

**COLORADO GENERAL ASSEMBLY  
JOINT BUDGET COMMITTEE**



**FY 2013-14 STAFF FIGURE SETTING  
INDIRECT COST  
ASSESSMENTS AND RECOVERIES**

**JBC Working Document - Subject to Change  
Staff Recommendation Does Not Represent Committee Decision**

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## **Indirect Costs**

Indirect cost recoveries are intended to recover the unbillable costs for providing overhead services to federal-funded and cash-funded programs. These expenses would otherwise be supported by the General Fund. Recoveries from federal-funded and cash-funded programs are calculated for two areas: (1) statewide overhead costs; and (2) departmental overhead costs.

For example, programs benefit from services provided by the Office of the State Controller and the Personnel Board, but neither of these entities directly bill programs for the cost of their services. These funds are accounted for in the statewide indirect cost plan. Departmental indirect costs are the functions provided by a department's executive director's office and other administrative functions for divisions or programs within the department.

### **Definitions**

***Indirect costs***, also referred to as *indirects*, are administrative overhead costs that are not billed directly for administrative support services to programs, offices, or divisions.

***Indirect cost assessment*** is the Long Bill line item in each program or division that represents the expected collection of statewide and departmental indirect costs from a cash-funded (including reappropriated funds) or federal-funded program for the purpose of paying departmental or statewide overhead costs as allocated to the program or division in the Long Bill.

***Indirect cost recoveries*** are actual indirect cost collections by departments from their cash-funded or federal-funded programs. ***Indirect cost recoveries in the Long Bill*** refers to letter notes referencing the reappropriated funds amount appropriated in the executive director's office or other administrative division line items that offset General Fund. Indirect cost recoveries in letter notes should equal indirect cost assessment line items in a department's budget, except for departments with no General Funding that transfer their indirect cost recoveries to central services departments to offset additional General Fund in those departments.

***Departmental indirect costs*** are overhead costs incurred by each department, located in the executive director's office or other administrative office, providing department-wide central services such as budgeting, accounting, and human resources.

***Statewide indirect costs*** are associated with the functions of the Governor's Office, including the Office of State Planning and Budgeting (OSPB), the Department of Personnel, and the Treasury Department for the provision of statewide services such as budgeting, controller services, and cash fund management. While the State Controller's Office (SCO) prepares the Statewide Cost Allocation Plan (SWCAP) in negotiation with the federal government, for the purposes of the budget and Long Bill, the SCO prepares the Statewide Indirect Cost Appropriation/Cash Fees Plan (Statewide Indirect Cost Plan) that defines the statewide indirect cost assessment plan for department budgets as follows:

*The purpose of the Statewide Appropriations/Cash Program Fees Indirect Cost Allocation Plan is to allocate the unbilled costs of statewide central service agencies to user departments, divisions and institutions of higher education that benefit from their services. The allocations from this plan are used to establish the statewide portion of the indirect cost appropriations in the Long Bill. These allocations are also used by state agencies/departments to develop fees charged by cash programs.*

## **Statewide Indirect Cost Recoveries**

The purpose of the Statewide Indirect Cost Plan is to allocate the unbilled costs of statewide central service agencies to user departments and institutions of higher education that benefit from these services. All state departments and agencies benefit from these services, and the cost recoveries ensure that the General Fund does not support the provision of these services for cash- and federal-funded programs.

Statewide indirect costs are associated with the functions of three departments: (1) the Governor's Office, including the Office of State Planning and Budgeting (OSPB); (2) the Department of Personnel; and (3) the Treasury Department.

The State Controller's Office submits the statewide indirect cost allocation plan to the federal Division of Cost Allocation for approval. The federal government must agree to the use of federal funds for these purposes. Once the amount of the statewide indirect cost recoveries have been identified, they are used to offset a corresponding amount of General Fund in the respective department during the figure-setting process. Certain departments such as Labor, State, and Transportation do not have General Fund, in which case the statewide indirect recoveries are transferred to offset General Fund in other departments, typically the Department of Personnel and the Office of the Governor.

### **Statewide Indirect Cost Plan**

The statewide indirect cost plan for FY 2013-14 from the State Controller's Office is estimated to recover approximately \$16.3 million from cash funds, reappropriated funds, and federal funds. The plan includes \$0.8 million more than it did for FY 2012-13, which is an increase of 4.9 percent.

The following tables summarize the requested statewide indirect cost recoveries for FY 2013-14. The first table compares the FY 2013-14 amounts to the current fiscal year and the second table outlines the amount and fund source by department.

| <b>FY 2012-13 Statewide Indirect Cost Recoveries Available</b> |                     |                     |                      |                     |
|--|---------------------|---------------------|----------------------|---------------------|
|  | <b>FY 2012-13</b>   | <b>FY 2013-14</b>   | <b>\$ Difference</b> | <b>% Difference</b> |
| Cash Funds   | \$7,264,717         | \$7,252,022         | (\$12,695)           | -0.17%              |
| Reappropriated Funds   | 4,625,800           | 5,711,179           | \$1,085,379          | 23.46%              |
| Federal Funds  | 3,670,718           | 3,358,330           | (\$312,388)          | -8.51%              |
| <b>Total</b>   | <b>\$15,561,235</b> | <b>\$16,321,531</b> | <b>\$760,296</b>     | <b>4.89%</b>        |

| <b>FY 2013-14 Statewide Indirect Cost Plan</b> |                       |                            |                          |                     |
|--|-----------------------|----------------------------|--------------------------|---------------------|
| <b>Department</b>                              | <b>Cash<br/>Funds</b> | <b>Reapprop.<br/>Funds</b> | <b>Federal<br/>Funds</b> | <b>Total</b>        |
| Agriculture                                    | \$136,493             | \$3,838                    | \$18,788                 | \$159,119           |
| Corrections                                    | 64,895                | 38,860                     | 2,207                    | 105,962             |
| Education                                      | 199,400               | 87,638                     | 189,796                  | 476,834             |
| Governor                                       | 59,799                | 813                        | 266,891                  | 327,503             |
| Governor - OIT                                 | 0                     | 331,666                    | 0                        | 331,666             |
| Health Care Policy and Financing               | 121,193               | 29,596                     | 396,094                  | 546,883             |
| Higher Education                               | 570,844               | 1,001,426                  | 441,790                  | 2,014,060           |
| Human Services                                 | 249,504               | 39,847                     | 310,263                  | 599,614             |
| Judicial                                       | 90,879                | 3,426                      | 7,854                    | 102,159             |
| Labor and Employment                           | 341,962               | 3,694                      | 683,140                  | 1,028,796           |
| Law  | 145,372               | 315,278                    | 52,508                   | 513,158             |
| Legislature                                    | 1,568                 | 87,800                     | 0                        | 89,368              |
| Local Affairs                                  | 51,526                | 96,788                     | 171,733                  | 320,047             |
| Military and Veterans Affairs                  | 2095                  | 0                          | 94,581                   | 96,676              |
| Natural Resources                              | 1,201,545             | 0                          | 197,575                  | 1,399,120           |
| Personnel and Administration                   | 0                     | 3,507,294                  | 0                        | 3,507,294           |
| Public Health and Environment                  | 246,121               | 30,906                     | 433,788                  | 710,815             |
| Public Safety                                  | 1,067,680             | 86,656                     | 71,462                   | 1,225,798           |
| Regulatory Agencies                            | 239,950               | 33,854                     | 7,360                    | 281,164             |
| Revenue  | 599,315               | 0                          | 11,165                   | 610,480             |
| State  | 105,677               | 0                          | 1,335                    | 107,012             |
| Transportation                                 | 1,756,205             | 11,799                     | 0                        | 1,768,004           |
| <b>TOTAL</b>                                   | <b>\$7,252,023</b>    | <b>\$5,711,179</b>         | <b>\$3,358,330</b>       | <b>\$16,321,532</b> |

## **Departmental Indirects**

Departmental indirect costs are associated with the internal delivery of services to divisions or programs within a department. Typically, these activities are located in a department's executive director's office. For example, a department's central budget staff prepare the budget submissions for all of the department's federal-funded and cash-funded programs, but do not charge fees for these services. Indirect cost recoveries ensure that General Fund does not subsidize the expense of providing such central services to federal-funded or cash-funded programs.

The calculation of departmental indirect cost recoveries involves the allocation of overhead between divisions within each department. An analyst works with a department to calculate the

projected indirect cost of all personal services and operating expenses in the executive director's office or in any other divisions which maintain a central oversight role for the department. The total departmental indirect cost amount to be recovered is allocated to divisions or programs within the indirect cost assessment line item for the respective program or division, and is based on a proportional methodology as defined by the department and analyst.

Each department figure-setting document will include an indirect cost appendix which includes: (1) An explanation of the indirect methodology; and (2) a table outlining indirect cost assessments based on the methodology. Committee decisions that vary from staff recommendations or that are pending will have to be incorporated into changes in indirect cost amounts as necessary for the Long Bill. Therefore, at figure-setting, analysts will require permission from the Committee to adjust amounts and fund splits for indirect cost assessment lines and fund splits for lines that include indirect cost recoveries.

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## **Recommendations**

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- 1. Statewide Indirects:** Staff recommends the Committee approve the Statewide Indirect Cost Plan prepared by the State Controller's Office for FY 2013-14 for the purpose of offsetting General Fund through the collection of statewide indirect cost recoveries for FY 2013-14 department budgets. The plan is estimated to recover approximately \$16.3 million from cash funds, reappropriated funds, and federal funds. Staff recommends that the Committee continue the policy of using statewide indirect cost recoveries from departments without General Fund – Labor and Employment, Transportation, and State – to offset appropriations within the Governor's Office and the Department of Personnel.
  
  - 2. Departmental Indirects:** Staff recommends that the Committee require figure-setting documents to include an appendix that explains the methodology for calculating departmental indirects and outlines indirect cost assessments and indirect cost recoveries within each department's budget. Additionally, any necessary variance from the Statewide Indirect Cost Plan as approved by the Committee related to the collection and use of statewide indirect cost recoveries or from this reporting requirement should be explained in the appendix.
  
  - 3. Long Bill:** Staff recommends that the FY 2013-14 Long Bill include (1) indirect cost assessment line items for each program or division in which indirect costs are to be recovered and (2) letter notes for line items in which indirect cost recoveries offset General Fund that specify the amount of statewide indirect cost recoveries and the amount of departmental indirect cost recoveries. Staff requests that the Committee grant permission to all staff analysts to adjust amounts and fund splits as necessary at the end of the figure-setting process.
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## OFFICE OF STATE PLANNING AND BUDGETING

## FY 2013 - 2014 STATEWIDE APPROPRIATIONS/CASH FEES PLAN

| DEPARTMENT                                  | CF                 | RE                 | FF                 | TOTAL               |
|---|--------------------|--------------------|--------------------|---------------------|
| DEPARTMENT OF PERSONNEL & ADMINISTRATION    |                    |                    |                    |                     |
| DPA - AEA - ADMINISTRATION                  | \$0                | \$51,840           | \$0                | \$51,840            |
| DPA - AEA - REPROGRAPHICS                   | 0                  | 384,732            | 0                  | 384,732             |
| DPA - AEA - FLEET MANAGEMENT                | 0                  | 364,528            | 0                  | 364,528             |
| DPA - AEA - CAPITOL BUILDINGS               | 0                  | 2,067,945          | 0                  | 2,067,945           |
| DPA - CENTRAL COLLECTIONS                   | 0                  | 250,433            | 0                  | 250,433             |
| DPA - ADMINISTRATIVE HEARINGS               | 0                  | 171,000            | 0                  | 171,000             |
| DPA - EMPLOYEE BENEFITS                     | 0                  | 60,236             | 0                  | 60,236              |
| DPA - RISK MANAGEMENT                       | 0                  | 42,010             | 0                  | 42,010              |
| DPA - CSEAP                                 | 0                  | 110,018            | 0                  | 110,018             |
| DPA - TRAINING                              | 0                  | 4,552              | 0                  | 4,552               |
| GOVERNOR'S OFFICE OF INFORMATION TECHNOLOGY |                    |                    |                    |                     |
| GOIT - ADMINISTRATION                       | 0                  | 72,650             | 0                  | 72,650              |
| GOIT - COMPUTING SERVICES                   | 0                  | 151,894            | 0                  | 151,894             |
| GOIT - COMMUNICATION - NETWORK              | 0                  | 39,295             | 0                  | 39,295              |
| GOIT - COMMUNICATION SERVICES               | 0                  | 67,827             | 0                  | 67,827              |
| AGRICULTURE                                 | 136,493            | 3,838              | 18,788             | 159,119             |
| CORRECTIONS                                 | 64,895             | 38,860             | 2,207              | 105,963             |
| EDUCATION                                   | 199,400            | 87,638             | 189,796            | 476,834             |
| GOVERNOR                                    | 59,799             | 813                | 266,891            | 327,503             |
| HEALTH & ENVIRONMENT                        | 246,121            | 30,906             | 433,788            | 710,815             |
| HIGHER EDUCATION                            | 570,844            | 1,001,426          | 441,790            | 2,014,060           |
| TRANSPORTATION                              | 1,756,205          | 11,799             | (0)                | 1,768,004           |
| HUMAN SERVICES                              | 249,504            | 39,847             | 310,263            | 599,614             |
| JUDICIAL                                    | 90,879             | 3,426              | 7,854              | 102,159             |
| LABOR & EMPLOYMENT                          | 341,962            | 3,694              | 683,140            | 1,028,796           |
| LAW   | 145,372            | 315,278            | 52,508             | 513,158             |
| LOCAL AFFAIRS                               | 51,526             | 96,788             | 171,733            | 320,047             |
| MILITARY AFFAIRS                            | 2,095              | 0                  | 94,581             | 96,676              |
| NATURAL RESOURCES                           | 1,201,545          | 0                  | 197,575            | 1,399,120           |
| PUBLIC SAFETY                               | 1,067,680          | 86,656             | 71,462             | 1,225,798           |
| REGULATORY AGENCIES                         | 239,950            | 33,854             | 7,360              | 281,164             |
| REVENUE                                     | 599,315            | 0                  | 11,165             | 610,480             |
| DEPT OF HEALTH CARE & FINANCING             | 121,193            | 29,596             | 396,094            | 546,883             |
| SECRETARY OF STATE                          | 105,677            | 0                  | 1,335              | 107,012             |
| <b>TOTAL ASSESSED ALLOCATED COSTS</b>       | <b>\$7,250,455</b> | <b>\$5,623,379</b> | <b>\$3,358,330</b> | <b>\$16,232,164</b> |
| NON-ASSESSED ALLOCATED COSTS:               |                    |                    |                    |                     |
| LEGISLATURE                                 | 1,568              | 87,800             | 0                  | 89,368              |
| NON-STATE AGENCIES                          | 0                  | 0                  | 0                  | 0                   |
|   | <b>\$7,252,022</b> | <b>\$5,711,179</b> | <b>\$3,358,330</b> | <b>\$16,321,531</b> |

| FY2013-14 DPA INDIRECT COST ASSESSMENT True Up Worksheet   |  |  |                      |                |                  |   |   |  |
|--|--|--|----------------------|----------------|------------------|---|---|--|
| Agency Coding  | Uses   | Sources  |                      |                |                  | Letternotes   | Notes   |  |
|  | Is Paid with Indirects (From from Letternotes) | Pays Into Indirects (From Indirect Appropriations) |                      |                |                  |   |   |  |
| <b>DPA Statewide Indirects</b>   |  |  |                      |                |                  |   |   |  |
| EDO Personal Services  | 1,571,597                                      |  |                      |                |                  | <i>This amount shall be from statewide indirect cost recoveries from the Department of Personnel and Administration.</i>  | balancing line  |  |
| EDO Operating Expenses   | 99,531   |  |                      |                |                  |   |   |  |
| EDO Capitol complex Leased Space   | 900,902  | balancing line                                     |                      |                |                  |   |   |  |
| EDO, Stwd Spec Purp, OSSP, Test Facility Lease   | 119,842  |  |                      |                |                  |   |   |  |
| <b>DHR, HRS, SAS Personal Services &amp; Operating (bottom line funded)</b>  | <b>1,533</b>                                   |  |                      |                |                  | <i>Same as below for DHR SAS Personal Services and Operating: Of this amount, \$90,029 shall be from statewide indirect cost recoveries from the Department of Personnel &amp; Administration, \$871,790 shall be from statewide indirect cost recoveries from the Department of Labor and Employment, \$107,012 shall be from statewide indirect cost recoveries from the Department of State, and \$637,445 shall be from statewide indirect cost recoveries from the Department of Transportation.</i> | This amount plus the statewide sources below reflect the total need of the line item. |  |
| DHR HRS, SAS, Operating Expenses   | 88,496   |  |                      |                |                  |   |   |  |
| DOCC, OSC, Personal Services   | 725,393  |  |                      |                |                  | <i>This amount shall be from statewide indirect cost recoveries from the Department of Personnel and Administration.</i>  |   |  |
| CSEAP, Indirect  |  | 110,018  |                      |                |                  |   |   |  |
| Human Resources, Training  |  | 4,552  |                      |                |                  |   |   |  |
| Human Resources, Employee Benefit Services, Indirect   |  | 60,236   |                      |                |                  |   |   |  |
| Human Resources, Risk Management Services, Indirect  |  | 42,010   |                      |                |                  |   |   |  |
| Central Services, Administration, Indirect   |  | 51,840   |                      |                |                  |   |   |  |
| Central Services, IDS, Document Solutions, Indirect  |  | 384,732  |                      |                |                  |   |   |  |
| Central Services, Fleet, Indirect  |  | 364,528  |                      |                |                  |   |   |  |
| Central Services, Facilities Maintenance, Indirect   |  | 2,067,945  |                      |                |                  |   |   |  |
| Collections Services, Indirect   |  | 250,433  |                      |                |                  |   |   |  |
| OAC, Indirect  |  | 171,000  |                      |                |                  |   |   |  |
| <b>DPA SubTotals</b>   | <b>3,507,294</b>                               | <b>3,507,294</b>                                   |                      |                |                  |   |   |  |
| <b>Statewide Indirects from Other Agencies</b>   |  |  |                      |                |                  |   |   |  |
| Governor's Office  | 1,789,728                                      |  |                      |                |                  |   |   |  |
| Labor & Employment   | 157,006  |  |                      |                |                  |   |   |  |
| <b>DPA, DHR, HRS, SAS Personal Services &amp; Operating (bottom line funded)</b>   | <b>1,616,247</b>                               |  | <b>Gov's Offices</b> | <b>CDLE</b>    | <b>DPA</b>       | <i>Same as above for DHR SAS Personal Services and Operating: Of this amount, \$90,029 shall be from statewide indirect cost recoveries from the Department of Personnel &amp; Administration, \$871,790 shall be from statewide indirect cost recoveries from the Department of Labor and Employment, \$107,012 shall be from statewide indirect cost recoveries from the Department of State, and \$637,445 shall be from statewide indirect cost recoveries from the Department of Transportation.</i> | This amount plus the statewide sources above reflect the total need of the line item. |  |
| Governor's Office  |  | 327,503  | 327,503              |                |                  |   |   |  |
| Governor's Office -OIT   |  | 331,666  | 331,666              |                |                  |   |   |  |
| Labor & Employment   |  | 1,028,796  |                      | 157,006        | 871,790          |   |   |  |
| Secretary of State   |  | 107,012  |                      |                | 107,012          |   |   |  |
| Transportation   |  | 1,768,004  | 1,130,559            | -              | 637,445          |   |   |  |
| <b>Other Agency SubTotals</b>  | <b>3,562,981</b>                               | <b>3,562,981</b>                                   | <b>1,789,728</b>     | <b>157,006</b> | <b>1,616,247</b> |   |   |  |
| <b>Grand Total</b>   | <b>7,070,275</b>                               | <b>7,070,275</b>                                   |                      |                |                  |   |   |  |
| Variance (Negative indicates we are collecting too much, positive indicates we are collecting too little.)<br>A base adjustment is needed in the amount of the variance in a line impacted by the letternotes. If we are collecting too little to pay our expenses, we need to make an adjustment to increase GF by that amount. |  |  |                      |                |                  |   |   |  |
|  |  |  |                      |                |                  |   |   |  |