

Overview of Rate Setting Methodology

The rate development process in the Department of Administrative Services (DAS) is a critical part of ensuring the agency's ability to carry out its mission. Other than a small amount of General fund that supports the Criminal Justice program, the Legislature does not give DAS General Fund, Lottery Funds, or Federal Funds directly to support the cost of its Policy and Enterprise programs. The DAS budget is virtually 100% Other Funds which comes from agencies paying DAS either an assessment or specific rates for services. The Legislature approves a budget for DAS every two years that equates to a spending authority, or limitation. This budget is the maximum amount that DAS may spend from fees, moneys or other revenues, including miscellaneous receipts collected by the agency.

Simply put, DAS provides services to state agencies and local government partners. The money it uses to pay its operating expenses, including Personal Services, Services & Supplies, Capital Outlay, Debt Service, and Special Payments, comes from its billings to its customers. At DAS, two methods are used to charge agencies for the services DAS provides. Generally DAS uses an assessment model for statewide policy functions and a cost per unit rate for service functions.

1. **Assessments** - Fixed amounts based on historical or projected costs.
2. **Rates** - Agencies buy each service at a known price (the rate) and pay for the amount they use or pay estimated amounts based on projected consumption costs and agreed service levels.

Some examples of different types of assessments are program costs allocated to agencies based upon the customer agencies':

- FTE,
- Budget size, or
- A combination of both,
- Time spent on each customer agency during the previous 24 months,
- Historical costs (such as risk charges, and operations and maintenance.)

Some examples of different types of rates are:

- Hourly rates,
- Physical units (servers, permanently assigned cars),
- Service rates associated with activity drivers specific for each line of business, e.g.
 - Printing and Distribution (P&D) impression rates
 - Oregon Statewide Payroll Application (OSPA) paycheck rates
 - Square foot of office/ storage space

DAS as an agency is divided into two functions: Policy and Service. Each function approaches rate development differently based upon factors unique to each:

Policy Functions (Assessment-based services). The Chief Operating Office, Chief Financial Office, Chief Information Office and the Chief Human Resource Office provide policy direction, procedural guidance, and oversight, and which are difficult to quantify in terms of customer consumption;

- ♦ A good example of an assessment-based service is the Chief Financial Office (CFO). The CFO operates the statewide budget system known as ORBITS, and manages the statewide budget development and execution process that all state agencies must follow. The CFO also provides annual reporting of the state's financial status. The level of service to any given agency is difficult to quantify, so the program's operating expenses are funded by an assessment to all state agencies. This cost is allocated based on a combination of size of budget and number of full-time equivalent positions (FTE) for each agency. The CFO's current methodology and allocation is as follows:
 - ❖ A minimum assessment of \$2,500 is charged to agencies that have 2.00 or less FTE. The charge is \$5,000 for agencies that have 2.01 to 30.00 FTE or less than \$10 million in funding limitation.
 - ❖ The remainder of the assessment is split amongst the rest of the agencies with 50% allocated according to budgeted FTE and the other 50% according to funding limitation.

Service Delivery Functions (Enterprise fee-for-service). The Enterprise Technology Service, Enterprise Asset Management Service, Enterprise Goods & Service and Enterprise Human Resource Service provide services to state agencies that are measurable in units of consumption, and agencies can control their level of usage of these services. Each Service offers multiple services to customers each with their own unique rate.

- ♦ A good example of an enterprise fee-for-service is in Enterprise Asset Management with its Fleet and Parking program. In Fleet, two of the services offered are either to lease, or rent, vehicles to state agency customers on a long- or short-term basis, and charge those customers for the vehicles based on their level of consumption. If you rent a car from Fleet, you are billed for it. If you do not, then you are not. In this sense, Fleet and other fee-for-service activities in DAS function much like a private-sector business would. Following are examples of Fleet's various fee-for-service rates:
 - ❖ Daily Rental Rates:

Each day state agencies can rent a vehicle from fleet and pay just for the actual time they use the vehicle. The daily rental rate includes administrative overhead and maintenance of the vehicles. Fleet passes through to the user agency the actual cost of fuel with a small markup to cover overhead expenses that pertain to the management of the fuel infrastructure.
 - ❖ Monthly Rental Rates:

Fleet also provides customers with the option to rent a vehicle on a monthly basis. Fleet bills customers a monthly rate that includes vehicle acquisition costs and administrative overhead. In addition, Fleet passes the actual cost of vehicle maintenance through to customers; Fleet also passes through fuel costs with a small markup to cover overhead expenses that pertain to the management of the fuel infrastructure.

In early 2012, DAS adopted the Entrepreneurial Management business model to offer services to its customers. In the future, this will result in a gradual departure from assessment charges for DAS services offered by the service function. Customers need to understand that greater choice results in greater budget complexity and uncertainty. Assessments offer certainty, but less opportunity to lower costs for a customer. Customer Utility Boards (CUBs) were created in the fall of 2012 for each Service Delivery Enterprise. Each CUB acts as a governing board for a specific set of utility services provided by DAS. They are responsible for setting rates and approving service level agreements. Decisions around which services should be offered to DAS customers are foundational to what rates need to be set for each biennium.

The Budget Development Process

Rate development is linked to budget development. The formal budget development process in Oregon state government typically begins around the first of March of each even-numbered year. The Chief Financial Office issues the Budget Instructions for the following two year budget period, or biennium. For example, in March of 2012, the Budget Instructions for the 2013-15 biennium were issued. One section of the Budget Instructions is called the "Price List of Goods and Services", which is a document produced by DAS Business Services.

The Price List includes schedules of all DAS assessments and fee-for-service rates for the next biennium, as well as some assessments and rates that will be charged by other state agency service providers, such as the Secretary of State, the State Library, the State Treasury, Employment and State Police. State agencies use the Price List to help them develop their agency requested budgets for the 2013-15 biennium. Accordingly, DAS had to begin the rate development process well in advance of this publication, and started doing so around October 1, 2011. This will be true in October of each odd-numbered year.

Rate Considerations

As one examines the rate system, there are two main challenges which have been identified:

1. Through the CUB, customers set the rates and define the services, yet the Legislature sets the cap of how much money DAS can accept from its customers, even when they have the money to pay for desired services.
2. Rates are set over a year before implementation. The context within which those rates had been set could be different from the current context and amendments are then needed.