the entire Department. Separating and then merging the groups and their respective plans will maximize the relevancy and value for each group's Plan and by partnering together on one overall Plan, the priorities of each Division will be evaluated and then incorporated where most appropriate. The outcome will be the adoption and subsequent implementation of a Department Strategic Plan that reflects methods and timelines on how best to address/impact today and tomorrow's challenges.

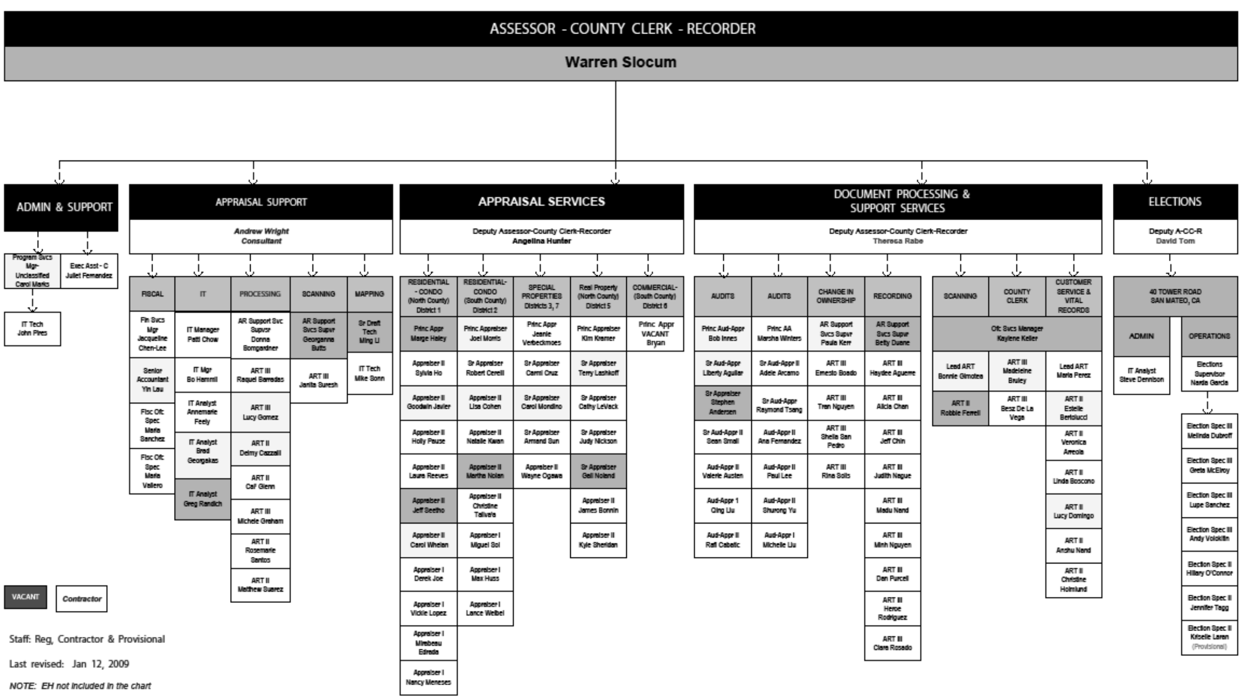
STRUCTURE

CURRENT PRACTICES

The current organizational structure distributes services among three deputy directors and one consultant and have them divided between:

- Appraisal Support which includes support services – Fiscal, Information Technology, Processing, Scanning and Mapping
- Appraisal Services which includes division of work by type of work (i.e. Residential, Special Properties, Real Property and Commercial) and further divided by geography (designated County district)
- Document Processing and Support Services which features aspects of Appraisal Services including Audits, Change in Ownership and Recording along with Scanning, County Clerk and Customer Service and Vital Records.
- Elections
- Administrative and Support

Current Organizational Structure



General observations:

- Recent recruitments for Deputy Director have proven unsuccessful and it appears no position (i.e. job classification) exists which might groom potential candidates for the deputy position.

- Earlier in 2009, after the departure of a long-term deputy director the Audits function was reassigned from Appraisal Services.

- Appraisal Support currently has five Supervisors reporting to a Consultant.

- Each Deputy Director has line supervisors who report to them and consequently the Deputy may be involved with technical, baseline decision making regarding daily activities.

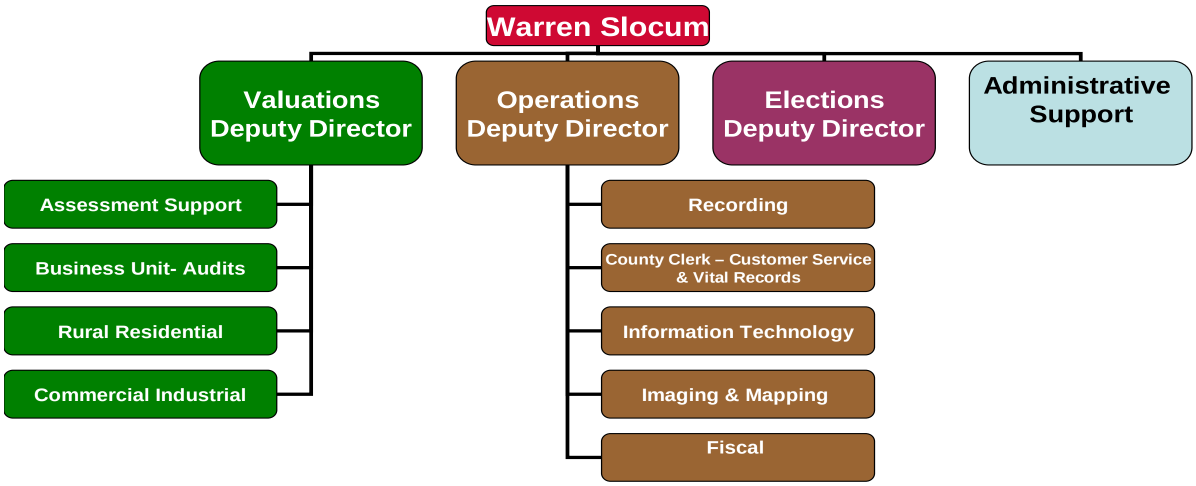
- Appraisal Services has five direct reports including two persons that oversee Residential-Condo.

RECOMMENDATIONS

Based on the current economic climate in which budgets are tightening and severe cutbacks loom, it appears unlikely that adding positions to any function within CARE would be successful in the short-term. Therefore, utilizing the analysis of the existing organizational structure and factoring in the current budget situation and need to develop potential successors for the deputy director position, a departmental reorganization is suggested for consideration. The initial recommendation for a revised organizational structure that was included in the draft version of this report prompted a number of comments from CARE staff that reflected a serious concern with its viability and utility. Additionally, the desire was expressed to reinstate the Standards Unit which was removed due to budgetary constraints sometime back. This responsibility was distributed among several staff persons.

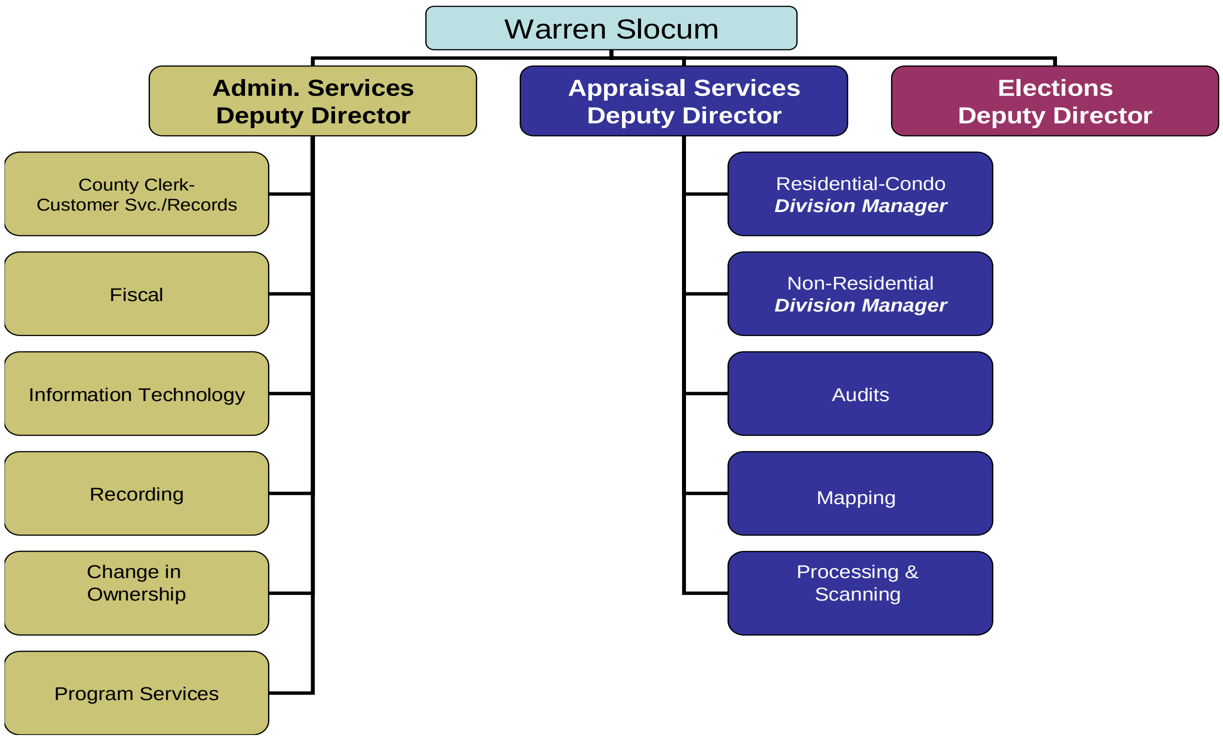
As a result of discussions with CARE staff members and other County staff, we are recommending a two-phased approach to reorganizing the CARE operation; an interim approach (i.e. short term) and a long-term approach. Many of CARE operations operate in a dynamic environment, so the idea is to continue evaluating changing circumstances and incorporate the necessary changes into the CARE structure. The factors which continue to impact CARE operations are beyond budgetary but also include demands for services, changing workforce demographics, expansion of technology-based solutions, etc.

Proposed Reorganization
Short Term



The short-term version reflects internal discussions by CARE staff that occurred during the last year. They recommended a Deputy Director to Mr. Slocum that would serve as an Assistant Department Director along with the reinstatement of the Policy, Procedures and Standards unit. Both of these items were removed as part of the suggested interim organizational structure. It appears the primary changes are to consolidate similar activities under Valuations (Processing, Audits, Rural Residential and Commercial Industrial) and Operations (Imaging, Clerk, Customer Service and Vital Records, IT, Fiscal, Imaging and Mapping) as compared to the existing organizational structure as depicted on page 22 of this report. The idea is to optimize the natural synergies and similar issues which already exist among certain functions by blending them together.

Proposed Reorganization
Long Term



The long-term organization structure was what was recommended in the draft version of this report and remains intact.

The Elections Division is examined in further detail on page 28 with the recommendation to keep it intact. No changes to this service are recommended for the foreseeable future.

The Administrative functions would be under one Deputy Director:

- County Clerk
- Customer Service & Vital Records
- Fiscal
- Information Technology
- Recording
- Change in Ownership
- Program Services

Appraisal Services would realize the most significant impact. There would still be five persons reporting to the deputy director but those five would be responsible for slightly different activities.

- Audits, which formerly reported to the previous Deputy Director of Appraisal Support, and is traditionally an Appraisal Service.
- Mapping which up until January 2009 reported to the existing Deputy Director of Appraisal Services.
- Residential Condo would be merged from having two direct reports into one Division with one Division Manager responsible for reporting to the Deputy Director.
- Non-Residential Property and Commercial would be merged from three direct reports into one Division with one Division Manager reporting to the Deputy Director.
- Processing and Scanning

The redesign of Appraisal Services will consolidate similar activities under two Division Managers which should increase consistent coordination. The other benefit to be realized is those persons filling the Division Manager role will be acquiring the experience, judgment, problem-solving, decision-making and supervisory skills necessary to be extremely competitive during the selection for a deputy director.

The cost-savings realized from deleting one Deputy Director position can be applied towards reclassifying two positions currently on the Hiring Freeze list into Program Services Manager II positions; these will serve as Division Managers and should be filled through an open recruitment.

Beyond the vacant Deputy Director position being eliminated, no other positions are likely to be impacted by adopting this reorganization.

WORK PROCESSES AND MANAGEMENT PRACTICES

While not a primary purpose of this project, these areas receive a cursory review. These are what managers and supervisors do in the normal course of events to use human and material resources to carry out the organization's strategy.

CURRENT PRACTICES

- Most employees perceive upper management as not being receptive to change and not actively seeking input and feedback from employees on issues of major significance. The level of employee involvement in the organization's improvement efforts is seemingly limited to management.
- Desire was expressed for more frequent communication delivered by members of senior management about department-related issues.
- Existing performance measures are regarded as more of an administrative task and less a tool to calibrate performance. Some divisions are active users while others are not.
- Software systems between CARE, the Controller and Tax Collector are not synchronized leading to inefficiencies.

- In Appraisal Division there is a lack of uniform standards regarding staff work and a duplication of property files seems to generate inefficient use of staff time.
- The process used to acquaint new employees with their role and responsibilities in support of CARE operations is inconsistent and incomplete.

RECOMMENDATIONS

- Collaborate with County Human Resources Department and co-create a robust and beneficial on-boarding process designed for newly hired employees. Much more than a new employee orientation consisting of the typical paperwork, on-boarding is focused on equipping the new employee with the tools and context about their new surroundings enabling their high performance. This program should include a “Buddy” portion in which new employees are paired with an existing employee to learn about the department, ask questions of, and overall, increase their familiarity with CARE operations. Research shows the sooner a new employee gains traction in their new organization the faster they contribute and the more likely they will stay.

- Continue discussions with the Controller and Tax Collector to institute synchronized software systems.

- Periodically engage employees in all Divisions about the importance and influence of Outcome Based Measurements for their respective operations. Increasing the understanding of employees about the value of OBM and how each employee contributes to the performance of the Division and the entire Department, will prove extremely beneficial.

- In regards to the feeling about the lack of employee involvement in efforts designed to help improve the department’s performance, this may stem from the apparent lack of communication from the Department Director to those employees below the level of Deputy Director. Periodic all-employee meetings should be held that encompass a range of issues which pertain to the employee’s level of understanding about those factors impacting CARE services including the budget situation, new department or County-wide technology, etc. The benefit from enlisting this communication strategy may alter the impression that employee involvement is not a priority and result in department members’ better understanding the focus of CARE and their role in its continued quality of excellence.

The following three sections examine the Divisions within CARE – Elections, Appraisal Services and Clerk-Recorder with various workload measures provided for comparison purposes and where appropriate, recommendations. Fiscal Services is also included in this section.

ELECTIONS DIVISION

Specified in the RFP was to determine whether the Elections function should remain in its current organizational format. In other words, should it (i.e. Elections operation) and its employees be removed from direct oversight by Mr. Slocum, who serves as the Chief Election Officer, and redeployed to another part of County government.

CURRENT PRACTICES

Under Mr. Slocum's leadership, Elections continues to embrace new ways of doing business and leverage the increased attention by the voting public. Beyond simply providing information on the "Shape the Future" web site, which is dedicated solely to the voting and elections process, Mr. Slocum has sought leading-edge solutions to engage the public at large.

His pursuit is reflective of an approach in which the public has ample opportunities to participate in the voting process, from registering, volunteering as a Poll Worker, have the ability to monitor election results practically in real time, etc.

A number of statistical measures are provided in the following tables and in summary it appears the San Mateo County Elections Division is performing very well. This is based on the following observations:

- 81% of County residents are registered to vote as compared to the State of California average of 75%.
- The highest number of registered voters per Elections staff member at 32,746.
- Net County Cost of 58% as compared to the average among other jurisdictions of 61%.
- Cost per Eligible Voter is $9.91 as compared to the average among other jurisdictions of $11.16.
- Cost per Registered Voter is $12.20 as compared to the average among other jurisdictions is $15.19.

County	Number of Eligible	Voters Registered	Percentage of Voters

	Voters		Registered (%)
Orange	1,860,951	1,607.989	**86%**
San Mateo	479,470	389,718	**81%**
Ventura	523,404	425,968	**81%**
San Francisco	599,667	477,356	**80%**
State Average			**75%**
Sacramento	931,394	684,588	**73%**
San Diego	2,052,145	1,488,157	**72%**
Santa Clara	1,117,301	788,821	**71%**
San Bernardino	1,229,616	829,756	**67%**
Riverside	1,284,401	837,389	**65%**
San Joaquin	412,690	268,476	**65%**

The following table which includes seven similar size counties from outside California is intended to demonstrate the size of staff as compared to the number of registered voters in each jurisdiction. San Mateo County has the highest number of registered voters at 32,476 voters per staff member.

County	Registered Voters	Number of Elections Staff	Registered Voters per Staff
San Mateo	389,718	12	**32,476**
Orange	1,607.989	51	**31,529**
Mecklenburg, North Carolina	627,498	20	**31,374**
Maricopa, Arizona	1,800,532	58	**31,043**
Ventura	425,968	16	**26,623**
San Diego	1,488,157	63	**23,621**
Clark, Nevada	836,000	37	**22,594**
Lake, Illinois	405,041	18	**22,502**
Average			**21,256**
Johnson, Kansas	349,659	18	**19,425**
Riverside	837,389	44	**19,031**
Sacramento	684,588	38	**18,015**
Arlington, Virginia	143,114	8	**17,889**
San Bernardino	829,756	50	**16,595**
Santa Clara	788,821	52	**15,169**
Montgomery, Maryland	560,156	47	**13,337**
San Francisco	477,356	39	**12,239**
San Joaquin	268,476	34	**7,896**

County	Registered Voters	Number of Elections Staff	Registered Voters per Staff

Maintaining a reasonable budget is always a concern for each County function, but most notably now during these challenging economic times. Based on the following chart which identifies Net County Cost, or the amount the General Fund is subsidizing the Elections function, San Mateo County appears to be in much better financial shape than many other counties.

County	Expenses	Revenue	Net County Cost (%)
San Bernardino	10,697,810	7,707,306	**28**
San Joaquin	6,654,742	4,394,739	**34**
Riverside	8,881,510	5,466,677	**38**
San Mateo	4,752,634	2,003,000	**58**
Average			**61**
San Diego	19,640,412	7,488,412	**62**
Ventura	3,439,0232	1,246,745	**64**
Santa Clara	15,491,985	4,659,214	**70**
Sacramento	11,352,617	3,082,704	**73**
Orange	16,610,828	2,001,656	**88**
San Francisco	11,285,498	811,997	**93**

A statistic that reflects how San Mateo Elections compares to other jurisdictions with regards to the return-on-investment of each dollar budgeted is shown below as the Cost per Eligible Voter and Cost per Registered Voter. San Mateo is performing better than the average among the jurisdictions, yet another indicator that citizens of the County are being served in a fiscally responsible manner.

County	Expenses	*Number of Eligible Voters*	Cost Per Eligible Voter
Ventura	$3,439,023	523,404	**$6.57**
Riverside	$8,881,510	1,284,401	**$6.91**
San Bernardino	$10,697,810	1,229,616	**$8.70**
Orange	$16,610,828	1,860,951	**$8.93**
San Diego	$19,640,412	2,052,145	**$9.57**
San Mateo	$4,752,634	479,470	**$9.91**
Average			**$11.16**

County	Expenses	*Number of Eligible Voters*	Cost Per Eligible Voter
Sacramento	$11,352,617	931,394	**$12.19**
Santa Clara	$15,491,985	1,117,301	**$13.87**
San Joaquin	$6,654,742	412,690	**$16.13**
San Francisco	$11,285,498	599,667	**$18.82**

County	Expenses	*Number of Registered Voters*	Cost Per Registered Voter
Ventura	$3,439,023	425,968	**$8.07**
Orange	$16,610,828	1,607,989	**$10.33**
Riverside	$8,881,510	837,389	**$10.61**
San Mateo	$4,752,634	389,718	**$12.20**
San Bernardino	$10,697,810	829,756	**$12.89**
San Diego	$19,640,412	1,488,157	**$13.20**
Average			**$15.19**
Sacramento	$11,352,617	684,588	**$16.58**
Santa Clara	$15,491,985	788,821	**$19.64**
San Francisco	$11,285,498	477,356	**$23.64**
San Joaquin	$6,654,742	268,476	**$24.79**

The challenge which confronts Elections and this year appears to offer yet another are the unanticipated, and thus unbudgeted, special elections. In 2008, an additional election was required due to the death of an elected official and in 2009 a special State-wide election is scheduled for May 19. While the State has committed to reimbursing counties for expenses they incur to conduct the election, as Mr. Slocum cited in his February 26, 2009 memo to the Board of Supervisors, the timing of when these reimbursements will occur is unknown. In his memo, Mr. Slocum also states that the "costs to conduct elections continue to rise due to increasing federal and state regulations, requirements relating to security and access and the conduct of two separate systems (precinct voting and vote by mail)." Two separate systems while convenient and accessible to the voting public, impacts labor and materials required to conduct the elections. Voting by mail, as indicated in the following table from the November 2008 election reflects an overall nationwide trend indicating its increasing use.

Results from November 2008 Election

County	Total Voters	Precinct Voters	Vote-by-Mail Voters	Percent of Vote-by-Mail Voters
Santa Clara	678,033	289.596	388,437	**58%**
San Mateo	307,350	159,531	147,819	**48%**
San Joaquin	212,214	110,447	101,767	**48%**
Orange	1,167,657	624,181	543,476	**47%**
San Francisco	388,112	209,527	178,585	**46%**
San Diego	1,245,947	672,668	573,169	**46%**
Sacramento	546,660	305,108	241,552	**44%**
Ventura	343,690	194,104	149,586	**43%**
State Average				**42%**
Riverside	657,005	384,166	272,839	**42%**
San Bernardino	616,320	387,135	229,185	**37%**

Specifically for San Mateo, the number for Vote by Mail rose from 119,239 in 2004 to 147,819 in 2008, an increase of 24%. Of the entire votes cast, the percentage for Vote by Mail increased from 42% in 2004 to 48% in 2008. Consequently, the Vote by Mail option continues to be heavily used and necessitates sufficient resources allocated to support its operation.

RECOMMENDATIONS

Our research indicates that only San Mateo and Ventura counties have an elected official directly coordinate the Elections function. All other California counties included in this management review, including Orange, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Joaquin and Santa Clara, feature a Chief Elections Officer who is appointed by an Elections Commission, Board of Supervisors or County Executive.

The Elections Division is continually being impacted by a number of factors including:

- Federal and state legislation (i.e. Help America Vote Act (HAVA))
- Changing requirements by the Secretary of State regarding use of voting equipment and voting processes used
- Unanticipated events which prompt special elections (i.e. in 2008 the death of an elected official prompting a special election to name a replacement)
- Advancements in technology
- Intensified scrutiny by the media and citizen watch groups, and
- Shifts in voting patterns such as the increased use of mail ballots.

These factors impact both the internal operations and external services provided by the members of the Elections Division.

The question was posed in the RFP – should Elections stay in place in its current form or should it be reassigned? There are benefits associated with either option. If it remains in CARE:

- Based on the exemplary performance by the dedicated employees of the Elections Division there is a strong likelihood that, under Mr. Slocum's leadership, accurate elections will continue.
- Operational cost savings will continue to be realized from the sharing of resources such as accounting, budget, personnel and technology services which support other CARE functions.
- Access to contingent resources such as staff from other CARE functions to assist with high demand activities such as large-scale elections. This type of arrangement minimizes the likelihood of significant increases in the budget for Elections.

On the other hand, if the decision was to reassign Elections from CARE to another County function and presuming it was to be under the supervision of an appointed official, a number of considerations arise including:

- The appearance of a perceived conflict of an elected official currently overseeing the operation may dissipate.
- Should the Chief Elections Officer become a department director, he/she would most likely have more time to devote to the unique operation that Elections is. Currently, the Chief Elections Officer has the responsibility for Assessor-Clerk-Recorder services. These services differ dramatically from Elections and also require significant amount of time to ensure proper oversight.
- Operational cost savings as is currently constituted may or may not exist, depending on the organizational structure established to support Elections services.

As a result of evaluating the current situation including existing performance and potential impacts of trends, it is our **recommendation that the Elections function not be removed from under the supervision of Mr. Slocum at this time**. The seasoned experience and judgment of Mr. Slocum and his staff is vital during the foreseeable future as a means to ensure credibility with the public about a fair and accurate voting process.

While many of the California counties that serve as comparable jurisdictions for this management review include a Chief Elections Officer who is appointed and not elected, we believe that is insufficient justification to make a change. Especially based on the superior past performance of the Elections process under Mr. Slocum's leadership and the challenges which are on the horizon.

Currently, two positions in the Elections Division – Elections Specialist III - are part of the Countywide Hiring Freeze. Existing budget constraints impede the likelihood either of these positions will be unfrozen and hiring undertaken in the near future. However, based on the composition of workforce demographics for Division personnel and its potential impact to sustain high quality services and programs, **as soon as the budget situation improves these two positions should be considered high priority for hiring**.

At such time, Mr. Slocum determines to not seek re-election a closer examination of the Elections Division should be undertaken. There are a number of issues which will have to be analyzed under a larger spotlight of public participation as part of that study before a determination is made on the future of Elections in San Mateo County.

A number of factors will need to be evaluated including:

- Reporting relationship for the Elections Director/ Chief Elections Officer
- Budget
- Staffing requirements including use of contingent resources during actual Elections
- Technology support services
- Administrative support services including Finance and Human Resources
- Physical location of office operations

At such time the decision is made to consider other options we recommended the Board of Supervisors commission a study by an outside consultant possessing extensive experience in both public participation and government restructuring to further examine the situation and provide a recommendation on the best course of action. Recognizing the uniqueness of the Elections function and the public visibility it works under, we recommend that the Board of Supervisors consider establishing a Citizens Task Force to oversee the work of the consulting firm. Potential members of the Task Force include those from groups with a keen interest in Elections such as the League of Women Voters, the media, a small number of interested citizens and others to be determined. County staff should serve on the Task Force including the Deputy Director responsible for the Elections operation. The process undertaken by the Task Force and consultant should be highly transparent with numerous opportunities for public participation and extensive communication to the general public all designed to increase the likelihood the final recommendation is credible and ultimately implemented.

CLERK-RECORDER DIVISION

While the services delivered by the Clerk-Recorder Division were not specifically cited in the RFP, as it's a segment of CARE, a general overview on operations is provided.

CURRENT PRACTICES

The Program Outcome Statement for the Clerk-Recorder is that it "creates, maintains, preserves and provides access to public records, such as birth, death and marriage certificates, processes marriage licenses and fictitious business names, records documents of private property ownerships and provides customer service to the general public, government agencies and the public sector, in order to preserve and provide access to official and historical records."

A range of issues are impacting Clerk-Recorder operations, including:

- Economic downturn resulting in fewer properties sold which negatively impacts collection of recording fees including transfer taxes.
- Social Security Truncation which requires the implementation of a system to comply with state legislation requiring truncation of the first five digits of Social Security numbers on recorded documents.
- Developing and implementing an electronic recording system as stipulated in State Attorney General's Office regulations, per AB 537

The Clerk-Recorder is an active user of technology to deliver services and a strong advocate of e-Government initiatives. In researching other jurisdictions, San Mateo County is comparable with the range and delivery mechanisms (i.e. the internet) of Clerk-Recorder services.

A number of statistical measures are provided in the following tables and in summary it appears the San Mateo County Clerk-Recorder's Office is performing very well. This is based on the following observations:

- Substantially better than the Average and second among comparable jurisdictions of Workload per Capita for Number of Documents Recorded.
- Highest workload per capita for Number of Pages Filmed or Scanned.
- 5th among comparable counties with Workload Per Capita for Number of Vital Records Copies Issued.

In regards to the number of documents recorded and the workload per capita, San Mateo County ranks 2nd among comparable jurisdictions.

County	Number of Documents Recorded (2007)	Number of Employees	*Workload per capita*
San Bernardino	721,551	80	**9,019**
San Mateo	183,032	22	**8,319**
Orange	759,620	102	**7,447**
San Joaquin	218,200	32	**6,818**
Sacramento	488,636	72	**6,786**
Average			**6,556**
San Diego	803,453	131	**6,133**
Santa Clara	451,223	84	**5,371**
Ventura	213,628	43	**4,956**
Riverside	773,308	186	**4,157**
San Francisco	169,977	NA	

San Mateo County Clerk-Recorder's Office ranks far and away the first among comparable counties with Workload Per Capita for the Number of Pages Filmed/Scanned.

County	Number of Pages Filmed or Scanned (2007)	Number of Employees	*Workload per capita*
San Mateo	984,712	22	**44,759**
San Bernardino	3,077,069	80	**38,463**
Orange	3,686,687	102	**36,143**
San Diego	3,933,028	131	**30,023**
San Joaquin	954,460	32	**29,826**
Average			**29,731**
Santa Clara	2,285,744	84	**27,211**
Ventura	1,029,103	43	**23,932**
Riverside	3,682,064	186	**19,796**
Sacramento	1,254,785	72	**17,427**
San Francisco	1,109,862	NA	

County	Number of Vital Records Copies Issued (2007)	Number of Employees	*Workload per capita*
Santa Clara	533,737	84	**6,354**
San Diego	249,069	131	**1,901**
Average			**1,797**
Orange	180,569	102	**1,770**
San Bernardino	103,331	80	**1,291**
San Mateo	25,721	22	**1,169**
San Joaquin	36,528	32	**1,141**
Sacramento	79,456	72	**1,103**
Ventura	39,716	43	**923**
Riverside	97,427	186	**523**
San Francisco	36,528	NA	

County	Number of Marriages Recorded (2007)
San Diego	24,718
Orange	20,272
Riverside	9,365
Average	9,319
Sacramento	7,498
Santa Clara	7,292
San Bernardino	4,516
Ventura	4,449
San Mateo	3,218
San Joaquin	2,548
San Francisco	NA

RECOMMENDATIONS

The result of the current economic downturn is that fewer properties are sold which negatively impacts collection of recording fees including transfer taxes, the single largest General Fund revenue category in the Clerk-Recorder's Office. Consequently, this may require the postponement of certain projects designed to streamline processes and enhance customer service. Additional discussions about these potential impacts are being held among key stakeholders as part of the 2010 budget preparation process.

The following recommendations serve to support existing efforts by the Clerk-Recorder's Office:

- In FY 2009-10 begin recording electronically land records from both business and government entities.
- Continue Social Security Truncation project.
- Continue to expand e-Government initiatives.
- Continue to explore opportunities to streamline and automate functions.
- Continue excellent customer service by working closer with the public and private industry.

APPRAISAL SERVICES DIVISION

CURRENT PRACTICES

The Appraisal Services Division has four primary duties: locate all taxable property within San Mateo County, identify the owner of all taxable property, establish the assessed values of all taxable property in accordance with the law, and publish both annual and supplemental assessment rolls. This is accomplished through three work groups, and based on the Services and Accomplishments section of the 2008-10 budget, "all of whom play an integral and contributory part to the development and production of secured and unsecured property tax assessments. The Change in Ownership and Real Property groups contribute to the production of the "secured" assessment roll; the Business Property group is responsible for the production of the unsecured assessment roll. The assessment roll produced for FY 2008-09 included over 237,000 properties valued at over $142 billion and produce property taxes which are the essential revenue source to support basic public services provided by local governments and schools.

Appraisal Services continues to respond to market dynamics and trends that change significantly from year to year, revisions in property tax laws, and a workload that is increasing and a workload mix that is shifting continually. Performance as compared to other jurisdictions is stronger with regards to roll units per employee, net county cost and appeals resolved – three measures that serve to reflect the larger domain of Appraisal Services.

A number of statistical measures are provided in the following tables and in summary it appears the San Mateo County Appraisal Services Division is performing very well. This is based on the following observations:

- Rank 5th among comparable counties and slightly above average for Roll Units Per Employee; a workload measurement statistic.

- Ran 2nd among comparable counties for Percentage of Appeals Resolved.
- 5th among comparable counties and better than average for Net County Cost.

The following table is a Workload Measurement regarding the number of Roll Units per Employee. San Mateo ranks 5th with 3,015 Roll Units per Employee, which is slightly above the average of 2,819. Obviously the higher the number, the larger the workload per employee.

County	Total Net Roll Value (in 000's)	Total Roll Units	Total Staff	Roll Units Per Employee
San Diego	409,385,589	1,189,755	332	**3,583**
San Bernardino	186,165,266	820,526	231	**3,552**
Riverside	242,980,389	920,555	284	**3,241**
Orange	444,727,299	1,077,979	337	**3,198**
San Mateo	146,266,898	238,242	79	**3,015**
Sacramento	140,630,362	514,609	178	**2,891**
AVERAGE				**2,819**
San Joaquin	64,460,192	238,469	106	**2,249**
San Francisco	145,569,647	230,744	104	**2,218**
Ventura	109,034,725	303,142	137	**2,212**
Santa Clara	316,515,914	567,996	279	**2,035**

A severely declining residential market has created a growing workload for the staff in Appraisal Services. While there has been an overall decline in the major workload components of sales and new construction, this same decline has resulted in the reassessment of over 9,000 homes, and 5,200 of those have been reassessed due to declines in valuations. The declining real estate market will also impact the number of assessment appeals and customer calls.

In regards to assessment appeals, based on the information in the following table, San Mateo County is performing substantially better than average as it pertains to the percentage of appeals resolved.

County	Number of Appeals to be Resolved (2007)	Number of Appeals Resolved	*Percentage Resolved*
San Francisco	2,143	1,365	**64%**
San Mateo	2,501	1,565	**62%**
Orange	15,444	9,421	**61%**

mejorando group

Santa Clara	7,076	3,571	**50%**
Average			**45%**
Sacramento	7,884	3,244	**41%**
Riverside	14,028	5,651	**40%**
Ventura	2,890	1,126	**39%**
San Diego	15,166	5,510	**36%**
San Bernardino	6,777	2,065	**30%**
San Joaquin	3,767	983	**26%**

The following table identifies Net County Cost for Appraisal services and San Mateo ranks 5th with 57%. Net County Cost is computed by subtracting the Net Budget Amount (i.e. County General Fund requirement) from the Department's Gross Budget. The amount of the difference is the revenue the department generates from user fees, etc. In this situation, the lower the percentage of the Net County Cost the less amount the General Fund is subsidizing the operation. Typically there are two ways available to lower the Net County Cost percentage – either lower expenses or increase fees (either by volume or per transaction).

County	Gross Budget 2007-08	Net Budget Dollar Amount	Net County Cost (%)
Riverside	23,240,660	9,024,037	**38**
Sacramento	17,649,968	7,369,500	**42**
Santa Clara	26,156,831	12,922,259	**49**
San Diego	35,810,127	19,409,817	**54**
San Mateo	10,443,323	6,020,523	**57**
Ventura	13,489,982	7,844,076	**58**
Average			**63**
Orange	37,326,665	28,335,938	**76**
San Joaquin	9,175,027	6,990,993	**76**
San Bernardino	20,983,159	17,275,301	**82**
San Francisco	15,117,308	14,869,712	**98**

While the composition of the workforce in Appraisal Services is aging commensurate with other Divisions of CARE, which is to say employees are becoming older and closer to potential retirement age, the most significant concern with respect to the workforce is the current situation with the Special Assistant to the Assessor, Terry Flinn. Mr. Flinn who serves in a quasi-Chief Appraiser role for commercial property has retired from County service and returned to work under a permissible arrangement however the concern is that it appears no natural successors to this position are being groomed. The amount of knowledge Mr. Flinn possesses is vast and largely unrecorded with regard to relationship building with entities, nuances about the appraisal process, and so forth. Moreover, Mr. Flinn's role cannot be overstated – it's vital to the entire assessment process.

There are four positions from Appraisal Services included in the Countywide Hiring Freeze and as reported in the January 27, 2009 memo from David Boesch, County Manager, to the Board of Supervisors entitled “Countywide Hiring Freeze Impact on Program Performance” there has been a direct impact on the performance of Appraisal Services. Notably in the area of reaching its Quality and Outcome measures.

RECOMMENDATIONS

A benefit from undertaking a management review is to determine the performance of a particular operation as compared to peers. It is evident from this management review that Appraisal Services, in particular, is performing quite well especially during difficult circumstances and changing economic conditions. While not a specific recommendation, confirming this notion by an outside consultant should reinforce to key stakeholders and decision-makers that indeed, Appraisal Services, is delivering the highest quality of service and productivity. Accountability and performance continue to be the hallmark of Appraisal Services.

Immediately a small group of potential successors to the current Special Assistant to the Assessor should be assembled and begin a comprehensive plan to transfer all of his relevant knowledge. Much more than producing written policies and guidelines, this should include targeted activities such as job shadowing (i.e. a potential successor should accompany the Special Assistant on all public presentations to local government entities), job enlargement, etc. At the point in time where a replacement is sought if the recruitment process determines an outside candidate is most qualified, the San Mateo knowledge that was effectively transferred to existing staff will prove extremely valuable; both to maintain continuity of operations and services and to impart to the successor so little if any disruption occurs.

Recently the approval has been authorized to fill two vacant positions to assist with the dramatic increase in decline review activity. Existing budget constraints impede the likelihood any positions will be unfrozen and hiring undertaken in the near future. However, based on the composition of workforce demographics for Division personnel and its potential impact to sustain high quality services and programs, as soon as the budget situation improves these positions should be considered high priority for hiring.

While releasing positions from the Countywide Hiring Freeze list would assist with completing the workload requirements, based on the current budget situation it seems very unlikely. As an alternative, it is recommended that two of the positions listed on the Hiring Freeze be reclassified to Program Services Manager II and included as part of the proposed reorganization described under Structure on page 25.

Previously completed in 2001 and 2005 and currently underway is an Assessment Practices Survey performed by the California State Board of Equalization. Assessment practices survey reports tend to emphasize problem areas, but they also contain information required by law. This includes the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor. It is recommended that improvements suggested as a result of the survey currently underway be considered for adoption.

FISCAL SERVICES

CURRENT PRACTICES

Stipulated in the RFP was to evaluate the Fiscal services operation. Currently, there are four positions in Fiscal Services including the Financial Services Manager, Senior Accountant and two Fiscal Office Specialists. The range of services includes Accounts Receivable, Accounts Payable, Payroll, monitoring various accounts such as Trust Funds and Transfer Tax, and the budget.

In February 2009, Willy Padilla, long time Financial Services Manager retired. The impact of such a long tenured employee retiring can be disruptive to the continuity of "business as usual." At this point it was difficult to assess the significance of this departure on department financial services.

As a means to compare CARE Fiscal Services with other departments in San Mateo County, interviews were held with Rocio Kiryczun, Financial Services Manager, Human Resource Department and Walter Martone, Deputy Director of Administration, Public Works Department. The conclusion from these interviews is that in order for a Financial Services Manager to be highly effective, he/she must be able to execute responsibilities not necessarily identified in their respective job description including serving as a reliable source and influential collaborator with members of the department management team as it pertains to navigating the budget, demonstrating excellent communication skills, and possessing an in-depth understanding of department services and operations. Overall, the Financial Services Manager is considered to be THE budget source for the entire department, more than tracking expenditures and producing reports, but really being at the helm in charting the waters of the County budget process. This is especially crucial now during an extremely challenging budget situation.

Our analysis did not reveal that additional staff members would greatly impact the delivery of financial services. In fact, according to Jacqueline Chen-Lee, Financial Services Manager for CARE, her opinion was that what is needed to accelerate performance for her unit is for existing staff members to more readily accept changes she has proposed. As is the situation anytime a person assumes responsibility as a supervisor or manager, especially when inheriting the operation from a long-term predecessor, changes in "how things are done" are to be expected. Ms. Chen-Lee indicated she has proposed a number of changes in services and operations and while some have been embraced and implemented, others have not.

RECOMMENDATION

Based on our experience and the needs of CARE's leadership and management team as it relates to the budget situation, it would be beneficial to provide a seasoned mentor and additional training to the current Financial Services Manager who has been in the position only a short time. A mentor can prove quite beneficial in assisting the incumbent on the ins and outs of the role of their position, offer insight into how to effectively implement change with existing staff, help establish a networking relationship with peers in other County departments, and overall, accelerate their performance by expanding the breadth and depth of understanding about particular subjects and topics crucial to their effectiveness. Targeted training designed to close skill and knowledge gaps will also generate positive dividends. Combining a mentor with focused training will translate to the Financial Services Manager being a visible and influential partner to senior management and enable CARE to effectively navigate the budgeting process.

SUCCESSION PLANNING

A major component of this management review was to evaluate current practices with regard to how employees are being trained and developed to replace employees who depart the organization with several years of experience and knowledge. This trend, commonly referred to as the "brain drain" is impacting all organizations, public and private, from all around the country and is the result of the baby-boomer generation reaching retirement age.

As a result of the "brain drain" underway, public sector agencies are facing a number of specific challenges, including:

- A reduction in the workforce and productivity.
- The loss of knowledge, experience, and institutional memory of retirees.
- A limited pool of employees qualified to replace retirees because of past reductions in force or budgetary cutbacks on training and development opportunities.
- A limited pool of potential candidates because of a national decline in the number of workers in the 25- to-44 years range,
- Stiff competition with other employers to retain talented employees who are not retiring, from seeking advancement opportunities elsewhere.

The result is that organizations must systematically replace talent as a way of sustaining the performance of their organization. The most popular and effective approach is **succession planning**, which contributes to an organization's continued survival and success by ensuring that replacements have been prepared to fill key vacancies on short notice, that individuals have been groomed to assume greater responsibility, and that they have been prepared to increase their proficiency in their work.

Identifying and developing the best people for key roles is basic to future organizational success. To ensure that success is indeed continued, organizational leaders:

- Need the excellent performance in their organizations preserved, if not enhanced.
- Need important positions identified.
- Want to strengthen individual advancement.
- Want to have the right leaders prepared for the right positions at the needed time.

Succession planning requires more than just an organization chart that shows who holds what job within the local government. Best practice organizations use succession planning to develop and maintain strong leadership and to ensure that they address all the competencies required for today's and tomorrow's work environment.

Unfortunately, planning for succession is often overlooked or occurs when it is too late, after key people have left the organization and no internal candidates remain to fill the leadership positions. When an organization executes succession planning correctly, it has fully prepared front-line and management staff to step into positions left vacant because of retirement and general attrition.

It is imperative to recognize that the process of establishing systematic succession planning is the equivalent of making a long-term culture change. It can be a major shift in an organization whose decision makers have been accustomed to filling one vacancy at a time. Succession planning requires a commitment to a longer-term, strategic view of talent needs, and it features these benefits:

- Having identified leadership “bench strength” in place. This will help the department meet both long-term and emergency leadership needs at all levels.
- Ensuring continuity of management.
- Growing CARE’s own leaders. This practice sends a positive message throughout the workforce. Promoting people from within is good for morale and essential to a positive organizational culture. People will want to join and stay with the organization because it develops its own people. And promoting from within is consistent with an empowerment philosophy that encourages people to take on responsibility, assume risks, measure outcomes, and grow through their achievements.
- Clarifying a sense of each internal candidate’s strengths and opportunities for improvement, as well as offering access to more and better data on that person’s performance than you would have with outside candidates. In this way, you will be able to make more informed and accurate selection decisions.
- Helping to align human resources with the strategic directions of the organization.

Succession planning is accomplished by clearly defining the needs for particular positions and planning how to develop people to meet those needs, either through promotions or recruitment. Comprehensive and systematic succession planning involves a range of activities that touch every stage of the employee life cycle:

- Recruitment and selection
- Training and development
- Supervisory, Management and Leadership development
- Career development

Succession planning serves as the crossing point between the human resource function and the strategic direction of an organization. In this role, it is an essential resource in anticipating the future needs of the organization and helps find, assess, develop, and monitor the human capital required by the organization’s strategy.

Presently, the **County Human Resource Department** has a number of resources available to support employee training and development. These include:

- Countywide Training Courses
- Customized Training for Departments
- Administration of College Degree Programs
- Tuition Reimbursement
- Career Development Programs
  - Management Development Program
  - Executive Leadership Academy
  - Administrative Support/HR Management Certificates
  - Cal-ICMA Telephone Coaching Panels
  - Leadership Forums
- Support Succession Task Force Efforts
  - Employee Development Plan Subcommittee
  - Employee Development Plan Pilot Group
  - Core Competencies
  - First Line Supervisory Academy

These are quite an impressive list of resources that reflect a comprehensive and systematic approach to strengthening the County's workforce.

At this point, **it does not appear that CARE is fully leveraging the available resources and if continued, may hamper its ability to provide services and programs in its customary quality of excellence**. The capabilities of its workforce are fundamental to its success and efforts to groom potential successors are essential.

Our approach to evaluating the succession planning efforts in CARE consisted of two steps:

A. Analyzing retirement projections and attrition data– Where exactly is CARE weakest in bench strength? The answer to that question was to provide a clue about where to establish initial targets for the succession plan. Workforce demographics were gathered to assess retirement projections and evaluate attrition data, for purposes of extrapolating future trends.

B. Assess effectiveness of current efforts at Training and Development.

Several themes emerged from completion of information gathering and analysis including:

- Retirements and attrition will continue throughout CARE and at all levels.
- The vast majority of training employees are taking focuses on improving individual employee's technical capabilities.

- The various resources available through the County Human Resource Department for succession planning and employee development are not actively utilized by CARE employees.
- Annual training and development plans for each employee are not uniformly prepared.
- The composition of employees in supervisory positions indicates a large contingent rapidly approaching retirement.
- No formal plan is in operation to groom a potential successor to the current Special Assistant to the Assessor who serves in a quasi-Chief Appraiser role over commercial property.
- Citizen expectations for high-quality public services will continue.
- Pace of technological change will accelerate.
- County budgets will continually be sensitive to the natural ebb and flow of economic cycles.

Based on our analysis, **several recommendations are provided that when implemented, will generate a positive impact.** While current workload and resources available may hinder the pursuit of these recommendations, they are essential to ensuring the services and programs of CARE are continued at the customary high-level. These recommendations include:

- Implement a Succession Planning Pilot Program focused on developing potential successors for the at-risk positions of Deputy Director, Assessor-Recorder Support Services Supervisor and Principal Appraiser.
- Employees who are either currently or are interested in becoming a supervisor should attend the County's First Line Supervisory Academy or other supervisory preparatory courses.
- Immediately enlist a small group of potential successors to the current Special Assistant to the Assessor and involve each of them in a series of planned development activities to extract valuable institutional knowledge.
- Continue the job rotational program.
- Requiring Training and Development Plans each year for every employee.
- Utilizing a variety of Knowledge Management Transfer strategies and techniques to mitigate the impacts of seasoned employees departing with the CARE way of doing business.

WORKFORCE DEMOGRAPHIC ANALYSIS

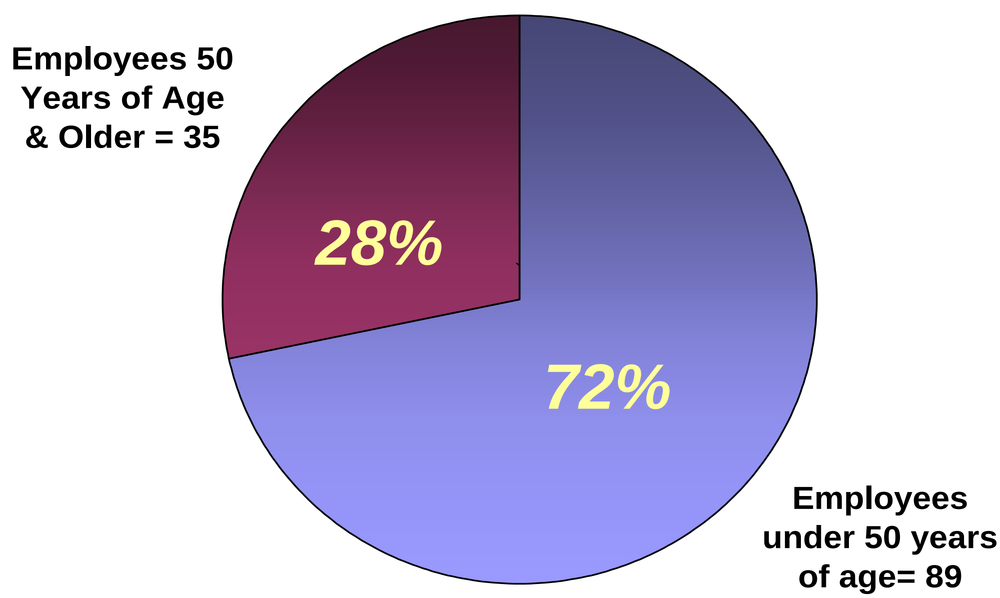
It is widely understood that the aging of CARE's workforce, especially among management and supervisory employees is a major concern. However, in order to confirm this belief, the following analysis of the workforce demographics for CARE employees is provided.

The themes from the information gathering and analysis were then combined with a risk analysis of workforce demographics and recent attrition data. A risk analysis is simply an assessment of what level of risk the department faces owing to the loss of key people. Key people exist at all levels and not just at the top. The demographics for the department's workforce were obtained and analyzed a number of times focusing on different data each time. The goal of this exercise was to find parts of the organization where the risks are the highest of losing people.

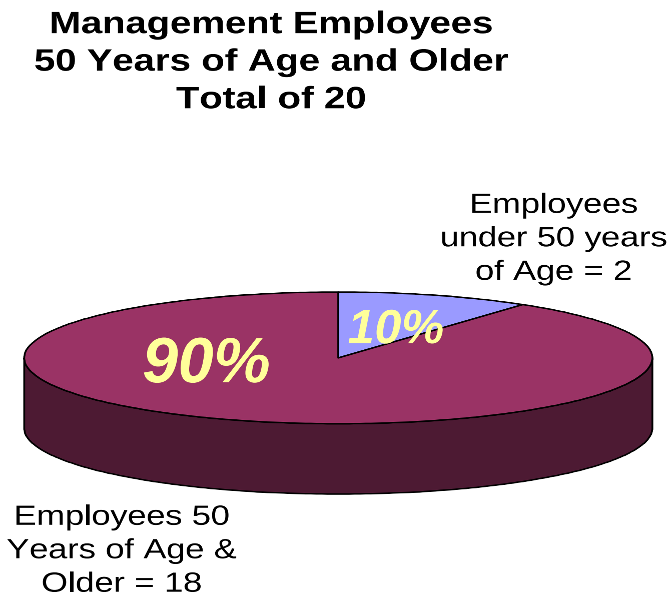
Where exactly is the department weakest in bench strength? The answer to that question provides a clue about where to establish initial targets for the succession plan. Bench strength is the department's ability to fill vacancies from within. Evaluating bench strength means determining how well the organization is able to fill vacancies in key positions from within.

Retirement Projections: existing demographic information was reviewed to determine the number of employees (management and frontline combined) who are currently 50 years or older and provide a baseline for the vulnerability of the organization to "brain drain." **The average age of the CARE workforce is 48 and average years of service are 12.**

CARE Workforce - 124 Employees

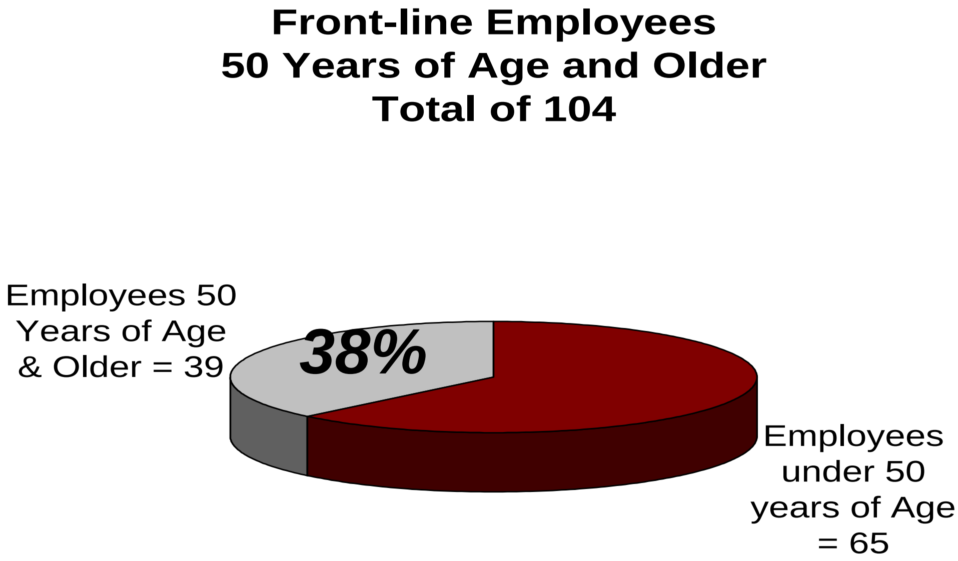


There have been 18 employees who have retired since 2006 and their average age is 60. Of the 18 who retired, 5 were supervisors.



As shown above, of the 20 Management employees 18 members, or 90%, of this group are age 50 or more. 11, or 55%, are 55 years of age and older. Average age of those in supervisory and management positions is 55 with an average tenure of 21 years of experience.

Among those employees not classified in management and supervisory ranks:



At risk means the positions most vulnerable to avoidable turnover and not necessarily jobs/positions most critical to the organization's mission. As a result of an analysis of the workforce demographic information gathered, the ***following are identified as "at risk" positions*** and on which the succession planning program should first focus. Succession planning traditionally focuses on supervisory and management positions and the following are classified as such:

1. Assessor-Recorder Support Services Supervisor
2. Deputy Director
3. Principal Appraiser

Of the 20 positions classified as supervisory these three classifications comprise 11 of those positions. The rationale for recommending these three positions is based on the demographics of the incumbents filling these positions and that each position is supervisory. Supervisory positions entail a more varied range of responsibilities than those of non-supervisory positions, including the ability to produce quality of work from their direct reports. With regards to workforce demographics for the three positions listed above, the following is provided for review:

- Assessor-Recorder Support Services Supervisor (4)
    - Average age is 57
    - Average years of services is 26

- Deputy Director (3)
    - Average age is 53

- Principal Appraiser (4)
    - Average age is 54
    - Average years of service is 22

RECOMMENDATION: SUCCESSION PLANNING PILOT PROGRAM

The underlying principle behind effective succession planning systems is to ensure employees perform at a level necessary to deliver public services in the manner residents and business have become accustomed. The Mejorando Group is recommending a program/system that focuses on such outcomes – ensuring employees are prepared to master current and future challenges to deliver public services – and while there are several components to this system, each an independent factor that must operate effectively, they are also designed to function together to ensure the process flows and the succession planning process delivers what's intended. The desired outcome being qualified employees prepared to accept challenges associated with managing resources to ensure high-quality public services.

There exists the belief in some organizations that succession planning be less formal that recommended here and thus unplanned. However, when that describes an organization's preferred approach, there is a tendency for job incumbents to identify and groom successors who are remarkably like themselves in appearance, background, and values; a type of "bureaucratic kinship."

At the same time, there is another belief that succession planning implies that internal employees are entitled to promotions simply because of job tenure. In fact, succession planning is the direct opposite and when it is systematic, transparent and comprehensive as is recommended for CARE, it rewards the meritorious and fosters a high-performance work culture.

Essentially, the department's need is to have individuals ready to replace supervisors and managers at retirement or simply upon their departure. The program purpose is to develop bench strength. The desired participant behaviors include mastering the competencies necessary to be effective should they be selected as a successor. The outcome is a pool of potential successors with the requisite skills. The result is bench strength.

As the department implements the recommendations for each of the seven components the creation of a succession planning process is realized. As this is a methodology, the department should refrain from "cherry picking" those steps which are most convenient, least expensive or they are most familiar with and instead recognize that this is a sequential and cumulative process that at the beginning, lays the infrastructure for the rest to follow.

In order to increase the chances of being effective with the inaugural succession planning program, it is recommended that implementation be conducted on a pilot basis. By doing so, lessons can be learned and applied for future efforts. This Pilot Program includes a number of the resources current available from the County Human Resource Department.

STEP ONE: IDENTIFY AT RISK POSITIONS

Several sources of data (e.g. Retirement Projections and Attrition Data,) were gathered and analyzed via a risk analysis to determine those positions defined as "at risk." As a result, the following are identified as at risk positions in the near-future and on which the succession planning program should first focus. These are in no particular order:

1. Assessor-Recorder Support Services Supervisor
2. Deputy Director
3. Principal Appraiser

STEP TWO: COMMUNICATION WITH EMPLOYEES

With the at risk positions identified, the next step in the process is to communicate with employees about what's forthcoming in regards to the content of the succession planning program. Sufficient support from the executive team is already in place, which is one of the keys to success and also allows the process to begin in earnest without having to invest more time persuading executive members the need for this effort. As with any change initiative, which this qualifies as, they are most effective when organizational leaders are fully on board. Visible support from the highest level adds credibility and desirability.

There is a natural curiosity from employees about what exactly succession planning means to each of them: how does it help them advance their career and bottom-line, what's in it for them. They may also be a bit cautious because with change also comes a certain amount of anxiety about the unknown and how it will impact them, their respective jobs and their role within the organization. It is important to remember that employees will determine the significance of the succession planning initiative by evaluating the communication associated with the initiative.

To emphasize the importance of the initiative and in the spirit of transparency and open management, there should be a variety of techniques used to communicate the succession planning program including:

- A message from the Department Director via email or attendance at departmental employee meeting(s)
- Meetings with all staff (all shifts) to explain the program
- Regular updates for all staff through email, meetings, or intranet postings.

By their attendance and participation, executives and department directors communicate a very clear and compelling message to the department's workforce – succession planning has their full attention and they are willing to visibly support its implementation. **More than their words, however, are their actions. Beyond holding meetings, remember that consistent, visible support from management will encourage employees to support the succession planning program. To gain support, everyone in management must "walk the talk."**

STEP THREE:
SELECT CANDIDATES FOR SUCCESSION PLANNING PROCESS

Best practice organizations use a cyclical, continuous identification process to focus on future leaders. Since the department's workforce demographics continually changes, there must be a regular revision to what are considered to be those at risk positions for the department's short- and long-term viability and with that determination, which candidates are eligible to participate. Therefore, it is recommended the workforce demographics be revised and reviewed at least once a year.

In order for succession planning to be effective, it must factor in what the current conditions and not-too-distant conditions are, as well. It is not designed to be a program where every position in the workforce is to be involved, unless and this is highly unlikely, every position is threatened with avoidable turnover. Because this is a need-based approach there may be some detractors who assert the principle "if you can't do for it everybody, you shouldn't do it for anybody." This egalitarian notion is acceptable if conditions are stable, but they are not and department leadership must confront and respond to present conditions with respect to where it is most vulnerable to avoidable turnover.

The following supervisory positions are recommended for the initial Pilot Program:

1. Assessor-Recorder Support Services Supervisor
2. Deputy Director
3. Principal Appraiser

The Pilot Program should include 10-15 employees who would be considered natural successors into one of the three positions. Natural successor is defined as a person currently in a job classification that would meet the minimum requirements for one of the three at-risk positions. As a result, those currently eligible to ascend into one of the aforementioned positions should be offered the opportunity to participate in the succession planning program.

There are a variety of methods available to use in selecting candidates including opening it to anyone in the position interested in participating (this type of approach reflects a fair and open process and negates the likelihood of "preferential treatment" being asserted by certain employees) or using an Application process in which those interested must complete and submit a brief application indicating their interest and how they intend to benefit from participating.

Understandably there will be some key decision makers in the department who are reluctant to open it to anyone that can directly ascend into the job deemed as at risk, concerned that sub-standard performing employees will participate, but that is part of an open and transparent approach. The upside is that all who participate will grow their capabilities, and the organization will increase capacity along with that growth. In fact, whether or not internal candidates are selected for promotional opportunities their capabilities and it's presumed their contributions will increase, resulting in improve organizational effectiveness.

STEP FOUR: ADMINISTER 360-DEGREE ASSESSMENT PROCESS

Once employees have been selected as succession planning candidates, the effort now is to help each identify their strengths and areas for improvement related to the competencies established. Not to be mistaken for simply another type of performance appraisal, this 360-degree assessment element is targeted at identifying areas where candidates are struggling so they can begin working in a *particula*r direction.

The County has a 360-degree assessment process currently being piloted in the leadership development cohort program. The intent is to expand it, possibly in 2010, to employees in management classifications. Consequently, additional discussions are necessary to determine the potential use of a 360-degree program for use in CARE prior to 2010.

Historically in government, too much "guesswork" came into play about not just what the employee might be struggling with, though that was easier to document and verify, but definitely the tactics that must be undertaken to help that employee improve and possibly advance, such as training. There has been an over-reliance on training as the only solution when it comes to employees advancing their capabilities. By utilizing a 360-degree assessment process both the information gathered about the candidates will be more accurate, as will the actions taken as a result. This alignment between what really is the potential of the candidate and what can be done to help him/her is fundamental to an effective succession planning program.

Assessment is important because it will provide succession planning candidates an understanding of where they are now: what their current strengths are, the level of their current performance or leadership effectiveness, and what are seen as primary development needs. In the context of their everyday work, people may not be aware of the degree to which their usual behaviors or actions are effective; in the face of a new challenge, they may not know what to continue doing and what to change. Even if they do realize that what they are doing is ineffective, people may believe the answer is to just work harder; it may not occur to them to try a new strategy. But when a program such as succession planning provides feedback on how they are doing and how they might improve, or provides other means for critical self-reflection then people are more likely to understand their situation and to capitalize on a learning opportunity.

One important function of assessment data is that it will provide a benchmark for future development. Another is that it will stimulate people to evaluate themselves. *What am I doing well? Where do I need to improve? What are others' views of me? How do my behaviors impact others? How am I doing relative to my goals? What's important to me?* Still another is that assessment data provide information that helps people answer their questions. The result is an unfreezing of one's current understanding of self, to facilitate movement toward a broader and more complex understanding.

Good assessment data also helps people clarify what needs to be learned, improved, or changed. Having data not only motivates a person to close the gaps but provides clues as to how those gaps might be closed.

STEP FIVE: PREPARATION OF EMPLOYEE TRAINING AND DEVELOPMENT PLAN (ETDP)

Based on an analysis of the 360-degree feedback report, the completion of an Employee Training and Development Plan (ETDP) for each succession planning candidate will be prepared. This practice is in alignment with effective succession planning which is to prepare the organization for future service needs by developing talent; in other words, recognizing the needs first and then developing employee's talent and capabilities to satisfy those needs is where succession planning proves its value. In fact, best-practice organizations emphasize the importance of specific, individualized development plans for each succession planning candidate. ***Preparing an ETDP is currently a service provided by the County Human Resource Department.***

Therefore, if the 360-degree program is not available for use in 2009, employees should still prepare an ETDP as it serves as a valuable planning tool and guide to their development.

The steps in creating a training and development process – obtaining support and clarity of purpose, aligning the behaviors to be developed with that purpose, providing the target population (i.e. succession planning candidates/participants) with feedback against a standard (by way of completing the 360-degree assessment), defining and supporting the role of the manager in the process – all lead to the next step, helping each individual who is a part of the process create a viable plan for acting on the feedback.

A well-conceived ETDP is the link between an individual's motivation to acquire new skills and the work of the organization. It is a description of what a person intends to do in order to become more effective, prepare themselves for future challenges and how he or she intends to go about it. An ETDP is a tool that illustrates the steps one will take to learn new skills in response to feedback.

An effective ETDP includes three elements:

1. A development goal or objective;
2. Developmental strategies (action steps) with milestones; and
3. Standards against which to measure progress.

The development goal: The first step in creating an ETDP is to determine the development goal. A viable goal reflects an individual's own career goals. For example, individuals who do not aspire to become department directors, but instead want to be front-line supervisors or mid-managers will not be interested in development goals that move them in that direction. The goal must reflect direction and ownership. It must point toward a behavior change that will serve the employee and the County. It must serve the career aspirations of the individual employee and the business needs of the organization.

Preparing an ETDP is a process of planning activities that will narrow the gap between what individuals can already do and what they should do to meet future work requirements ala the competencies. The preparation of the ETDP is a process that involves both the employee and their respective manager/supervisor. It is a collaborative process in which together, they collaborate and create a detailed and results-based ETDP.

A range of training and development strategies are available for consideration and inclusion in the ETDP. Training is distinct from development and thus, analyzed separately for purposes of this section. As has been previously mentioned, most training currently provided to employees focuses primarily on advancing their technical skills. While mission-critical to delivering high quality public services, it nonetheless does not assist the development of competencies necessary for exemplary performance, such as building work teams or communication.

In fact, as supervisors and managers the ability to be an outstanding technical performer does not always translate in the ability to be an effective manager. The performance of managers today in organizations is rated as much on people skills as on measurable output. In addition, the ability to solve problems, resolve conflict, participate on teams and make decisions may be growth areas staff requires.

The **County offers wide range of competency based training workshops including the following which are well-suited for the CARE employees in the succession planning program,** including:

- Dealing with Difficult People
- Delegation: The Art of Delegating Effectively
- Discrimination-Free Workplace
- Essential Leadership Skills
- Managing People, Not Personalities
- Preparing Performance Evaluations
- Project Management for the Real World

The workshops listed are merely a sample list of those competencies employees in succession planning programs tend to benefit from attending. The entire list of training workshops should be considered by employees and their respective supervisor as they co-create an ETDP.

Transfer of training is the extent to which training content is applied on the job. One factor that strongly affects transfer of training is the degree to which the organization has a supportive climate, where people are allowed to use new skills on the job. It also requires strong management support and involvement by managers with direct reports who attend training to examine the purpose and benefits associated with the training and the expectations of what the participant will learn and apply. These developmental discussions between manager and employee are fundamental to reinforcing the learning that actually occurs in the training workshop. In order for employees to advance their capabilities, they must be afforded opportunities "on the job" to practice the skills they are acquiring via both training and development activities in which they participate.

Overall, training should play a vital role in executing the succession planning program and will do so, if it is targeted in the right direction and provided for the appropriate skill development.

With regards to employee development – its role, value and available techniques are described in further detail on page 61.

STEP SIX: IMPLEMENT EMPLOYEE TRAINING AND DEVELOPMENT PLANS (ETDP)

Succession planning can be successful only if candidates are given the opportunity to develop their skills, knowledge, and attitudes through an ongoing learning process realized via the implementation of their respective ETDP. Key decision makers in the organization need to make development a priority and hold managers accountable for emphasizing people planning in their departments.

The implementation of each succession planning candidates' completed ETDP must be considered mandatory for the succession planning process to be effective. While not wanting to present the program as a means of coercing managers and supervisors into providing resources, ensuring schedules are met, and the like, there must be a consensus that developing employees is of the highest priority throughout the organization.

The department's executive management team must "walk the talk" as it applies to the implementation of the ETDPs. Historically, the execution of individual employees training and development is viewed as optional and a number of managers and supervisors rely on the sheer will, determination and ambition of employees involved to ensure their plan is put into place. The department cannot afford this luxury as it will soon reach critical mass with the exodus of seasoned veteran employees who possess extensive knowledge about the "CARE way" of doing business. Only by developing the talents and capabilities of succession planning candidates will the department counter that exodus and that effort cannot be left to chance and only when it's convenient.

At a minimum, a segment of each employee's ETDP should include attending the **County's Management Development Program (MDP**). In these interactive sessions led by County executives, employees are exposed to the newest and most innovative concepts being advocated by the management team. Topics for this program include:

- Budget Basics
- Coaching for Results
- Community Engagement/Shared Vision 2025
- Corrective Action and Labor Relations 101
- Cultural Competency
- Laws/Legal
- Leadership Expectations
- Outcome-Based Management: Performance Planning
- Political Astuteness
- Program/Change Management
- Strategic Planning, Legislative, and Communication Process
- Succession Planning and an Introduction to Employee Development Plans

Based on an examination of the internal training CARE employees attended in 2007 and 2008, it appears only one employee was an active participant in the MDP.

STEP SEVEN: MONITOR, EVALUATE & REVISE

Once the Succession Planning Process is underway, the process should be monitored and evaluated to determine if revisions are appropriate.

To monitor the implementation process, the following steps should be undertaken:

- Review progress at predetermined points in time (i.e. every 6 months).
- Determine if the succession plan is on track to meet timeline objectives; if not, determine how to get back on schedule.
- Report progress to the County Manager's Office on a regular basis.
- Create and administer regularly scheduled communication briefings to keep staff informed and answer questions to clarify project.

Another option is to utilize the Hierarchy of Succession Planning Evaluation. This four-step hierarchy begins with the first level, *customer satisfaction*, and poses the following questions:

- How satisfied with the succession planning process are its chief customers?
- How satisfied are its customers with each program component – such as competency models, individual potential assessment process (i.e. 360-degree), individual training and development plans, and individual training and development activities?
- How do employees perceive the succession planning process?

The second level is *program progress* with the following questions:

- How well is each part of the succession planning process working compared to stated program objectives?
- How well are individuals progressing through their development experiences and training programs in preparation for future advancement into key positions?

The third level is *effective placements:*

- ***What percentage of vacancies in key positions is the department able to fill internally?***
- How quickly is the organization able to fill vacancies in key positions?
- How quickly are internal replacements for key positions able to perform at the level required for the organization?

The fourth and final level is *organization results*

- How is succession planning contributing to documented organizational results?
- What successes or failure in the delivery of public services, if any, can be attributed to succession planning?

Training and Development

Current Practices

As with most government organizations, a large majority of CARE dollars invested in training are targeted on enhancing employees' technical capabilities with a significantly smaller portion devoted to supervisory and management skill development. In government there is an over-reliance on increasing employees' technical skills presuming improved technical competence directly translates to effective management practices and leadership behaviors.

In 2007, 47 employees attended 102 training workshops sponsored by the Human Resource Department and of the 102, 77 were focused on technical (i.e. telephone, software, safety) skills with the remaining 25 focused on supervisory-related topics. In 2008, 71 employees attended 147 training workshops sponsored by the Human Resource Department and of the 147 attended, 56 were on the Automated Time Keeping System, 41 on technical skills and the remaining 40 on supervisory-related topics. Therefore, for those two years, 2007 and 2008, of the 249 training workshops employees attended 26% were focused on non-technical skill areas. A number of CARE employees also attend technical training that is not recorded on the County's LMS (Learning Management System) but are components to maintaining certifications in their respective field.

In the CARE Department, training employees on supervisory and management skills does not appear to be systematic and focused; in other words, which employees choose to attend and which courses they select, appears to be random. Random is the opposite of planned and systematic, which are essential for employees to grow, learn and be equipped to effectively handle the challenges of today and tomorrow's workplace. There does not appear to be any overall coordination. Consequently, the ability to increase capacity of the entire workforce is negatively impacted.

There was a common refrain echoed among employees that while training opportunities are made available many do not attend due to other pressing priorities. Understandably there are always matters requiring employees' immediate attention however, when employees do not learn and grow the result can have an adverse impact on the quality of services and programs that CARE provides. Members of the department's management team play a pivotal role in influencing whether or not employees attend training; their advocacy and support are essential to demonstrate to employees the value of learning, growing and improving one's skills and contributions.

Employee Development differs from training as it's focused in areas such as judgment, responsibility, decision making, and communication. A planned system of development experiences/activities for all employees, not just supervisors and managers, can help expand the overall level of capabilities in an organization. At the County the employee development process is decentralized with individual departments responsible for development of their own employees. Seemingly many employees have not collaborated with their respective supervisor or manager to prepare a development plan designed to identify opportunities and assign resources. Work Plans are an excellent device to guide the employee development discussion.

With respect to development, it was difficult to ascertain the breadth and frequency of development activities. However, based on experience with other government organizations, it is most likely happening for high-performing employees on a case by case basis, but it is not a systematic and comprehensive approach. The Elections Division has, during odd numbered years (i.e. 2007, 2009, etc.) when there is typically fewer elections being held, partnered with an employee who has expressed an interest in learning about other CARE operations and arranged a rotational series of assignments for that person. In 2009, Ms. Narda Barrientos is the employee participating and is currently working in the Clerk-Recorders' Office gaining valuable exposure to other aspects of CARE services. This type of "stretch assignment" is an excellent approach to job rotation and employee development and generates dividends for both the employee and the organization. Job rotational assignments have been in place over the last few years and a number of employees have participated.

Recommendations

Government organizations are essentially on the "front-lines" trying to effectively deliver services in the face of sometimes unpredictable circumstances. Job training gaps can leave workers unprepared for many public sector challenges. With the challenges coming rather fast and furious, a properly trained and prepared workforce is required to address new challenges.

CARE, like most government organizations invest a large majority of their training budget in employees' technical performance. However, as supervisors and managers the ability to be an outstanding technical performer does not always translate in the ability to be an effective manager. The performance of managers today in organizations is rated as much on people skills as on measurable output. In addition, the ability to solve problems, resolve conflict, participate on teams and make decisions, are performance needs frontline staff requires. Although people differ in their baseline abilities, the research shows that skills training can result in better results for most people who want to improve their effectiveness.

Training adds value by linking strategy to organizational objectives, goals, and business strategies. *Strategic training* focuses on efforts that develop competencies, value, and organizational effectiveness.

Training will add value to the organization by linking the training strategy to department objectives, goals, and operating strategies. Investing in employees shows workers that management is serious about the changes it advocates, because it is investing in the employees' capacity to make those changes.

Recommendations include:

Training is akin to a "hit-and-miss" type of game. With so much at stake for the entire organization with respect to equipping employees with the needed skills and abilities to tackle today and tomorrow's challenges, the practice of training being random must be remedied. A more comprehensive, planned approach is necessary.

1. To give employees greater opportunities for challenge, achievement, and advancement, the **department should require training and development plans be created for all employees in 2010 and each year thereafter**. All employees should, along with his/her immediate supervisor, co-create a robust and practical training and development plan which incorporates both technical skill development as well as performance-related development (i.e. supervisory skills, leadership, interpersonal, etc.). However, before that requirement can be met and to ensure the development plans do not become a "check the box" approach" of completion without meaningful content, training should be held for managers and supervisors.

2. Employees who currently serve in a supervisory role and those who demonstrate a desired interest in advancing to the supervisory level should be strongly encouraged and supported to attend the **County's First Line Supervisory Academy and/or other supervisory preparatory training workshops.** The Academy was established to provide new and current supervisors with the knowledge, skills and tools to make them successful in their position and in their career development. The Academy consists of three main components all targeted toward supervisory development. These include:

    - Leading and Managing People
    - Leading and Managing Projects and Systems
    - Succeeding in San Mateo County

3. As stated previously, some employees are pursuing training but it appears employees are not pursuing any sort of formal training program that consists of particular curriculum/workshops and instead are taking courses as he/she sees fit.

   In the County's Succession Planning efforts, the following competencies have been identified by the Succession Implementation and Evaluation Task Force as critical to the success of an effective workforce.

   1. Accountable
   2. Customer-Focused
   3. Effective Communicator
   4. Ethical
   5. Flexible/Adaptable
   6. Initiator/Change Agent
   7. Innovator
   8. Interpersonally Effective
   9. Planner and Organizer
   10. Politically Astute
   11. Problem Solver and Decision Maker
   12. Resilient
   13. Results-Oriented
   14. Skill and Career Development Coach
   15. Strategic Thinker
   16. Technically Knowledgeable

   Best-practice organizations use a core set of leadership and succession management competencies. Competencies are the combination of skills, smarts, motivation and behaviors. There are several benefits to adopting competencies which include:

   - They make explicit the knowledge, skills and personal attributes that lead to high performance.
   - Competency models provide a common language throughout the organization.
   - Competency models serve as the linking pin for all other human resource initiatives, such as training, development, performance management, and compensation systems.
   - Competency models serve as behavior-based standards of performance against which people and the organization can be measured over time.

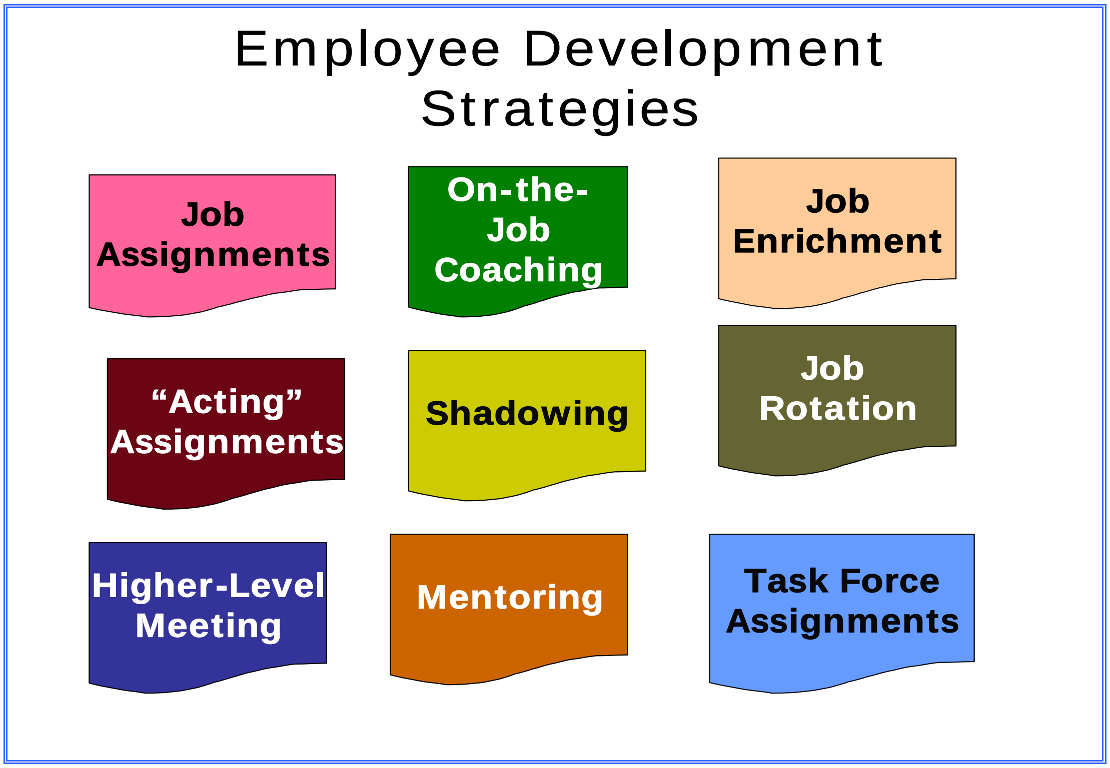
   Additional information on these competencies may be obtained from the County Human Resource Department.

It is recommended that each employee as part of their annual Training and Development Plan, consider the competencies for their current and, if applicable, prospective position, and match them with the list of training workshops offered by the County Human Resources Department to determine which training would be most beneficial. Each training workshop has a list of competencies it focuses on so the process of matching competencies with workshops is made easier for employees to complete.

4. Transfer of training is the extent to which training content is applied on the job. One factor that strongly affects transfer of training is the degree to which the organization has a supportive climate, where people are allowed to use new skills on the job. It also **requires strong management support and involvement by managers with direct reports who attend training to examine the purpose and benefits associated with the training and the expectations of what the participant will learn and apply**. These developmental discussions between manager and employee are fundamental to reinforcing the learning that actually occurs in the training workshop. Discussions of these types are strongly encouraged for use.

5. A critical element to ensuring that CARE employees have the necessary skills, knowledge, and capabilities to continue the organization's mission is the transfer of expertise from senior to junior employees. **A mentoring program** is a structured mechanism that keeps the tradition and vitality of an organization alive. Mentoring programs benefit organizations by developing high-potential employees, improving employee productivity and performance, making succession planning easier, improving communication, and deepening loyalty. A professional consulting firm can implement every facet of a successful mentoring program for CARE including design, communication, facilitation of mentor/protégé pairings, and evaluation.

6. Investing in employees means much more than training, it also includes developing their skills through experiences outside the training classroom. **Development** represents efforts to improve employees' abilities to handle a variety of assignments and to cultivate employees' capabilities beyond those required by the current job. Development in areas such as judgment, decision making, and communication present a challenge. These areas may or may not develop through life experiences of individuals. Development activities for employees fall into several categories. **The following description of employee development strategies are provided for use by CARE staff as employee training and development plans are prepared.**



- ***Variety of Job Assignments***: People learn lessons from different job assignments – line to staff switches, starting from scratch, fix-it-opportunities, larger- or smaller-scope jobs, and project or task force assignments – and even from setbacks.

- ***On-the-Job Coaching***: This approach is particularly useful for developing improved job performance and involves day-to-day discussions between the manager/supervisor and individual. It may be used to upgrade skills or technical knowledge and may involve progress discussions, question-and-answer sessions, or working through an actual problem with the individual to provide direction and guidance.

- ***Shadowing***: Following another person around and watching what they do – "shadowing" them – can be extremely helpful in learning about a particular area or function and a person's role in supporting it. The process could entail an hour, a day, a week, or a month of observing, going to meetings with the person, and so forth.

- ***Job Enrichment***: This involves expanding present responsibilities to include a wider variety of assignments and duties. It is effective for improving both skill and knowledge areas, but should be limited to those who already are effective in their present positions, since it requires expanding work performance rather than simply adding more of the same work.

- ***Job Rotation and Lateral Moves***: This involves moving to other, same-level jobs within the organization. Different functions increase employees' knowledge of the organization and require a different skill set. This is becoming a common development move and is particularly useful for exposing employees to new areas.

- ***Task Force Assignments***: Employees are assigned to committees or task forces. This is beneficial to acquiring skills for complex problem resolution and participating on team/group work. This strategy develops current job performance and promotion potential.

- ***Higher-Level Meeting Attendance***: Employees attend and participate in selected meetings. Involvement may include preparation of materials, participation in discussions, or just observation. Knowledge or management skills can be acquired, depending on the role of the individual at such meetings as well as exposure to the thinking and procedures of high management.

- ***"Acting" or Replacement Assignments***: Employees are given temporary assignments that are vacant because of illness, vacation, or other reasons. This strategy is particularly useful for developing skills and knowledge critical to promotion potential.

- ***Serving as a Conference Leader or Instructor***: This is beneficial to developing both skills and knowledge. Preparation and research for teaching can provide valuable knowledge, while serving as a leader or instructor may provide development in a range of skill areas. Employees who attend training classes should be encouraged to return and share this knowledge with fellow employees.

Additional employee development activities can be obtained from the County Human Resources Department.

KNOWLEDGE MANAGEMENT

In order for organizations such as CARE to prepare for the potential departure of valuable staff, a major concern is how to preserve the knowledge that these seasoned employees have amassed. In general, the growth in the volume of information available and rapid technological progress has forced most people into a state of information overload. This has left organizations scrambling to create systems for acquiring, retaining, and accessing an overwhelming volume of data. Added to this is the demand for highly specialized knowledge that is often difficult to find and retain. ***Knowledge management*** is one method for ensuring that years of accumulated wisdom do not leave the organization once the employee(s) retires or moves on. The challenge is to create an atmosphere that fosters knowledge sharing, while simultaneously underscoring that transferring knowledge is a way for employees to leave a legacy that will ultimately help the organization long after they leave.

Generally speaking, the term “knowledge management” (KM) represents a broad concept, and is thought of as a system for finding, understanding, and using knowledge to achieve organizational objectives. It is more than simply moving or transferring files and data from one employee (or department) to another. KM allows others to build upon a person’s professional experience, within the context of the organization, in a way that strengthens not only the employee, but the organization as a whole.

Knowledge is vastly different than data due to its subjective and contextual nature and essentially can be defined as “how things get done” inside an organization. Knowledge is obtained through a variety of experiences, typically over a period of time, and is the primary factor in exercising sound judgment and decision-making, two responsibilities often handled by executives.

The loss of knowledge about key organization practices that encompass the CARE of doing business can be disruptive to services and programs. When seasoned employees depart the organization, much of this type of knowledge walks with them and is often the most difficult to replace. **In an effort to mitigate the impacts from the loss of such critical knowledge a Knowledge Management Transfer Program is being recommended as another segment of a systematic Succession Planning Program.**

The Knowledge Management Transfer program being recommended is contrary to what many in local government have customarily utilized – the “policy manual” – often viewed as that which governs daily behavior, decision making and judgment. However, while a current and comprehensive policy manual can serve as a valuable tool it does not substitute for the application of judgment and decision-making in a contextual situation, two activities that are the exclusive province of human beings.

KNOWLEDGE MANAGEMENT TRANSFER

Generally speaking, the term “knowledge management” represents a broad concept, and is thought of as a system for finding, understanding, and using knowledge to achieve organizational objectives. It is more than simply moving or transferring files and data from one employee (or department) to another.

KM is comprised of three strategies and accompanying techniques:

1. **Identifying and Collecting**

   - Knowledge Inventory
   - Knowledge Mapping
   - Best Practices

- Document Processes
- Expert Interviews

2. **<u>Storing</u>**

- Document Repositories
- Document Management
- Systems
- Databases

3. **<u>Transferring</u>**

- Apprenticeships and Internships
- Job Aids
- Lessons Learned Debriefings
- On-the-Job Training
- Storytelling
- Training

The goal of knowledge management is not to manage all knowledge, but to manage the knowledge that is *most important* to the CARE. It involves getting the right information to the right people at the right time, and helping people create and share knowledge and act in ways that will measurably improve individual and organizational performance.

In general, the topic of managing knowledge in such a way that is designed to help newly hired employees perform at a high level quickly, does not appear to be a top priority department-wide. While some divisions expend effort at equipping new hires with the resources, tools and guidance to succeed, others do not. Typical in government organizations and CARE is consistent with this practice, is that knowledge management is akin to "common sense" and the most popular tools for remedies are training and policy and procedure manuals. However, much of the knowledge possessed by CARE employees is not common sense per se or easily documented in a manual. Instead the knowledge and its application is acquired primarily by learned behavior; in other words, people arrive at the organization with a body of knowledge about their particular subject matter and some level of skills in applying it, however what is absent is their awareness about the CARE organizational culture which influences what gets done and how it gets done on a daily basis. Effectively navigating the existing cultures, as there are many inside all organizations, is essential for an effective KM transfer program.

Many factors contribute to the chances of successful implementation of knowledge transfer strategies, and/or a full KM initiative. Some things take years to develop; others are simpler and easier to put in place.

The following list is those factors which help the transfer of knowledge.

Organizational Culture

- Collaboration is the norm.
- Performance reviews incorporate sharing and use of knowledge.
- Executives support and encourage knowledge-creating activities.
- Efforts are taken to develop leaders who foster knowledge sharing, build an atmosphere of trust where sharing is valued, and make promotions based in part upon demonstrated sharing.
- The organization recruits and hires people who sought and applied knowledge in school and on the job.
- Sharing and using knowledge is encouraged and nurtured.
- Employees understand knowledge management and its value to them.
- Continuous learning for individuals and the organization is encouraged.
- Staff members are flexible, forward looking, open to change, and seek continuous improvement.
- Leaders and staff take time to reflect upon and learn from experiences.
- The organization recognizes and rewards employees who share knowledge. It does not reward or promote employees who hoard knowledge or negatively compete with others.

Relationships

- Staff members are willing to share and reuse knowledge.
- Personal relationships encourage sharing knowledge of high value.

Rewards and Incentives

- Meaningful, long-term incentives are tied in with the evaluation and compensation systems, and highly visible short-term incentives are in place to motivate employees to create, share, and use knowledge.
- Individuals and teams are rewarded for promoting knowledge management when they:
    - Capture team discussions and decisions.
    - Mentor.
    - Document lessons learned.
    - Make tacit knowledge explicit.

Trust

- People know and trust the source of the knowledge. People more frequently contact someone they know before searching the corporate database or data warehouse. Technology is an important enabler to success of KM, but people make or break it.

- People share what they have when they believe others will share their knowledge with them.
- Trustworthiness starts at the top. Upper management's behavior defines the norms and values of the organization.
- Trust can be visible. People must get credit for knowledge sharing.

Senior Leadership Support

Senior leadership:

- Provides resources and encourages employees to share knowledge.
- Offers incentives to encourage sharing and use of knowledge.
- Identifies barriers that inhibit sharing and commits to overcome them.
- Endorses and supports KM through:
  - Articulating knowledge-sharing strategies.
  - Embedding KM into standard operating practices.
  - Allocating financial and human resources to KM.
  - Monitoring the value of knowledge management.
  - Identifying links to increased productivity and achievement of objectives.
- Promotes success stories.
- Maintains KM/KT alignment with organizational goals.
- Models desired behavior.
- Sends messages about the importance of KM and organizational learning to the success of the organization.
- Clarifies what type of knowledge is most important to the organization.

Technical and Organizational Infrastructure

- The organization uses technologies that are knowledge-oriented, such as group use software programs and the web, and people have the skills to use them.
- Technologies for desktop computing and communications are available to all staff and they have standardized word processing, presentation software, etc. so documents can be exchanged easily.
- There is an established set of roles, organizational structures, and skills that benefit individual projects (e.g., project managers, project management tools).

Link KM to Organizational Effectiveness, Efficiency, or Overall Value

- The use of KM results in improved service or products, and/or the attainment of goals and objectives.
- The use of KM results in improved customer satisfaction, reducing the number of phone calls, or other organizational goals or objectives.

Clarity of Vision and Language for Knowledge Management

- The organization has clarity of its overall purpose and for its KM initiative.
- The organization has terminology (e.g., "knowledge," "information," "learning," and "organizational learning") to help staff understand and incorporate knowledge sharing on a regular basis.

Some Level of Knowledge Structure

- A glossary of technical terms exists for staff to refer to for increasing their understanding of KM concepts.
- There is a process for getting new terms defined as part of the project management or organization structure.

Multiple Strategies for Knowledge Transfer

- Multiple strategies should reinforce each other.
- Contributors to knowledge repositories get together face-to-face on a regular basis. This builds trust and is useful in developing structures and resolving issues.

Recommendations

There are many ways for CARE to identify, store, and transfer knowledge. Relying on an overall strategy and accompanying tactics will enable the department to systematically and efficiently capture and transfer knowledge. An approach is offered as a suggested first step as a means to create the proper foundation for the KM Transfer Program. There is a strong likelihood that any KM techniques pursued will fare better if a strategy is adopted prior to implementation.

Suggested approach:

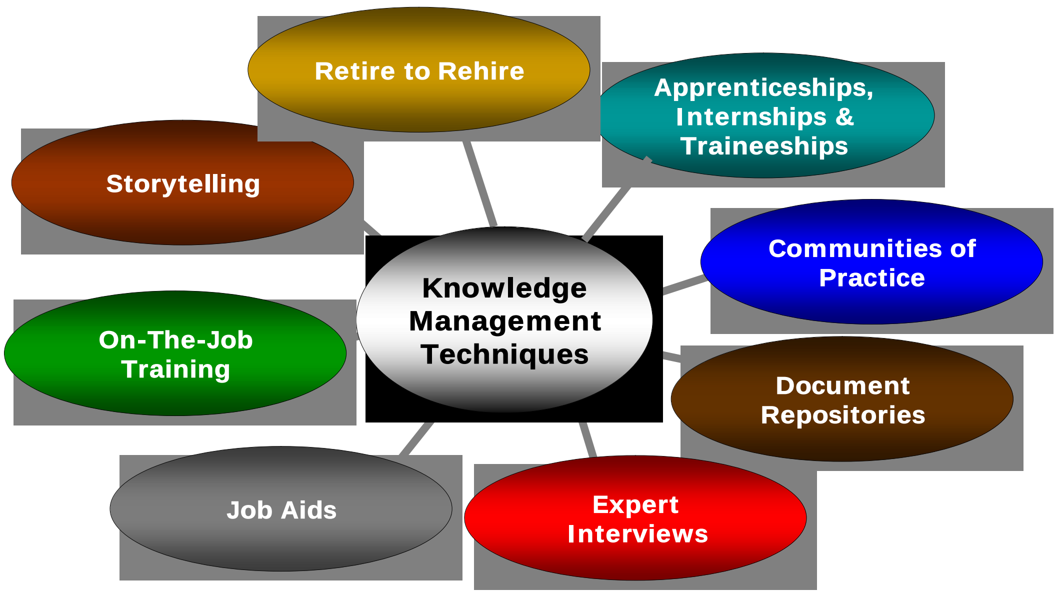
1. **Start with “high-value” knowledge** – Determine the department’s service processes and programs where information and knowledge are critical. Attacking these problems, identifying their knowledge component and using the business value of solving them as justification for KM efforts can prove to be an effective strategy. Consequently, each Division should determine what, in particular, is the “high-value” knowledge for their operation; a knowledge audit. Again the intent is not to transfer all knowledge but only that which is mission-critical so evaluating the knowledge is essential to prioritizing it.

2. **Start on a small scale** – Conduct a pilot project, publicize the results, and let the success of the pilot create demand for additional KM projects.

3. **Work along multiple fronts** – Effective projects address issues related to people, technology, and organizational structure in a coordinated, linked manner.

4. **Leverage existing approaches** – After reviewing the usefulness of existing KM efforts, additional activities should be considered so as to build on their strengths.

The following is an inventory of KM Techniques available for CARE to consider with a recommendation of which Divisions are well-suited for that particular type of KM technique.



1. <u>**Apprenticeships, Internships, and Traineeships**</u>: Establishing these types of programs with colleges and universities can serve to strengthen the pipeline of talent to replace existing staff, when the situation occurs, as well as simultaneously transfer knowledge about the CARE way of doing business.

   Definition

   Apprenticeships, internships, and traineeships are formal arrangements where a person gains practical experience or knowledge by working for a prescribed period of time under the supervision of more experienced workers.

   Apprentices, interns, or trainees typically have basic skill sets or <u>competencies</u>, such as analytical skills, but lack the specialized competencies necessary for the job. In some situations, specialized education may be required. For example, to be eligible for a traineeship in the Finance Department, a person may need to have completed a certain number of college credits in accounting.

Benefits

Apprenticeships, traineeships, and internships provide a structured means for passing on specific knowledge and skills required for success in a particular job or profession. Because they take place at an actual job site, they provide ready access to people who are experienced in the job and to hands-on learning opportunities. Since they are typically one to three years in length, over time, participants learn to take on assignments of increasing complexity and difficulty. The structure provides the necessary support and resources to successfully perform at the journey level.

Obstacles

The County must commit the resources needed for incumbents to succeed, including the staff time to assist in learning necessary skills. Supervisors must not only have mastered the job, but must also know how best to help the apprentice, trainee, or intern to gain required knowledge and skills.

When to Use

Apprenticeships, traineeships, and internships are valuable when it takes a long period of time to learn the specific skills needed for a particular job. They are typically used at an entry level into a profession.

How to Use

For these arrangements to be successful, the organization must commit to providing the necessary resources, including the staff time of experienced workers. Also, there must be ongoing feedback to the learners on their progress in mastering required skills.

Applicable Departments

All Divisions can utilize Internships, especially those with opportunities for entry-level administrative and management positions. **The County has recently embarked on a partnership with CAL-ICMA that involves the placement of interns into various county government operations. CARE should become an active participant in this program.**

2. **Communities of Practice:**

Definition

A Community of Practice (COP) is a group of individuals sharing a common working practice over a period of time, though not a part of a formally constituted work team. They generally cut across traditional organizational boundaries and enable individuals to acquire new knowledge faster. COPs can be more or less structured depending on the needs of the membership.

Benefits

Communities of practice provide a mechanism for sharing knowledge throughout one organization or across several organizations. They lead to an improved network of organizational contacts, supply opportunities for peer-group recognition, and support continuous learning, all of which reinforce knowledge transfer and contribute to better results. They are valuable for sharing tacit (implicit) knowledge.

Obstacles

To be successful, COPs require support from the organization(s). However, if management closely controls their agendas and methods of operation, they are seldom successful.

Applicable Departments

Communities of practice can be used virtually anywhere within an organization: within one organizational unit or across organizational boundaries, with a small or large group of people, in one geographical location or multiple locations, etc. They can also be used to bring together people from multiple agencies, organized around a profession, shared roles, or common issues.

They create value when there is tacit information that, if shared, leads to better results for individuals and the organization. They are also valuable in situations where knowledge is being constantly gained and where sharing this knowledge is beneficial to the accomplishment of the organization's goals.

The Elections Division currently utilizes a COP approach immediately after an election has been held as a means to discuss what worked well, what should be done differently in future elections, etc. This type of Delta/Plus or debrief is extremely valuable in capturing fresh knowledge and providing substantive context to reinforce its utility. Appraisal Services should strongly consider a similar approach shortly after the roll has closed. Participants will find it highly beneficial in helping the following year's roll process.

3. **<u>Document Repositories</u>:** Collections of documents that can be viewed, retrieved, and interpreted by humans and automated software systems (e.g. statistical software packages). Document repositories add navigation and

categorization services to stored information. Key word search capability is often provided to facilitate information retrieval.

Documentation is a practice that can be used to codify and preserve explicit knowledge when time is of the essence (e.g. a key employee is leaving next month). One way to check if current documentation practices are effectively preserving knowledge is to ask whether key CARE employees could pass the "bus test." In other words, if the Special Assistant to the Assessor was hit by a bus on the way to work tomorrow would his documentation practices put the organization at risk or greatly degrade capabilities. Of course, the sudden loss of any employee is disruptive, but from a practical standpoint could a successor come in and make sense of the person's files?

Applicable Departments

All departments can benefit from instituting Document Repositories so as long as the knowledge captured is maintained, helpful and easily accessible. Those departments which work from a prescribed set of steps and a series of deadlines will gain the most benefit from this approach.

4. Expert Interviews

Definition

Expert interviews are sessions where one or more people, who are considered experts in a particular subject, program, process, policy, etc., meet with others to share their knowledge. The format of the sessions can range from an informal one-on-one meeting to a larger group session with a panel of experts. Sessions can be audio or videotaped or even transcribed if the subject is highly technical. The experts can come from within an organization or from the outside.

Benefits

Expert interviews are a way of making tacit knowledge more explicit. A person can describe not only what was done but why, providing context and explaining the judgment behind the action. Interviews are often easier for the experts than having them write down all the details and nuances. Learners can ask questions and probe more deeply to ensure understanding.

When to Use

Expert interviews can be used in many situations. The best place to begin is with people who have unique knowledge developed over a long period and who have the potential for leaving the organization soon. The next step might be to identify mission critical processes or programs where only one or two staff has a high level of technical knowledge.

Applicable Departments

This technique will create the most value-added knowledge when applied to the department director, deputy directors and the Special Assistant to the Assessor. Much about what members of this group do on a regular basis contains so much organizational context, both politically and within the organization. Conducting expert interviews with this group can create a "highlight reel" of their respective rolls accompanied by a position profile that will be quite useful in recruiting and selecting their successors.

5. **Job Aids**: These are tools that help people perform tasks accurately. They include things such as checklists, flow diagrams, reference tables, decision tree diagrams, etc. that provide specific, concrete information to the user and serve as a quick reference guide to performing a task. Job aids are not the actual tools used to perform tasks, such as computers, measuring tools, or telephones.

Definition

A job aid can take many forms, but basically it is a document that has information or instruction on how to perform a task. It guides the user to do the task correctly and is used while performing the task, when the person needs to know the procedure.

Types of job aids include:

- Step-by-step narratives or worksheets sequencing a process.
- Checklists, which might show items to be considered when planning or evaluating.
- Flow charts, leading the user through a process and assisting the user to make decisions and complete tasks based on a set of conditions.

Benefits

Job aids are usually inexpensive to create and easy to revise. Using job aids can eliminate the need for employees to memorize tedious or complex processes and procedures. When a job aid is easy to access, it can help increase productivity and reduce error rates.

Obstacles

Job aids need to be written clearly and concisely, with nothing left to interpretation. They also need to be updated and kept current. Finding the time to create job aids can be a challenge; however, creation of good job aids produces benefits over the long term.

How to Use

Consult with knowledgeable users to identify what job aids to develop. Create job aids that include only the steps or information required by the user. Keep the information and language simple, using short words and sentences. Do not include background information or other information extraneous to actual performance of the task; put that in another location. Use graphics or drawings, when appropriate, to more clearly demonstrate detail.

Use bold or italicized text to highlight important points. Use colors to code different procedures or parts of a process. Make sure the job aid can be easily accessed and is sturdy. A laminated wall chart hung near where a task is performed can be consulted more quickly than a piece of paper stored in a file.

Applicable Departments

Job aids are most appropriate for tasks that an employee does not perform frequently, or for complex tasks. Tasks with many steps that are difficult to remember, or tasks that, if not performed correctly cause high costs, can benefit from having readily accessible job aids. Also, if a task changes frequently, a job aid would save time and reduce the chance for errors. Consequently, **those operations such as the Clerk-Recorder which have processes which operate from a sequenced series of steps arriving at a cumulative outcome are most likely to be utilized for developing Job Aids**. More than likely, those in administrative roles will benefit immensely from the creation of job aids and newly hired employees, as well.

6. **On-The-Job Training**.

Definition

On-the-job training is any kind of instruction that takes place at the actual job site and involves learning tasks, skills, or procedures in a hands-on manner. It can be informal, such as when a person asks a co-worker to show how to perform a task, or part of a more formal structured OJT system. If part of a structured system, there are usually prescribed procedures for training that specify the tasks and skills to be learned and that sequence the activities to build on knowledge already acquired. There are also administrative processes requiring both trainer (sometimes called a coach) and trainee to certify that a particular task or skill has been mastered. Structured OJT is usually more effective than informal; however, informal can also be valuable.

Benefits

On-the-job training can be very effective because someone skilled in performing the tasks does the training (the coach). With training done on the actual job site, it may not reduce productivity as much as taking a person off site to a classroom setting.

The cost is usually the coach's and employee's time. If a more structured approach is being taken, there are costs associated with training coaches and developing checklists and other materials. However, those costs can be amortized over time and over the number of trainees who use them.

Obstacles

Sometimes informal OJT can be a problem if the training objectives are not clearly stated and understood. If the training is presented in an off-the-cuff manner, it might not be taken seriously enough. Also if the person doing the training is not adequately prepared, the training could be confusing and the time wasted.

When to Use

Consider the following when deciding whether to use structured OJT:

- When materials needed to perform the job are not replicable in a classroom environment.
- When instruction needs to take place in small chunks so that taking the person away from the office is not an efficient use of time.
- When the number of people needing instruction is too small to efficiently organize a classroom session.
- When showing someone how to do something using real work is the most effective way of teaching.

Applicable Departments

OJT is more useful for entry-level and/or non-supervisory positions than those in management due to the nature and complexity of those types of jobs. Therefore, all departments could utilize realize benefits from this approach.

7. **Storytelling/“Lunch and Learn”:** A technique that can be the centerpiece of a “brown bag” lunch series during which different staff members share on particular topics including the finer nuances. Presumably certain employees are noted storytellers and this technique provides those persons a platform and purpose. Transferring knowledge by sharing stories is a common practice throughout the history of mankind and is an excellent leverage point for organizations.

Definition

Storytelling uses anecdotal examples to illustrate a point and effectively transfer knowledge. There are two types:

- Organizational stories (business anecdotes) are narratives of management or employee actions, employee interactions, or other intra-organizational events that are communicated within the organization, either formally or informally.
- Future scenarios create a future vision for the enterprise that describes how life will be different once a particular initiative, change, etc. is fully implemented. They provide a qualitative way of describing the value of the initiative even before it starts.

Benefits

- Stories capture context, which gives them meaning and makes them powerful.
- We are used to stories. They are natural, easy, entertaining, and energizing.
- Stories help us make sense of things. They can help us understand complexity and assist us in seeing our organizations and ourselves in a different light.
- Stories are easy to remember. People will remember a story more easily than a recitation of facts.
- Stories engage our feelings and our minds and are, therefore, more powerful than using logic alone. They complement abstract analysis.
- Stories help listeners see similarities with their own backgrounds, contexts, fields of experience, etc., and, therefore, help them to see the relevancy of their own situations.

When to Use

Stories can be used to support decision making, aid communications, engage buy-in, or market an idea or approach. If being used to illustrate the value of a way of thinking, or explaining an idea, they are best used at the outset, to engage the listener and generate buy-in.

The stories must be simple, brief, and concise. They should represent the perspective of one or two people in a situation typical of the organization's business, so that the explicit story is familiar to the audience. Similarly, the story should be plausible; it must ring true for the listener. It needs to be alive and exciting, not vague and abstract. By containing a strange or incongruous aspect, the listener can be helped to visualize a new way of thinking or behaving. Stories, therefore, should be used to help listeners extrapolate from the narrative to their own situations.

Applicable Departments

A terrific program that is optimal for those employees eligible to retire in 2-3 years allowing them to impart their knowledge in a practical manner helping their potential successors. It can be implemented in each division.

The goal of retaining knowledge is always related to creating value through access and reuse, not just capturing intellectual capital for the sake of posterity.

IMPLEMENTATION PLAN
"ROAD MAP FOR CHANGE"

This segment of the Report is intended to be the "roadmap" for change to assist CARE with implementing recommendations contained herein. However, prior to outlining the "road map" is an examination of two critical factors which will heavily influence the success of this initiative: the role of the existing organizational culture and its ability to change.

An organizational culture is defined as "the basic assumptions, values, and norms shared by employees." Those cultural elements are generally taken for granted and serve to guide employees' perceptions, thoughts, and actions. The culture of most government organizations, including CARE, can be described as averse to risk. Embedded at the center of the department's desire to both embrace and implement recommendations is its collective ability to change. Consequently the desire to change may "collide" with the existing culture and the status quo can prevail.

Often organizations are encouraged to institutionalize best practices, freeze them into place, focus on execution, stick to their knitting, increase predictability, and get process under control. These ideas establish stability as the key to performance. As a result, organizations are built to support enduring values, stable strategies, and bureaucratic structures, not to change.

Change is typically viewed as a necessary evil. It is costly, annoying, hard, and more often than not, ineffective. On the other hand, organizations must be disrupted, unfrozen, shocked, and change; a sense of urgency must be created, a case for change articulated and sold. In the public sector, playing it safe is no longer playing it smart.

In today's environment where forces for change seemingly arrive every hour, CARE, to ensure its viability must continually adapt. By creating the right environment for change, the department can greatly enhance its employees' willingness to change.

As often is the case, and this situation is no different, to achieve significant positive outcomes it will require visible support from the department director and members of senior management, for employees to know what they have to do to support the change, and that adequate resources are dedicated to the change. If such support is lacking, the entire change initiative may be viewed by members of the workforce as a "fad" which will translate to little if any meaningful benefits to employees, the organization or the community in improved service delivery.

The following ten steps serve as the "road map" for change:

1. *Define change as a compelling element of organization strategy*: Unless the proposed change finds its way into a grander set of organizational priorities, it is unlikely that the change will be sustainable over time. The reality in most organizations today is that organizational priorities are driven by the annual budget cycle. It will be difficult to sustain the change effort unless there is a clear and unambiguous reason for it. Linking the change to organizational strategy creates such a purpose.

2. *Put an infrastructure in place*: Get the right people involved in the change effort and define the roles and responsibilities for these people. It consists of the people who will have some degree of direct involvement in the change.

   - **Sponsor**: These are the people who oversee the change effort and provide advocacy and on-going monitoring to ensure its success. Mr. Slocum, the Board of Supervisors and County Manager's Office would serve as the Sponsor for this change initiative.

   - **Change Management Coalition (CMC)**: These are the people who are directly involved in marshalling the resources necessary for the short- and long-term recommendations to be implemented. They will confer regularly to oversee the change initiatives. The team is comprised of members of the Project Team assembled for this project along with an additional member from CARE to be named:

     1. Warren Slocum, Assessor-Clerk-Recorder-Elections Officer
     2. Reyna Farrales, Deputy County Manager
     3. Conrad Fernandes, County Manger's Office
     4. Audrey Ramberg, County Manager's Office
     5. Joanne Ward, County Manager's Office
     6. Andrew Wright, Consultant, CARE
     7. Chet Overstreet, Human Resources Department
     8. Kanchan Charan, Controller's Office

   - **Change Advisor**: Are the people, typically management consultants, who will ensure alignment of all facets being undertaken on as part of the change initiative including possessing a comprehensive understanding of the change, being extremely well-versed in the most effective strategies for a successful implementation, and playing an important role in building the relationship between the project team and the sponsor and the executive team.

3. *Work from an implementation plan*: Implement the recommendations resulting from the departmental assessment and be sure they are rigorously managed. Elements of this Plan are outlined on page 81.

4. *Recognize the investment and commit to the long haul*: Ensure that the change project doesn't become some "flavor of the day" effort. Help people understand that change takes time to implement if it is to be successful. Make the change effort part of the county's strategic plan.

5. *Think small*: Break the change effort into elements that are small enough to ensure quick wins and build momentum. The Implementation Plan divides the change initiative into two phases, short- and long-term with its own deliverables and pay-offs.

6. *Build alliances in support of the change:* Learn to play the politics of change. Find champions for the change effort. Successful implementation will be decided by key stakeholders, both internal and external, who are affected directly or indirectly by the change.

7. *Align recognition to support implementation:* Employees will generally achieve what they are rewarded for or measured against, not just what they are expected to do. Provide positive recognition when expectations are met and negative consequences when expectations are not met.

8. *Translate the change into job-level details*: In the end, the people whose jobs are affected by the change will be the determining factor in whether the change effort proves successful. Unless the change can be translated into specific actions or activities for these individuals, there will be too many opportunities for misunderstanding and unnecessary time will be spent tracking down glitches to the implemented solution. Do not rely solely on frontline supervisors to figure out the job-level changes, but do interview them and centralize the job redesign function. Make the change meaningful to the people who will be responsible for implementing the change.

9. *Integrate the change into management systems*: Incorporate the change into such systems such as the county and the each department's strategic plan, budget, performance measurements, structure, compensation, and employee orientation and training. Integrating the change into these systems will help prevent the change from dissipating over time, and can serve as an early warning system if the change effort jumps off track.

10. *Follow up relentlessly*: The need for short-term results drives most organizations, and change requires time to become sustainable. The sponsor, change management coalition team, and change advisor all share this responsibility. People must be held accountable for their commitments. Establish regular opportunities to review progress through status reports, project review meetings, and meetings with key stakeholders.

Implementation Plan

There is a trend in public sector organizations to implement recommendations according to a 5-year plan; 5-years being the most popular approach to making changes. An important aspect for this project to be successful and change to be sustained, is implementing "early wins" or "quick hits" as recommended in step/tactic number 5 – Think Small. The analysis of existing processes and practices revealed obvious redundancies and inefficiencies for which appropriate changes should be authorized immediately. These early successes can help generate and sustain momentum in the reengineering effort. The following Short- and Long-Term recommendations are provided for consideration by the Change Management Coalition.

Short Term

1. Convene members of the Change Management Coalition to review the Report's recommendations and determine next steps including determining a schedule for providing periodic updates on progress to the Finance and Operations Committee. Quarterly updates are suggested.

2. Immediately enlist a small group of potential successors to the current Special Assistant to the Assessor and involve each of them in a series of planned development activities to extract valuable institutional knowledge.

3. Implement a Succession Planning Pilot Program focused on developing potential successors for at-risk positions of Deputy Director, Assessor-Recorder Support Services Supervisor and Principal Appraiser.

4. Enlist the aid of a mentor and identify additional training for the existing Fiscal Services Manager. These techniques are intended to accelerate the incumbent's performance and will translate to the Fiscal Services Manager being a visible and influential partner to senior management and enable CARE to effectively navigate the budgeting process.

5. Consider the interim organizational structure as offered by CARE staff and is included in this report. Pursue a longer term reorganization recommended in this report intended to consolidate Appraisal Services and reclassify two positions currently on the Countywide Hiring Freeze list to Program Services Manager II who will serve as Division Managers. This is designed to create a job classification that will develop potential deputy directors.

6. Maintain Elections in CARE for the foreseeable future and evaluate options at the point in the future when Mr. Slocum decides not to seek re-election.

7. Employees who are either currently or are interested in becoming a supervisor should attend the County's First Line Supervisory Academy and or supervisory preparatory courses.

8. Participate in an Applied Strategic Planning process intended to craft a planned approach of responding to the various forces imposing change on CARE services and operations.

9. Encourage employees to determine competency-training match prior to registering for training workshops.

10. Hold periodic all-employee meetings that encompass a range of issues which pertain to the employee's level of understanding about those factors impacting CARE services including the budget situation, new department or County-wide technology, etc.

11. Support existing efforts by the Clerk-Recorder's Office in the following areas:

    - In FY 2009-10 begin recording electronically land records from both business and government entities.
    - Continue to expand e-Government initiatives.
    - Continue to explore opportunities to streamline and automate functions.
    - Continue excellent customer service by working closer with the public and private industry.

Long Term

1. Utilize a variety of Knowledge Management Transfer strategies and techniques to mitigate the impacts of seasoned employees departing with the CARE way of doing business.

2. Continue the job rotational program.

3. Require Training and Development Plans each year for every employee.

4. Based on the composition of workforce demographics for the Elections Division as soon as the budget situation improves the two positions included on the Countywide Hiring Freeze list should be considered high priority for hiring. Same rationale exists for other positions on the list which impact Appraisal services.

5. Collaborate with County Human Resources Department and co-create a robust and beneficial on-boarding process designed for newly hired employees.

6. Continue discussions with the Controller and Tax Collector to institute synchronized software systems.

7. Periodically engage employees in all Divisions about the importance and influence of Outcome Based Measurements for their respective operations.

8. Utilize the recommendations offered in the Assessment Practice Survey currently being completed by the California State Board of Equalization.

Next Steps…

There is a strong probability that the change initiative being pursued by the CARE will be successful and outcomes realized if a resource with seasoned experience and practiced skills are provided. We view this next phase as one in which the consultant's role is in an advisory capacity sharing expertise and experience from similar change initiatives. Their role is to ensure alignment of all facets being undertaken and in doing so, assist the Change Management Coalition who serves as the group of change agents. The firm selected should possess a comprehensive understanding of both the organization and recommendations in the Report and are extremely well-versed in the most effective strategies for a successful implementation.