

Office of the
Legislative Fiscal Analyst

FY 2005 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 functions 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 2005 Base	Analyst FY 2005 Changes	Analyst FY 2005 Total
Financing by Revenue Source			
Dedicated Credits	150,118,600	(336,200)	149,782,400
Restricted Revenue	8,517,600		8,517,600
Other Financing Sources	2,100		2,100
Total	\$158,638,300	(\$336,200)	\$158,302,100
Expenditures by Program			
ISF - Office of State Debt Collection	1,105,200		1,105,200
ISF - Purchasing & General Services	14,094,600		14,094,600
ISF - Information Technology Services	47,672,800		47,672,800
ISF - Fleet Operations	38,677,200	(320,700)	38,356,500
ISF - Risk Management	37,302,300		37,302,300
ISF - Facilities Management	19,258,800		19,258,800
Total	\$158,110,900	(\$320,700)	\$157,790,200
Profit/(Loss)	\$527,400	(\$15,500)	\$511,900
FTE/Other			
Total FTE	502	(2)	500
Authorized Capital Outlay	22,949,200		22,949,200
Retained Earnings	16,161,300	(3,700,000)	12,461,300
Vehicles	4,799		4,799

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. General Fund borrowing allows agencies to capitalize depreciating assets such as photocopying equipment and vehicles. Although the Legislature expresses a preference for capitalizing through operating revenues, borrowing from the General Fund is allowed under the following conditions:

1. All 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.

By the end of FY 2002 six internal service funds carried General Fund Debt. All six own assets in excess of their debt, creating a positive equity balance.

	Short Term General Fund Borrowing				
	<u>FY 2001 - 2003 Actual</u>			<u>FY 2004 - 2005 Estimated</u>	
	<i>FY 2001</i>	<i>FY 2002</i>	<i>FY 2003</i>	<i>FY 2004</i>	<i>FY 2005</i>
General Services: Copy Services	\$3,298,523	\$3,426,007	\$2,958,445	\$4,979,678	\$5,350,165
General Services: Mail	\$610,564				
Fleet Operations: Motor Pool	\$28,155,044	\$27,793,100	\$26,538,100	\$25,078,100	\$24,185,425
Federal Surplus Property	\$299,826	\$171,100	\$124,000	\$113,700	\$96,200
State Surplus Property	\$174,126				
Fuel Dispensing	\$4,070,250	\$3,215,800	\$3,052,200	\$3,139,200	\$3,094,000
Risk Management: Worker's Comp				\$227,800	\$167,000
ITS		\$3,945,200	\$6,861,300	\$12,141,800	\$12,304,100
Total	<u>\$36,608,333</u>	<u>\$38,551,207</u>	<u>\$39,534,045</u>	<u>\$45,680,278</u>	<u>\$45,196,890</u>

Source: Dept. of Administrative Services

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 past two years, the Legislature could not always 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

Financing by Revenue Source	2001 Actual	2002 Actual	2003 Actual	2004 Estimated*	2005 Analyst
Federal Funds		542,200	1,080,100		
Dedicated Credits	144,893,500	151,345,300	145,567,800	149,735,700	149,782,400
Restricted Revenue	10,424,400	8,235,100	7,589,700	6,932,800	8,517,600
Trust and Agency Funds	300	200			
Transfers	934,400	(2,611,500)	360,600		
Other Financing Sources	9,200	(17,100)	(1,800)	2,100	2,100
Total	\$156,261,800	\$157,494,200	\$154,596,400	\$156,670,600	\$158,302,100
Financing by Program					
ISF - Office of State Debt Collection	1,115,800	1,004,300	1,244,300	1,198,100	1,198,100
ISF - Purchasing & General Services	13,065,200	13,986,500	13,931,400	14,308,000	14,589,100
ISF - Information Technology Services	53,716,600	58,449,000	49,737,500	47,070,200	47,672,800
ISF - Fleet Operations	37,424,500	36,297,100	38,480,600	38,490,300	38,082,100
ISF - Risk Management	32,579,400	29,195,000	32,230,700	35,928,700	36,948,300
ISF - Facilities Management	18,360,300	18,562,300	18,971,900	19,675,300	19,811,700
Total	\$156,261,800	\$157,494,200	\$154,596,400	\$156,670,600	\$158,302,100
Expenditures					
Personal Services	28,823,600	30,591,200	30,923,700	30,423,000	29,972,600
In-State Travel	96,300	123,000	93,900	111,900	111,100
Out of State Travel	175,900	139,800	60,700	84,700	79,100
Current Expense	94,322,000	96,565,700	90,980,900	97,266,300	97,703,800
DP Current Expense	10,045,100	12,477,000	9,076,100	8,367,600	8,266,800
DP Capital Outlay	6,389,800	6,487,900	6,968,500	6,366,300	5,960,700
Capital Outlay		89,200	582,800		
Other Charges/Pass Thru	3,800,300	4,496,900	5,211,300	1,880,500	1,237,300
Operating Transfers			667,000		
Depreciation	10,708,700	11,829,500	14,170,200	14,087,100	14,458,800
Trust & Agency Disbursements	50,000				
Total	\$154,411,700	\$162,800,200	\$158,735,100	\$158,587,400	\$157,790,200
Profit/(Loss)	\$1,850,100	(\$5,306,000)	(\$4,138,700)	(\$1,916,800)	\$511,900
FTE/Other					
Total FTE	511	506	513	502	500
Authorized Capital Outlay	27,965,000	44,677,200	21,079,700	21,249,385	22,949,200
Retained Earnings	25,856,500	21,028,700	17,550,900	15,634,200	12,461,300
Vehicles	4,787	4,855	4,887	4,890	4,799

*Non-state funds as estimated by agency.