

Office of the
Legislative Fiscal Analyst

FY 2004 Budget Recommendations

Joint Appropriations Subcommittee for
Capital Facilities and Administrative Services

Utah Department of Administrative Services
Internal Service Funds

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1.0 Summary: Department of Administrative Services: Internal Service Funds

Internal Service Funds employ business practices to provide a service or product for other State and governmental agencies. Typical services include motor pools, computer centers, central stores, revolving loan funds, facility management or other large function that can be centrally coordinated. They are set up to take advantage of economies of scale, to avoid duplication of efforts and to provide an accounting mechanism to adequately identify costs of certain governmental services.

	Analyst FY 2004 Base	Analyst FY 2004 Changes	Analyst FY 2004 Total
Financing by Source			
Dedicated Credits	157,082,500	2,183,600	159,266,100
Restricted Revenue	8,942,700		8,942,700
Transfers	376,600	(376,600)	
Other Financing Sources	7,300		7,300
Total	<u>\$166,409,100</u>	<u>\$1,807,000</u>	<u>\$168,216,100</u>
Expenditures by Program			
ISF - Office of State Debt Collection	1,122,000		1,122,000
ISF - Purchasing & General Services	13,868,700		13,868,700
ISF - Information Technology Services	55,806,600	907,800	56,714,400
ISF - Fleet Operations	38,385,700		38,385,700
ISF - Risk Management	38,845,600		38,845,600
ISF - Facilities Management	18,599,900		18,599,900
Total	<u>\$166,628,500</u>	<u>\$907,800</u>	<u>\$167,536,300</u>
Profit/(Loss)	<u>(\$219,400)</u>	<u>\$899,200</u>	<u>\$679,800</u>
FTE/Other			
Total FTE	498	(8)	490
Authorized Capital Outlay	26,476,900	1,580,400	28,057,300
Retained Earnings	18,251,100	899,200	19,150,300

2.0 Operation of Internal Service Funds

Internal Service Funds operated by the Department of Administrative Services provide consolidated services to all state agencies. DAS operates five Internal Service Funds that are funded by state agencies and one (Debt Collection) that is funded through collections on outstanding debts owed to the state.

- ◆ Information Technology Services (ITS),
- ◆ Risk Management,
- ◆ Facilities Construction and Management (DFCM),
- ◆ General Services (Copy Services, Central Mailing, and Central Stores),
- ◆ Fleet Operations, and
- ◆ Debt Collection.

Statutory Guidelines for ISFs

In order to control the size, mission and fees charged to state agencies, The Legislature imposed statutory controls (Sec 63-38-3.5) that require Internal Service Funds to respond to the legislative budget process. Those controls are as follows:

1. All Internal Service Fund budgets must be approved by the Legislature.
2. The number of full-time equivalent (FTE) positions must be approved for each Internal Service Fund.
3. No capital acquisitions can be made by an Internal Service Fund without legislative approval.
4. No capital assets can be transferred to an Internal Service Fund without Legislative approval.
5. Rate structure must be approved by Legislature.
6. Working capital must be acquired in the following order:
 - a. operating revenues,
 - b. long term debt,
 - c. appropriation (only as a last resort).
7. Borrowing from the General Fund (long term debt) is allowed as long as:
 - a. The debt is repaid over the useful life of the asset.
 - b. The Division of Finance does not allow borrowing to exceed 90% of the net book value of the asset.

General Fund Borrowing

General Fund borrowing occurs when an agency needs large amounts of cash to capitalize assets purchased in the course of doing business. The primary use General Fund borrowing allows agencies to capitalize photocopying equipment and vehicles. Although the Legislature expresses a preference for capitalizing through operating revenues, long term borrowing from the General Fund is allowed under the following conditions:

1. All long term debt will be repaid on a regular basis over the life of the depreciated asset;
2. The agency's borrowing cannot exceed 90 percent of the net book value of the agency's capital assets as of the end of the fiscal year.

As of June 30, 2001, six DAS Internal Service Funds carried liabilities related to General Fund borrowing. By the end of FY 2002 only four carried General Fund Debt. All four own assets in excess of their debt, creating a positive equity balance.

Year End General Fund Debt		
	FY 2001	FY 2002
General Services Copy Services	\$3,298,523	\$3,246,000
General Services Mail Services	\$610,564	\$0
Fleet Operations Motor Pool	\$28,155,044	\$29,171,400
Federal Surplus Property	\$299,826	\$171,100
State Surplus Property	\$174,126	\$0
Fuel Dispensing	\$4,070,250	\$3,215,800
Total	<u>\$36,608,333</u>	<u>\$35,804,300</u>

*Intent Language:
Adding new FTEs
should receive prior
approval*

Prior to FY 2003 the Legislature allowed ISFs to add employees if the addition was the result of a transfer from an appropriated budget. DFCM also received permission to add FTEs to handle new contracts that came about after the Legislative session. The Analyst in the past recommended intent language that allowed ISFs the ability to exceed authorized FTE levels. The Analyst does not believe that this policy has been used appropriately and does not recommend continuation of the intent language, with one exception noted in the DFCM report.

~~It is the intent of the Legislature that Internal Service Funds of the Department of Administrative Services be allowed to add FTEs beyond the authorized level if it represents a benefit to the state and a decrease of FTEs in the user agency. The total FTEs within state government shall not change with this shift of FTEs. Agencies transferring FTEs to Internal Service Funds shall report to the Executive Appropriations Committee decreased personal service expenditures and corresponding increased Internal Service Fund charges as a result of the transfer.~~

*Agencies must pay
rates regardless of
“additional
appropriation”*

Internal Service Fund rates are set by the Legislature based on recommendations from the State Rate Committee. Over the years the Legislature provided agencies with additional funds to pay for increases in rates, although many times that additional funding came from decreases in other ISFs (primarily from lower costs associated with IT costs). With significant budget constraints over the last year, the Legislature could not provide additional funds to cover increasing rates. Asking agencies to absorb increases is a more equitable way to balance budgets as the costs of the increase are directly borne by the user agency.

The lack of an additional appropriation should not be construed by agencies as permission to ignore rate increases. If agencies do not believe the rates are appropriate, they should take their complaint to the Rate Committee, which has the power to lower rates during the interim. Any agency that can not meet its new obligation for ISF services should reassess its need for the service. Agencies can lower costs by making fewer copies, cutting down on mail, reducing services for facility management or resizing their fleet.

4.0 Funding History

	2000	2001	2002	2003	2004
Financing by Source	Actual	Actual	Actual	Estimated	Analyst
Federal Funds	150,000		542,200		
Dedicated Credits	133,765,800	144,893,500	151,345,300	153,717,600	159,266,100
Restricted Revenue	8,536,200	10,424,400	8,235,100	8,001,000	8,942,700
Trust and Agency Funds	300	300	200		
Transfers	391,600	934,400	(2,611,500)	309,500	
Other Financing Sources	5,700	9,200	(17,100)	7,000	7,300
Total	\$142,849,600	\$156,261,800	\$157,494,200	\$162,035,100	\$168,216,100
Financing by Program					
ISF - Office of State Debt Collection	680,200	1,115,800	1,004,300	1,036,700	1,122,000
ISF - Purchasing & General Services	12,264,700	13,065,200	13,986,500	14,056,800	14,607,400
ISF - Information Technology Services	52,786,000	53,716,600	58,449,000	54,907,400	56,714,400
ISF - Fleet Operations	33,260,300	37,424,500	36,297,100	38,374,700	39,533,800
ISF - Risk Management	25,977,600	32,579,400	29,195,000	35,077,800	37,423,300
ISF - Facilities Management	17,589,200	18,360,300	18,562,300	18,581,700	18,815,200
ISF - DFCM Planning and Design	291,600				
Total	\$142,849,600	\$156,261,800	\$157,494,200	\$162,035,100	\$168,216,100
Expenditures					
Personal Services	27,716,300	28,823,600	30,591,200	29,963,300	29,528,600
In-State Travel	111,700	96,300	123,000	95,700	115,700
Out of State Travel	190,300	175,900	139,800	200,200	147,400
Current Expense	86,560,600	94,322,000	96,565,700	100,660,300	102,526,200
DP Current Expense	9,761,400	10,045,100	12,477,000	9,140,300	10,827,000
DP Capital Outlay	6,292,700	6,389,800	6,487,900	6,950,400	7,452,400
Capital Outlay	7,992,400		89,200	32,000	31,800
Other Charges/Pass Thru	2,871,500	3,800,300	4,496,900	1,736,200	1,504,200
Depreciation	119,600	10,708,700	11,829,500	14,634,000	15,403,000
Trust & Agency Disbursements		50,000			
Total	\$141,616,500	\$154,411,700	\$162,800,200	\$163,412,400	\$167,536,300
Profit/(Loss)	\$1,233,100	\$1,850,100	(\$5,306,000)	(\$1,377,300)	\$679,800
FTE/Other					
Total FTE	505	511	496	500	490
Authorized Capital Outlay	28,224,655	27,965,000	44,677,200	48,349,300	28,057,300
Retained Earnings	21,041,800	25,856,500	21,028,700	19,651,300	19,150,300

*General and school funds as revised by Supplemental Bills I-V, 2002 General and Special Sessions. Other funds as estimated by agency.