Fiscal Note & Local Impact Statement

127 th General Assembly of Ohio

Ohio Legislative Service Commission
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BILL: **H.B. 420** DATE: **May 6, 2008**

STATUS: **As Reported by House State Government and Elections** SPONSOR: **Rep. Brinkman**

LOCAL IMPACT STATEMENT REQUIRED: **No — No local cost**

CONTENTS: **Requires that certain information on state awards and earmarks, state real property management, state agency management, and state program effectiveness be collected and made available on-line**

State Fiscal Highlights

STATE FUND	FY 2009	FY 2010	FUTURE YEARS
General Revenue Fund and Various State Funds – Various Agencies			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase in personnel costs for real property officers	Potential increase in personnel costs for real property officers	Potential increase in personnel costs for real property officers
Accounting and Budgeting Fund (Fund 1050) – Office of Budget and Management			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase to perform agency assessments	Potential increase to perform agency assessments	Potential increase to perform agency assessments
OAKS Project Implementation Fund (Fund 5N40) – Office of Budget and Management			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase for web site development	Potential increase for web site development	- 0 -
OAKS Support Organization Fund (Fund 5EB0) – Department of Administrative Services			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase for ongoing OAKS maintenance costs	Potential increase for ongoing OAKS maintenance costs	Potential increase for ongoing OAKS maintenance costs

Note: The state fiscal year is July 1 through June 30. For example, FY 2009 is July 1, 2008 – June 30, 2009.

- ***Web site development costs*.** The Office of Budget and Management (OBM) and the Department of Administrative Services (DAS) could incur new and ongoing costs for developing web sites that display information on state awards, earmarks, and real property. Those costs would include new computer hardware, software, and programming requirements, and could be significant.

- If the Ohio Administrative Knowledge System (OAKS) is used as the framework for some of these databases, development costs may be paid from the OAKS Project Implementation Fund (Fund 5N40) with ongoing maintenance expenses being funded through the OAKS Support Organization Fund (Fund 5EB0).

- ***Senior real property officers/Ohio Real Property Council*.** Existing personnel in most large agencies may be able to perform the functions of senior real property officer called for in the bill. If not, annual payroll and fringe benefit costs for each such new employee would be approximately $42,000 to $52,000, depending on pay step. If a current employee could carry out these functions, there may still be some costs for reclassifying that employee to a higher paying position. OBM may incur additional costs for providing administrative support to the Ohio Real Property Council.

- ***State agency assessments*.** The bill requires OBM to periodically assess state agencies with respect to best management practices and program effectiveness. There may be additional personnel costs for OBM to carry out this new function. LSC fiscal staff is continuing to research the fiscal implications of this aspect of the bill, but as of this writing, we are unable to reliably estimate the costs for this initiative.

Local Fiscal Highlights

- No direct fiscal effect on political subdivisions.

Detailed Fiscal Analysis

Overview

This bill requires certain information on state awards, earmarks, state real property, and agency management and state program effectiveness be collected and made available on-line in an effort to promote transparency in state spending. The bill designates the Office of Budget and Management (OBM) as responsible for the implementation of these projects. The bill also requires the designation of "senior real property officers" in each state agency to develop and implement agency asset management plans and establishes the Ohio Real Property Council, consisting of those senior real property officers, to develop guidance and performance measures for each agency's asset management plan. OBM, in consultation with the Governor, is also tasked with developing management standards and related performance measures with assessments of state agencies occurring every two years. There are no new sources of funding or appropriations for the initiatives within the bill.

Web site and database development costs

The bill charges OBM with overseeing the development of searchable web sites that display certain information on state awards and earmarks. Awards include grants, subgrants, loans, awards, cooperative agreements, contracts, subcontracts, purchase orders, task orders, delivery orders, and so forth. The earmark web site is required to include aggregate data on the number and cost of earmarks by agency along with detailed information on individual earmarks. These web sites must be fully operational by January 1, 2009 and must include information for FY 2008 and thereafter.

It may be that development of web sites that display information on state awards and earmarks create significant new and ongoing costs for hardware, software, and personnel, who would be needed to acquire, update, and maintain the information on the web sites. In conversations with LSC, the Department of Administrative Services (DAS) indicated that it is already developing a state awards database and web site similar to that contemplated by the bill. However, the database currently under development has a $25,000 threshold for published awards and does not contain a search feature. Therefore, new costs to implement the database in the bill may be reduced if it is developed using the work already performed within the existing resources of DAS's Office of Information Technology. LSC fiscal staff is continuing to research the fiscal implications of these provisions, but as of this writing, we are unable to reliably estimate these new costs.

Other federal and state transparency initiatives

The federal government and several states have implemented similar solutions to increase transparency in state spending. Congress passed the Federal Funding Accountability and Transparency Act (S.2590) in September 2006. That act mandated a publicly searchable web site containing all federal grants and contracts. States that have implemented transparency initiatives include Missouri, Hawaii, Indiana, Oklahoma, Texas, and Minnesota.

Missouri's Accountability Portal, which allows the public to search a database of state expenditures by broad categories and by specific vendors and contracts, was developed in two months with existing state resources.[1] A recently enacted law in Hawaii that requires a searchable web site disclosing information on state grants and awards to be on-line by January 1, 2009 provided an appropriation of $250,000 for the project. Indiana's web site also makes available state contract information to the public. However, an official with the Indiana Department of Administration noted that the software is integrated with the state's PeopleSoft Government Management Information System, similar to the Ohio Administrative Knowledge System (OAKS), and thus, could not provide a specific cost.

Legislative staff in other states that have considered similar transparency legislation have provided cost estimates ranging from $362,000 to $3.6 million to develop the databases (which, in some cases, include much more comprehensive information concerning state expenditures than is contemplated in this bill) and from approximately $250,000 to $775,000 annually to maintain the systems. It is important to note many factors influence these estimates, such as how much data was currently being collected by the state, the compatibility of the bill's proposed format for the data with the state's current accounting systems, and so forth, making comparisons between this bill and the other states' initiatives problematic.

Real property management

Senior real property officers/Ohio Real Property Council

The bill requires each state agency to designate a senior real property officer for that agency. That officer must have the education, training, and experience for the position and is responsible for a number of specified tasks with regard to an agency's real property, such as developing and implementing an agency asset management plan and monitoring the real property assets of the agency.

Collectively, the senior real property officers, along with the Director of Budget and Management, make up the Ohio Real Property Council, which the bill establishes within the auspices of OBM. The Council has the responsibility of (1) assisting senior real property officers in developing and implementing agency asset management plans and (2) establishing appropriate performance measures regarding the effectiveness of state real property management. According to DAS, there are 29 agencies that have real property and would require that a real property officer be appointed.

Under Ohio's current Asset Management Policies and Procedures document, the executive officer of each agency must designate "inventory control officers" for the stewardship of both state-owned personal property and state-owned real property. These inventory control officers maintain a perpetual inventory of state-owned property on DAS's statewide Fixed Asset Management System (FAMS), or on the agency's in-house asset management system in accordance with the Revised Code and all related policies and procedures. According to DAS, the duties, analytical skills, and real estate knowledge that will be required of the senior real property officer for each agency seem to be different than the current responsibilities of

[1] Missouri Governor's Press Release, October 11, 2007, http://www.gov.mo.gov/cgi-bin/coranto/viewnews.cgi?id=EEAkEFFkuVTCwBlspb&style=Default+News+Style&tmpl=newsitem.

inventory control officers and, thus, each agency would need to assess the skill sets of their assigned inventory control officer to determine if a different person would need to be designated.

Most large agencies may have existing personnel to perform the senior real property officer duties. However, if a new hire is required, DAS indicated that the responsibilities and pay would be similar to the existing Property Management Specialist position in the state's job classification plan. This is an AFSME/OCSEA bargaining unit classification at pay range 28, which equates to annual payroll and fringe benefit costs of approximately $42,000 to $52,000 in FY 2009, depending on pay step. If a current employee could carry out these functions, there may still be some new personnel costs created if an employee was reclassified to a higher paying position to correspond to the employee's new duties. However, this would be less expensive than adding an additional employee for this purpose. Costs of reclassification of existing employees will depend on the pay range of those employees, which may vary. Additionally, OBM may incur additional costs for providing administrative support to the Council.

Asset management plans

As alluded to above, the bill requires the development of an asset management plan for each agency. These plans must meet certain requirements established by the Ohio Real Property Council. Current law requires state agencies to maintain inventories of state-owned assets, as well as report and certify their updated inventory activities to DAS in accordance with certain procedures found in Ohio's Asset Management Policies and Procedures.

According to LSC's discussions with DAS, that agency is not familiar with any agency that has a specific asset management plan as outlined in this bill. The current Policies and Procedures focus primarily on accounting and financial information, address accountability of state-owned assets, and provide uniform standards of classifying, maintaining, and reporting inventory records and any associated activity such as inventory additions, retirements, transfers, and so forth. Therefore, the components of the asset management plan required by the bill would appear to differ from the Asset Management Policies and Procedures manual. As such, preparing the plan would expand the duties and responsibilities of each state agency, although the primary cost driver for this activity would be the personnel costs for the senior real property officer.

Real property database

The bill tasks the Director of Budget and Management, in consultation with the Ohio Real Property Council, with developing and maintaining a comprehensive and descriptive database of all real property under the custody and control by the state, except when otherwise required for reasons of homeland security. The bill requires each state agency to provide information that adequately describes the nature, use, and extent of the agency's real property assets.

Some state real property information already exists, albeit in different locations. The Treasurer of State (TOS), for example, maintains a publicly accessible database of state-owned properties derived from the property tax lists compiled in each county of all taxable and tax-exempt properties. While this database contains information on approximately 53,000 parcels throughout the state, there is no central repository for information about those properties and

how they are being used.[2] Additionally, there are a number of parcels in the TOS database the state does not actually own, but are placed in the state's name as a placeholder. Therefore, if this database were to be used as a framework for the public database in the bill, there would appear to be a large amount of work involved on the part of state agencies in cleaning, reviewing, and describing the data. LSC is uncertain what the total costs would be for a project of this sort.

Alternatively, OAKS will house real property information upon the transition to the OAKS Asset Management (OAKS AM) module from FAMS. FAMS is both an inventory and fixed asset accounting software system and is used by the majority of state agencies, boards, and commissions. Agencies can use FAMS to maintain inventory records for tangible personal property, such as equipment, furniture, machinery, and fixtures and for real property, such as land, land improvements, and buildings. Agencies not on FAMS use an in-house asset management system.

OAKS AM is scheduled to replace FAMS beginning July 1, 2008, the start of FY 2009. There are 76 agencies that maintain all of their reportable assets on FAMS while 50 agencies are not on FAMS or only have a portion of reportable assets on this system (18 of which are veterans' organizations). Of the 76 agencies on FAMS, 20 own real property, all the records of which will be converted to OAKS AM. Overall, FAMS contains an estimated 66% of the state's real property records, including both land and buildings. Nine of the agencies not on FAMS have real property. These agencies are the Attorney General, Bureau of Workers' Compensation, Capital Square Review and Advisory Board, Department of Mental Health, Department of Mental Retardation and Development Disabilities, Department of Transportation, Ohio Building Authority, Ohio Turnpike Commission, and the Ohio Historical Society.

While LSC is continuing to research the fiscal implications of the database, DAS provided preliminary cost estimates for accessing and moving the remaining real property data from in-house systems to OAKS in the millions of dollars or more. The costs will depend heavily on the scope of the project and the work involved with interfacing, converting, and integrating the data from the in-house systems. As of this writing, there is uncertainty about the data composition of the in-house systems, making any firm determination of the costs involved problematic at this time. There may also be some additional programming costs to enable the public to view and search this information.

If OAKS were to be used to implement this and the other databases required by the bill, it may be that the OAKS Project Implementation Fund (Fund 5N40) could be used to pay for the work. Fund 5N40 currently has an available cash balance of approximately $1.5 million. There may also be implications for ongoing OAKS maintenance costs if OAKS is used for this purpose. These costs are paid from the OAKS Support Organization Fund (Fund 5EB0) within DAS, which receives funding from user charges on state agencies.

State agency assessments

The bill requires the Director of OBM, in consultation with the Governor, to develop management standards that are considered best practices. State agencies must adhere to these standards, which must address the areas of budget and performance integration, competitive

[2] TOS is relying on citizens to look up parcels in their area and fill out a basic report on-line on how those parcels are being used.

sourcing, e-government, human capital, and financial performance improvement. OBM is required to use these measures to periodically assess agencies through a specific grading system.

Furthermore, OBM is required to assess each state agency program every 24 months with respect to its purpose, design, planning, management, results, and accountability to determine the overall effectiveness of the program. The assessment would be based on a questionnaire and rating system that would take into account a program's purpose and management, strategic planning, and results. Both types of assessments are to be posted on OBM's web site.

There may be additional personnel costs if new employees would be needed to carry out this function. If existing staff could perform the assessments, there may still be some additional costs by reclassifying employees to a higher pay range and training the employees to perform the assessments. LSC fiscal staff is continuing to research this matter, but, as of this writing, we are unable to reliably estimate the costs for this initiative. Possible funding sources include OBM's GRF allocation for budget development and implementation. Another alternative is the Accounting and Budgeting Fund (Fund 1050), which is funded by a payroll charge to state agencies based on each state agency's gross pay per employee and has an available cash balance of approximately $7.9 million.

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