CHAPTER 3

ACTIVITIES AND PERFORMANCE

WHAT ARE THE BUDGET SUBMITTAL REQUIREMENTS FOR ACTIVITIES?

Agencies are required to balance their budget requests to activities in order for policy makers to evaluate a complete activity view of the budget. To prepare this view, agencies must:

- Allocate the maintenance level (ML) subtotal to activities. The ML subtotal includes the sum of:
  - current biennium (i.e., top line)
  - total of carry-forward level (CFL) adjustments, and
  - total of ML adjustments
- Allocate and prioritize each individual policy level (PL) decision package (DP) to activities.

Allocate ML to activities

The agency budget submittal must present the ML totals (i.e., by FTEs, account and fiscal year) by activity. Agencies may, if they so choose, assign the costs of some or all ML DPs to activities, but this is not required nor recommended. The Agency Budget System (ABS) supports the balancing of the ML total to activities in a single ML step. Special-use DPs (9Z-Activity) are available for agencies to balance ML activity amounts in ABS. ABS will enforce the requirement that activities be balanced at ML as a submittal edit.

Allocate each PL DP to activities

Agencies are required to indicate how the costs — by FTEs, account, and fiscal year of each PL DP — are allocated to activities. This functionality is located on the ABS Fiscal Details — funding page of ABS. ABS will enforce this requirement for each PL DP.

Note: You will be unable to release your budget to OFM until all these FTEs and costs are assigned to activities.

Contact your assigned budget analyst or OFM budget operations if you have questions regarding your activity inventory. See the OFM activity guide for more information.

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 (ACT001) can be run from ABS, or from the operating budget reports section of Enterprise Reporting (ER). The report will include the descriptive information for each activity, including linked performance measures and expected results statements.

HOW TO TREAT ADMINISTRATIVE COSTS IN THE ACTIVITY INVENTORY

Activity costs include related administrative costs essential to support 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. The 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 and 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 examples are:

- Rent costs (if these are not already direct charge)
- 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 also may vary from agency to agency, but examples are:

- 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

OFM determined that some agencies (those with only one or a few activities) were not required to break out overhead costs as a separate administration activity. This distinction is reflected in the current 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:

- Total amount of indirect costs allocated.
- Brief description of the allocation method selected.
- Allocation percentage for each activity (percentage of the total indirect cost the agency allocated to each activity).
- Dollar amount allocated to each activity each fiscal year.

Use this form and attach to your ABS submittal. ABS will enforce inclusion of this form as required to release you budget request.

WHAT ARE THE BUDGET SUBMITTAL REQUIREMENTS FOR PERFORMANCE MEASURES?

Performance measures make accountability possible. They answer a simple question: "Are we making progress toward achieving our targeted results?" A credible answer to this question must be supported by evidence, which comes from performance measures.

Information about the effectiveness of an activity purchased in the budget is important to gauge whether the investment has proven worth the cost. Analyzing performance can help agencies and analysts recognize how to improve performance outcomes and whether other strategies can contribute more toward achieving activity and statewide results.

Statewide result goal indicators are available in activity reports. Through the Results Washington process, the Governor has identified key indicators of success for the five statewide goal areas. Each agency's activities are associated with one of these areas. More information is available at Results Washington.

PERFORMANCE MEASURE INCREMENTAL ESTIMATES

Indicate the effect of each DP on performance

For each DP, ABS asks agencies to describe and assess their performance measures.

- ABS presents a listing of your agency's available performance measures (from the Results through Performance Management System (RPM). Enter the expected incremental performance change by fiscal year.
- ABS provides a text field for performance outcomes where agencies are required to describe and quantify the specific performance outcomes you expect from this funding change. What outcomes and results will occur? What undesired results are reduced, eliminated or mitigated? Explain how efficiencies are optimized. Identify all Lean initiatives and their expected outcomes. Include incremental performance metrics.