July 29, 2019

READ AND CONSIDERED
DATE 8/29/19 BY

Honorable, Gary Nadler
Sonoma County Superior Court
600 Administration Drive
Santa Rosa, CA 95403

GENERAL SERVICES RESPONSE TO GRAND JURY REPORT
MANAGING PUBLIC PROPERTIES IN SONOMA COUNTY
JUNE 2019

The Grand Jury, County of Sonoma issued a report, "*Managing Public Properties in Sonoma County*" in June 2019. The report included four recommendations to which General Services was required to respond: R2, R3, R5 and R6. General Services' responses are as follows:

FINDINGS

We agree with these findings:
F1. Deferred maintenance of County buildings and other facilities has become so considerable that it requires extraordinary measures and limits management's ability to plan effectively for future facilities.

F3. There is no formal requirement that County departmental administrators inform the Board of Supervisors regarding current-year deferred maintenance decisions on capital assets including cost to the County budget.

F7. Facility maintenance is persistently underfunded, at levels substantially below recommended industry standards.

F9. Deferred maintenance contributes to more rapid deterioration of facilities and therefore, in the long run, to higher facilities costs.

F13. Capital assets that suffer from significant accumulations of deferred maintenance may be impaired assets for accounting purposes.

We disagree wholly or partially with these finding(s):
F2. Sonoma County Capital Assets Policy FA-l fails to provide sufficient reporting for management to determine the extent to which normal maintenance and repairs of buildings and other County facilities are being deferred.

We disagree wholly with this finding. The purpose of Fiscal Policy FA-1, *Accounting for Capital Assets*, is to ensure accurate and complete physical and financial records needed for financial reporting. The policy is not intended to address areas such as planning and budgeting for capital asset purchases and disposals, asset maintenance activities, or the appropriate use of County-owned assets. These items should be addressed in a separate policy to be developed by General Services and the County Administrator's Office. This separate policy would provide for the capture of maintenance and improvements and its impact to overall asset value. The condition of a facility in conjunction with the impacted asset value should be a greater consideration in the addressing funding and planning.
We would agree that a policy revision would be in order to capture the impact of deferring maintenance and conversely the extension of an asset's service life from repairs or replacement.

F4. Real asset records are scattered over an excessive number of record keeping and asset management systems.

We disagree partially with this finding. All physical/financial asset records are maintained in the EFS Asset Management (AM) module, however General Services maintains separate asset management systems to track work orders, maintenance and repair of the assets. A greater level of access to the EFS Asset Management Module would be appropriate though this module does not contain desirable features of a modern property asset management software system.

F5. General Services, as well as other departments, have yet to take advantage of integrating with the Enterprise Financial System's (EFS) Asset Management module which provides asset tracking, acquisition, maintenance, inventory, and cost-sharing.

We disagree partially with this finding. Although General Services would greatly benefit from an asset management software system, General Services requires a robust integrated asset management, cost accounting, and work order system with software capabilities providing space allocation information. It is our understanding that EFS does not fulfil all of these needs.

F6. The true cost of maintaining the County's facilities has been substantially understated for over a decade by deferring needed maintenance.

We disagree partially with this finding. As the amount of funding for maintenance had remained flat since the economic downturn of 2006, unfunded maintenance projects have been identified and valued in the Annual Capital Improvement Plan (CIP). However, competing needs of critical nature frequently occur in a limited budget.
F8. Deferred maintenance costs are continuing to accumulate to an extent that they constitute a major reduction in asset value not reported in the County's financial statements.

We partially disagree with this finding. The County is required to comply with Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. In order to record an impairment loss, GASB 42 requires that the impairment be significant, unexpected and permanent, and also result in a decline in service utility. Following the provisions of GASB 42, an outdated or decrepit office building that is still used as an office is not impaired, because there has been no decline in service utility. However, several financial and property asset management publications indicate deferred maintenance as a liability. For instance Standard & Poor's rate the debt issuances of thousands of infrastructure owners and view high deferred maintenance levels as a credit weakness (*Deferring*

America's Infrastructure Maintenance Carries Risk, *Anne Selting, Infrastructure Finance Outlook, S&P Global Ratings, Q2 2018 Review*).

F10. Public and employee safety are adversely affected by deteriorating building conditions brought about by deferred maintenance.

We disagree partially with this finding. Building conditions would not be the only factor in public and employee safety. However, health and safety of employees and the public can be compromised by deteriorating building conditions such as a leaking roof that could be subject to mold, bacteria and fungus. Another example could include worn finishes which would only appear as aesthetic. However, wear on finishes such as carpet could be worn to the extent where frayed areas or unraveling seams become a tripping hazard as noted in some areas of County buildings.

F12. The County lacks in-house capabilities for determining and setting deferred maintenance valuations.

We disagree partially with this finding. General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating. The department contracted with VFA because the extensive scope of work would have detracted from staff resources committed to other projects. Staff effort must be fully reimbursable and as such it was more efficient to contract the effort to VFA.

F11. The current condition of facilities creates a difficult environment for making future plans and decisions about used and new facilities.

We disagree partially with this finding. While the current condition of existing aging buildings is a factor, the lack of vacant space, the costs of renovating facilities constructed in an era where asbestos and lead based paints were in common use, and the lack of financial resources to implement desired new uses and tenant improvements are far more significant factors impacting decision making.

F14 Board of Supervisors has not been able to fully implement the Capital Improvement Plan due to appropriation of funding to other departments.

We partially disagree with this finding. The Annual Capital Improvement Plan (CIP) is a planning document used to identify capital needs and prioritize funding based on the criteria set forth in the Sonoma County Administrative Policy 5-2, *Policy for Capital Project and Asset Responsibility.* New projects are added to the CIP each year, and it is not commonplace for all projects to be fully funded. An updated evaluation and inventory of deferred maintenance needs has not been completed since 2014 because of competing priorities. However, as it stands now, the County faces a $258 million backlog of deferred maintenance on the County government center campus, and staff have determined it to be more cost efficient to build a new campus than to repair the existing building. The Board of Supervisors have directed staff to move forward in exploring options for replacing existing County campus buildings or relocating to a new location. In light of this, only critical investments on the County campus have been prioritized for funding.

RECOMMENDATIONS

R2. The County Administrator obtain an independent cost analysis and justification of deferred maintenance on capital assets from each department head and present to the Board of Supervisors by March 2020, and following on an annual basis. [F3]

Response: The recommendation has been implemented.

The General Services Department is responsible for the maintenance and management of County property assets. Individual departments do not manage capital assets. General Services contracted with VFA Associates in 2014 to perform a facilities conditions analysis which is the industry standard baseline assessment of facilities. Best management practice is to perform a new or refreshed facilities condition assessment every five years. General Services intends to submit for approval a Capital Improvement Project for FY 2020/21 to update the facilities condition assessment and expand to buildings that are omitted from the original study.

It should be noted that facilities condition assessments are not the same as cost estimates or analysis of individual projects. Cost estimates for capital projects are included in the Annual Capital Improvement Plan. These cost estimates are generally developed by skilled staff within the department. Large projects such as the Behavioral Health Housing Unit require additional cost estimating services typically performed by one of the County's Master Service Agreement architectural and engineering firms.

R3. The County Administrator work with department heads to evaluate and take advantage of the EFS Capital Asset Management module to avoid duplication, consolidate data, provide cost savings, and report updates to the Board of Supervisors by December 31, 2019. [F4, F5]

Response: The recommendation requires further analysis.

The County purchased and implemented EFS Asset Management county-wide in July 2014 in order to provide a centralized accounting system to track capital assets for the purpose of financial accounting. However there were additional asset management modules that were not purchased or implemented. . General Services requires a robust integrated asset management, cost accounting, and work order system with software capabilities providing space allocation information. The General Service Director will work with the County Administrator and ACTTC staff to determine if additional services are needed, and will provide an update to the Board of Supervisors as part of the Budget development process by June 30, 2020.

R5. The Director of Health Services reduce employee and public exposure to hazards, minimize risks of OSHA and liability exposure by enforcing a higher level of maintenance by December 31, 2019. [F10]

Response: The recommendation will not be implemented because it is not warranted.

Currently, General Services has been working closely with the Risk Management Division of Human Resources Department to identify and mitigate employee and public exposure to hazards, minimize risks of OSHA and liability exposure. Risk Management is responsible, in coordination with General Services, for the tracking and monitoring of all OSHA complaints, and consults and informs Health Services staff of issues, resolution and completion. Collaboration with Risk Management benefits the County in potentially providing insurance coverage for certain events and providing immediate assessment and recommendation by qualified safety specialists.

R6. The County Administrator and the General Services Director assign resources such as sufficient staffing for determining and setting deferred maintenance valuations by December 31, 2019. [F 12]

Response: The recommendation requires further analysis.

General Services Facilities Development and Management includes staff who are licensed architects, engineers and general contractors that have extensive experience in cost estimating. Because General Service's staff are 100% cost recoverable, other projects have been prioritized over updating deferred maintenance valuations. Further analysis will be needed to determine how many staff hours would be required to update and maintain deferred maintenance valuations, and how that would impact other projects. Best management practice is to reassess facility conditions every five years. As a part of that process, outstanding deferred maintenance items will be re-estimated. General Services will work with the County Administrator to continue to evaluate resource needs and report back to the Board of Supervisors by June 30, 2020 as part of the FY 2020-21 Capital Improvement Program (CIP) recommendations and Annual Budget.

OTHER COMMENTS:

Page 9, paragraph 4:

- The May 2018 report was not prepared by a consultant but by County staff, collating data from past sources and documenting trends in maintenance of county facilities.

Respectfully,

Caroline Judy

Caroline Judy
Director, General Services Department
County of Sonoma