

BUDGET LETTER

	NUMBER: 06-30
SUBJECT: METHODOLOGY CHANGE FOR GENERAL ADMINISTRATIVE COSTS (PRO RATA)	DATE ISSUED: September 22, 2006
REFERENCES: GOVERNMENT CODE SECTIONS 11270-11277 AND 22883; STATE ADMINISTRATIVE MANUAL SECTIONS 8752-8754	SUPERSEDES:

TO: Department Directors
Department Budget Officers
Department Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

This Budget Letter (BL) notifies departments of a change in the methodology used to allocate pro rata costs. The methodology change will take effect beginning with the 2007-08 pro rata assessments.

Central service agencies (e.g., Department of Finance, State Controller's Office, State Treasurer's Office, etc.) provide services, such as budgeting, accounting, auditing, payroll, etc., to all state departments. These services are funded by the General Fund but benefit programs supported by special funds as well as the General Fund. Through the pro rata process, the Department of Finance (Finance) allocates a fair share of central service (pro rata) costs to special funds as required by Government Code Sections 11270-11277 and 22883.

Currently, pro rata costs are allocated to the departments as follows:

1. The costs for each function performed by the central service agencies are allocated to each department based on various workload factors (e.g., review hours, positions, warrants, expenditures, etc.).
2. Each department's total allocation for all functions is then further allocated to the department's funding sources based on the proportion of total expenditures for the department (i.e., total state operations, local assistance, capital outlay, and unclassified).
3. The amount allocated to each fund is then classified as either billable or nonbillable, with the billable funds paying the pro rata charges.

Prior to 2002-03, the allocation to the department's funding sources was based on the proportion of state operations expenditures from that fund. Beginning in 2002-03, the basis of allocating pro rata was expanded to include local assistance and unclassified expenditures and then expanded again in 2003-04 to include capital outlay expenditures. The intent of the methodology change was to spread pro rata costs to special funds that received services from central service agencies but had not previously been assessed pro rata. However, the change resulted in allocating a disproportionate share of pro rata costs, which are mostly state operations driven, to funds with mostly non-state operations expenditures.

To resolve this problem, the methodology will be reverted back to using only state operations expenditures as a basis of allocating pro rata to the departments' funding sources. This change will take effect beginning with the 2007-08 pro rata assessments. No retroactive calculations will be made.

As a result of this change, the pro rata allocation to each department and fund using the new methodology may be higher or lower than the allocation using the current methodology. The total allocation to each department may be impacted because several functions use expenditures as a workload factor (e.g., Finance CALSTARS, Treasurer Cash Management and Public Finance Division, California State Library, etc.). Also, the allocation to each fund using the new methodology may be impacted because the allocation percentage is based on expenditures.

In some cases, the methodology change may significantly increase the pro rata allocation to a fund, resulting in the lack of available funds to pay the pro rata costs. If this occurs, the department should contact their Finance budget analyst to request a deferral. If the deferral request is approved, the Finance budget analyst will work with the department to establish a payment plan.

If you have any questions, please send an e-mail to FIPROSWP@dof.ca.gov or contact your Finance budget analyst.

/s/ Veronica Chung-Ng

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