

Budget Brief – DAS Internal Service Fund Summary

NUMBER CFAS-06-15

SUMMARY

Internal Service Funds (ISF) 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 define costs of certain governmental services.

In order to control the size, mission and fees charged to state agencies, the Legislature imposed statutory controls (UCA 63-38-3.5) that require ISFs to respond to the legislative budget process. No ISF can bill another agency for its services unless the Legislature has:

- Approved the ISF’s budget request
- Approved the ISF’s rates, fees, and other charges, and included those rates and fees in an appropriations act
- Approved the number of FTE as part of the annual appropriation process
- Appropriated the ISF’s estimated revenue based upon the rates and fee structure

No capital acquisitions can be made by an ISF without legislative approval. No capital assets can be transferred to an ISF without legislative approval.

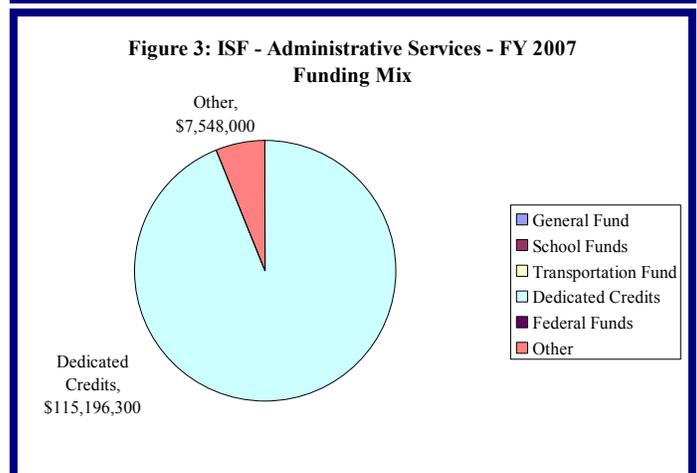
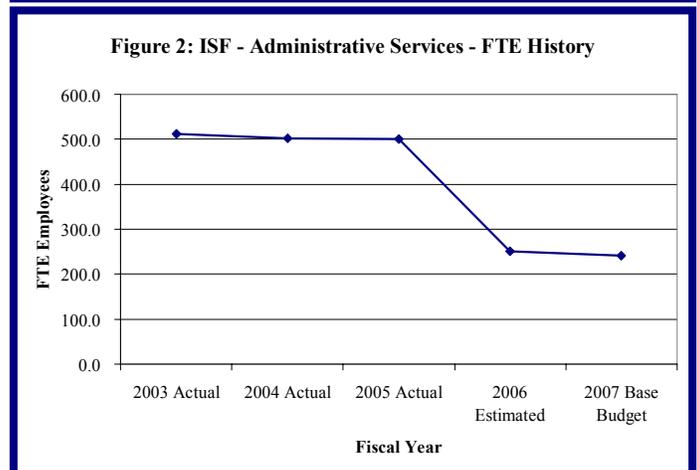
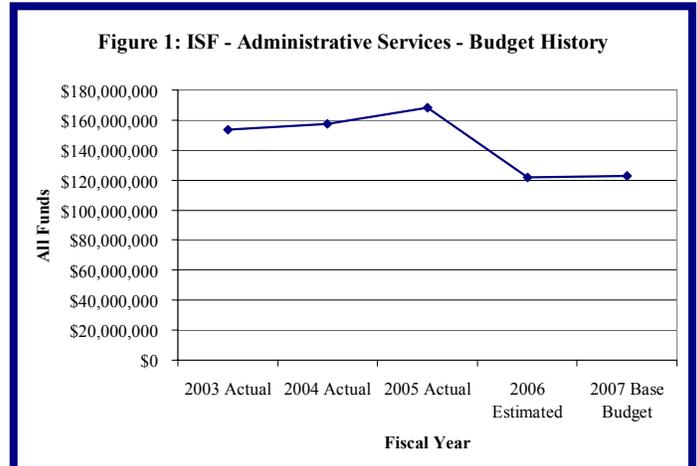
Working capital should come from the following sources in priority order: operating revenues; long-term debt; legislative appropriations.

General Fund borrowing (long-term debt) is authorized as long as the debt is repaid over the useful life of the asset and borrowing does not exceed 90 percent of the ISF’s capital assets.

DAS Internal Service Fund Line Items

DAS ISF budget line items include:

- Office of State Debt Collection
- Purchasing and General Services
- Fleet Operations
- Risk Management
- Facilities Maintenance



ISSUES AND RECOMMENDATIONS***Information Technology Services Reorganized***

The 2005 Legislature removed the Division of Information Technology Services (ITS) from the Department of Administrative Services and created the new Department of Technology Services (H.B. 109). However, the Department of Technology Services will remain under the CFAS Appropriations Subcommittee. Its budget will now be discussed separately from DAS. The change becomes effective on July 1, 2006, the beginning of FY 2007.

Improved Rate Committee Process

Agencies which use the services of DAS ISFs must pay the approved ISF rates regardless of additional appropriations to their budgets. ISF rates are set by the Legislature based on recommendations by the Rate Committee. Typically the Legislature has provided agencies with funding adjustments to coincide with ISF rate adjustments. Therefore it is important for the Rate Committee to carefully review ISF rate requests and hear input from customer agencies.

The 2004 Legislature passed House Bill 30, which reformed the Rate Committee so that it now includes:

- The director of GOPB
- The directors of three state agencies that use ISFs and pay rates
- The director of DAS
- The director of Finance
- The State CIO

This arrangement puts a stronger customer voice on the committee. During the 2005 hearings the Rate Committee better scrutinized proposed rates and financial positions than before. More information on rates will be provided in succeeding budget briefs.

ACCOUNTABILITY DETAIL***General Fund Borrowing***

General Fund borrowing occurs when an agency needs cash to purchase assets to carry out its business. Examples include photocopiers and vehicles. These assets are depreciated and charged to customer agencies through the ISF's rates. Although the Legislature expresses a preference for capitalizing assets through operating funds, borrowing from the General Fund is allowed as long as the debt is repaid over the useful life of the asset and borrowing does not exceed 90 percent of the ISF's capital assets.

The table on the page 3 shows General Fund debt carried by the DAS ISFs along with their working capital positions.

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
General Services: Printing				
Short Term GF Borrowing	\$1,769,200	\$1,639,700	\$1,651,600	\$1,560,700
Long Term GF Borrowing	\$1,656,800	\$1,318,800	\$2,279,400	\$2,359,900
Total GF Borrowing	\$3,426,000	\$2,958,500	\$3,931,000	\$3,920,600
Working Capital*	(\$2,974,300)	(\$2,695,300)	(\$3,849,500)	(\$3,848,700)
90% Value of Fixed Assets	\$3,168,100	\$2,955,000	\$3,906,400	\$3,725,300
Amount (Over) Under Limit	\$193,800	\$259,700	\$56,900	(\$123,400)
ITS				
Short Term GF Borrowing	\$3,945,200	\$6,861,300	\$4,291,000	\$0
Long Term GF Borrowing	\$0	\$0	\$0	\$0
Total GF Borrowing	\$3,945,200	\$6,861,300	\$4,291,000	\$0
Working Capital*	\$732,400	(\$3,089,500)	(\$154,000)	\$3,714,100
90% Value of Fixed Assets	\$15,122,300	\$14,278,100	\$10,979,200	\$9,040,100
Amount (Over) Under Limit	\$15,854,700	\$11,188,600	\$10,825,200	\$12,754,200
Fleet Ops: Motor Pool				
Short Term GF Borrowing	\$16,456,600	\$14,264,200	\$14,667,500	\$15,504,200
Long Term GF Borrowing	\$11,516,400	\$12,273,900	\$13,454,200	\$8,202,800
Total GF Borrowing	\$27,973,000	\$26,538,100	\$28,121,700	\$23,707,000
Working Capital*	(\$26,631,200)	(\$25,113,700)	(\$27,069,800)	(\$23,167,100)
90% Value of Fixed Assets	\$54,864,300	\$51,505,600	\$52,985,100	\$49,318,700
Amount (Over) Under Limit	\$28,233,100	\$26,391,900	\$25,915,300	\$26,151,600
Fleet Ops: Fuel Network				
Short Term GF Borrowing	\$281,900	\$188,000	\$359,800	\$149,900
Long Term GF Borrowing	\$2,933,900	\$2,864,200	\$4,220,100	\$2,524,700
Total GF Borrowing	\$3,215,800	\$3,052,200	\$4,579,900	\$2,674,600
Working Capital*	(\$699,700)	(\$564,300)	(\$293,500)	\$360,500
90% Value of Fixed Assets	\$957,500	\$837,300	\$742,300	\$656,100
Amount (Over) Under Limit	\$257,800	\$273,000	\$448,800	\$1,016,600
Fleet Ops: Federal Surplus Property				
Short Term GF Borrowing	\$0	\$10,400	\$16,100	\$135,900
Long Term GF Borrowing	\$171,100	\$113,700	\$106,200	\$0
Total GF Borrowing	\$171,100	\$124,100	\$122,300	\$135,900
Working Capital*	(\$74,000)	(\$94,100)	(\$123,700)	(\$92,700)
90% Value of Fixed Assets	\$374,300	\$358,800	\$302,200	\$325,400
Amount (Over) Under Limit	\$300,300	\$264,700	\$178,500	\$232,700
Risk Management: Insurance				
Short Term GF Borrowing	\$0	\$0	\$597,800	\$1,558,100
Long Term GF Borrowing	\$0	\$0	\$1,643,100	\$85,000
Total GF Borrowing	\$0	\$0	\$2,240,900	\$1,643,100
Working Capital*	\$37,715,500	\$38,473,000	\$39,123,500	\$40,450,600
90% Value of Fixed Assets	\$98,000	\$73,700	\$50,200	\$31,600
Amount (Over) Under Limit	\$37,813,500	\$38,546,700	\$39,173,700	\$40,482,200
Total General Fund Borrowing	\$38,731,100	\$39,534,200	\$43,286,800	\$32,081,200

*Working Capital = Current Assets - Current Liabilities - Long Term GF Borrowing

The Analyst suggests that looking at trends in General Fund borrowing and Working Capital helps gauge the fiscal condition of an ISF. Total General Fund borrowing dropped by 26 percent in FY 2005 after steadily increasing in the prior three years. Most of this drop is attributed to Fleet Operations and ITS.

BUDGET DETAIL

Dedicated Credits come from charges to customer agencies. Premiums are collected by Risk Management for its insurance programs. Restricted revenue comes from the Workers Compensation program administered by the Division of Risk Management.

BUDGET DETAIL TABLE

ISF - Administrative Services						
Sources of Finance	FY 2005 Actual	FY 2006 Appropriated	Changes	FY 2006 Revised	Changes	FY 2007* Base Budget
Dedicated Credits Revenue	771,400	549,700	214,900	764,600	(3,000)	761,600
Premiums	26,820,900	25,748,300	895,800	26,644,100	(1,383,000)	25,261,100
Licenses/Fees	9,200	0	9,700	9,700	0	9,700
Interest Income	2,121,500	1,552,600	821,100	2,373,700	14,000	2,387,700
Dedicated Credits - Intragvt Rev	131,321,700	126,720,500	(42,049,500)	84,671,000	2,145,200	86,816,200
Sale of Fixed Assets	(53,400)	(600,000)	520,000	(80,000)	40,000	(40,000)
Restricted Revenue	7,350,900	7,434,500	15,500	7,450,000	90,000	7,540,000
Other Financing Sources	7,500	13,800	(5,800)	8,000	0	8,000
Total	\$168,349,700	\$161,419,400	(\$39,578,300)	\$121,841,100	\$903,200	\$122,744,300
Line Items						
ISF - Office of State Debt Collection	1,399,600	1,116,100	283,900	1,400,000	7,000	1,407,000
ISF - Purchasing & General Services	13,904,000	14,007,300	(1,278,600)	12,728,700	89,900	12,818,600
ISF - Information Technology Services	49,857,200	47,920,600	(47,920,600)	0	0	0
ISF - Fleet Operations	48,021,400	44,132,100	7,861,100	51,993,200	1,452,800	53,446,000
ISF - Risk Management	35,681,700	34,182,800	1,667,300	35,850,100	(1,289,000)	34,561,100
ISF - Facilities Management	19,485,800	20,060,500	(191,400)	19,869,100	642,500	20,511,600
Total	\$168,349,700	\$161,419,400	(\$39,578,300)	\$121,841,100	\$903,200	\$122,744,300
Categories of Expenditure						
Personal Services	30,503,500	30,632,800	(16,748,600)	13,884,200	58,300	13,942,500
In-State Travel	78,700	116,000	(65,300)	50,700	600	51,300
Out of State Travel	58,800	57,100	(29,300)	27,800	7,900	35,700
Current Expense	100,702,200	100,387,700	(9,590,200)	90,797,500	706,200	91,503,700
DP Current Expense	8,523,100	8,124,900	(7,287,200)	837,700	(18,500)	819,200
DP Capital Outlay	184,200	0	0	0	0	0
Capital Outlay	4,399,400	3,988,200	(3,988,200)	0	0	0
Other Charges/Pass Thru	1,763,900	1,133,600	(627,100)	506,500	168,400	674,900
Operating Transfers	5,550,000	0	50,000	50,000	1,500,000	1,550,000
Depreciation	14,985,500	13,782,800	1,243,800	15,026,600	121,100	15,147,700
Total	\$166,749,300	\$158,223,100	(\$37,042,100)	\$121,181,000	\$2,544,000	\$123,725,000
Other Data						
Budgeted FTE	500.5	488.0	(236.9)	251.1	(10.1)	241.0
Actual FTE	471.8	0	0	0	0	0
Authorized Capital Outlay	20,776,000.0	18,344,800.0	(467,300.0)	17,877,500.0	(1,810,300.0)	16,067,200.0
Retained Earnings	20,412,700.0	21,895,600.0	(7,989,600.0)	13,906,000.0	(980,700.0)	12,925,300.0
Vehicles	261	286	(48)	238	7	245

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.