

# **Redbook**

## **LBO Analysis of Executive Budget Proposal**

### **State Board of Embalmers and Funeral Directors**

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# LBO Redbook

## State Board of Embalmers and Funeral Directors

### Quick look...

- The State Board of Embalmers and Funeral Directors oversees more than 6,700 licensees, including approximately 1,300 funeral homes and crematories, and 4,700 funeral directors and embalmers.
- The Board's governing body consists of seven members: five licensed embalmers and practicing funeral directors and two members of the public. Day-to-day operations are handled by an executive director and five full-time staff.
- The Board's operations are entirely supported by license fees and related revenue. It receives no GRF funding.
- The recommended budget proposes a fee increase of \$50 for most licenses, and increases other licenses from either \$10 or \$25 to \$35.
- The executive budget recommends funding of \$949,667 in FY 2020 and \$1,033,281 in FY 2021.
  - There is an increase in staffing costs anticipated for preneed funeral contract oversight and administration of the crematory operator license.
  - Uses of the recommended budget are as follows: 78.7% for personal services and 20.9% for supplies and maintenance. The remaining portion is for purchased personal services.

| FY 2016<br>Actual                               | FY 2017<br>Actual | FY 2018<br>Actual | FY 2019<br>Estimate | FY 2020<br>Introduced | FY 2021<br>Introduced |
|---|-------------------|-------------------|---------------------|-----------------------|-----------------------|
| <b>Fund 4K90 ALI 881609, Operating Expenses</b> |                   |                   |                     |                       |                       |
| \$665,148                                       | \$746,503         | \$752,659         | \$1,297,911         | \$949,667             | \$1,033,281           |
| % change  | 12.2%             | 0.8%              | 66.1%               | -26.8%                | 8.8%                  |

### Agency overview

The State Board of Embalmers and Funeral Directors (FUN) regulates those involved with the death care industry across Ohio, including embalmers, funeral directors, funeral homes, and operators of crematory and embalming facilities. The seven-member Board meets regularly to review applications, issue licenses, review continuing education programs, and keep up to date on issues affecting the funeral business. One of the Board's newest consumer protection functions is monitoring preneed funeral contracts and administering the Preneed Recovery Fund to compensate purchasers for losses they might have incurred due to fraud or business insolvency after buying a contract from a provider licensed by the Board. FUN also conducts disciplinary hearings stemming from complaints and investigations. Day-to-day operations are overseen by an executive director and five full-time staff, including two inspectors, two program administrators, and one certification-licensure examiner.

## Analysis of FY 2020-FY 2021 budget proposal

The Board's operations are supported entirely by license fees and other assessments that are deposited into the Occupational Licensing and Regulatory Fund (Fund 4K90) and appropriated under Fund 4K90 line item 881609, Operating Expenses. The executive recommends funding of approximately \$950,000 in FY 2020 and approximately \$1.0 million in FY 2021. This compares to anticipated spending of approximately \$1.3 million in FY 2019. The higher level of spending in FY 2019 is primarily related to hiring a new inspector to handle oversight of preneed funeral contracts and the new crematory operator permit required under H.B. 49, the main operating budget for the FY 2018-FY 2019 biennium. The Board has also incurred litigation expenses of approximately \$110,000 related to a case involving a former employee. These expenses, as well as the additional funding to cover the new regulatory and legal costs, was approved by the Controlling Board in May 2018.

H.B. 49 of the 132<sup>nd</sup> General Assembly, the main operating budget act for the FY 2018-FY 2019 biennium, contained several provisions related to preneed funeral contracts. Primarily, it required FUN to adopt rules regarding the sale of preneed funeral contracts as well as reporting of the sale of these contracts to the Board. The bill also established the Preneed Recovery Fund, a custodial account that must be used to reimburse purchasers of preneed funeral contracts who have suffered financial loss as a result of misconduct in connection with the sale of the contract. The fund is supported by a \$10 fee on the sale of preneed funeral contracts. During the first full year of operation, the fund collected \$362,920 from the sale of 36,292 eligible preneed funeral contracts.

A portion of the additional funding in the recommended appropriation levels will be for FUN's additional employee who was recently hired. This person is responsible for helping administer the Preneed Recovery Fund and collecting the required \$10 fee. Part of this oversight process is monitoring the cash balance of the fund. If the fund's balance exceeds \$2.0 million, the \$10 fee must be reduced to \$5, and if the fund's balance exceeds \$3.0 million, the fee must be suspended. Additionally, this employee is responsible for assisting in conducting random audits of preneed funeral contracts throughout the state to ensure compliance with the new rules and regulations established by the Board regarding these contracts.

As is the case with many regulatory and licensing boards, personnel costs are the biggest expense, accounting for almost \$1.6 million (78.7%) of the executive recommendations for the biennium. Just over \$415,000 (20.9%) is slotted for supplies and maintenance. As with other operating boards, included in these costs are eLicensing system costs, and biennial financial audit costs. The remaining portion of the recommended funding, approximately \$7,000 (0.4%) is for purchased personal services.

### Operating revenues and expenses

The Board is entirely supported by license fees and other receipts that are deposited into Fund 4K90. Table 1 below shows the ten license types that the Board oversees and the associated fee. The main operating budget bill proposes to increase most of the fees in the table below by \$50. The bill also increases the embalmer and funeral director apprentice fees from \$10 to \$35, as well as replaces the \$25 embalmer and funeral director registration fee

with a certificate of apprenticeship also subject to a \$35 fee. FUN anticipates that this proposed fee increase, along with a projected growth of 2.0% in the number of licenses issued, would result in revenue collection of approximately \$2.0 million over a full renewal cycle.

| Table 1. License Fees by Type |       |
|-------------------------------|-------|
| License Type                  | Fee   |
| Crematory                     | \$350 |
| Crematory Operator            | \$100 |
| Embalmer Apprentice           | \$10  |
| Embalmer Registration         | \$25  |
| Embalmer                      | \$150 |
| Embalming Facility            | \$350 |
| Funeral Director Apprentice   | \$10  |
| Funeral Director Registration | \$25  |
| Funeral Director              | \$150 |
| Funeral Home                  | \$350 |
| Courtesy Card Permit          | \$150 |

Table 2 below shows the Board's revenue and expenditure history over the last three complete licensing cycles. Licenses are renewed in odd-numbered fiscal years. Consequently, revenue intake exceeds operating expenses in renewal years but lags operating expenses in nonrenewal years, although there is usually a net positive balance at the end of each cycle. The exceptions were in the FY 2013-FY 2014 renewal cycle, when there was a net loss of -\$111,773, and in the FY 2017-FY 2018 cycle when there was a net loss of -\$94,493. The Board estimates that the proposed fee increase would result in revenue gains that, assuming a 2% increase in licensure, would result in total revenues of \$2.0 million during a renewal cycle. Therefore, it would appear as though these projected revenues would not result in a negative cash balance for a renewal cycle given the increased costs of the Board.

| Table 2. Revenues and Expenditures, FY 2013-FY 2018 |             |            |             |            |             |            |
|---|-------------|------------|-------------|------------|-------------|------------|
|   | FY 2013     | FY 2014    | FY 2015     | FY 2016    | FY 2017     | FY 2018    |
| Revenue   | \$1,141,657 | \$182,930  | \$1,308,217 | \$94,965   | \$1,279,829 | \$124,840  |
| Expenses  | \$703,111   | \$733,249  | \$710,807   | \$665,148  | \$746,503   | \$752,659  |
| Net   | \$438,546   | -\$550,319 | \$597,410   | -\$570,183 | \$533,326   | -\$627,819 |

## Licenses and investigation and enforcement statistics

Table 3 below shows the number of active licenses issued by the Board for the FY 2017-FY 2018 licensing cycle as well as the number of licenses in FY 2019. Overall, the Board oversees 11 license types. The vast majority of issuances are for just three license types: embalmers, funeral directors, and funeral homes. Together in FY 2018, these 6,150 licenses accounted for 92.4% of the 6,652 active licenses. It should be noted that the Dual Embalmer/Funeral Director License was removed beginning in FY 2018. These individuals must now obtain each license individually, thus explaining the increase in Embalmer and Funeral Director licenses beginning in that fiscal year. H.B. 49 of the 132<sup>nd</sup> General Assembly, the main operating budget act for the FY 2018-FY 2019 biennium, established the Crematory Operator License. In addition to the nine current categories listed in the table below, FUN also has Funeral Director and Embalmer Registration licenses. These licenses are closed once an apprenticeship is granted.

The Board carries out inspections of funeral homes, crematories, and embalming facilities and investigates consumer complaints related to the funeral profession. In FY 2018, the Board's two inspectors conducted 766 inspections among the approximately 1,300 licensed facilities statewide. Overall, fines and recoveries as a result of investigations and inspections totaled approximately \$72,000 during the same fiscal year.

**Table 3. Active Licenses by Type, FY 2017-FY 2019 (as of February 2019)**

| License Type                     | FY 2017      | FY 2018      | Percent Change | FY 2019      | Percent Change |
|----------------------------------|--------------|--------------|----------------|--------------|----------------|
| Crematory                        | 145          | 152          | 4.8%           | 148          | -2.6%          |
| Dual Embalmer/Funeral Director*  | 2,065        | 0            | -100%          | 0            | N/A            |
| Embalmer/Funeral Home Apprentice | 266          | 328          | 23.3%          | 300          | -8.5%          |
| Embalmer                         | 11           | 2,158        | 19,518.2%      | 2,030        | -5.9%          |
| Embalming Facility               | 3            | 4            | 33.3%          | 4            | 0.0%           |
| Funeral Director                 | 653          | 2,826        | 332.8%         | 2,688        | -4.9%          |
| Funeral Home                     | 1,156        | 1,166        | 0.9%           | 1,134        | -2.7%          |
| Crematory Operator               | N/A          | N/A          | N/A            | 442          | N/A            |
| Courtesy Card Permit             | 12           | 18           | 50%            | 17           | -5.5%          |
| <b>Total</b>                     | <b>4,311</b> | <b>6,652</b> | <b>54.3%</b>   | <b>6,763</b> | <b>1.7%</b>    |

\*Dual license eliminated. Now separate Embalmer and Funeral Director licenses.