Fiscal Note & Local Impact Statement

123 rd General Assembly of Ohio

BILL:	**H.B. 470**	DATE:	**October 12, 1999**
STATUS:	**As Introduced**	SPONSOR:	**Rep. Harris**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: The bill transfers the functions of the Bureau of Employment Services to the Department of Job and Family Services and the Department of Commerce, implements the federal "Workforce Investment Act of 1998," renames the Department of Human Services and county departments of human services, and permits the Department of Job and Family Services to adopt rules without a hearing for the administration of chapter 4141 of the ORC.

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential indeterminate increase	Potential indeterminate increase	Potential indeterminate decrease

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The bill is complex and affects a wide range of activities. Future research on the costs or savings related to these activities may show an impact that cannot be determined at this time.

- Am. Sub. H.B. 283 appropriates up to $2 million in each year of the biennium for merger costs. This threshold would have to be crossed in order for this bill to have an effect that would increase expenditures.

- The bill abolishes the Ohio Bureau of Employment Services (OBES), renames the Department of Human Services (ODHS) the Ohio Department of Job and Family Services (ODJFS), and transfers (excluding the functions noted below, which are transferred to the Department of Commerce) to the new agency the employees, property, assets, and liabilities related to a portion of the work of Ohio OBES, especially those functions related to the federal Wagner-Peyser Act and the administration of unemployment compensation insurance, as well as job training, apprenticeship, and labor market information programs, as described in O.R.C. 4141. Indeterminate signage costs will be incurred to cover a range items from new signs identifying buildings to new letterhead and business cards that otherwise would not be purchased in the normal course of business.

- Transfers to the Department of Commerce the functions of OBES that are related to the federal Occupational Safety and Health Act, as well as the employment of minors, minimum fair wage standards, wages and hours on public works, and the public employment risk reduction program.

- Transfers the employees, vehicles, equipment, assets, liabilities, records and obligations of OBES to ODJFS or the Department of Commerce, as appropriate.

- Eliminates the reference to the Women's Division in OBES and eliminates the position of director of this division. The Director of ODJFS is given much the same duties as currently held by the division, except that the permissive conduct of studies and research on subjects related to the division's functions and responsibilities is eliminated entirely. The Director of ODJFS must assist state and local government workforce development providers instead of state and local government agencies in improving the employment competencies of and opportunities for women. The elimination of the position of Director of the Women's Division will produce a permanent savings in salary and benefit costs of approximately $75,000 to $95,000 per year.

- Provides authority to ODHS and OBES to contract to provide staff training and development to facilitate the merger. The bill exempts these contracts from Controlling Board approval. The costs of such training cannot be determined at this time.

- Designates the Director of the Ohio Department of Job and Family Services (ODJFS) as administrator of the Workforce Investment Act of 1998 (WIA) and the Wagner-Peyser Act (W-PA), and requires the Director to establish and administer a workforce development system.

- Provides that the Governor shall establish a State Workforce Policy Board and appoint members of the Board.

- In administering WIA and W-PA, the bill provides that the Director of ODJFS may make allocations and payment of funds for the local administration of workforce development activities and that the Governor shall reserve no more than 15 percent of the amounts of WIA allocated to the state for adults, dislocated workers, and youth for "statewide activities," and no more than 25 percent of WIA funds allocated for dislocated workers for statewide "rapid response activities."

- Permits the ODJFS Director to establish programs or pilots to provide workforce development activities or family services to individuals who do not meet eligibility criteria for federal programs, provided sufficient funds exist.

- Permits the Director of ODJFS to add up to five temporary (up to two years), unclassified policy development and implementation positions. This provision carries a potential cost of approximately $388,000 to $488,000 per year in salary and benefits.

- Permits the Director of ODJFS to establish, change, and abolish ODJFS positions; and to assign, reassign, classify, reclassify, transfer, reduce, promote or demote ODJFS employees who are not subject to collective bargaining. ODHS has indicated a desire to achieve a small reduction in the number of ODJFS positions, but without disrupting or degrading any service. This reduction could produce a substantial reduction of expenditures in future years.

- The bill also permits Controlling Board to increase appropriation amounts in ODJFS appropriation lines to meet merger-related compensation needs. Future research on the costs or savings related to these provisions may show an impact that cannot be determined at this time.

- Permits the ODJFS to employ or contract with hearing authorities to issue state hearing decisions, and requires that such hearing authorities be admitted to the practice of law in this state if employed or contracted with on or after the effective date of the bill. This requirement will lead to an indeterminate increase in compensation costs as current hearing authorities are replaced through turnover.

- Continues authority to provide incentives to local governmental entities, but eliminates the condition that incentives will be based on the degree to which a local entity exceeds performances standards. Some incentives will not be based on performance.

- Requires that the chief elected official of a local area (as defined by the bill) shall create a Workforce Policy Board. The bill specifies the composition of local workforce policy boards. WIA and W-PA funds will be used to support reasonable and necessary expenses for the operation of local Workforce Policy Boards.

- Extends the county consolidated funding option to workforce development activities. Consolidated funding enhances the ability of counties to shift resources to where they are needed most. However, if the consolidated funding is not monitored closely, there could be cost overruns and the state could be liable for such overruns.

- Requires that every local area shall participate in a one-stop system. One-stops shall be staffed by all the partners required under WIA and at least one representative of a county department of job and family services. OBES estimates that establishing the 30 existing one-stops had a total cost of $15.5 million, for an average cost of approximately $516,000 each. The actual cost of an additional one-stop will vary according to local needs and circumstances.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
Counties and Municipalities			
Revenues	- 0 -	Potential increase	Potential increase
Expenditures	- 0 -	Indeterminate increase	Indeterminate increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- County departments of human services are renamed county departments of job and family services. The costs associated with the renaming will be borne by county governments out of allocations from the state and from the county mandated share of those allocations. Indeterminate signage costs will be incurred to cover a range items from new signs identifying buildings to new letterhead and business cards that otherwise would not be purchased in the normal course of business.

- The bill requires that every local area participate in a one-stop system for workforce development activities. At least one representative from a county department of job and family services must staff a one-stop system to represent county family services agencies in the local area. This staffing requirement will carry costs to counties borne out of their allocation and mandated share that will vary by local area.

- Permits local areas, counties, and municipal corporations that are authorized to administer workforce development activities to assess a fee for specialized services requested by an employer.

- Requires that the chief elected official of a local area (as defined by the bill) shall created a Workforce Policy Board and specifies their required composition. WIA and W-PA funds will be used to support reasonable and necessary expenses for the operation of local Workforce Policy Boards.

- Specifies that the chief elected official of a local area may, but is not required to, consolidate all boards and committees as they determine for purposes of workforce development activities.

- Permits fees for special services provided to employers to be collected by workforce development agencies. Collected fees will be deposited in accounts that will be determined by ODJFS internal management rules.

Detailed Fiscal Analysis

Overview

The bill proposes two separate, but intimately related actions, namely an administrative reorganization involving three executive departments, and a consolidation of several job training, placement, and employment support programs into a statewide workforce development system intended to implement the federal Workforce Investment Act of 1998 (WIA). These two entwined actions proposed in the bill are accomplished through a variety of broad changes in law and policy. Specifically the bill:

- Abolishes the Bureau of Employment Services (OBES), renames the Department of Human Services (ODHS) the Ohio Department of Job and Family Services (ODJFS), and transfers to the new agency (with some functions, which are noted below, being transferred to the Department of Commerce) the employees, property, assets, and liabilities related to the balance of the work of OBES, especially those functions related to the federal Wagner-Peyser Act (W-PA), and the administration of unemployment compensation insurance, as well as job training, apprenticeship, and labor market information programs, as described in O.R.C. 4141.

- Creates a new chapter of the Revised Code, Chapter 63, establishing a statewide workforce development system as required by WIA.

- Transfers to the Department of Commerce the functions of the OBES that are related to the federal Occupational Safety and Health Act, as well as the employment of minors, minimum fair wage standards, wages and hours on public works, and the public employment risk reduction program.

- Permits the Director of ODJFS to add up to five temporary, unclassified policy development and implementation positions; to establish, change, and abolish ODJFS positions; and to assign, reassign, classify, reclassify, transfer, reduce, promote or demote ODJFS employees who are not subject to O.R.C. 4117. The bill also permits Controlling Board to increase appropriation amounts in ODJFS appropriation lines to meet merger-related compensation needs.

- Provides authority to ODHS and OBES to contract to provide staff training and development to facilitate the merger. The bill exempts these contracts from Controlling Board approval.

- Requires that every local area shall participate in a one-stop system.

The fiscal implications of these and other specific provisions are discussed below.

Programmatic Effect of the Proposed Administrative Reorganization

The bill has no impact on the operation of the Medicaid, Child Support, Child Welfare, Unemployment Insurance programs. According to the Director of ODHS and the Administrator of OBES, the services and staffing of these programs will not be affected.

The bill transfers certain functions and programs, noted above, to the Department of Commerce and merges two components of both ODHS and OBES. The first group of these components to be merged are the employment services and labor market information of OBES and the employment services contained in the Ohio Works First and the Prevention, Retention, and Contingency programs and the research and long-term planning functions of ODHS.

The second group of functions to be merged involves the administrative support services of each department, including functions related to human resources, management information services, legal services, and fiscal management. This area should also produce some cost savings with the elimination of the duplication of effort.

Relationship of the bill to Am. Sub. H.B. 283

H.B. 470 accomplishes in law and policy what Am. Sub. H.B. 283 made a fiscal fact, at least with regard to the merger of OBES and ODHS. In the FY 2000 - 2001 main operating budget, the 123rd General Assembly appropriated funding for OBES and ODHS only for FY 2000. In FY 2001, no appropriation was included for either ODHS or OBES, but instead a new agency—ODJFS—received a consolidated appropriation of $10.4 billion, made through renumbered and new appropriation line items. This step, while far from establishing a new agency or authorizing the action of a new agency, demonstrated the willingness of the General Assembly to create a new fiscal infrastructure for the administrative reorganization proposed in H.B. 470 and to do away with the existing fiscal infrastructure—the appropriation lines and amounts—necessary for OBES and ODHS to continue operations into FY 2001.

Am. Sub. H.B. 283 also included an appropriation of up to $2 million in each year of the biennium to fund merger-related expenses.

Merger of ODHS and OBES

Substitution of TANF Funds

Because there is a substantial overlap in the population served by each agency, the merger particularly of the employment services of ODHS and OBES that is being undertaken to meet the requirements of WIA will eliminate some duplication in the delivery of those services and at the same time permit a "freeing up" of WIA funds that can be used to expand services to incumbent workers who are not eligible for services that are funded with TANF dollars. ODHS and OBES officials estimate that some 80 to 85 percent of WIA dollars can be replaced with TANF funds, thus allowing the WIA funds to be put to other uses. Some W-PA dollars could also be replaced with TANF dollars. ODHS and OBES officials estimate that a minimum of $60 million could thus be freed up for an expansion of services to individuals who cannot be served using TANF dollars. This substitution will produce no savings to the state, but will provide for a more effective use of available TANF dollars.

Potential Costs and Savings

<u>Signage</u>. As a result of renaming ODHS and transferring OBES functions to ODJFS indeterminate signage costs will be incurred to cover a range of items from new signs identifying buildings to new letterhead and business cards that otherwise would not be purchased in the normal course of business. These costs are likely to be substantial since there are many facilities and employees affected by the merger. Signs identifying the state offices, the 56 OBES regional offices, the 10 ODHS regional offices, and the 5 ODHS district offices will have to be replaced, letterhead for each office will have to be replaced, along with business cards for a substantial number of employees. Some of these signage costs would have been incurred in the normal course of everyday business, but certainly some would not, and thus represent a cost of the merger. Similar costs will be incurred by the counties.

<u>Training and Development</u>. During the course of the merger, certain costs will be incurred for staff training and development to facilitate the merger. The bill specifically authorizes ODHS and OBES to contract to provide such staff training and development. The costs of such training, the time period in which such training will take place, and the number of individuals receiving such training cannot be determined at this time. In addition to the $2 million appropriated in each year of the biennium for costs of the merger, federal TANF dollars are available for staff training up to the administrative cap imposed by the TANF legislation.

<u>Personnel</u>. During a period of two years beginning July 1, 2000, the Director of ODJFS is given the authority to establish, change, and abolish ODJFS positions; and to assign, reassign, classify, reclassify, transfer, reduce, promote or demote ODJFS employees who are not subject to collective bargaining. Currently, ODHS has about 1500 positions and OBES has about 2400. OBES has identified 60 positions that will be transferred to the Department of Commerce. This would make of net of about 3840 positions that would be contained in the merger that produces ODJFS. ODHS has indicated that the target in total number of personnel for ODJFS to be reached by the end of this two-year period is about 3600. A reduction of this magnitude would produce cost savings in the several of millions of dollars in future years, and an indeterminate savings in FY2001. LBO assumes that attrition will achieve the reduction, thus saving unemployment compensation costs. However, there is a possibility that some of these positions would be eligible for an early retirement “buy-out.”

The bill also permits Controlling Board to increase appropriation amounts in ODJFS appropriation lines to meet merger-related compensation needs. Such compensation needs will result from the need to eliminate salary disparities that will develop as staff from different agencies and under different collective bargaining agreements, and some not under a bargaining agreement at all, begin to perform similar functions within a merged agency. Future research on the cost of such equalization may show an impact that cannot be determined at this time.

The bill eliminates the reference to the Women’s Division in OBES and eliminates the position of director of this division. The Director of ODJFS is given much the same duties as currently held by the division, except that the permissive conduct of studies and research on subjects related to the division’s functions and responsibilities is eliminated entirely. The Director of ODJFS must assist state and local government workforce development providers instead of state and local government agencies in improving the employment competencies of and opportunities for women. The elimination of the position of Director of the Women’s

Division will produce a permanent savings in salary and benefit costs of approximately $75,000 to $95,000 per year.

The bill permits the Director of ODJFS to add up to five temporary (up to two years), unclassified policy development and implementation positions. This provision carries a potential cost of approximately $388,000 to $488,000 per year in salary and benefits.

Implementation of WIA

In implementing the requirements of WIA, the bill also requires that every local area shall participate in a one-stop system. OBES estimates that establishing the 30 existing one-stops had a total cost of $15.5 million in one time implementation costs, for an average cost of approximately $516,000 each.

At the present time these 30 existing one-stops serve the entire state. However, the number of one stops that will be developed depends on the choices of counties and municipal corporations in their formation of local areas. Thus the actual cost of an additional one-stop will vary according to local needs, circumstances, and the choice made in local design of these systems. State and local WIA funds, as well as W-PA funds, can be used to support the development of one-stop systems within the set of caps on administrative expenses, which approximate 10 percent. If an expansion of one-stop systems beyond that level is desired, then this would require some mix of state and local funding.

The bill also permits fees to be collected by local workforce development agencies for special, customized services provided to employers. While internal management rules will need to be set by ODJFS, these fees will provide program income that can be used to fund additional workforce development activities.

Summary

The expenditures that result from this bill may be paid for in part by the $2 million that is appropriated for each year of the biennium by H.B. 283. However, LBO estimates that the potential costs associated with the bill may exceed the H.B. 283 appropriation. The bill also contains provisions that have the potential to produce a reduction in expenditures, particularly in future years.

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