

Office of the  
Legislative Fiscal Analyst

## **FY 2005 Budget Recommendations**

Joint Appropriations Subcommittee for  
Natural Resources

Utah Department of Natural Resources  
**Internal Service Funds**

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## 1.0 Summary: Internal Service Funds

Internal Service Funds (ISFs) provide specific services to multiple agencies. This allows economies of scale and greater expertise than would be available if each agency provided its own services. Each agency that uses ISF services pays its "fair share" of costs. This is an exception to the Budgetary Procedures Act, which requires that funds not be moved between line items of appropriations. To guard against abuse, the 1988 Legislature passed H.B. 81, which provides budgetary controls over ISFs. The law does not allow an ISF to bill another agency unless the Legislature has:

- Reviewed and approved the ISF agency's budget request;
- Reviewed and approved the ISF's rates, fees, and other charges and included those rates, fees and charges in an appropriations act;
- Approved the number of employees;
- Appropriated the estimated revenue based on the rates and fee structure.
- Separately reviewed and approved the capital needs and related capital budget.

No new ISF agency may be established unless reviewed and approved by the Legislature.

The Department has three ISFs: Warehouse, Motor Pool, and Data Processing.

	<b>Analyst FY 2005 Base</b>	<b>Analyst FY 2005 Changes</b>	<b>Analyst FY 2005 Total</b>
<b>Financing by Revenue Source</b>			
Dedicated Credits - Intragvt Rev	5,337,400		5,337,400
Sale of Fixed Assets	(15,700)		(15,700)
<b>Total</b>	<b>\$5,321,700</b>	<b>\$0</b>	<b>\$5,321,700</b>
<b>Expenditures by Program</b>			
ISF - DNR Warehouse	674,000		674,000
ISF - DNR Motorpool	3,602,300		3,602,300
ISF - DNR Data Processing	687,100		687,100
<b>Total</b>	<b>\$4,963,400</b>	<b>\$0</b>	<b>\$4,963,400</b>
<b>Profit/(Loss)</b>	<b>\$358,300</b>	<b>\$0</b>	<b>\$358,300</b>
<b>FTE/Other</b>			
Total FTE	10.0	0.0	10.0
Authorized Capital Outlay	\$100,000	\$0	\$100,000
Retained Earnings	(\$1,457,200)	\$0	(\$1,457,200)

### 3.0 Programs: Internal Service Funds

#### 3.1 Warehouse

##### Recommendation

The Analyst recommends:

- Approved revenues of **\$662,000**
- Approved operating expenses of **\$674,000**. The **(\$12,000)** difference between revenues and expenses will go to Retained Earnings.
- The rate and fee schedule shown below
- **2 FTEs**
- No authorized capital outlay

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Est/Analyst</b>
<b>Financing</b>	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>	<b>Difference</b>
Dedicated Credits - Intragvt Rev	606,900	650,000	662,000	12,000
<b>Total</b>	<b>\$606,900</b>	<b>\$650,000</b>	<b>\$662,000</b>	<b>\$12,000</b>
<b>Expenditures</b>				
Personal Services	81,600	88,000	89,800	1,800
Current Expense	466,500	520,200	530,600	10,400
DP Current Expense	3,300	7,100	7,300	200
Other Charges/Pass Thru	2,100	6,100	6,200	100
Depreciation	46,600	40,100	40,100	
<b>Total</b>	<b>\$600,100</b>	<b>\$661,500</b>	<b>\$674,000</b>	<b>\$12,500</b>
<b>Profit/(Loss)</b>	<b>\$6,800</b>	<b>(\$11,500)</b>	<b>(\$12,000)</b>	<b>(\$500)</b>
<b>FTE/Other</b>				
Total FTE	2.0	2.0	2.0	0.0
Retained Earnings	\$119,400	\$107,900	\$95,900	(\$12,000)

\*Non-state funds as estimated by agency

##### Rate Schedule

Mark-up of goods above cost	<b>19%</b>
Warehouse space, per square foot, per year	<b>\$4.38</b>
Core Sample Warehouse, per year for 22 years	<b>\$40,123</b>

##### Revenue by Agency

	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>
	<b>Actual</b>	<b>Estimated</b>	<b>Analyst</b>
DNR Administration	\$4,500	\$5,100	\$5,200
Forestry, Fire & State Lands	26,100	27,300	27,800
Oil, Gas & Mining	2,800	3,700	3,700
Wildlife Resources	314,500	324,500	330,500
Parks & Recreation	195,300	214,800	218,700
UGS (Sample Library)	40,600	41,500	42,300
Water Resources	200	400	400
Water Rights	500	500	500
Others	15,900	17,700	18,100
Motorpool	6,500	14,500	14,800
<b>Total</b>	<b>\$606,900</b>	<b>\$650,000</b>	<b>\$662,000</b>

**Purpose**

The Warehouse ISF provides purchasing services. It buys specialized items used by the divisions (e.g. Ranger uniforms). The program stores the articles until requisitioned by the divisions. It also includes the Core Sample Library used by the Utah Geological Survey. Other agencies, such as DFCM, purchase warehouse space from DNR.

**Intent  
Language**

The Analyst recommends **maintaining** the following intent language from H.B. 1, 2003 General Session:

*It is the intent of the Legislature that, if funding is available, the Utah Geological Survey be allowed to pay up to \$200,000 in contributed capital to the Natural Resources Warehouse Internal Service Fund in order to pay down their existing debt on the Core Sample Library.*

In FY 2003 UGS was able to make a payment of \$200,000 from federal mineral lease revenues. Mineral lease revenues came in higher than expected due to high energy costs. It is likely that energy costs will remain higher than average through FY 2004.

### 3.2 Motor Pool

#### Recommendation

The Analyst recommends:

- Approved revenues of **\$3,957,700**
- Approved operating expenses of **\$3,602,300**. The **\$355,400** difference between revenues and expenses will go to Retained Earnings.
- The rate and fee schedule shown below
- **4 FTEs**
- No authorized capital outlay. Replacement vehicles will be leased from the Division of Fleet Operations (DFO).

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Est/Analyst</b>
	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>	<b>Difference</b>
<b>Financing</b>				
Dedicated Credits - Intragvt Rev	3,833,600	4,015,800	3,973,400	(42,400)
Sale of Fixed Assets	(43,600)	(18,700)	(15,700)	3,000
<b>Total</b>	<b>\$3,790,000</b>	<b>\$3,997,100</b>	<b>\$3,957,700</b>	<b>(\$39,400)</b>
<b>Expenditures</b>				
Personal Services	183,200	192,400	190,400	(2,000)
In-State Travel		3,000	3,000	
Current Expense	2,737,300	2,983,000	3,250,700	267,700
DP Current Expense	5,700	6,800	7,000	200
Other Charges/Pass Thru	27,300	29,900	30,500	600
Depreciation	621,900	320,700	120,700	(200,000)
<b>Total</b>	<b>\$3,575,400</b>	<b>\$3,535,800</b>	<b>\$3,602,300</b>	<b>\$66,500</b>
<b>Profit/(Loss)</b>	<b>\$214,600</b>	<b>\$461,300</b>	<b>\$355,400</b>	<b>(\$105,900)</b>
<b>FTE/Other</b>				
Total FTE	4.2	4.0	4.0	0.0
Retained Earnings	(\$2,430,000)	(\$1,968,700)	(\$1,613,300)	\$355,400

\*Non-state funds as estimated by agency

Rates are based on breakeven costs for each class of vehicle. Rates include a \$100.00 per month fixed rate plus the mileage rate shown below plus a fuel surcharge based on fuel prices.

<u>Vehicle</u>	<u>FY 04 Curr</u>	<u>FY 05</u>
Sedan	\$0.20	\$0.20
Station Wagon	0.20	0.20
Minivan	0.20	0.20
1/2 Ton 2WD Pick-Up	0.20	0.20
1/2 Ton 4WD Pick-Up	0.27	0.27
1/2 Ton 4WD Extended Cab Pick-Up	0.31	0.31
3/4 Ton 2WD Pick-Up	0.22	0.22
3/4 Ton 4WD Pick-Up	0.29	0.29
3/4 Ton 4WD Extended Cab Pick-Up	0.34	0.34
1 Ton 2WD Pick-Up	0.33	0.33
1 Ton 4WD Pick-Up	0.33	0.33
1 Ton 4WD Extended Cab Pick-Up	0.37	0.37
Sport Utility	0.27	0.27
Large Utility	0.29	0.34
Large Van	0.27	0.27
1 ½ Ton, 2 Ton, 2 ½ Ton, 1 Axle, etc	0.45	0.45
Fire Trucks	0.44	0.44
5 Ton, 10 Ton Tractor, etc.	0.48	0.48

**Revenue by Agency**

	<b>FY03 Actual</b>	<b>FY04 Estimated</b>	<b>FY05 Analyst</b>
DNR Administration	\$39,500	\$39,700	\$39,200
Forestry, Fire & State Lands	487,800	515,400	509,900
Oil, Gas & Mining	91,200	91,200	90,200
Wildlife Resources	2,183,600	2,307,900	2,283,600
Parks & Recreation	816,500	860,900	851,700
Utah Geological Survey	40,700	43,700	43,300
Water Resources	41,700	39,700	39,300
Water Rights	86,600	89,700	88,800
Others	19,900	13,900	13,800
Miscellaneous	26,100	13,700	13,600
Sale of Fixed Assets	(43,600)	(18,700)	(15,700)
<b>Total</b>	<b>\$3,790,000</b>	<b>\$3,997,100</b>	<b>\$3,957,700</b>

**Capital Expenditures**

None. All new vehicles will be leased from the Division of Fleet Operations (DFO).

In FY 2000 DNR began leasing vehicle replacements and new vehicle additions through DFO. Under a memorandum of understanding, DNR pays DFO a special rate to recover depreciation and administrative overhead. DNR continues to administer the maintenance, data entry, reservation system, and other aspects of the motor pool.

### 3.3 Data Processing

#### Recommendation

The Analyst recommends:

- Approved revenues of **\$702,000**
- Approved operating expenses of **\$687,100**. The **\$14,900** difference between revenues and expenses will go to Retained Earnings.
- The rate and fee schedule shown below
- **4 FTEs**
- Authorized capital outlays in the amount of **\$100,000** with a five-year depreciation schedule.

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Est/Analyst</b>
<b>Financing</b>	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>	<b>Difference</b>
Dedicated Credits - Intragvt Rev	484,100	443,700	702,000	258,300
<b>Total</b>	<b>\$484,100</b>	<b>\$443,700</b>	<b>\$702,000</b>	<b>\$258,300</b>
<b>Expenditures</b>				
Personal Services	256,600	273,000	271,300	(1,700)
In-State Travel		800	500	(300)
Current Expense	38,500	59,000	42,100	(16,900)
DP Current Expense	199,100	336,000	351,100	15,100
Other Charges/Pass Thru	1,900	6,000	2,100	(3,900)
Depreciation	27,400	27,400	20,000	(7,400)
<b>Total</b>	<b>\$523,500</b>	<b>\$702,200</b>	<b>\$687,100</b>	<b>(\$15,100)</b>
<b>Profit/(Loss)</b>	<b>(\$39,400)</b>	<b>(\$258,500)</b>	<b>\$14,900</b>	<b>\$273,400</b>
<b>FTE/Other</b>				
Total FTE	4.0	4.0	4.0	0.0
Authorized Capital Outlay	\$0	\$100,000	\$100,000	\$0
Retained Earnings	\$303,800	\$45,300	\$60,200	\$14,900

\*Non-state funds as estimated by agency

#### Rate Schedule

In theory, rates are based upon total estimated costs incurred divided by the number of hot ports used by each division. In reality, divisions connect and disconnect constantly, so the number of hot ports is fluid. Therefore, rates charged are really based on what the divisions paid in the prior year. The revenue by agency shown below is identical to the prior year.

Revenue by Agency	FY03	FY04	FY05
	Actual	Estimated	Analyst
DNR Administration	\$68,800	\$22,300	\$69,400
Forestry, Fire & State Lands	13,900	23,600	29,300
Oil, Gas & Mining	84,200	27,400	85,000
Wildlife Resources	109,200	161,700	200,700
Parks & Recreation	48,400	77,200	95,800
Utah Geological Survey	32,600	52,000	64,500
Water Resources	30,100	48,100	59,600
Water Rights	96,900	31,400	97,700
Others	0	0	0
<b>Total</b>	<b>\$484,100</b>	<b>\$443,700</b>	<b>\$702,000</b>

**Capital Expenditures** LAN upgrades, file servers, and software (if needed): **\$100,000**

**Purpose** This ISF provides computer services to the divisions. Services include, but are not limited to:

- Network operations
- Computer maintenance
- Software integration
- Computer system customization for department needs

The Analyst does not see any significant advantages to this function being an ISF as opposed to a regular appropriated entity. Rates are not based on actual usage, so there are no price signals to guide purchasing decisions or incentivize improved customer service. There are already several data processing FTEs in DNR Administration outside the ISF. Services are rendered only inside the DNR building in Salt Lake, leaving the divisions responsible for employing additional data processing staff to support field offices.

Without the usual advantages that Internal Service Funds provide, it is questionable whether it is worth continuing the extra administrative burdens they create. The Analyst would support a decision by the department to convert this ISF to an appropriated entity.

## 4.0 Additional Information: Internal Service Funds

### 4.1 Funding History

	2001	2002	2003	2004	2005
<b>Financing by Revenue Source</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated*</b>	<b>Analyst</b>
Dedicated Credits - Intragvt Rev	5,042,500	5,178,700	4,924,600	5,109,500	5,337,400
Sale of Fixed Assets	35,000	(3,100)	(43,600)	(18,700)	(15,700)
<b>Total</b>	<b>\$5,077,500</b>	<b>\$5,175,600</b>	<b>\$4,881,000</b>	<b>\$5,090,800</b>	<b>\$5,321,700</b>
<b>Financing by Program</b>					
ISF - DNR Warehouse	608,000	658,800	606,900	650,000	662,000
ISF - DNR Motorpool	3,767,500	3,814,800	3,790,000	3,997,100	3,957,700
ISF - DNR Data Processing	702,000	702,000	484,100	443,700	702,000
<b>Total</b>	<b>\$5,077,500</b>	<b>\$5,175,600</b>	<b>\$4,881,000</b>	<b>\$5,090,800</b>	<b>\$5,321,700</b>
<b>Expenditures</b>					
Personal Services	453,600	438,500	521,400	553,400	551,500
In-State Travel	400	600		3,800	3,500
Current Expense	2,569,200	3,027,200	3,242,300	3,562,200	3,823,400
DP Current Expense	287,000	242,800	208,100	349,900	365,400
Other Charges/Pass Thru	41,000	37,900	31,300	42,000	38,800
Depreciation	1,313,100	1,045,800	695,900	388,200	180,800
<b>Total</b>	<b>\$4,664,300</b>	<b>\$4,792,800</b>	<b>\$4,699,000</b>	<b>\$4,899,500</b>	<b>\$4,963,400</b>
<b>Profit/(Loss)</b>	<b>\$413,200</b>	<b>\$382,800</b>	<b>\$182,000</b>	<b>\$191,300</b>	<b>\$358,300</b>
<b>FTE/Other</b>					
Total FTE	10.0	10.0	10.2	10.0	10.0
Authorized Capital Outlay	\$0	\$0	\$0	\$100,000	\$100,000
Retained Earnings	(\$2,571,600)	(\$2,188,800)	(\$2,006,800)	(\$1,815,500)	(\$1,457,200)

\*Non-state funds as estimated by agency.