



Department of Administrative Services (DAS) Internal Service Fund (ISF) Internal Service Rate Setting Guidance

Purpose

The Department of Administrative Services (DAS) revolving funds have been established pursuant to Neb. Rev. Stat. §§ 81-161.05 (Surplus Property), 81-1010 (TSB), 81-1108.15; 81-1108.17; 81-1108.21 (SBD), 81-1110.03 (Accounting), 81-1108.02 (Director), 81-1108.05 (Shared Services), 81-1117 (IMS), 81-1120 (Materiel), 81-1120.29 (Communications), 81-11,105 (Public Safety Communication System), 81-1354.03 (Personnel – Training), 81-1354.04 (SOS), 81-1354.05 (Personnel), and 81-8,239.02 (Risk). The rates for these funds are established in even numbered years in advance of each biennium and are approved by the Director of Administrative Services, the State Budget Division, and the Governor in advance of State Agency budget preparation.

This guidance should be used to assist teammates in setting these rates and should be used for internal purposes only.

Biennial Rate Setting

When setting rates, each line of service within an internal service should recover its own expenses with rates set as close to the break-even rate as possible. Rate increases should be considered only after reasonable actions have been taken to reduce costs. After rates are approved, notice to agencies is accomplished through the publishing of an Appendices to the Biennial Budget Instruction of the Projected Rates “rate book” late in June of each even numbered year. https://budget.nebraska.gov/assets/2021-2023_rates-section.pdf

Internal service funds generally may maintain working capital reserves of 60 days cash operating expenditures (excluding capital outlays and the depreciation surcharge and including depreciation and amortization). The federal government enforces limits on the retained earnings level of an internal service fund and may require paybacks in accordance with the federal OMB Circular A-87. If the projected year-end retained earnings balance for an internal service fund exceeds the allowable working capital guidelines, a reduction in rates or other action – a credit, rebate, no-bill, etc. to reduce the retained earnings level may be required prior to the end of the fiscal year or due to timing at the beginning of the next fiscal year.

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Interim Rate Changes

After approval of biennial rates for internal services, increase requests during the biennium will be considered only in emergency or other unusual situations because unanticipated rate increases can adversely affect agency budgets and planning estimates. An increase in rates would normally require a mid-biennium adjustment. The request would include an increase in appropriation for the program and increased funding requests for agencies impacted by the increase.

Requirements for Business Plans and Proposed Rates

1. Due Dates. DAS meets with the Budget Office in January to discuss rate development assumptions and methodology, any changes to existing services and proposed new or additional services. Business plans and proposed rates should be submitted to the appropriate DAS budget officer by mid-May of each even numbered year, or an alternative date approved by DAS Budget.

2. Required information. The following information must be included in the business plan:

- a. Executive summary that highlights successes, challenges, proposed or recently enacted legislation that impacts the business plan, the anticipated revenue, anticipated expenses, projected net loss or income, projected retained earnings, estimate of 60 days working capital, and the budgeted full-time equivalent (FTE's).
- b. Assumptions used in developing the proposed rates, explaining material changes (5% or greater) in revenues and expenditures by the dollar amount and percentage. Expenditure assumptions should be itemized by expense and compare the current year 6-month actual/6-month estimated dollars to the projections for the following year. Explanations for FTEs and inflation assumptions should be included.
- c. Description of the rate computation that includes explanation of cost and usage estimation methods, method used to allocate expenses to cost centers by expense, and treatment of capital equipment, including estimated purchases and depreciation method.
- d. Pro Forma statement of revenues, expenses, and changes in net assets for the next fiscal year and the five preceding years.
- e. Comparative financial statements, including a statement of net assets; statement of revenues, expenses, and changes in net assets; and a statement of cash flows comparing the current year and the previous year.
- f. List of present and proposed rates.
- g. Five-year historical rate comparison and private sector rate comparison.
- h. Schedule of outstanding Master Leases that shows date issued, amount repaid by year, and repayment schedule.
- i. One-page organization chart.

Allowable Reserves

The allowable reserve for internal service funds, which are identified in the CAFR, is equal to the Internal Service Fund (ISF's) billing cycle up to 60 days allowable operating expenditures. This calculation is completed at the end of each fiscal year as of June 30th. The reserve is determined by applying a percentage

to the allowable operating expenditures (excludes, start-up capital, and any reserves to fund long-term assets, capital outlays and the depreciation surcharge, but does include depreciation/use allowance). Actual expenditures made in a facility using depreciation surcharge funds can be claimed by the tenant. The percentage is the number of days in the billing cycle days divided by 360.

Allowability of reserves covering longer periods can be granted by the cognizant agency in extraordinary circumstances where such needs are fully documented and justified. For some DAS programs/funds a maximum of six months expenditures maybe calculated and benchmarked for planning purposes. However, during fund reviews by the State Auditor's Office and the federal government the A-87 reserve has been the allowable balance. In the case of a higher/excess fund balance, a plan on how the balance will be reduced was provided.

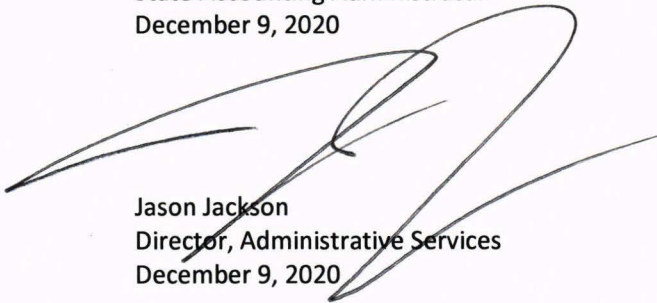
The allowable reserve for self-insurance funds is defined in Circular A-87, Attachment B, paragraph 25. d. It is normally limited to the discounted present value of claims (i) submitted and adjudicated but not paid; (ii) submitted but not adjudicated; and (iii) incurred but not submitted.

See Attachments 1, 2, and 3 for examples of the State of Nebraska Reconciliation of Retained Earnings Balance to Federal Guidelines Reports for two DAS funds as of June 30, 2018.

Questions about the federal guidelines and indirect costs should be referred to Central Finance. See also, publication ASMB C-10 (<https://rates.psc.gov/fms/dca/asmbc-10.pdf>).



Philip J. Olsen
State Accounting Administrator
December 9, 2020



Jason Jackson
Director, Administrative Services
December 9, 2020

ATTACHMENT 1 - DAS INTERNAL SERVICE FUND - INTERNAL SERVICE RATE SETTING

STATE OF NEBRASKA

Transportation Services Bureau FUND

RECONCILIATION OF RETAINED EARNINGS BALANCE TO FEDERAL GUIDELINES

FOR YEAR ENDING JUNE 30, 2018

PART I		A-87 RETAINED EARNINGS BALANCE			(000s)
FUND BALANCE	JULY 1,	2017			
	Balance Per Prior Year's Reconciliation of Fund to A-87				<u>\$1,492</u>
2018 FUND INCREASE(DECREASE)					
A-87 Revenues (Actual and Imputed)					
	From Attachment A - Operating Revenues			\$6,325	
	Other Revenue - Interest			112	
	Other-Gain on Sale of Assets			<u>282</u>	
	Total Revenues				<u>\$6,719</u>
Expenditures (Actual Costs):					
	Per State's Financial Report			\$3,689	
	Less A-87 Unallowable Costs (e.g.)-				
	Capital Outlay				
	Building Renewal Assessment			(41)	
	Bad Debt			0	
Plus A-87 Allowable Costs (e.g.)-					
	Indirect Costs From SWCAP			15	
	Building Renewal Expenses			71	
	Depreciation - if not included in actual costs above			<u>2,521</u>	
	Other-			<u>20</u>	
	OMB A-87 Allowable Expenditures				<u>\$6,275</u>
Adjustments:					
	Imputed Interest Earnings			\$0	
	Other - Loss on the Sale of Capital Assets			<u>0</u>	
	Total Adjustments				<u>\$0</u>
A-87 RETAINED EARNINGS BALANCE	JUNE 30,	2018		(A)	\$1,936
Allowable Reserve				(B)	\$626
EXCESSIVE BALANCE (A) - (B)					<u>\$1,310</u>
PART II		A-87 CONTRIBUTED CAPITAL BALANCE			
A-87 Contributed Capital Balance	July 1,	2017			\$5,667
Transfers per CAFR					
Transfers In (e.g., Contrib. Capital)					
	Interest Allocation			\$0	
	General Fund Vehicle Sales & Agency Vehicle Purchases			0	
Transfers Out (e.g., Payback of Contrib. Capital, Other Users of Fund Retained Earnings)					
	Net Transfers			<u>0</u>	
					<u>\$0</u>
A-87 CONTRIBUTED CAPITAL BALANCE	JUNE 30,	2018		(C)	<u>\$5,667</u>
PART III		A-87 ADJUSTMENTS			
A-87 ADJUSTMENTS BALANCE	JULY 1,	2017			\$8,268
ADJUSTMENTS:					
	Less: A-87 Unallowable Costs			(\$41)	
	Plus: A-87 Allowable Costs			86	
	Other: CAFR Restatement of Retained Earnings				
	Other				
	Total Adjustments			<u>\$45</u>	
A-87 ADJUSTMENTS BALANCE	JUNE 30,	2018		(D)	<u>\$8,313</u>
PART IV		RECONCILIATION TO CAFR BALANCE			
A-87 Balances	(A) + (C) + (D)				\$15,916
CAFR Fund Balance					\$15,916
Difference					\$0

FORWARD TO NEXT YEAR'S RECONCILIATION OF FUND TO A-87, NEXT JULY 1 FUND BALANCE, THE LESSER OF (A) OR (B). THE FEDERAL SHARE OF THE EXCESS MUST BE RETURNED TO THE FEDERAL GOVERNMENT.

NOTE: All figures from FY16 CAFR except Indirect Costs from SWCAP

NOTE-Specify On Which Balance (e.g., Fund's Cash, Retained Earnings, or A-87 Balance) And At Which Rate (e.g., Actual Fund's Rate or Average State Treasury Rate, Etc.) This Revenue Was Computed.

ATTACHMENT 2 - DAS INTERNAL SERVICE FUND - INTERNAL SERVICE RATE SETTING

STATE OF NEBRASKA

Buildings and Grounds FUND

**RECONCILIATION OF RETAINED EARNINGS BALANCE TO FEDERAL GUIDELINES
FOR YEAR ENDING JUNE 30, 2018**

PART I	A-87 RETAINED EARNINGS BALANCE		(000s)
FUND BALANCE	JULY 1, 2017		
	Balance Per Prior Year's Reconciliation of Fund to A-87		<u>\$6,050</u>
	2018 FUND INCREASE(DECREASE)		
	A-87 Revenues (Actual and Imputed)		
	From Attachment A - Operating Revenues	\$37,400	
	Other Revenue - Interest	400	
	Other- Gain on Sale of Assets	7	
	Total Revenues	<u>\$37,807</u>	
	Expenditures (Actual Costs):		
	Per State's Financial Report	\$36,292	
	Less A-87 Unallowable Costs (e.g.)-		
	Capital Outlay	0	
	Building Renewal Assessment	(14)	
	Bad Debt	0	
	Plus A-87 Allowable Costs (e.g.)-		
	Indirect Costs From SWCAP	44	
	Building Renewal Expenses	5	
	Depreciation - if not included in actual costs above	127	
	Other-	0	
	OMB A-87 Allowable Expenditures	<u>\$36,454</u>	
	Adjustments:		
	Imputed Interest Earnings	0	
	Other - Loss on the Sale of Capital Assets	0	
	Total Adjustments	<u>\$0</u>	
	A-87 RETAINED EARNINGS BALANCE JUNE 30, 2018	(A)	\$7,403
	Allowable Reserve	(B)	\$6,055
	EXCESSIVE BALANCE (A) - (B)		<u><u>\$1,348</u></u>
PART II	A-87 CONTRIBUTED CAPITAL BALANCE		
A-87 Contributed Capital Balance	JULY 1, 2017		\$1,340
	Transfers per CAFR		
	Transfers In (e.g., Contrib. Capital)	0	
	Transfers Out (e.g., Payback of Contrib. Capital, Other Users of Fund Retained Earnings)	0	
	Net Transfers	<u>\$0</u>	
	A-87 Contributed Capital Balance JUNE 30, 2018	(C)	<u>\$1,340</u>
PART III	A-87 ADJUSTMENTS		
A-87 ADJUSTMENTS BALANCE	JULY 1, 2017		\$7,151
ADJUSTMENTS:			
	Less: A-87 Unallowable Costs	(14)	
	Plus: A-87 Allowable Costs	49	
	Total Adjustments	<u>\$35</u>	
	A-87 ADJUSTMENTS BALANCE JUNE 30, 2018	(D)	<u>\$7,186</u>
PART IV	RECONCILIATION TO CAFR BALANCE		
	A-87 Balances (A) + (C) + (D)		\$15,929
	CAFR Fund Balance		\$15,929
	Difference		\$0

FORWARD TO NEXT YEAR'S RECONCILIATION OF FUND TO A-87, NEXT JULY 1 FUND BALANCE, THE LESSER OF (A) OR (B). THE FEDERAL SHARE OF THE EXCESS MUST BE RETURNED TO THE FEDERAL GOVERNMENT.

NOTE: All figures from FY16 CAFR except Indirect Costs from SWCAP

NOTE-Specify On Which Balance (e.g., Fund's Cash, Retained Earnings, or A-87 Balance) And At Which Rate (e.g., Actual Fund's Rate or Average State Treasury Rate, Etc.) This Revenue Was Computed.

ATTACHMENT 3 - DAS INTERNAL SERVICE FUND - INTERNAL SERVICE RATE SETTING

STATE OF NEBRASKA

Accounting FUND

**RECONCILIATION OF RETAINED EARNINGS BALANCE TO FEDERAL GUIDELINES
FOR YEAR ENDING JUNE 30, 2018**

PART I		A-87 RETAINED EARNINGS BALANCE	(000s)
FUND BALANCE	JULY 1,	2017	
	Balance Per Prior Year's Reconciliation of Fund to A-87		<u>(\$205)</u>
2018 FUND INCREASE(DECREASE)			
A-87 Revenues (Actual and Imputed)			
	From Attachment A - Operating Revenues	\$9,524	
	Other Revenue - Interest	258	
	Other- Gain on Sale of Assets	<u>1</u>	
	Total Revenues		<u>\$9,783</u>
Expenditures (Actual Costs):			
	Per State's Financial Report	\$8,155	
	Less A-87 Unallowable Costs (e.g.)-		
	ARRA review	0	
	Building Renewal Assessment	0	
	Bad Debt	0	
Plus A-87 Allowable Costs (e.g.)-			
	Indirect Costs From SWCAP	188	
	Building Renewal Expenses	0	
	Depreciation - if not included in actual costs above	292	
	Other-	<u>5</u>	
	OMB A-87 Allowable Expenditures		<u>\$8,640</u>
Adjustments:			
	Imputed Interest Earnings	0	
	Other - Loss on the Sale of Capital Assets	<u>0</u>	
	Total Adjustments		<u>\$0</u>
A-87 RETAINED EARNINGS BALANCE	JUNE 30,	2018	(A) \$938
Allowable Reserve			(B) <u>\$1,391</u>
EXCESSIVE BALANCE (A) - (B)			<u><u>(\$453)</u></u>
PART II		A-87 CONTRIBUTED CAPITAL BALANCE	
A-87 Contributed Capital Balance	July 1,	2017	\$59
	Transfers per CAFR		
	Transfers In (e.g., Contrib. Capital)	0	
	Transfers Out (e.g., Payback of Contrib. Capital, Other Users of Fund Retained Earnings)	<u>0</u>	
	Net Transfers		<u>\$0</u>
A-87 CONTRIBUTED CAPITAL BALANCE	JUNE 30,	2018	(C) <u>\$59</u>
PART III		A-87 ADJUSTMENTS	
A-87 ADJUSTMENTS BALANCE	JULY 1,	2017	\$1,967
ADJUSTMENTS:			
	Less: A-87 Unallowable Costs	0	
	Plus: A-87 Allowable Costs	\$188	
	Other:CAFRR restatement of retained earnings	<u>0</u>	
	Total Adjustments		<u>\$188</u>
A-87 ADJUSTMENTS BALANCE	JUNE 30,	2018	(D) <u>\$2,155</u>
PART IV		RECONCILIATION TO CAFR BALANCE	
A-87 Balances (A) + (C) + (D)			\$3,152
CAFRR Fund Balance			\$3,152
Difference			\$0

FORWARD TO NEXT YEAR'S RECONCILIATION OF FUND TO A-87, NEXT JULY 1 FUND BALANCE, THE LESSER OF (A) OR (B). THE FEDERAL SHARE OF THE EXCESS MUST BE RETURNED TO THE FEDERAL GOVERNMENT.

NOTE: All figures from FY16 CAFRR except Indirect Costs from SWCAP

NOTE-Specify On Which Balance (e.g., Fund's Cash, Retained Earnings, or A-87 Balance) And At Which Rate (e.g., Actual Fund's Rate or Average State Treasury Rate, Etc.) This Revenue Was Computed.