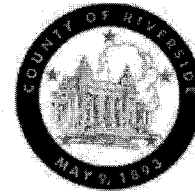


**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM
3.38
(ID # 3527)**

MEETING DATE:
Tuesday, February 7, 2017

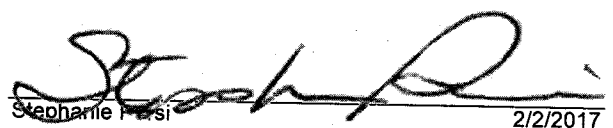
FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Fiscal Year 17/18 Internal Service Rates Overview, All Districts. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the following summary of the proposed FY 17/18 Internal Service Rates.

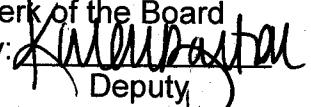
ACTION: Consent


Stephanie Pesi 2/2/2017

MINUTES OF THE BOARD OF SUPERVISORS

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

Ayes: Jeffries, Tavaglione, Washington and Ashley
Nays: None
Absent: None
Date: February 7, 2017
xc: E.O.

Kecia Harper-Ihem
Clerk of the Board
By: 
Deputy

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FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: 2017/18	

C.E.O. RECOMMENDATION: APPROVE

BACKGROUND:

Summary

In September 2016, 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 an operating budget that did not exceed FY 16/17 levels and was based on FY 15/16 actuals. This required internal service departments to absorb labor cost increases while maintaining service charges to user departments at current levels.

In December 2016, the RRAC reviewed all of the rates and met with departments and KPMG to discuss concerns. The Executive Office worked diligently with the various departments to come up with an agreeable solution for both the ISF and the user departments. KPMG is continuing to do audits of the rate methodologies and the inclusion of all appropriate costs. They have been active in the rate process. Their full recommendations will be incorporated into the next cycle of ISF rates.

The County's Internal Audits Division of the Auditor Controller also reviews each internal service rate. During this year's process, they have worked with each department to meet the requirements of the State Controller's recent audit pertaining to the ISF costs. This audit rejected some of the methodologies used by the County. Several departments ISF charges include revisions to methodology.

On today's agenda, the proposed rates for internal service departments are presented under separate cover for approval. Requests for increases were received from County Counsel and Human Resources (HR). County Counsel would not be able to absorb the increased costs required of them. This rate increased by \$2/hour to accommodate the difference. HR's general services increase is due to new service agreements with departments requiring the addition of new positions and infrastructure charges that are directly charged to departments based on use of services.

HR's insurance costs are less subject to control and are typically not reviewed by the RRAC. The Executive Office worked directly with HR to keep rates down. It was determined liability rate would stay at existing confidence levels. Medical malpractice rates have increased

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due to the actuary response. This only effects a few departments who experience medical malpractice losses. Several departments are requesting a waiver of Board of Supervisor Policy B-28 so that unrestricted net assets (one-time funding) may be used for expenses as outlined by the individual expense plans. 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 summary of the Executive Office recommendations:

Department	Current Rate/Budget	Proposed Rate/Budget	% Increased
ACO-Payroll	\$ 4.39	\$ 4.39	0%
County Counsel	\$ 178.00	\$ 180.00	1%
EDA – Maintenance	\$ 79.02	\$ 79.02	0%
EDA-Plan Check & Inspection	\$ 156.15	\$ 156.15	0%
EDA-Project Management Office	\$ 147.33	\$ 147.33	0.00%
EDA-Real Estate	\$ 157.69	\$ 157.69	0%
EDA – Custodial	\$ 15,339,554	\$ 14,790,640	-4%
Human Resources – General	\$ 20,106,399	\$ 20,603,392	2%
HR – Auto/General Liability	\$ 47,159,763	\$ 53,918,063	14%
HR – Property	\$ 9,480,693	\$ 7,760,144	-18%
HR – Workers' Compensation	\$ 37,322,822	\$ 37,824,822	1%
HR – Medical Malpractice	\$ 6,704,000	\$ 9,272,000	38%
HR – TAP	\$ 6,298,114	\$ 5,300,000	-16%
Purchasing-Central Mail	\$ 1,919,899	\$ 1,919,085	0%
Purchasing-Fleet Services	\$ 8,923,332	\$ 8,391,552	-6%
Purchasing-Printing	Various	No Increase	N/A
Purchasing-Supply Services	\$ 280,746	\$ 280,746	0%
RCIT/ISO/GIS (Non – PSEC)	\$ 92,597,528	\$ 90,912,359	-2%
RMAP	Various	No Increase	N/A

The following is a synopsis of all internal service department submissions:

Auditor-Controller Payroll

The payroll processing rate will remain unchanged for FY 17/18 at \$4.39 per warrant processed.

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County Counsel

Funding for County Counsel is 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 the State of California reimburses. During FY 17/18, increased labor costs and ISF rates will result in a \$124,597 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 \$178 to \$180 and the paralegal service rate will increase from \$111 to 116.

Economic Development Agency (EDA)

Custodial – The proposed rate will increase from the current fiscal year. The hourly rate will be \$45.63 per hour in FY17/18. Yet the overall department budget will go down. Due to the RRAC's suggestions, the department reevaluated their position count and were able to reduce the number without affecting service levels.

Maintenance – The proposed rate will remain the same as FY 16/17 at a rate of \$79.02. The overtime rate will increase by \$0.10 to \$99.58. 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 remain flat at \$156.15. Overtime will increase by 2% from the current fiscal year. This will allow for full recovery of costs associated with providing the services.

Real Estate – The proposed rate will remain the same as FY 16/17 at a rate of \$157.69. An increase will occur in overtime rates from \$179.09 to \$183.96. 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 limited in providing full cost recovery. EDA will monitor the cash flow closely.

Human Resources

General – The proposed rate will increase from the current fiscal year's rate and reflect a budget increase of \$497,000. The increase is due to new service agreements with departments requiring the addition of new positions and infrastructure supply and services charges that are directly charged to departments based on use of services.

In FY 16/17, the department will continue to focus on classification and compensation work. Human Resources will continue to work with KPMG to make their processes more efficient. They will monitor the changing health care landscape and adjust as needed.

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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 \$6.8 million. The overall increase is attributable to increased claims cost, increase cost of excess insurance, 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 to increase to a confidence level of 60 percent for FY 2017/18. 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 \$2.6 million from the current fiscal year. This is a result of the County's actuary calculating a required program funding of \$9.272 million at a 70% confidence level. The actuary recommended to not fund below the 70% level.

Property – In FY 13/14, the Property Insurance Fund borrowed cash from another fund to return it into a positive cash position. In FY 16/17, the deficit was added to the rates to bring the fund into balance. The deficit should be paid by the end of FY 17/18, thus creating a drop in funding needs. This will result in a decreased cost of 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 17/18. The rates include Aon Hewitt's recommendation and a 5% reserve accumulation.

Temporary Assignment Program (TAP) – The proposed rate has changed methodology this year due to an audit by the State Controller. The field report states, "The flat rate percentage does not provide an actual or an equitable charge for the services rendered to the receiving department. The billable rate for TAP must be based on actual costs experienced and not on a flat percentage rate of personnel salary." The State Controller is currently reviewing the proposed methodology. The rate is now based on actual recruitment costs. A one-time recruitment rate will be charged per position recruited. A percentage rate charge will occur for cancellations of those recruitments based on the phase the recruitment was in at the time of the cancellation. The TAP outsourcing and transition fees remain the same for FY 17/18. These rates are being approved contingent on the State approval. If the State requires adjustments to this proposed methodology, the rate will be brought to the Board again for approval.

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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 \$464,290.

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 \$502,000. This is a result of the County's actuary calculating a required program funding of \$37.825 million at a 60% confidence level.

The program continues to experience lower loss rates than most comparable counties. Benefits are being achieved from Fraud identification, Utilization Review the Medical Provider Network (MPN), and Return-to-Work programs as well as the iVos claims management system.

Purchasing and Fleet Services

Central Mail - The proposed rate includes a change in methodology to better realize the efforts associated with the delivery and sorting of interoffice mail. The current rate of \$13.25 is charged per business address. The new method would charge \$9.18 per delivery location and \$1.50 per mail stop for sorting. The delivery fee per locations takes into account the actual days mail is delivered. Postage will be based on actual postage cost and a handling fee ranging from \$0.091 to \$1.418 depending on the type of the item. Central Mail is requesting a waiver of Board Policy B-28 for the use of \$17,500 in unrestricted net assets to replace capital equipment.

Fleet Services - The proposed rates include a change in methodology as purposed by KPMG. The review identified that the current rate methodology encourages underutilization of old non-patrol fleet vehicles. This new rate methodology will incentivize the reduction of older, underutilized vehicles and encourage others means of mobility. The new method combines the previous Administrative Fee, Fixed Maintenance Fee, Variable Maintenance Fee and Car Wash Fee to create one Vehicle Support Fee paid monthly. The total operational costs for FY 17/18 have decreased by \$1,664,739 as well. Fleet is requesting a waiver of Board Policy B-28 for the use of \$2,975,000 in unrestricted net assets to replace capital equipment.

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. Printing is requesting a waiver of Board Policy B-28 for the use of \$195,000 in unrestricted net assets to replace shop equipment.

Supply Services - The proposed rates will remain the same for FY 17/18. Including the special pick-up and delivery charge at \$68.25 per hour. The overall budget of Supply Services has been reduce by \$334,678. To minimize costs Supply Services strives for the lowest cost by bidding out large purchases and taking advantage of market

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conditions. Supply Services is requesting a waiver of Board Policy B-28 for the use of \$50,000 in unrestricted net assets to replace equipment.

Riverside County Information Technology (RCIT)

General/Information Security/GIS –FY 17/18 RCIT rates, other than server rates, will see a decrease from the current year rates. The server rate allocates all enterprise servers infrastructure costs to each department by the number of physical servers and virtual server instances; includes support for the RC3 data center, back up, disaster recovery, and Office 365. The rate encourages a shift from physical to virtual servers. The overall budget for RCIT rates decreased \$1.7 million. This reflects anticipated attrition, the defunding of 14 vacant positions, and the discontinuance of the RCIT student intern program. This plan also includes a component to increase working capital over time. The FY 17/18 rates are created utilizing a new methodology. The new methodology better serves county departments in both budgeting and understanding all services provided to them.

Records Management and Archives Program (RMAP)

The proposed rate for services will remain unchanged in FY 17/18. RMAP increased costs will be offset by anticipated staffing reductions due to attrition and maintaining supply and services costs.

Historical Information

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 documentation that is more detailed. 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). 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.

Impact on Citizens and Businesses

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