



COWCAP REFERRAL RESULTS

AUDITOR-CONTROLLER'S OFFICE

MAY 22, 2018



REFERRAL PURPOSE

- A referral dated May 8, 2018 required that the Auditor-Controller's Office (ACO) take a lead to review and discuss the Countywide Cost Allocation Plan (COWCAP) budget process with the County Administrative Office's Budget Division and the Departments of the County
- The purpose is to evaluate how COWCAP can be budgeted to stabilize the County's budget
- Countywide meeting held on May 14, 2018



MEETING OUTCOME

- COWCAP is not causing the loss of any positions nor contributing to the budgetary deficits
- COWCAP is a Federal Program designed to reimburse local governments
- It brings monies to the General Fund and non General Fund
- It allocates already budgeted costs
- No new costs are created, as such , there is no “new” budget need or increased deficit.
- Swings in the departments’ budget are caused by the Budget Methodology used

BUDGET METHODOLOGY – FY 2018-19



- COWCAP budgetary gain of \$9 million to General Fund is used to help fill County's structural budget deficit
- Reducing the deficit from \$45 million to \$36 million
- COWCAP continues to be blamed as a factor contributing to the remaining \$36 million budget gap
- Commingling of COWCAP gain to reduce County's structural budget deficit is not an appropriate budget methodology
- County's true operational budget position is not transparent and not readily available to the Board to implement strategic, fair, and reasonable approach to balance the budget



ACTION ITEMS

- Change budget methodology
- Make the COWCAP budget neutral by having the budget follow the accounting allocation, which is cost neutral (netting to 'zero')
- Increase operating departments' budget corresponding to the COWCAP allocation charge, reduce service departments budget corresponding to the allocation credit, making it budget neutral (netting to 'zero')



RECOMMENDATIONS

OPTION I:

- Include in the Budget Process a transparent budget allocation of COWCAP that exactly corresponds to the charges and credits of cost allocations
- Budget impact: zero



RECOMMENDATIONS

OPTION 2:

- Exclude from the budget process
- A transparent budget allocation of COWCAP that exactly corresponds to the charges and credits of cost allocations is done via a separate transaction outside of the budget process
- Budget Impact: zero

PROPOSED RECOMMENDATION: OPTION # I



- Option # I allows addressing revenue (reimbursement) budget for subvene departments within the budget process for the portion of COWCAP allocation not subject to reimbursement
 - For instance, Department of Social Services will receive 85% reimbursement of COWCAP allocation charge
 - The remaining 15% is derived from General Fund Contribution (GFC) to balance their revenue budget for COWCAP
- COWCAP budget is comprehensively addressed under this option for both - allocation charge and resulting revenue



SURVEY: OTHER COUNTIES

Other California Counties' treatment of COWCAP allocation for both accounting and budget

- San Benito County
- Santa Cruz County
- Solano County

PREVENTIVE MEASURES FOR COWCAP SWINGS



- COWCAP swing is caused by changes in operational policies and structure
- Understanding operational policy and organizational structure changes will help understand COWCAP swings
 - * Changes from/to Direct Billing
 - * For instance, the new policy implemented by the Budget Office of removing the Direct Charge method of service departments costs, will cause a big swing in COWCAP two years from now.
 - * Increased/Decreased central service expenditures
- COWCAP swings have no co-relation to budget