



Jan. 12th Brief: Internal Service Funds (ISF)

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS

SUMMARY

Internal Service Funds (ISF) employ business practices to provide a service or product for other state and governmental agencies that can be centrally coordinated. ISF take advantage of economies of scale, avoid duplication of efforts, and provide an accounting mechanism to identify the costs of certain governmental services. In order to control the size, mission, and fees charged to state agencies; the Legislature imposes statutory controls 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 or transferred by 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 is authorized as long as the debt is repaid over the useful life of assets and borrowing does not exceed 90 percent of the ISF’s capital assets.

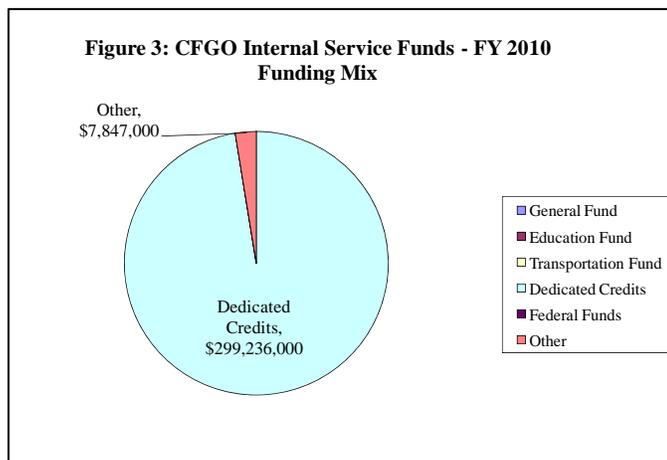
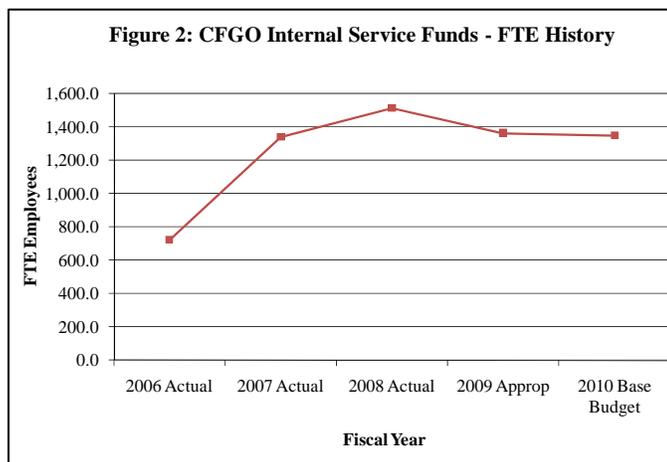
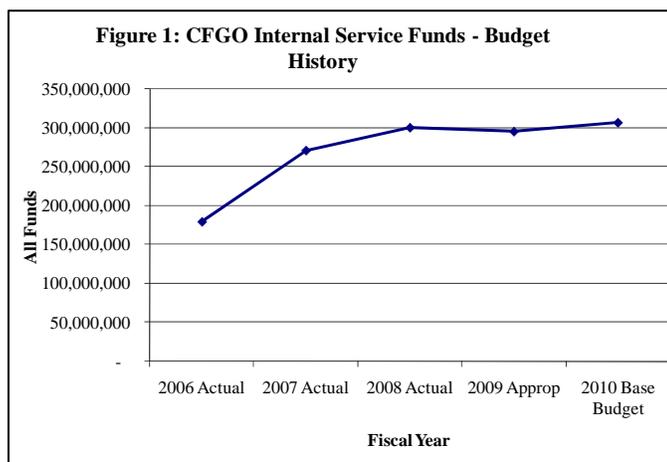
INTERNAL SERVICE FUND DESCRIPTIONS

Facilities, Construction, and Management (DFCM) ISF

This ISF provides building maintenance, management, and preventive services to state agency subscribers and performs services such as janitorial, security, grounds maintenance, heating/air conditioning repair, and utility payments. Though services are optional, the ISF provides services for 150 owned and leased facilities statewide.

Fleet Operations ISF

The Division of Fleet Operations performs all administrative duties related to managing the state’s vehicles including coordination of all vehicle purchases and management of the fleet information system and a fuel dispensing service. The division also includes the State and Federal Surplus Property programs.



Risk Management ISF

This ISF provides liability, property, and auto physical damage coverage to all state agencies, the 40 school districts, over 50 charter schools, and all state-owned colleges and universities. The liability insurance and auto physical damage programs are entirely self funded, while the property insurance program is self-insured up to a \$3.5 million annual deductible with private insurance being purchased for amounts in excess of the deductible.

Human Resource Management ISF

The 2006 Legislature created this ISF and consolidated all human resource employees statewide in order to avoid duplicating HR effort, particularly in rural or otherwise remote locations. Whereas previously most HR staff in the “field” worked for the agency where they were housed, they now work for DHRM though they may remain in the same location. Consolidation should result in better control and coordination over HR functions.

Technology Services ISF

This ISF acts as Utah’s central service provider for information technology (IT) related activities. DTS was created in FY 2006 with the consolidation of the Division of Information Technology Services (formerly part of Administrative Services) and all agency IT functions (including personnel) into DTS.

Office of State Debt Collections (OSDC)

OSDC was established in 1995 and operated as an internal service fund until FY 2006 when the Legislature changed it to a restricted special revenue fund. As such it has less oversight than Appropriated or ISF agencies. The division’s primary responsibility is to contract with private vendors to assist in collection of outstanding debt.

INTERNAL SERVICE FUND ONGOING RATE PROPOSALS

DFCM (DAS) Rate Increases/Decreases

DFCM charges agencies building-specific rates based on projected building expenses for the coming year. For FY 2010, DFCM requests increasing the rates for 16 buildings by \$1 million in order to cover utility increases.

Fleet (DAS) Extended life for vehicles

Fleet currently uses 90,000 miles as the lifecycle for standard cars and light-duty trucks. This lifecycle, however, does not reflect the longer life of most new vehicles; which often last well beyond 100,000 miles. The Analyst requested that Fleet review state vehicle lifecycles as a potential method for reducing costs as part of this year’s budget reductions. The division analyzed the issue and found that the state could save \$1.8 million annually if vehicle lifecycles were changed from 90,000 miles to 105,000 miles.

Rate Impacts by Funding Source for FY 2010					
	<u>State Funds</u>			<u>Other Funds</u>	<u>Total</u>
	<u>Gen Fund</u>	<u>Ed Fund</u>	<u>Subtotal</u>		
Fleet Mileage105k	(1,049,100)	(64,000)	(1,113,100)	(716,100)	(1,829,200)
DHRM Rates	(434,600)	(88,400)	(523,000)	(319,400)	(842,400)
Fleet Fuel Network	(7,100)	(3,800)	(10,900)	(39,300)	(50,200)
Risk Liability	5,700	(43,400)	(37,700)	(31,000)	(68,700)
	(1,485,100)	(199,600)	(1,684,700)	(1,105,800)	(2,790,500)
DFCM Bldg. Maint.	267,400	137,600	405,000	601,800	1,006,800
Risk Property	315,700	245,800	561,500	251,100	812,600
	583,100	383,400	966,500	852,900	1,819,400
Grand Total	(902,000)	183,800	(718,200)	(252,900)	(971,100)

Risk (DAS) Liability Rates

Liability rates are calculated each year by an outside actuarial firm with experience in insurance. The rates are based on the history of losses, relative size of budgets, insurance industry factors, and statistical analysis of reserves. Liability rates, excluding school districts, decreased from \$9,435,785 to \$9,373,451 in FY 2010.

Risk (DAS) Property Rates

Property rates are based on premiums set by private insurance companies at various levels of coverage. These rates are determined by the value of a building; its contents; and specific insurance premiums for location, risk, and type of property. In FY 2010, the value of state buildings and increases in inventory (new buildings) will cause state agency rates to increase by a little over \$800,000.

DHRM FY 2010 Rate Decreases

In FY 2010 DHRM proposes to decrease the HR services rate by 6% and the payroll services rate by 35%, which translates into a \$876,700 decrease to state agencies. DHRM managed to reduce rates significantly even though the Legislature did not appropriate any funds to offset the increased compensation and benefits for FY 2009.

DTS Data Center Consolidation

The Analyst requested that DTS examine ways to reduce rates for FY 2010. One area of potential savings is in data center and server consolidation. Many agencies currently house their own servers in-house and have on-site DTS staff available to maintain those servers. In most cases the capacity of the servers are not being fully utilized. Consolidating all the servers state-wide into one data center would allow DTS to efficiently allocate agency applications to servers based on space needs rather than on which server belongs to which entity. Furthermore, such a consolidation would enable DTS to more effectively allocate staff to server maintenance in one location and reduce utility costs. Agencies would benefit from more space for their operations and lower server administration costs. DTS projects that such a consolidation would result in savings of between \$4 and \$6 million. If the Legislature were to require such a consolidation, the Department requests a year to implement it.

INTERNAL SERVICE FUND RETAINED EARNINGS REDUCTIONS

If an ISF collects more or less revenue than is necessary to pay operating expenses for a given year, the profit or loss stays in the fund as retained earnings; which should then be used in the next year to reduce the service rates. Reductions to retained earnings will net approximately 75% savings to the General Fund after federal rebates.

CGFO Internal Service Fund Retained Earnings History								
Internal Service Fund	Actual FY 2003	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	Actual FY 2008	Approp. FY 2009	Estim. FY 2010
ISF - Central Mailing	1,600,200	1,850,700	2,031,300	2,137,100	1,926,300	1,394,600	742,500	75,600
ISF - Electronic Purchasing	200,300	315,300	387,700	599,300	723,400	668,100	694,100	839,800
ISF - General Services Administration	(5,700)	(3,100)	(3,100)	(3,000)	(6,300)	-	-	-
ISF - Print Services	(1,067,400)	(1,164,600)	(1,364,900)	(1,286,700)	(1,194,300)	(919,700)	(588,600)	(257,500)
	<u>727,400</u>	<u>998,300</u>	<u>1,051,000</u>	<u>1,446,700</u>	<u>1,449,100</u>	<u>1,143,000</u>	<u>848,000</u>	<u>657,900</u>
ISF - Federal Surplus Property	(59,700)	(112,500)	(84,700)	(70,600)	(29,800)	(25,600)	(14,800)	(3,900)
ISF - Fleet Administration	9,100	9,100	9,100	9,100	9,100	9,100	9,100	9,100
ISF - Fuel Network	(447,500)	(282,400)	276,000	2,591,200	4,504,200	6,339,700	8,174,000	9,774,500
ISF - Motor Pool	3,034,700	2,238,000	1,812,600	3,365,900	5,693,600	6,140,600	4,271,000	581,900
ISF - State Surplus Property	(7,500)	134,900	399,300	336,400	422,300	358,500	184,100	37,400
	<u>2,529,100</u>	<u>1,987,100</u>	<u>2,412,300</u>	<u>6,232,000</u>	<u>10,599,400</u>	<u>12,822,300</u>	<u>12,623,400</u>	<u>10,399,000</u>
ISF - Risk Management Administration	5,689,800	8,427,200	7,152,200	5,977,800	5,569,900	6,648,700	5,587,800	5,603,500
ISF - Workers' Compensation	1,139,500	611,500	915,600	2,017,200	1,641,100	3,741,600	2,741,600	2,741,600
	<u>6,829,300</u>	<u>9,038,700</u>	<u>8,067,800</u>	<u>7,995,000</u>	<u>7,211,000</u>	<u>10,390,300</u>	<u>8,329,400</u>	<u>8,345,100</u>
ISF - Facilities Management	1,064,900	1,098,700	1,315,200	864,600	166,500	(136,000)	(1,041,400)	(1,187,900)
ISF - Debt Collection	206,000	236,100	399,600	941,600	1,411,100	1,450,000	950,000	950,000
ISF - Information Technology Services	6,183,400	5,453,400	7,166,800	-	-	-	-	-
ISF - DTS Operations	-	-	-	10,855,800	7,153,800	2,790,900	(2,421,400)	(2,645,300)
ISF - Human Resource Management	-	-	-	-	390,800	879,500	-	-
	<u>27,625,900</u>	<u>30,836,400</u>	<u>31,943,800</u>	<u>44,009,400</u>	<u>47,641,200</u>	<u>53,695,600</u>	<u>41,088,800</u>	<u>35,920,800</u>

Fleet Fuel Network Retained Earnings

The Fuel Network ISF ended FY 2008 with \$6,339,700 in retained earnings, which exceeds the federally allowable amount by almost \$300,000. The Analyst recommends reducing the retained earnings by \$3 million as part of this year's budget reductions.

Risk Retained Earnings

In FY 2008 and FY 2009, the Legislature reallocated \$1 million of retained earnings from the Liability program to other subcommittee priorities and the General Fund. The Analyst recommends that the Legislature reduce the retained earnings an additional \$3.5 million in the Liability program and an additional \$2.5 million in the Workers Compensation program.

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS

Office of State Debt Collections (OSDC) Fund

Statute requires OSDC to “ensure that monies remaining in the fund at the end of the fiscal year that are not committed are deposited into the General Fund.” In FY 2009 the Fund will have a balance of \$950,000. The Analyst recommends reducing this balance by \$750,000.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. A FY 2009 one-time reduction in retained earnings of \$6 million in the Risk Management Fund
2. A FY 2009 one-time reduction in retained earnings of \$3 million in the Fleet Operations Fund
3. A FY 2009 one-time reduction in fund balance of \$750,000 in the OSDC Fund
4. FY 2010 ongoing rate adjustments of \$700,000 General Fund in the DHRM and DAS ISF
5. A FY 2010 ongoing rate adjustment of \$3.5 million from server consolidation in the DTS ISF

BUDGET DETAIL TABLE

Internal Service Funds (CFGO)							
Sources of Finance	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Approp	FY 2010 Base
Dedicated Credits Revenue	668,300	771,400	866,400	832,300	0	0	0
Premiums	25,849,300	26,820,900	25,448,100	26,804,200	27,040,000	27,048,600	29,342,800
Licenses/Fees	21,800	9,200	4,600	8,100	0	0	0
Interest Income	1,446,700	2,121,500	3,366,300	3,582,800	2,650,600	2,460,000	2,423,000
Dedicated Credits - Intragvt Rev	123,850,700	131,321,700	141,129,100	230,946,200	262,643,200	258,479,300	267,470,200
Sale of Fixed Assets	(601,000)	(53,400)	476,400	552,300	193,900	0	0
Restricted Revenue	6,108,500	7,350,900	8,031,400	8,364,000	8,069,600	7,473,000	7,847,000
Other Financing Sources	(800)	7,500	19,500	7,300	0	0	0
Total	157,343,500	168,349,700	179,341,800	271,097,200	300,597,300	295,460,900	307,083,000
ISF - Purchasing & General Services	13,982,500	13,904,000	12,839,400	13,811,300	15,871,200	16,047,700	16,403,700
ISF - Information Technology Services	48,262,100	49,857,200	0	0	0	0	0
ISF - Fleet Operations	41,223,000	48,021,400	58,194,900	61,671,700	71,556,400	73,377,100	78,311,500
ISF - Risk Management	32,853,500	35,681,700	36,089,200	38,313,500	37,759,900	36,981,600	39,612,800
ISF - Facilities Management	19,782,200	19,485,800	19,791,700	20,586,300	25,469,600	27,211,000	28,505,500
ISF - DFCM Planning and Design	0	0	0	0	0	0	0
ISF - Office of State Debt Collection	1,240,200	1,399,600	1,642,300	1,284,800	0	0	0
ISF - Human Resource Management	0	0	0	11,297,100	11,824,700	12,791,300	11,914,500
ISF - DTS Operations	0	0	50,784,300	124,132,500	138,115,500	129,052,200	132,335,000
Total	157,343,500	168,349,700	179,341,800	271,097,200	300,597,300	295,460,900	307,083,000
Categories of Expenditure							
Personal Services	30,085,100	30,503,500	31,053,400	102,263,200	107,714,600	115,349,300	113,218,400
In-State Travel	58,000	78,700	94,200	183,100	208,900	359,100	362,800
Out of State Travel	46,400	58,800	91,300	217,000	246,500	302,000	303,900
Current Expense	91,133,200	100,702,200	110,046,700	118,220,700	131,682,200	147,494,200	154,246,900
DP Current Expense	7,857,900	8,523,100	10,109,800	25,978,300	32,790,800	18,976,600	19,348,600
DP Capital Outlay	(74,500)	184,200	0	0	5,134,900	0	(73,800)
Capital Outlay	5,796,500	4,399,400	0	0	0	2,400	0
Other Charges/Pass Thru	2,944,600	1,763,900	846,000	4,294,600	1,688,000	936,200	1,420,200
Operating Transfers	3,405,000	5,550,000	2,591,000	3,706,100	3,003,100	20,100	0
Depreciation	14,367,100	14,985,500	16,586,500	16,187,900	17,193,300	18,763,900	21,780,200
Total	155,619,300	166,749,300	171,418,900	271,050,900	299,662,300	302,203,800	310,607,200
Other Data							
Budgeted FTE	501.45	500.50	724.00	1,342.04	1,513.06	1,364.51	1,348.49
Actual FTE	484.26	471.82	461.83	1,229.60	1,182.52	0.00	0.00
Authorized Capital Outlay	25,187,300	20,776,000	19,205,100	19,051,200	25,684,900	29,926,700	28,002,000
Retained Earnings	18,812,300	20,412,700	28,335,700	28,381,700	27,890,000	19,239,800	15,622,500
Vehicles	283	261	181	165	165	154	153