

Schedule 13
"1331" Supplemental Request for FY 06-07

Request Title: **"1331" Supplemental FY 06-07** Base Reduction Item FY 08-09 Supplemental FY 07-08 Budget Request Amendment FY 08-09
 Department: **Education** Correction to Payments to Risk Management and Property Funds Split
 Priority Number: **"1331" Request** Dept. Approval by: *W. [Signature]* Date: **6-4-07**
 OSPB Approval: *[Signature]* Date: **6-5-07**

Fund	1	2	3	4	5	6	7	8	9	10
	Prior-Year Actual FY 05-06	Appropriation FY 06-07	"1331" Supplemental Request FY 06-07	Total Revised Request FY 06-07	Base Request FY 07-08	Decision/ Base Reduction FY 07-08	November 1 Request FY 07-08	Budget Amendment FY 07-08	Total Revised Request FY 07-08	Change from Base (Column 5) FY 08-09
Total of All Line Items	Total 60,940	Total 161,894	Total 0	Total 161,894	Total 0	Total 0	Total 0	Total 0	Total 0	Total 0
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GF	27,738	76,812	64,692	141,504	0	0	0	0	0	0
GFE	0	0	0	0	0	0	0	0	0	0
CF	2,398	7,387	0	7,387	0	0	0	0	0	0
CFE	6,321	13,003	0	13,003	0	0	0	0	0	0
FF	24,483	64,692	(64,692)	0	0	0	0	0	0	0
(1) Management and Administration Payments to Risk Management and Property Funds	Total 60,940	Total 161,894	Total 0	Total 161,894	Total 0	Total 0	Total 0	Total 0	Total 0	Total 0
	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00	FTE 0.00
	GF 27,738	GF 76,812	GF 64,692	GF 141,504	GF 0	GF 0	GF 0	GF 0	GF 0	GF 0
	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0	GFE 0
	CF 2,398	CF 7,387	CF 0	CF 7,387	CF 0	CF 0	CF 0	CF 0	CF 0	CF 0
	CFE 6,321	CFE 13,003	CFE 0	CFE 13,003	CFE 0	CFE 0	CFE 0	CFE 0	CFE 0	CFE 0
	FF 24,483	FF 64,692	FF (64,692)	FF 0	FF 0	FF 0	FF 0	FF 0	FF 0	FF 0

Letternote revised text: none.
 Cash Fund name/number, Federal Fund Grant name:
 IT Request: Yes No Yes No Yes No Yes No Yes No
 Request Affects Other Departments: Yes No Yes No Yes No Yes No
 If Yes, List Other Departments Here:

1331 SUPPLEMENTAL REQUEST for FY 06-07

Department:	Education
Priority Number:	"1331" Request
Change Request Title:	Correction to Payments to Risk Management and Property Funds Split

SELECT ONE (click on box):

- Decision Item FY 08-09
- Base Reduction Item FY 08-09
- Supplemental Request FY 07-08
- Budget Request Amendment FY 08-09
- 1331 Supplemental Request FY 06-07

SELECT ONE (click on box):

- Supplemental or Budget Request Amendment Criterion:
- Not a Supplemental or Budget Request Amendment
 - An emergency
 - A technical error which has a substantial effect on the operation of the program
 - New data resulting in substantial changes in funding needs
 - Unforeseen contingency such as a significant workload change

Short Summary of Request:

The Department of Education (CDE) is requesting to correct the fund splits for the Payment to Risk Management appropriation for SFY 2006-07 to avoid on overexpenditure of general fund. This correction will require an increase of \$64,692 general fund in the current year to CDE's Payments to Risk Management and Property Funds appropriation.

Background and Appropriation History:

The Payments to Risk Management and Property Funds line funds CDE's payment to the Department of Personal and Administration (DPA) for insurance premiums calculated by DPA. Upon a recent review of current fiscal practices by new staff at CDE, it was determined that the past practice of direct charging federal funds a portion of the Risk Management and Property expense is inconsistent with federal guidance on the treatment of this type of cost and should be corrected. In previous years the Department has direct charged the entire federal funds in the Payments to Risk Management and Property Funds appropriation to CDE's Federal programs based on FTE.

In order to direct charge Federal programs CDE must clearly be able to trace the benefit of the expense to the program that is being charged. Current CDE staff believes, the Department of Education does not have an equitable and reasonable basis to direct charge Federal programs for risk management charges.

Risk Management charges are a classic example of payments that should be charged as an indirect cost and recovered from the Federal government through an indirect cost rate or allocation plan.

To help illustrate the difference between direct and indirect charges the following are definitions and examples from Federal OMB circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Direct Costs

1. Direct costs are those that can be identified specifically with a particular final cost objective.
2. Typical direct costs chargeable to Federal awards are:
 - a. Compensation of employees for the time devoted and identified specifically to the performance of those awards.
 - b. Cost of materials acquired, consumed, or expended specifically for the purpose of those awards.
 - c. Equipment and other approved capital expenditures.
 - d. Travel expenses incurred specifically to carry out the award.

3. Minor items. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.

Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Why the direct charge is wrong

FTE is not a reasonable basis to charge Federal programs for risk management payments because the costs are based on specific property coverage and liability, not FTE. Some of the Department's Federal programs are being administered by employees at locations outside of the property being covered by the risk management appropriation and therefore it is clearly inappropriate to charge those programs for this coverage. For example, the Department has Federal funded programs that are currently leasing space in the Denver Post building that are not included in the risk management coverage. Also, the most expensive items in the two building that are covered (at CDE) are the computer networks that are funded with State funds. It is inappropriate to direct charge Federal programs for insurance coverage of State funded equipment. Finally, there are two buildings at CDE that are covered by the risk management payments. One is the Colorado Talking Book Library (CTBL) and the other is the State Office Building. The CTBL is 100% funded with State funds and the risk management payments to insure the building and its contents

should not be charged to other Federal programs in the Department not directly benefiting from that building or its activity.

CDE is charging federal programs for costs that are not attributable to CDE and therefore do not directly benefit those programs.

How other agencies handle these charges

Based on discussion with other Agency Controllers, the State Controller's Office and examination of appropriations for other agencies, these costs are charged to Federal programs using an approved **indirect** cost rate or indirect cost allocation plan.

General Description of Request:

The Department is requesting an increase of \$64,692 in general fund and a corresponding decrease to the federal funds appropriation to correct this issue. Without this correction the Department will overspend the general fund in this line to satisfy the payments to DPA for this cost. The Department feels that under no circumstance can the federal funds be charged in the current year for payments to risk management and property premiums.

The Department will then add the appropriate charges to the indirect cost rate to recover the amount attributable to Federal programs as indirect cost revenue. Please note these funds will not be recovered until SFY 2008-09.

Consequences if Not Funded:

The Department of Education will overspend the general fund in the Payments to Risk Management and Property Funds line in the current year. The result would be the restriction of the FY 2007-08 Risk Management and Property Funds line by \$64,692. The Department would need to complete a SFY 2007-08 supplemental to correct this issue.

STATE OF COLORADO FY 08-09 BUDGET REQUEST CYCLE: Education

Calculations for Request:

Summary of Request FY 06-07	Total Funds	General Fund	Cash Funds	Cash Funds Exempt	Federal Funds	FTE
Total Request	0	\$64,692			(\$64,692)	
Increase general fund to account for inability to charge federal funds.	\$64,692	\$64,692				
Decrease federal funds (This is the total amount of FF appropriated to the line.)	(\$64,692)				(\$64,692)	

Assumptions for Calculations:

In the current year, SFY 06-07, CDE must pay \$161,894 to DPA for Risk Management and Property Funds. The current appropriation (see SB 07-161) breakdown is as follows;

Total: \$161,894
GF: \$76,812
CF: \$7,387
CFE: \$13,003
FF: \$64,692

The Department is requesting to the following new fund splits;

Total: \$161,894
GF: \$141,504 (\$76,812 + \$64,692)
CF: \$7,387
CFE: \$13,003
FF: \$0

Impact on Other Government Agencies:

This request does not alter the funding for DPA, as the payment to DPA will total \$161,894 for the current year as indicated in SB 07-161. (Only the CDE funding splits change.)

Cost Benefit Analysis:

None.

Implementation Schedule:

Task	Month/Year
Internal Research/Planning Period	
Written Agreement w/ Other State Agencies	
FTE Hired	
Waiver or State Plan Amendment Written	
Waiver or State Plan Amendment Approved	
RFP Issued	
System Modifications Made	
Contract or MOU Written	
Rules Written	
Rules Passed	
Contract or MOU Awarded/Signed	
Start-Up Date	

Tailor this table to meet the needs of the specific Change Request; delete and add rows as applicable.

Statutory and Federal Authority:

Federal OMB circular A-87, Cost Principles for State, Local, and Indian Tribal Governments

Performance Measures:

None.

**Schedule 13
Revised "1331" Supplemental Request for FY 06-07**

Request Title: "1331" Supplemental FY 06-07 Base Reduction Item FY 08-09 Supplemental FY 07-08 Budget Request Amendment FY 08-09
 Department: Education Statewide GF Balancing for "1331" Requests
 Priority Number: Revised "1331" Request Dept. Approval by: *[Signature]* Date: 6-20-2007
 OSPB Approval: *[Signature]* Date: 6/20/07

Fund	1		2		3		4		5		6		7		8		9		10	
	Prior-Year Actual FY 05-06	Appropriation FY 06-07	"1331" Supplemental Request FY 06-07	Total Revised Request FY 08-07	Appropriation FY 07-08	Decision/ Base Reduction FY 07-08	Total Revised Request FY 07-08	Budget Amendment FY 07-08	Total Revised Request FY 07-08	Change from Base (Column 5) FY 08-09										
Total of All Line Items	0	3,060,263,893	0	3,060,263,893	3,266,328,775	0	3,266,328,775	0	3,266,328,775	0	0	3,266,328,775	0	0	0	0	0	0	0	0
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GF	0	2,304,809,898	7,756,591	2,312,566,489	2,480,596,821	(9,810,669)	2,470,786,152	0	2,470,786,152	0	0	2,470,786,152	0	0	0	0	0	0	0	0
GFE	0	343,100,000	0	343,100,000	343,900,000	0	343,900,000	0	343,900,000	0	0	343,900,000	0	0	0	0	0	0	0	0
CF	0	9,491,876	0	9,491,876	9,491,876	0	9,491,876	0	9,491,876	0	0	9,491,876	0	0	0	0	0	0	0	0
CFE	0	402,862,119	(7,756,591)	395,105,528	432,340,078	9,810,669	442,150,747	0	442,150,747	0	0	442,150,747	0	0	0	0	0	0	0	0
FF	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

This revised "1331" request decreases the use of State Education Fund (SEF) in SFY 2006-07. This action in SFY 2006-07 allows for the increased use of SEF in SFY 2007-08 and decreases the use of general fund in the total program line. In fiscal year 06-07, the \$7,756,591 is net of (1) the "Division of Developmental Disabilities Medicaid waiver reform transition costs" (2) "1331 Emergency Supplemental Transfer from the DOC to HB97-1304 Childrens Basic Health Plan Trust" submitted June 19, 2007 and (3) "Statewide GF Balancing for "1331" requests" submitted on June 8, 2007. In SFY 2007-08, the \$9,810,669 is net of (1) "Statewide GF balancing for "1331" requests" submitted on June 8, 2007 and (2) an increase in SEF that was reduced in column 3. "Transfer from the Department of Corrections to the Childrens Basic Health Plan Trust Fund" submitted June 19, 2007 is withdrawn.

Letternote revised text: In SFY 2006-07, Decrease State Education Fund by \$7,756,591. In SFY 2007-08, increase State Education Fund by \$9,810,669.

Cash Fund name/number, Federal Fund Grant name:

IT Request: Yes No Yes No If Yes, List Other Departments Here:

Request Affects Other Departments: Yes No If Yes, List Other Departments Here: