

**REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS
OF SAN BERNARDINO COUNTY
AND RECORD OF ACTION**

May 7, 2024

FROM

LUTHER SNOKE, Chief Executive Officer, County Administrative Office

SUBJECT

Internal Service Fund Rate and Department Recharge Adjustments

RECOMMENDATION(S)

Approve annual adjustments to internal service fund rates and department recharges, effective July 1, 2024, as outlined in Attachments A through J.

(Presenter: Matthew Erickson, County Chief Financial Officer, 387-5423)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

Operate in a Fiscally-Responsible and Business-Like Manner.

FINANCIAL IMPACT

Approval of the 2024-25 internal service fund (ISF) rates and department recharges for services provided to other County departments, Board Governed Special Districts, and other agencies will result in a total increase in revenues of \$26.3 million, which is primarily due to changes in the Department of Risk Management (Risk Management) premiums, along with Project and Facilities Management Department (PFMD) and Fleet Management (Fleet) rate increases. This amount includes an estimated increased use of Discretionary General Funding (Net County Cost) of \$14.7 million, primarily due to changes in Risk Management and PFMD charges. The costs for the rate increase, along with additional Discretionary General Funding, have been planned for and will be included in the County's 2024-25 Recommended Budget.

Additionally, a separate request for Discretionary General Funding of \$927,558 aimed at addressing the existing reserve deficit of the Purchasing Department's (Purchasing) Printing Services ISF will be included as part of the 2024-25 Recommended Budget for the Board of Supervisors' (Board) consideration.

BACKGROUND INFORMATION

ISFs are a financial mechanism used by the County to recover costs incurred by one department when performing services or procuring goods on behalf of other departments or agencies. Departments and agencies pay ISF departments through established service rates. The internal service departments that provide such services include Fleet, Innovation and Technology Department (ITD), Purchasing, and Risk Management. The Human Resources Department (HR), Real Estate Services Department (RESA), PFMD, the County Communications Group (CCG), and the Assessor-Recorder-County Clerk (ARC) also develop department recharges to recover costs.

Internal Service Fund Rate and Department Recharge Adjustments May 7, 2024

County Policy 05-07 states that ISF rates are established by the Board. Adjustments to ISF rates and department recharges, effective July 1, 2024, will allow these departments to recover the full cost of providing services to County departments, Board Governed Special Districts, and other agencies. County Policy 11-03 requires any County department, agency, or Special District to utilize the services of internal service departments when those services are necessary, which allows the ISF department to provide economical services and maintain prudent cost control. Exceptions to this policy are approved on a case-by-case basis by the internal service department, with any permanent exceptions approved by the County Administrative Office (CAO) – Finance and Administration. For ISFs, the proposed rates aim to recover costs, ensure adequate working capital, and maintain appropriate designated reserve balances for capital asset purchases and replacement, unexpected expenses, and revenue shortfalls. ISF service rates are typically reviewed annually and adjusted, if needed, to ensure full cost recovery and appropriate fund balances and cash reserves.

The following departments currently charge ISF service rates and/or department recharges. Additionally, details on the proposed 2024-25 rates and recharges are reflected in the corresponding attachments.

Fleet Management (Attachment A)

Fleet provides acquisition, maintenance, repair, modification, and disposal services for the majority of County vehicles and equipment, while also offering various fleet support services to the San Bernardino County Fire Protection District and the Sheriff/Coroner/Public Administrator. Fleet charges rates for both Garage and Motor Pool services.

- Fleet's main garage in San Bernardino includes four shops (automotive, heavy duty, welding/metal fabrication, and generator services), as well as a parts room and fuel station. Fleet operates five smaller service centers in outlying locations (Barstow, Needles, Rancho Cucamonga, Twentynine Palms, and Victorville) and 62 strategically located fueling sites. Fleet also provides lock-up services, including security related duties, emergency field services, wet hosing, and fuel tank management.
- Fleet operates a Motor Pool that has ownership and/or maintenance responsibility for approximately 2,200 vehicles/equipment assigned to or used by County departments. Approximately 90% of the vehicles are assigned to various County departments, with the remaining vehicles available from the Motor Pool for daily use. Fleet also provides Department of Motor Vehicles registration services.

Fleet's proposed changes to Garage rates are projected to result in a net revenue increase of \$1.4 million. Overall, Fleet is proposing some increases and decreases to Garage rates. These rate changes are primarily due to increased Services and Supply costs, Board approved Memoranda of Understanding (MOUs) increases, increased parts and fuel costs, and increased vehicle replacement costs.

Fleet's proposed changes to Motor Pool rates are projected to result in a net revenue increase of \$1.2 million. For Motor Pool rates, Fleet is also proposing a combination of increases and decreases. These rate changes are a result of the overall cost changes in labor, parts, and vehicle replacement costs for vehicle rentals of various sizes and classes.

Combined, approval of the proposed changes to Fleet's Garage and Motor Pool rates is projected to have a net impact of approximately \$2.6 million in increased revenue. There is no anticipated use of additional Net County Cost.

Internal Service Fund Rate and Department Recharge Adjustments May 7, 2024

Innovation and Technology Department (Attachment B)

The ITD ISFs provide the following major services: Computer Operations, Telecommunication Services (Telecom), and Business Solutions Development (BSD).

- Computer Operations rates fund operation and support of enterprise systems such as the County's Information Technology (IT) infrastructure, which is comprised of the management and support of computer systems and server management services for physical and virtual servers, data recovery, email, the Wide Area Network (WAN), internet, IT security, virus protection, desktop support services, and the County's enterprise data center. Other enterprise systems provided by Computer Operations include the County's Central Processing Unit (CPU) usage, Enterprise Content Management (document imaging), Virtual Private Network (VPN) access, Data Storage and Backup, and File Sharing Storage.
- Telecom's rates fund the design, operation, maintenance, and administration of the County's phone network, the microwave transport system, paging system, and the County's Regional Public Safety Radio System.
- BSD provides programming and consulting services to County departments for the development, enhancement, and maintenance of business solutions on a variety of hardware and software platforms.

The majority of ITD's funding is derived from service rates charged to County departments for maintenance, support, and enhancement services for County computer systems, enterprise data and other related services, and the use of the County's telecommunication services and networks.

For Computer Operations, ITD is proposing a combination of increases and decreases. These rate changes are primarily due to direct and indirect cost changes as well as updates to customer usage as applicable to each service. Some rate changes are due to a need to reduce Unrestricted Net Position to an acceptable level. Overall, Computer Operations' proposed rate changes result in net revenue decrease of \$3.2 million.

For Telecom, ITD is proposing a combination of increases and decreases. These rate changes are due to an increase in direct and indirect costs as well as updates to customer usage as applicable to each service. Some rate changes are due to a need to reduce Unrestricted Net Position to an acceptable level. Overall, Telecom's proposed rate changes are projected to result in a net revenue increase of \$938,402.

For BSD, ITD is proposing no changes to rates due to a need to reduce Unrestricted Net Position to an acceptable level. Although the rate is unchanged, there are increases in direct and indirect costs as well as customer usage. Overall, this results in a net revenue increase of \$625,024.

Overall, proposed changes in ITD's 2024-25 rates result in a decrease in revenue of \$1.6 million. The net revenue decrease includes the use of additional Net County Cost of \$231,823.

Purchasing Department (Attachment C)

In addition to the procurement of County goods and services, Purchasing manages three ISFs – Mail/Courier Services, Printing Services, and Surplus Property and Storage Operation (Surplus).

Internal Service Fund Rate and Department Recharge Adjustments May 7, 2024

Previously, CCG managed the Printing Services ISF. For 2024-25, Printing Services are transferring to Purchasing.

- Mail/Courier Services provides mail handling and interoffice mail/courier delivery. Mail handling includes various expedited shipping services to County agencies, departments, Special Districts, the Superior Court, and some municipalities. This ISF also provides automated mailing services such as inserting, folding, tabbing, and labeling.
- Printing Services provides digital and wide-format printing and Quick Copy centers.
- Surplus Property and Storage Operations manages storage and disposition of property for County departments. This division reallocates used furniture and equipment to maximize the return on surplus assets, including contracts with auctioneers and recyclers to reduce solid waste in County landfills.

Overall, the Purchasing rate revenue for 2024-25 is projected to decrease by \$108,768. The decrease is primarily due to a projected net decrease in demand for Printing Services as well as to maintain an appropriate fund balance and cash reserves in the Mail/Courier Services and Surplus ISFs. A request for Discretionary General Funding of \$927,558 will be included as part of the 2024-25 Recommended Budget for the Board's consideration. This funding request is intended to assist the Printing Services ISF in addressing its current reserve deficit and to build sufficient reserves in order to ensure long-term financial stability.

Department of Risk Management (Attachment D)

Risk Management administers the County's self-insured workers' compensation, public liability, property conservation, safety and risk reduction programs, and its insured programs. All programs are paid from self-insurance funds and are funded by County departments and Board Governed Special Districts. Claims amounting to more than the self-insured retention for each program will be covered by excess insurance carriers where excess insurance is available. Each is billed for their specific coverage for the cost to pay losses and excess insurance premiums under the self-insured programs.

The total proposed premiums to be collected in 2024-25 are increasing by \$18.8 million from 2023-24. This increase results in an overall net increase to Net County Cost of \$13.1 million primarily due to increases in Property, Law Enforcement Liability, Workers' Compensation, and Auto Liability. The increase in premiums are due to several factors, such as an increase in the total insured values for property, which impacts the overall cost of excess insurance coverage. Additionally, there has been an occurrence of significant claims resulting from events such as fires, natural disasters, and other catastrophic incidents. Lastly, the insurance market has experienced an upswing in excess insurance premiums industrywide, or "hardening," due to stricter underwriting practices. The overall Net County Cost increase is partially offset by a reduction in the Medical Malpractice insurance program. The premium increases are consistent with County Policy 05-01, which targets an 80% confidence level in all Risk Management self-insurance funds as determined by a yearly actuarial study. Specific insurance rate adjustments are made based on Board-approved premiums.

Human Resources Department (Attachment E)

The Employee Benefits and Services Division of HR administers the County's health, dental, vision, deferred compensation, and life insurance plans as well as its integrated leave programs. These services are reviewed annually to determine the cost and are funded through a

Internal Service Fund Rate and Department Recharge Adjustments May 7, 2024

combination of revenue and departmental recharges. Department recharges are billed to County departments based on budgeted staffing.

The 2024-25 proposed department recharge for the Employee Benefits and Services Division is increasing from \$1.9 million to \$2.1 million. This results in an estimated increase to Net County Cost of \$10,580.

Real Estate Services Department (Attachment F)

The RESD Leasing and Acquisition Division (LAD) consists of two rate charging sections: Leasing and Property Management and Appraisal and Acquisitions.

- The primary responsibilities of the Leasing and Property Management section are to negotiate and administer revenue and expenditure leases on behalf of County departments.
- The Appraisal and Acquisitions section provides appraisal, acquisition and relocation assistance for County departments and other agencies.

Rates for expenditure leases are based on a percentage of annual lease costs for all leases with payments of \$36,000/year and greater. Hourly rates are charged for all other services, including revenue leases and expenditure leases below the \$36,000/year threshold. The department estimates an overall increase in revenue of \$271,751 to ensure full cost recovery, which reflects increases in salary and benefits, and administrative overhead. There is no anticipated use of additional Net County Cost.

Project and Facilities Management Department (Attachments G and H)

PFMD is responsible for the oversight of the County Project Management (PM) and the Facilities Management (FM) divisions. The FM and PM divisions both charge user rates.

- FM provides maintenance, custodial, and grounds services for County facilities. FM bills departments directly for Basic Services for department-occupied space, including normal, routine activities and preventative maintenance. These Basic Services do not include major maintenance over \$5,000, which is funded in the Capital Improvement Program (CIP). Basic Services performed by FM are based on annual average costs per square foot for maintenance, custodial, and grounds services.

FM uses Hourly Rates to charge County departments and other agencies for additional grounds, custodial, and maintenance services that are requested throughout the year on an as needed basis and are not included in Basic Services. These rates are calculated based on work requisition volume estimates based on historical data.

- PM is responsible for planning and implementing the design and construction of capital projects. PM recovers costs for project management and inspection services through rates charged to capital projects for these services. Estimates of these costs are included within each CIP project budget.

For 2024-25, revenue for FM Basic Services is expected to increase by \$2.2 million, resulting in additional Net County Cost of \$1.4 million. The increase is primarily due to inflation, increases in service and labor costs, Board approved MOU increases, as well as increased square footage to be maintained.

Internal Service Fund Rate and Department Recharge Adjustments May 7, 2024

For 2024-25, revenue for FM Hourly Rates revenue is expected to increase by \$767,794. This decrease is due to an estimated increase in billable hours for 2024-25. There is no anticipated use of additional Net County Cost.

The 2024-25 PM proposed rate changes result in an increase in reimbursements of \$3.2 million primarily due increases in salaries and benefits costs. Additionally, one non-billable and 14 billable positions are proposed to be added in 2024-25 to allow the department to improve the standards for project management and to manage increased workload in a more efficient manner. Other increases include Board approved MOU increases and increased indirect costs. There is no anticipated use of additional Net County Cost.

Assessor-Recorder-County Clerk (Attachment I)

The ARC administers the County Archives to support County departments by identifying, collecting, preserving, and arranging County records with historical and permanent research value. The ARC also ensures that these records are available to County departments and the public by retrieving and refiling them, as requested, as well as providing an online index.

The ARC charges service rates to County departments that use Archives in order to adequately fund and improve Archives operations. Costs to the departments are based on usage.

The proposed rate changes for the ARC result in an estimated decrease in revenue of \$5,834 primarily due to a decrease in costs. There is no anticipated use of additional Net County Cost.

County Communications Group (Attachment J)

The CCG was established in 2022-23 to support County communications and departments' marketing needs by providing consistent high-quality graphic design, videography, photography, and in-house printing services. For 2024-25, Printing Services fund was transferred to Purchasing. The CCG is funded by a combination of Discretionary General Funding (Net County Cost) and rate revenue based on actual salaries. Currently, there is no estimated revenue projection for 2024-25. This marks the second year since the inception of these rates and the CCG does not have sufficient data to forecast demand for these services and, consequently, revenue.

PROCUREMENT

Not applicable.

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Julie Surber, Principal Assistant County Counsel, 387-5455) on April 9, 2024; Auditor-Controller/Treasurer/Tax Collector (Vanessa Doyle, Deputy Chief Controller, 382-3195) on April 10, 2024; Risk Management (Victor Tordesillas, Deputy Executive Officer, 386-8623) on April 9, 2024; Finance (Ivan Ramirez, 387-4020, Penelope Chang, 387-4886, Garrett Baker, 387-3077, Abigail Grant, 387-4603, Erika Rodarte, 387-4919, Administrative Analysts) on April 5, 2024; and County Finance and Administration (Paloma Hernandez-Barker, Deputy Executive Officer, 387-5423) on April 8, 2024.

**Internal Service Fund Rate and Department Recharge Adjustments
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Record of Action of the Board of Supervisors
San Bernardino County

APPROVED (CONSENT CALENDAR)

Moved: Joe Baca, Jr. Seconded: Curt Hagman
Ayes: Jesse Armendarez, Dawn Rowe, Curt Hagman, Joe Baca, Jr.
Absent: Col. Paul Cook (Ret.)

Lynna Monell, CLERK OF THE BOARD

BY 
DATED: May 7, 2024



cc: File - Administrative office w/attach
CCM 05/10/2024