

# INTERNAL SERVICE FUNDS

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## OVERVIEW

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**Services provided to other City funds are budgeted and accounted separately in Internal Service Funds. These activities are administered by the Public Works and Finance Departments.**

**Program Expenses/Revenues:**

This section reports expenses by summary type: Salaries and Benefits, Services and Supplies, Debt Service, and Reserves. The historical and projected expenditure budgets are presented at the function and operation level.

**Summary of Service Programs:**

The cost of each activity or program within each fund is summarized and presented in this section.

**Program Description:**

A general description is presented for the purpose, goals, and activities of each internal service fund.

**Subprograms and Their Objectives:**

This section outlines how each division/subprogram accomplishes the purpose and goals of the department.

**Noteworthy Budget Highlights:**

This section summarizes the significant operating program changes from the prior financial plan. These changes may include major service reorganizations; the curtailment or expansion of services and/or programs; increases or decreases in regular positions; significant one-time costs; major changes in the method of delivering services; operational changes that will impact other departments or customer service; and changes that affect current policies or noteworthy capital projects.

Government Accounting Standards Board (GASB) pronouncement 34 requires that internal service funds be allocated between governmental and business-type activities for reporting purposes. Beginning with the fiscal year ending June 30, 2005, the internal service funds were allocated to operating functions in the City's Comprehensive Annual Financial report. However, though financial reports no longer show internal service funds, this pronouncement does not advocate the elimination of internal service funds for budgeting or day-to-day operations. The City continues to use, budget and account for internal service funds.

Internal service operations are fully supported by charges to all departments based on actual cost and equipment replacement values. The summaries in this section of the budget explain the financial and staffing levels recommended for each of the City's internal service funds. Administrative responsibility for each internal service operation is as follows:

**Public Works Department:**

Fleet Services .....E-3

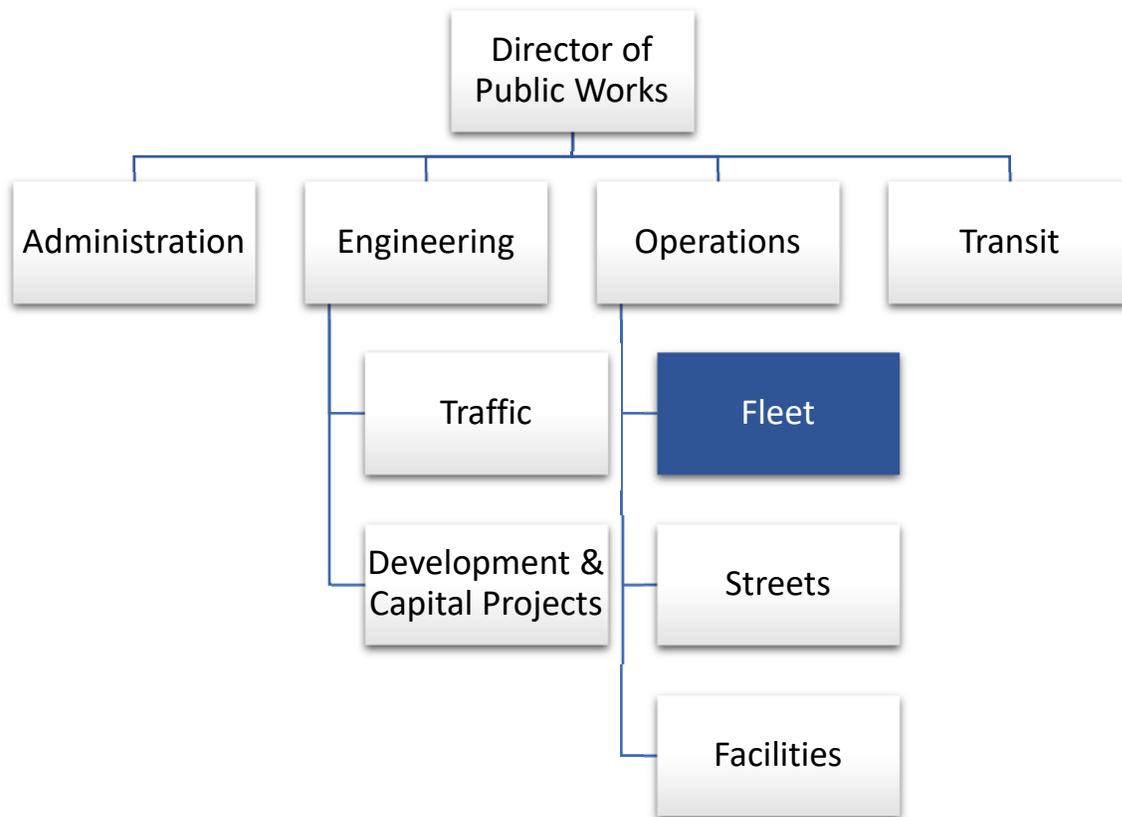
**Department of Finance**

Business, Communications, Telephone Equipment Replacement .....E-6

Liability, Workers' Compensation and Unemployment Insurance .....E-7

**Fleet Services**

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# INTERNAL SERVICE FUNDS

DEPARTMENT: Public Works  
 DIVISION: Fleet Services

PROGRAM: Maintenance/Replacement  
 FUND: Fleet Services

	Actual 2016-17	Adopted 2017-18	Year-End Estimated 2017-18	Proposed 2018-19	Proposed 2019-20
<b><u>PROGRAM EXPENSES/REVENUES</u></b>					
Salaries & Benefits	\$ 1,239,354	\$823,851	\$674,672	\$826,420	\$849,900
Services & Supplies	2,572,584	3,221,850	2,621,403	3,667,813	3,734,863
Total Operating Cost	3,811,938	4,045,701	3,296,075	4,494,233	4,584,763
Capital	124,397	3,963,000	535,507	3,121,000	3,886,000
Debt Service	68,516	686,320	686,327	686,320	686,320
Transfers	894,120	199,330	625,857	237,206	237,206
Total Cost	\$4,898,971	\$8,894,351	\$5,143,766	\$8,538,759	\$9,394,289

## **SUMMARY OF SERVICE PROGRAMS**

Maintenance & Replacement	\$4,898,971	\$8,894,351	\$5,143,766	\$8,538,759	\$9,394,289
Total Service Programs	\$4,898,971	\$8,894,351	\$5,143,766	\$8,538,759	\$9,394,289

## **SUMMARY OF POSITIONS**

### FULL-TIME

Account Clerk I	1	1	1	1	1
Equipment Mechanic I/II	2	2	2	4	4
Field Mechanic	2	2	2	1	0
Fleet Services Supervisor	1	1	1	1	1
Lead Mechanic	1	1	1	1	2
Maintenance Worker I/II	1	1	1	2	2
TOTAL	8	8	8	10	10

### PART-TIME

Laborer III	2	2	2	1	1
TOTAL	2	2	2	1	1

### **GRAND TOTAL**

	<b>10</b>	<b>10</b>	<b>10</b>	<b>11</b>	<b>11</b>
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### TEMPORARY (FTE)

General Laborer	0.5	0.5	0.5	0.5	0.5
TOTAL TEMPORARY (FTE)	0.5	0.5	0.5	0.5	0.5

# **INTERNAL SERVICE FUNDS**

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**DEPARTMENT: Public Works**  
**DIVISION: Fleet Services**

**PROGRAM: Maintenance/Replacement**  
**FUND: Fleet Services**

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## **PROGRAM DESCRIPTION**

The Fleet Services Division provides vehicle and equipment maintenance and replacement services in an efficient, fiscally responsible, and courteous manner. The Division also operates all City fueling operations and equipment and vehicle regulatory compliance. The goal is to provide City departments with adequate and effective equipment in a cost-effective manner through the City's Fleet Equipment Program.

## **SUBPROGRAMS AND THEIR OBJECTIVES**

### Preventive Maintenance Program

The Fleet Services Preventive Maintenance Program provides an established maintenance schedule for each vehicle and piece of equipment. All vehicles and equipment are maintained at or above industry standards. City mechanical staff maintains the public safety vehicles and equipment, solid waste collection trucks, landfill disposal equipment, and the majority of all other City-owned equipment and vehicles. By performing preventive maintenance services, staff increases efficiencies of the vehicles and avoids costly repairs.

### Equipment Replacement Program

The Fleet Services Equipment Replacement Program is structured to accommodate the changing needs of the organization. All vehicles and equipment that are due for replacement, based on a predetermined schedule, are annually evaluated and recommended for replacement or extended life. The objective is to maximize the useful life efficiency curve for vehicles and equipment on the replacement list. As part of this process, staff performs the research element of developing specifications for any given new vehicle or equipment needed, as in the case of a vehicle or equipment type change, and provides associated cost estimates to be used for budgeting purposes.

### Automated Fueling Program

The City-owned internal fueling system is comprised of an acquisition and distribution system maintained by Fleet Services. The system is computerized and provides critical data necessary to develop the scheduling of preventive maintenance. Outside public transportation agencies are authorized the use of the fueling system. The fuel cost to agencies includes an associated administrative fee and provides a reduced per gallon cost for participating public transportation agencies.

### Testing Programs

Fleet Services provides a Biennial Inspection Terminal (BIT) Program. The BIT Program, regulated by the California Highway Patrol (CHP), is for medium and heavy-duty truck safety inspections. The City is a certified BIT facility, which requires all fleet trucks over 26,000 pounds Gross Vehicle Weight Rating (GVWR) to have a safety inspection every 90 days. The CHP requires that all safety inspections and repairs are documented and kept on file for a two-year period. The CHP also conducts biennial inspections of facilities and records.

Fleet Services supervises the Diesel Engine Smoke Test, which is annually required for all diesel powered trucks over 6,000 pounds GVWR, and regulated by the California Air Resources Board. All test records are required to remain on file for a two-year period.

Fleet Services oversees the Annual Smog Test Program and notifies each department of those vehicles that need to be smog tested. A report is sent to the State of California, Department of Consumer Affairs at the end of each calendar year.

Fleet Services also oversees the Diesel Engine Particulate Matter Program. The State of California Air Resources Board under Title 13 regulations requires that all fleet equipment with a diesel engine over 25-horse power, be retired, replaced, or retro-fitted with a particulate trap. The cost is approximately \$13,000 per unit for a retro-fit device.

## **INTERNAL SERVICE FUNDS**

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**DEPARTMENT: Public Works**  
**DIVISION: Fleet Services**

**PROGRAM: Maintenance/Replacement**  
**FUND: Fleet Services**

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### **GOALS AND OBJECTIVES**

- Identify, procure, and integrate a new comprehensive fleet management software system. This system will save staff time, increase efficiency, and create more comprehensive reports necessary for budgeting and analysis of the City's fleet equipment capital.
- Implement key recommended fleet management practices, as recommended in the Fleet Services Study, to improve maintenance of the fleet, reduce costs, and improve efficiencies.

### **NOTEWORTHY BUDGET HIGHLIGHTS**

- The City's fleet continues to increase in size and operational needs for vehicle and equipment service. Currently the fleet inventory is 363, consisting of both vehicles and equipment.

There are 67 vehicles proposed for replacement during this two-year budget cycle. In 2018-19, 36 units are proposed to be replaced, at a cost of \$3.1 million. In 2019-20, 31 additional units are recommended to be replaced, at a cost of \$3.7 million.

- A Fleet Services Study was performed to evaluate efficiencies and possible areas of improvement in Fleet Services. As a result, in the 2018-19 budget cycle, Fleet is proposing a reorganization of staff. This will increase efficiencies and create budget savings by bringing the majority of preventive maintenance in-house and staff the division appropriately in order to achieve recommendations by the Study. Each vehicle will be inspected and an analysis will be completed to be sure replacement of the vehicle is needed.
- As part of the staff reorganization, the Fleet Services Supervisor salary will be downgraded and the job specification will be adjusted by reassigning the fiscal and more complex management-related duties to the department's newly created Management Analyst I position. After the proposed downgrade, this position will be at the same level as the other division supervisor classifications in the department with comparable responsibilities. The department has not been able to fill the previous position due to the complexity of the current job specification. This position should be a technical one utilizing Fleet management experience as a working supervisor to oversee the division, with a knowledgeable fleet shop supervisor so they can concentrate on operating the shop and the technical aspects required of the position.
- Upgrade one Laborer III position to that of Maintenance Worker I. It was recommended as part of the Study to hire a full-time storekeeper position to oversee the parts program. This position would be tasked with parts management and distribution, and will contribute to the effort of building a succession plan for the division.
- In line with recommendations of the Study, staff proposes downgrading one (1) Field Mechanic position to that of an Equipment Mechanic II. This change will create cost savings and the duties align more directly with that of the Equipment Mechanic II classification. This position is located at the landfill and is dedicated to the maintenance of refuse trucks and heavy equipment.
- One Equipment Mechanic I position is to be added. Per the Study, it was recommended to bring additional preventive maintenance work in-house and adjust specific intervals of service. By performing these maintenance tasks in-house, savings will be created and City fleet will receive a higher level of service.
- Along with the staffing reorganization is the procurement of a new fleet management software program, which will streamline the work order and work flow of the division while providing deeper analytics for a comprehensive assessment of the City's fleet.

# INTERNAL SERVICE FUNDS

**DEPARTMENT:** Finance  
**DIVISION:** Business, Communications  
 and Telephone Equipment

**PROGRAM:** Maintenance/Replacement  
**FUND:** Business Equipment Replacement

	Actual 2016-17	Adopted 2017-18	Year-End Estimated 2017-18	Proposed 2018-19	Proposed 2019-20
<b><u>PROGRAM EXPENSES/REVENUES</u></b>					
Salaries & Benefits	\$ 911,090	\$ 1,343,422	\$ 997,790	\$ 1,343,422	\$ 1,343,422
Services & Supplies					
Total Operating Cost	911,090	1,343,422	997,790	1,343,422	1,343,422
Capital	19,955	598,640	850,680	1,086,000	1,086,000
Debt Service					
Transfers	14,410	15,560	15,560	13,570	13,570
Total Cost	\$ 945,455	\$ 1,957,622	\$ 1,864,030	\$ 2,442,992	\$ 2,442,992

## **SUMMARY OF SERVICE PROGRAMS**

Maintenance & Replacement	\$ 945,455	\$ 1,957,622	\$ 1,864,030	\$ 2,442,992	\$ 2,442,992
Total Service Programs	\$ 945,455	\$ 1,957,622	\$ 1,864,030	\$ 2,442,992	\$ 2,442,992

## **PROGRAM DESCRIPTION**

The Equipment Replacement Fund is an Internal Service Fund administered by the Department of Finance.

This fund was established to finance the replacement of old, inefficient, or obsolete business equipment with new equipment. The types of business equipment replaced through this fund are: computers, copiers, printers, servers, fax machines, scanners, and other office support-related equipment.

The expected life span of the equipment is the determining factor in calculating the cost charged to departments/program using the equipment. The pro-rata cost is charged through an internal service charge over the life of the equipment.

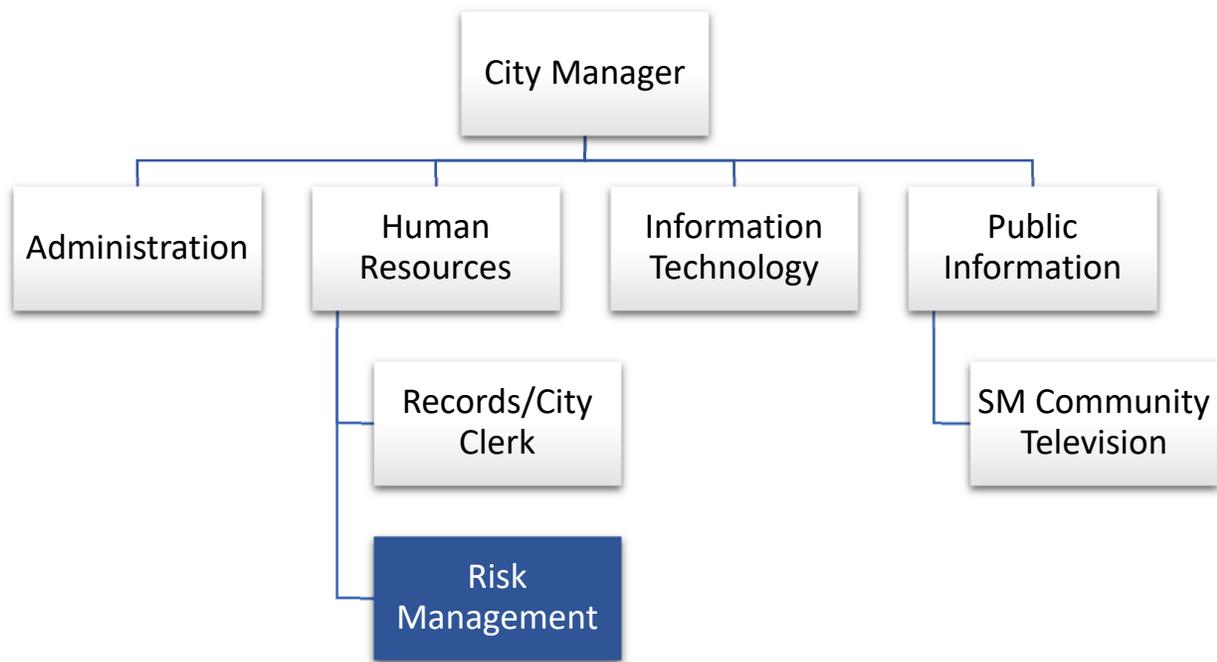
## **GOALS AND OBJECTIVES**

- This fund provides a replacement schedule of existing business, communications, and telephone equipment when the business equipment has reached its useful life and has been fully depreciated. Each replacement decision is fully reviewed prior to replacement, taking into account serviceability and maintenance costs, with a focus on retaining as many items as possible in order to extend cash reserves. Collecting replacement funds over the life of equipment allows the City to gradually and efficiently update its equipment to products with improved technologies.

## **NOTEWORTHY BUDGET HIGHLIGHTS**

- Appropriations will increase by \$485,370 in 2018-19, primarily due to replacement of business equipment that has met or exceeded its life and maintenance agreements associated with business equipment.
- Year-end estimated expenditures for 2017-18 are expected to be under 2017-18 adopted budget by \$93,590 because of maintenance agreements not being executed due to the delay in purchasing equipment that had been authorized for replacement in prior budget cycles. Some of the business equipment replacements budgeted in the past few years were tied to larger projects, such as the city-wide radio and the public safety Computer Aided Dispatch and Records Management System. Due to project schedule changes, replacement of many of those business equipment replacements were delayed and have occurred in 2017-18 and are included in year-end estimated expenditures. Remaining budget appropriations for incomplete projects are carried over to the next fiscal year and are added to the adopted budget to ensure projects are complete but do not exceed authorized budgets.

**Risk Management**



# INTERNAL SERVICE FUNDS

**DEPARTMENT:** City Manager

**PROGRAM:** Risk Management

**DIVISION:** Liability, Workers' Compensation

**FUND:** Insurance Funds

**Insurance, and Unemployment Insurance**

	Actual 2016-17	Adopted 2017-18	Year-End Estimated 2017-18	Proposed 2018-19	Proposed 2019-20
<b><u>PROGRAM EXPENSES/REVENUES</u></b>					
Salaries & Benefits	\$ 237,405	\$ 257,393	\$ 257,393	\$ 248,045	\$ 254,496
Services & Supplies	4,419,570	5,233,689	5,176,677	6,871,566	7,489,143
Total Operating Cost	4,656,975	5,491,082	5,434,070	7,119,611	7,743,639
Capital					
Debt Service					
Transfers	206,280	142,820	142,820	137,030	137,030
Total Cost	\$4,863,255	\$5,633,902	\$5,576,890	\$7,256,641	\$7,880,669

## **SUMMARY OF SERVICE PROGRAMS**

Liability Program	\$2,270,565	\$2,823,142	\$2,572,484	\$3,290,001	\$3,540,965
Workers' Compensation Program	2,592,690	2,810,760	3,004,406	3,966,640	4,339,704
Total Service Programs	\$4,863,255	\$5,633,902	\$5,576,890	\$7,256,641	\$7,880,669

## **SUMMARY OF POSITIONS**

### FULL-TIME

Management Analyst I/II	1	1	1	1	1
TOTAL	1	1	1	1	1

### **GRAND TOTAL**

	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
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## **PROGRAM DESCRIPTION**

The City Manager's Office administers the Insurance Funds. Funding for the various programs is generated by allocations to operating departments based on historical use of insurance resources and exposure to risk. These appropriations do not represent additional costs to the City, but rather report the manner in which departmental allocations will be spent.

### **SUBPROGRAMS AND THEIR OBJECTIVES**

#### Risk Management

Analyze general liability claims experience and ensure that adequate reserves are maintained.

Review and administer employee workers' compensation injury claims to limit City exposure.

Implement programs and coordinate efforts to identify and analyze loss exposures and control risk. Provide resources to departments regarding risk control options and techniques.

#### Insurance Benefits

Review and administer the City's health and non-medical-related insurance programs.

# INTERNAL SERVICE FUNDS

**DEPARTMENT: City Manager**

**PROGRAM: Risk Management**

**DIVISION: Liability, Workers' Compensation**

**FUND: Insurance Funds**

**Insurance, and Unemployment Insurance**

## Property, Liability and Workers' Compensation Insurance

Property of the City and the Successor Agency to the Redevelopment Agency of the City of Santa Maria is generally covered for all risks, with a per occurrence limit of \$1 billion. The property insurance is administered through the Public Entity Insurance Program and the self-insured retention is \$10,000 per claim.

Liability claims expenses over the City's self-insured retention of \$250,000 per claim are insured directly with the Exclusive Risk Management Authority of California (ERMAC) up to \$1 million. The California State Association of Counties (CSAC) Program provides ERMAC member cities excess insurance coverage in the \$1 million to \$50 million per occurrence. The City's third party administrator for liability-related matters is Carl Warren and Associates.

The City self-insures workers' compensation claims and obtains excess workers' compensation insurance through the Local Agency Workers' Compensation Excess Joint Powers of Authority for all claims in excess of \$500,000. The City's third party administrator for workers' compensation insurance is AdminSure, Inc.

## Unemployment Insurance

The City is self-insured for unemployment claims. The State Employment Development Department processes all unemployment claims and bills the City for actual costs.

<b>PERFORMANCE/WORKLOAD MEASURES</b>	<b>ACTUAL 2014-16</b>	<b>ESTIMATED 2016-18</b>	<b>PROJECTED 2018-20</b>
<b>DEMAND/WORKLOAD</b>			
Workers' Compensation Claims Processed	204	200	200
<b>EFFECTIVENESS/EFFICIENCIES</b>			
Safety Inspections/Ergonomic Evaluations	15	25	40
Wellness Workshops	8	8	18

## GOALS AND OBJECTIVES

- Review Workers' Compensation and Liability exposure, for appropriate funding options to reduce expenses, and work with departments on preventive measures for reduction of risk and to enhance notification protocols.
- Conduct a comprehensive review of contract insurance requirements for appropriate risk transfer and processes for departments for outside vendor contracts and insurance review and approval to begin services/work with contracted vendors.
- Conduct a thorough review and update of the Injury and Illness Prevention Programs and related City policies and forms.
- Transition the Risk Management paper files to an electronic filing system.
- Provide wellness workshops and monthly wellness programs for all employees across departments to include financial, physical and mental wellness.
- In partnership with the Wellness Committee and the Human Resources Division, continue to develop the City's new wellness program, "Recess."
- Collaborate with the City's health and non-medical related insurance programs to transition to offering employees enrollment electronically (online) and with a yearly enrollment period.

## **INTERNAL SERVICE FUNDS**

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**DEPARTMENT:** City Manager

**PROGRAM:** Risk Management

**DIVISION:** Liability, Workers' Compensation

**FUND:** Insurance Funds

**Insurance, and Unemployment Insurance**

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- Conduct a comprehensive review of liability claims, status, trends, reporting processes, and costs for discussions with departments on efforts to minimize occurrences.
- Establish a claims review with the City's third-party self-insured retention administrator to discuss all open claims.
- Provide electronic training webinars and record-keeping through Target Solutions for all employees, and continue to work with the Training Committee on safety topics and department-specific training topics.

### **NOTEWORTHY BUDGET HIGHLIGHTS**

- In January 2018, an actuarial study of Workers' Compensation Claims Expense Fund indicated greater incurred claims expense and City reserves fell below expected confidence level of 50 percent. Staff requests an increase in allocation of \$1,076,550 for 2018-2019 and \$1,388,050 for 2019-2020 to cover incurred and future claim costs. Funding reserves at 50 percent is below the expected confidence level which is viewed by excess insurers as below the marginally acceptable level. Having a level below 80 percent in reserves can cause an increase in premiums.
- In January 2018, an actuarial study of the Liability Claims Expense Fund indicated greater incurred claims expense and reserve recommendation to fund at an 80 percent confidence level. Staff requests an increase in allocation of \$339,200 for 2018-2019 and \$439,200 for 2019-2020 to cover incurred and claims and keep our reserves at the 80 percent confidence level. Continuing to maintain an 80 percent confidence level in our reserves will assist in stabilizing the City's insurance liability premium rates.
- Staff requests an increased allocation of \$112,275 for 2018-2019 and \$235,778 for 2019-2020 to increase funding for Liability Insurance Premiums. Liability expenses over the City's self-insured retention of \$250,000 per claim are insured with the Exclusive Risk Management Authority of California (ERMAC) up to \$1 million. ERMAC is working to stabilize rates.
- Excess insurance is obtained through Local Agency Workers' Compensation Excess Joint Powers of Authority (LAWCX), for all claims that exceed the SIR. LAWCX conducted an actuarial in 2017 and indicates a rate increase. Due to underfunded liabilities in years 1992-2007 a 10-year assessment will be charged to Pool members. Staff requests an increase in allocation of \$70,000 for 2018-2019 and \$123,195 for 2019-2020.
- City property is insured with ERMAC. Due to increased property values and additional property added to our policy, ERMAC has provided preliminary rates for the next two years and staff requests an increase in allocation of \$18,964 for 2018-2019 and \$39,824 for 2019-2020 to cover increased costs of coverage.
- The City's Self-Insurance Retention (SIR) is \$500,000 for each Worker's Compensation claim. The State of California requires self-insured plans to also carry State Self-Insurance (SSI). The SIR and SSI are both based on number of workers compensation claims, which have increased. Staff requests an increase in allocation of \$7,096 for 2018-2019 and \$14,901 for 2019-2020.
- The City is self-insured and utilizes third-party administrators (TPA) to administer Liability, Property, Workers Compensation claims, and the Self-Insurance Retention (SIR) for these insurances. SIR fees are developed from an average of number of claims that are administered by the TPA, which have increased. Staff requests an increased allocation of \$5,455 for 2018-2019 and \$11,456 for 2019-2020 to increase funding for the Liability Claims Administration fees. Also, staff requests an increased allocation of \$11,286 for 2018-2019 and \$11,850 for 2019-2020 to increase funding for the Workers' Compensation Claims Administration fees.

## **INTERNAL SERVICE FUNDS**

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**DEPARTMENT: City Manager**

**PROGRAM: Risk Management**

**DIVISION: Liability, Workers' Compensation**

**FUND: Insurance Funds**

**Insurance, and Unemployment Insurance**

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- Liability expenses over City's self-insurance retention (SIR) of \$250,000 per claim are insured with ERMAC up to \$1 million with the EXCEPTION of Employment Practices Claims. This is an exclusion of the ERMAC Memorandum of Coverage. Separate insurance is required for this excess coverage. Currently, the City's SIR is \$1 million for each claim. Staff requests an allocation of \$75,000 for 2018-2019 and \$82,000 for 2019-2020 for the new insurance to lower the City's SIR to \$500,000 per claim.