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# A REPORT IN RESPONSE TO EXECUTIVE ORDER 2009-07S (Quarterly Report)

(*IMPLEMENTING ADDITIONAL SPENDING CONTROL STRATEGIES)*

JUNE 3, 2010

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## Executive Summary

*A Report in Response to Executive Order 2009-07S* dated June 3, 2010 is prepared by the Department of Administrative Services (DAS) and the Office of Budget and Management (OBM) and serves to respond to the Executive Order's reporting requirement.

Executive Order 2009-07S, Implementing Additional Spending Control Strategies, was issued on April 22, 2009, in response to the continued decline in state revenues. This Order established several cost-savings and spending control strategies to be implemented by DAS and OBM and to be utilized by state agencies, boards and commissions during Fiscal Years 2009, 2010 and 2011.

The Order also requires that the Directors of OBM and DAS monitor the implementation of this Order and provide reports to Governor Strickland regarding the effectiveness of the Order.

This report provides information relative to the third quarter of Fiscal Year 2010. The intent of this report is to provide a snapshot of state agencies' expense spending in three expense categories as well as to provide updates relative to the spending control strategies. This first section of the report summarizes the activities occurring with each spending control strategy. A second section focuses on the actual spending data and includes summaries from select agencies to clarify their spending variances. The second section also contains the actual spending data for the third fiscal quarter for agencies, boards and commissions for three expense categories which include contracts (510), maintenance (520) and equipment (530).

Within these three expense categories, after setting aside known accounting changes and non-discretionary spending, agencies cumulatively spent $225.5 million, or 14.1%, less in the first nine months of fiscal year 2010 than they did the first nine months of the prior fiscal year. General Revenue Fund spending in these account categories totaled $55.7 million, or 10.6%, less compared to fiscal year 2009. This indicates that agencies are achieving the objective to reduce spending in order to operate within their annual appropriations. Putting these three expense categories into the context of the entire state budget, OBM's Monthly Financial Report for April shows that total GRF spending is down $2.3 billion, or 9.8%, compared to last year.

Based on the third quarter spending data and feedback from the agencies, OBM and DAS can conclude that agencies continue to be vigilant and that Executive Order 2009-07S continues to prove useful in aiding agencies in their efforts to reduce spending.

# I. Spending Control Strategies: Current Efforts and Results

The Executive Order and Ohio Revised Code requires the DAS and OBM directors to monitor the effectiveness of the spending control strategies and to report on their effectiveness and on the strategies' unintended consequences. DAS and OBM are expected to implement the strategies. Agencies are expected to utilize them to support their efforts to reduce spending.

The strategies have been organized into four categories which are: contracts and procurement, travel and fleet expenses, printing and mail expenses and information technology expenses. Summaries of the strategies, along with updates pertaining to each strategy are provided below.

## A. Contracts and Procurement

1. <u>Agency review of purchase requests $1,000 and above</u>
   *Executive Order 2009-07S: 8.b.i., Ohio Revised Code 126.501(A)*
   *All Executive Agency purchase orders for supplies or services that cost $1,000 or more must be personally reviewed and approved by the Executive Agency Director or the Director's designee.*

   *<u>Status:</u>* Ongoing. Agencies continue to use this strategy to scrutinize purchase requests to limit unnecessary spending.

2. <u>Contract renegotiation</u>
   *Executive Order 2009-07S: 8.b.ii., Ohio Revised Code 126.501(B)*
   *Where legally permissible, renegotiate a 15% or greater reduction in a contract's financial terms while maintaining substantial equivalency of other contract terms (i.e., reduce hourly rates, reduce scope, eliminate or defer deliverables).*

   *<u>Status:</u>* Ongoing. This strategy was utilized in Fiscal Year 2009 and agencies reported success in reducing the value of some of their contracts. Since then, the 15% reduction in pricing has become a normal business expectation of vendors doing business with the state. Vendors are approaching the state with pricing already adjusted to reflect 15% reductions and DAS continues to work with vendors to amend pricing, where possible. These amended contract prices have resulted and will continue to result in reduced spending.

3. <u>Rebid rather than renew</u>
   *Executive Order 2009-07S: 8.b.iii., Ohio Revised Code126.501(C)*
   *Rebid contracts that may be renewed, unless the agency Director determines that the costs would likely increase under a newly rebid contract.*

   *<u>Status</u>:* Ongoing. Rebidding rather than renewing is a strategy that agencies historically utilized prior to the Executive Order and one that they continue to utilize. Agencies assess the current markets and rebid contracts when it proves cost effective. In its enterprise capacity, DAS also continues to achieve best pricing where viable. DAS evaluates every enterprise contract over $250,000 in value at least six months prior to its expiration date to make a renew/rebid decision.

4. Reduce contract encumbrances
   *Executive Order 2009-07S: 8.b.iv., Ohio Revised Code 126.501(D)*
   *All encumbrances by Executive Agencies for contracts supported by non-capital funds entered into prior to July 1, 2009, shall be cancelled on or before July 31, 2009, unless doing so is deemed fiscally imprudent by the OBM Director.*

   *Status:* This strategy is not in use at this time. The cancellation of encumbrances occurs in the fourth quarter of the fiscal year.

5. Purchasing standardization and strategic sourcing spending controls
   *Executive Order 2009-07S: 8.b.v., Ohio Revised Code 126.505(A)*
   *In order to maximize potential expenditure savings, it may be necessary for Executive Agencies to cooperate in pooled purchasing and strategic sourcing efforts which combine the supplies or service needs of multiple agencies.*

   *Status:* Ongoing. Purchasing standardization and strategic sourcing are enterprise initiatives led by DAS. Through the end of the third quarter, strategic sourcing had created $16.7 million in savings for FY10. Savings have accrued using a number of strategic methods which include standardization, reverse auctions, supplier reductions, enterprise agreements, consortium purchases and negotiations (see I.A.2. on p.3). The supplies and services contracts that have been improved by strategic sourcing include personal computers, temporary labor, food and food operations, property management services, software, paper, cleaning supplies, general hardware and vehicle rentals. The DAS Office of Procurement Services has also made modifications to its operations to enhance our strategic sourcing efforts. Such changes include:

   - Identifying, capturing and reporting savings as a motivator and educator for our procurement group;
   - Complete reorganization of the procurement team effective Jan. 1, 2010 from process alignment to category alignment for creating category subject matter experts;
   - Delivery of external training for over 90 procurement employees for an intense three-day “Real World Negotiating” workshop;
   - Use of reverse auction to deliverable sizeable savings ranging from 4% to 35% over previous requirements;
   - Creation of a savings reporting process and documentation to ensure credibility of results;
   - Delivery of process changes to our network of Agency Procurement Officers to further extend savings philosophies to the agencies.

   DAS will continue to identify commodity-based purchasing opportunities. Future target areas include pharmaceuticals, information technology staff augmentation and other information technology services.

6. <u>In-sourcing preferred</u>
*Executive Order 2009-07S: 8.b.vi., Ohio Revised Code 126.501(E),(F)*
*Prior to entering into a contract for outsourced services, thoroughly investigate whether the required services can be provided by state employees in the most cost-effective manner.*

*Status:* Ongoing. Replacement of ongoing, higher-cost contract workers with permanent state employees is highly supported by OBM and DAS.

7. <u>Equipment and furniture purchases</u>
*Executive Order 2009-07S: 8.b.vii., Ohio Revised Code 126.501(G), 126.505(B)*
*Continue to make equipment and furniture purchases in strict compliance with the OBM Control on Equipment Directive, dated Jan. 31, 2008, which was revised to include all furniture purchases.*

*Status:* Ongoing. Agencies' requisitions to purchase equipment and furniture must be approved by OBM and DAS. This restriction applies to furniture and equipment costing $300 or more, such as desks, bookcases, computers, printers, etc. This includes all items listed under expense category 530. DAS and OBM have observed that the number of submitted equipment and furniture requests have declined over time. It is assumed that this decline is due to agencies' internal assessments and decisions to avoid spending. Our review of expense category 530 for equipment supports this assumption by showing a year-to-date reduction of 12.8% over the same period of time in Fiscal Year 2009.

## B. Travel and Fleet Expenses

1. <u>Travel expense reductions</u>
*Executive Order 2009-07S: 8.c.i., Ohio Revised Code 126.503(A)*
*Continue to comply with OBM's travel directive dated January 31, 2008, which required Executive Agencies to control nonessential travel expenses.*

*Status:* Ongoing. Regarding mileage reimbursement, for the third quarter of FY10, the amounts paid to employees for the use of their personal cars on state business totaled $1,252,785, according to the new OAKS travel and expense module implemented by Shared Services. By comparison, these amounts totaled $1,984,062 for the same time period in FY09, according to the FleetOhio and OAKS Financials systems. Due to the implementation of the new travel and expense module, these numbers may not be directly comparable. DAS Fleet Management is establishing protocols to compare the reports.

2. <u>Mileage reimbursement rate</u>

*Executive Order 2009-07S: 8.c.ii., Ohio Revised Code 126.503(E)*

*The mileage reimbursement rate is reduced to 45 cents per mile, effective May 1, 2009, for all exempt personnel and effective October 1, 2009, for all bargaining unit employees.*

*<u>Status</u>*: Ongoing. Agencies continue to garner significant savings because of this strategy especially when combined with the strategies to reduce travel and use fleet vehicles. All collective bargaining agreements have been standardized with the rate so that mileage reimbursements for both exempt and bargaining unit employees are now at 45 cents per mile.

In recent months, DAS is seeing evidence that agencies are moving toward using more fleet vehicles to reduce the expense of mileage reimbursements for employees who use their personal vehicles for state business travel. In FY10, agencies purchased 407 compact sedans, where 202 replaced existing mid-size sedans with a projected savings $725,180 in acquisition and operating costs. The remaining 205 compact sedans being placed into service in the third and fourth quarters of FY10 are additions to the fleet to reduce personal mileage reimbursements. The value proposition for agencies to use fleet vehicles is that DAS can, on behalf of the agencies:

- purchase economical cars at more competitive prices;
- insure the vehicles at a lower cost due to our self-insured structure;
- pay less for fuel because of the federal gasoline tax exemption.

Collectively, the state's cost to purchase and maintain a vehicle is far more less than reimbursing employees at 45 cents per mile.

3. <u>OAKS on-line travel</u>

*Executive Order 2009-07S: 8.c.iii., Ohio Revised Code 126.503(B)*

*All Executive Agencies shall, when it becomes available, use the online travel and expense reimbursement process which will require employees to enter the necessary information directly into OAKS.*

*<u>Status</u>:* Ongoing. OBM Shared Services, which manages the online travel authorization and reimbursement process, has been operational for two quarters. All agency travel reimbursements are required to move to Shared Services processing. This will be achieved by July 1. Currently, all executive branch agencies except the Department of Transportation (DOT) have migrated. DOT as well as the Attorney General are slated to begin on July 1.

Shared Services received 6,308 travel reimbursement submissions for pre-audit approval during the third quarter. The average time to complete this review was 2.1 days or fewer. In addition to requests requiring pre-audit, Shared Services processed 13,154 reimbursements that are below dollar thresholds requiring pre-audit approval.

4. <u>Alternatives for in-person meetings</u>

*Executive Order 2009-07S: 8.c.iv., Ohio Revised Code 126.503(C)*
*Conduct necessary meetings concerning the business of the state, whenever possible, using conference calls, teleconferences, webinars or other technology tools to preclude the need for state employees to travel by automobile to participate in a meeting.*

*<u>Status</u>:* Ongoing. When DAS and OBM surveyed agencies last fall, agencies indicated their support of this strategy to use alternative means of participating in meetings to reduce expenses incurred through vehicular travel. Tools routinely used include teleconferences, web meetings and video conferences. This may be a factor in the declining travel reimbursements experienced.

5. <u>Use fleet vehicles</u>

*Executive Order 2009-07S: 8.c.v., Ohio Revised Code 126.503(D)*
*Use fleet vehicles for official travel when a fleet vehicle is readily available. No Executive Agency employee is authorized to engage in reimbursable travel when a fleet vehicle is readily available for that travel.*

*<u>Status</u>:* Ongoing. Even with an emphasis on using state vehicles rather than mileage reimbursement when cost effective, the size of the state fleet has remained stable during the first three quarters of FY10 at 11,820 units as compared to 11,821 at the end of FY09. There will be an increase of approximately 205 units during the fourth quarter as additional units are deployed to supplant mileage reimbursement payments. Over the past six years, the fleet has decreased by 5.9% from 12,563 vehicles in 2003.

In addition to encouraging the use of fleet vehicles and associated programs, DAS continues to identify strategies to control costs associated with the state's fleet. For example, DAS changed the default passenger fleet vehicle from the mid-size to the compact sedan beginning in 2008. In FY10, the state purchased 407 compact sedans, where 202 replaced existing mid-size sedans with a projected savings of $725,180 in acquisition and operating costs. The remaining 205 compact sedans being placed into service in the third and fourth quarters of FY10 are additions to the fleet to provide additional capacity as more agencies use cheaper fleet cars, rather than paying employee mileage reimbursements.

6. <u>Parking expenses</u>

*Executive Order 2009-07S: 8.f., Ohio Revised Code 126.501(H)*
*Reduce parking expenses, including parking expenses for purchased and lease-included spaces for individual employees, space for fleet vehicles, spaces for agency employees on agency business and parking reimbursement for those attending meetings. This analysis shall also include a review of any loss in efficiencies or other agency benefits resulting from such cost saving opportunities.*

*<u>Status</u>:* Ongoing. The October 2009 survey revealed that agencies have assessed parking-related expenses and have made adjustments, where

possible. Agencies also indicated that the increased and continued use of teleconferencing and webinars for conferences and training sessions can provide savings in travel expenses and parking reimbursements.

## C. Printing and Mail

1. Interoffice mail service

   *Executive Order 2009-07S: 8.d.i., Ohio Revised Code 126.504(A)*

   *Use the free DAS interoffice mail service for all mail deliveries to other Executive Agencies in central Ohio.*

   *Status:* Ongoing. Interoffice mail delivery is widely utilized by state agencies and is available at no cost to state agencies located in the downtown Columbus area. Since the signing of the Executive Order, we have noticed a significant decrease in use of U.S. Mail for agency-to-agency correspondence. We will continue to emphasize the use of interoffice mail to our customers.

   Regarding mail preparation, since the issuance of the Executive Order, 23 new agencies have joined the centralized mail metering program in addition to the 53 agencies already using the service. Agencies that have transitioned their mail processing to DAS have reported savings of $78,394 in equipment and supply costs. Additional savings from staff reassignment has not been calculated. The DAS State Mail Service is now processing an estimated 1,350,000 additional pieces of mail annually without an increase in staffing, equipment or other costs.

   New service: DAS has established a new pre-sorted flat mail contract which has been in place since March 2010. The contract, awarded to Pitney Bowes, saves 13.3¢ to 15.3¢ per each flat piece of mail over the US Postal Service's first class rates. The first month's data for March 2010 reveals a savings of $15,360.00 for our customers. We anticipate an increase in volume as we educate our customers on the terms and conditions of this new service.

2. Major printing and related services

   *Executive Order 2009-07S: 8.d.ii., Ohio Revised Code 126.504(B)*

   *By October 1, 2009, all Executive Agencies shall direct all of their major printing and related services through DAS, including production-level copying, mainframe printing, and mail preparation activities and eliminate their internal operations providing these services.*

   *Status:* Ongoing: All agency copy centers have closed and the printing from those centers has been centralized to DAS printing centers. All agency mainframe printing and fulfillment operations, with the exception of the Department of Public Safety (DPS) and the Ohio Industrial Commission (OIC), have closed and that production printing and fulfillment is now handled by the DAS mainframe and fulfillment center at Integrity Drive. We have moved a large number of DPS mainframe printing projects to DAS' operations. However, the largest print volume projects which are from within the DPS Registrar's Office have not yet transitioned over to DAS.

The OIC's mainframe printing requirements are now being tested and we anticipate assumption of that operation by the end of June. DAS began handling the fulfillment process for OIC in November 2009.

In a May 28, 2009, report issued in response to section 8.d.ii of the Executive Order, DAS estimated the printing and mail preparation savings at $5.3 million for the FY10-11 biennium. Because of the centralization, DAS has reduced its rates. For example, FY10 rates have been reduced by 7.7% for color copying and by 12.5% for mainframe printing. A fiscal review indicates that the consolidated printing/mail program is managing expenses within the new lower rates, and could be in a position to reduce rates further in FY11.

## D. Information Technology Expenses

1. IT reductions: common hardware, software, servers and security
   *Executive Order 2009-07S: 8.e.ii.a., Ohio Revised Code 125.18(B)(2)*
   *Reduce the cost of IT for state government through the adoption of common hardware, software, services and security.*

   While state agencies share many similar technologies, ultimately multiple approaches exist to solve the same problem. The state's investment in technology over the last eight years shows that agencies collectively invest more in infrastructure than in applications. By establishing standards around infrastructure, agencies will be able to invest more in applications that are core and unique to their missions to deliver services that improve the efficiency and effectiveness of government.

   *Status:* Ongoing. The DAS Office of Information Technology (OIT) Enterprise Technical Architecture Subcommittee (ETA SC) continues to work to address the requirements of the Executive Order 2009-07S and ORC 125.18(B)(2), to establish policies, standards and services to reduce IT costs and to assist in the adoption of common hardware, software, and services. The ETA SC's primary objective is to analyze, recommend, establish and maintain an Enterprise Technical Architecture (ETA) for the state of Ohio and to identify, prioritize and approve specific efforts consistent with this vision. The ETA SC consists of 33 participating agencies, 16 core committee members and 58 community-of-interest members who are agency employees that benefit from or utilize these tools and services. Over time, the work of the ETA SC will enable the state to accrue economies-of-scale through aggressive strategic sourcing initiatives for hardware, software and services.

   Three working groups have been established under the ETA SC to assist in accomplishing its goals:

   - Server and Storage Virtualization and Consolidation Workgroup is developing enterprise technical architecture and best practice recommendations for servers and storage virtualization and consolidation. Following on the success of the Hypervisor standard which provided the basis for VMWare enterprise purchase opportunity, the WG is recommending Server Component Specifications. This recommendation is being reviewed by the ETA SC and a subset of agency CIO's. Three other recommendations are in progress, addressing the overall financial impact of server virtualization using the VMWare capacity analysis toolkit, Storage Guidelines, and Server/Storage management tools.

- Endpoint Computing Workgroup is developing enterprise technical architecture and best practice recommendations for an endpoint computing model that will authenticate a state employee user, the user's computing device and the health of that device prior to authorizing access to the state's networks. The WG is focused on three areas including VDI/Alternative Client to develop guidelines to help agencies move to virtual desktop, including thin client model specifications. Two other areas identified for opportunities are cost analysis for handhelds and PC management tools.

- LAN/WAN Workgroup is developing enterprise technical architecture and best practice recommendations for the state's Local Area Networks (LAN) and Wide Area Networks (WAN) infrastructure. The LAN/WAN Workgroup will develop a Lifecycle Cost Analysis for the state's LAN/WAN environment with a particular focus on cost-savings opportunities in the support and maintenance area.

2. IT reductions: reduce mobile devices
*Executive Order 2009-07S: 8.e.ii.b., Ohio Revised Code 125.18(B)(7)*
*Reduce the use of Blackberries and other mobile and handheld computing and telecommunications devices which cannot be appropriately justified.*

*Status:* Ongoing. Agencies have indicated that reductions in mobile devices has occurred due to prior analysis of the use of assigned Blackberries and phones while others conducted reviews after the issuance of the Executive Order.

Agencies have also suggested that a statewide plan(s) be explored to consider the pooling of minutes and standardization of devices to negotiate pricing based on that standardization and quantity. This issue is among those being studied by the Enterprise Technical Architecture (ETA) Subcommittee which has assigned mobile devices to its ETA Endpoint Workgroup.

Agencies should reference DAS IT Policy H.2: Use of State Telephones for requirements for the use of wired and wireless state telephone service and DAS IT Policy B.9: Portable Computing Security for additional guidance for portable computing devices. DAS Office of Information Technology is engaging agencies in the initial process to revise these policies to guide agencies in the provision of blackberries and other mobile and handheld computing and telecommunications devices.

3. <u>IT reductions: extend service life of IT systems</u>
   *Executive Order 2009-07S: 8.e.ii.c., Ohio Revised Code 125.18(B)(2)*
   *Delay acquisition of new IT systems or projects and extend the service life of IT systems where practicable.*

   *<u>Status</u>:* Ongoing. While use of this strategy can reduce spending in the short term, it should be also noted that delaying the scheduled replacement of aging hardware and software could result in higher maintenance costs, unscheduled repairs and potential service outages to customers. Agencies should consider the impact of this strategy in the process of making a business decision to delay scheduled maintenance or replacement of equipment. This is not a "required" strategy but suggested for implementation where practicable.

   DAS implemented a shift in practice for the state from a three-year replacement cycle on laptops to four years, and desktops from four-year replacement to five years unless it is critical and urgent to the state agency and the agency's programs to carry out its mission.

   The implementation of the expanded criteria for laptops and desktops resulted in direct denials and returns of petitioned replacement requests during the early stages of controls implementation. However and more importantly, the entire State IT organization has adopted the revised standards and agencies have begun a permanent implementation process which results in rescheduling costs (delaying and deferring). These process changes have resulted in reductions in overall outlays for laptops by 8% and desktops by 5% annually.

   OIT is kicking off a project to investigate opportunities to decommission, if necessary, any existing legacy systems in favor of fuller utilization of OAKS.

4. <u>IT reductions: printing and electronic records</u>
   *Executive Order 2009-07S: 8.e.ii.d., Ohio Revised Code 125.18(B)(8)*
   *Reduce computer printing and increase use of electronic records.*

   *<u>Status</u>:* Ongoing. Agencies view the reduction of computer printing and increased use of electronic records as an effective strategy although the capability to produce an electronic library of records is contingent, in large part, on an agency's ability to purchase the required technology needed to accurate scan, store, search and retrieve electronic records.

   With regard to a reduction in printing, agencies that are participating in DAS' Cost-Per-Copy program have realized reductions in printing costs as it raises employee awareness of the costs of making copies. Within the Cost-Per-Copy program, State Printing conducts an assessment of an agency's current printer environment and identifies where consolidation opportunities exist.

Agencies should reference DAS IT Standard - PLF-03 Printer Total Cost of Ownership. This state IT standard establishes that the approximate total cost of ownership (TCO) be determined among new printers considered for procurement and that the lowest TCO be a primary deciding factor in purchase selection.

5. IT reductions: energy consumption (8.e.ii.e.)
   *Executive Order 2009-07S: 8.e.ii.e., Ohio Revised Code 125.18(B)(9)*
   *Reduce the cost of IT for state government through the reduction of energy consumption.*

   *Status:* Ongoing. This strategy continues and progress will be reported as advances are realized. DAS has launched a server consolidation initiative that when fully implemented is projected to save the state 40-50% in administration costs across the statewide fleet of servers by reducing power, maintenance, and hardware costs. Additional strategies are in development that may also reduce energy consumption. For example, the DAS OIT Server Virtualization Project assumes that if 283 state servers are virtualized, the state could save up to 81% or more than $255,360 over five years in server power and cooling consumption.

   In addition, as members of the ETA Server/Storage Virtualization & Consolidation Workgroup run the VMware (virtualization software) Capacity Planner assessment, DAS will have more insight into potential statewide energy savings. This is also an area that has been identified for future Ohio IT policy development.

# A. Agency Spending for Expense Categories 510, 520 and 530

This report shows all agency operations spending in the appropriation allotment categories for contracts (account 510), maintenance (account 520), and equipment (account 530) in the first nine months of FY 2009 compared to the first nine months of FY 2010. Executive Order 2009-07S applied to many, but not all, types of expenditures in these expense categories. At the bottom of the report, OBM has removed major expenses of which we are aware that represent accounting changes or do not represent state agency operating costs. The numbers presented here represent individual transactions that are aggregated from the OAKS Financials accounting system; they are not audited by OBM. This data provides information on spending at two points in time between which agencies may have changed coding for ongoing or annual expenses, bought different goods or services, bought goods and services at different times, etc. All questions about agency spending should be directed to the agencies.

**FY 2009 v. FY 2010 Q1 + Q2 + Q3 Spending by Agency - Contracts, Maintenance, and Equipment**

| Agency Code | Agency | FY 2009 | FY 2010 | Diff. between FY09 and FY10 | % Change |
|---|---|---|---|---|---|
| ACC | Accountancy Board | $ 172,133.69 | $ 194,251.72 | $ 22,118.03 | 12.8% |
| ADA | Alcohol and Drug Addiction Services | $ 1,441,033.42 | $ 1,135,041.20 | $ (305,992.22) | -21.2% |
| ADJ | Adjutant General | $ 12,501,528.23 | $ 10,514,400.93 | $ (1,987,127.30) | -15.9% |
| AFC | Cultural Facilities Commission | $ 266,125.68 | $ 248,989.84 | $ (17,135.84) | -6.4% |
| AGE | Aging | $ 2,678,865.28 | $ 2,254,264.86 | $ (424,600.42) | -15.9% |
| AGO | Attorney General | $ 32,987,060.97 | $ 29,613,269.68 | $ (3,373,791.29) | -10.2% |
| AGR | Agriculture | $ 7,530,732.23 | $ 9,794,320.37 | $ 2,263,588.14 | 30.1% |
| AIR | Air Quality Development Authority | $ 88,050.90 | $ 31,042.21 | $ (57,008.69) | -64.7% |
| AMB | Medical Transportation Board | $ 192,257.26 | $ 184,213.50 | $ (8,043.76) | -4.2% |
| ARC | Architects Board | $ 61,020.40 | $ 53,890.37 | $ (7,130.03) | -11.7% |
| ART | Arts Council | $ 443,806.61 | $ 354,888.53 | $ (88,918.08) | -20.0% |
| ATH | Athletic Commission | $ 30,708.25 | $ 37,438.68 | $ 6,730.43 | 21.9% |
| AUD | Auditor of State | $ 7,207,430.70 | $ 6,613,042.91 | $ (594,387.79) | -8.2% |
| BDP | Board of Deposit | $ 745,898.51 | $ 823,178.18 | $ 77,279.67 | 10.4% |
| BOR | Board of Regents | $ 3,065,178.62 | $ 2,289,150.65 | $ (776,027.97) | -25.3% |
| BRB | Barber Board | $ 94,044.75 | $ 76,904.91 | $ (17,139.84) | -18.2% |
| BTA | Board of Tax Appeals | $ 70,244.44 | $ 65,863.96 | $ (4,380.48) | -6.2% |
| BWC | Bureau of Workers' Compensation | $ 41,667,924.74 | $ 37,316,208.56 | $ (4,351,716.18) | -10.4% |
| CDP | Chemical Dependency Professionals Board | $ 115,409.50 | $ 69,926.64 | $ (45,482.86) | -39.4% |
| CDR | Commission on Dispute Resolution | $ 29,405.81 | $ 26,353.63 | $ (3,052.18) | -10.4% |
| CHR | Chiropractic Board | $ 82,484.34 | $ 62,490.17 | $ (19,994.17) | -24.2% |
| CIV | Civil Rights Commission | $ 708,795.88 | $ 620,092.20 | $ (88,703.68) | -12.5% |
| CLA | Court of Claims | $ 244,467.97 | $ 266,057.32 | $ 21,589.35 | 8.8% |
| COM | Commerce | $ 49,763,541.50 | $ 47,865,991.64 | $ (1,897,549.86) | -3.8% |
| COS | Cosmetology Board | $ 564,373.78 | $ 402,381.25 | $ (161,992.53) | -28.7% |
| CRB | Motor Vehicle Collision Repair Registration Board | $ 21,998.20 | $ 37,409.38 | $ 15,411.18 | 70.1% |
| CSF | Commissioners of the Sinking Fund | $ 203,400.86 | $ - | $ (203,400.86) | -100.0% |
| CSR | Capital Square Review and Advisory Board | $ 1,488,378.93 | $ 1,292,063.17 | $ (196,315.76) | -13.2% |
| CSW | Counselor, Social Worker, and Marriage & Family Therapist Board | $ 167,221.31 | $ 154,049.78 | $ (13,171.53) | -7.9% |
| DAS | Administrative Services | $ 96,716,700.22 | $ 104,648,131.67 | $ 7,931,431.45 | 8.2% |
| DEN | Dental Board | $ 320,361.89 | $ 303,925.32 | $ (16,436.57) | -5.1% |
| DEV | Development | $ 16,215,000.80 | $ 15,862,431.47 | $ (352,569.33) | -2.2% |
| DMH | Mental Health | $ 53,246,193.67 | $ 48,885,908.68 | $ (4,360,284.99) | -8.2% |
| DMR | Developmental Disabilities | $ 31,641,933.47 | $ 33,280,772.88 | $ 1,638,839.41 | 5.2% |
| DNR | Natural Resources | $ 39,499,223.78 | $ 35,542,064.72 | $ (3,957,159.06) | -10.0% |
| DOH | Health | $ 77,176,039.76 | $ 64,160,013.80 | $ (13,016,025.96) | -16.9% |
| DOT | Transportation | $ 118,730,920.13 | $ 102,523,393.72 | $ (16,207,526.41) | -13.7% |
| DPS | Public Safety | $ 69,356,682.61 | $ 63,062,376.88 | $ (6,294,305.73) | -9.1% |
| DRC | Rehabilitation and Correction | $ 442,141,239.41 | $ 303,209,178.96 | $ (138,932,060.45) | -31.4% |
| DVM | Veterinary Medical Board | $ 57,469.82 | $ 49,836.25 | $ (7,633.57) | -13.3% |
| DVS | Veterans Services | $ 6,252,731.97 | $ 7,375,598.19 | $ 1,122,866.22 | 18.0% |
| DYS | Youth Services | $ 28,021,943.35 | $ 21,673,233.08 | $ (6,348,710.27) | -22.7% |
| EBR | Environmental Review Appeals Commission | $ 50,764.99 | $ 47,740.09 | $ (3,024.90) | -6.0% |
| EDU | Education | $ 76,175,306.62 | $ 61,929,257.54 | $ (14,246,049.08) | -18.7% |
| ELC | Elections Commission | $ 98,735.22 | $ 91,562.04 | $ (7,173.18) | -7.3% |
| ENG | Engineers and Surveyors Board | $ 150,169.59 | $ 175,385.52 | $ 25,215.93 | 16.8% |
| EPA | Environmental Protection Agency | $ 43,344,093.24 | $ 32,940,311.55 | $ (10,403,781.69) | -24.0% |
| ERB | Employment Relations Board | $ 336,917.74 | $ 231,226.87 | $ (105,690.87) | -31.4% |
| ETC | eTech Ohio Commission | $ 3,624,167.44 | $ 2,552,309.74 | $ (1,071,857.70) | -29.6% |
| ETH | Ethics Commission | $ 163,694.28 | $ 111,462.56 | $ (52,231.72) | -31.9% |
| EXP | Expositions Commission | $ 6,104,104.57 | $ 6,696,422.50 | $ 592,317.93 | 9.7% |
| FUN | Embalmers and Funeral Directors Board | $ 108,716.31 | $ 88,444.05 | $ (20,272.26) | -18.6% |
| GOV | Governor | $ 230,850.59 | $ 176,701.88 | $ (54,148.71) | -23.5% |
| HEF | Higher Educational Facility Commission | $ 5,060.50 | $ 5,898.30 | $ 837.80 | 16.6% |
| IGO | Inspector General | $ 132,832.59 | $ 128,229.77 | $ (4,602.82) | -3.5% |
| INS | Insurance | $ 5,189,159.20 | $ 11,789,944.01 | $ 6,600,784.81 | 127.2% |

| Agency Code | Agency | FY 2009 | FY 2010 | Diff. between FY09 and FY10 | % Change |
|---|---|---|---|---|---|
| JCO | Judicial Conference of Ohio | $ 263,402.51 | $ 240,494.40 | $ (22,908.11) | -8.7% |
| JCR | Joint Committee on Agency Rule Review | $ 20,564.41 | $ 18,286.16 | $ (2,278.25) | -11.1% |
| JFS | Job and Family Services | $ 241,279,080.82 | $ 141,688,156.24 | $ (99,590,924.58) | -41.3% |
| JLE | Joint Legislative Ethics Committee | $ 111,714.88 | $ 76,046.62 | $ (35,668.26) | -31.9% |
| JSC | Judiciary/Supreme Court | $ 8,011,691.56 | $ 6,543,093.64 | $ (1,468,597.92) | -18.3% |
| LCO | Liquor Control Commission | $ 139,251.17 | $ 116,159.31 | $ (23,091.86) | -16.6% |
| LEC | Lake Erie Commission | $ 41,508.51 | $ 45,182.73 | $ 3,674.22 | 8.9% |
| LIB | Library Board | $ 7,196,778.14 | $ 7,245,448.42 | $ 48,670.28 | 0.7% |
| LOT | Lottery Commission | $ 378,834,325.50 | $ 203,378,717.34 | $ (175,455,608.16) | -46.3% |
| LRS | Legal Rights Services | $ 388,058.34 | $ 473,773.95 | $ 85,715.61 | 22.1% |
| LSC | Legislative Service Commission | $ 1,179,829.31 | $ 1,111,263.77 | $ (68,565.54) | -5.8% |
| MED | Medical Board | $ 1,160,977.00 | $ 928,740.38 | $ (232,236.62) | -20.0% |
| MHC | Manufactured Homes Commission | $ 37,731.03 | $ 43,945.90 | $ 6,214.87 | 16.5% |
| MIH | Commission on Minority Health | $ 49,766.96 | $ 44,209.71 | $ (5,557.25) | -11.2% |
| NUR | Nursing Board | $ 577,977.96 | $ 722,869.32 | $ 144,891.36 | 25.1% |
| OBD | Dietetics Board | $ 38,706.44 | $ 37,567.78 | $ (1,138.66) | -2.9% |
| OBM | Budget and Management | $ 7,484,145.32 | $ 7,765,263.11 | $ 281,117.79 | 3.8% |
| OCC | Consumers' Counsel | $ 1,382,919.06 | $ 1,054,722.52 | $ (328,196.54) | -23.7% |
| ODB | Optical Dispensers Board | $ 28,737.00 | $ 27,586.53 | $ (1,150.47) | -4.0% |
| OIC | Industrial Commission | $ 7,325,802.16 | $ 5,736,577.70 | $ (1,589,224.46) | -21.7% |
| OPP | Orthotics, Prosthetics, and Pedorthics Board | $ 8,149.18 | $ 9,545.71 | $ 1,396.53 | 17.1% |
| OPT | Optometry Board | $ 21,755.84 | $ 31,868.66 | $ 10,112.82 | 46.5% |
| OSB | School for the Blind | $ 734,420.40 | $ 931,532.50 | $ 197,112.10 | 26.8% |
| OSD | School for the Deaf | $ 855,413.42 | $ 723,691.14 | $ (131,722.28) | -15.4% |
| OVH | Veterans Home | $ 1,151,495.02 | $ - | $ (1,151,495.02) | -100.0% |
| PAY | Employee Benefits Funds | $ 11,087,829.16 | $ 10,440,806.73 | $ (647,022.43) | -5.8% |
| PBR | Personnel Board of Review | $ 94,150.57 | $ - | $ (94,150.57) | -100.0% |
| PRX | Pharmacy Board | $ 702,793.19 | $ 613,199.39 | $ (89,593.80) | -12.7% |
| PSY | Psychology Board | $ 87,194.09 | $ 68,119.97 | $ (19,074.12) | -21.9% |
| PUB | Public Defender Commission | $ 2,184,901.31 | $ 2,335,674.62 | $ 150,773.31 | 6.9% |
| PUC | Public Utilities Commission | $ 6,748,167.53 | $ 6,508,858.69 | $ (239,308.84) | -3.5% |
| PWC | Public Works Commission | $ 118,730.56 | $ 95,689.96 | $ (23,040.60) | -19.4% |
| PYT | Occupational Therapy, Physical Therapy, and Athletic Trainers Board | $ 123,354.45 | $ 112,622.72 | $ (10,731.73) | -8.7% |
| RAC | Racing Commission | $ 1,873,967.00 | $ 1,689,595.73 | $ (184,371.27) | -9.8% |
| RCB | Respiratory Care Board | $ 65,401.16 | $ 61,226.06 | $ (4,175.10) | -6.4% |
| REP | House of Representatives | $ 817,931.96 | $ 1,127,264.89 | $ 309,332.93 | 37.8% |
| RSC | Rehabilitation Services Commission | $ 21,966,462.83 | $ 22,285,099.95 | $ 318,637.12 | 1.5% |
| SAN | Sanitarian Registration Board | $ 13,179.83 | $ 13,685.57 | $ 505.74 | 3.8% |
| SCR | Career Colleges and Schools Board | $ 133,835.44 | $ 106,373.01 | $ (27,462.43) | -20.5% |
| SEN | Senate | $ 521,414.97 | $ 414,844.90 | $ (106,570.07) | -20.4% |
| SFC | School Facilities Commission | $ 1,595,131.19 | $ 1,206,035.98 | $ (389,095.21) | -24.4% |
| SOS | Secretary of State | $ 4,217,260.20 | $ 3,091,189.86 | $ (1,126,070.34) | -26.7% |
| SPA | Commission on Hispanic/Latino Affairs | $ 75,482.91 | $ 54,090.93 | $ (21,391.98) | -28.3% |
| SPE | Speech-Language Pathology and Audiology Board | $ 77,574.71 | $ 88,342.74 | $ 10,768.03 | 13.9% |
| TAX | Taxation | $ 19,939,863.58 | $ 21,690,519.37 | $ 1,750,655.79 | 8.8% |
| TOS | Treasurer of State | $ 1,183,789.85 | $ 1,090,867.22 | $ (92,922.63) | -7.8% |
| TTA | Tuition Trust Authority | $ 2,499,186.04 | $ 2,107,625.61 | $ (391,560.43) | -15.7% |
| **Grand Total** | | **$ 2,014,176,340.99** | **$ 1,524,135,415.72** | **$ (490,040,925.27)** | **-24.3%** |
| | LESS Lottery prize winnings | $ 314,804,935.93 | $ 154,007,529.75 | $ (160,797,406.18) | -51.1% |
| | LESS DRC FY09 transfer now coded differently in FY10 | $ 103,697,742.83 | $ - | $ (103,697,742.83) | -100.0% |
| | **Net reduced agency spending** | **$ 1,595,673,662.23** | **$ 1,370,127,885.97** | **$ (225,545,776.26)** | **-14.1%** |

## B. Explanations of Large Agency Spending Differences for Q1-Q3 of FY09 versus FY10 for Expense Categories 510 + 520 + 530

The summary data for the first, second, and third quarters of Fiscal Year 2010 show an aggregate statewide reduction in administrative spending (after adjustments for non-operating expenses) of 14.1% compared to same period spending in Fiscal Year 2009. Agency-specific spending differences after adjustments range from a reduction of $99.6 million (Department of Job and Family Services) to an increase of $7.9 million (Department of Administrative Services) compared to the same period of spending in Fiscal Year 2009. Agencies that experienced a spending reduction of greater than $10.0 million or a spending increase of greater than $1.0 million were asked to provide an explanation for those variances. These explanations are provided below. Please contact agencies directly for further information regarding spending variances.

**Reductions in Spending Greater than $10.0 Million**

<u>Lottery Commission: -$14.7 million after adjustment (-$175.5 million before adjustment)</u>

- Prize and commission payments, which have been deducted from total agency spending amounts, are $160.8 million less this year compared to last year due to fewer winning jackpot claims in Ohio. Additional non-prize savings totaling $14.7 million were realized primarily through reduced telecommunications charges as a result of a new gaming contract with Intralot and through reduced equipment purchases pursuant to Executive Orders.

<u>Department of Rehabilitation and Corrections: -$35.2 million after adjustment (-$138.9 million before adjustment)</u>

- $103.7 million of the reduction is the result of an accounting correction, rather than a cost savings. This amount has been deducted from total agency spending reported. In previous years, inter-fund transfers between the GRF (ALI 501321) and funds 1480 and 4B00 were coded as a 520 expense. Since FY10, these transfers have been correctly coded as a 595 expense. The remaining reduction of $35.2 million is the result of a number of actions and occurrences. One major factor outside of DRC's control which has driven down costs is utility bills. DRC spent nearly $9.0 million less on utility bills in FY10 compared to the same period in FY09. Another cause for the reduction in administrative spending is that the comprehensive medical/mental health contract at Trumbull Correctional Institution expired. Services are now being provided primarily by state employees, shifting expenses from account 510 to 500. Finally, contracts for IT were reviewed in FY09 in compliance with Executive Orders. Numerous contracts were cancelled or reduced as a result.

<u>Department of Job and Family Services: -$99.6 million</u>

- There were several causes behind the $99.6 million reduction of spending between fiscal years. The main driver was the elimination of the Early Learning Initiative (ELI) program as it was coded to the 510 account within ALI 600689, TANF Block Grant. This line item contract spending, account 510, decreased by $68.5 million between the two fiscal years. Other variances can be attributed to the reduction of IT contract expenditures, one being the State-wide Automated Child Welfare Information System

(SACWIS) project as in FY10 as it went from a developmental to operational stage. Furthermore, maintenance expenditures were reduced related to Central Administration printing and postages costs as the Internet was utilized to post materials.

Department of Transportation:  -$16.2 million

There are many factors which result in ODOT's operating costs being lower for the first three-quarter period in 2010 as compared to 2009.  First and foremost, the Department has taken the Governor's executive order seriously and has attempted to reduce operating costs wherever possible.  In addition, the Department made efforts to reduce operating costs by 5% each year for Fiscal Years 2009, 2010, and 2011 even before the Governors executive order came out.  With that said there are some key reasons for the reduction being shown through the first three quarters of FY 2010 as compared to FY 2009 and are as follows:

- The data provided by OBM indicates there is a $16 million difference; ALI 773431 (State- Maintenance) accounts for $13.6 million of that variance.
- The State - Maintenance ALI 773431 is the one from which the bulk of the department's Salt, Fuel, and custodial services are paid from.
- One part of the variance is simply a timing difference whereby more expenditures were paid for during the three-quarter time period in 2009, than the same time period in FY 2010.
- Salt costs are down by about $9 million during that time period.  There are three main reasons for that: 1) salt costs were at an all-time high during that time period;  2) the Department initiated the Local Salt Assistance program to purchase and share salt for local governmental entities due to the salt shortage in FY 2009; and 3) and due to the fear of a lack of bidders for the FY 2010 salt contract the Department purchased as much salt as it could from the 2009 contracts to fill up the salt storage facilities. We expect that we will incur more costs in the fourth quarter this year for salt than we did last year.
- Fuel costs are down by about $3 million during that time period.  The primary reason for that is the high cost per gallon of fuel experienced during calendar year 2008 which encompasses the first half of FY 2009.

Department of Education:  -$ 14.2 million

- Lower spending is due to timing of contracts, some line items were eliminated and are no longer funded while some federal grants have ended and are winding down. Some expenditures are less in certain line items because they were shifted to primarily payroll.  There are some reductions due to spending controls and travel restrictions, but it does not account for the entire $14 million.

Department of Health:  -$ 13.0 million

- Lower spending in several areas is due to reductions in program activities, reductions in purchases, in-sourcing, and indirect costs.  These total $6.2 million and include Breast and Cervical Cancer Screenings, the Public Health Laboratory, central agency support costs, fee supported programs, and the Maternal Child Health Block Grant.  Contractual costs were changed to subsidy costs in order to better reflect the nature of the charges, which totaled $5.4 million for the AIDS, federal public health, and animal-borne disease programs. Costs for the tobacco use prevention program decreased $3.3 million as there was $4 million allocated in FY09 to pay outstanding debt.

- Increases included $4.2 million in immunizations due to price increases for vaccinations and additional aid to local departments and $2.1 million in WIC to cover computer purchases and additional outreach activities.

Environmental Protection Agency: -$10.4 million

- The EPA spent approximately $10.4 million less on 510, 520, and 530 accounts in the first three quarters of FY10 compared to the first three quarters of FY09 for many reasons. First, due to the economy, many programs that generate revenue from fees had to reduce spending because the agency generated less revenue than anticipated. The largest of the impacted funds was the Environmental Protection Fund, which supported services across all EPA divisions. Second, the agency completed a number of larger scrap tire cleanup projects from FY09 by the start of FY10. Third, spending on E-Check was reduced through the renegotiation of a major contract and due to the timing of contractor payments. Fourth, the agency decreased spending on the STARS software permitting system rebuilding project because it was nearing completion. Fifth, several large payments made in FY09 from the Solid Waste Management Fund, including the indirect cost allocation charge for administration, were not made during the first three quarters of FY10. Finally, the Division of Hazardous Waste reduced its number of employees, which also resulted in its indirect cost allocation charge for administration being lower in FY10.

**Increases in Spending Greater than $1.0 Million**

Department of Administrative Services: +$7.9 million

- DAS's spending in contracts, maintenance, and equipment rose in FY 10 primarily because of the agency's role as a provider of central services to other state agencies, spending that allows the state to achieve savings through consolidation and economies of scale. Of the $7.9 million overall spending increase, more than 75 percent went toward the replacement of obsolete technical equipment, and of this amount, more than $5 million was funded by a federal grant from US Department of Homeland Security. Another $5.3 million in increased spending came from large contracts with information technology service providers to operate the state's enterprise financial and human resources system, OAKS, and for a statewide effort to consolidate mainframe software. $1.1 million in equipment spending occurred in a new line item that did not exist in FY 09: this line item, Leveraged Enterprise Purchases, is essentially a pass-through that enables DAS to act as a central technology purchaser for groups of state agencies that would otherwise undertake such purchases in isolation and at higher overall cost.

Department of Insurance: +$6.6 million

- The entire overage is attributable to payments of $8 million to Ohio Health Information Partnership Inc., which is the state-designated entity responsible for the implementation of Ohio's health information exchange to be used by health care providers throughout the state. Without this one time expenditure, the comparison should show a decrease from FY 09 by approximately $1.5 million for the first nine months.

Department of Agriculture: +$2.3 million

- New indirect cost allocation methodology started in FY10 charges central services/administration payroll to divisions as a maintenance expense. This increases maintenance costs while also causing a corresponding reduction in direct payroll costs of the divisions. If the impact of this change is netted out, Agriculture would have experienced a $440,000 decrease in spending, rather than a $2.3 million increase.

Department of Taxation: +$1.75 million

- The primary factor driving the year-over-year increase in the Department of Taxation spending is that unlike most agencies, Taxation actually received an increase in appropriation authority in FY 2010 and 2011. These increases were authorized in conference committee and are tied to attempts to increase tax revenue through additional tax discovery activities. These additional activities are funded through a 2% increase in FY 2010 appropriations which is slightly more than the 1.75% year-over-year increase observed in the report.

Department of Developmental Disabilities: +$1.6 million

- The primary driver of the $1.6 million increase in operational costs is attributable to amendments to ORC 5112.30 made in HB1, which removed the exclusion of the Developmental Centers from the Intermediate Care Facilities for the Mentally Retarded (ICF/MR) franchise fee. Removing the exclusion increased the operational costs to the Department by $3.7 million in FY10. This increase in operational costs is offset by a net reduction of $2.0 in operational costs across multiple line items. The Department achieved these savings by implementing census reductions at the developmental centers during the FY08-09 biennium. Additional census reductions are planned for the FY10-11 biennium. The Department reduced fleet costs by relocating the central office fleet to locations, such as the Columbus Developmental Center, to reduce parking expenses.

Department of Veterans Services : +$1.1 million

- The Department of Veteran Services was created in August 2008 (early FY 2009). Consequently, the FY 2009 expenditure data does not reflect a full year of operating expenses. Further, with the passage of HB 1, other programs were added to the agency (Troops to Teachers and the State Approving Agency). Thus, FY 2010 and FY 2009 are not accurate comparisons in terms of programming and finances.

# IV. CONCLUSION

The summary data for the first three quarters of Fiscal Year 2010 show an adjusted combined reduction of 14.1% in expense spending when compared to the same time period of Fiscal Year 2009.

The next report is due following the close of Fiscal Year 2010 and will include information for Fiscal Year 2010 (July 1, 2009 through June 30, 2010). The comparable period of time from Fiscal Year 2009 will also be analyzed to provide the variance in spending between the two fiscal time periods. Also highlighted in the next report will be strategies that continue to garner savings as well as updates on the strategies that DAS and OBM continue to develop to support agencies in better utilizing the strategies.