

**COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE**



**FY 2012-13 STAFF FIGURE SETTING
INDIRECT COST RECOVERIES**

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

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**FY 2012-13 FIGURE SETTING
STAFF PRESENTATION TO THE JOINT BUDGET COMMITTEE**

INDIRECT COST RECOVERIES

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**FY 2012-13 FIGURE SETTING
INDIRECT COST RECOVERIES
JBC Working Document -- All Decisions Subject to Change**

INDIRECT COST ASSESSMENT

Indirect cost recoveries are intended to recover the unbillable costs for providing overhead services to federal- or cash-funded programs. These expenses would otherwise be supported by the General Fund. Recoveries from federal- 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 allocation plan. Internal department indirects are the internal functions provided by a department's Executive Director's Office and other administrative functions.

STATEWIDE INDIRECT COST RECOVERIES

Purpose: The purpose of the Statewide Indirect Cost Allocation Plan (SWICAP) 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 Administration (DPA); and (3) the Treasury Department.

Use: 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. This occurs 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 Administration or the Office of the Governor.

SWICAP REQUEST

The plan obtained from the Controller's Office is estimated to recover approximately \$15.6 million from cash funds, reappropriated funds, and federal funds. The plan includes \$2.8 million less than it did for FY 2011-12, which is a decrease of 15.3 percent.

The following tables summarize the requested statewide indirect cost recoveries for FY 2012-13. The first table compares the requested FY 2012-13 amounts to the current fiscal year, and the second

table reflects the request for each department.

FY 2012-13 Statewide Indirect Cost Recoveries Available				
	FY 2011-12	FY 2012-13	\$ Difference	% Difference
Cash Funds	\$8,213,171	\$7,264,717	(\$948,454)	-11.5%
Reappropriated Funds	7,176,955	4,625,800	(2,551,155)	-35.5%
Federal Funds	<u>2,983,633</u>	<u>3,670,718</u>	<u>687,085</u>	<u>23.0%</u>
Total	\$18,373,759	\$15,561,235	(\$2,812,524)	-15.3%

FY 2012-13 Recommended Statewide Indirect Cost Allocation Plan				
Department	Cash Funds	Reapprop. Funds	Federal Funds	Total
Agriculture	\$149,624	\$4,418	\$28,482	\$182,524
Corrections	56,516	37,108	485,026	578,650
Education	167,979	67,139	174,071	409,189
Governor	14,968	0	185,654	200,622
Governor - OIT	0	314,489	0	314,489
Health Care Policy and Financing	82,712	18,812	475,500	577,024
Higher Education	743,549	595,243	637,699	1,976,491
Human Services	337,148	222,152	375,648	934,948
Judicial	98,553	3,390	8,232	110,175
Labor and Employment	380,158	1,833	367,663	749,654
Law	157,148	351,575	49,022	557,745
Local Affairs	61,408	79,683	103,856	244,947
Military and Veterans Affairs	373	0	116,122	116,495
Natural Resources	1,062,592	7,122	231,456	1,301,170
Personnel and Administration	0	2,788,000	0	2,788,000
Public Health and Environment	220,509	29,449	344,392	594,350
Public Safety	988,500	68,497	53,404	1,110,401
Regulatory Agencies	273,250	27,944	3,326	304,520

FY 2012-13 Recommended Statewide Indirect Cost Allocation Plan				
Department	Cash Funds	Reapprop. Funds	Federal Funds	Total
Revenue	814,915	0	23,697	838,612
State	98,370	0	7,468	105,838
Transportation	<u>1,556,445</u>	<u>8,946</u>	<u>0</u>	<u>1,565,391</u>
TOTAL	\$7,264,717	\$4,625,800	\$3,670,718	\$15,561,235

DEPARTMENTAL INDIRECTS

Purpose: These costs are associated with the internal delivery of services to divisions within a department. Typically, these activities are located in a department's Office of the Executive Director. For example, a department's central budget staff prepare the budget submissions for all of the department's federal- 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- or cash-funded programs.

Calculation: 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. This amount is allocated to the major funding sources by one of the following methods: (1) actual workload data; (2) estimated FTE; or (3) personal services dollars. The preferred methodology to allocate indirect costs is to analyze workload data, if available.

RECOMMENDATIONS

- ❑ **Staff recommends the Committee approve the Statewide Indirect Cost Allocation Plan prepared by the State Controller's Office for FY 2012-13.** The plan is estimated to recover approximately \$15.6 million from cash funds, reappropriated funds, and federal funds.
- ❑ **Staff recommends that the indirect costs identified in the table above be used to offset General Fund in each department's central administration division, typically the Executive Director's Office.** In those instances when the amount of indirect cost recoveries is greater than the General Fund need in the central administration division, staff recommends that the excess recoveries be applied to offset General Fund elsewhere within the department.

- ❑ There are certain departments that do not contain General Fund against which the indirect cost recoveries can be applied. Examples include the Department of Labor and Employment, the Department of Transportation, and the Department of State. Historically, the Committee has approved a policy to offset General Fund in the Governor's Office (OSPB), and then DPA, with the indirect costs associated with the Department of Transportation. The Department of Personnel and Administration also receives indirect cost recoveries from the Department of Labor and Employment and the Department of State. **Staff recommends that the Committee continue the policy of using indirect cost recoveries from departments without General Fund to offset appropriations within the Governor's Office, the Department of Personnel and Administration, or other departments.**

 - ❑ **Staff also recommends that departmental indirect cost recoveries be calculated by each analyst based on either: (1) actual workload data, if available, (2) estimated FTE, or (3) personal services dollars.** During figure setting presentations, each analyst will make recommendations to the Committee on available departmental indirect cost recoveries and the methodology used to calculate them.

 - ❑ **Finally, staff recommends that the FY 2012-13 Long Bill include letternotes that signify statewide indirect cost recoveries, and distinguish them from departmental overhead indirects.** This will enable the Controller's office to better track these funds and ensure that all of the available statewide indirect cost recoveries are applied to offset the maximum amount of General Fund.
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