

2003 DRAFTING REQUEST

Bill

Received: 12/18/2002

Received By: agary

Wanted: Soon

Identical to LRB:

For: Administration-Budget

By/Representing: Vail

This file may be shown to any legislator: NO

Drafter: agary

May Contact:

Addl. Drafters:

Subject: Transportation - highways
Transportation - miscellaneous

Extra Copies: TNF, PJH

Submit via email: NO

Pre Topic:

DOA:.....Vail - BB0282,

Topic:

Federal indirect cost appropriation

Instructions:

See Attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
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FE Sent For:

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12-30-2
<END>

FE Sent For:



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT McCALLUM
GOVERNOR

GEORGE LIGHTBOURN
SECRETARY

Division of Executive Budget and Finance
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1736
Fax (608) 267-0372
TTY (608) 267-9629

Date: December 10, 2002

To: Stephen R. Miller, Chief
Legislative Reference Bureau

From: Benjamin J. Vail
Policy and Budget Analyst
ECR Team

Subject: **Biennial Budget Drafting Request**
Agency 395 – Department of Transportation (DOT)

Budget Office Request Title:
Federal Indirect Cost Appropriation

Request Description:
Create a continuing indirect cost appropriation to partially fund the cost of certain administrative functions that indirectly fund federal programs. Further information is provided in the attached issue paper prepared by the department.

BB282

**Department of Transportation
2003-2005 Biennial Budget Request
ISSUE PAPER**

PROGRAM: Department-wide Administrative Services

DIN NUMBER: 5410

ISSUE TITLE: Indirect Cost Appropriation

REQUEST:

The Department of Transportation (DOT) requests creation of a continuing federal indirect cost appropriation to partially fund the cost of certain administrative functions that indirectly support federal programs. Section 16.54 (9)(b) Wis. Stats., authorizes state agencies to use federal indirect cost reimbursements for administrative purposes.

SUMMARY:

Currently, costs specific to the actual delivery of federal programs are charged directly to federal projects. However, the Department has no mechanism in place to capture federal reimbursements for many administrative costs, such as rent, or budget and legal services that, because of their general nature, cannot be charged to a specific federal project even though they indirectly support the federal program.

Only in the last few years have state transportation agencies had authority to receive federal reimbursement for indirect costs supporting the highway program. The Transportation Equity Act for the 21st Century (TEA-21) amended section 302, United States Code, to authorize a qualified transportation department to be reimbursed for allowable administrative costs associated with the Federal Highway Administration's (FHWA) transportation programs. The Department requests creation of an indirect cost appropriation for this purpose.

Since any indirect cost reimbursement plan must be approved by the federal government, the Department is not seeking budget authority at this time.

JUSTIFICATION:

Currently, the Department charges costs directly attributable to the delivery of federal programs to federal projects. For example, on a federally funded highway project, the direct (labor and materials) cost of design and construction are eligible for federal reimbursement. The Department incurs other costs that play a vital role in delivering all federal programs, but which are not allocated to benefiting federal projects. While general in nature, these costs benefit many federal programs rather than a single project. Examples include:

- Rent and utilities for district offices;
- Personnel and recruitment;
- Accounting and payroll staff and systems;
- Budget and legal services; and
- Oversight of and administrative support for staff delivering federal projects.

Most costs incurred for common or joint purposes are currently funded within SEG operating appropriations, which have not kept pace with the federal program. For example, from FFY 92 to FFY 02, federal highway and transit program funding increased 89% from \$349.59 million to \$660.78 million. By comparison from FY 92 to FY 02, state funding for administrative operations (primarily in appropriation 461) increased by only 47.8% from \$37.2 million to \$54.9 million.

Federal indirect cost programs authorized under the s. 16.54 (9)(b) Wis. Stats., have become important administrative funding mechanism for a number of state agencies. The University of Wisconsin System, Departments of Administration, Natural Resources, Health and Family Services, Workforce Development, and

Public Instruction, have established indirect cost reimbursement programs. In fact, DOT may be the only major state agency without a program to reimburse department-wide indirect costs in support of federal programs.

Prior to 1999, FHWA did not allow state transportation agencies to reimburse indirect costs. Before TEA-21, costs incurred by the states to achieve a "suitably-equipped office" to support federal programs were not eligible for federal reimbursement. TEA-21 amended the United States Code to permit federal reimbursement of allowable administrative costs associated with FHWA's transportation programs.

Establishing a federal indirect cost reimbursement program will not increase the overall amount of federal funds available to DOT programs. Rather, the program would transfer funding from other federal appropriations. While an indirect cost program would reduce the amount of federal funds for direct program delivery, it recognizes and funds a portion of those activities that indirectly support the federal program.

Prior to receiving federal reimbursement of indirect costs, DOT must develop and submit for approval an indirect cost plan to the federal government. The Department receives funding from a variety of federal agencies, including FHWA, the Federal Motor Carrier Safety Administration, the Federal Transit Administration, and the National Highway Traffic Safety Administration. Since it is difficult to estimate how long the planning and approval process will take, DOT is requesting no expenditure authority in the new federal indirect cost appropriation at this time.

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" establishes principles and standards for determining costs for federal awards. Following these guidelines and working closely with federal staff, DOT will prepare a detailed cost allocation plan that includes identification of indirect costs and the calculation of an indirect cost rate. Upon completion of the plan and approval by the federal government, the Department will request spending authority consistent with the level of reimbursements generated by the approved indirect cost rate.

In general, the indirect cost rate is determined by calculating total department administrative costs as a percentage of direct labor costs for the delivery of all department programs. Indirect cost rates among state agencies vary widely. To determine the amount of federal funds that could be reallocated for the reimbursement of indirect costs, labor costs for the direct delivery of federal programs are multiplied by the indirect cost rate. Since the rate is applied only to the labor portion of federal program delivery, the impact on funding for these programs will be minor.

**Department of Transportation
2003-2005 Biennial Budget Request
STATUTORY MODIFICATIONS**

DIN NUMBER: 5410

TOPIC: Indirect Cost Appropriation

DESCRIPTION OF CHANGE:

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PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

redraft
make
not run

1 AN ACT ^{Don't} ^{GEN. cat.} relating to: federal reimbursement of indirect costs of administering
2 grants and contracts, and making an appropriation.

Analysis by the Legislative Reference Bureau

TRANSPORTATION

OTHER TRANSPORTATION

This bill creates an indirect cost reimbursement appropriation in the segregated transportation fund for reimbursement from the federal government of indirect costs of administering grants and contracts.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

3 **SECTION 1.** 20.395 (4) (ay) of the statutes is created to read:
4 20.395 (4) (ay) *Indirect cost reimbursements, federal funds.* All moneys
5 received from the federal government as reimbursement of indirect costs of
6 administering grants and contracts, for the purposes authorized in s. 16.54 (9) (b).

****NOTE: This SECTION involves a change in an appropriation that must be reflected in the revised schedule in s. 20.005, stats.



State of Wisconsin
2003 - 2004 LEGISLATURE

LRB-1197/1
ARG:kmg:rs

DOA:.....Vail - BB0282, Federal indirect cost appropriation

FOR 2003-05 BUDGET — NOT READY FOR INTRODUCTION

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Analysis by the Legislative Reference Bureau

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