

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

867



FROM: County Executive Office

SUBMITTAL DATE:
February 2, 2010

SUBJECT: Internal Service Charges and Policy B-4

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the following summary of the FY 2010/11 ISF Rates; and,
2. Direct that any proposed fixed asset purchases/expenses to draw down excess retained earnings should be included in the departments' Fiscal Year 2010/11 budget; and,
3. Direct that proposed fixed asset purchases exceeding \$100,000 be approved by the Capital Improvement Program per Board Policy B-22.

BACKGROUND: The Board of Supervisors directed a thorough review of internal service rate for Fiscal Year 2010/11. The purpose was to determine if rates appropriately recovered the actual cost of providing services and if a reduction in rate fees were warranted. Based on the results of review, the Executive Office determined that the Board of Supervisor's Policy B-4, *Rates Charged for Current Services*, needed revision.

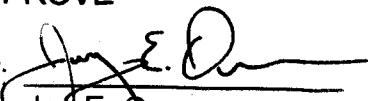
Board Policy B-4 lays out County policy regarding internal service fees and charges. As a result of concerns raised about the impact of such charges on user departments, the Executive Office is working
(continues on Page 2)

Departmental Concurrence

FINANCIAL DATA	Current F.Y. Total Cost:	\$ N/A	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ N/A	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ N/A	For Fiscal Year:	N/A

SOURCE OF FUNDS:	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVE

BY: 
Jay E. Orr

County Executive Office Signature

- Consent
- Policy
- Consent
- Policy

Dept's Recomm.:

Per Exec. Ofc.:

Prev. Agn. Ref.:

District:

Agenda Number:

3.63

Background (continued)

on a comprehensive revision of that policy with the intent of achieving consistency and transparency. Assisting in that effort are representatives from a number of departments: Sheriff, District Attorney, Assessor-Clerk-Recorder, Department of Public Social Services, Transportation and Treasurer-Tax Collector. It is anticipated that the revised policy will be presented to the Board for approval in advance of the preparation of rates for Fiscal Year 2011/12.

In addition to a revision to the current county policy, the Executive Office observed some trends regarding current rate setting practices:

- Rates charged to departments were based on projected operating costs for the new fiscal year instead of actual costs. This practice would be appropriate when rate adjustments are made during the year for operating costs that are significantly less than projected. In some cases, rate adjustments were not made.
- The method used to distribute costs among departments was not always consistent with the departments' use of services.
- Excess earnings were not refunded to user departments but retained by the department for other purposes.
- Reduction in service demands resulted in reallocation of cost instead of an attempt to reduce operating costs to reflect current service levels

Charges for the coming fiscal year have been prepared under the existing policy with two exceptions. First, departments were instructed to use Fiscal Year 2008/09 actual costs, rather than Fiscal Year 2010/11 projected costs, in calculating the charges. Second, departments were directed to draw down excess retained earnings to a minimum level, unless such reserves were required to fund approved projects.

On today's agenda the proposed rates for multiple departments will be presented under separate cover for approval. Those include the rates for Supply Services, Central Mail Services, Records Management and Archive Program (RMAP), Auditor Controller service fees, Riverside County Information Technology (RCIT) and OASIS. Those rate packages have been reviewed by the Auditor-Controller and the Executive Office. In aggregate it is anticipated that net charges to most departments, taking into account the credit for retained earnings, will decrease, however there will be some cases where a department will see costs that are equal to current year rates. Total rate revenue to be collected from these departments is projected to be approximately \$60 million. This is a \$1.4 million reduction from the previous year.

The following table depicts the change in revenue to be collected for each of these departments and the proposed use of excess retained earnings that will be drawn-down.

Department	Change in Rate Revenue Increase/(reduction)	Excess Retained Earnings	Proposed refund to Users?	Proposed Fixed Asset?
Auditor – Controller	(7.0%)	Not Applicable	Not Applicable	Not Applicable
Central Mail	(13.4%)	✓	✓	✓
RCIT	(8.9%)	✓	✓	✓
OASIS	32.9%	Not Applicable	-	-
RMAP	2.2%	Not Applicable	-	-
Supply Services	(17.1%)	✓	✓	✓

Excess retained earnings represent working capital that exceeds what is needed to fund 60 days of operations. Some departments will draw down these excess retained earnings through rate reductions/refunds or purchase of fixed assets.

Over the past three years, OASIS held rates down by spending available net assets. In FY 10-11, OASIS' net assets will be drawn down to the minimum level prudent to sustain operations. Consequently, while expenditures will decrease, OASIS' rate revenue will increase by nearly 33% to maintain core services.

RMAP is providing new "Image on Demand" services for Records stored in the County of Riverside Records Center. The addition of these services will result in an increase in rate revenue for Fiscal Year 2010/11.

Rate packages for Economic Development Agency, Fleet Services, Human Resources, and Printing Services will not be submitted for approval at this time. These rates will be forwarded upon completion of the final review and Board approval on or before March 2, 2010. As of the date of this submission, the outstanding concerns to be resolved are:

- The Auditor Controller's Office was unable to validate the methodology used to develop rates.
- The amounts and proposed use of excess retained earnings were not consistent with the rate guidelines.