

Chapter 2

The Activity View of the Budget

2.1 THE ACTIVITY INVENTORY IS AN ALTERNATIVE VIEW OF THE BUDGET

Agencies must prepare and submit an activity view of the budget in addition to the traditional decision package described in Chapters 3 through 6. The Budget Development System (BDS) supports this requirement to include activity description and performance measure information in the budget database.

An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and provides a product, service, or outcome. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state's citizens, we basically want to know "What do you do? For whom? Why is it valuable?"

Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work performed by state government. The activity view of government has come to play an important role in the POG process, budget analysis, and decision-making.

The Activity Inventory describes the major activities of each agency. Each activity description must include the following information:

- A title that describes the nature of the activity (rather than an organizational name);
- A brief description of the activity, its purpose, and its intended recipient or beneficiary;
- The expected results of the activity (conveyed as a concise narrative description of outcomes, and/or as one or more performance measures);
- The primary statewide result area to which the activity contributes; and
- Other statewide result areas to which the activity contributes.

For more information, refer to OFM's "Activity Guide" at, and <http://ofm.wa.gov/budget/instructions/other/activityguide.pdf>

The OFM Performance Measure Guide at:

<http://ofm.wa.gov/budget/instructions/other/performanceguide.pdf>

2.2 WHAT ARE THE BUDGET SUBMITTAL REQUIREMENTS?

Agencies are required to assign certain budget totals and increments to activities to build a complete activity view of the budget. To prepare this view, agencies at a minimum must:

- Allocate the maintenance level subtotal to activities; and
- Allocate each performance level decision package to the affected activities.

These requirements are described in greater detail below. Presenting the current biennium level total, the maintenance level subtotal, and the performance level decision packages by activity provide an activity view of the total budget for the agency.

Current Biennium Totals: Agency Recast of 2012 Supplemental Budget

+ Carry-forward increments: (Optional to balance to activity)

+ Maintenance level increments: (Optional to balance to activity)

Subtotal Maintenance Level: Required to balance to activity+ **Performance level increments:** Required to balance to activity**Proposed Budget Total:** Required to Balance to activity**Allocate maintenance level to activities**

The agency budget submittal must present maintenance level totals (by account and fiscal year) by activity. Agencies may choose to assign the costs of some or all carry-forward or maintenance level decision packages to activities, but this is not required. In some way, the entire subtotal must be assigned to activities to provide the activity view of the budget through maintenance level. **The agency budget cannot be submitted to OFM until all these costs and FTEs have been assigned to activities.**

BDS provides options for agencies to assign these costs – by account and fiscal year – to activities. Most agencies have found that entering each increment by activity is the simplest method to meet this requirement. If this is not feasible for your agency, contact the BASS Help Desk at 360-725-5278 or by e-mail at DESmiISDBudgetHelpdesk@des.wa.gov to identify an option for your agency.

Allocate each performance level decision package to activities

Agencies are required to indicate how the costs – by account and fiscal year – and FTEs of each performance level decision package should be assigned to activities. BDS enables users to indicate the activity costs (by account and fiscal year) for each decision package.

Requests to add, delete, or edit activities must be made to OFM by June 29

Agencies cannot update the activity inventory without prior approval from OFM. Contact your assigned OFM analyst or Linda Swanson at Linda.Swanson@ofm.wa.gov to request changes.

If agencies wish to add or delete activities, submit a proposal to your OFM analyst no later than June 29. The proposal should provide a clear picture of the “before” and “after” set of activities, and include the following:

- List of current agency activities and descriptions;
- Proposed list of agency activities, explaining where current activities have been merged or split; and
- Brief explanation of the reason for the requested change.

OFM will review the proposal to consider how the change in information will affect the budget decision process, and provide a decision to the agency as soon as possible.

Provide information about non-budgeted funds supporting activities

Because the activity inventory is now a part of the budget system, the numbers reflected in the activity totals will only reflect budgeted funds. If an agency has an activity that is supported significantly by non-budgeted revenues, mention this in the activity description and note the dollar amount and fund source.

Include the Activity Inventory report in the budget submittal

Agencies are required to include a copy of the Agency Activity Inventory report in their submittal. This report (ACT 001) can be run in the Operating Budget Reports section of Enterprise Reporting. The report will include the descriptive information for each activity, including linked performance measures and expected results statements. See Chapter 10 for more information on performance measures.

2.3 HOW TO TREAT ADMINISTRATIVE COSTS IN THE ACTIVITY INVENTORY

Activity costs should include related administrative costs essential to support that activity.

The activity inventory should provide a reasonable estimate of the full cost of any activity, including related administrative costs that are essential to support it.

Administrative costs can be divided into two components: indirect costs and overhead costs. Information below describes how to handle the two types of costs in the activity inventory.

Definitions

We realize many of the cost terms used here may mean different things in different organizations. Use the definitions below for the purpose of developing activity inventory estimates.

▪ Allocate indirect costs to activities

Indirect costs are administrative costs linked to two or more activities. They are closely related, tend to vary with activity level or size, but usually cannot be practically or economically assigned as direct charges. Indirect costs should be assigned to activities through cost allocation and included in the total cost of the activity in the activity inventory.

Types of costs that could be classified as indirect costs may vary from agency to agency, but some possible examples include:

- ◆ Rent costs (if these are not already direct charged).
- ◆ Postage costs.
- ◆ Software development and IT support costs.
- ◆ Other shared administrative costs closely related to activity levels and size.

▪ Show overhead costs as a separate “administration” activity

Every agency has core administrative functions and costs regardless of the number or size of its activities. **Overhead costs** usually support the entire organization; are not directly attributable to specific activities; and tend to be relatively fixed and not easily affected by fluctuations in activity levels. These costs should not be allocated to activities because they are not “caused” by the activity. Indicate these costs separately in one “Administration” activity in the activity inventory.

Types of costs that could be classified as overhead costs may also vary from agency to agency, but some possible examples include:

- ◆ Salary and support costs for the agency director.
- ◆ Core portions of accounting, budgeting, personnel, communications, and receptionist functions.
- ◆ Other shared administrative costs that are not closely related to activity levels and size.

OFM is not concerned that each agency classifies the same type of cost in the same way. We want to ensure that activity costs include administrative costs that are critical to support the activity and help to achieve its intended outcomes.

Certain agencies are not required to have a separate administrative activity

As part of the update to the activity inventory in Fall 2003, OFM determined that some agencies (those with only a few activities) were not required to break out overhead costs as a separate administration activity. This distinction is reflected in the Activity Inventory. These agencies do not need to add an administrative activity for the budget submittal.

How to allocate indirect costs to activities

Indirect costs should be assigned to activities on some generally accepted cost-allocation basis. We encourage agencies already using a cost allocation methodology for some accounting purposes to use their method to allocate indirect costs to activities. Other possible approaches to allocating indirect costs to activities include, but are not limited to:

- Allocating by the number of FTEs in each activity.
- Allocating by the total dollars budgeted for each activity.
- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity. For example, allocating IT staff costs by the number of personal computers or rent costs by the number of square feet.

Provide allocation information to OFM

The allocated costs should be included in the total costs for the activities. Agencies must also provide the following information in the agency budget submittal about the cost allocation approach:

- The total amount of indirect costs allocated.
- A brief description of the allocation method selected.
- The allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity).
- The dollar amount allocated to each activity each fiscal year.

Use a format similar to that shown below. Send an electronic copy to Linda.Swanson@ofm.wa.gov.

Activity Inventory Indirect Cost Allocation Approach

Agency ABC				
Date				
Allocation Method Description:				
Total indirect costs were allocated to activities based on the number of FTEs in each activity.				
	% Allocation Received	Dollars Allocated FY1	Dollars Allocated FY2	Total Allocated
Activity A	20	\$200,000	\$250,000	\$450,000
Activity B	50	\$500,000	\$625,000	\$1,125,000
Activity C	10	\$100,000	\$125,000	\$225,000
Activity D	20	\$200,000	\$250,000	\$450,000
Total	100	\$1,000,000	\$1,250,000	\$2,250,000

2.4 IDENTIFICATION OF CORE / MANDATORY ACTIVITIES

OFM requires additional information about the nature of each agency's activity inventory to identify "core" or "mandatory" functions. This was automated last biennium as a module within the Activity Inventory. Agency access is via the BASS system: http://bass.ofm.wa.gov/BASSLogon_pr/Logon.aspx

This system is locked for changes and agencies must request changes through either their assigned budget analyst or OFM Budget Operations. At OFM's discretion

Is the activity a core function of government?

In other words, is it **mandatory** because it is:

- Required by constitutional mandates, court decisions, or federal law?
- Essential for preventing loss of life, addressing imminent issues of public safety, or avoiding immediate and catastrophic loss of state property?
- Necessary for the governance of mandatory activities?

If **non-mandatory**, does the activity have any of the following implications:

- Required by state law (RCW)?
- Governed by an existing contract (may include collective bargaining agreements)?
- Part of federal matching funds?
- Produces General Fund or other state revenues?
- Supported by fees?

Does the activity provide a broad public benefit or only serve a select clientele or constituency?

If the activity benefits a select clientele, can and should the clientele pay the cost?

Does it duplicate the activities of non-profits or other private initiatives?

Does it duplicate the efforts of other government agencies or programs?

Can this service or function be provided by way of performance contracts?

If not, why not?