

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

153



FROM: Executive Office

SUBMITTAL DATE:
June 7, 2010

SUBJECT: Addition of Board Policy B-28 "Charges for Internal Services"

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve the addition of Policy B-28 "Charges for Internal Services" to the Board of Supervisors Policy Manual and
2. Approve revisions to Policy B-4 "Rates Charged for Current Services" of the Board of Supervisors Policy Manual.

BACKGROUND: In an effort to determine if internal service rates appropriately recovered the actual cost of providing services, the Board of Supervisors directed a thorough review of rates for Fiscal Year 2010/11. The review resulted in rate adjustments for many internal services and extensive revisions to the county's cost recovery policy for the departments that provide these services.

The Board Policy Manual is a guide for departments on matters that are not otherwise addressed in state codes, county ordinances, or resolutions by the Board of Supervisors. Although Board

Karen L. Johnson, Management Analyst

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

C.E.O. RECOMMENDATION: **APPROVE**

BY:
Dean Deines

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Benoit, seconded by Supervisor Buster and duly carried, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Buster, Benoit and Ashley
Nays: None
Absent: Tavaglione and Stone
Date: June 15, 2010
xc: EO, All Dept., COB

Kecia Harper-Ihem
Clerk of the Board
By:
Deputy

3.4

Prev. Agn. Ref.: **District:** All **Agenda Number:**

ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD

Dept's Recomm.: ☐ Consent ☒ Policy
Per Exec. Ofc.: ☐ Consent ☒ Policy

Policy B-4 provides general guidelines for rate setting, the complexity of the process and the need for transparency and consistency regarding charges for internal services makes clear the need for the Board to have a specific policy regarding the process. The proposed addition of Board Policy B-28 addresses this need. Board Policy B-4 has been amended to reference Board Policy B-28.

The Executive Office collaborated with the Auditor-Controller's Office, the departments that charge for internal services, and a committee that included representatives from the Assessor-Clerk-Recorder's Office, the Department of Public Social Services, the District Attorney's Office, the Sheriff's Office, the Treasurer's Office, and the Transportation and Land Management Agency to develop the policy. The proposed policy does not apply to rates regulated by Board of Supervisors' Policy B-3, "Contract Services to Cities" or rates charged for services to other public agencies, various non-county organizations, or individuals.

The policy demonstrates a significant shift in approach to establishing rates and billing charges for internal services. It also establishes a Rate Review Committee (RRC) that will serve as an advisory committee for policies related to rates and charges for these services. It will meet annually to ensure that proposed internal service rates are in compliance with Board Policies.

While every effort has been made to address the many complexities within the process, continued refinement of the process may necessitate future revision of this policy. It should also be noted that while this policy will go into effect upon Fiscal Year 2010-11, full implementation of this policy may extend into the following fiscal year.

The Executive Office will continue to work with the Auditor-Controller's Office and RRC on policy refinements and on the creation of training processes and materials for those departments impacted by the new policy.

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Policy:

1. Where a charge is necessary and/or appropriate to recover the actual cost of providing services by a county department to other county departments, other public agencies or various organizations or individuals, rates for such charges shall be established from time to time by Resolution or Minute Order adopted by the Board of Supervisors upon recommendation of the Auditor-Controller and the Executive Officer. **Even mandated charges may require Board adoption.**
2. All county departments will evaluate existing charges for services and in conjunction with the Auditor-Controller and the Executive Officer make recommendations to the Board of Supervisors on changes annually during the preparation of the county budget or more frequently if necessary.
3. All development-related rates should be submitted to a full cost study not less than every three years and appropriate adjustments made.
4. All development-related rates should be adjusted yearly, in the years between full cost studies, to take into consideration anticipated or negotiated salary and benefit increments and the Consumer Price Index as related to non-salary costs.
5. All development-related rates should be routed through Transportation and Land Management for review and comment prior to being presented to the Board of Supervisors.
6. Rates charged for services to other county departments and districts shall also be governed by Board of Supervisors Policy B-28, *Charges for Internal Services*.
7. Charges should recover actual costs of providing the services. *The Board of Supervisors may direct county departments to reduce operating costs in order to reduce charges to users.*

Reference:

Minute Order dated 01/28/75
Minute Order 3.24 of 03/03/87
Minute Order 3.3 of 04/10/07

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Policy:

The purpose of this policy is to supplement Board of Supervisors' Policy B-4, *Rates Charged for Current Services*, to define Board of Supervisors' policy regarding charges for internal services provided to county departments and districts, and to provide a uniform approach to calculating rates. This policy does not apply to rates regulated by Board of Supervisors' Policy B-3, *Contract Services to Cities* or rates charged for services to other public agencies, various non-county organizations, or individuals.

Internal Service Fund (ISF) and General Support Service (GSS) departments are responsible for the efficient and effective administration of available resources through the application of sound management practices. It is the policy of the Board of Supervisors that ISF and GSS departments recover the actual cost of providing goods or services to other county departments. *The Board of Supervisors may direct ISF and GSS departments to reduce operating costs in order to reduce charges to user departments.*

I. Definitions

- A. The term "Billable Unit" shall mean a measure of activity such as direct labor-hours or machine-hours that is used to assign costs for internal services.
- B. The term "Capital Asset" shall mean assets that must be capitalized per the Auditor-Controller's Standard Practice Manual.
- C. The term "Capital Improvement Project" shall mean a Capital Asset or public works project pertaining to a county facility project of Significant Value that extends beyond the current year. "Significant Value" shall include the professional facilities services and its associated capital improvements, including but not limited to: master planning for county facilities, acquisition of land for a county facility, acquisition of buildings, construction or expansion of county facilities, fixed assets, or enhancements to county facilities that will be used, occupied, or owned by a county entity, with a combined project value over \$100,000; major leases or any county facilities project requiring new net county cost.
- D. The term "Charges" shall mean costs billed to a department for goods or services.
- E. The term "Cost Center" shall mean a service unit within an ISF or GSS department that adds to the cost of operations.

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- F. The term "Direct Cost" shall mean expenditures that can be identified specifically with a particular Cost Center or business objective during a specific fiscal year.
- G. The term "General Support Service (GSS) department" shall mean a county department, unit in a county department, or agency that provides services or products to other county departments and accounts for service-related revenues and expenditures in non-proprietary funds. See Attachment 1 for a sample list of GSS departments.
- H. The term "Internal Service Fund (ISF) department" shall mean a county department, unit in a county department, or agency that provides services or products to other county departments or agencies and accounts for service-related revenues and expenditures in self-sustaining, proprietary funds. See Attachment 1 for a sample list of ISF departments.
- I. The term "Non-Productive Hour" shall mean time that is for paid time away from the job or paid time at work not directly related to producing goods or services for user departments. Some examples include vacations, sick leave, or holidays.
- J. The term "Overhead Cost" shall mean costs that have not been classified as a Direct Cost and are incurred for a common purpose benefitting more than one Cost Center or business objective.
- K. The term "Operating Outlook" shall mean a document that illustrates the department's strategic direction over the next three fiscal years including; the department's operating and financial goals, the actions the department will take to achieve those goals, any new initiatives planned for the department, and the impact of these initiatives on the department's operations.
- L. The term "Productive Hour" shall mean time that is paid for activities directly related to producing goods or services for user departments. Productive Hours is usually calculated by deducting Non-Productive Hours from total hours.
- M. The term "Rate" shall mean the cost *per Billing Unit* for a good or service.
- N. The term "Service Baseline" shall mean the minimum service level needed to adequately provide the ISF or GSS department's core service. Additional services can be added but the level of service cannot be reduced without impeding the ISF or GSS department's ability to provide core services.

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- O. The term "Tiered Rate Structure" shall mean a rate structure that is based on service levels. The lowest rate tier would allocate the cost of providing Baseline Services among all user departments. Additional tiers would allocate the cost of "optional" services among departments that choose to obtain those services.
- P. The term "Working Capital Reserve" shall mean unrestricted cash that may be used by an ISF department to cover temporary cash flow deficits caused by timing differences between routine revenue collection and payment of normal operating costs.

II. General Guidelines for ISF and GSS Departments

The following are guidelines for developing ISF or GSS department Rates:

A. Direct Costs

ISF and GSS departments may recover the Direct Cost of providing goods or services as long as the cost is:

- 1. Adequately documented, verifiable, and consistent with Generally Accepted Accounting Principles, the State of California Accounting Standards and Procedures for Counties, and the Office of Management and Budget (OMB) Circular A-87.
- 2. Based on actual costs incurred by the ISF or GSS department during the most recently ended fiscal year. Expected increases to these costs shall be thoroughly documented and shall be consistent with county budget policies.
- 3. Net of revenue and credits that may be associated with providing the good or service.
- 4. Necessary and reasonable for adequately and efficiently providing goods or services.
- 5. Not an expenditure for the purchase of a Capital Asset. These will always be categorized as an indirect cost of providing the service.

B. Overhead Cost Allocations

ISF and GSS departments may recover the Overhead Cost of providing goods and services as long as the cost is:

- 1. Adequately documented, verifiable, and consistent with Generally Accepted Accounting Principles, the State of California Accounting Standards, and Procedures for Counties, and the Office of Management and Budget (OMB) Circular A-87.

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2. Based on actual costs incurred by the ISF or GSS department during the most recently ended fiscal year. Expected increases shall be thoroughly documented and consistent with current fiscal year county budget policies.
3. Consistent with the amount of anticipated revenue associated with its recovery.
4. Necessary and reasonable for adequately and efficiently providing goods or services.

C. Selection of the Appropriate Billable Unit

The Billable Unit for a Rate shall be determined in terms of labor hours, machine hours, tangible product, or other approved unit. ISF and GSS departments shall use a Billable Unit that "drives" the cost of providing the good or service. The total variable cost (e.g., supplies and labor) incurred in the service department shall be directly related to the Billable Unit. An increase or decrease in the Billable Unit should result in a similar increase or decrease in overall service department cost. Charges to a department shall correspond to the level of service provided to a department.

For a Billable Unit established as a measure of time, Productive Hours shall be used in the cost calculation instead of total hours available. Rates based on Productive Hours below 1,750 hours require additional supporting documentation.

D. Multiple Service Cost Centers within a County Department

ISF and GSS departments with multiple service Cost Centers shall work closely with the Auditor-Controller's Office to ensure its accounting structure is properly represented in the county's financial system. A department that calculates multiple Rates shall treat costs consistently for all calculations. The same cost cannot be an Overhead Cost for one Rate and a Direct Cost in another Rate calculation. Total allocation shall not exceed 100% of the total cost.

E. Rate Adjustments

ISF and GSS departments shall continuously monitor the financial performance of operations and perform Rate maintenance at mid-year, if necessary, to align service revenues with their respective costs. Rate adjustments shall be approved by the Board of Supervisors.

F. Establishing Service Baselines and Tiered Rate Structures

ISF and GSS departments are encouraged to establish a Tiered Rate Structure for goods or services to promote equity in cost allocation among user departments.

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ISF and GSS departments shall collaborate with user departments to identify Service Baselines and establish a practical Tiered Rate Structure if necessary.

G. Capital Improvement Projects

Expenditures related to a Capital Improvement Projects shall be approved by the Board of Supervisors prior to incorporation into Rate calculations. Capital Improvement Projects proposals submitted to the Board of Supervisors for approval shall include a description of any potential impact to rates charged to user departments in the current and future fiscal years. The Capital Improvement Project expenditures shall be a component of the Capital Improvement Program pursuant to Board of Supervisors' Policy B-22. *GSS departments shall not include Capital Improvement Project costs in its Rate calculations unless given Board of Supervisors approval to recover these costs through rates.*

III. ISF Department Working Capital Reserve

ISF departments shall maintain a Working Capital Reserve. The funding level shall be targeted at a level not to exceed the average sixty-days of operating expenses during the prior twelve months. Funds that exceed this limit at the end of the fiscal year shall be:

1. Designated for a specific purpose that has received approval from the Board of Supervisors, or
2. Refunded to user departments within 60 days of the end of the fiscal year, or
3. Included as a credit in the Rate calculations for the next fiscal year.

ISF departments shall ensure that excess Working Capital Reserve that has been designated for a specific purpose by the Board of Supervisors is reported as reserved in the county's financial system. *GSS departments shall not maintain a Working Capital Reserve.*

The Working Capital Reserve fund level limits shall not apply to ISF departments with services directly related to employee insurance benefits or county self-insurance programs. The Working Capital Reserve for these departments shall not exceed levels established by an Actuary, approved by the Board of Supervisors, and permitted by other regulatory authorities.

IV. Rate Review Committee (RRC)

The RRC shall serve as an advisory committee for policies related to Rates and Charges for current services. The RRC shall consist of the department head or designee from the: Department of Public Social Services, Assessor-Clerk Recorder's

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Office, District Attorney's Office, Treasurer's Office, Sheriff's Office, Transportation and Land Management Agency, Auditor-Controller's Office, and Executive Office. The Executive Office representative shall serve as chairperson and shall appoint a department head or designee from an ISF or GSS department to serve on the committee each year.

At minimum, the RRC shall meet annually to ensure that proposed internal service rates are in compliance with Board of Supervisors policies.

V. Annual Productivity and Efficiency Report

ISF and GSS departments shall prepare an *Annual Productivity and Efficiency Report* for each fiscal year and submit to the Executive Office no later than September 30th of the following fiscal year or 30 days after preliminary year-end reports are issued by the Auditor-Controller Office, whichever occurs first. The report shall also be made available to user departments and shall include the following information for each service unit:

- Total units of service/product provided during the recently ended fiscal year.
- Total units of service/product billed during the recently ended fiscal year.
- Actual Productive Hours during the recently ended fiscal year if the Billable Unit is based in units of time.
- Actual Non-Productive Hours during the recently ended fiscal year if the Billable Unit is based in units of time.
- Total overtime and standby hours for the recently ended fiscal year.
- Total overtime and standby hour costs, including those related to benefits.
- Total Charges to user departments for the recently ended fiscal year.
- Data comparisons for the two fiscal years prior to the fiscal year recently ended.

Report data shall be consistent with the data in the county financial and human resources systems. Inconsistencies shall include a written explanation.

VI. Rate Package Submission

The Executive Office shall establish the deadline for rate package submission each year. ISF and GSS departments shall submit rate packages to the Auditor-Controller for audit and the Executive Office for review prior to the deadline. Additional documentation and information may be requested after submission. The rate package shall include the following:

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- Three-year Operating Outlook that includes future revenue and expenditure projections.
- Long-term Capital Asset purchase and replacement plan for the future replacement and purchase of Capital Assets. ISF and GSS departments shall show how this plan will impact Rates over the next three fiscal years. ISF departments that accumulate funds for the purpose purchasing or replacing Capital Assets shall ensure these funds are reported separate from its Working Capital Reserve in the county's financial system.
- Documentation of Board of Supervisor approval for inclusion of Capital Improvement Project costs in Rate calculations, if applicable.
- Cash management plan that describes the projected department cash flow for the next two fiscal years. It shall explain how anticipated changes in balance sheet accounts and income affect cash.
- Documentation to support the proposed Rate(s) pursuant to the policies and practices established by the Auditor-Controller.
- Rate proposals on a Form 11.

VII. Departmental Billings

ISF and GSS departments shall provide user departments with monthly billings invoices within 21 days of the end of each month. Billing invoices shall only include Charges for goods and services provided unless the Board of Supervisors has given approval for advanced billings. Billing invoice shall be timely and include Charges for the month recently ended. Billing invoices sent to user departments shall also include the following:

- Date service/product provided.
- Description of service/product provided. This description shall include the type of service/product provided and location where services were provided when applicable.
- Total units billed (e.g., hours, pages, square footage).
- Total Charges billed to the user department for the billing cycle.

Prior to each fiscal year-end, ISF and GSS departments shall provide user departments with a billing invoice that includes projected Charges for the final billing month.

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VIII. Record Maintenance

ISF and GSS departments shall maintain detailed records of goods and services billed. These records shall be made available to user departments or the Auditor-Controller upon request. All records are subject to audit. ISF and GSS departments are responsible for ensuring documentation is maintained pursuant to Board of Supervisors' Policy A-43, *County Records Management and Archives Policy*.

Reference:

Attachments to Follow: List of ISF and GSS departments

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Attachment 1

List of ISF and GSS Departments

This list may not be all inclusive

ISF Departments

County Central Mail
County Fleet Services
County Printing Services
County Supply Services
Human Resources (HR) – Auto/General Liability
HR – Long-term Disability
HR – Occupational Health and Wellness
HR – Property
HR - Safety
HR – Short-term Disability
HR – Temporary Assistance Pool
HR – Unemployment Insurance
HR – Workers' Compensation
OASIS – Financials
OASIS - HRMS
Records Management and Archive Program
Riverside County Information Technology

GSS Departments

Auditor- Controller
Clerk of the Board
County Counsel
Economic Development Agency (EDA) - Custodial
EDA – Maintenance
EDA – Project Management
EDA – Real Estate
Human Resources