

State of Washington
Department of Labor and Industries
 Decision Package

Decision Package Code/Title	8Y	Cost Allocation Adjustment
Budget Period	FY12	Supplemental Budget Request
Budget Level	ML2	Maintenance Level

Recommendation Summary

Indirect costs are redistributed by fund to more equitably and fairly reflect the costs of support to the department's direct service programs. This does not change agency administrative costs.

Fiscal Detail:

Change to Agency' Staff and Expenditures:

	FY 2012	FY 2013	TOTAL
Staffing:			
001-2 General Fund Fund-Federal	0.0	0.0	0.0
	0.0	0.0	0.0
TOTAL FTEs	0.0	0.0	0.0

	FY 2012	FY 2013	TOTAL
Operating Expenditures:			
03B-1 Asbestos Fund	0	(16,000)	(16,000)
095-1 Electrical License Account	0	(499,000)	(499,000)
163-1 Worker/Community Right to Know Account	0	(27,000)	(27,000)
234-1 Public Works Administration Account	0	193,000	193,000
608-1 Accident Fund-State	0	520,000	520,000
609-1 Medical Aid Fund-State	0	156,000	156,000
885-1 Plumbing Certificate Account	0	(4,000)	(4,000)
892-1 Pressure Systems Safety Account	0	2,000	2,000
Sub-total	\$0	\$325,000	\$325,000
GF-S Reduction Package		(325,000)	(325,000)
TOTAL Expenditures	\$0	\$0	\$0

Package Description

The Department of Labor and Industries (L&I) is mandated by the Local Government Accounting Statute¹ to assure that activities funded primarily by one fund do not benefit at the expense of another fund.

L&I has worked with cost accounting expertise outside the agency and developed a sound method to equitably allocate indirect costs to the programs that benefit from indirect services.

The department implemented this cost allocation policy by:

- Allocating costs based on annual allotments for appropriated funds and the estimated benefit payments from the cash flow forecast for non-appropriated funds. Expenditures used as the basis for this annual allocation are the 2011-13 allotments as approved by Office of Financial Management (OFM) and the Legislature.
- Allocating costs across the programs or sub-programs based on the approved funding splits within the program/subprogram.
- Updating the cost allocation model annually to reflect increases, decreases and changes to program areas as well as any organizational and budget structure changes..
- Identifying costs for services that benefit one program and charging to that program directly. Those costs are not allocated out across all programs and funds.

Since cost allocation was implemented, L&I has submitted annual realignment requests which have all been approved.

This realignment request decision package uses the above methodology to redistribute the charges for indirect services in an equitable manner across all funding sources. Based on our current revenue estimates, this proposal can be accomplished utilizing fund balances within those funds managed by the agency with the exception of the Farm Labor Account.

¹ RCW 43.09.210

All past indirect realignment decision packages approved by the Governor and the Legislature assumed no increased appropriation to the Farm Labor Account and shifted the increased indirect cost to the Accident and Medical Aid Accounts instead. This decision package follows that precedence.

The reduction for General Fund State in the amount of \$325,000 is reflected in L&I's General Fund State Reduction decision package.

Narrative Justification and Impact Statement

How this Decision Package contributes to agency's strategic plans and activities

This decision package supports the following Priorities of Government:

Statewide Result Area – Priority of Government (POG):

Result #10: Strengthen Government's ability to achieve results efficiently and effectively.

L&I Strategic Goals:

This decision package supports our agency mission to “Keep Washington Safe and Working” by improving safety, service and value. It will allow the Department to continue to deliver quality, efficient and cost-effective services to our customers through addressing direct cost allocations accurately.

This proposal supports all Labor and Industries' activities.

Statement of Expected Results

Agency indirect costs are fairly and equitably shared amongst the direct service programs.

Reason for change

The department is assuring that its budgetary procedures treat all appropriated funding sources in accordance with accepted fiscal practices.

Impact of the change on clients and services

The department has developed an equitable and fair process to allocate “indirect” costs or administrative costs such as personnel, payroll, accounting, budget, information services, legal services, etc. The agency will redistribute costs to more clearly reflect usage of indirect services.

This will allow the agency to develop unit costs for services that reflect the full costs of the service. These changes have a potential impact on some of the dedicated funds appropriated to the agency. This realignment proposal helps the stakeholders paying the fees into these accounts better understand that the revenues they pay in are being spent efficiently and properly.

Other impacted programs/divisions/regions

This is an agency-wide issue that affects the fund balance of all of the funds appropriated to L&I. Some of these funds may be administered by other state agencies. The Right to Know Fund is administered by L&I but is appropriated among several other state agencies.

Relationship to capital budget

None

Required changes to existing RCW, WAC, contract or plan

None

Alternatives explored by agency

Options considered are:

1. Doing nothing could result in the possibility of receiving an adverse audit finding. This is not a viable alternative and places the agency and its executives in legal jeopardy.
2. Seek an exemption from the Local Government Accounting Statute. This would be an appealing option for the stakeholders of the agency’s smaller dedicated funds that are affected by this decision package. However, the workers’ compensation stakeholders would consider this as a continued subsidy of employer premiums to non-worker compensation related activities. No other state agency has an exemption from this section of the Local Government Accounting Statute.

3. Manage the fund implications of the model internally and not seek legislative appropriation changes. This is not a viable option for the smaller dedicated funds of the agency. Direct services in the programs funded by these accounts would be substantially reduced while the fees for these services would remain static.

Budget impacts in future biennia

These costs are revisited on an annual basis.

Distinction between one-time and on-going costs

The cost allocation model will be updated annually and adjustments will be submitted via the budget process each year.

Effects of non-funding

The agency would be in violation of the Local Government Accounting Statute. The agency could receive audit findings which could place the agency and its executives at risk of legal action.

Expenditure Calculations and Assumptions

See attached summary for the results of the Cost Allocation model. The model is available upon request.

The Workers Compensation Trust non-appropriated funds are included in the model for activities that are allocated based on total expenditures. The impact on those funds are split between the Medical Aid and Accident Funds. The Accident Reserve Account 610 is included in the impact on the Accident Account 608 while the Supplemental Pension Account 881 and Second Injury Account 883 are included in the impact on the Medical Aid Account 609.

	FY 2012	FY 2013	TOTAL Biennium	Biennium 2013-2015	Biennium 2015-2017	TOTAL
FTEs - Direct	0.0	0.0	0.0	0.0	0.0	0.0
FTEs - Indirect	0.0	0.0	0.0	0.0	0.0	0.0
Objects of Expenditure:						
A - Salary and Wages	0	0	0	0	0	0
Indirect FTE Salary	0	0	0	0	0	0
B - Employee Benefits	0	0	0	0	0	0
Indirect FTE Benefits	0	0	0	0	0	0
C - Contracts	0	0	0	0	0	0
E - Goods and Services	0	0	0	0	0	0
AG Costs	0	0	0	0	0	0
G - Travel	0	0	0	0	0	0
J - Capital Outlays	0	0	0	0	0	0
N - Grants	0	0	0	0	0	0
TOTAL Expenditures	0	0	0	0	0	0
Funds:						
03B-Asbestos Fund	0	(16,000)	(16,000)	(16,000)	(16,000)	(48,000)
095 Electrical	0	(499,000)	(499,000)	(499,000)	(499,000)	(1,497,000)
163 Wkr/Community Right to Know	0	(27,000)	(27,000)	(27,000)	(27,000)	(81,000)
234 Public Works Administration	0	193,000	193,000	193,000	193,000	579,000
262 Manufactured Home Installation	0		0	0	0	0
608 Accident Account	0	520,000	520,000	520,000	520,000	1,560,000
609 Medical Aid Account	0	156,000	156,000	156,000	156,000	468,000
728 Manufactured Home Account	0		0	0	0	0
885 Plumbing Certificate	0	(4,000)	(4,000)	(4,000)	(4,000)	(12,000)
892 Pressure Systems Safety	0	2,000	2,000	2,000	2,000	6,000
Other	0	0	0	0	0	0
Sub-Total	0	325,000	325,000	325,000	325,000	975,000
GF-S Reduction package	0	(325,000)	(325,000)	(325,000)	(325,000)	(975,000)
Other	0	0	0	0	0	0
TOTAL Funds	0	0	0	0	0	0

**Implementation of 2012 Supplemental Cost Allocation
Allocated Cost Plus Direct Cost - Results by Fund**

Agency Total

Fund		Appropriated and Planned Expenditures (Non-appropriated)	Impact of Update	Expenditures
03B	Asbestos	\$197,000	(\$16,000)	\$181,000
095	Electrical	16,926,000	(499,000)	16,427,000
162	Farm Labor	14,000	2,000	16,000
163	Right to Know	471,000	(27,000)	444,000
234	Public Works	3,443,000	193,000	3,636,000
262	Manufacture Install	175,000	0	175,000
885	Plumbers	849,000	(4,000)	845,000
892	Pressure Vessel	2,038,000	2,000	2,040,000
	Workers Comp Trust	265,794,000	674,000	266,468,000
	Sub-total	289,907,000	325,000	290,232,000
	001 GF-S Reduction Package	24,963,000	(325,000)	24,638,000
	Totals	\$314,870,000	\$0	\$314,870,000

**Implementation of 2012 Supplemental Cost Allocation
Allocated Cost Plus Direct Cost - Results by Fund**

**Administrative Services Total
Program 010**

Fund		Appropriated and Planned Expenditures (Non-appropriated)	Impact of Update	Expenditures
03B	Asbestos	\$22,000	(\$13,000)	\$9,000
095	Electrical	1,054,000	(269,000)	785,000
162	Farm Labor	0	1,000	1,000
163	Right to Know	44,000	(22,000)	22,000
234	Public Works	110,000	52,000	162,000
262	Manufactured Home Installation	10,000	(1,000)	9,000
885	Plumbers	43,000	(1,000)	42,000
892	Pressure Vessel	98,000	(5,000)	93,000
	Workers Comp Trust	26,299,000	312,000	26,611,000
	<i>Sub-total</i>	27,680,000	55,000	27,611,000
	001 GF-S Reduction Package	754,000	(55,000)	700,000
	Totals	28,434,000	0	28,434,000

**Implementation of 2012 Supplemental Cost Allocation
Allocated Cost Plus Direct Cost - Results by Fund**

**Information Services Total
Program 030**

Fund		Appropriated and Planned Expenditures (Non-appropriated)	Impact of Update	Expenditures
03B	Asbestos	\$5,000	(\$3,000)	\$2,000
095	Electrical	557,000	(230,000)	327,000
162	Farm Labor	0	1,000	1,000
163	Right to Know	31,000	(5,000)	26,000
234	Public Works	10,000	141,000	151,000
262	Manufactured Home Installation	5,000	1,000	6,000
885	Plumbers	18,000	(3,000)	15,000
892	Pressure Vessel	34,000	7,000	41,000
	Workers Comp Trust	23,000,000	362,000	23,362,000
	<i>Sub-total</i>	23,660,000	271,000	23,931,000
	001 GF-S Reduction Package	641,000	(271,000)	370,000
	Totals	\$24,301,000	\$0	\$24,301,000