

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

258



FROM: County Executive Office

SUBMITTAL DATE:
January 19, 2011

SUBJECT: Fiscal Year 2011/12 Internal Service Rates

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve the attached internal service rate Form 11s except for HR Workers' Compensation and Auto/General Liability Insurance rates;
2. Direct HR to reduce its Worker's Compensation and Auto/General Liability Insurance reserves to a level that fund claims and expenses at a 55% confidence level for FY 2011/12; and
3. Direct that EDA Internal Service Rates remain unchanged until the Auditor-Controller has completed its review of EDA's proposed FY 2011/12 rates and return to the Board with revised rates.

BACKGROUND: 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.

In September 2010, the Executive Office distributed a memo to all internal service departments that directed departments to submit rates packages to the Executive Office and the Auditor-Controller no later than *(continues on Page 2)*

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:
Christopher M. Hans

County Executive Office Signature

Policy Policy

Consent Consent

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Buster, Stone, Benoit and Ashley
Nays: None
Absent: Tavaglione
Date: January 25, 2011
xc: EO, HR, EDA

Kecia Harper-Ihem
Clerk of the Board
By:
Deputy

JAN 25 2011 3:09

Dep't Recomm.:
Per Exec. Ofc.:

Background (continued)

November 3, 2011. This deadline was more than a month earlier than in prior fiscal years. The Executive Office also directed departments to prepare rates without any increases to expenditures or revenue collection. There were limited exceptions to this mandate.

The Rate Review Committee (RRC) met on January 12th and 19th of this fiscal year. The RRC 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. Internal Service departments were also available for questions and all rate submissions were discussed. Based on the discussions, there were two recommendations from the RRC:

- All internal service rate proposals on today's agenda be approved with the exception of the Human Resources worker's compensation and auto/general liability rates.
- The Human Resources' worker's compensation and auto/general liability insurance reserves should be reduced to a level that fund claims and expenses at a 55% confidence level for FY 2011/12. This reduction in confidence level will reduce rates and allow some relief to user departments during these challenging budget times. It was also recommended that rates be increased over a two year period to return reserves to the Board approved confidence level of 70% by Fiscal Year 13/14. The Human Resources' Director agreed to this approach.

The RRC will meet again in approximately thirty days to discuss a number of ongoing concerns: excessive internal charges, lack of detail supporting the charges, price reasonableness, and the overall value added. The RRC will also make recommendations regarding the use or rebate of excess working capital reserves.

The following is a synopsis of all department submission as well as RRC comments and recommendations:

Auditor-Controller

Payroll – Proposed rate includes a three cent decrease in rate per warrant processed.

Internal Audits – Proposed rate will remain unchanged from the prior fiscal year.

County Counsel

Proposed rate will remain unchanged from the prior fiscal year.

Central Mail

Proposed rate will remain unchanged from the prior fiscal year.

Fleet

Proposed rate will remain unchanged from the prior fiscal year. The department expressed concerns about operations in the near future. Demand for fleet services continues to decline and the unit has significantly drawn down its fund balance over several years to maintain its service levels. The Executive Office recommends that the

department continue to identify cost saving measures that will allow the department to reduce operating costs to levels consistent with demand.

The Auditor-Controller has also expressed concern about the methodology used to calculate Fleet rates. Currently, charges are based on mileage. In Internal Audit Report 2010-003 dated June 7, 2010, internal audits indicated there were weaknesses in the controls that track mileage. The Auditor-Controller believes this weakness will cause inaccuracies in cost allocations through rates. To improve Fleet rates, the Auditor-Controller recommends that Fleet either improve its tracking of mileage or change to a methodology not based on mileage. The Auditor-Controller will work with the department to resolve this concern.

Human Resources

General – Proposed rate results in an overall decrease in charges to departments by seven percent.

Workers' Compensation – The proposed rate will result in a 99.5% increase in funding for Workers' Compensation. The department reports program expenses have remained stable. Last year, user departments received a "rate holiday" in an effort to draw down this fund's reserves. The department reports the reserves have been drawn down to the Board approved confidence level. The increase represents the absence of the rate holiday and not an increase in expenses. The RRC has recommended an adjustment to reserve level to reduce the amount of this increase.

Medical Malpractice – Human Resources continues to draw down the fund's reserves to more acceptable levels. User departments will not be charged for Medical Malpractice insurance during Fiscal Year 11/12.

Auto/General Liability – Human Resources is proposing a 48 percent increase in funding through rates. The department reports program expenses and claims have increased. Last year, user departments received a "rate holiday" in an effort to draw down this fund's reserves. HR reports the reserves have been drawn down to the Board approved confidence level. The increase represents the absence of the rate holiday and increases in program expenses and claims. The RRC has recommended an adjustment to reserve level to reduce the amount of this increase.

Property – Proposed rate will remain unchanged from the prior fiscal year at this time. California State Association of Counties Excess Insurance Authority (CSAC-EIA) will provide updated rates no later than March 2011. An additional rate adjustment may be warranted prior to year-end.

Short Term Disability – Human Resources is proposing a 3.6 percent increase in funding through rates. The department reports that the actuary recommends increasing the rate to ensure claims can be paid.

Unemployment Insurance – Human Resources is proposing a 33 percent decrease in rates. The department reports the change is due to the change in methodology for allocating program costs. To smooth the rate volatility that would be experienced this year, the actuary recommended a three-year gradual transition to department cost based on 80 percent claim history and 20 percent exposure.

Temporary Assignment Program (TAP) – HR is proposing a 33 percent decrease in rates. Human Resources reports the change is due to a more streamlined operation.

OASIS

Proposed rate will remain unchanged from the prior fiscal year. The department continues to express concerns about keeping rates unchanged for an additional fiscal year. OASIS is currently utilizing working capital reserves to sustain operation and anticipates having reserves to carry operations for 16 days instead of 60 days by the end of fiscal year 2011/12.

The RRC has expressed concern about the long-term impact of keeping rates stable at this time. The RRC also expressed concern that maintaining rates at current levels may result in a significant increase in costs to user departments in the future.

The Auditor-Controller recommends an operational assessment to identify any security risks that have been elevated due to the current budget challenges.

Printing

Proposed rate will remain unchanged from the prior fiscal year.

Supply Services

Proposed rate will remain unchanged from the prior fiscal year.

Riverside County Information Technology

Proposed rate results in an overall decrease in charges to departments by 2.6 percent.

Records Management and Archives Program

Proposed rate will remain unchanged from the prior fiscal year.

Economic Development Agency (EDA)

Rate packages for Economic Development Agency will not be submitted for approval at this time. The Auditor-Controller has recommended significant changes to the methodology EDA utilized in composing its rates and is working closely with the department to ensure rates appropriately recover costs.