

**CAPITAL BUDGET  
STAFFING AND  
ADMINISTRATIVE COSTS  
STUDY**

**REPORT 02-10**

**REPORT DIGEST**

**OCTOBER 31, 2002**



STATE OF WASHINGTON

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REVIEW COMMITTEE

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## Background

Washington State funds its long-term investments in state and local lands and facilities through the state Capital Budget. The 2001-03 Capital Budget authorizes close to \$4 billion<sup>1</sup> in funding for over 500 capital projects and programs administered by 30 different state agencies. Funding is almost evenly split between state land and facility projects and state-administered grant, loan, and pass-through programs for local governments and other entities.

The 2001-03 Capital Budget directs JLARC to study and develop recommendations addressing the staffing, administrative, and overhead costs associated with capital projects and programs. Capital-related staffing and administrative cost data is not fully available from the state's accounting systems, and there are significant differences in accounting and financing practices across agencies. To collect information for this study, JLARC surveyed all agencies receiving Capital Budget funding in the 2001-03 Biennium. In addition, JLARC reviewed state fiscal policies, expenditure reporting requirements, and oversight mechanisms. Due to the large number of agencies and capital projects involved in this study, individual agency operations, efficiencies, and effectiveness were not evaluated.

## Variations in Staffing Structures and Financing Practices Across Agencies

Historically, gubernatorial and legislative Capital Budget decision-making has primarily focused on the necessity and cost-effectiveness of capital investments, rather than the staffing and administrative costs associated with delivering those investments. As a result, state agencies have developed many approaches for administering capital projects and programs. Significant differences exist across agencies in the number and type of staff employed, the amount of administrative and overhead costs incurred, and the funding sources used to pay these costs.

## Staffing Levels

Agencies report that a total of 973 full-time equivalent staff (FTEs) will be involved in the development and implementation of their 2001-03 capital projects and programs, with salaries and benefits totaling \$118 million for the biennium. **Approximately 633 FTEs will be funded with capital dollars (\$73 million in biennial salaries and benefits); 401 of these FTEs will be funded out of long-term debt-financed funds<sup>2</sup> (\$45 million of the \$73 million in biennial capital-funded salaries and benefits).** The remainder of capital program-related FTEs will be funded out of Operating and Transportation Budget funds and other local and non-appropriated accounts.

<sup>1</sup> This amount includes new appropriations, reappropriations, and Certificates of Participation authorized in the 2001-03 Capital Budget, including adjustments made in the 2002 Supplemental Budget.

<sup>2</sup> Includes bonds and Certificates of Participation (COPs).

## Administrative and Overhead Costs

Based on agency survey responses, JLARC estimates that agency administrative and overhead costs will total approximately \$123 million in 2001-03, representing 4 percent of total capital program expenditures. Across individual agencies, administrative and overhead rates range from 1 to 16 percent. Almost two-thirds of administrative costs are for the salaries and benefits of capital program administrative staff. **Capital funds will be used to pay approximately 62 percent (\$76 million) of total administrative and overhead costs; 41 percent (\$50 million) will come from capital debt-financed funds.** The balance will be paid for with Operating and Transportation Budget funds and other local sources.

## State Budgeting Policies and Monitoring of Capital Expenditures

The Office of Financial Management (OFM) is responsible for developing Capital Budget procedures and monitoring capital appropriations and expenditures. Guidance to agencies is provided primarily in OFM's Capital Plan Instructions. The instructions are intentionally broad and flexible to accommodate the wide range in type, size, and scope of capital projects and programs. However, portions of the instructions do not provide clear guidance to agencies regarding allowable capital staffing, administrative, and overhead costs. In addition, the Governor and Legislature have historically not provided direction to agencies within their Capital Budget documents regarding intended levels of staffing and administrative costs to be funded with capital dollars. Combined with the lack of readily-available accounting data, and differences in accounting and financing practices across agencies, few tools have been employed for monitoring and controlling agency staffing and administrative expenses.

## Summary of Major Findings

- Capital program staffing and administrative costs are not highlighted in the budget development process.
- Limited policy guidance regarding funding of capital staffing and administrative costs makes budgeting and oversight difficult.
- Incomplete reporting of capital-funded FTEs and an inability to isolate administrative and overhead expenditures in the state's accounting and reporting system prevent adequate capital expenditure monitoring.
- There is a potential for state agencies to shift their operating costs to the Capital Budget.

## Summary of Recommendations

JLARC's recommendations are intended to clarify the budgeting and reporting of Capital Budget-funded staffing, administrative, and overhead costs.

1. OFM and the Legislature should establish clear policies regarding the staffing and administrative costs that may be paid from the Capital Budget.
2. The Governor and Legislature should indicate the number of agency staff intended to be funded from capital dollars in their Capital Budget documents.
3. OFM should require state agencies to report FTEs funded with capital dollars as "*capital FTEs*" in the state's accounting and reporting system.
4. OFM should monitor actual capital FTEs against the intended number of FTEs in the enacted Capital Budget.
5. OFM should assess the feasibility and fiscal impacts of collecting actual project administration cost data from agencies after the completion of larger capital projects to determine whether existing policy guidelines are reasonable and effective.