

Ohio Department of Commerce

Budget Testimony: FY 2022–2023

House Finance Subcommittee on Agriculture, Development, and Natural Resources

February 25, 2021

Introduction

Chairman Kick, Ranking Member O’Brien, and members of the House Finance Subcommittee on Agriculture, Development and Natural Resources, my name is Sherry Maxfield and I am the Director of the Ohio Department of Commerce. Thank you for inviting me today to talk about how the Department’s Fiscal Year 2022–2023 budget invests in Ohio’s future and supports the Governor’s plan to elevate Ohio’s continued recovery from the COVID-19 pandemic. The Department of Commerce will help do this through investing in communities, businesses, and consumers.

Agency Overview

The mission of the Department of Commerce is to promote prosperity for our licensees and protect what matters most to the residents of our state. It is our job to ensure businesses in Ohio comply with rules and regulations, and we do that through proactive outreach, education, and customer-focused service.

Commerce oversees eight operating divisions, including Financial Institutions, Industrial Compliance, Liquor Control, Real Estate & Professional Licensing, Securities, State Fire Marshal, Unclaimed Funds, and the Division of Administration. The Department also runs the Manufactured Homes Program as well as the Medical Marijuana Control Program, which we share with the Pharmacy and Medical boards.

Each year, the Department:



I'm proud of the advances the Department has made in the past two years to better serve our stakeholders. Our **Division of Industrial Compliance** continues to identify opportunities to improve processes, including offering building services tailored to individual needs. Our Board of Building Appeals hearings are now 100% virtual. This saves business owners from flying in architects, engineers and other project managers for a meeting on their project. The Division also formalized an often-requested process to provide a quick review option for customers' building plans, moving projects forward at a faster rate than before.

The Division of Unclaimed Funds remains proactive in its mission to connect Ohioans with their unclaimed property and is attempting to simplify the process of approving claims using small estate affidavits. Under the proposal, the surviving spouse, children age 18 or older, or the parents of the deceased unclaimed funds owner would be able to claim those funds by presenting the Division with an affidavit meeting specified statutory requirements. We estimate that 30-35% of claims submitted are for deceased owners. The use of a small estate affidavit would make it easier and less costly for heirs to claim small amounts of unclaimed funds without the time, effort, expense and delay of requesting an order from the probate court.

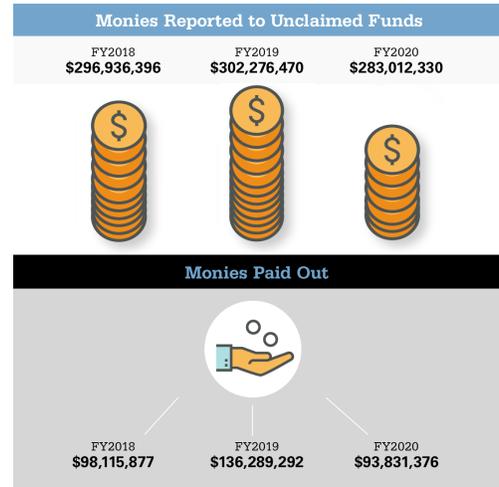


Figure 1: Unclaimed Funds Reported/Returned

Amid a global pandemic, we've also seen an increase in real estate licensing through our **Division of Real Estate and Professional Licensing**. We experienced a 29% increase in new real estate licenses issued in 2020 (over 2019) and for 2021, we've already issued 639 new real estate licenses through Feb. 15; 408 of those in January alone – a record for that month going back to at least 2005.

I'm also pleased at how the agency adjusted operations during the COVID-19 pandemic. The staff remained nimble and quickly adapted to the new, virtual way of working. Our Division of Financial Institutions, for instance, began conducting virtual examinations of banks and credit unions, and the Division of State Fire Marshal also leveraged newer technology to complete inspections. The State Fire Marshal's office also adapted to this changing landscape by providing online learning to fire academy students from fire departments throughout the state.

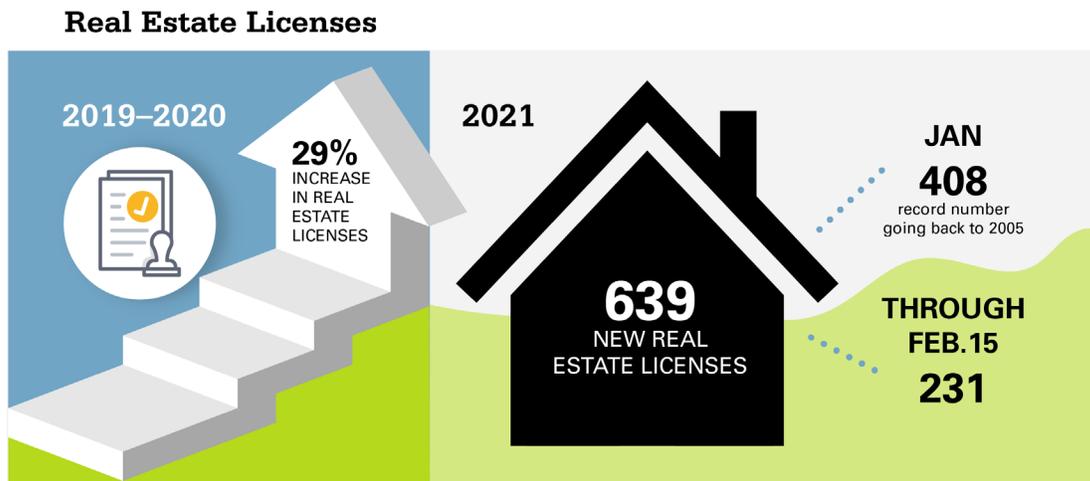


Figure 2: Real Estate Licenses Issued, 2019–Feb. 15, 2021

The Division of Liquor Control worked quickly at the onset of the pandemic to issue temporary “authority to operate” letters for liquor permit holders. This allowed the division to work from home in the early days of COVID and draw up permits without interrupting the normal issuance of liquor permits. The Division also worked with partners to provide relief to the bar and restaurant industry through the liquor buyback and rebate programs, as well as supporting the sale of drinks-to-go. These programs provided nearly \$5.7 million to our licensees. On top of that, we quickly approved temporary permit premise expansion, allowing licensees to safely accommodate additional patrons in open spaces, such as parking lots. Our agency also played a critical role in getting word out on the Bar and Restaurant Assistance Fund, sending out more than 40,000 emails. When licensees opened those emails, they knew they were eligible for a \$2,500 check and we walked them through how to apply for it directly.

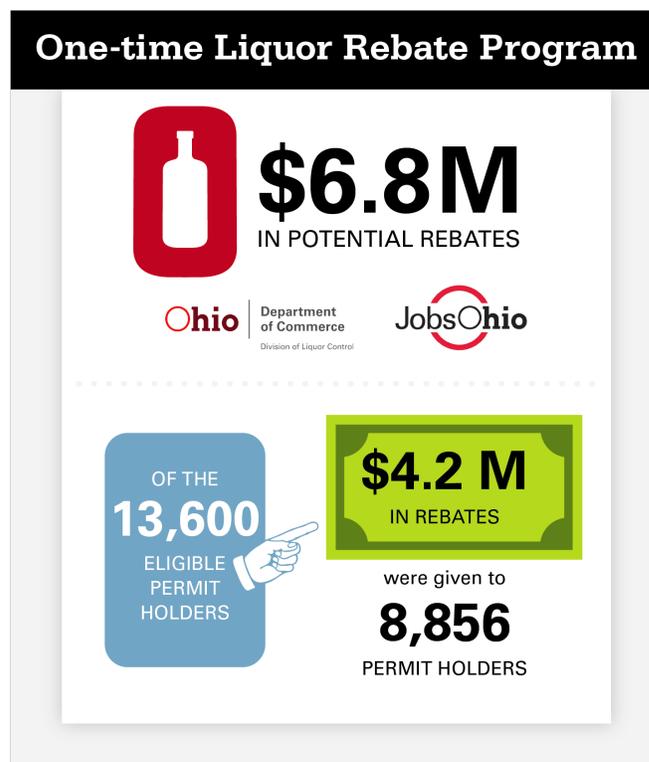


Figure 3: Liquor Rebate Program

While we are regulators, we view our purpose as much greater – we have a vital role in protecting people, property, and assets. Our work over the past year is reflective of our vision to be the most resourceful and trusted government agency positioned to best serve the citizens of our great state. We also know, in this moment, we have a unique opportunity to make substantial investments that will spur growth and economic revitalization across the state.

Our Budget as We Look Towards the Future

With our mission in mind, Commerce’s proposed budget supports our work, as well as the DeWine-Husted Administration’s initiatives to invest in Ohio.

Today we are pleased to submit a conservative and structurally sound budget for Fiscal Years 2022 and 2023. The budget invests \$257.4 million in Fiscal Year 2022 and \$254.8 million in Fiscal Year 2023 to help businesses prosper and protect many elements of everyday life for Ohioans - from their home to their bank account and investments. The proposed budget represents an approximate 6.6% increase in FY22, and a subsequent 1% decrease in FY23. It includes initiatives and expenditures that bring our agency technology platforms into the 21st century. This request also provides needed financial education and assistance in the wake of the opioid epidemic and financial scams which impact the elderly. Finally, it reflects our effort to closely monitor costs and maintain the efficient operation of the Department.

The Department receives no General Revenue Funding. Operations are funded through assessments and direct fees for services, primarily licensing, registration, and examination fees. In this next biennium we are only adjusting one license fee to help cover some of our costs and we are doing so with the support and partnership of the stakeholder.

Commerce Priority #1: Extending Support to Ohio's First Responders, Businesses, and Individuals Suffering from Financial Hardship

We know the pandemic has caused suffering for many of our stakeholders. This budget addresses some of their concerns head on.

First, we are committed to Ohio's first responders through the work we do at **the Division of State Fire Marshal**. A well-trained, well-equipped fire service helps keep Ohio families, visitors, and first responders safe. However, many of Ohio's fire departments are volunteer departments in low-populated areas with limited funding. They have also been plagued by staffing shortages and concerns over local budgets during this global pandemic. Given those factors, obtaining the latest equipment and training for their workforce can be a challenge. Commerce can provide critical assistance to these agencies through various grants and loans, and remote learning opportunities through the Ohio Fire Academy.

In the upcoming biennium, the Division of State Fire Marshal will award more than \$13 million in grants and loans to supplement the tight budgets of these struggling local departments. The programs largely focus on departments that otherwise could not provide essential resources for their firefighters - including training opportunities, up-to-date equipment, and the latest communication technology.

Our budget request includes an 18% increase in grant and loan funding levels for these critical programs to ensure Ohio's first responders are exceptionally prepared to protect their communities as we move toward the future.

In Fiscal Year 2020, the State Fire Marshal's office awarded 125 Ohio fire departments a little more than \$1.2 million in equipment grants. The average award was \$9,800 with 61% being awarded to communities with a population of less than 5,000.

During the same period, the marshal's office awarded 288 departments \$500,213 in training grants. The average award was \$1,700. We also awarded \$500,000 to local community colleges to teach the Firefighter 1 and 2 courses.

Some highlights of our budget include:

- Extending \$13.1 million in support to Ohio's first responders, businesses and individuals suffering from financial hardship;
- Directing \$23.8 million in technology improvements to provide innovative, efficient and secure platforms to meet the needs of our business partners; and
- Investing \$8 million in the future of families who are struggling with addiction by connecting them with resources to fund treatments and creating a recovery fund to assist individuals victimized by financial exploitation.

In FY21, the marshal’s office continued its great legacy of enhancing communication for responders throughout Ohio, awarding a little more than \$3 million to 373 departments through the Multi-Agency Radio Communications System (MARCS) grant. The average award was \$8,071, which funded more than 830 systems.

But these programs are much more than numbers – they have made a significant difference in the lives of Ohio’s firefighters, residents, and businesses.

In Medina County, the Brunswick fire department used their MARCS radios twice in November while fighting house fires. They needed mutual aid from other departments in the county and the radios allowed for quick, seamless communication.

On Dec. 9, the Ohio Emergency Response Plan using MARCS radios was activated in Adams County for a building collapse in Manchester. The radios provided timely and essential assistance for collapse search and rescue efforts.

Another example is flash flooding that occurred in Licking County. On March 20, their Plan involving MARCS radios was activated to call out swift water rescue teams. These incidents were handled safely and effectively due, in large part, to improved communications. During these dangerous, volatile incidents, use of these radios allowed local emergency responders and state agencies to communicate in extremely remote areas of the state – possible because local departments used grants to transition to MARCS. Before the full implementation of, similar incidents were stymied by poor, ineffective communications

Although timely communication is critical in saving lives and protecting property, transitioning to these radios is costly. The grants provided by Commerce make it possible for departments to move to this system. More than 40 counties have used the grants to fully transition to MARCS.

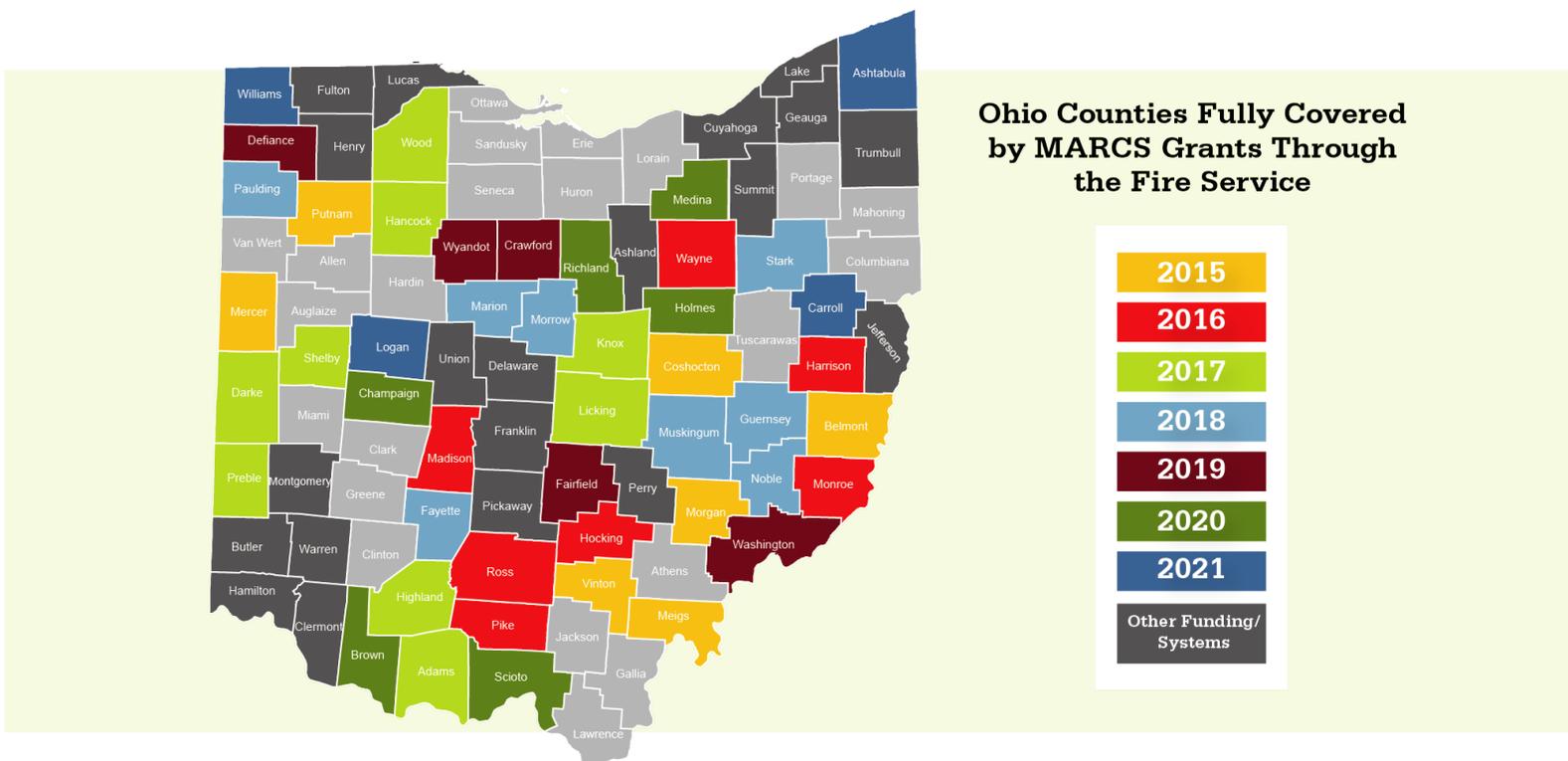


Figure 4 – MARCS Grants Through the Fire Service

The number of applications for these grants continues to increase - as departments are in desperate need of additional funding. Each year, more than \$12 million in requests are submitted for \$3 million in funding. Because of the increased demand, we are requesting authority to spend an additional \$1 million over the biennium to help meet the requests. We plan to fund that increase through our own revenue as an agency.

In addition to training, equipment, and MARCS radio grants, the Department will distribute \$4.3 million in federal grants to assist specific first responders and communities with upgrading to the next level of 9-1-1 systems. This technology will allow parts of Ohio to finally have advanced technology, such as 9-1-1 locator and texting technology. Medina County will receive \$53,283, Stark County will receive \$335,215, and Trumbull gets \$21,786. Each dollar will be used to provide enhanced 9-1-1 features enabling first responders to respond to calls more quickly. We're pleased to say that every eligible applicant received funding through this process.

COVID-19 has also impacted Ohio's first responders as they work on the frontlines treating pandemic patients. Statewide, the largest percentage of pre-hospital, 9-1-1, and emergency medical services are provided by fire departments. Most first responders are dual certified as both firefighters and EMTs/paramedics. While we've experienced unusual circumstances, life as these firefighters have known it continued - they encounter traumatic injuries and medical emergencies not related to COVID-19 daily. They still fight structure fires and respond to vehicle crashes and hazardous chemical spills. Due to this situation, there's an increased need to recruit and train more first responders in Ohio.

The Ohio Fire Academy is now offering 90 different fire and EMS training and professional development courses, tailored to fit everyone from new recruits to fire chiefs. In response to the pandemic, staff immediately started working on simultaneous plans to safely reconvene in-person classes, and to begin transitioning lecture-based courses to virtual, online delivery. In less than nine months, Academy staff completed a challenging effort to successfully redesign and transition 26 different lecture-based courses to instructor-led, online delivery in response to the pandemic.

But we're not done yet. Transitioning those courses to virtual, online delivery presents some exciting opportunities to expand access to Ohio's first responders. We can eliminate the challenges of travel and scheduling conflicts for working professionals, in both the paid as well as volunteer fire departments across the state. The Academy plans to continue leveraging this technology for lecture-based courses, as well as hybrid models for the 60 different courses featuring significant hands-on components as well.

Commerce Priority #2: Our Commitment to Businesses and Individuals Suffering from Financial Hardship

We know the pandemic has created a whirlwind of financial challenges for Ohioans.

We've seen it play out with those who are looking for low-to-moderately priced housing in the state. Commerce will continue to partner with the **Ohio Housing Finance Agency (OHFA)**, to expand access to affordable housing for low-to-moderate-income households. We will continue to support OHFA by transferring \$150 million to be attributed to housing development loans. We strongly believe we will be able to provide additional funds within the next biennium.

On top of that, through a relatively new program in the **Division of Real Estate and Professional Licensing**, \$80,000 a year in grant funding is being awarded to businesses not often thought of first in budgeting. This funding provides much needed assistance to help maintain cemeteries and,

in turn, allows local governments to free up budgets to be repurposed for other necessary local projects and financial support. Since the program's inception, 105 communities were awarded \$151,469. Because of this program's success, this budget requests an additional \$60,000 to award to communities. You'll find one example of the grant work in practice through an effort in Dayton. A large cemetery was devastated close to Memorial Day of 2019 and our grant money helped clean up the damage. Individuals could again safely visit loved ones resting there. Near Covington in Miami County, Newberry Township was required by statute to take responsibility for a historical mausoleum that had been neglected for the past 15 to 20 years and our grant helped make that structure safe. In the village of Bellville, a cemetery founded in 1812 had fallen – almost literally – into disrepair and the earliest Ohioans interred there were at risk to the dismay of their families. Our grant helped lift that property out of a concerning state.

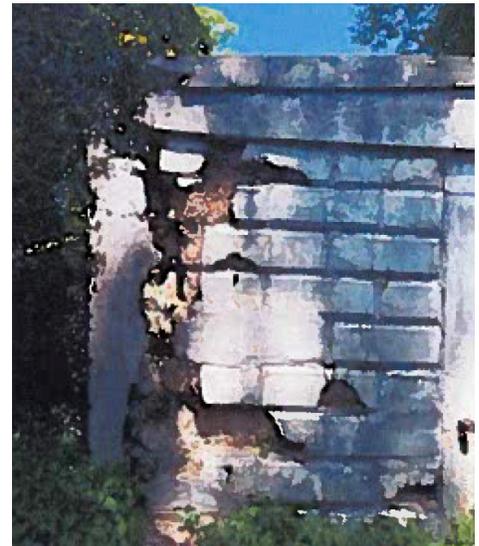


Figure 5 – Deteriorating Mausoleum Village of Bellville Cemetery

Commerce Priority #3: Directing Technology Improvements to Provide Innovative, Efficient and Secure Platforms to Meet the Needs of Our Business Partners

The past year has reminded us all about how valuable technology is to provide options for obtaining goods and services remotely. As part of the Governor's investment initiatives, we have evaluated ways for Commerce to smartly invest in the most cost-effective technology for the benefit of our stakeholders. Updated technology on our end allows our stakeholders to keep moving at the pace of the world, without hindering their success.

Keeping technology at the forefront of our efforts, our plans include a website initiative benefiting stakeholders engaged with each of Commerce's diverse divisions and programs. Some of the most notable website projects in the pipeline include licensing-focused initiatives targeting **Liquor Control and Real Estate and Professional Licensing**, as well as continuing the expansion of training opportunities provided by the dedicated staff at the **Ohio Fire Academy**.

Because our divisions are broadly diverse and complex, a significant amount of information must be communicated and accessible to the public on the Commerce website. It also must be made easy to navigate and serve as a true resource for those seeking answers.

The current Commerce website is 10 years old, and its archaic technology and cumbersome navigation has required us to partner with InnovateOhio on significant changes. There are many forms that cannot be digitally accessed and can only be completed via paperwork mailed into the agency and processed by hand. It slows down the pace at which our stakeholders need to work and grow their businesses.

Commerce plans to replace the current website with a robust "one-stop shop" for customers, worthy of their time and attention. In addition to information and education, activities such as scheduling elevator or boiler inspections, applying or renewing licenses, completing grant applications, registering for trainings, and making payments, will all be available at the click of a button. Our goal through this website redesign is to make it easier for customers and, by extension, our team.

With that goal in mind, the **Division of Liquor Control (DOLC)** has taken aggressive steps in recent years to bring its licensing process into the 21st Century. The Division processes 42,000+ permits and sees annual revenue of \$40 million. Unfortunately, our licensing process is paper based, and storage of information and search capabilities are stored in 1960s technology platforms. Putting that into context, these dated platforms are older, sometimes by a decade or more, than the first gaming systems such as the Odyssey and Atari Home Pong – both released in 1972.

Because of the age and piecemeal additions over the years, maintenance of the system is specialized and costly. Updates, including those required for legislative changes and technology improvements, are not only challenging to implement, but risky to the overall stability of the system. Functions and services, we have come to expect from our data systems in our day-to-day lives, such as web-based filing, electronic document storage and retrieval, and other high-speed workflow management options, are simply not available to our licensees and our staff. We can't move at the speed of most businesses working in the liquor industry, and our slowness impacts the customer's experience.

To address these issues the Division took aggressive steps to stabilize the current mainframe system and provide backup systems. During the FY 2020-21 biennium, a "proof-of-concept" project identified potential approaches to implement new technology while maintaining daily operations. The proof of concept project has evolved into an agile project approach aimed at moving all liquor permitting online. We have already implemented a web-based portal for both Temporary and Renewal permits. But, there's more to do. By the end of the project, this portal will support all permit application types.



Figure 6 – FY22-23 Biennium Goals

During the FY22-23 biennium, Commerce will invest \$9.8 million to continue development of the system. By the end of the biennium, our goal is to present a new licensing technology program that provides customers and Division staff with a convenient and efficient online permit application submission and payment experience. We need to be fast enough at the work we do daily to ensure Ohio's businesses can operate at a place that will move them forward on the road to success.

Real estate professionals are always on the go, so it's not unusual for them to utilize mobile applications to conduct their business. Presently, the technology we make available to real estate licensees in Ohio pales in comparison to the advancements in other states. In order to properly serve our customers, the **Division of Real Estate and Professional Licensing** needs to be able to provide services and transactions that meet these professionals where they are doing business. Particularly in high-mobility areas such as Cuyahoga, Hamilton, Montgomery and Lucas counties where the movement of mail – even items designated for overnight and two-day delivery – have taken up to a week. Current licensees are "out of business" until transfer applications are received by the Division and the license reissued to the new broker.

In the upcoming biennium, we will work to develop remote accessibility for the online transfer of a real estate license from one company to another, renewal of credentials, filing new applications for credentials and obtaining certificates of licensure. The improvements we have planned will increase the quality of service to our 60,000 real estate licensees. It will also help to reduce the more than 7,100 walk-in customers a year – saving them time and money.

The agency is also planning on implementing innovative technology that will help reunite more Ohioans with their missing money in this next biennium. Each year, the **Division of Unclaimed Funds** receives reports of unclaimed money from approximately 60,000 organizations. These funds come from dormant bank accounts, unclaimed security deposits, unredeemed life insurance policies, and forgotten safe deposit boxes.

The amount of money being held for an Ohioan can range from a few dollars to more than \$1 million. Many times, even small amounts make a big difference in the lives of these individuals. For one Ohio resident, several thousand dollars allowed her to keep her home from going into foreclosure. For another Ohioan who was battling a serious illness, nearly \$190,000 helped defray his medical costs, allowing him to focus on his health.

The Division currently is safeguarding \$3.4 billion belonging to Ohio residents, businesses, schools, and municipalities, and is working hard to return these funds to the rightful owners. Each year, the Division returns nearly \$100 million in forgotten money and property to citizens by more than doubling outreach efforts in the next fiscal year, the Division expects to increase this figure.

The new system will help the Division more quickly and easily reunite Ohioans with their missing money that can be used to attend college, start a business, or buy a home.

Commerce Priority #4: Investing in the Future of Families Who Are Struggling with Addiction or Impacted by Investor Fraud

We know addiction and financial scams can put an incredible amount of duress on Ohioans and their families. We’ve seen it firsthand throughout the work we do with our stakeholders.

Staggering sums can wipe out a family’s entire life savings in one fell swoop. An “Investment News” survey found that 36% of financial advisers today have at least one client (or client family member) struggling with the costs of opioid addiction. In addition to having their money stolen by someone struggling with addiction to buy drugs, a classic hallmark of an opioid addiction, clients are increasingly diverting investment assets to cover lost wages, treatment costs, legal fees, and to remediate credit.

Consequently, addiction disrupted the financial and retirement plans for more than 50% of the clients surveyed and forced more than 10% of those clients into bankruptcy. In partnership with RecoveryOhio, our goal is to assemble a multimedia outreach campaign that provides important information about the cost of opioid addiction to the more than 210,000 security dealers and their hundreds of thousands of clients in the state of Ohio. We also plan to direct investment advisors to appropriate services that help offset the cost of treatment for their clients and their clients’ families.



Figure 7 – Addiction Impact on Financial Clients

The Department will also be creating a new fund called the Ohio Investor Recovery Fund, which will provide victims of securities fraud partial recovery for violations of the Ohio Securities Act. The fund will be administered by the **Division of Securities** and will allow victims to claim up to 25% of the amount lost in a fraud, capped at a maximum recovery of \$25,000, to help offset their losses.

As an example of those who've lost hard-earned money, in the last week, one of our investigations led to the indictment of a Stark County man. He's accused of fraudulently soliciting more than \$600,000 from seven people to invest in his technology startup.

Another example, just this month, one of the Division's investigations led to federal indictments involving a \$9.3 million fraud impacting 54 investors from Westlake and surrounding areas. Most of the victims in this case are elderly and retired. As one of those victim's family members explained:

"I am heartbroken for all 54 elderly victims. Life happens to all of us. The sustainability of knowing that they finally reached a point in their lives where there is no perceived financial burden was torn away from them overnight. It is somewhat ironic that these federal charges were filed near Labor Day, as these 54 individuals labored their entire lives only to fall victim to this heinous financial crime. My family came to the realization very quickly that the money stolen from them, along with the remaining 54 victims, totaling \$9.3 million dollars would never be recouped. The stress, anguish, and despair that it has caused in the lives of the victims and their families are immeasurable."

While this investor recovery fund will not provide a full recovery to the victims in this or other securities fraud cases, it can give them critical financial relief. For some victims, this fund may be their only lifeline to cover basic financial needs often jeopardized in these cases – things like their mortgage payments, car payments, and college tuition for their kids and grandkids. In cases just like this, there will be victims who will be forced out of their retirement and will need to re-enter the workforce. This fund can have a huge impact on the lives of Ohioans, all without creating or raising any new agency or regulatory fees to accomplish it.

The Division of Securities also supports the reporting of suspected financial exploitation of elder investors to the Division and allowing disbursement holds capable of stopping a fraud in its tracks. The General Assembly has worked hard over the course of the past 10 years to crack down on elder abuse, amending Ohio's Adult Protective Services statute nine times since 2009 to increase elder protections and to mandate suspected abuse.

Our new proposed language would require that firms report abuse to the Division and allow firms to put a hold on suspicious disbursement requests to prevent a fraud from occurring in the first place. The language will align Ohio with most states and help better protect Ohio's elderly investors.

Conclusion

The Department of Commerce is an agency that covers a broad range of industries through regulation, requirements, and guidance. Multiple divisions work with a diverse set of Ohioans, but these divisions are tied together by the common thread of our mission: to protect the safety, security, and financial stability of the community and the businesses that serve our state.

Whether through direct support of first responders, reviews and inspections of construction projects, licensing and oversight of liquor or medical product facilities, or in multitudes of other transactions, Commerce works with businesses, local governments, and individuals to ensure commerce in Ohio moves forward smoothly and safely. We touch hundreds of thousands of lives throughout the state every day.

The budget we have submitted today protects those Ohio citizens, supports Ohio businesses, and is aligned with the DeWine-Husted Administration's priorities by investing in Ohio's future.

I ask for your support of the budget in its entirety so the Department can continue to fulfill its mission: promoting prosperity by protecting what matters most. Your support is an investment in the protection of our state's residents and visitors and the success of Ohio's businesses.

Mr. Chairman and members of the committee, thank you for the opportunity to testify before you today. I am happy to entertain any questions you may have.