

**Ohio Department of Administrative Services  
House Bill 49 Testimony  
House Finance Subcommittee on State Government and Agency Review  
March 15, 2017**

Good afternoon Chairman Faber, Ranking Member Patterson, and members of the House Finance Subcommittee on State Government and Agency Review. My name is Jennifer Leymaster, and I am the Chief Financial Officer for the Ohio Department of Administrative Services. I'm here with Stu Davis, State Chief Information Officer, and we are pleased to testify before you today about certain specific aspects of the DAS operating budget for fiscal years 2018 and 2019, specifically healthcare costs, office rental rates, and the eLicense system, as requested by the Chairman.

DAS exists to provide back-office business services to all state agencies and some local governments. Centralization of common business functions is a powerful tool that lets us limit costly redundancies in state government. DAS operates more than 40 programs that provide information technology management, human resources services, and facility management, to name a few, and we work diligently to contain our costs while providing the high-quality services our customers require.

To fund these services, DAS receives relatively little appropriation from the General Revenue Fund. Instead, more than three-quarters of DAS operating appropriations are within the Internal Service Activity budget fund group. This means that DAS must generate revenue from our customers in order to offset the cost of providing services. Furthermore, federal regulations prohibit us from charging customers more than the cost we incur to provide a service, which means that DAS does not – and in fact cannot – make a profit through the rates we charge. Nor can we absorb a loss, bringing in less revenue than we spend to deliver a service. The rates we charge to state agencies for DAS services are strictly cost-based and can adjust annually as our costs change.

As part of its biennial operating budget guidance, the Office of Budget and Management supplies state agencies with information about current and projected DAS charges that agencies can use to develop their budget requests. Projections for payroll-related fringe benefits, including employee health insurance and various leave programs, appear as part of OBM's budget guidance and present current rates as well as estimates for the upcoming biennium. The guidance also includes information about non-payroll service charges, listing the rates that are current at the time of publication. Agencies use this information as a guide to craft their budget requests, making projections that reflect their unique service needs as well as expected changes in service costs.

The budget planning process at DAS is no different: we use known information as well as thoughtful projections to prepare our budget request, mindful of the fact that our spending has an impact on every other agency's budget. Our cost-based cost recovery practice means that concepts like "market rates" don't factor into the DAS funding model. However, because of the good stewardship shown by our operating programs, many DAS cost-based rates compare favorably to commercial "market rates."

Here's an example: an attachment to this testimony shows FY 15, FY 16 and FY 17 state office building rental rates, which are designed to recover the actual cost of each facility's operations and depreciation. On average, FY 17 rates for DAS office buildings are 23 percent below the average market rate for their respective cities, based on current information reported by CoStar Group, a national real estate database. These savings have been achieved by securing the lowest utility rates available, leveraging facility size to obtain best pricing, standardizing operating procedures throughout the buildings, and using service providers to reduce costs and improve service levels.

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The largest service area within DAS is the Office of Information Technology, so it should come as no surprise that our IT services and their rates are a source of keen interest to our state agency customers. Nowhere is this more the case than with new systems or services – for example, the new eLicense system that is currently in development and will be fully operational beginning in the second year of the upcoming biennium.

In a moment you'll hear from Stu Davis about the benefits of the state's new eLicense system, but first I'd like to describe how we worked with the licensing boards and commissions on the operating cost of the new system, because – as you know – DAS must recover its costs from the customers who receive our services.

More than a year ago, DAS made a commitment to licensing boards and commissions that until the new system was operational for all license types, DAS would bill customers only for the operating cost of the legacy system and would not begin to charge for the new eLicense system until every board and commission had migrated off of the legacy system. In other words, customers would not be billed for operating costs of two systems simultaneously. FY 18 was set as the final year when eLicense customers would pay for the legacy licensing system support, and FY 19 would be the first year that customers would pay for the operating cost of the new system.

By August 2016, the eLicense team developed sufficient understanding of system capabilities and customer requirements such that it could reasonably estimate how much it would cost to operate the new system. DAS shared that estimate – \$5.1 million – with our customers on August 23<sup>rd</sup>. After further discussion, the team was able to trim initial cost estimates and exploit economies like multi-year software license discounts to bring the estimated annual operating cost down to the \$4.2 million that you see in the proposed DAS operating budget under fund 5JQ0, line item 100658, Professionals Licensing System, in FY 19, the first year of full operation.

Given the very low annual cost of the current end-of-life legacy system, about \$300,000, even the reduced eLicense operating cost for FY 19 was a significant increase compared to the legacy support cost. To further minimize this impact on the licensing boards' and commissions' budgets, we included in the DAS budget request a proposal to distribute approximately half of the eLicense operating cost to the licensees who benefit from its use. This distribution takes the form of a proposed transaction fee capped at \$3.50 to be paid by a licensee when applying for, renewing, or reinstating a license in the new system.

We estimate that that the revenue from the transaction fee will result in the need for DAS to directly bill licensing boards and commissions \$1.9 million instead of the entire \$4.2 million, and we shared this \$1.9 million estimate in September, three weeks after providing the original, higher estimate. It is each board's share of this \$1.9 million that is reflected in their individual budget requests for FY 19. The transaction fee does not affect a board's appropriation. Both sources of funding – \$1.9 million direct billed to boards and the revenue from the transaction fee – are required to support the ongoing operation of the eLicense system.

The cost of supporting the new eLicense system is best appreciated in the context of what the system does. Here to share this side of the eLicense picture is State CIO Stu Davis, after which we'd both be happy to field your questions.

Good afternoon, Chairman Faber and Subcommittee members. The legacy CAVU eLicense system was designed and launched in 2004. It is now an aging legacy system that is in dire need of replacement. It is unable to be scaled to meet the changing needs of boards, and it is no longer supported by the vendor. It was highly customized for the 25 individual boards and over 530 license types, making it

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difficult to support and maintain. There are over one million active users on the system, and due to the older technology and design, we were constantly concerned about significant potential security vulnerabilities and performance challenges.

The 2004 design represents an old approach to eLicensing and the user experience. When the decision was made to modernize eLicensing, we concentrated on a system that would be intuitive to the user, increase security, capacity, and efficiencies, as well as improved communications and ease of use for individual licensees, businesses, as well as the licensing boards.

Functionality and requirements for the new system were gathered with boards' and commissions' involvement and the new eLicense system is built on modern technologies, has robust capability and capacity, and aligns with best-practice standards for the protection of personal identifiable information and system security. We focused on a more intuitive user interface making renewals and applications easier to the end user that can be accessed from any mobile device, anytime and anywhere.

We streamlined business processes for each board and commission prior to design sessions and eliminated manual processes such as data entry, check processing and mailing where possible. We also improved the record keeping and reporting functionality within the system. We automated communications between the boards and licensees and streamlined access to ensure an easy and timely online transaction at the licensees' convenience.

There are 8 boards currently using the new eLicensing system, 10 more boards coming on this summer, and another 9 scheduled after that. As of March 10<sup>th</sup>, these 8 boards have experienced over 150,000 unique eLicense users registered for online access. Over 27,700 online applications and almost 99,000 online renewals have been submitted. We have collected \$9.3 million in license fees through the system to date.

Besides the focus on the user experience, the new system was designed for scalability and expansion to bring on other agencies in the future that have licensing requirements.

Thank you for your time today, and Jennifer and I are available to answer any questions.

**Ohio Department of Administrative Services  
Approved FY 2017 Office Building Rates**

<b>Building</b>	<b>FY 2015 Approved Rate</b>	<b>FY 2016 Approved Rate</b>	<b>FY 2017 Approved Rate</b>	<b>Percent Change FY15 to FY16</b>	<b>Percent Change FY16 to FY17</b>
Rhodes	\$10.20	\$11.65	<b>\$11.65</b>	14%	0%
Riffe	\$12.01	\$14.54	<b>\$14.72</b>	21%	1.2%
Lausche	\$9.70	\$10.76	<b>\$10.76</b>	11%	0%
Ocasek	\$14.45	\$15.81	<b>\$15.81</b>	9%	0%
DiSalle	\$13.96	\$12.65	<b>\$12.97</b>	-9%	2.5%
North High Complex	\$9.89	\$9.89	<b>\$9.89</b>	0%	0%
25 South Front Street	\$12.75	\$12.02	<b>\$12.02</b>	-6%	0%
Surface Road Office	\$12.00	\$10.33	<b>\$13.52</b>	-14%	31%

	<b>Debt Service</b>	<b>Operating</b>	<b>FY 17 Approved Rate</b>
Rhodes	\$2.57	\$9.08	<b>\$11.65</b>
Riffe	\$4.54	\$10.18	<b>\$14.72</b>
Lausche	\$2.76	\$8.00	<b>\$10.76</b>
Ocasek <sup>1</sup>	\$3.34	\$12.47	<b>\$15.81</b>
DiSalle <sup>1</sup>	\$5.22	\$7.75	<b>\$12.97</b>
N. High <sup>2</sup>	\$2.64	\$7.25	<b>\$9.89</b>
S. Front	\$3.00	\$9.02	<b>\$12.02</b>
Surface Road Office	\$2.52	\$11.00	<b>\$13.52</b>

<sup>1</sup>The local tenants of DiSalle and Ocasek are billed for only the operating component, as they have already paid the debt service for original construction bonds. This applies to Lucas County & City of Toledo and Summit County & City of Akron.

<sup>2</sup>The calculated debt service amount for North High is \$5.99, of which only \$2.64 is being charged in FY17 in order to keep the rate flat.

## Estimated and Revised Operating Cost for eLicense 3.0 - for FY 19 Budget Planning

OAKS Code	Board or Commission Name	Total License Records for 2016	% of Total License Records	Amount to be Billed in FY 17 and FY 18	Original Estimated FY 19 eLicense Share	Revised Estimated FY 19 eLicense Share
ACC	Accountancy Board	68,038	3.06%	\$ 9,634	\$ 158,681	\$ 59,245
ARC	Architects Board	21,557	0.97%	\$ 3,052	\$ 50,276	\$ 18,771
BRB	Ohio State Barber Board	38,326	1.72%	\$ 5,427	\$ 89,385	\$ 33,373
CAC	Casino Control Commission	9,907	0.45%	\$ 1,403	\$ 23,105	\$ 8,627
CDP	Chemical Dependency Professionals Board	25,166	1.13%	\$ 3,564	\$ 58,693	\$ 21,914
CHR	Chiropractic Board	4,241	0.19%	\$ 601	\$ 9,891	\$ 3,693
COS	Cosmetology Board	497,117	22.34%	\$ 70,392	\$ 1,159,393	\$ 432,874
CRB	Ohio Board of Motor Vehicle Repair	4,487	0.20%	\$ 635	\$ 10,465	\$ 3,907
CSW	Counselor, Soc Wkr & Marriage & Fam Ther Bd	119,244	5.36%	\$ 16,885	\$ 278,105	\$ 103,834
DEN	Dental Board	68,546	3.08%	\$ 9,706	\$ 159,865	\$ 59,688
DVM	Veterinary Medical Board	19,658	0.88%	\$ 2,784	\$ 45,847	\$ 17,118
ENG	Engineers and Surveyors Board	76,963	3.46%	\$ 10,898	\$ 179,496	\$ 67,017
FUN	Embalmers and Funeral Directors Board	16,056	0.72%	\$ 2,274	\$ 37,446	\$ 13,981
HAD/DOH	Hearing Aid Dealers and Fitters Board	3,070	0.14%	\$ 435	\$ 7,160	\$ 2,673
MED	Medical Board	286,447	12.87%	\$ 40,561	\$ 668,061	\$ 249,429
MHC	Ohio Manufactured Homes Commission	4,676	0.21%	\$ 662	\$ 10,906	\$ 4,072
NUR	Ohio Board of Nursing	609,419	27.39%	\$ 86,294	\$ 1,421,308	\$ 530,664
OBD	Ohio Board of Dietetics	19,184	0.86%	\$ 2,716	\$ 44,742	\$ 16,705
ODB	Optical Dispensers Board	17,216	0.77%	\$ 2,438	\$ 40,152	\$ 14,991
OPP	Orthotics, Prosthetics, and Pedorthics Board	950	0.04%	\$ 135	\$ 2,216	\$ 827
OPT	Optometry Board	3,505	0.16%	\$ 496	\$ 8,174	\$ 3,052
PRX	Pharmacy Board	165,042	7.42%	\$ 23,370	\$ 384,917	\$ 143,714
PSY	Psychology Board	20,347	0.91%	\$ 2,881	\$ 47,454	\$ 17,718
PYT	Occ Therapy, PT, & Athletic Trainers Board	70,956	3.19%	\$ 10,047	\$ 165,486	\$ 61,786
RCB	Respiratory Care Board	29,473	1.32%	\$ 4,173	\$ 68,738	\$ 25,664
SAN	Sanitarian Board	6,131	0.28%	\$ 868	\$ 14,299	\$ 5,339
SPE	Speech Language Pathology & Audiology	19,612	0.88%	\$ 2,777	\$ 45,740	\$ 17,078
<b>Grand Total</b>		<b><u>2,225,334</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 315,109</u></b>	<b><u>\$ 5,190,000</u></b>	<b><u>\$ 1,937,753</u></b>