



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 52 of the 128th G.A.

Date: May 5, 2009

Status: As Introduced

Sponsor: Sen. Grendell

Local Impact Statement Procedure Required: No — Corrected after initial review

Contents: Restructures state government

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund and Other State Funds			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential increases and decreases, depending on the extent of changes in implementing legislation	
Auditor of State (Fund 1090)			
Revenues	- 0 -	Increase in revenues attributable to charges made to consolidated state agencies for performance audits	
Expenditures	- 0 -	Increase in expenditures to conduct performance audits of consolidated state agencies	

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill restructures the existing 20 cabinet-level agencies into ten departments organized by functional divisions and the Department of Veterans Services. Although the bill would not take effect until January 1, 2011, there would presumably be some costs incurred in the run-up to this time.
- The fiscal effect of the restructuring would depend on a variety of factors. There would be new costs in the short-run for preparatory studies, staff reorganization, physical relocation, IT consolidation, and other associated costs. Ultimately, there would be a combination of new costs and savings that would hinge on the content of the implementing legislation.
- Operating costs for all of state government were \$7.2 billion in FY 2008, or approximately 14.0% of the total all-funds operating budget of \$51.3 billion for that year. Operating costs include (1) payroll and fringe benefits, (2) contracts for services, (3) maintenance and supplies, and (4) equipment.
- The Auditor of State would incur costs for conducting the performance audits required under the bill. Those costs would depend on the amount of time required to properly complete the required audits. State agencies are charged an hourly rate of \$60.44 to offset a portion of the cost required to conduct the audits.

Local Fiscal Highlights

- The bill does not directly affect the provision of services by and operations of political subdivisions. However, political subdivisions may have to make some corresponding changes to their operating structures in order to provide services under a reorganized state government. As on the state level, new costs and potential savings would hinge on implementing legislation.
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Detailed Fiscal Analysis

Overview

The bill would restructure 20 existing cabinet-level agencies into ten cabinet-level departments, organized by functional division, and the cabinet-level Department of Veterans Affairs.¹ The bill would take effect on January 1, 2011. Until that time, the General Assembly would be required to enact legislation that (1) amends and revises the Revised Code as necessary to implement the bill's provisions and (2) provides for the orderly transfer of the duties and functions of the various executive departments and public bodies of state government to the newly created departments. Any new costs, as well as any savings that could be derived from consolidation, would be difficult to quantify until implementing legislation is enacted. This fiscal note, however, highlights operating statistics concerning state government that members may find useful in assessing the impact of reorganization on state government operations.

Operating costs

In FY 2008, total state government expenditures were \$51.3 billion. Operating costs for FY 2008 were roughly \$7.2 billion, or approximately 14.0% of total expenditures. Operating costs include (1) payroll and fringe benefits, (2) contracted services, (3) maintenance and supplies, and (4) equipment. The tables below summarize total operating expenses for executive departments by category of expense for FY 2008 and FY 2009 year to date. Table 1 displays these expenses across all state funds, and shows that payroll costs, which include payroll and fringe benefits, accounted for 61.3% of executive agency operating costs in FY 2008 and account for 59.9% of those costs so far in FY 2009.

¹ For a more thorough explanation of the reorganization, please see LSC's bill analysis for S.B. 52.

Table 1. Executive Branch Operating Expenses – All Funds				
Expense Category	FY 2008	%	FY 2009 (YTD)	%
Personal Services-Payroll	\$4,396,050,477	61.3	\$3,809,910,097	59.9
Purchased Personal Services	\$1,106,847,941	15.4	\$1,121,936,232	17.6
Supplies and Maintenance	\$1,492,564,185	20.8	\$1,312,890,152	20.6
Equipment	\$178,082,643	2.5	\$119,356,440	1.9
Total	\$7,173,545,248	100	\$6,364,092,923	100

Table 2 shows operating costs borne by the GRF only. In this case, payroll and fringe benefit costs account for slightly more than two-thirds of total GRF operating expenses: 68.9% in FY 2008 and 68.3% year to date in FY 2009.

Table 2. Executive Branch Operating Expenses – GRF				
Expense Category	FY 2008	%	FY 2009 (YTD)	%
Personal Services-Payroll	\$2,030,716,555	68.9	\$1,721,611,623	68.3
Purchased Personal Services	\$330,121,600	11.2	\$302,675,711	12.0
Supplies and Maintenance	\$541,707,880	18.4	\$477,530,664	19.0
Equipment	\$45,786,920	1.5	\$18,396,003	0.7
Total	\$2,948,332,957	100	\$2,520,214,003	100

State employees

According to data tracked by the Department of Administrative Services, the total number of employees on state payroll as of March 2009 was 59,950. The total number of unclassified employees was 10,663; the total number of classified employees was 49,287. As Table 3 below shows, there were 53,331 employees working in executive branch departments and boards and commissions appointed by the Governor likely to be affected by the restructuring in some manner. The corrections agencies listed below include the Department of Rehabilitation and Correction and the Department of Youth Services.

Table 3. State Employees as of December 2008		
Department Type	Employees	%
Cabinet Agencies	31,690	52.9
Corrections Agencies	15,790	26.3
Boards and Commissions	5,851	9.8
Subtotal Executive	53,331	89.0
Elected officials, legislative, and judiciary	6,619	11.0
Total	59,950	100

Auditor of State – performance audits

The bill requires the Auditor of State to conduct performance audits to facilitate the effective and efficient operation of the departments and the divisions of those departments that the bill creates. The Auditor of State's Office routinely conducts performance audits for public and quasi-public entities upon request; generally these audits focus on a specific department or function within a state agency. According to the Auditor of State's Office, performance audits generally take approximately 16 hours to 32 hours, but as the departments under the bill would be considerably larger than current state agencies, it is possible that the audits required under the bill may take longer. The audits consist of three distinct stages:

1. Preliminary Planning – During this phase, audit staff meets with agency management to develop the scope of the audit, plan timeframes, and determine overall costs.
2. Field Work – During this phase of the process, the audit team collects information, observes activities, reviews and tests agency data, and evaluates the results. The timeframe and level of participation with the reviewed agency staff varies based upon each performance audit.
3. Audit Report – After the field work portion is complete, a draft report is compiled and sent to the agency for review and comment. The agency's comments are then analyzed and used, if appropriate, to modify the final report.

Under current law, the Auditor of State is reimbursed for a portion of the costs of conducting state agency audits. The Performance Auditing section of the Auditor of State's Office consists of approximately 40 employees, and spends approximately \$4.0 million each fiscal year to conduct performance audits of state agencies and local governments. The current hourly fee charged to state agencies is a flat rate established by the Statewide Cost Allocation Plan (SWCAP), and is revised every year. The hourly rate per assigned Auditor of State employee for FY 2009 is \$60.44. In FY 2010, this rate is scheduled to increase to \$64.43. These fees are deposited in the Auditor of State's Public Audit Expense Fund (Fund 1090).