

Madame Chair, members of the committee the last item on the agenda for program 06 is the proprietary fund rates that will require legislative approval. It includes two programs: Indirect Cost Pool, and Advanced Drivers Education. I'll speak to OPI's indirect cost pool first.

INDIRECT COST RATE

P-153 – Financial Statement and Requested Rate Information
E-11 thru E-14 (Chart is on Pg E-13)

OPI uses an internal service, or proprietary type, fund to pool all of our internal and statewide central service type costs. This fund is classified in the state's accounting system as a "proprietary" fund and, for that reason, is not appropriated in HB2. You may hear accounts like this referred to HB576 funds. Rather than appropriating a specific level of spending authority for HB576 funds, the Legislature approves the rate(s) charged for services provided through the fund.

Every three years OPI's Fiscal Services Division prepares an "Indirect Cost Plan" for submission to our federal cognizant agency, the U.S. Department of Education (DOE). The plan is prepared according to detailed federal regulations (published in OMB Circular A-87). DOE refers to the amounts and the types of costs that we charge to our federal programs as "indirect" costs. The Legislative Auditors Office also reviews our Plan for compliance with federal and state regulations. Our indirect cost rate has been 17% from FY98 through FY04. The rate approved for FY2005 through FY2007 is 17.3 percent and we are requesting that you approve this rate for both years of the next biennium.

What it means by approving the 17.3 percent rate is that for every \$1 spent directly on state and federal program activities, another 17.3 cents is charged to those budgets for "indirect" costs. The 17.3 cents is put into our indirect cost account, or "pool," where it's used to pay for a variety of goods and services. The kinds of goods and services purchased from the pool typically benefit all, or almost all, of OPI's programs. They are the type of costs that would be difficult to specifically identify to individual programs without an excessive amount of accounting effort.

OPI's indirect cost pool is used to pay both our own central service type costs, and the costs of other agencies that provide services to us. The cost of these services is then charged back, or allocated, to all of our State and Federally funded programs using the pre-approved indirect cost rate. OPI administers a number of Federal

programs. Those programs have a significant impact on our central service operations, so this is the way we ensure they pay their fair share of the cost for those services.

Last fiscal year OPI's federal programs contributed about \$910,000 towards the cost of "indirect" services; and state-funded programs contributed \$633,000. Total expenditures from the pool were \$1.6 million.

Of that \$1.6 M, over \$520,000 was paid to other state agencies. As I said, we use the pool to account for our own central service operations, but we also use it to account for costs that are incurred by other agencies and passed on, or allocated, to OPI through this budgeting process. These costs are known as "fixed costs" that I mentioned in the SABHRS fixed cost request. In FY2006 \$560,000 in costs will be passed onto OPI in this way.

- The indirect cost pool is also used to pay OPI's share of statewide indirect costs. These costs are allocated to us through a Statewide Cost Allocation Plan (SWCAP) prepared by the Department of Administration. Agencies are billed quarterly for these costs. Costs allocated to OPI in this way include the cost of operating the Governor's Budget Office and the Department of Administration's Accounting, Purchasing and Personnel Divisions.

The pool also pays termination payouts (vacation/sick leave) for all staff (except the State Superintendent and her personal staff). These payouts totaled over \$50,000 in FY04. Termination payouts are paid from the pool because that is the only way the federal government will let our federal programs contribute funding for this cost. The pool's total long-term liability for OPI employees' accumulated vacation and sick leave is over \$1,000,000.

Other OPI activities paid for from the pool include payroll, personnel, accounting, budgeting, data management, cash management, financial reporting, purchasing, word processing, mail delivery and library services for all OPI programs.

The pool is also used to pay for general-use items available to all programs including office supplies, fax lines and maintenance contracts for shared equipment.