

Office of the
Legislative Fiscal Analyst

FY 2002 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.

2.0 Operation of Internal Service Funds

Most large agencies manage small Internal Service Funds to cut costs for copying, fleet management or warehousing. 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.

In no case should the fund enter into a deficit working capital position.

*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 Division of General Services uses General Fund borrowing to capitalize photocopying equipment. The Division of Fleet Operations uses General Fund Borrowing to capitalize fleet purchases. As the fleet grew and vehicles became more expensive, this practice posed a threat to the ability of the State Treasurer to properly manage state finances. To alleviate some of this problem, the Legislature appropriated \$4 million to assist with capital costs for the existing fleet. Any fleet expansion must be funded with capital costs before the Division is allowed to purchase a new vehicle. 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, 2000, six DAS Internal Service Funds carried liabilities related to General Fund borrowing.

Division	G.F. Debt
General Services Copy Services	\$3,616,480
General Services Mail Services	\$1,061,099
Fleet Operations Motor Pool	\$27,011,103
Federal Surplus Property	\$117,429
State Surplus Property	\$190,210
Fuel Dispensing	\$1,328,174
Total	\$33,324,494

*Intent Language:
Adding new FTEs*

In the past, 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. There have been no FTE transfers into the Internal Service Funds since the conclusion of the 2000 General Session.

The Analyst recommends the following intent language to apply to all Internal Service Funds managed by the Department of Administrative Services:

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.

Specific language relating to DFCM can be found in the budget recommendation for the Facility Management Internal Service Fund.