

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

February 11, 2020

FROM

Gary McBride, Chief Executive Officer, County Administrative Office

SUBJECT

Internal Service Rate and Departmental Recharge Adjustments

RECOMMENDATION(S)

1. Approve annual adjustments to internal service fund rates and departmental recharges effective July 1, 2020 as outlined in Attachments A-I.
2. Approve a rate modification retroactive to July 1, 2019 through June 30, 2020, to adjust collection of the Information Services Department's Business Solutions Development Labor Service rate from \$128.68 per hour to \$112.10 per hour for the development, enhancement, and maintenance of business solutions, as listed in Attachment B.
3. Authorize the Auditor-Controller/Treasurer/Tax Collector to post the necessary 2019-20 budget adjustments, as detailed in Attachment J (Four votes required).

(Presenter: Gary McBride, Chief Executive Officer, 387-5417)

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

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

FINANCIAL IMPACT

Approval of Recommendation No.1 for the 2020-21 internal service fund rates and departmental recharges for the provision of service to County departments, Board Governed Special Districts, and other agencies will result in an estimated net increase in sources of \$8.6 million, of which \$508,570 is the estimated increase in the use of Discretionary General Funding (Net County Cost).

Approval of Recommendation No.2 for the 2019-20 Information Services Department (ISD) Business Solutions Development Labor Service adjusted rate will result in estimated Net County Cost savings of \$570,215. ISD and the County Administrative Office have evaluated the potential impact to estimated net position for 2019-20 and determined that the total unrestricted net position, less 60-day working capital reserve, in the Business Solutions Development Division internal service fund may yield excess earnings. The recommended rate modification is expected to reduce the projected excess earnings by fiscal year end.

Approval of Recommendation No.3 will provide available appropriation in services and supplies of \$1.1 million for budget units that are listed in Attachment J, and return \$570,215 to General Fund Contingencies as a result of the above-recommended rate modification. The increases in appropriation will be fully offset by decreases in Requirements for Business Solutions Labor Services – Maintenance and Support, resulting in a reduction of Net Position for ISD's Business Solutions Development budget unit by approximately \$1.7 million.

Internal Service Rate and Departmental Recharge Adjustments February 11, 2020

BACKGROUND INFORMATION

Internal service funds (ISF) are a mechanism for cost recovery of services provided by a County department to other County departments, and the internal service departments that provide such services include Fleet Management (Fleet), ISD, Purchasing, and Risk Management. Human Resources, Real Estate Services, and the Assessor/Recorder/County Clerk (ARC) also develop departmental recharges to recover costs.

County Policy 05-07 states that ISF rates are established by the Board of Supervisors. Adjustments to ISF rates and departmental recharges effective July 1, 2020 will allow those 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. For ISFs, the proposed rates are recommended to recover costs, ensure adequate working capital, and maintain appropriate designated reserve balances. ISF service rates are reviewed annually and adjusted, if needed, to ensure full cost recovery.

The following departments currently charge ISF service rates and/or departmental recharges. The proposed 2020-21 rates are reflected in the corresponding attachments.

Fleet (Attachment A)

Fleet provides acquisition, maintenance, repair, modification, and disposal services for the majority of County vehicles and equipment. 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 fueling station. Fleet also 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 2,100 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 Vehicle registration services.

Fleet's proposed changes to Garage rates are projected to result in a net revenue increase of \$2.3 million, resulting in an estimated increase of \$200,000 in the use of Net County Cost. This net revenue increase is primarily due to the proposed changes in both light and heavy duty rates, fuel and parts markups. These rate changes primarily result from an increase in salaries and benefits costs related to negotiated Memorandum of Understanding (MOU) changes, and increased services and supplies costs for shop operations.

Fleet's proposed changes to Motor Pool rates are projected to result in a net revenue increase of \$1.9 million. This increase is primarily due to rate changes in various fixed and variable costs for vehicle rentals resulting from the overall cost increases in Garage labor, parts, fuel, and

Internal Service Rate and Departmental Recharge Adjustments February 11, 2020

vehicle replacement. The recommended Motor Pool rate changes primarily ensure full cost recovery.

ISD (Attachment B)

The ISD ISFs provide the following major services: Computer Operations, Telecommunication Services, and Business Solutions Development.

- Computer Operations provides for the design, operation, maintenance, and administration of the County's enterprise data center which supports the mainframe and includes server management, integrated document imaging, and print operations. Computer Operations also provides the County with global email, technology policies and procedures, security direction, and technical services that support desktop communications and functions countywide.
- Telecommunication Services provides for the design, operation, maintenance, and administration of the County's phone network, the microwave transport network, virtual private network access (VPN), wide area network (WAN), paging system, and the County's Regional Public Safety Radio System. As the County is near completion of the conversion of the County's telephone network to Voice over Internet Protocol (VoIP) technology, a combined service rate for 2020-21 has been developed for Dial Tone to unify all telephone related services on a single platform to achieve cost efficiency and provide one integrated service. Accordingly, beginning in 2020-21, ISD will no longer charge for Long Distance or Voicemail as separate services.
- Business Solutions Development (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. Based on the net position analysis and the projected 2019-20 operating results, it was determined that the 2019-20 BSD Labor Services rate should be reduced to maintain the appropriate reserve balance in accordance with Federal Office of Management and Budget 2 CFR 200 guidelines. This rate reduction is primarily due to costs that were included in rates that did not materialize as anticipated.

The majority of ISD'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 IT related services, and the use of the County's telecommunication services and networks.

Overall, proposed changes in 2020-21 ISD rates result in decreased revenue of \$2.3 million. This is primarily due to a reduction in indirect costs as certain internal administrative costs were not incurred as originally anticipated, and were partially offset by an increase in salaries and benefits costs related to negotiated MOU increases. The net revenue reduction includes an estimated decrease of \$1.6 million in the use of Net County Cost.

Purchasing (Attachment C)

In addition to the procurement of County goods and services, Purchasing manages three ISF programs – Mail/Courier Services, Printing Services, and Surplus Property and Storage Operations.

Internal Service Rate and Departmental Recharge Adjustments February 11, 2020

- 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 designs, prints, and finishes high quality print production materials and operates two locations for Quick Copy services. Printing jobs vary and may include a number of services such as graphic design, offset printing, drilling, collating, binding, and shrink-wrapping. Printing Services works closely with Mail/Courier Services when completed print jobs are to be mailed to County residents.
- 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, Purchasing rate revenue for 2020-21 is projected to increase by \$396,160. This net increase is primarily due to increased operating costs including one-time facility improvements at the newly acquired warehouse in an unincorporated area of Fontana, partially offset by the use of available Net Position. Purchasing's proposed rate changes will allow them to achieve the 60-day working capital target, as well as asset replacement requirements.

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 funded by County departments and Board Governed Special Districts. Each is billed for their specific coverage for the cost to pay losses and excess insurance premiums under the self-insured programs, and the cost of insurance for the insured programs.

Attachment D summarizes total proposed premiums to be collected in 2020-21, which are increasing by \$2.5 million from 2019-20. Of this amount, \$1.6 million is the estimated increase in the use of Net County Cost. The increased premiums are primarily due to increased claims and a rise in the estimated liability in the Property Conservation, Human Services and Law Enforcement liability insurance programs. This overall increase in premiums is partially offset by a reduction in the Workers' Compensation, Auto and Road Design liability programs. The premium increases are consistent with County Policy 05-01 that targets an 80% confidence level in all Risk Management self-insurance funds as determined by a yearly actuarial study. Rate adjustments are made based on Board-approved premiums.

Human Resources (Attachment E)

The Employee Benefits and Services Division of the Human Resources Department 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 combination of revenue and departmental recharges. Departmental recharges are billed to County departments based on budgeted staffing.

The 2020-21 proposed departmental recharge for the Employee Benefits and Services Division is increasing from \$1.0 million to \$1.4 million and results in a Net County Cost increase of approximately \$100,570 from the prior year.

Internal Service Rate and Departmental Recharge Adjustments February 11, 2020

Real Estate Services (Attachments F, G, and H)

Three divisions of Real Estate Services charge user rates: Facilities Management, Leasing and Acquisition, and Project Management.

- The Facilities Management Division (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. For 2020-21, the cost for Basic Services is expected to increase \$1.5 million resulting in an increase of \$208,000 in the use of Net County Cost. The increase is primarily due to an increase in salaries and benefits costs, as well as square footage to be maintained.

- The 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 \$448,622 due to an increase in salary and benefit costs as a result of the proposed addition of one regular position for LAD as well as negotiated MOU increases.

- The Project Management Division (PMD) is responsible for planning and implementing the design and construction of capital projects. PMD 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. The 2020-21 rate changes result in an increase in reimbursements of \$858,643 primarily due to increased salary and benefit costs as four billable positions are proposed to be added to manage PMDs increased workload in a more efficient manner along with increased indirect costs.

ARC (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 by retrieving and refiling them, as requested.

The ARC has provided the above-mentioned services to relieve County departments from the burden of developing and maintaining their own records management programs. However, the ARC has not requested compensation or established service rates since the Auditor/Controller-Recorder developed them in March 2005, as approved by the Board (Item No. 36). The ARC is requesting to establish rates to recover the cost of service and to acquire a new warehouse

**Internal Service Rate and Departmental Recharge Adjustments
February 11, 2020**

building with adequate space and high density shelving to store archival records. Industry standards also indicate that these are usual and customary service rates applied upon request for service. The 2020-21 proposed rates for these services will result in estimated revenue of \$576,941.

PROCUREMENT

Not Applicable

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Penny Alexander-Kelley, Chief Assistant County Counsel, 387-5445) on January 23, 2020; Auditor-Controller/Treasurer/Tax Collector (Lisa Lazzar, General Accounting Manager, 382-3096) on February 3, 2020; Finance [Joon Cho (387-5402), Monique Amis (387-4883), Jessica Trillo (387-4222), and Carl Lofton (387-5404), Finance Analysts) on January 21, 2020; and Finance and Administration (Kelly Welty, Deputy Executive Officer, 387-4376) on January 27, 2020.

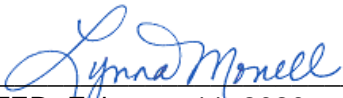
**Internal Service Rate and Departmental Recharge Adjustments
February 11, 2020**

Record of Action of the Board of Supervisors
County of San Bernardino

APPROVED (CONSENT CALENDAR)

Moved: Robert A. Lovingood Seconded: Josie Gonzales
Ayes: Robert A. Lovingood, Janice Rutherford, Dawn Rowe, Curt Hagman, Josie Gonzales

Lynna Monell, CLERK OF THE BOARD

BY 
DATED: February 11, 2020



cc: File- Administrative Office/Budget w/attach
la 02/14/2020