



November 28, 2006

**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

Alexandria, VA

Dear Tribal/State Official:

We are writing to request your comments on a proposal for a new methodology to allocate federal administrative funds for the Food Distribution Program on Indian Reservations (FDPIR). The proposal was developed by our work group, which was convened in 2005 at the request of former U.S. Department of Agriculture Under Secretary Eric Bost. Our group is comprised of representatives from Indian Tribal Organizations (ITO) and State agencies that administer FDPIR, as well as representatives from the Food and Nutrition Service's (FNS) Regional Offices and National Office. Enclosed is a list of the current work group members (Attachment A).

Administrative funding for FDPIR is currently allocated among the FNS Regional Offices based on percent shares that were established many years ago. Those percentages do not correlate with participation levels or any other objective measures of how necessary and reasonable administrative costs are incurred. FNS' Regional Offices allocate the available funds based on annual budget negotiations with Tribal and State program staff. More than 100 administrative budgets are negotiated each year via a budget process that varies from Region to Region. We have enclosed additional information explaining why a new funding methodology is needed, and the process we employed in developing our preliminary proposal (Attachment B).

A detailed description of the proposed funding methodology and a step-by-step explanation of the calculations under the proposal are enclosed (Attachment C). In addition, we have included an attachment in question and answer format to help explain the proposal (Attachment D).

We would also like to bring to your attention a proposal by the work group for the termination of current arrangements under which seven ITOs not administered by the North Dakota or Montana State agencies receive commodities through warehouses maintained by those State agencies (see Attachment E). The work group will recommend to FNS that it allow the seven ITOs to be incorporated under the National Multi-food Warehouse Contract, which is now under development.

We value your opinion, and, therefore, are anxious to get your feedback on the preliminary proposal. Your perspective will help us in our development of a final recommendation to FNS officials. We have included an attachment that highlights some of the issues on which we would particularly like to receive your feedback (Attachment F). Please forward any written comments you may have to Nancy Theodore no later than **March 16, 2007**. Ms. Theodore may be contacted at:

USDA, Food and Nutrition Service  
Food Distribution Division  
3101 Park Center Drive, Room 506  
Alexandria, Virginia 22302  
Fax: (703) 305-1410  
Email address: [nancy.theodore@fns.usda.gov](mailto:nancy.theodore@fns.usda.gov)

In addition, the FNS Regional Offices will host meetings throughout the country with Tribal and State leaders to discuss and solicit feedback on the work group's proposal. You will receive a separate letter inviting you to attend one of these meetings. Information on the dates and locations of the meetings will be posted on the FNS website at <http://www.fns.usda.gov/fdd/programs/fdpir/FundingWkGrp/default.htm> as soon as the dates and locations are finalized. We encourage your participation in the meetings.

The work group will meet in April 2007 to review the written comments and the oral comments presented at the meetings. We will develop our final recommendation at that time. That recommendation will be forwarded to the Administrator of the Food and Nutrition Service for consideration.

If you would like more information on the work group, including summaries of our meetings and conference calls, please visit the FNS website at <http://www.fns.usda.gov/fdd/programs/fdpir/FundingWkGrp/default.htm>

We believe that the ITOs and State agencies that administer FDPIR are entitled to a system of funds allocation that is fair, objective, and easy to understand. We encourage your active participation in achieving this critical goal. If you have any questions, please contact any of the work group members listed on Attachment A. We look forward to hearing from you!

Sincerely,

***The Members of the FDPIR Funding Methodology Work Group***

Enclosures

## FDPIR Funding Methodology Work Group

### Contact Information

<b>Region</b>	<b>Members</b>	<b>Title/Organization</b>	<b>Telephone</b>	<b>Fax</b>	<b>Email</b>
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<b>Western</b>	<b>Nancy Egan</b>	<b>WAFDPIR President; Program Director, Shoshone-Paiute Tribes</b>	<b>(775) 757-3131</b>	<b>(775) 757-3132</b>	<a href="mailto:nancylegan@aol.com"><u>nancylegan@aol.com</u></a>
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<b>Midwest</b>	<b>Anthony Nertoli</b>	<b>NAFDPIR President; Program Director, Sault Ste. Marie Tribe of Chippewa Indians</b>	<b>(906) 635-6076</b>	<b>(906) 635-3658</b>	<a href="mailto:anertoli@saulttribe.net"><u>anertoli@saulttribe.net</u></a>
	<b>Susie Roy</b>	<b>NAFDPIR Midwest Region Vice-President; Program Director, Leech Lake Chippewa</b>	<b>(218) 335-2676</b>	<b>(218) 335-2152</b>	<a href="mailto:saroy@llojibwe.com"><u>saroy@llojibwe.com</u></a>
	<b>Elvira Jarka</b>	<b>Director, Special Nutrition Programs, FNS-Midwest Regional Office</b>	<b>(312) 353-1464</b>	<b>(312) 353-4108</b>	<a href="mailto:Elvira.Jarka@fns.usda.gov"><u>Elvira.Jarka@fns.usda.gov</u></a>
<b>Mountain Plains</b>	<b>Charles "Red" Gates</b>	<b>NAFDPIR Mountain Plains Region Vice-President; Program Director, Standing Rock Sioux</b>	<b>(701) 854-7238</b>	<b>(701) 854-3422</b>	<a href="mailto:srfdpir@westriv.com"><u>srfdpir@westriv.com</u></a>
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<b>FNS-HQ</b>	<b>Laura Castro</b>	<b>Chief, Policy Branch, FNS Headquarters</b>	<b>(703) 305-2662</b>	<b>(703) 305-1410</b>	<a href="mailto:Laura.Castro@fns.usda.gov"><u>Laura.Castro@fns.usda.gov</u></a>
	<b>Nancy Theodore</b>	<b>Program Analyst, FNS Headquarters (staff support to the work group)</b>	<b>(703) 305-2675</b>	<b>(703) 305-1410</b>	<a href="mailto:Nancy.Theodore@fns.usda.gov"><u>Nancy.Theodore@fns.usda.gov</u></a>
	<b>Melanie Casey</b>	<b>Program Analyst, FNS Headquarters (facilitator)</b>			

## FDPIR Funding Methodology Work Group Preliminary Recommendation for a New Funding Methodology

### Background

#### Previous Efforts to Develop a New Funding Methodology

In 1998, the Food and Nutrition Service (FNS) initiated a business process reengineering project to streamline and improve its commodity programs. As part of this effort, the Trailblazers for New-Tritition (TNT) team was convened in 1999 to develop recommendations for improving the administration and operation of FDPIR. The TNT team began work on developing a new funding methodology in response to two resolutions passed by the National Association of Food Distribution Programs on Indian Reservations (NAFDPIR). The resolutions, one passed in 1994 and the other in 1998, called for the development of an equitable methodology for the allocation of FDPIR administrative funds to the Indian Tribal Organizations (ITOs) and State agencies.

The TNT team developed proposals for three funding models and forwarded them to all participating Tribal and State governments and all ITO and State FDPIR Program Directors for consideration and comment. A discussion of the proposed models and the factors considered in developing them was held at the 1999 NAFDPIR annual conference. Following a review of the comments received, the TNT team finalized its recommendation, which is posted on the FNS website at <http://www.fns.usda.gov/fdd/fd2000/tnt10.pdf>. The recommendation was presented for discussion at the 2000 NAFDPIR annual conference. A resolution passed by the NAFDPIR membership at that conference withdrew support for a new methodology. As a result, further efforts to develop and implement a new funding methodology were suspended. Another resolution calling for the NAFDPIR Board to develop a funding methodology was presented at the 2003 NAFDPIR annual conference, but it was withdrawn by motion of the membership.

#### Basis for Need for a New Funding Methodology

Although the NAFDPIR resolution passed in 2000 withdrew support for the proposed TNT funding methodology, FNS was aware of continued interest among NAFDPIR's membership for an equitable methodology for the allocation of administrative funding. Therefore, in 2005, former Under Secretary Eric Bost asked FNS to convene a work group to develop a new funding methodology.

The current allocation method involves the distribution of appropriated funds to the FNS Regional Offices based on fixed percentages that have been used for many years. The basis for these historical percentages is **unclear**; therefore, it is not known if the funds made available to the FNS Regional Offices for allocation to the ITOs and State agencies are appropriate. Below are the percentages used to allocate FDPIR administrative funds to the FNS Regional Offices:

FNS Regional Office	Percentage of Funding Allocation
Northeast Regional Office	0.97%
Southeast Regional Office	0.77%
Midwest Regional Office	10.96%
Mountain Plains Regional Office	28.48%
Southwest Regional Office	27.03%
Western Regional Office	31.79%
Total	100%

The FNS Regional Offices negotiate individually with the ITOs and State agencies on the approval of individual annual budgets. Each FNS Regional Office has developed its own objectives and methodology for the negotiation process, which has resulted in **inconsistencies** across regions. Currently, FDPIR programs with similar size and characteristics, but located in different regions, may receive significantly different administrative funding amounts.

The current budget process is **time-consuming** for both the FNS Regional Offices and the ITOs/State agencies. Each year more than 100 budgets must be individually negotiated by the FNS Regional Offices and the ITOs/State agencies.

For the above stated reasons, FNS is committed to the development of a federal administrative funds allocation process for FDPIR that:

- allocates funds on an equitable basis;
- has an objective basis that is easy to understand; and
- is administratively efficient to implement.

### **FDPIR Funding Methodology Work Group Members**

The work group is comprised of representatives of ITOs and State agencies that administer FDPIR, representatives of FNS Regional Offices, and FNS headquarters staff. The current work group members are listed in Attachment A. There has been some change to the original membership. Replacements were sought when members were no longer able to participate due to retirement and other reasons.

### **Data Collection and Review**

The work group conducted an extensive collection of data for its review, including: cost category data from the individual fiscal year 2005 FDPIR approved budgets (e.g., personnel costs, equipment, building lease/rent, tailgating expenses, etc.); matching amounts and rates; indirect cost amounts and rates; number of full-time equivalent positions; and average monthly participation.

The work group discussed program operations and the common functions that all programs must conduct, including: certification; household issuance; storage of commodities; reporting; monitoring; training; outreach; etc. The work group also discussed the differences that make each program unique. For example, programs range in size from an average of 23 participants per month to more than 10,000 participants per month. Many ITOs administer the program out of one main location; however, some ITOs have several offices/warehouses where certifications and issuances are conducted. Some ITOs have established FDPIR self-serve stores where participants can “shop” for their commodities in a setting similar to a grocery store. Many of the ITOs offer tailgating services to remote locations and home delivery to accommodate the elderly and individuals with disabilities. Some ITOs travel hundreds of miles to tailgate sites each month. Also, some programs are operated within the borders of one reservation, while in other instances a Tribe or a consortium of Tribes provides FDPIR services to as many as 20 Tribes.

### **Guidelines for Considering Proposed Funding Methodologies**

The work group established guidelines for developing and evaluating proposed funding methodologies. The chart below lists the guidelines established by the work group:

<b>Guidelines</b>
1. Fair
2. Considers operational differences among the ITOs and State agencies
3. Maintains a component for negotiation
3. Clear and easy to explain
4. Efficient to implement
5. Provides sufficient funding to the smallest ITOs
6. Includes a plan for the gradual implementation of the funding methodology
7. Includes a plan for the reallocation of unobligated funds
8. Objective

### **Preliminary Proposal for a New Funding Methodology**

The work group developed several proposals that combined various features. In April 2006, the FDPIR Program Directors were provided a written description of these proposals and asked to comment on them. In addition, a general presentation on the proposals was made at the 2006 NAFDPIR annual conference. In response to the input received from the Program Directors, the work group met in July 2006 and developed the attached preliminary recommendation for a new funding methodology.

Attachment C describes the proposal and list the steps for the calculations required under the proposal. Attachment D provides additional clarification on the preliminary proposal in question and answer format.

More information on the deliberations of the work group, including summaries of our meetings and conference calls, is available on the FNS website at

<http://www.fns.usda.gov/fdd/programs/fdpi/FundingWkGrp/default.htm>.

## **FDPIR Funding Methodology Work Group Preliminary Recommendation for a New Funding Methodology**

### **Description**

The proposed funding methodology would provide FDPIR administrative funding to ITOs/State agencies through two mechanisms: the **Basic Grant Amount** and the **Regional Negotiated Funding Amount**.

The **Basic Grant Amount** includes three components. Each component would provide a portion of the total federal funding that would be available to each ITO/State agency under this grant amount. This feature would streamline the current budget process by eliminating the need for ITOs and State agencies to submit an annual budget to FNS. The FNS Headquarters Office would calculate the **Basic Grant Amounts** that are offered to the ITOs/State agencies using the funding methodology described in this attachment.

The **Regional Negotiated Funding Amount** is funding to be held by the FNS Regional Offices and allocated to the ITOs/State agencies based on need as determined through a negotiation process. It is intended to accommodate emergency needs, one-time capital expenditures, and any other operational needs not adequately provided for under the **Basic Grant Amount**. ITOs/State agencies that wish to receive administrative funds in addition to their **Basic Grant Amount** would submit a request for supplemental funds to the appropriate FNS Regional Office. The FNS Regional Office would negotiate with those ITOs/State agencies that request supplemental funding and allocate the funds accordingly. The **Regional Negotiated Funding Amounts** provided to each FNS Regional Office would be calculated by the FNS Headquarters Office using the funding methodology described in this attachment.

Expenditures of funds provided to the ITOs and State agencies by FNS must be reasonable and necessary to the administration of FDPIR, in accordance with Federal financial management regulations and guidelines. These expenditures are subject to audit by FNS, and adequate and appropriate documentation must be maintained.

A critical feature of the proposed funding methodology is the gradual implementation plan. It is the intent of the work group that the funding methodology be phased-in, and that no ITO/State agency experience a significant reduction of funds during the gradual implementation period. To supplement the **Basic Grant Amount** of those ITOs/State agencies that would otherwise experience a reduction in funds, ITOs/State agencies that would receive an increase under the new funding methodology would receive a partial increase during the gradual implementation period. Also, the **Regional Negotiated Funding Amount** may be adjusted during the gradual implementation period to ensure that sufficient funds are available to supplement the **Basic Grant Amount** of those ITOs/State agencies that would otherwise experience a reduction in funds under the proposed funding methodology.

Below is a description of the components of the **Basic Grant Amount** and the **Regional Negotiated Funding Amount**, and the steps for the calculation of each component.

Component Description	Component Calculation
<b>Basic Grant Amount</b>	
<p><b>Component 1:</b> Each ITO/State agency would receive a \$10,000 base funding amount. This component is designed to cover a very basic level of fixed operating costs so that ITOs/State agencies with low participation receive an adequate Basic Grant Amount.</p>	<p><b>Step 1:</b> Allocate \$10,000 to each ITO/State agency.</p>
<p><b>Component 2:</b> Each ITO/State agency would receive 5 percent of its highest federal share of outlays and unliquidated obligations (excluding Nutrition Education funding) in the most recent three years for which data is available. This component would account for historical funding for regular operational needs since the federal share of outlays and unliquidated obligations represents the amount of federal funds spent by each ITO/State agency. The work group did not want to base future funding on large one-time expenses from past years, so the federal share of capital expenditures of \$50,000 or more would be subtracted from the amounts above.</p>	<p><b>Step 1:</b> List each ITO’s/State agency’s federal share of outlays and unliquidated obligations (minus large capital expenditures of \$50,000 or more) for the most recent three fiscal years for which data is available .</p> <p><b>Step 2:</b> Identify the highest amount in Step 1 for each ITO/State agency.</p> <p><b>Step 3:</b> Multiply the amount in Step 2 by 0.05 for each ITO/State agency.</p>
<p><b>Component 3:</b> Each ITO/State agency would receive funding based on its percentage share of the national participation level averaged for the most recent three-year period. Participation is a primary cost driver and this component would account for variations in the number of participants served. For most ITOs/State agencies, this component will provide the largest portion of their Basic Grant Amount.</p>	<p><b>Step 1:</b> List each ITO’s/State agency’s average monthly participation for the most recent three fiscal years.</p> <p><b>Step 2:</b> Calculate the average of the amounts in Step 1 for each ITO/State agency.</p> <p><b>Step 3:</b> Calculate each ITO’s/State agency’s percentage of the national average in Step 2.</p> <p><b>Step 4:</b> Multiply the percentage in Step 3 for each ITO/State agency by the amount of funds available for this component.</p>
<b>Regional Negotiated Funding Amount</b>	
<p><b>Component 4:</b> A set percentage (e.g., 15 percent) of the federal appropriated amount would be set aside and allocated to the FNS Regional Offices. The FNS Regional Offices would allocate these funds to the ITOs/State agencies based on need as determined through a negotiation process. Each Region’s share of funding would be calculated based on its Regional share of participation averaged for the most recent three-year period. The work group will develop guidance for the negotiation process.</p>	<p><b>Step 1:</b> List each Region’s average monthly participation for the most recent three fiscal years.</p> <p><b>Step 2:</b> Calculate the average of the amounts in Step 1 for each Region.</p> <p><b>Step 3:</b> Calculate each Region’s percentage of the national average in Step 2.</p> <p><b>Step 4:</b> Multiply the percentage in Step 3 for each Region by the amount of funds available for this component.</p>



## **FDPIR Funding Methodology Work Group Preliminary Recommendation for a New Funding Methodology**

### **Questions and Answers**

#### **Question 1: How will funding be determined? Is it based on a formula?**

**Answer:** The work group realized that it would be extremely difficult to design a funding formula that could address all the operational differences among ITOs and State agencies. So the work group designed a proposed funding methodology with two parts: the first part is formula-driven and would provide an objective and fair way to allocate funds; the second part would allow the ITOs and State agencies to negotiate with FNS Regional Offices to ensure that their funding needs are met.

The formula-driven **Basic Grant Amount** is comprised of three components (see Attachment C for a description of the components). It is designed to cover commonly shared expenses, yet it may not cover the expenses of every ITO/State agency.

The **Regional Negotiated Funding Amount** was included in the proposed methodology to provide supplemental funding to those ITOs/State agencies that may require additional funding because of their individual needs. ITOs/State agencies that wish to receive additional funds would submit a request to their FNS Regional Office and negotiate with that office for the supplemental funds.

Under the proposal, each ITO/State agency will be advised of their projected Basic Grant Amount by the FNS Headquarters Office prior to the beginning of each fiscal year. [The actual allocation amount will be contingent upon enactment of an annual appropriation bill.] Any ITO/State agency that wishes to receive more or less funds than the amount of their projected Basic Grant Amount may submit a request to their FNS Regional Office for supplemental funding or a reduction in funds. The Regional Office will negotiate with the individual ITOs/State agencies on the amount of funds they wish to receive to supplement their projected Basic Grant Amount or the amount of funds they want deducted from their projected Basic Grant Amount.

#### **Question 2: Will my ITO/State agency receive more or less administrative funding under this approach?**

**Answer:** At this time, we can not estimate with any precision how each ITO/State agency would be affected by the implementation of this recommendation. This is because the amount of funds each ITO/State agency would ultimately receive depends on several variable factors, such as:

- the amount of funding appropriated by Congress in the year of implementation;
- the number of participants served by each ITO/State agency for the three years preceding the year of implementation (See description of calculations for Components 3 and 4 in Attachment C)
- each ITO's/State agency's federal share of outlays for the three years preceding the year of implementation (See description of calculation for Component 2 in Attachment C); and
- the amount of supplemental funding the individual ITOs/State agencies receive through negotiation with the FNS Regional Office in the year of implementation.

It is the intent of the work group that the proposed funding methodology be implemented on a gradual basis, and that no ITO/State agency experience a significant reduction in funds during the gradual implementation phase.

**Question 3: How will the gradual implementation plan work?**

**Answer:** Under the proposed gradual implementation plan, if the calculated Basic Grant Amount for an ITO/State agency is less than the ITO's/State agency's Federal allocation in the prior fiscal year, there would be no reduction in funds. The ITO/State agency would receive a Basic Grant Amount that is no less than the Federal allocation it received the prior fiscal year.

To supplement the Basic Grant Amounts of those ITOs/State agencies whose calculated Basic Grant Amount is less than their Federal allocation in the prior fiscal year, it would be necessary to limit the increase of those ITOs/State agencies whose calculated Basic Grant Amount would result in an increase in funding, as compared to their Federal allocation in the prior fiscal year. Therefore, ITOs/State agencies due to receive an increase in funding under the new funding methodology would not receive their full increase during the gradual implementation period. In addition, it may be necessary to adjust the amount of funds available under the Regional Negotiated Funding Amount during the gradual implementation period to ensure that sufficient funds are available to supplement the calculated Basic Grant Amount of those ITOs/State agencies that would otherwise experience a reduction in funds under the new funding methodology.

Please note that there are unpredictable factors that would impact FNS' ability to avoid any reduction in funds during the gradual implementation period. One important factor is the amount of funding that Congress would appropriate each year during the gradual implementation period. A reduction in appropriations would impair FNS' ability to avoid reductions in allocations to ITOs/State agencies.

**Question 4: The ITOs/State agencies are not the same. They differ in size, geographic area served, and type of operation. They also differ in regard to expenses. Some have higher tailgating costs; some have higher heating costs; while others have higher salaries. How does the proposed funding methodology take these differences into account?**

**Answer:** The work group recognizes that the FDPIR programs differ in many aspects. The proposed funding methodology contains four different mechanisms that are designed to address the wide differences among FDPIR operations (see Attachment C for a detailed description of the proposed funding methodology):

- Component 1: Basic Grant Amount - Base Amount. As part of its Basic Grant Amount, each ITO/State agency would receive a base amount of \$10,000. This component is designed to cover a very basic level of fixed program costs so that ITOs/State agencies that have low levels of participation would receive an adequate Basic Grant Amount.
- Component 2: Basic Grant Amount - Past Expenditures. A portion of each ITO's/State agency's Basic Grant Amount would be calculated based on its highest level of past expenditures (minus capital expenditures of \$50,000 or more) in the past three years. This component accounts for all

cost drivers since tailgating and other operating expenses have been built into each ITO's/State agency's budget over time.

- Component 3: Basic Grant Amount - Participation. The third part of the Basic Grant Amount would be calculated based on each ITO's/State agency's percentage share of the national participation level averaged for the most recent three-year period. This component accounts for variations in the number of participants served by each program. The work group believes that participation is a primary driver of operating costs.
- Component 4: Regional Negotiated Funding Amount. This component would allow each ITO/State agency to negotiate with the FNS Regional Offices for supplemental funding to address individual operational needs not fully covered by each ITO's/State agency's Basic Grant Amount.

**Question 5: There is no funding allocation problem in my Region. Why is a change being proposed?**

**Answer:** It is FNS' intent that the new funding methodology have a rational basis, and that it provides a clear, streamlined approach for allocating administrative funds that is fair to all ITOs/State agencies.

The current methodology for allocating FDPIR administrative funds to the FNS Regional Offices does not have a rational basis. The Regional Offices are currently allocated funds based on fixed percentages that have not changed in many years. For example, the Midwest Regional Office receives 10.96 percent of the appropriated administrative funds each year. This amount has no clear relationship to any administrative cost driver. In comparison to each Region's share of the National level of program participation, it appears that some Regions do not receive sufficient funding.

In addition, the current funds allocation process requires the annual negotiation of over 100 separate budgets each year by the FNS Regional Offices and ITOs/State agencies. This process requires considerable staff resources by all parties involved. Staff resources are shrinking at all levels, and the FDPIR funds allocation process must be effectively streamlined.

**Question 6: My Tribe is a Treaty Tribe. Will this proposed methodology take away the ability of my ITO to negotiate the federal FDPIR funding allocation for the administration of FDPIR?**

**Answer:** No. The proposed methodology will **not** take away your ability to negotiate your federal FDPIR funding allocation. Component 4, the Regional Negotiated Funding Amount, has been incorporated specifically to maintain your ability to negotiate the total amount of funds you will receive.

**Question 7: How will funds be negotiated under Component 4, the Regional Negotiated Funding Amount?**

**Answer:** The work group will develop guidelines for the negotiation process. We value your opinion on the guidelines that should be adopted.

**Question 8: Will there be any restrictions on how the supplemental funding provided under Component 4, the Regional Negotiated Funding Amount, can be used by our ITOs/State agencies?**

**Answer:** Funds provided under the Regional Negotiated Funding Amount may be used to fund any allowable expenses that are necessary and reasonable for the administration of your FDPIR program, in accordance with Federal financial management regulations and instructions.

**Question 9: How was the \$10,000 base amount determined in Component 1 of the Basic Grant Amount?**

**Answer:** The work group considered several different base amounts. The key consideration was to ensure that the ITOs/State agencies that serve the smallest number of participants received adequate administrative funding. We determined that a base amount of \$10,000 best addressed this consideration.

**Question 10: How was the percentage in Component 2 of the Basic Grant Amount determined?**

**Answer:** Under Component 2, each ITO/State agency would receive 5 percent of its highest federal share of outlays (excluding Nutrition Education funding) in the most recent three years for which data is available. This amount would be adjusted to subtract capital expenditures of \$50,000 or more. Component 2 takes into account historical budget allocations and accounts for all past cost drivers. In developing this component, we considered several different percentage amounts. The 5 percent amount reflects a compromise negotiated among the work group members.

**Question 11: Why is the bulk of the funding in the Basic Grant Amount allocated based on participation (Component 3)?**

**Answer:** The work group members agreed that a major cost driver for all ITOs/State agencies is participation. The work group consistently returned to this basic premise and conclusion in our deliberations. After extensive analysis and discussion of many cost drivers and differences among the ITOs/State agencies, program participation was the one constant and objective measure that all work group members agreed was key to a fair and equitable funding methodology.

**Question 12: How was the 15-percent funding set-aside for the Regional Negotiated Funding Amount determined?**

**Answer:** The work group considered various percentages for Component 4, the Regional Negotiated Funding Amount. After a review of several percentage alternatives using sample data and making certain assumptions, the work group agreed that 15 percent was the best alternative. This amount allows the FNS Regional Offices sufficient funds to negotiate with the ITOs/State agencies on supplemental funding requests. We welcome your opinion on the percentage amount to be incorporated in the final recommendation.

**Question 13: My Tribe issues per capita payments on a quarterly basis. This causes program participation to drop significantly during certain months of the year. My average monthly participation figure for the year reflects these drops in participation. Nevertheless, my program still has consistent monthly expenses. Does the methodology include an adjustment for the drop in participation due to per capita payments?**

**Answer:** Component 3 of the Basic Grant Amount uses average monthly participation for the most recent three fiscal years. By averaging 36 months of data, the impact of variances in monthly participation is lessened. The methodology assumes that many expenses are driven by participation and that these will drop in months when participation is lower.

**Question 14: Does the proposal include an inflation adjustment to handle increases in program costs, such as utilities, fuel, maintenance, etc.?**

**Answer:** The proposal does not include a feature that automatically adjusts for inflation. However, federal appropriations are generally adjusted annually in relation to inflation. We expect that the appropriations for FDPIR will continue to see annual appropriations that adjust for inflation.

**Question 15: What happens to the funds, if my ITO/State agency determines at the beginning of the fiscal year that we will not need the full Basic Grant Amount we were allocated?**

**Answer:** You may request a reduction in funding from your FNS Regional Office if the allocation exceeds your projected needs for the year. The funds will be reallocated by FNS to other ITOs/State agencies. The work group will develop guidelines for the reallocation process. We welcome your comments on developing these guidelines.

**Question 16: If during the fiscal year, my ITO/State agency determines that it is unable to spend all of the funds it received under the Basic Grant Amount and/or any supplemental funds we received under Component 4, the Regional Negotiated Funding Amount, will those funds be reallocated to other ITOs/State agencies?**

**Answer:** Yes. The work group will develop guidelines for the reallocation of funds that can not be spent by ITOs/State agencies within the fiscal year that the funds were allocated. We welcome your comments on developing these guidelines.

**Question 17: Will the matching requirement for ITOs/State agencies change?**

**Answer:** No. ITOs/State agencies are expected to provide a 25 percent match. However, a lower match rate may be approved by FNS Regional Offices with appropriate justification.

**Question 18: Will the financial reporting requirements change for FDPIR?**

**Answer:** The reporting requirements associated with the expenditure of federal allocations would not change. All ITOs/State agencies would still submit Standard Form 269 and Standard Form 269A in accordance with Federal regulations and directives.

**Question 19: Will there continue to be a set aside of funds for Nutrition Education?**

**Answer:** Yes. The work group intends to recommend that the current annual set-aside of \$200,000 for Nutrition Education be continued.

## FDPIR Funding Methodology Work Group

### Additional Recommendation

**Proposed Recommendation:** The work group intends to recommend termination of current arrangements under which seven ITOs not administered by the North Dakota or Montana State agencies receive commodities through warehouses maintained by those State agencies. The work group will recommend to FNS that it allow the seven ITOs to be incorporated under the National Multi-food Warehouse Contract, which is now under development.

**Background:** FNS has a direct agreement with the States of North Dakota and Montana for the administration of FDPIR on reservation lands located within those States. The North Dakota State agency (ND) is responsible for the administration of FDPIR for the Mandan, Hidatsa, and Arikara Nation, the Turtle Mountain Band of Chippewa Indians, and the Trenton Indian Service Area. The Montana State agency (MT) is responsible for the administration of the program on the following reservations: Assiniboine and Sioux Tribes; Chippewa-Cree Tribe; Confederated Salish and Kootenai Tribes of the Flathead Nation; Crow Tribe; Gros Ventre and Assiniboine Tribes; the Northern Cheyenne; and until recently the Blackfeet Nation.

Both the ND and MT maintain central warehouses where shipments of USDA commodities are received, stored, and then transported to the local agencies served by the State agencies. ND and MT also order, receive, store, and transport commodities to a combined total of seven independent ITOs. ND serves Standing Rock Sioux, Cheyenne River Sioux, and Spirit Lake Sioux; while MT serves the Blackfeet Nation, which until recently was administered by MT, two ITOs in Wyoming and one ITO in Utah. This arrangement was carried over from the Needy Family Program, which preceded FDPIR. The ITOs were allowed to continue to receive USDA commodities from the ND and MT warehouses. The State-maintained multi-food distribution systems offered improved customer service over the federally-contracted multi-food distribution system by providing a shorter time frame for the ITOs between placing orders and receiving shipments.

As part of their annual administrative funding allocation for FDPIR, MT and SD receive funds for warehousing and transporting commodities to their respective local agencies and the seven ITOs. In fiscal year 2006, MT was allocated \$370,336, and ND was allocated \$243,829 for these activities. This function is similar to operations within ITOs where USDA commodities are received at a central warehouse and then transported to other locations within the ITO (i.e., satellite warehouses or stores). The costs to store commodities in a central warehouse and transport the commodities to satellite locations are allowable costs under FDPIR.

The work group is concerned that the ND and MT State agencies are receiving FDPIR administrative funds for ordering, receiving, storing, and transporting commodities to seven ITOs that are not under their direct administration. By providing multi-food shipments to the seven ITOs, MT and ND are providing a service akin to a federally-contracted warehouse. The work group believes that expenses for these functions should be funded under the FDPIR food cost account, rather than the administrative funds account.

The work group understands that FNS is progressing with its plan for a National Multi-food Warehouse Contract whereby ITOs/State agencies will place orders directly with federally-contracted warehouses and receive improved customer service, such as shorter order/delivery turnaround time frames and guaranteed delivery dates. Bids from vendors are being reviewed and implementation is expected in the next few months.

The initial implementation plan for the National Multi-food Warehouse Contract does not include a proposal to incorporate the seven ITOs serviced by MT and ND. However, FNS officials have indicated that they will explore this option. Incorporation of the seven ITOs under the National Multi-food Warehouse Contract would result in a reduction in the total amount of FDPIR administrative funds currently provided to MT and SD for warehousing and commodity transportation.



## FDPIR Funding Methodology Work Group

### Request for Comments

We are seeking your comments on all aspects of the enclosed preliminary proposal. Highlighted below are some issues on which we would particularly like to receive your opinion. We welcome your comments on any or all of these issues. Your comments may be submitted in any format to the contact person listed on the cover letter.

- Do you agree with the guidelines listed in Attachment B for developing a new funding methodology? If not, what guidelines do you suggest?
- Do you think that the work group's preliminary recommendation is an appropriate approach to fund FDPIR in the future?
- Do you have alternative funding methodologies that you wish to propose?
- Do you have suggestions for changes to the proposed funding methodology?

Do you recommend a base amount other than \$10,000 for Component 1 of the Basic Grant Amount? If so, what amount do you recommend?

Do you agree with the approach used in Component 2 of the Basic Grant Amount? If not, what approach do you recommend?

Do you agree with the approach used in Component 3 of the Basic Grant Amount? If not, what approach do you recommend?

Do you recommend a percentage other than 15 percent for Component 4, the Regional Negotiated Funding Amount? If so, what percentage do you recommend?

- Do you have suggestions for guidelines to be used for the negotiation process related to Component 4, the Regional Negotiated Funding Amount?
- Do you have suggestions for guidelines for the reallocation of funds if an ITO/State agency requests a reduction of its Basic Grant Amount or if an ITO/State agency finds prior to the end of the fiscal year that it is unable to spend its Basic Grant Amount and/or the supplemental funds it receives under Component 4, the Regional Negotiated Funding Amount?
- Do you agree with the work group's proposed recommendation for a gradual implementation plan?
- Do you agree with the work group's proposed recommendation (see Attachment E) to allow those ITOs that currently receive commodities through warehouses maintained by the North Dakota and Montana State agencies, but are not administered by either State agency, to be incorporated under the forthcoming National Multi-food Warehouse Contract?