

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

157



FROM: County Executive Office

SUBMITTAL DATE:
January 21, 2014

SUBJECT: Fiscal Year 14/15 Internal Service Rates Overview – All Districts [\$0]

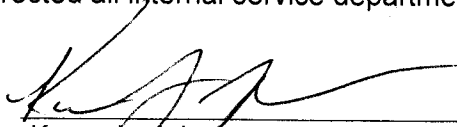
RECOMMENDED MOTION: That the Board of Supervisors receive and file the following summary of the proposed FY 14/15 Internal Service Rates.

BACKGROUND:

Summary

On June 15, 2010, the Board of Supervisors approved the addition of Board Policy B-28 Charges for Internal Services. The implementation of this policy demonstrated a significant shift in approach to establishing rates for internal services. Rate packages submitted to the Auditor-Controller and Executive Office received a more comprehensive review and required more detailed documentation. Internal service departments were also mandated to provide a multi-year operations outlook, develop long term capital asset replacement and cash management plans, and produce annual productivity reports. A Rate Review Committee was established to serve in an advisory role for internal service rate related issues.

In September 2013, the Executive Office distributed a memo that directed all internal service departments
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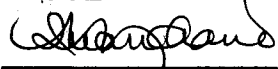


Karen L. Johnson
Senior Management Analyst

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A	
NET COUNTY COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
SOURCE OF FUNDS: Not Applicable				Budget Adjustment: N/A	
				For Fiscal Year: N/A	

C.E.O. RECOMMENDATION:

APPROVE

BY: 
Ivan M. Chand 1/23/2014

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

- A-30
- 4/5 Vote
- Positions Added
- Change Order

Prev. Agn. Ref.:

District: All

Agenda Number:

3-32

Departmental Concurrence

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BACKGROUND:

Summary (continued)

to submit rates packages to the Executive Office and Auditor-Controller no later than October 28, 2013. Departments were expected to prepare rates based on an operating budget that did not exceed FY 13/14 levels. This required internal service departments to absorb labor cost increases while maintaining service charges to user departments at current levels. Departments that indicated there was justification for a budget increase were directed to request an exception to this guideline. Requests for exceptions were received from County Counsel, the Economic Development Agency, Human Resources, and Information Technology.

The Rate Review Committee (RRC) includes representatives from Assessor-Clerk-Recorder, Auditor-Controller, Department of Public Social Services, District Attorney, Executive Office, Sheriff, Transportation Land Management Agency, and Treasurer-Tax Collector. In October and November 2013, RRC met with departments requesting exceptions to discuss the proposals for increases.

On December 2, 2013, RRC recommended the Executive Office support department increases that were unrelated to labor costs and were needed to meet a regulatory requirement, direct pass-through to user (i.e., lease agreements) or non-service related purpose (i.e., insurance). All other budget/fee increase requests were not recommended. The Executive Office accepted most of RRC's recommendations. In addition to the increases recommended by RRC, the Executive Office supported increases for County Counsel, Information Technology, and the Information Security Office. Public Safety Enterprise Communication System (PSEC) rates are still under review and will be submitted to the Board under separate cover following completion of the review process.

The following is a summary of RRC's and Executive Office recommendations:

Department	Requested Increase	RRC's Recommendation	Executive Office Recommendation
County Counsel	\$436,613	\$0	\$436,613
EDA - Custodial	1,937,240	0	0
EDA – Maintenance	2,854,527	575,481	575,481
EDA - Real Estate	4,992,116	4,027,837	4,027,837
Human Resources - General	1,928,094	0	0
HR – Auto/General Liability	5,702,999	5,400,752	5,400,752
HR – Property	2,891,513	2,870,529	2,870,529
HR – Temporary Assistance Pool	2,448,460	0	0
HR – Workers' Compensation	9,799,000	9,218,827	9,218,827
RCIT (Non – PSEC)	2,271,765	0	343,979
RCIT – Information Security Office	576,603	0	474,903
RCIT – (PSEC)	5,248,917	None	None – to be determined
Total	\$41,087,847	\$22,093,426	\$23,348,921

There were no increase requests from Auditor- Controller Payroll, Central Mail, Fleet Services, Printing Services, Supply Services, EDA - Project Management, HR - Medical Malpractice, HR – Short term Disability, HR – Unemployment Insurance, Records Management and Archives Program

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Although increases were not recommended, the RRC acknowledged that failure to approve the requested increases could potentially impact the internal service departments' ability to provide services at a satisfactory level. RRC maintained that internal service departments could provide the lowest acceptable level of service without budget increases. RRC's expectation was that internal service departments would enter into service level agreements, not service rate driven, with individual departments that desired a higher level of service. Agreements that result in an increase in charges to department will receive an overall budget increase during the FY 14/15 budget process. These increases will not affect the approved rates. Information about anticipated Economic Development Agency, Human Resources, and Information Technology related service charges (service rate agreements, pass-through cost, and rate related charges) will be provided to departments during the budget process.

On today's agenda, the proposed rates for internal service departments will be presented under separate cover for approval. These rate packages have been reviewed by the Executive Office and the Auditor-Controller's Office. Several departments are requesting a waiver of Board of Supervisor Policy B-28 so that unrestricted net assets (one-time funding) may be used to offset on-going operating expenses. The Executive Office recommends approval of these exceptions as the action reduces the costs that are passed on to the user departments through rates. The following is a synopsis of all internal service department submissions:

Auditor-Controller Payroll

The proposed payroll processing rate will decrease \$0.34 (7.2%) from \$4.73 to \$4.39 per warrant processed.

County Central Mail

The proposed rate will remain unchanged from the current fiscal year. To accomplish this, the department is requesting a waiver of Board Policy B-28 for the use of \$35,718 in unrestricted net assets to offset the delivery charge waiver.

County Counsel

County Counsel is funded through a combination of general fund support and direct billing. A significant portion of the direct billing relates to legal representation in child dependency cases, which is reimbursed by the State of California. During FY 13/14, the department implemented full cost recovery through its billable rate to assure the County can maximize the amount billed and claimed to outside entities such as the State. During FY 14/15, increased labor cost will result in a service rate increase to maintain full cost recovery and prevent cost shifting onto the general fund. The Attorney service rate will increase from \$155 to \$163 (5.2%) and the paralegal service rate will increase from \$71 to \$74 (4.2%).

County Fleet

The proposed rate will remain unchanged from the current fiscal year. Fleet is requesting a waiver of Board Policy B-28 for the use of \$1.6 million in unrestricted net assets to allow it to waive a portion of its administrative and maintenance fees for user departments.

County Printing

The proposed rate for printing services will remain unchanged from the current fiscal year. User department savings will be dependent on the department's service requests.

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County Supply Services

The proposed rate will remain unchanged from the current fiscal year. For FY 14/15, Supply services will waive a portion of its markup on products sold. The total expected savings to user departments is \$331,625. To accomplish this, Supply Services is requesting a waiver of Board Policy B-28 for the use of unrestricted net assets to offset the waiver.

Economic Development Agency (EDA)

Custodial – The proposed rate will remain unchanged from the current fiscal year. To accomplish this, the department is requesting a waiver of Board Policy B-28 for the use of unrestricted net assets in lieu of increasing rates charged to departments.

Maintenance – The proposed service rates for maintenance services will remain unchanged from the current fiscal year. The department is requesting a waiver of Board Policy B-28 for the use of unrestricted net assets to offset the in lieu of increasing rates charged to departments.

Project Management – The proposed rate will remain unchanged from the current fiscal year.

Real Estate – The proposed rate will remain unchanged from the current fiscal year.

Human Resources

General – The proposed rate will remain unchanged for the current fiscal year.

Auto/General Liability – The FY 14/15 General Liability/Auto Liability Insurance rates will increase from the current fiscal year's rate and reflect a budget increase of \$5.4 million. The increase is attributable to higher than expected claims experience, with FY 12/13 payouts exceeding \$17.7 million. Actuary forecasts indicate that payouts will continue to increase for FY 13/14.

There is some measure of uncertainty associated the actuary's estimate. Consequently, the actuary generally recommends some funding margin for the possibility that actual loss costs will be greater than the actuary's best estimate. This margin is measured in terms of the probability distribution of actual possible results around the actuary's best estimate. As the margin grows, the probability that the corresponding funding amount will be sufficient to meet actual claim liabilities increases. This probability is referred to as the "confidence level" of funding.

Due to budget constraints this plan will continue to be funded at a confidence level below 55 percent for FY 2014/15. This means that at current funding levels, there is less than a 55 percent chance that the amount will be sufficient to pay loss costs. Continuing to maintain this fund at confidence level below 70 percent increases the risk that reserves will be insufficient to make future claim payments. Consequently, the General Fund may be required to backfill any reserve deficiencies caused by claims that are higher than what the actuary estimates.

Medical Malpractice – The proposed rate will remain unchanged from the current fiscal year. To accomplish this, the department is requesting a waiver of Board Policy B-28 for the use of unrestricted net assets to offset operating costs in the amount of \$1,627,570.

Property – The Property Insurance rate has been held below operating costs for multiple years in order to use reserves and allow a rate reduction. Consequently, this internal service fund recently had a negative cash and negative unrestricted net assets.

Property ISF costs are allocated to each department based on each department's occupied square footage relative to the total square footage occupied by all county departments. Human Resources

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recommended use of reserves to offset estimated program expenses in order to reduce department rates and provide relief. Reserves have been exhausted and the fund was required to borrow cash from another fund to return it into a positive cash position. Over the next three years, the loan must be repaid. The submitted rates reflect a budget increase of \$2.9 million.

Short Term Disability – The proposed rate will remain unchanged from the current fiscal year.

Temporary Assignment Program (TAP) – The proposed rate will remain unchanged from the current fiscal year. Human Resources reports that this rate is not sufficient to meet the current operating costs of the division. There are no reserves available to backfill the shortfall. The department is re-evaluating the program for operating efficiencies and will present an updated rate proposal to the Board in the next few months.

Unemployment Insurance – The proposed rate will remain unchanged from the current fiscal year. To accomplish this, the department is requesting a waiver of Board Policy B-28 for the use of unrestricted net assets to offset operating costs in the amount of \$2,908,347.

Workers' Compensation – The FY 14/15 Workers' Compensation Insurance rates will increase from the current fiscal year's rate and reflect a budget increase of \$9.2 million. For several years, unrestricted net assets have been used to offset operating costs in order to provide budget relief. Reserves have been drawn down to a level that is now consistent with funding future claims at a level just below a 55 percent confidence level. Departments must now be charged more to ensure reserves are not drawn down to a level that is less than the actuary's estimate for claims liability.

As discussed in the Auto/General Liability section, there is some measure of uncertainty associated the actuary's estimate. Continuing to maintain this fund at confidence level below 70 percent increases the risk that reserves will be insufficient to make future claim payments. Consequently, the General Fund may be required to backfill any reserve deficiencies caused by claims that are higher than what the actuary estimates.

Riverside County Information Technology (RCIT)

General – Most of the proposed rates will remain unchanged from the current fiscal year. The core service rate will be reduced by \$7.58 (11%) from \$68.76 to \$61.18 to reflect the removal of information security office related costs. Data center related service rates, with the exception of the rate for data center storage, will increase in support of the action taken by the Board of Supervisors on November 26, 2013 (agenda item 3-20) to launch a new Tier 3 data center. A portion of the cost increase is related to the increased cost of utilities. The \$349,979 increase will be limited to the 16 departments impacted by the new data center.

Overall, RCIT expects that the costs for anticipated services to departments to decrease by \$179,000. This forecast is based on RCIT's expectation of service needs for each department. The estimated deliverable costs will likely change once RCIT has met with departments to confirm actual service needs for FY 14/15. Modifications to service agreement support may occur during these discussions and the final costs may increase or decrease based on requested services.

Information Security Office – There have been significant federal, state, and local regulatory changes that expand the county's responsibilities for ensuring the security of private health information and the preservation of official records. Pursuant to an opinion provided by County Counsel, a clear separation of duties between RCIT and ISO has been made to address any potential conflicts of interest related to independent audits for trusted systems.

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During FY 14/15, ISO will need three additional staff to manage the additional regulatory requirements for information security and records retention. The security service rate will increase by \$0.87 from \$7.58 to \$8.45 (11.5%). The Security Office Technologist Expert rate will remain unchanged.

Records Management and Archives Program (RMAP)

The proposed rate for services will remain unchanged from the current fiscal year. User department savings will be dependent on the department's service requests.

Impact on Citizens and Businesses

No direct impact to citizens and businesses – for informational purposes.