Action Item 3

DEOBLIGATION / REALLOCATION PROCESS

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BACKGROUND:

The Florida State Workforce Investment Act Five-Year Plan provides for the development of reallocation procedures relative to WIA funds. Specifically, the plan states:

> "The WIA requires local (regional) boards to obligate 80% of their funds annually, providing the Governor the authority to reallocate unobligated balances in excess of 20% in instances where areas fail to meet this requirement. The state plans to revise its current reallocation policy to reflect WIA requirements in order to continue to provide the Governor the capability to redistribute funds based on need."

The state has continued to refine the process, which is known as the Deobligation/Reallocation process, in order to identify idle funds on a timely basis so that they may be redistributed or reallocated to areas of greater need.

Under the present process each program year's funds are reviewed three times during their two-year local life to determine if there are idle funds available for redistribution. (Note: WIA funds actually have a three-year total life, but local formula allocations must be expended within two years. Balances remaining after two years must be reallocated and expended in the third year.)

These reviews occur at the following times:

the mid-point of the program year (12/31/01 for PY 2001);
the end of the program year (6/30/02 for PY 2001); and
the end of the following program year (6/30/03 for PY 2001).

These first two reviews are based on unexpended plus <u>unobligated</u> funds. In the first review, at least 40% of the current year allocation is expected to be obligated or expended, so unobligated funds in excess of 60% of the current year allocation are subject to deobligation/reallocation. In the second review, 80% is expected to be obligated or expended, so unobligated funds in excess of 20% of the allocation are subject to the process. The review that occurs at the end of the following is based on <u>unexpended funds</u>, with all unexpended funds subject to the deobligation/reallocation process.

ISSUE STATEMENT:

The first two reviews, at the end of the first six months and the first year, have not resulted in the identification of a significant amount of funds for redistribution because obligations have proven to be subjective and unreliable as a measure of program progress.

Obligation is defined in OMB Circular A-110, Subpart A (t) as " . . . the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period."

This definition allows regions that do not have an immediate use for available funds to accumulate significant "reserves" to cover services or programs that may not be necessary or feasible for some time. In the meantime, vital programs in other areas may go unfunded due to temporary funding constraints. Even if/when under-spending regions have funds deobligated at the end of the second year, it leaves the reallocated or benefiting regions with an extremely short time frame for implementing programs to use their additional funds.

Expenditures are not incurred until services have been provided and accepted, therefore actual expenditures are a much more reliable measure of program progress than obligations.

DISCUSSION:

The recommended expenditure rates for the WIA-Adult, WIA-Youth, and WIA-Dislocated Worker programs are as follows:

(1) at least 25% of current year appropriations at the mid-point of the first year
(2) at least 50% at the end of the first program year
(3) at least 75% at the mid-point of the second year.

A review of Program Year 2000 financial information indicates that the 24 Regional Workforce Boards had collectively expended 35% of their WIA-Adult, 33% of their WIA-Youth, and 23% of their WIA-Dislocated Worker allocations at the mid-point of the program year (the first review period). However, if the standard had been "at least 20% of current year appropriations must be spent by mid-year," eight RWBs would have been subject to deobligation of WIA-Adult funds, six RWBs would have been subject to deobligation of WIA-Youth funds, and fourteen RWBs would have been subject to deobligation of WIA-Dislocated Worker funds. At the end of program the year the RWBs had collectively expended 80% of their WIA-Adult and 65% of their WIA-Dislocated Worker allocations (WIA-Youth numbers are not readily available due to program year changes during this period). Only three RWBs would have been candidates for WIA-Adult deobligation and seven for WIA-Dislocated Worker deobligation if required to have spent 40% of the funds in the first year. Of course, the number of RWBs failing to achieve the expenditure rate cut-off would undoubtedly be less if the performance criteria were actually in place.

Nationwide, there has been a lack of investment of these taxpayer resources in the workforce system. Florida had the highest investment (expenditure) rate in the country this last year. This policy change would force the system to react in real time and use the taxpayer resources more effectively.

If these additional criteria are implemented, those RWBs that lose funding in early reviews, but subsequently improve investment performance, will be eligible to participate in subsequent reallocations of the same program year funds.

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NEEDED ACTION

The Deobligation/Reallocation process be modified to incorporate minimum expected expenditure rates into the first two reviews and that a third review be instituted to take place at the midpoint of the second year. The recommended rates are identified above.