

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

501



FROM: County Executive Office

SUBMITTAL DATE:
January 20, 2016

SUBJECT: Fiscal Year 16/17 Internal Service Rates Overview – All Districts [\$0]

RECOMMENDED MOTION: That the Board of Supervisors receive and file the following summary of the proposed FY 16/17 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

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 <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A	
SOURCE OF FUNDS: Not Applicable				Budget Adjustment: N/A	
				For Fiscal Year: 2016-2017	

C.E.O. RECOMMENDATION:

APPROVE

BY:
Ivan M. Chand 1/26/2016

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Jeffries, Tavaglione, Washington, Benoit and Ashley
Nays: None
Absent: None
Date: February 2, 2016
xc: E.O.

Kecia Harper-Ihem
Clerk of the Board
By:
Deputy

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

3-16

Departmental Concurrence

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

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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 September 2015, the Executive Office distributed a memo that directed all internal service departments to submit rates packages to the Executive Office and Auditor-Controller. Departments were expected to prepare rates based on an operating budget that did not exceed FY 15/16 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 submit a budget impact report. Requests for increases were received from County Counsel, the Economic Development Agency, Human Resources, Information Technology, Fleet Services, Supply Services, and Central Mail. RRAC met with departments requesting increases to discuss the proposals.

In December 2015, RRAC recommended the Executive Office reduce costs and not allow staff increases. The Executive Office worked diligently with the various departments to come up with an agreeable solution for both the ISF and the user departments.

The following is a summary of the Executive Office recommendations for increases:

Department	Current Rate/Budget	Proposed Rate/Budget	% Increased
County Counsel	\$ 174.00	\$ 178.00	2%
EDA – Custodial	\$ 39.41	\$ 41.39	5%
EDA – Maintenance	\$ 75.28	\$ 79.02	5%
EDA-Project Management Office	\$ 136.10	\$ 156.15	15%
EDA-Plan Check & Inspection	\$ 147.27	\$ 147.33	0.04%
EDA-Real Estate	\$ 142.26	\$ 157.69	11%
Human Resources – General	\$ 17,714,065	\$ 20,106,399	14%
HR – Auto/General Liability	\$ 33,934,082	\$ 47,159,763	39%
HR – Property	\$ 8,366,345	\$ 9,480,693	13%
HR – Workers' Compensation	\$ 30,994,000	\$ 39,767,000	28%
HR – Medical Malpractice	\$ 6,571,000	\$ 6,704,000	2%
Purchasing-Central Mail	\$ 3,686,367	\$ 3,756,694	2%
Purchasing-Fleet Services	\$ 32,977,433	\$ 34,359,582	4%
Purchasing-Supply Services	\$ 15,441,713	\$ 15,538,043	1%
RCIT/ISO/GIS (Non – PSEC)	\$ 87,158,051	\$ 89,129,274	2%
Total	\$ 236,843,770	\$ 266,002,208	
There were no increase requests from Auditor- Controller Payroll, Printing, and RMAP			

The County's Internal Audits Division of the Auditor Controller reviews each internal service rate. During this year's process they found some deviations from regular practices one of which being the inclusion of GASB 68. The adoption of GASB 68 requires all Internal Service funds to include the Pension and OPEB liability as part of the financial statements. Since ISF departments have not had the opportunity to collect for this liability, it has caused the liabilities to be greater than the assets. A statement has been added to all ISF F11's to

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reflect the Auditor Controller's recommendation that an evaluation and plan is needed going forward to remedy these issues.

To address the Auditor Controller's issues and to ensure the ISF department rates are as accurate as possible, the Executive Office has engaged KPMG to do an audit of the rate methodologies and the inclusion of all appropriate costs. This audit will conclude by April 2016 and the recommendations will be used in the FY 17/18 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 payroll processing rate will remain unchanged for FY 16/17 at \$4.39 per warrant processed.

County Counsel

The reasons for increases include:

- Salary and benefits increases
- Increased charges from other departments

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 16/17, increased labor costs, ISF rates, and equipment updates will result in a \$578,014 cost increase to the department. This 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 \$174 to \$178 (2.3%) and the paralegal service rate will remain the same as FY 15/16 \$111.

Economic Development Agency (EDA)

The reasons for increases include:

- Salary and benefits increases
- Funding of the facility renewal program

Custodial – The proposed rate will increase by 5% from the current fiscal year. The hourly rate will go from \$39.41 per hour to \$41.39 per hour in FY16/17. The rates are not sufficient to recover full costs and have limited reserves for operations.

Maintenance – The proposed service rate for maintenance services has increased by 15% from the current fiscal year. The department was authorized to incorporate 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 .04% and 15% respectively from the current fiscal year. These increases will allow for full recovery of costs associated with providing the services.

Real Estate – The proposed rate will increase 11% from the current fiscal year. Leasing services are billed based on the management fee and is applied to the lease amount once an agreement has been executed. The proposed rates are sufficient for full cost recovery.

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Human Resources

The reasons for increases include:

- Salary and benefits increases
- Services and supply costs
- New funding agreements with departments

General – The proposed rate will increase from the current fiscal year's rate and reflect a budget increase of \$2.4 million. The increase is due to the addition of a limited number of new positions, new funding agreements from departments, increased salaries and benefits, and services and supply costs.

In FY 16/17, the department will continue to focus on classification and compensation work. Cyclical studies for Information Technology, Administration, Community and Human Services, and Executive Management positions will begin. Bargaining will continue, with various unions starting in spring. The department will also concentrate on continuing to position the County to respond to the Affordable Care Act and the employer mandates.

Auto/General Liability – The FY 16/17 General Liability/Auto Liability Insurance rates will increase from the current fiscal year's rate and reflect a budget increase of \$13.2 million. The increase is attributable to increased claims resolution and a lack of fund surplus.

The County's actuary, Counties-Excess Insurance Authority (CSAC-EIA), and Human Resources all recommend a confidence level of 70%. Yet due to budget constraints, at this time this plan will be increase to a confidence level of 60 percent for FY 2016/17. This means that at current funding levels, there is less than a 60 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. This is a result of the County's actuary calculating a required program funding of \$6.704 million at a 70% confidence level. The actuary recommended to not fund below the 70% level.

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 \$1.1 million. In FY 13/14, the Property Insurance Fund borrowed cash from another fund to return it into a positive cash position. The department recommends adding the deficit to the rates. CSAC-EIA will provide updated rates no later than March 2016. If so warranted, the department may recommend an additional adjustment at a later date.

Short-Term Disability – The proposed rate will be lowered in FY 16/17. The rates include Aon Hewitt's recommendation and a 5% reserve accumulation.

Temporary Assignment Program (TAP) – The proposed rate will remain unchanged at 12.77%. The departments will continue to pay for direct costs, which has helped to maintain a lower overhead rate. Commercial agencies are averaging 28-40% for the same services.

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 \$1,391,250.

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Workers' Compensation – The FY 16/17 Workers' Compensation Insurance rates will increase from the current fiscal year's rate and reflect a budget increase of \$8.7 million. This is a result of the County's actuary calculating a required program funding of \$39.767 million at a 60% confidence level.

As discussed above in regards to the claim driven ISF expenses, the department recommends that the FY 2016/17 budget target should be based on actuarial analysis and return to a 70% confidence level.

Purchasing and Fleet Services

The reasons for increases include:

- Salary and benefits increases
- No offsetting reserves

Central Mail - The proposed rate will increase from \$9.54 to \$13.25 per day per business address for central mail pickup and delivery. All other rates remain the same as FY 15/16.

Fleet Services - The proposed rates include increases for all assigned vehicle maintenance and motor pool rental rates. Most of the rates have not been increase since 2007 and reserves are below recommended levels. Fleet labor rates for Fleet Services-owned vehicles and non-Fleet Services-owned vehicles will increase will increase 19% and 7% respectively. The monthly administrative rate of \$25.20 per month per vehicle will be increased to \$28.00. This restores the charges to FY 2007 rates. Fleet is no longer able to waive any portion of this rate. The carwash rate is unchanged at \$3 per wash. To achieve full cost recovery throughout the department, Fleet is requesting a waiver of Board Policy B-28 for the use of \$129,900 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 is an increase of 32% for delivery costs. A special pick-up and delivery charge is added this year at \$68.25 per hour. To minimize costs Supply Services strives for the lowest cost by bidding out large purchases and taking advantage of market conditions.

Riverside County Information Technology (RCIT)

The reasons for increases include:

- Salary and Benefits increases
- Countywide initiatives

General/Information Security/GIS –FY 16/17 RCIT rates have consolidated 64 rates into 12 to better serve the County. There are two major categories (device and server) to allocate its primary lines of business to its customers. Separate rates have also been developed for Laserfiche, and MS Dynamics, which are not utilized by all departments. RCIT will continue to reduce the total County IT spend. They will also slow down and focus on priorities. Technology Service Agreements will be replaced with a common County Service Level Agreement to allow true IT consolidation to take place. RCIT will consolidate 8 Help Desks into a core RCIT Help Desk as well as work to consolidate 50 data centers into RC3, including consolidation of all system and network administrators.

Records Management and Archives Program (RMAP)

The proposed rate for services will remain unchanged in FY 16/17. RMAP simplified its billing structure by implementing core rates and reduced its internal services cost through staffing reductions and operational efficiencies. A combination of existing rates and reserves will fund operation for FY 16/17.

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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.