



MEMORANDUM

RIVERSIDE COUNTY EXECUTIVE OFFICE

Larry Parrish
County Executive Officer

TO: Members, Board of Supervisors
FROM: Larry Parrish, CEO
RE: FY 2004/05 Internal Service Fees
DATE: January 21, 2004

Annually, in accordance with Board Policy B-4, internal service department managers, the Auditor-Controller, and the Executive Office evaluate existing and proposed charges for services. Internal fees include those from departments that administer true Internal Service Funds (ISFs), as well as those, such as Human Resources, Records Management and Facilities Management, that function much like ISFs.

Following this memo are department proposals for next year's rates. Mindful of State budget uncertainties, department heads were encouraged to hold rates at the FY 2003/04 levels, which in many cases had not changed since FY 2002/03, or before. While most service departments were able to comply, others face unavoidable costs. The following is a summary of the rate changes, in millions of dollars, requested by service departments and recommended by this office:

| Internal Service | FY 02/03 Approved Changes | FY 03/04 Approved Changes | FY 04/05 Requested Changes | FY 04/05 Recommended Changes |
|-------------------------|---------------------------------|---------------------------------|----------------------------------|------------------------------------|
| OASIS, RIFMIS & Payroll | 3.8 | 0 | -0.6 | -0.6 |
| IT CORNET | 1.5 | 0 | 0 | 0 |
| Human Resources | 1.7 | 1.0 | 0 | 0 |
| Workers Comp | 6.6 | 0 | 18.4 | 11.4 |
| Property Insurance | 1.5 | 1.0 | 0.7 | 0.7 |
| Liability Insurance | -6.7 | 0 | 10.2 | 5.7 |
| Med Malpractice | 0.3 | 0 | 4.5 | 2.4 |
| Facilities Mgmt | n/a | n/a | 3.8 | 3.8 |
| Records Mgmt | 0.6 | -0.1 | to be determined | |
| Supply Shipping | 0.1 | 0 | 0 | 0 |
| TOTAL CHANGE | 9.4 | 1.9 | 37.8 | 24.2 |

As shown above, Information Technology rates are proposed to stay the same next year, although some minor changes in methodology are being proposed, and usage of CORNET will affect actual charges. OASIS rates for the Financials component will remain the same, and for the HRMS component will decrease. Unemployment and Short-Term Disability insurance rates remain unchanged. Purchasing, Supply Shipping and Fleet rates also remain unchanged, but will be re-examined as the year progresses to determine whether any

increases are necessary. Long-Term Disability insurance rates are proposed to rise slightly, with a total countywide impact of \$41,810. The basic Human Resources rate per employee will remain the same, but charges to individual departments will vary depending on their number of filled positions. In addition, departments will have the opportunity to reconsider whether they want to continue to purchase additional services (payroll, employee relations and recruiting) from Human Resources at a direct cost. Records Management rates are expected to rise; a proposal on these will be presented for Board approval at a later date

For 11 years, the Department of Facilities Management has charged rates that were adopted in 1992. While this is a difficult time to recommend any rate increases, those proposed here are reflective of increased costs and essential to the cleanliness and safety of County buildings. They will also help to position the department for transition to a direct-billing system in the future. Ultimately, by direct-billing all facilities, costs can be more accurately charged to the programs and sites at which they are incurred. It is anticipated that this would be fully implemented in FY 2005/06.

Unfortunately, costs in the risk management area have escalated. With a 70% confidence level (meaning a 70% probability that claim demands could be met), rates for workers compensation, medical malpractice, property insurance and liability would increase \$33.8 million next year. While originally proposed at this level, it became evident that such extreme increases would be more than departments could bear. At the 40% confidence level, far below actuarial recommendations, the costs to departments increase by \$20.2 million.

Those most dramatically affected by these increases will be the public safety departments and regional medical center. These functions can claim only partial reimbursement of charges from outside funding agencies or through fees. With General Fund reserves unavailable, they would be forced to absorb the rate increases within their budget targets.

It is, therefore, recommended that the Board of Supervisors:

- 1) Approve each of the attached rate-related proposals from the departments of Information Technology, OASIS, and Facilities Management; and
- 2) Approve the proposed rates for risk management internal service funds, and the proposed base rate for general Human Resources services; and
- 3) Direct user departments to absorb the proposed increases within their net County cost targets for FY 2004/05, and to negotiate any changes to elective services with the provider departments.