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

FROM: County Executive Office

SUBMITTAL DATE: January 27, 2015

SUBJECT: Fiscal Year 15/16 Internal Service Rates Overview – All Districts [$0]

RECOMMENDED MOTION: That the Board of Supervisors receive and file the following summary of the proposed FY 15/16 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.

On September 23, 2014, Board Policy B-28 was amended to properly reflect the role of the Rate Review Committee in an advisory capacity and renamed the committee to the Rate Review Advisory Council (RRAC). *(Continues on Page 2)*

Stephanie Persi
Senior Management Analyst

Departmental Concurrence

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	Consent ☒ Policy ☐
NET COUNTY COST	$ N/A	$ N/A	$ N/A	$ N/A	

SOURCE OF FUNDS: Not Applicable

Budget Adjustment: N/A

For Fiscal Year: N/A

C.E.O. RECOMMENDATION: APPROVE

BY: Ivan M. Chand 1/28/2015

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

☐ Positions Added ☐ Change Order

☐ A-30 ☐ 4/5 Vote

Prev. Agn. Ref.: | **District:** All | **Agenda Number:** 3-19

BACKGROUND:
Summary (continued)
With the amendment, the RRAC added representatives from Parks, Mental Health, Office on Aging, and the Regional Medical Center to the council which previously included 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 August 2014, the Executive Office distributed a memo that directed all internal service departments to submit rates packages to the Executive Office and Auditor-Controller no later than November 3, 2014. Departments were expected to prepare rates based on an operating budget that did not exceed FY 14/15 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, Information Technology, Fleet Services, and Central Mail. RRAC met with departments requesting exceptions to discuss the proposals for increases.

On December 17, 2014, RRAC recommended the Executive Office support department increases that 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 RRAC's recommendations.

The following is a summary of RRAC's and Executive Office recommendations for increases:

Department	Current Budget	Proposed Budget	% Increased
County Counsel	$ 9,450,287	$ 10,088,036	6.7%
EDA – Custodial	$ 11,699,285	$ 13,329,103	13.9%
EDA – Maintenance	$ 22,059,701	$ 24,887,465	12.8%
EDA – Project Management/Rates	$ 127.63	$ 147.27	15.4%
EDA - Real Estate/Rates	$ 129.00	$ 142.00	10.1%
Central Mail	$ 626,324	$ 684,535	9.3%
Fleet Services	$ 31,895,562	$ 34,192,528	7.2%
Human Resources – General	$ 14,825,300	$ 17,714,065	19.5%
HR – Auto/General Liability	$ 26,924,825	$ 33,934,082	26.0%
HR – Property	$ 6,696,978	$ 8,366,345	24.9%
HR – Temporary Assistance Pool	$ 5,905,616	$ 6,610,871	11.9%
HR – Workers' Compensation	$ 25,998,824	$ 30,994,000	19.2%
HR – Medical Malpractice	$ 4,104,000	$ 6,571,000	60.1%
RCIT (Non – PSEC)	$ 76,087,200	$ 82,411,280	8.3%
RCIT – Information Security Office	$ 2,336,584	$ 3,732,036	59.7%

There were no increase requests from Auditor- Controller Payroll, Printing, Supply and RMAP

Although not all requested increases were recommended, the RRAC acknowledged that failure to approve the requested increases could potentially impact the internal service departments' ability to provide services at a satisfactory level. RRAC'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 FY15/16 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 remain unchanged for FY 15/16 at $4.39 per warrant processed.

County Counsel

The reasons for increases include:

- Salary and benefits increases

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 15/16, 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 $163 to $174 (6.75%) and the paralegal service rate will increase from $74 to $111 (50%). The large increase in paralegal rates is due to a recommendation by the Auditor Controller's office (ACO). The ACO revised the methodology for calculating distribution of overhead to the attorney and paralegal rates. In the past, the distribution of overhead was based on salaries. The new methodology distributes the same overhead on a per capita basis, thus increasing the share of overhead to paralegals.

Central Mail

The reasons for increases include:

- Salary and benefits increases

The proposed rate will increase from $8.56 to $9.54 per day per business address for central mail pickup and delivery and is requesting a waiver of Board Policy B-28 for the use of $75,417 in unrestricted net assets to offset operating costs.

Fleet Services

The reasons for increases include:

- Salary and benefits increases

The monthly administrative rate of $25.20 per month per vehicle will remain unchanged from the current fiscal year. However, Fleet is no longer able to waive this rate. To achieve full cost recovery throughout the department, Fleet is requesting a waiver of Board Policy B-28 for the use of $1,290,476 million in unrestricted net assets.

Printing Services

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.

Supply Services

The proposed rate will remain unchanged from the current fiscal year. For FY 15/16, Supply services will waive a portion of its markup on products sold. The total expected savings to user departments is $130,689. 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)

The reasons for increases include:

- Salary and benefits increases
- Repayment of general fund loan
- Funding of the facility renewal program

Custodial – The proposed rate will increase by 14.5% from the current fiscal year. This increase will allow sufficient appropriations for the continued uninterrupted cleaning services provided to county buildings. Funding is also included to begin the repayment of the general fund loan that was provided to this fund when it became an internal service fund.

Maintenance – The proposed service rate for maintenance services has increased by 13% from the current fiscal year. The department was authorized to include funding to begin the repayment of the general fund loan, improvements to operational cash management, and incorporation of the funding of the facility renewal program to continue improved maintenance programs for county owned buildings. Overall, these improvements will allow the fund to begin to operate more efficiently to meet the building needs of the county.

Project Management – The proposed rates for Project Management and Plan Check and Inspection will increase by 15.4% and 19.9% respectively from the current fiscal year. These increases will assist in providing adequate staffing resources and training to manage over 150 projects programmed for FY 15/16 that are valued in excess of $100 million.

Real Estate – The proposed rate will increase 10.6% from the current fiscal year. Sufficient appropriations are needed to manage the increased leasing activities that have arisen from increased county demands. Additionally, these rates will offer continued uninterrupted staffing resources for the county's real estate needs.

Human Resources

The reasons for increases include:

- Salary and benefits increases
- Staffing for classification and compensation team
- Legal support for labor negotiations

General – The proposed rate will increase from the current fiscal year's rate and reflect a budget increase of $2.9 million. The increase is necessary to properly service the needs of departments as the countywide staffing continues to grow.

With labor negotiations commencing in the coming year, the department has built into the rate the use of legal professionals during the process. To assist in this process, the classification and compensation team has also been reestablished. In FY 14/15, the team was fully funded by direct departmental contributions. However, in FY 15/16, a portion of the team cost has been built into the rate increase. This team also will address the changing structure of positions countywide and the changes in our classifications' evolving responsibilities.

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 $6.7 million. The increase is attributable to higher than expected claims experience, with FY 12/13 payouts exceeding $16.3 million. Actuary forecasts indicate that payouts will continue to increase for FY 14/15.

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 2015/16. 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 increase by $2.5 million from the current fiscal year. The cost of claims has been increasing, and unrestricted net assets no longer have the balance to offset increases as in prior years.

Property – In the past, this rate was held low with use of reserves. With the reserves depleted and increasing premiums, the property insurance rate will increase by $1.7 million. In FY 13/14, the Property Insurance Fund borrowed cash from another fund to return it into a positive cash position. The fund is now in the process of repaying this loan over three years.

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

Temporary Assignment Program (TAP) – The proposed rate will increase to 12.77% from the current fiscal year's rate of 10%. The rate has been held at 10% for four years to allow a rate reduction during the economic downturn. This rate was designed to use reserves and is not sufficient to meet the current operating costs of the division. With reserves depleted, the rate increase is necessary to cover operations and start the process of rebuilding working capital.

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 $2,740,609.

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 $5.0 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)

The reasons for increases include:

- Salary and Benefits increases
- Redistribution of administrative costs to appropriate cost centers
- PeopleSoft technical upgrades
- Department funded requests

General – The majority of increases in the proposed FY 15/16 RCIT rates are attributable to: salary increases, a distribution of administrative costs to non-CORE rates, and costs associated with necessary upgrades and related costs of the PeopleSoft financial system. Another reason for increase in the RCIT budget is the department funded requests.

The general fund is going to fund two countywide projects, in the amount of $2.7 million, for one-time expenses related to data center infrastructure improvements and the Converged Network Project.

Projects / service costs used only by specific departments have also been removed from the CORE rate and will be charged to departments gaining benefit from them. Examples of these projects/ services include, Laserfiche, Constituent Relationship Manager, Office 365, and Geographic Information System.

Finally, RCIT will be meeting with departments soon to discuss proposed service levels and ensure the deliverables table is reflective of departments' technology-related needs and plans. Modifications will be made to the table following these discussions.

Information Security Office – Significant federal, state, and local regulatory changes have expanded the County's responsibilities for ensuring the security of private health information and preservation of official records. As such, the Information Security Office added a rate specific for HIPAA compliance. This rate will only be charged to departments bound by HIPAA requirements.

Records Management and Archives Program (RMAP)

The proposed rate for services will decrease in FY 15/16. This is due to a reduction in staff and increased efficiencies. RMAP revised their rate structure resulting in a reduction of the number of fees charged from 55 to 13, enabling RMAP to recover costs more efficiently.

Impact on Citizens and Businesses

No direct impact to citizens and businesses, however as costs to departments increase, the cost of delivery will increase as well.