

Office of the
Legislative Fiscal Analyst

FY 2003 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.

	Analyst FY 2003 Base	Analyst FY 2003 Changes	Analyst FY 2003 Total
Financing			
Dedicated Credits Revenue	450,000		450,000
Premiums	25,159,800		25,159,800
Licenses/Fees	145,000		145,000
Interest Income	664,900		664,900
Dedicated Credits - Intragvt Rev	130,296,100		130,296,100
Restricted Revenue	9,262,200		9,262,200
Transfers	290,100		290,100
Other Financing Sources	9,200		9,200
Total	<u>\$166,277,300</u>	<u>\$0</u>	<u>\$166,277,300</u>
Programs			
ISF - Office of State Debt Collection	1,182,600		1,182,600
ISF - Purchasing & General Services	13,850,400		13,850,400
ISF - Information Technology Services	56,092,000		56,092,000
ISF - Fleet Operations	41,240,100		41,240,100
ISF - Risk Management	34,300,700		34,300,700
ISF - Facilities Management	19,126,600		19,126,600
ISF - DFCM Roofing and Paving	484,900		484,900
Total	<u>\$166,277,300</u>	<u>\$0</u>	<u>\$166,277,300</u>
FTE/Other			
Total FTE	515		515
Authorized Capital Outlay	24,376,800		24,376,800
Retained Earnings	31,472,500		31,472,500

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, 2001, six DAS Internal Service Funds carried liabilities related to General Fund borrowing.

FY 2001 - Year End General Fund Debt	
General Services Copy Services	\$3,298,523
General Services Mail Services	\$610,564
Fleet Operations Motor Pool	\$28,155,044
Federal Surplus Property	\$299,826
State Surplus Property	\$174,126
Fuel Dispensing	\$4,070,250
Total	\$36,608,333

*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 in the past recommended intent language that allowed ISFs the ability to exceed authorized FTE levels. The Analyst does not believe that this policy has been used appropriately and does not recommend continuation of the intent language, with one exception noted in the DFCM report.

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.

4.0 Additional Information

4.0 Funding History

	1999	2000	2001	2002	2003
Financing	Actual	Actual	Actual	Estimated	Analyst
Federal Funds		150,000			
Dedicated Credits Revenue		239,200	396,900	409,100	450,000
Premiums	15,386,700	17,091,900	22,431,600	23,441,200	25,159,800
Licenses/Fees		153,300	140,000	145,000	145,000
Interest Income	2,586,600	3,134,400	572,200	615,800	664,900
Dedicated Credits - Intragvt Rev	110,995,700	113,532,500	121,760,100	127,642,100	130,296,100
Restricted Revenue	5,878,100	8,536,200	10,424,400	8,983,900	9,262,200
Trust and Agency Funds		300	300		
Transfers	1,341,600	391,600	934,400	876,600	290,100
Other Financing Sources		5,700	9,200	9,200	9,200
Total	\$136,188,700	\$143,235,100	\$156,669,100	\$162,122,900	\$166,277,300
Programs					
ISF - Office of State Debt Collection	363,900	680,200	1,115,800	1,179,100	1,182,600
ISF - Purchasing & General Services	11,543,900	12,264,700	13,065,200	13,670,900	13,850,400
ISF - Information Technology Services	61,096,500	52,786,000	53,716,600	56,067,900	56,092,000
ISF - Fleet Operations	22,295,000	33,260,300	37,424,500	39,360,500	41,240,100
ISF - Risk Management	23,826,900	25,977,600	32,579,400	32,303,800	34,300,700
ISF - Facilities Management	16,546,900	17,589,200	18,360,300	19,055,800	19,126,600
ISF - DFCM Roofing and Paving	391,000	385,500	407,300	484,900	484,900
ISF - DFCM Planning and Design	124,600	291,600			
Total	\$136,188,700	\$143,235,100	\$156,669,100	\$162,122,900	\$166,277,300
Expenditures					
Personal Services	26,628,000	28,018,400	29,138,600	30,184,700	30,344,600
In-State Travel	130,700	119,000	104,400	108,500	108,400
Out of State Travel	211,600	193,400	180,800	226,900	223,500
Current Expense	76,132,700	86,617,800	94,391,600	100,261,100	101,325,600
DP Current Expense	8,078,800	9,770,900	10,048,500	9,166,500	9,054,500
DP Capital Outlay	7,604,000	6,292,700	6,389,800	6,488,500	6,912,100
Capital Outlay	6,800	7,998,700			3,400
Other Charges/Pass Thru	739,100	2,871,500	3,800,300	1,593,700	1,494,600
Depreciation	8,453,100	119,600	10,715,000	12,603,900	13,898,500
Trust & Agency Disbursements			50,000		
Total	\$127,984,800	\$142,002,000	\$154,819,000	\$160,633,800	\$163,365,200
FTE/Other					
Total FTE	483	473	517	524	515
Authorized Capital Outlay	28,862,072	28,224,655	21,756,400	18,986,600	24,376,800
Retained Earnings	18,304,100	21,063,100	25,856,500	26,963,500	31,472,500