**TEXAS WORKFORCE COMMISSION LETTER**

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| **ID/No:** | WD 47-06 |
| **Date:** | July 11, 2006 |
| **Keyword:** | Financial Reporting |

**To:** Local Workforce Development Board Executive Directors
Commission Executive Staff
Integrated Service Area Managers

**Through:** Luis M. Macias, Director, Workforce Development Division

**From:** Randy Townsend, Chief Financial Officer

**Subject:** **Employment Service Salary and Fringe Benefit Reserve Balances**

## PURPOSE:

To inform Local Workforce Development Boards (Boards) of the process to fully access unexpended Employment Service (ES) allocation balances for Fiscal Year (FY) 2006 and subsequent years.

## REFERENCE:

Texas Workforce Commission General Administration Rules: 40 TAC Chapter 800, Subchapter B
Wagner-Peyser Act of 1933, as amended by the Workforce Investment Act of 1998

## FLEXIBILITY RATINGS:

**No Local Flexibility (NLF):** This rating indicates that Boards must comply with the federal and state laws, rules, policies, and required procedures set forth in this WD Letter and have no local flexibility in determining whether and/or how to comply. Federal and state laws, rules, policies, and required procedures with a "No Local Flexibility" rating are indicated by the acronym, **NLF**, in the margin to the right of the applicable paragraph. Additionally, all information with a "No Local Flexibility" rating is indicated by "must" or "shall."

Failure to comply with the federal and state laws, rules, policies, and required procedures with a "No Local Flexibility" rating may result in corrective action, up to and including sanction and penalty.

**Local Flexibility (LF):** This rating indicates that Boards have local flexibility in determining whether and/or how to implement guidance or recommended practices set forth in this WD Letter. All guidance or recommended practices with a "Local Flexibility" rating are indicated by the acronym, **LF**, located in the margin to the right of the applicable paragraph. Additionally, guidance or recommended practices with a "Local Flexibility" rating are indicated by "may" or "recommend."

Boards are not subject to corrective action for failure to comply with guidance or recommended practices with a "Local Flexibility" rating.

## BACKGROUND:

The Texas Workforce Commission (Commission) allocates §7(a) Wagner-Peyser ES funds in accordance with Commission rule §800.57. The allocation includes funds for ES operating expenditures paid by Boards, and salaries and fringe benefits of state ES employees who are assigned to Boards, but paid by the Commission under the Texas Model.

Therefore, the Commission, in conjunction with each Board, designates a portion of each local workforce development area's (workforce area) allocation that the Commission initially reserves for salaries and fringe benefits based on each Board's projected full-time-equivalent needs, through September 30 of the next calendar year. The Commission then contracts the balance of each workforce area's allocation to the respective Board as an ES operating grant.

Boards' ES contracts may be amended throughout the year. For example, each Board may request contract amendments to move funds between its ES operating grant and respective salaries and fringe benefit reserve through September 30, as long as the total contract and reserve amounts continue to sum to the workforce area's Commission-approved allocation. After September 30, the Commission amends ES contracts to reconcile the salaries and fringe benefit reserve to actual salaries and fringe benefits that have accrued or been paid by the Commission as of that date. At that time:

- If there is a positive balance in a Board's salaries and fringe benefit reserve as of October 1, the Commission adds the surplus to the Board's ES operating grant.
- If there is a negative balance in the Board's salaries and fringe benefit reserve as of October 1, the Commission reduces the Board's ES operating grant by an amount that equals the reserve deficit.

The end of an ES operating grant contract period will overlap with the beginning of the following year's ES operating grant contract period to enable Boards to fully expend any balances that result from the September 30 salary and fringe benefit reserve reconciliation. Salaries and fringe benefits for the period beginning October 1 will be paid from the following year's allocation.

This WD Letter supersedes and rescinds WD Letter 46-05, issued July 25, 2005, and entitled "Fiscal Year 2005 Employment Service Salary and Fringe Benefit Reserve Balances."

**PROCEDURES:**

Boards must fully expend each year's ES allocation by the end of their respective ES operating grant contract period. **NLF**

Boards must ensure than any salaries and fringe benefits reserve balances that are added to their ES operating grants are used for allowable ES operational expenditures by the end of the respective ES operating grant contract period. **NLF**

Boards may view expenditures for salaries, fringe benefits, and operations in the FS-9 report that is provided to them each month. **LF**

In order to fully expend all available funds, it is recommended that Boards use a "first-in, first-out" (FIFO) approach when expending ES operating funds that overlap with a subsequent year's contract period. It is also recommended that the impact on a subsequent year's expenditure levels be incorporated into Board planning. **LF**

Example:
As of October 1, a Board's ES operating grant, which ends that month, has an available balance of $25,000. The next year's $1.2 million grant begins on October 1, so that the two contracts will overlap in October. During October, the Board incurs $75,000 in expenditures. Under the above recommendations, the Board would fund the first $25,000 of expenditures under its previous grant, and the remaining $50,000 under its new grant.

**FY 2006 ES Allocations**

As of October 1, 2006 Boards must have an active FY 2006 ES operating grant for the Commission to adjust each Board's grant for the deficits and surpluses that will result when the Commission reconciles Boards' FY 2006 salaries and fringe benefit reserves to actual salaries and fringe benefit costs. **NLF**

Boards must be aware that prior to September 30, 2006, the Commission will amend FY 2006 ES operating grants that have not been fully expended to extend the contract end date to December 31, 2006. **NLF**

Boards must be aware that after October 1, 2006, the Commission will amend each Board's FY 2006 ES operating grant to: **NLF**

- add a Board's October 1, 2006, salaries and fringe benefit reserve surplus, if any, to its FY 2006 operating grant; or
- reduce a Board's FY 2006 ES operating grant for the amount of its salaries and fringe benefit reserve deficit as of October 1, 2006, if any.

Since a deficit in a Board's FY 2006 ES salaries and fringe benefit reserve will be offset by a corresponding reduction to the Board's FY 2006 ES operating grant, and salaries and fringe benefit costs cannot be projected through September 30, 2006 with exact accuracy, it is recommended that Boards use Commission information on actual salaries to date along with Board projections through September 30, 2006 to assess the likelihood of and allow for sufficient operating funds to offset a reserve deficit, should it occur. **LF**

**FY 2007 and Subsequent Years' ES Allocations**

Boards must be aware that the end of the FY 2007 ES operating grant will be contracted to overlap with the beginning of the FY 2008 ES operating grant, and that this pattern along with necessary adjustments for those years' salaries and fringe benefit reserve surpluses or deficits will continue for all subsequent fiscal years. **NLF**

## ACTIONS REQUIRED:

Boards must ensure that appropriate staff is apprised of and complies with the requirements in this WD Letter.

## INQUIRIES:

Direct inquiries to Kimberly R. Emmerich, Director of Financial Operations, at (512) 936-3054 or Fiscal.TA@twc.state.tx.us.

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| Rescissions: WD Letter 46-05 | Expiration: Continuing |