

LSC Redbook

Analysis of the Executive Budget Proposal

State Board of Cosmetology

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State Board of Cosmetology

- Executive funding of \$3.44 million in FY 2012 and \$3.36 million in FY 2013
- Increased focus on curtailing fraudulent license activity

OVERVIEW

Agency Overview

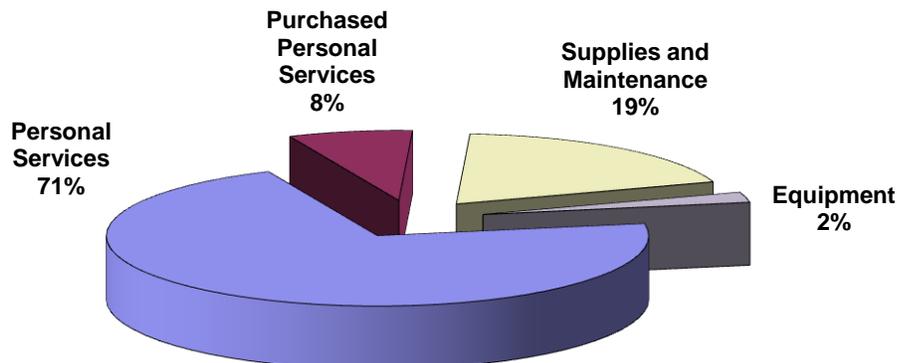
The State Board of Cosmetology (COS) was created in 1932 to establish and maintain sanitary and professional standards in the beauty salon industry. The Board is charged with ensuring the health, safety, and sanitation of the beauty industry and its patrons through licensing and regulation of salons and individual licensees. In addition, the Board has oversight over the indoor tanning industry through regulation of ultraviolet radiation devices. COS is the state's second largest licensing board, overseeing more than 120,000 active licensees in FY 2010.

The Board consists of nine members appointed by the Governor. The members represent various facets of the beauty salon industry. The day-to-day licensing and regulatory responsibilities are managed by an executive director who is appointed by the nine-member board. Overall, the Board has 36 full-time employees. The Board receives no funding from the GRF; rather, its operations are funded entirely by fees and other amounts paid by licensees.

Appropriation Overview

The executive recommendation for COS is \$3.44 million in FY 2012, a 2.7% decrease over FY 2011 appropriations. This provides funding for 36 full-time staff members and will allow the Board to maintain the same level of service in the FY 2012-FY 2013 biennium. Chart 1 below shows the budget recommendations by category of expense over the two-year span. As with other licensing and regulatory boards, payroll and fringe benefit costs are COS's largest expense, accounting for 71% of recommended funding in the upcoming biennium. Supplies and maintenance make up a further 19%. The remaining 10% combined is slated for purchased personal services and equipment.

**Chart 1: Biennial Executive Budget Recommendations
by Expense Category, FY 2012-FY 2013**



Counted within the supplies and maintenance category are administrative support services provided by the Central Services Agency (CSA) within the Department of Administrative Services (DAS). COS paid \$78,896 for these services in FY 2010 and expects to pay approximately \$86,459 for them in FY 2011. The Board has budgeted \$80,000 in each fiscal year for CSA charges in the upcoming biennium.

The Board uses the eLicensing system, an online tool used by many other licensing boards that allows for applications and renewals to be processed and stored electronically. The Board stores approximately 389,992 records in the system, approximately 23% of eLicensing's total capacity. COS's share of the cost for eLicensing was \$85,833 in FY 2010 and is estimated to be \$69,247 in FY 2011. Estimated eLicensing charges in the upcoming biennium are expected to be about \$88,000 in each fiscal year.

The executive proposal includes \$2 million in FY 2012 and \$1 million in FY 2013 under the DAS budget to replace the current licensing system used by occupational licensing and regulatory boards with a new system, referred to as the Ohio Professionals Licensing System (OPLS). OPLS is intended to improve the security, stability, and functionality available to the system's users.

Fee Revenues and Fund 4K90

Table 1 below shows the license types and corresponding fees charged by the Board. Licenses are renewed on a biennial basis during odd-numbered fiscal years.

License	Fee
Cosmetologist/Cosmetologist Instructor/Managing Cosmetologist	\$45
Beauty Salon	\$75
Esthetician/Esthetician Instructor/Managing Esthetician	\$45
Esthetic Salon	\$75
Hair Designer/Hair Designer Instructor/Managing Hair Designer	\$45
Hair Designer Salon	\$75
Independent Contractor	\$75
Manicurist/Manicurist Instructor/Managing Manicurist	\$45
Nail Salon	\$75
Natural Hair Stylist/Natural Hair Stylist Instructor/Managing Natural Hair Stylist	\$45
Natural Hair Stylist Salon	\$75
Private Cosmetology School	\$250
Tanning Facility	\$65

In 2006, COS gained Controlling Board approval for an increase in appropriation and in its primary license renewal fee, allowing the Board to move into a larger facility in the Grove City area and hire two additional examiners. Consequently, testing capacity was expanded from 32 to 50, thereby reducing the waiting times for examinations. Before moving into the Grove City location, the estimated waiting period to take a licensing examination was six to eight weeks. The current wait time is two to three weeks.

Table 2 below shows revenues and expenditures over the FY 2006-FY 2010 span, a period that encompassed two renewal cycles. Notice that COS's biennial renewal cycle results in significant fluctuations in the amount of revenue received on a year-to-year basis, with the vast majority of revenue coming in odd-numbered fiscal years. The "on" year of the two-year renewal cycle covers the deficit created in the "off" year when little license fee revenue is received. Overall, revenues collected during the renewal period consistently exceed expenditures. FY 2010 revenues do not reflect \$64,195 that was attributable to the Board's license amnesty program and that was deposited into the GRF. More on the licensing amnesty program can be found under the Analysis of Executive Proposal.

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenue	\$910,681	\$6,287,660	\$1,148,055	\$6,401,918	\$1,239,461
Expenditures	\$2,769,867	\$3,028,955	\$3,550,509	\$3,329,024	\$3,068,468
Net	(\$1,859,186)	\$3,258,705	(\$2,402,454)	\$3,072,894	(\$1,829,007)

Regulation and Fraudulent Licenses

During the FY 2010-FY 2011 biennium, COS became aware of a considerable degree of fraudulent activity related to cosmetology accreditation. Investigations by COS and police forces uncovered evidence that certain cosmetology schools in Ohio were selling certification and hours of instruction to individuals that had not earned them. Additionally, a substantial number of individuals who received COS certification via reciprocity did so with credentials provided by out-of-state cosmetology schools that are known to provide similar fraudulent certifications. It is believed that this is a common technique used in human trafficking to provide illegal immigrants with mobility, and appears to be particularly prevalent in the manicuring trade. Accordingly, COS suspended the practice of granting reciprocity to out-of-state manicurist license holders in July of 2009. The Board is currently discussing whether or not it should continue this policy. As it stands now, out-of-state manicurists must re-attend cosmetology school and retake the examination. During FY 2010, COS provided reciprocity to eight manicurists, with associated revenues of \$600. Reciprocity for other cosmetology license types remains intact.

ANALYSIS OF EXECUTIVE PROPOSAL

COS's operations are funded by a single line item appropriation within the Occupational Licensing and Regulatory Fund (Fund 4K90). The table below shows the Governor's recommended funding for FY 2012-FY 2013.

Governor's Recommended Amounts for COS				
Fund	ALI and Name		FY 2012	FY 2013
General Services Fund				
4K90	879609	Operating Expenses	\$3,439,545	\$3,364,030

Fund 4K90 line item 879609, Operating Expenses, supports all of COS's operating expenses. The \$3.44 million recommended in FY 2012 is 2.7% less than the FY 2011 appropriation of \$3.53 million. The amount recommended for FY 2013 is \$3.36 million, or 2.2% less than the FY 2012 amount. This level of funding will support the Board's 36 full-time employees who are responsible for licensing, testing, and enforcing cosmetology regulations, including four inspectors and one investigator. The Board conducted 9,220 exams in FY 2010, or approximately 35 people each day examinations are held.

Licenses and License Amnesty Program

Table 3 on the following page shows the number of active registrations issued by COS as of the end of FY 2009 and FY 2010. Overall, the number of active licenses increased by 8.9% between these years, from 113,232 in FY 2009 to 123,337 in FY 2010. The number of active licenses increased in all but six of the 23 license types.

A portion of this increase is attributable to the Board's license amnesty program that began at the start of FY 2010. The program enables cosmetologists, estheticians, manicurists, hair designers, and natural hair designers who have allowed their licenses to lapse to regain their licenses by fulfilling certain continuing education requirements instead of retaking the licensing exam. Under the license amnesty program, the holder of a lapsed license is required to pay back fees and a fine in order to have the license reinstated. If a license has been lapsed for more than two renewal cycles (four years), practicing and managing license holders also have to participate in continuing education courses. The minimum amount required to reinstate a license, in a situation where the license was lapsed for one renewal cycle, is \$135 (\$45 original license fee + \$45 current license fee + \$45 late fee). During FY 2010, approximately 300 individuals participated in this program, generating roughly \$64,195 in revenues, all of which was transferred to the GRF.

License Type	FY 2009	FY 2010	% Change
Beauty Salon	9,168	9,515	3.8%
Cosmetologist	21,557	23,845	10.6%
Cosmetologist Instructor	4,784	5,242	9.6%
Cosmetologist Manager	48,900	51,930	6.2%
Cosmetology School	185	180	-2.7%
Esthetician	997	1,126	12.9%
Esthetician Instructor	98	122	24.5%
Esthetician Manager	1,964	2,304	17.3%
Esthetic Salon	280	361	28.9%
Hair Designer	162	234	44.4%
Hair Designer Instructor	3	3	0.0%
Hair Designer Manager	63	74	17.5%
Hair Designer Salon	195	242	24.1%
Independent Contractor	10,374	12,708	22.5%
Manicurist	3,959	4,262	7.7%
Manicurist Instructor	182	215	18.1%
Manicurist Manager	7,293	7,880	8.0%
Nail Salon	1,090	1,115	2.3%
Natural Hair Stylist	5	5	0.0%
Natural Hair Stylist Instructor	1	0	-100%
Natural Hair Stylist Manager	16	15	-6.3%
Natural Hair Stylist Salon	8	11	37.5%
Tanning Facility	1,948	1,948	0.0%
Total	113,232	123,337	8.9%

As of January 31, 2011, the Board has required all license renewals to be made either online or in person at COS's offices. This policy has substantially reduced postage costs. To date, a total of 103,608 individuals have renewed their cosmetology licenses for the current CY 2011-CY 2012 license period. Of these, approximately 98,456 renewed online and 5,152 renewed at the Board's Grove City office.

Investigation and Enforcement Statistics

H.B. 1 of the 128th General Assembly, the FY 2010-FY 2011 operating budget, increased the maximum allowable fines COS could charge for violations of cosmetology laws and rules. Previously, the maximum fine allowed was \$100 for the first offense, \$500 for the second offense, and \$1,000 for the third offense. According to COS, these amounts were not sufficient to recoup costs associated with investigations and were not a significant deterrent to potential law breakers. H.B. 1 increased these maximum fines to \$500, \$1,500, and \$2,000, respectively. The result has been a marked increase in fine

income, from \$78,120 in FY 2009 to \$105,431 in FY 2010. Table 4 below provides enforcement statistics for FY 2009 and FY 2010. During FY 2010, there were 10,619 random inspections, resulting in 1,225 notices of violation and 1,427 fineable violations. A notice of violation can contain multiple fineable violations.

Enforcement Action	FY 2009	FY 2010
Random Inspections	12,248	10,619
Notice of Violation	777	1,225
Fineable Violations	962	1,427

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State Board of Cosmetology

General Services Fund Group

4K90 879609 Operating Expenses

FY 2008	FY 2009	FY 2010	Estimate FY 2011	Introduced FY 2012	Introduced FY 2013
\$3,550,510	\$3,329,024	\$3,068,468	\$3,533,679	\$3,439,545	\$3,364,030
	-6.2%	-7.8%	15.2%	-2.7%	-2.2%

Source: General Services Fund Group: License fees and other assessments collected by the state's professional and occupational licensing boards

Legal Basis: ORC 4713.02 and 4743.05 (originally established by Am. Sub. H.B. 152 of the 120th G.A.)

Purpose: This appropriation is used to support the operating expenses of the Ohio State Board of Cosmetology. The Board licenses and regulates individuals and salons in the fields of cosmetology, esthetics, manicuring, and tanning.

FY 2012 - FY 2013 Introduced Appropriation Amounts

All Fund Groups

Line Item Detail by Agency			FY 2010	Estimate FY 2011	Introduced FY 2012	FY 2011 to FY 2012 % Change	Introduced FY 2013	FY 2012 to FY 2013 % Change
Report For Main Operating Appropriations Bill			Version: As Introduced					
COS State Board of Cosmetology								
4K90	879609	Operating Expenses	\$ 3,068,468	\$ 3,533,679	\$ 3,439,545	-2.66%	\$ 3,364,030	-2.20%
General Services Fund Group Total			\$ 3,068,468	\$ 3,533,679	\$ 3,439,545	-2.66%	\$ 3,364,030	-2.20%
State Board of Cosmetology Total			\$ 3,068,468	\$ 3,533,679	\$ 3,439,545	-2.66%	\$ 3,364,030	-2.20%