



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #788

Federal Indirect Cost Reimbursement Appropriation (DOT -- Other Divisions)

[LFB 2003-05 Budget Summary: Page 445, #12]

CURRENT LAW

State agencies are allowed to receive reimbursements from the federal government for the indirect costs of administering programs that are funded with federal aid or grants. These reimbursements can be used for administrative purposes, program purposes, funding of positions, payment of federal aid disallowances, or other purposes authorized by law.

Federal transportation law allows state agencies charged with administering federal transportation programs to be reimbursed for indirect administrative costs, such as procurement, accounting, payroll, personnel, data processing, and facilities management. DOT does not have authority, however, to use federal indirect reimbursements.

GOVERNOR

Create a federal, continuing appropriation for indirect cost reimbursements associated with administering federal transportation programs. Specify that the appropriation could first receive reimbursements of indirect costs incurred on the effective date of the bill.

DISCUSSION POINTS

1. The federal indirect cost appropriation would be used to pay the costs of functions that cannot easily be assigned to a single program, but which are necessary for the operation of multiple federal programs. For instance, an accounting system must be established to track the encumbrance and expenditure of federal highway funds. Since this system serves many programs, the cost of establishing and maintaining it cannot easily be allocated to one FED appropriation. Under current law, this cost is paid with state transportation fund dollars.

2. The appropriation created by the bill would initially have no funding. DOT indicates that a transfer of funds from federal program appropriations to this appropriation would be requested after the federal government approves the state's plan for indirect cost reimbursement. Eventually, the full cost of various functions associated with the federal programs, such as accounting, payroll, procurement, or data processing would be paid from this appropriation. The funding would be transferred from the various Department of Transportation FED appropriations based on an indirect cost rate. For instance, the cost of performing payroll functions may be allocated based on the number of FTE in each FED appropriation.

3. Establishing an indirect cost appropriation would not increase the amount of federal aid received by the state. Instead, a portion of the funding that the state currently receives would be reallocated to the indirect cost appropriation from other FED appropriations. This would reduce the amount of federal highway aid that could be spent directly on transportation programs. It could, however, also reduce the amount of state transportation fund revenue that needs to be spent on performing these administrative functions.

4. Other state agencies, such as the Departments of Agriculture, Trade and Consumer Protection, Health and Family Services, Natural Resources, Public Instruction, and Workforce Development, and the University of Wisconsin, currently have federal indirect cost appropriations. As with the proposed DOT appropriation, the indirect appropriations in these agencies receive a portion of the total federal grant, not an additional amount.

5. The procedures that DOT would use to allocate indirect costs to the Department's federal programs have not yet been developed. DOT would be required to get the approval of the Federal Highway Administration for any plan for indirect cost reimbursement. In addition, since the bill would not provide any funding in this appropriation, it is DOT's intent to request funding transfers from other FED appropriations, either from the Joint Committee on Finance, under s. 13.10, or in a subsequent biennial budget request. If DOT does make such a request, the Committee or the Legislature would have the opportunity to consider the advantages or disadvantages of using federal aid to reimburse indirect costs. However, since the expenditure of funds from federal appropriations is not legally limited to the amounts in the statutory appropriations schedule, DOT would not be required to make such a request or obtain the Committee's or the Legislature's approval to expend federal funds for reimbursement of indirect costs from this appropriation.

6. The creation of a federal indirect cost appropriation would give DOT more flexibility in paying administrative costs. However, continuing to fund these costs through SEG appropriations may enhance legislative review of DOT's administrative costs.

7. Governor Thompson included a similar provision to create a federal indirect appropriation in his budget submission for the 1999-01 biennium. The Legislature, however, did not approve the provision.

ALTERNATIVES

1. Approve the Governor's recommendation to create a federal indirect cost appropriation for DOT.
2. Delete provision.

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