

Minnesota Management & Budget Statewide Operating Policy

Minnesota Management & Budget, Budget Division
Issued: July 1, 2011

Number 0108-01
Revised:

Internal Service Rate Approval

Objective

To maintain internal service rates at a level that is cost-effective for the State of Minnesota.

Policy

Pursuant to Minnesota Statutes 16A.126 (<https://www.revisor.mn.gov/statutes/?id=16A.126>) the Commissioner of Minnesota Management & Budget (MMB) must approve the rates that agencies pay to a revolving fund for services.

Annual Rate Setting

When setting rates, each cost center 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 MMB approves a rate increase, agencies are required to give customers a 30-day written notice prior to implementing the new rate. This notice is required unless waived by MMB.

Internal service funds generally may maintain working capital reserves of 60 days cash operating expenditures (excluding 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, MMB may require a reduction in rates or other action to reduce the retained earnings level.

Interim Rate Changes

After MMB approves the annual rate or rates for internal services, changes during the fiscal year will be considered only in emergency or other unusual situations because unanticipated rate changes can adversely affect agency budgets and planning estimates. After MMB approves a rate increase, agencies are required to give customers a 30-day written notice prior to implementing the new rate. This notice is required unless waived by MMB.

Requirements for Business Plans and Proposed Rates

1. *When due.* Business plans and proposed rates must be submitted to the appropriate MMB executive budget officer by May 15th of each year or an alternative date approved by MMB. If the business plan is submitted by paper, two copies must be forwarded. The business plan for leases is due on September 1st of even-numbered years.
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 loans that shows when issued, amount repaid by year, and repayment schedule.
 - i. One-page organization chart.
 - j. MMB may request additional information to evaluate the business plan.
3. *Communication about rates.* Communication to customers about annual rates or rate changes must be forwarded to the MMB executive budget officer.

Quarterly Financial Statements

Internal Services must also submit quarterly comparative financial statements to MMB. The comparative statements should show current and prior year financial data, including a statement of net assets; statement of revenues, expenses, and changes in net assets; a statement of cash flows; budget to actual comparisons; and footnotes.

Financial statements submitted with business plans and proposed rates must reconcile to Statewide Integrated Financial Tools (SWIFT), as appropriate, when the SWIFT reporting components are completed.

See Also

Federal OMB Circular A-87 specifies that the level of working capital reserves not exceed 60 days of cash operating expenditures (excludes all depreciation and amortization). The federal government does not allow depreciation or amortization in the working capital reserve calculation because Generally Accepted Accounting Principles (GAAP) defines depreciation and amortization as "non cash" expenditures. Questions about the federal guidelines and indirect costs should be referred to the Indirect Cost Specialist, General Accounting, Minnesota Management & Budget.