

# Activity Based Costing

April 7, 2011



## Project Summary

As a result of the recent recession and the end of federal stimulus funding, the State of Ohio faces a deficit of \$8.4 Billion in the next biennial budget for State Fiscal Years (SFY) 2012 and 2013. In order to bring the deficit under control, the proposed biennial budget contains deep reductions in funding for state agencies that provide services to Ohio's citizens.

## Project Goal

The main objective of the Activity Based Costing (ABC) project is to create an activity based costing tool to determine the cost of doing business.

The team has the following objectives it wants this Project to fulfill:

Create a tool that provides State Agencies with the data elements needed to determine the cost of doing business

- Provide a basic tool to calculate cost of doing business
- Provide a real-world example of the tool results

## Project Outcome

The deliverables for this project are as follows:

- Define Requirements
- Determine data elements used to determine cost of doing business
- Develop/Determine Calculations used in the tool

- Create an electronic tool to determine the cost of doing business
- Perform Testing & Validation

## Project Benefits

With current budget shortfalls and our state government's commitment to financial accountability it's managers must be able to determine the financial feasibility of daily work processes. A tool or method to determine financial feasibility should be created and available for all state agency managers.

## Project Team

For more information about this project, contact team members

- Paul Glock — [Paul.Glock@jfs.state.oh.us](mailto:Paul.Glock@jfs.state.oh.us)
- Herschel Elkins – [Herschel.Elkins@jfs.ohio.gov](mailto:Herschel.Elkins@jfs.ohio.gov)
- Vivian rice — [Vivian.Rice@mh.state.oh.us](mailto:Vivian.Rice@mh.state.oh.us)
- Rick Smith— [Rick.Smith@dot.ohio.gov](mailto:Rick.Smith@dot.ohio.gov)
- Mentor – Coach: Nelson Gonzalez



# Project ABC

## Activity Based Costing Tool



STATE of OHIO

# Team Members

- Paul Glock – ODJFS
- Vivian Rice – ODJFS
- Herschel Elkins – ODJFS
- Rick Smith - ODOT

# Project Overview

The primary objective of Project ABC was to create an activity based costing tool to determine the cost of doing business.

# Business Case

With current budget shortfalls and our state government's commitment to financial accountability, state managers need the ability to determine the financial feasibility of daily work processes. A tool or method to determine financial feasibility should be created and available for all state agency managers.

# Project Scope

**Scope Statement: Create a tool that provides state agency managers with a list of the data elements needed to determine the cost of doing business.**

# Out of Scope

- The ABC tool will not be designed to operate as a enterprise-wide database system
- The ABC tool will not have the capability of directly interacting with the Ohio Administrative Knowledge System (OAKS)

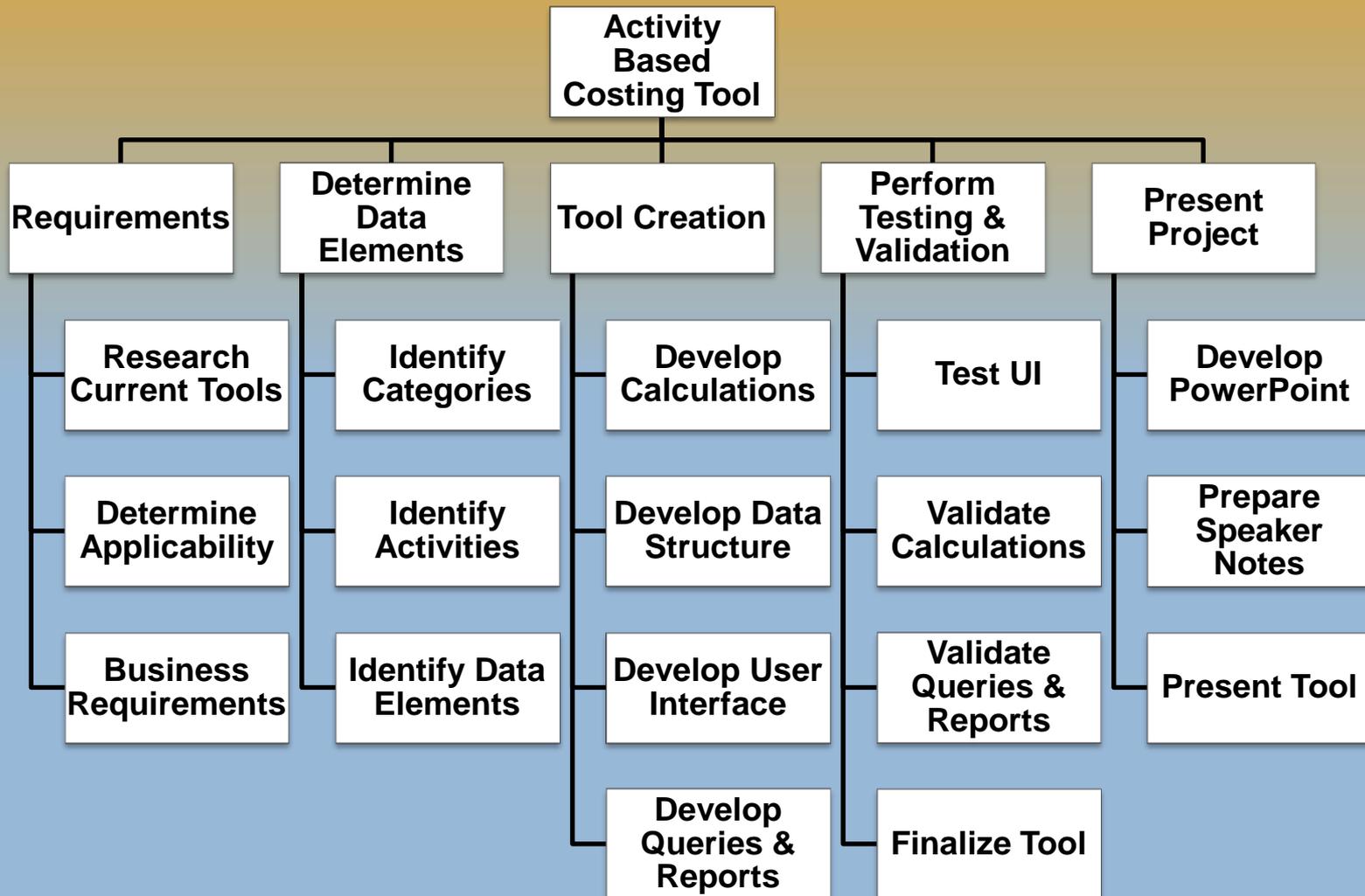
# Project Constraints

- Budget
- Time
- Limited technical expertise.
- Limited cost accounting expertise.

# Project Deliverables

- Define Requirements
- Determine data elements used to determine cost of doing business
- Develop/Determine Calculations used in the tool
- Create an electronic tool to determine the cost of doing business
- Perform Testing & Validation
- Create 10 CDs containing tool
- Present Project by May 19, 2011

# Work Breakdown Structure

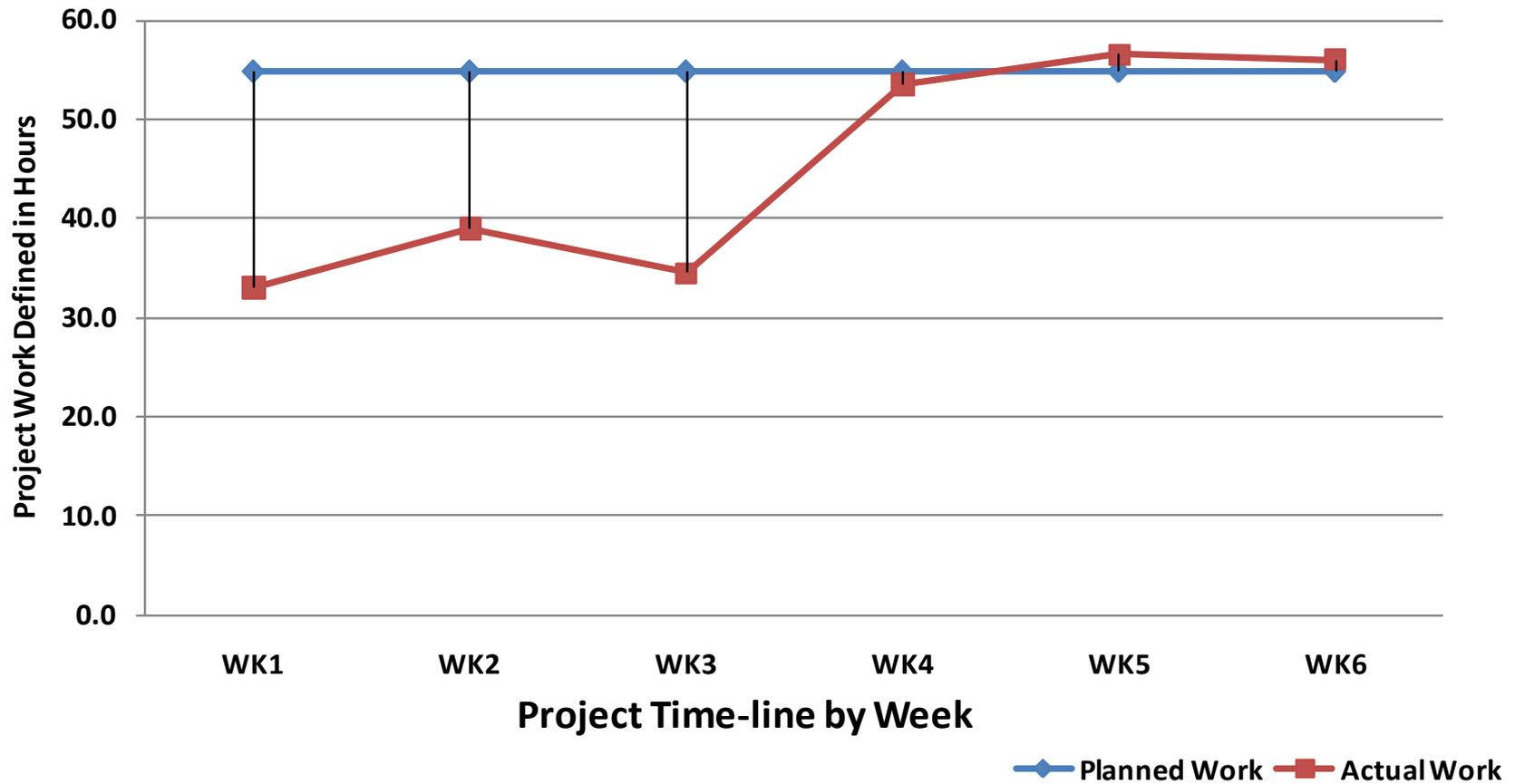


# Project Schedule

	 Task Name	Duration	Start	Finish	Resource Names
1	<input type="checkbox"/> Activity Based Costing Tool	27 days?	Thu 4/14/11	Fri 5/20/11	
2	<input type="checkbox"/> Requirements	6 days?	Thu 4/14/11	Thu 4/21/11	
3	<input type="checkbox"/> Research Current Tools	5 days?	Thu 4/14/11	Wed 4/20/11	
4	 Internet Research	5 days?	Thu 4/14/11	Wed 4/20/11	Vivian Rice[5%]
5	<input type="checkbox"/> BI Research	5 days?	Thu 4/14/11	Wed 4/20/11	
6	 Hummingbird BI Query	5 days?	Thu 4/14/11	Wed 4/20/11	Rick Smith[5%]
7	 OAKS BI	5 days?	Thu 4/14/11	Wed 4/20/11	Herschel Elkins[5%]
8	 JFS BI	5 days?	Thu 4/14/11	Wed 4/20/11	Paul Glock[5%]
9	<input type="checkbox"/> Determine Applicability	3 days?	Tue 4/19/11	Thu 4/21/11	
10	 Evaluate Research	3 days?	Tue 4/19/11	Thu 4/21/11	Vivian Rice[8%],Rick Smith[8%],Hersch
11	<input type="checkbox"/> Business Requirements	3 days?	Tue 4/19/11	Thu 4/21/11	
12	 Define Requirements	3 days?	Tue 4/19/11	Thu 4/21/11	Vivian Rice[8%],Rick Smith[8%],Hersch
13	<input type="checkbox"/> Determine Data Elements	3 days?	Tue 4/19/11	Thu 4/21/11	
14	 Identify Categories	3 days?	Tue 4/19/11	Thu 4/21/11	Vivian Rice[25%],Rick Smith[21%],Hersch
15	 Identify Activities	3 days?	Tue 4/19/11	Thu 4/21/11	Vivian Rice[4%],Rick Smith[21%],Hersch
16	 Identify Data Elements	1.71 days?	Tue 4/19/11	Wed 4/20/11	Vivian Rice[25%],Rick Smith[36%],Hersch
17	<input type="checkbox"/> Tool Creation	13 days?	Tue 4/19/11	Thu 5/5/11	
18	 Develop Calculations	8 days?	Tue 4/19/11	Thu 4/28/11	Vivian Rice[13%],Rick Smith[25%],Hersch
19	 Develop Data Structures	8 days?	Tue 4/19/11	Thu 4/28/11	Vivian Rice[13%],Rick Smith[6%],Hersch

# Project Progress Dashboard

## Planned Work versus Actual Work Progress Report



# Project Cost Analysis

- Estimated Cost: \$15,800.00
- Actual Cost: \$13,088.00
- Savings: \$2,712.00

# Project Risks and Assumptions

- Team members assigned to the project are available
- Team members have access to the SharePoint website and its contents
- Team members have access to the current version of Microsoft Office
- The Activity Based Costing tool will be developed using Microsoft Access
- Team members have the skills to develop the electronic tool

# Project Risk Analysis

## Risk Registry

Number	Risk Description	Category	Potential Impact	Risk Owner	Probability of Occurrence (1-5)	Impact of Risk (1-5)	Risk Level	Response Type	Response Plan	Status
1	Staff assigned to the project are available throughout the project.	Project Management	Project schedule will not be met. Scope of project and deliverables will be negatively impacted.	Project Lead	5	5	25	Mitigation	Project lead will work with team and reassign work.	Completed
2	SME availability for obtaining information	Resource Risk	Project deliverables will be affected.	Project Lead	3	4	12	Mitigation	Find alternate source of information	Completed
3	SharePoint Availability	Technical Risk	Project documents not available	All team members	4	1	4	Mitigation	Save work on storage device and upload later	Completed

# Project Human Resources Plan

Title	Lead	Responsibilities/Team Member	Skills Desired
Leader	Paul Glock	<ul style="list-style-type: none"> <li>• Set direction of work to be performed.</li> <li>• Integration Management</li> <li>• Scope Management</li> <li>• Resource Management</li> <li>• Schedule Mgmt</li> <li>• Risk Mgmt</li> <li>• Quality Mgmt</li> </ul>	<ul style="list-style-type: none"> <li>• High level of Communication Skills</li> <li>• Organization</li> <li>• Previous leadership</li> <li>• Problem Solving</li> <li>• Analytical</li> <li>• Creative</li> </ul>
Communications	Rick Smith	<ul style="list-style-type: none"> <li>• Records &amp; compiles project status/progress – Herschel</li> <li>• Update Sharepoint - Paul</li> <li>• Coordinating Powerpoint template - Rick</li> <li>• Agenda– Vivian</li> <li>• Minutes - Herschel</li> </ul>	<ul style="list-style-type: none"> <li>• Strong written &amp; verbal</li> <li>• Organized</li> <li>• Creative</li> <li>• Technically competent</li> </ul>
Business Analyst/ Developer	Vivian Rice	<ul style="list-style-type: none"> <li>• Research methodology - Rick</li> <li>• DB/Excel – Vivian/Herschel</li> <li>• Template Creation – Vivian/Rick</li> <li>• Reporting - Vivian/ Herschel/ Rick/Paul</li> <li>• Research &amp; Collect Source Data – Rick</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical</li> <li>• Creative</li> <li>• Problem Solving</li> <li>• Organization</li> <li>• Communications Skills</li> <li>• Detail oriented</li> </ul>
Quality Assurance	Herschel Elkins	<ul style="list-style-type: none"> <li>• Evaluate QC Methods &amp; Outcomes – Herschel/Rick</li> </ul>	<ul style="list-style-type: none"> <li>• Analytical</li> <li>• Detail oriented</li> </ul>
SME	Kelly Husky	<ul style="list-style-type: none"> <li>• Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>• Technical resource</li> </ul>
SME	Karen Brown	<ul style="list-style-type: none"> <li>• Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>• Technical Resource</li> </ul>
SME	Michael Nabors	<ul style="list-style-type: none"> <li>• Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>• Technical Resource</li> </ul>

# Project Communications Plan

<b>Project Name:</b>	<b>Activity Based Costing</b>
<b>Project Sponsor:</b>	<b>Nelson Gonzalez</b>
<b>Project Manager:</b>	<b>Paul Glock</b>

Event	Target Audience	Message Objective	Timing	Vehicles	Sender	Feedback Mechanism	Impacts
<b>Project Initiation</b>	Project Team	Inform team of project objectives, parameters and time constraints.	Once	Face to Face Meeting	Project Sponsor	E-Mail between project team members	Generate enthusiasm and assign project roles.
<b>Project Team Meeting</b>	Project Team	Communicate project status and issues that need resolution. Review work products and issues.	Weekly	Small group, Conference call	Project Lead	E-Mail between project team members and informal meetings between individual team	Keeps project team informed and on schedule.
<b>ABC Report Presentation</b>	Stakeholders	Presentation of final Activity Based Costing project to stakeholders.	Once	Face to Face Meeting	Project Team	Direct communication during meeting with opportunity for e-mail follow-up.	Informs stakeholders and executive staff. Opportunity to celebrate product delivery.

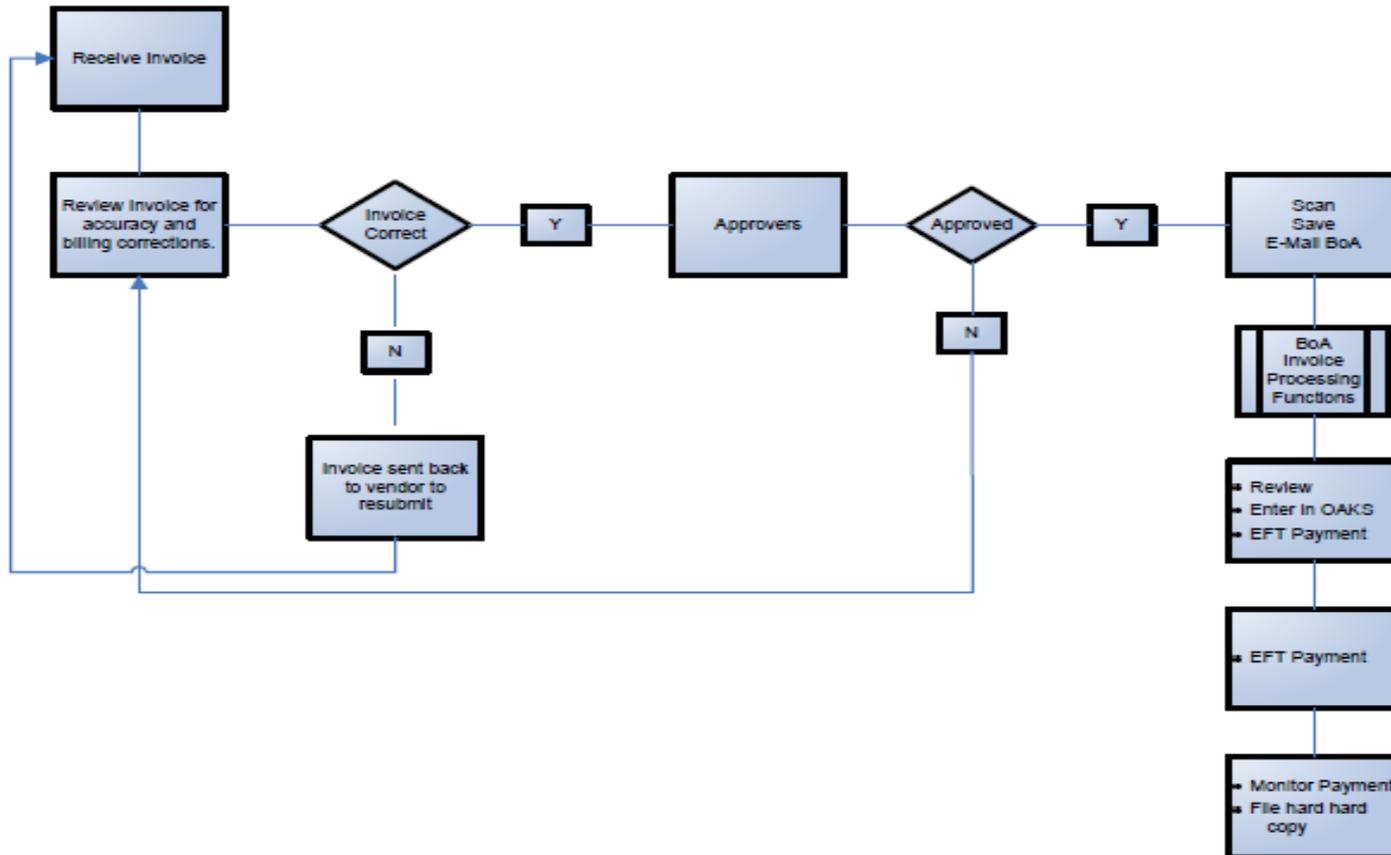
# Project Quality Plan

## Product Review and Quality Control

- Tables
- Main Menu
- Forms
- Queries
- Reports

# Tool Presentation Activity

## Invoice Processing



## What is the Cost of Doing Business?

Add New Estimate EXIT

ID:  Date:  Process name:

Description:

Agency:  Office:  Section:

Manager's name:  Unit:

Time period of estimate:  Process type:  Total output:  Agency fringe benefit rate:

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs IT Costs Create Activity Lists Assign Employees to Activities Materials Summary Reports

## Space Cost per Person

Enter the following information to calculate your space cost per person.

Agency abbreviation:  SFY:

Description of space:

Total number of employees:

Total square footage:

Total annual lease cost:

**Calculated Fields**

Avg sq ft per person:	328
Avg annual space cost per person:	\$3,201.85
Avg monthly space cost per person:	\$266.82
Avg daily space cost per person:	\$12.31
Avg space cost per person per minute:	\$0.03

# What is the Cost of Doing Business?

Add New Estimate EXIT

ID:  Date:  Process name:

Description:

Agency:  Office:  Section:

Manager's name:  Unit:

Time period of estimate:  Process type:  Total output:  Agency fringe benefit rate:

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

- Building Costs
- IT Costs**
- Create Activity Lists
- Assign Employees to Activities
- Materials
- Summary
- Reports

## IT Cost per Person

Enter the following information to calculate your IT cost per person:

1 Agency:  SFY:  # of Employees:  Total IT Costs:

<b>Software</b>	<b>\$5,359,315</b>
Purchases and Licenses:	\$500,000
Maintenance Contracts:	\$4,859,315
Leases:	\$0
<b>Hardware Costs:</b>	<b>\$6,025,805</b>
Maintenance Contracts:	\$4,766,389
Purchases:	\$1,259,416
Leases:	\$0

<b>Application-Project Support:</b>	<b>\$32,317,826</b>
Payroll:	\$17,548,204
Purchased Personal Services:	\$1,922,615
Other Services and Fees:	\$12,847,007

**Average Cost Per Person**

<b>Avg Annual IT Cost:</b>	<b>\$1,820.96</b>
<b>Avg Monthly IT Costs:</b>	<b>\$151.75</b>
<b>Avg Daliy IT Cost:</b>	<b>\$7.00</b>
<b>Avg IT Cost Per Minute:</b>	<b>\$0.01</b>

## What is the Cost of Doing Business?

Add New Estimate

EXIT

ID: 1 Date: 5/2/2011 Process name: Invoice Processing

Description:

Agency: Ohio Department of Job and Family Services

Office: OFMS

Section: County Finance &amp; Tech Asst

Manager's name: Manager 2

Unit: County Finance

Time period of estimate: May 2011

Process type: Existing Process

Total output: 20

Agency fringe benefit rate: 32

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs

IT Costs

Create Activity Lists

Assign Employees to Activities

Materials

Summary

Reports

## Process Activities

Enter the following information to create activities for this process:

Activity ID	Activity Category:	Specific Activity:
1	Review	Review Invoice
2	Approve	Approve Invoice
5	Forward to OFMS/BOA	Scan, save, & email invoice
6	Forward Invoice to OFMS/BOA	Scan, save and email
7	BOA Review and Processing	Review Invoice and documentation
8	BOA Review and Processing	Input invoice into OAKS
9	BOA Review and Processing	Log approved Invoice
10	Payment	EFT payment posted
11	Invoice closeout	Monitor invoice payment
12	Invoice closeout	File invoice hard copy
15		
(New)		

## What is the Cost of Doing Business?

Add New Estimate EXIT

ID:  Date:  Process name:

Description:

Agency:  Office:  Section:

Manager's name:  Unit:

Time period of estimate:  Process type:  Total output:  Agency fringe benefit rate:

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs IT Costs Create Activity Lists Assign Employees to Activities Materials Summary Reports

### Activities and Employee Time Estimates

1 Activity ID:  Activity category:

Specific activity:

PN	Employee Name	Time Spent in Minutes	Hourly Rate	Classification	Quantity
<input checked="" type="checkbox"/>	Manager 1	15	\$38.00	PM1	0
*					

Please use the arrows below to move to next or previous activity.

Record: 1 of 11 No Filter Search

Record: 1 of 1 No Filter Search

# What is the Cost of Doing Business?

Add New Estimate EXIT

ID:  Date:  Process name:

Description:

Agency:  Office:  Section:

Manager's name:  Unit:

Time period of estimate:  Process type:  Total output:  Agency fringe benefit rate:

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs IT Costs Create Activity Lists Assign Employees to Activities **Materials** Summary Reports

ID	Material	Quantity	ID Costs	Total Material Costs	Material Description
1	1	5	\$5.00	25	
2	1	1	\$2.00	2	
3	1	5	\$5.00	25	
4	1	2	\$3.00	6	
5	1	8	\$25.00	200	
* (New)	1				

## What is the Cost of Doing Business?

Add New Estimate

EXIT

ID:	1	Date:	5/2/2011	Process name:	Invoice Processing				
Description:									
Agency:	Ohio Department of Job and Family Services			Office:	OFMS	Section:	County Finance & Tech Asst		
Manager's name:	Manager 2			Unit:	County Finance				
Time period of estimate:	May 2011	Process type:	Existing Process	Total output:	20	Agency fringe benefit rate:	32		

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs IT Costs Create Activity Lists Assign Employees to Activities Materials **Summary** Reports

## Costs per Individual Activity

**TOTAL COSTS PER INDIVIDUAL ACTIVITY\* \$53.55**

Labor cost per activity:	\$38.51
IT cost per activity:	\$0.77
Space cost per activity:	\$1.36
Material cost per activity:	\$12.90

# What is the Cost of Doing Business?

Add New Estimate EXIT

ID:  Date:  Process name:

Description:

Agency:  Office:  Section:

Manager's name:  Unit:

Time period of estimate:  Process type:  Total output:  Agency fringe benefit rate:

**PLEASE COMPLETE THE INFORMATION ON THE FOLLOWING TABS IN ORDER TO CALCULATE THE COST OF DOING BUSINESS:**

Building Costs IT Costs Create Activity Lists Assign Employees to Activities Materials Summary Reports

**Total Cost Detailed**

**Quantity Cost Estimates**

**Total Cost Summary**



# Ohio Department of Job and Family Services

## Process: Invoice Processing

### Cost of Doing Business - Information Details

May 11, 2011

3:29:02 PM

Description:

Manager: Manager 2

Date: 5/2/2011

Time Period: May 2011

Agency: Ohio Department of Job and Family Services

Type: Existing Process

Office: OFMS

#### TOTAL COSTS PER INDIVIDUAL ACTIVITY\*:\$53.55

#### QUANTITY BASED COST ESTIMATES\*:

Labor cost per activity	\$38.51	25 = \$1,339	500 = \$26,773	25000 = \$1,338,660
IT cost per activity*:	\$0.77	50 = \$2,677	750 = \$40,160	50000 = \$2,677,321
Space cost per activity*	\$1.36	75 = \$4,016	1000 = \$53,546	100000 = \$5,354,641
Material cost per activity:	\$12.90	100 = \$5,355	5000 = \$267,732	500000 = \$26,773,207
		250 = \$13,387	10000 = \$535,464	800000 = \$42,837,132

\* Calculations are impacted by multiple decimal places in source data

#### OVERHEAD COSTS AND CALCULATIONS

##### Total Labor Cost per Activity:

Number of employees: 9

Total minutes to complete activity: 53

Total cost per activity: \$38.51

**Total IT Costs** \$43,702,946

**# of Employees:** 24,000

**SFY** 2011

Software

**\$5,359,315**

Application-Project Support:

**\$32,317,826**

Purchases and licenses:

\$500,000

Payroll:

\$17,548,204

Maintenance contracts:

\$4,859,315

Purchased personal services:

\$1,922,615

Leases:

\$0

Other services and fees:

\$12,847,007

Hardware Costs:

**\$6,025,805**

IT Cost per Person:

Maintenance contracts:

\$4,766,389

Avg annual IT cost:

\$1,820.96

Purchases:

\$1,259,416

Avg monthly IT cost:

\$151.75

Leases:

\$0

Avg daily IT cost:

\$7.00

Avg IT cost per minute:

\$0.01

(Avg annual IT cost per person/124800 = IT costs per minute)

**Total Annual Lease Cost:** \$12,368,736

**SFY** 2011 Description: Entire Agency

Total square footage:

1,265,218

Avg annual cost per employee:

\$3,202

Total number of employees

3,863

(Total Lease Cost/Total Number of Employees = Avg Cost per Employee)

Avg sq ft per employee:

328

Avg space cost per person per minute:

\$0.03

(Total square footage/Total number of employees =  
Avg sq ft per employee)

(Avg annual cost per employee/124800 = Avg space costs per minute)

**Total Material Cost:** \$258.00

Total output: 20

Material cost per activity:

**\$12.90**

**STATE of OHIO**

# Recommendations

- Created within OAKS for enterprise use
- Utilizing employee & facility information

# Lessons Learned

## What went well?

- Team worked well
- Diversified professional expertise brought to the team

## What could have been done differently?

- Team members absent during some “Team Days”, due to agency requirements.
- Sharepoint

# Statement of Work

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Project Name: Activity Based Costing

Project Manager: Paul Glock

Date Created: April 7, 2011

## ***Background***

As a result of the recent recession and the end of federal stimulus funding, the State of Ohio faces a deficit of \$8.4 Billion in the next biennial budget for State Fiscal Years (SFY) 2012 and 2013. In order to bring the deficit under control, the proposed biennial budget contains deep reductions in funding for state agencies that provide services to Ohio's citizens.

## ***Business Case***

With current budget shortfalls and our state government's commitment to financial accountability it's managers must be able to determine the financial feasibility of daily work processes. A tool or method to determine financial feasibility should be created and available for all state agency managers.

## ***Objectives***

The main objective of the Activity Based Costing (ABC) project is to create an activity based costing tool to determine the cost of doing business.

The team has the following objectives it wants this Project to fulfill:

Create a tool that provides State Agencies with the data elements needed to determine the cost of doing business

- Provide a basic tool to calculate cost of doing business
- Provide a real-world example of the tool results

# Charter

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Project Name: Activity Based Costing

Project Manager: Paul Glock

Project Sponsor: Nelson Gonzalez

Date Created: April 14, 2011

## ***Project Manager and Assigned Level of Authority***

Paul Glock is assigned as the project manager for this project. The Project Manager has the authority to utilize resources and assign tasks for this. The Project Manager has the authority to solicit SME's for detailed information regarding costing methods.

## ***Background***

As a result of the recent recession and the end of federal stimulus funding, the State of Ohio faces a deficit of \$8.4 Billion in the next biennial budget for State Fiscal Years (SFY) 2012 and 2013. In order to bring the deficit under control, the proposed biennial budget contains deep reductions in funding for state agencies that provide services to Ohio's citizens.

## ***Project Cost Analysis***

It is estimated that the project will cost approximately \$15,800 in human resource time to complete.

## ***Acceptance Criteria***

- Functional Activity Based Costing electronic tool
- Project and deliverables completed by May 19, 2011

## ***Product Description / Deliverables***

The deliverables for this project are as follows:

- Define Requirements
- Determine data elements used to determine cost of doing business
- Develop/Determine Calculations used in the tool
- Create an electronic tool to determine the cost of doing business
- Perform Testing & Validation
- Present Project by May 19, 2011

## ***Risk and/or Assumptions:***

- Team members assigned to the project are available
- Team members have access to the SharePoint website and its contents
- Team members have access to the current version of Microsoft Office
- The Activity Based Costing tool will be developed using Microsoft Access
- Team members have the skills to develop the electronic tool

***Authorization***

SIGNED AND APPROVED BY:

\_\_\_\_\_

(Title)\_\_\_\_\_

# Scope Statement

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Project Name: Project ABC

Project Manager: Paul Glock

Date Created: April 7, 2011

## ***Project Objectives***

The main objective of the ProjectABC is to create an activity based costing tool to determine the cost of doing business.

The team has the following objectives it wants this Project to fulfill:

Create a tool that provides State Agencies with the dataelements needed to determine the cost of doing business

- Provide a basic tool to calculate cost of doing business
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## ***Product Description / Deliverables***

The deliverables for this project are as follows:

- Define Requirements
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- Perform Testing & Validation
- Create 10 CDs containing the tool
- Present Project by May 19, 2011

## ***Out of Scope***

These items are explicitly outside the scope of this project:

- The ABC tool will not be designed to operate as a enterprise-wide database system.
- The ABC tool will not have the capability of directly interacting with the Ohio Administrative Knowledge System (OAKS).

## ***Constraints***

These items are

- The budget for the project is limited to the team's time.
- There is a time constraint in that the project must be completed by May 19, 2011.
- Project team members have limited technical expertise as software and database developers.
- Project team members have limited cost accounting expertise.

***Project Team***

<b>Title/Role</b>	<b>Name</b>
Leader	Paul Glock, ODJFS
Quality Assurance	Herschel Elkins, ODJFS
Business Analyst/Developer	Vivian Rice, ODJFS
Communications	Rick Smith, ODOT
SME	Kelly Husky, ODJFS
SME	Karen Brown, ODJFS
SME	Michael Nabors, ODMH

***Budget***

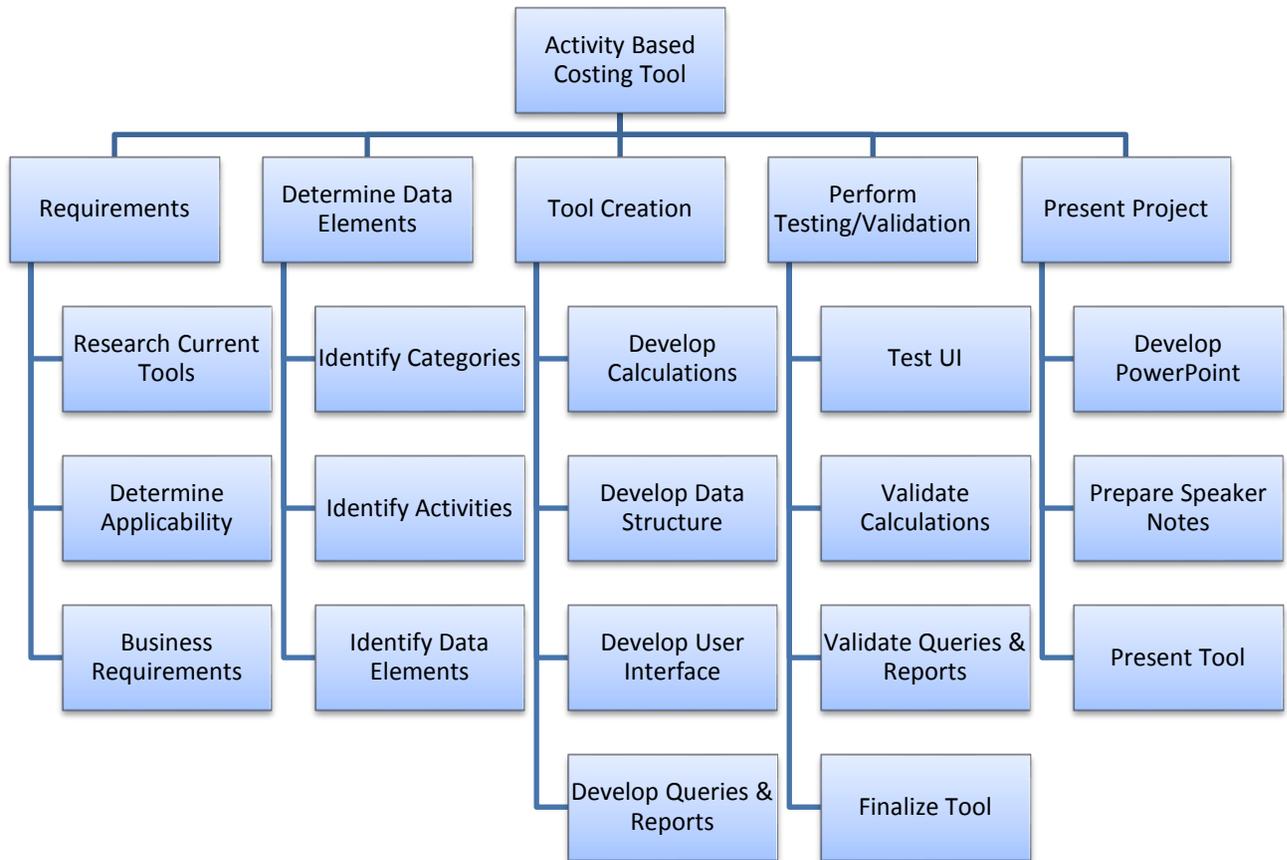
Total estimated cost of the project is \$15,800 in human resource time. The estimate for the project has been calculated at +/- 10%. The low end cost would be \$14,220 while the high end cost would be \$17,380. This estimate includes an agency overhead rate of 32.5% as determined by the Ohio Department of Job and Family Services.

# Project ABC Roles and Responsibilities

Title	Lead	Responsibilities/Team Member	Skills Desired
Leader	Paul Glock	<ul style="list-style-type: none"> <li>Set direction of work to be performed.</li> <li>Integration Management</li> <li>Scope Management</li> <li>Resource Management</li> <li>Schedule Mgmt</li> <li>Risk Mgmt</li> <li>Quality Mgmt</li> </ul>	<ul style="list-style-type: none"> <li>High level of Communication Skills</li> <li>Organization</li> <li>Previous leadership</li> <li>Problem Solving</li> <li>Analytical</li> <li>Creative</li> </ul>
Communications	Rick Smith	<ul style="list-style-type: none"> <li>Records &amp; compiles project status/progress – Herschel</li> <li>Update Sharepoint - Paul</li> <li>Coordinating Powerpoint template - Rick</li> <li>Agenda– Vivian</li> <li>Minutes - Herschel</li> </ul>	<ul style="list-style-type: none"> <li>Strong written &amp; verbal</li> <li>Organized</li> <li>Creative</li> <li>Technically competent</li> </ul>
Business Analyst/ Developer	Vivian Rice	<ul style="list-style-type: none"> <li>Research methodology - Rick</li> <li>DB/Excel – Vivian/Herschel</li> <li>Template Creation – Vivian/Rick</li> <li>Reporting - Vivian/ Herschel/ Rick/Paul</li> <li>Research &amp; Collect Source Data – Rick</li> </ul>	<ul style="list-style-type: none"> <li>Analytical</li> <li>Creative</li> <li>Problem Solving</li> <li>Organization</li> <li>Communications Skills</li> <li>Detail oriented</li> </ul>
Quality Assurance	Herschel Elkins	<ul style="list-style-type: none"> <li>Evaluate QC Methods &amp; Outcomes – Herschel/Rick</li> </ul>	<ul style="list-style-type: none"> <li>Analytical</li> <li>Detail oriented</li> </ul>
SME	Kelly Husky	<ul style="list-style-type: none"> <li>Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>Technical resource</li> </ul>
SME	Karen Brown	<ul style="list-style-type: none"> <li>Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>Technical Resource</li> </ul>
SME	Michael Nabors	<ul style="list-style-type: none"> <li>Provide expert knowledge of subject area</li> </ul>	<ul style="list-style-type: none"> <li>Technical Resource</li> </ul>

# Work Breakdown Structure

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# Project Schedule

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ID		Task Name	Duration	Start	Finish
1		<b>Activity Based Costing Tool</b>	<b>27 days?</b>	<b>Thu 4/14/11</b>	<b>Fri 5/20/11</b>
2		<b>Requirements</b>	<b>6 days?</b>	<b>Thu 4/14/11</b>	<b>Thu 4/21/11</b>
3		<b>Research Current Tools</b>	<b>5 days?</b>	<b>Thu 4/14/11</b>	<b>Wed 4/20/11</b>
4		Internet Research	5 days?	Thu 4/14/11	Wed 4/20/11
5		<b>BI Research</b>	<b>5 days?</b>	<b>Thu 4/14/11</b>	<b>Wed 4/20/11</b>
6		Hummingbird BI Query	5 days?	Thu 4/14/11	Wed 4/20/11
7		OAKS BI	5 days?	Thu 4/14/11	Wed 4/20/11
8		JFS BI	5 days?	Thu 4/14/11	Wed 4/20/11
9		<b>Determine Applicability</b>	<b>3 days?</b>	<b>Tue 4/19/11</b>	<b>Thu 4/21/11</b>
10		Evaluate Research	3 days?	Tue 4/19/11	Thu 4/21/11
11		<b>Business Requirements</b>	<b>3 days?</b>	<b>Tue 4/19/11</b>	<b>Thu 4/21/11</b>
12		Define Requirements	3 days?	Tue 4/19/11	Thu 4/21/11
13		<b>Determine Data Elements</b>	<b>3 days?</b>	<b>Tue 4/19/11</b>	<b>Thu 4/21/11</b>
14		Identify Categories	3 days?	Tue 4/19/11	Thu 4/21/11
15		Identify Activities	3 days?	Tue 4/19/11	Thu 4/21/11
16		Identify Data Elements	1.71 days?	Tue 4/19/11	Wed 4/20/11
17		<b>Tool Creation</b>	<b>13 days?</b>	<b>Tue 4/19/11</b>	<b>Thu 5/5/11</b>
18		Develop Calculations	8 days?	Tue 4/19/11	Thu 4/28/11
19		Develop Data Structures	8 days?	Tue 4/19/11	Thu 4/28/11
20		Develop User Interface	6 days?	Thu 4/21/11	Thu 4/28/11
21		Develop Queries & Reports	11 days?	Thu 4/21/11	Thu 5/5/11
22		<b>Perform Testing/Validation</b>	<b>15 days?</b>	<b>Thu 4/14/11</b>	<b>Wed 5/4/11</b>
23		Test UI	4 days?	Fri 4/29/11	Wed 5/4/11
24		Validate Calculations	4 days?	Fri 4/29/11	Wed 5/4/11
25		Validate Queries & Reports	4 days?	Fri 4/29/11	Wed 5/4/11
26		Finalize Tool	1 day?	Thu 4/14/11	Thu 4/14/11
27		<b>Present Project</b>	<b>24 days?</b>	<b>Mon 4/18/11</b>	<b>Thu 5/19/11</b>
28		Develop PowerPoint	23 days?	Mon 4/18/11	Wed 5/18/11
29		Prepare Speaker Notes	18 days?	Mon 4/18/11	Wed 5/11/11
30		Present Tool	1 day?	Thu 5/19/11	Thu 5/19/11
31		Project Closeout	1 day?	Fri 5/20/11	Fri 5/20/11

# Communications Plan

Project Name: Activity Based Costing

Project Manager: Paul Glock

Project Sponsor: Nelson Gonzalez

## Project Communications Plan

<b>Project Name:</b>	Activity Based Costing							
<b>Project Sponsor:</b>	Nelson Gonzalez							
<b>Project Manager:</b>	Paul Glock							
<p><b>Use of this tool:</b> The Communications Plan describes the required communications and how they will be fulfilled. It also explains the methods used for gathering, storing, and dispersing information to appropriate parties. In addition, the communications plan maps out the schedule of when the expected communications needs will be met. For example, milestone reports, timely status reports, project meetings, and other expected communications events are included in this plan.</p>								
<b>Event</b>	<b>Target Audience</b>	<b>Message Objective</b>	<b>Timing</b>	<b>Vehicles</b>	<b>Sender</b>	<b>Feedback Mechanism</b>	<b>Impacts</b>	<b>Comments</b>
<b>Project Initiation</b>	Project Team	Inform team of project objectives, parameters and time constraints.	Once	Face to Face Meeting	Project Sponsor	E-Mail between project team members	Generate enthusiasm and assign project roles.	
<b>Project Team Meeting</b>	Project Team	Communicate project status and issues that need resolution. Review work products and issues.	Weekly	Small group, Conference call	Project Sponsor	E-Mail between project team members and informal meetings between individual team members.	Keeps project team informed and on schedule.	
<b>ABC Report Presentation</b>	Stakeholders	Presentation of final Activity Based Costing project to stakeholders.	Once	Face to Face Meeting	Executive Sponsors	Direct communication during meeting with opportunity for e-mail follow-up.	Informs stakeholders and executive staff. Opportunity to celebrate product delivery.	

Team Roster			
Name	Department	Role	E-mail
Nelson Gonzalez	DAS	Project Sponsor	nelson.gonzalez@dafs.ohio.gov
Paul Glock	ODJFS	Project Manager	paul.glock@dafs.ohio.gov
Hershel Elkins	ODJFS	Quality Assurance	hershel.elkins@dafs.ohio.gov
Vivian Rice	ODJFS	Business Analyst/Developer	vivian.rice@dafs.ohio.gov
Rick Smith	ODDOT	Communications	rick.smith@odot.ohio.gov

<b>Event</b>	
<b>Target Audience</b>	who needs to know, "Who".
<b>Message</b>	content of the communication; "What".
<b>Timing</b>	frequency of the message; "When".
<b>Vehicles</b>	the communication approach; "How".
<b>Sender</b>	the person distributing the message.
<b>Feedback Mechanism</b>	a way to capture the responses to the message.
<b>Impact</b>	effect of the communication; goal low effort, high impact.
<b>Comments</b>	any changes or needed information.

# Risk Plan

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Project Name: Activity Based Costing

Project Manager: Paul Glock

Project Sponsor: Nelson Gonzalez

Project ABC										
Risk Registry										
Number	Risk Description	Category	Potential Impact	Risk Owner	Probability of Occurrence (1-5)	Impact of Risk (1-5)	Risk Level	Response Type	Response Plan	Status
1	Staff assigned to the project are available throughout the project.	Project Management	Project schedule will not be met. Scope of project and deliverables will be negatively impacted.	Project Lead	5	5	25	Mitigation	Project lead will work with team and reassign work.	Completed
2	SME availability for obtaining information	Resource Risk	Project deliverables will be affected.	Project Lead	3	4	12	Mitigation	Find alternate source of information	Completed
3	SharePoint Availabilty	Technical Risk	Project documents not available	All team members	4	1	4	Mitigation	Save work on storage device and upload later	Completed

# Project Quality Management

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To ensure quality requirements were met for the ABC project, the following quality reviews and quality control inspections will be performed:

## Product Review and Quality Control

### Tables

- Validate data integrity of table structures
- Validate data integrity of table relationships

### Main Menu

- Check formatting consistency of menu layout
- Test and validate functionality of menu buttons
- Check spelling for accuracy

### Forms

- Verify data integrity of forms
- Test functionality of forms and data entry fields
- Verify accuracy of calculations
- Check formatting consistency within/ and between forms
- Check forms for logical flow
- Check spelling for accuracy

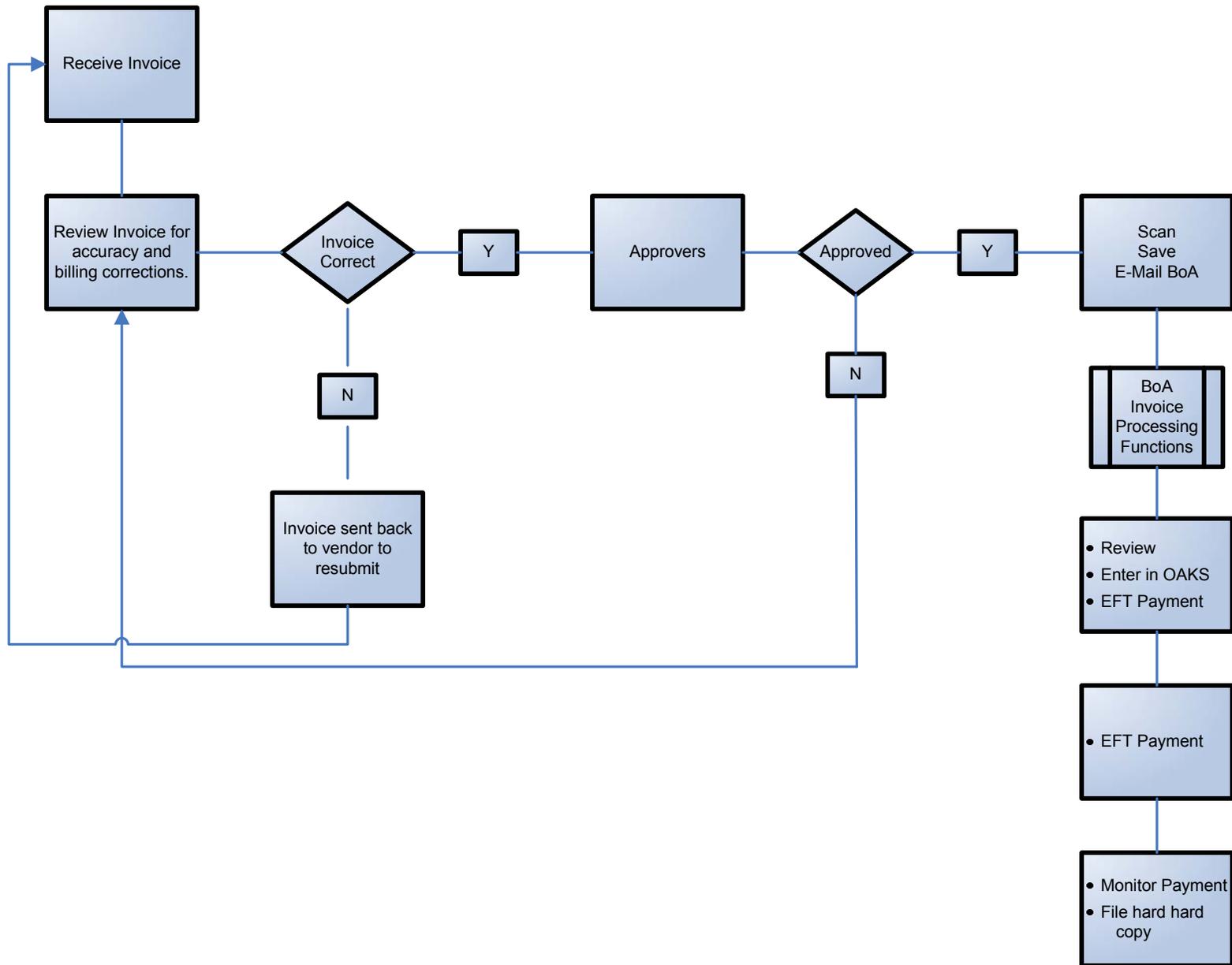
### Queries

- Test functionality of queries
- Verify accuracy of calculations
- Verify query results

### Reports

- Verify Accuracy of calculations
- Test functionality of report generation
- Review formatting for consistency
- Review layout for functionality and ease of use
- Check spelling for accuracy

# Invoice Processing





## 2007 Cost-of-Doing Business Index

## State Level Data

www.milkeninstitute.org

Rank	State	Wage Cost <sup>(1)</sup>	Tax Burden <sup>(2)</sup>	Electricity Cost <sup>(3)</sup>	Industrial Rent	Office Rent Costs <sup>(5)</sup>	Cost of Doing Business Index
		Wage and Salary / Employee	Tax / Personal Income	Cents per Kilowatt-hour	Costs <sup>(4)</sup> Cost per Square Foot	Cost per Square Foot	
1	Hawaii	38,526	105.4	19.3	13.2	28.1	151.5
2	New York	53,865	66.7	10.5	7.6	38.0	130.9
3	Alaska	42,023	99.5	11.1	11.4	16.9	130.8
4	Massachusetts	51,163	65.7	13.9	6.3	33.1	130.6
5	Connecticut	54,007	69.4	12.1	5.6	23.3	127.5
6	California	48,110	78.4	9.9	6.9	28.3	122.9
7	New Jersey	50,809	61.5	9.6	7.9	23.5	120.9
8	Vermont	35,178	112.6	9.9	4.5	17.5	110.2
9	Delaware	46,327	85.9	6.5	4.7	22.5	110.1
10	Rhode Island	39,630	68.7	12.9	3.6	23.8	108.0
11	Maryland	45,632	58.8	9.2	4.6	23.1	106.4
12	New Hampshire	41,277	40.3	13.8	5.9	14.3	105.3
13	Minnesota	41,387	86.6	5.7	5.9	17.8	104.3
14	Nevada	40,385	66.5	8.6	5.6	27.0	104.2
15	Washington	43,711	68.6	5.5	5.7	27.3	102.7
16	Wyoming	36,064	101.3	5.0	6.5	15.5	101.6
17	Maine	33,692	84.0	10.6	4.3	16.4	100.3
18	Illinois	45,045	57.4	5.9	4.9	25.6	99.9
19	Florida	38,299	57.4	8.7	6.1	23.3	99.3
20	Michigan	41,697	69.4	7.1	4.3	18.6	98.9
21	Pennsylvania	40,503	63.7	7.6	4.3	21.2	97.2
22	New Mexico	34,556	88.1	6.8	5.0	16.7	96.6
23	Wisconsin	36,105	71.5	6.9	5.9	20.6	96.4
24	Texas	41,956	45.4	8.7	4.7	18.2	95.9
25	Virginia	43,834	57.4	5.3	4.8	20.6	95.6
26	Louisiana	35,918	72.7	8.5	3.6	16.6	93.9
27	Colorado	43,058	45.8	7.0	4.0	19.8	92.8
28	Arizona	39,493	60.4	6.2	3.7	23.1	91.6
29	Oregon	37,345	60.9	5.7	5.4	21.4	91.4
30	Ohio	38,068	64.4	6.9	3.5	18.6	91.0
31	North Carolina	37,044	72.2	6.0	3.8	18.1	90.8
32	Georgia	40,019	57.0	6.4	3.6	20.1	90.7
33	Utah	35,173	73.5	4.9	5.1	20.4	90.1
34	Mississippi	30,786	77.6	7.9	3.9	15.4	88.4
35	Kentucky	34,706	80.6	4.8	3.5	16.9	87.3
36	Indiana	36,203	66.4	5.9	3.6	17.3	87.3
37	West Virginia	32,286	89.9	4.6	3.5	18.1	87.1
38	Kansas	35,035	65.3	5.7	4.3	18.8	86.8
39	Alabama	35,488	59.3	6.0	4.3	17.4	85.8
40	Oklahoma	33,804	67.5	6.6	3.4	16.3	85.4
41	Arkansas	31,818	88.6	5.5	2.8	13.9	85.4
42	Tennessee	36,737	54.6	6.3	3.5	18.0	85.2
43	Missouri	36,673	53.3	4.7	5.1	18.6	84.6
44	Montana	30,739	73.4	6.3	4.0	15.7	84.1
45	South Carolina	33,930	60.8	5.9	3.5	18.4	82.9
46	Idaho	31,926	71.5	4.5	4.8	15.6	82.8
47	Nebraska	33,737	65.1	5.1	3.4	19.3	82.3
48	North Dakota	30,895	78.4	5.1	3.0	15.4	81.3
49	Iowa	33,696	61.7	5.9	2.5	13.6	79.7
50	South Dakota	30,081	44.6	5.4	3.0	13.8	70.2

Data for the 2007 Cost-of-Doing-Business Index is from January - December 2006

**Definitions:**

- 1 - Wage cost measures the average annual wage per employee in all industries
- 2 - Tax Burden measures the annual state tax revenue as a share of personal income
- 3 - Measures the cost of commercial and industrial electricity cost in cents per kilowatt-hour
- 4 - Measures the cost of renting industrial (warehouse) space on a per square foot basis
- 5 - Measures the cost of renting office space on a per square foot basis

**Sources:**

- 1 - Global Insight, Economy.com, Milken Institute
- 2 - U.S. Census State Government Tax Collections, Milken Institute
- 3 - Energy Information Administration, Milken Institute
- 4 - CBRE, NAI Global, Global Real Analytics (National Real Estate Index), Milken Institute
- 5 - CBRE, NAI Global, Global Real Analytics (National Real Estate Index), Milken Institute

## Overview

On January 8, 2008, the Ohio Department of Job and Family Services (ODJFS) in partnership with OCSEA, held a State Hearing Statewide Workgroup kick-off meeting. Sixty-four people from 29 counties and ODJFS attended this first meeting. Following a brief presentation outlining due process requirements, the role of hearings, and the rights and responsibilities of the parties at the hearing, the participants received statistics outlining the increase in the number of state hearing requests (see appendix A) and the specific numbers for each county throughout the state over the last eight years. To benefit both CDJFS and ODJFS State Hearings, participants immediately started working on the group's purpose by identifying improvement ideas that would lead to a reduction in state hearing requests, create greater efficiencies within the process, and to increase customer satisfaction at the county and state levels.

From the initial group of 64, 25 people volunteered to continue to be core workgroup members, meeting every other Wednesday for the next three months. The workgroup met a total of seven days from 10 a.m. until 3 p.m., for the equivalent of 32 hours.

The workgroup members are:

- Ben Anderson from ODJFS/OCS
- Cami Bergstrom from Ross CDJFS
- Peggy Crowder from Stark CDJFS
- Carmen Duckens from Franklin CDJFS
- Luann Dunham from Columbiana CDJFS
- Anita Fogle from ODJFS/OLS, Workgroup leader
- Daniel George from Union CDJFS
- Anissia Goodwin from OCSEA
- Cindi Green from Hamilton CDJFS
- Brian Horst from ODJFS/OLS, Subject Matter Expert
- Anita Jennings from ODJFS/ORAA, workgroup facilitator
- Beth Kowalczyk from ODJFS/OFS
- Susan Lehman-Sentle from ODJFS/Legal, Subject Matter Expert
- Cathy Loechel from Hamilton CD JFS
- Kevin Manack from Mahoning CDJFS
- Lisa McClure from Summit CDJFS
- Linda Meeks from Franklin County Child Support
- Donyce Montgomery from Montgomery CDJFS
- Kim Orzechowski from Lucas CDJFS
- Joel Potts from ODJFSDA
- Vivian Rice from ODJFS/ORAA, data support
- Beth Rubin from Greene CDJFS
- Linda Seeman from Portage CDJFS
- Caryn Strayer from Allen CDJFS
- Wanda Wilson from ODJFS/OLS, Subject Matter Expert

### Adjusting the workgroup’s purpose

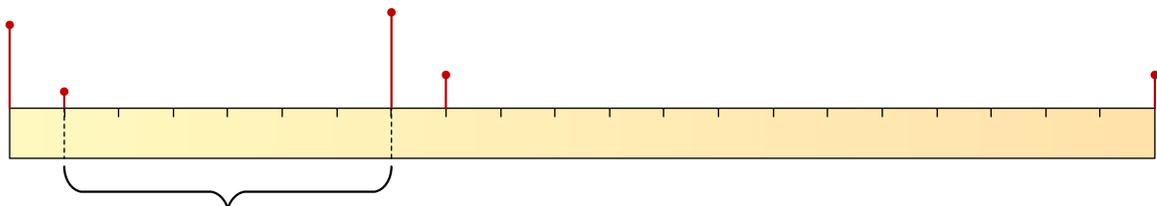
After collecting and analyzing various data, the workgroup decided they needed to revisit the team’s purpose. The original purpose to “develop improvement ideas that would lead to a reduction in the total number of hearing requests sent to the Bureau of State Hearings”, was found to be off base. First, the increase in hearing requests followed the increase in caseloads. Second, neither the CDFJS nor ODJFS wanted to limit an individual’s right to request a state hearing, and risk the possibility of denying an individual’s due process rights. Instead the workgroup brainstormed a list of items they should focus on:

- Streamlining the process
- Using data to identify trends in requests
- Creating synergy between the county and program areas which in turn could reduce hearing requests
- Reducing the volume to ensure a higher quality decision
- Addressing issues that aren’t process issues, such as additional training and hearing officer expertise

The group decided to take a two-pronged approach to the workgroup’s purpose; first, the group would address improving the process, which in turn, would reduce the number of hearing requests that actually go to a hearing, and second, use data to make continuous improvements. This change in purpose was shared with the workgroup sponsor, Legal Deputy Director, Lewis George. He agreed with the changes to the workgroup’s purpose.

### Analyzing the current process

The workgroup created a flowchart of the major steps in the State Hearing process and laid each step out on a timeline. The timeline below shows the five major steps in the hearing process and the number of days it takes for the process to go from beginning to end. The current process only allows approximately six days to complete the state hearing appeal summary and shows a 14-day time frame when the appeal summary is not being reviewed or used by the Bureau of State Hearings to prepare for the hearing.



The workgroup created a cause and effect diagram (see appendix B) and identified three potential root causes:

- Automated notices are not effective;
- Too few county conferences; and
- Communication and customer service issues.

The workgroup also conducted a time study to obtain a better understanding of how long the hearing process takes (see appendix C).

## Recommendations

When developing its recommendations, the workgroup decided to address all three potential root causes – automated notices are not effective; too few county conferences; and communication and customer service issues.

### Recommendation 1: Changes to form JFS ODS8500 and JFS 04059

To address issues surrounding “automated notices are not effective”, the workgroup brainstormed various improvements to the Hearing Request Form, ODS8500. Their suggestions focused on clarifying the reason(s) for the request, making various additions to the form, and ensuring clients understand requesting a hearing is optional. (See appendix D for a complete list of ideas.) These improvement ideas were shared with the CRIS-E Notice Redesign Workgroup. They reviewed the State Hearing Workgroup’s recommendations and adopted the following:

1. Step 1 was changed from "Read, sign, date and fill in phone number" to: "If you would like to ask for a State Hearing, read, sign, date, and fill in your phone number." Change to clarify that this form was to request a state hearing - apparently, people were just signing it, mailing it in, and did not even know why.
2. Opening paragraph is more explanatory as to the purpose of the form.
3. Step 2 was changed to explain more about what the section was for - "to help schedule your State Hearing".
4. Added a line to allow people to explain why they want the state hearing.
5. Added a line to indicate the days and times that the client cannot come to a state hearing.
6. Added a line for a client to request an "interpreter, signer or other assistance".

The new Hearing Request Form will be ready for automated distribution the end of May 2008.

The workgroup also made changes to the Explanation of State Hearing Procedures Form JFS 04059. They recommended the addition of the paragraph below:

"If you cannot attend the hearing at the scheduled location as a result of not having transportation, child care, medical limitations, etc., you can call 1-866-635-3748 and choose to participate by telephone. If you participate by telephone, the hearing officer assigned to your appeal will call you on the day at the scheduled time for your hearing at the telephone number you provide."

This change will:

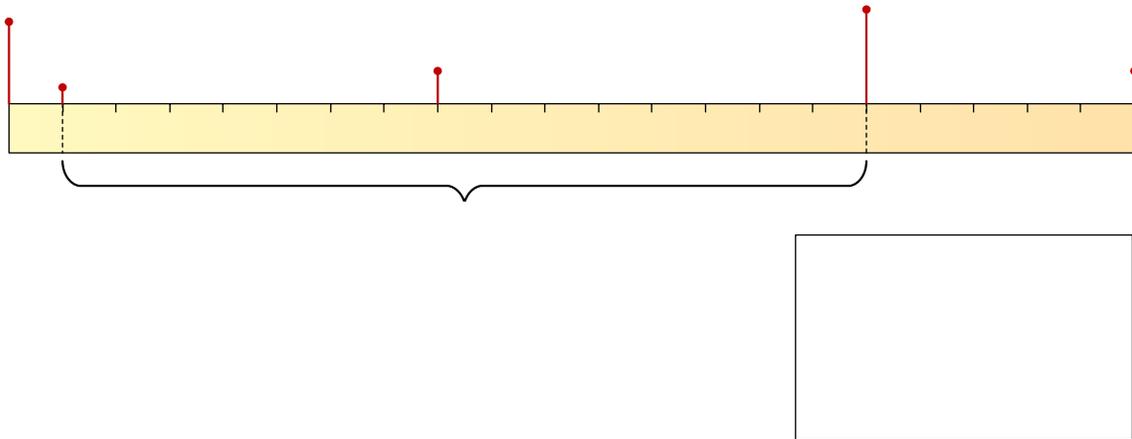
- benefit clients with limited resources;
- reduce client travel, and/or child care costs;
- reduce the number of hearings that are rescheduled;
- allow for a more timely issuance of the hearing decision; and
- In cases when a client is not eligible for benefits but they request a timely hearing and benefits continue pending the outcome of a hearing decision, will reduce benefits overpaid for multiple months while rescheduling.

### Recommendation 2: Conciliation Process

The workgroup wanted to address the issue of “too few county conferences” by providing counties with more time at the beginning of the process to contact the client and possibly resolve the issue(s) instead of having to prepare for, and go to a hearing. To do this, the workgroup developed a new timeline that gives counties approximately 17 days to contact the client and create any necessary hearing documentation (See chart below). The workgroup calls this new timeframe the Conciliation Process. During the Conciliation Process the county would contact the client (by phone or in person) to verify the reason for the hearing request, work to resolve any issues, and notify State Hearings of a withdrawal.

The group found that if the county utilized this up front Conciliation Process they would spend less time later in the process:

- completing an appeal summary and gathering all the documentation required to support the agency’s action and forwarding it to the assigned hearing section;
- arranging availability of a county worker to present at the scheduled state hearing; and
- completing the follow-up compliance if it was ordered by a hearing decision.



To test their new timeline the workgroup looked to see if any counties were currently implementing a similar process. They realized Summit County had implemented a process where a unit of three, call each client on the schedule to try to solve their issue prior to hearing. Summit County has seen remarkable results from implementing such an approach, resolving nearly 75 percent of their requested hearings prior to the hearing date (see appendix E).

### Recommendation 3: Change to OAC § 5101:6-5-01

To make the changes in the timeline meaningful, the workgroup recommended making two changes to current rules. The first rule change would give counties more time to conduct the Conciliation Process by changing the Ohio Administrative Code § 5101:6-5-01, entitled “Procedures Prior to a State Hearing”. This rule currently requires the county agency to prepare and forward, to the assigned hearing section, a completed appeal summary and attachments to support the action taken by the county within five workdays of the date that the county receives notice of the request for State Hearing. On average, this is six to seven days from the date the hearing is requested. The recommended change to the rule would

require the appeal summary and attachments to support the action be sent to the assigned hearing section three business days prior to the date the state hearing is scheduled. By implementing this rule change, counties would have approximately seven business days extra (approximately 17 total days) to contact the individual that requested the hearing, and if the issue is not resolved, to then complete the appeal summary and gather attachments to support the action.

#### Recommendation 4: Change to OAC § 5101:6-5-02

However, implementing the rule change above could have a negative effect on counties and clients because the current process requires a written withdrawal notice from the client. After contacting a client, resolving their issue, and obtaining a withdrawal of their hearing request, the client still needed to complete and submit a written withdrawal. To correct this problem, the workgroup recommended changing the Ohio Admin. Code § 5101:6-5-02, entitled “Denial and Dismissal of a State Hearing”. This rule change would allow clients who requested a state hearing to call and dismiss their hearing by withdrawal over the phone. This eliminates the need for the individual to fax or visit the county office to submit their withdrawal, and ensures more accurate disposition reports for the Bureau of State Hearings. This rule change also benefits the county, since it is not necessary to complete an appeal summary for withdrawn cases.

Each of these rule changes clears the way for a the successful implementation of the Conciliation Process; giving counties approximately 17 days to contact the client and create any necessary hearing documentation.

#### Benefits of all four recommendations

Implementing the changes to the Request for Hearing Form will reduce the number of clients inadvertently requesting a state hearing.

By implementing the Conciliation Process Period and the two rule changes, counties will have more time at the beginning of the process to contact clients and resolve their issues. This in turn will result in less work and time spent preparing for and conducting hearings. Other benefits of the new process include:

- Provides county agencies approximately 17 days to complete the “Conciliation Process”
- Gives county agency increased control over the resolution/outcome of the appealed issue
- Provides case workers additional time to complete resolution activities
- Resolves clients issue(s) more timely
- Promotes agency/client communication
- Improves customer service for the clients
- Builds trust with the clients
- Improves county agency credibility and image
- Reduces overpayments created by timely hearing request benefits issued to clients when ineligible
- Identifies training and staffing needs during the resolution process
- Reduces the number of cases going to a hearing
- Reduces the amount of time the county needs to take to prepare and attend state hearings
- Gives the hearing officer additional time to prepare for hearings because there will be fewer of them
- Give the hearing officer additional time to write hearing decisions because there will be fewer of them

### Implementation strategies

The workgroup, having representation from various counties, understood that there would be no one best way to implement the conciliation process in each county. Using the information from the force-field analysis (see appendix F) and their collective understanding of the various county structures, the workgroup developed a list of possible implementation strategies, as well as the major benefits and issues of each strategy.

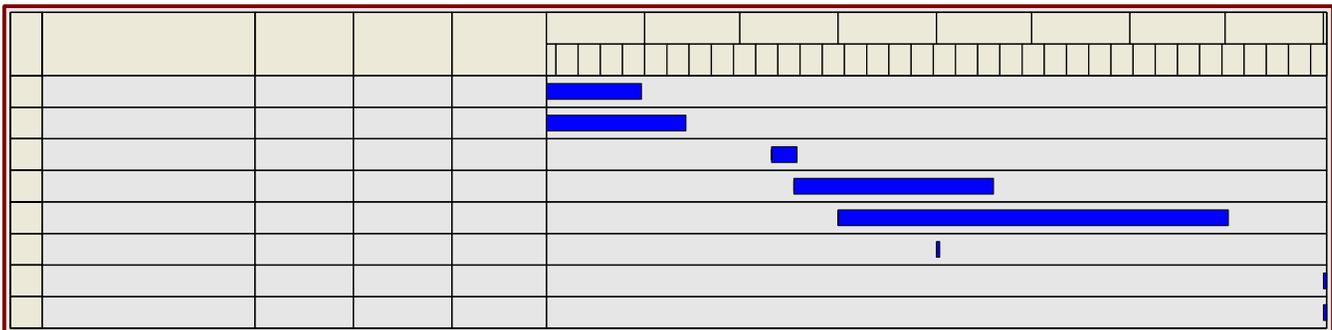
County Implementation Strategy	Possible Issues	Possible Benefits
<p><b>Caseworker makes the call:</b> Caseworkers could implement the conciliation process on their own work, or they could conduct the process for another caseworker's work.</p>	<ul style="list-style-type: none"> <li>▪ Potential conflict of interest if making calls concerning their own work</li> </ul>	<ul style="list-style-type: none"> <li>▪ Potential to learn from own mistakes</li> <li>▪ Develop better client/customer connections</li> <li>▪ Case workers may learn from each others mistakes or issues</li> </ul>
<p><b>Link conciliation functions to a specialized position:</b> i.e. QA position, Trainer, etc.</p>	<ul style="list-style-type: none"> <li>▪ In this case a county would need to create backup &amp; redundancies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify and implement improvement suggestions</li> </ul>
<p><b>Create specialized conciliation function within each unit:</b> State Hearings Coordinator – decentralize the functions - each unit has a person responsible to prepare appeal summaries and attends the hearings</p>	<ul style="list-style-type: none"> <li>▪ Need to have some sort of feedback loop, so caseworkers can learn from mistakes, if not in place a caseworker could make the same mistake over and over again</li> </ul>	<ul style="list-style-type: none"> <li>▪ Creates a point person in each unit that handles all hearing requests; Frees up other staff in the unit</li> <li>▪ Can identify potential training issues</li> </ul>
<p><b>Create a hearing designee (office, section, unit):</b></p> <ul style="list-style-type: none"> <li>▪ This unit would handle some or all of the following: County &amp; State Hearings, Conciliations, County Conferences, Appeal Summaries</li> <li>▪ May or may not fix the case – Have authority to fix case/take action</li> <li>▪ Feedback loop for training opportunities</li> <li>▪ Most likely to happen in large metro counties</li> </ul>	<ul style="list-style-type: none"> <li>▪ Could cost \$\$\$</li> <li>▪ Need to have some sort of feedback loop, so caseworkers can learn from mistakes, if not in place a caseworker could make the same mistake over and over again</li> </ul>	<ul style="list-style-type: none"> <li>▪ Frees up other staff in the agency</li> <li>▪ Can identify potential training issues</li> </ul>

Communication/marketing plan

To ensure that all counties are able to fully implement the workgroup recommendations, the team developed an implementation plan that addresses the needs of the county administration, the county workers, and the state staff affected by this new process.

Audience	Message	Method
County Administration	<ul style="list-style-type: none"> <li>General info about the workgroup and the benefits of this solution to the counties, including reducing the amount of work, time savings, improved customer service, and more county control.</li> </ul>	<ul style="list-style-type: none"> <li>Director's Quarterly meeting</li> <li>Email announcement</li> <li>Summer Conference</li> <li>County Resource Page on the OLS website or on the Program Areas website</li> </ul>
County Workers	<ul style="list-style-type: none"> <li>More detailed information about how the new process works, the variety of ways they can implement the new process in their county, and the benefits of this new process.</li> </ul>	<ul style="list-style-type: none"> <li>Video Conference</li> <li>As a part of other training initiatives</li> <li>Desk Aid</li> <li>County Resource Page on the OLS website or on the Program Areas website</li> </ul>
State Hearing Staff	<ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>Staff meetings</li> </ul>
Other State Staff	<ul style="list-style-type: none"> <li></li> </ul>	<ul style="list-style-type: none"> <li>Staff meetings</li> <li>Get on the agenda of any large meeting taking place in a program area, or any regularly scheduled training or video conferences</li> </ul>
General	<ul style="list-style-type: none"> <li>General background and info about the process changes</li> <li>Period updates</li> </ul>	<ul style="list-style-type: none"> <li>Articles in News Today</li> <li>Global emails to county administrators</li> <li>Report results to Governor's office via the ART</li> </ul>

The workgroup also recommends sharing county success stories and providing counties repetitive training, desk aids, and data that tracks the changes before and after implementation.



## Monitoring for results

Once implementation is complete, the workgroup recommends measuring:

- the number of hearing requests heard
- the number of counties using the new process
- the number of telephone withdrawals
- the number hearings the counties did not have to attend
- number of appeal summaries that were avoided

The workgroup also recommends sending a questionnaire to all counties to get feedback on the how the new process is working, how the county handled implementation, etc.

The workgroup recommends reporting on these measures quarterly and sharing the data with the Deputy Director of Legal and all the county directors. The workgroup also recommends conducting the survey every six months or annually and sharing that information with the Deputy Director of Legal.

These measures will monitor the impact this set of process improvements has had on the State Hearings process, and they will indicate what components worked well, and where there may be other process improvement opportunities.

## Conclusion

After reviewing the data, researching best practices and evaluating potential solutions, the workgroup has developed four major recommendations to improve the State Hearing process:

- To reduce the number of hearing requests, the workgroup recommends making improvements to the Hearing Request Form. The current form is confusing and can lead an individual to think that the form needs to be signed and returned even though they do not want a hearing.
- To reduce the number of hearing requests that go to hearing, the workgroup recommends implementing the proposed Conciliation Process. During this period, counties would call the individual that requested a hearing to discuss their issue and attempt to fix or resolve their issue prior to the hearing. To aid with the implementation of this recommendation, two State Hearing rules have been changed.
- Change Ohio Admin. Code § 5101:6-5-01, entitled “Procedures Prior to a State Hearing”. This rule currently requires the county agency to prepare and forward to the assigned hearing section a completed appeal summary and attachments to support the action taken by the county within five workdays of the date that the county receives notice of the request for State Hearing. On average, this is six to seven days from the date the hearing is requested. The recommended change to the rule would require the appeal summary and attachments to support the action be sent to the assigned hearing section three business days prior to the date the state hearing is scheduled. By implementing this rule change, counties would have approximately seven more business days to contact the individual that requested the hearing and if the issue is not resolved, to then complete the appeal summary and gather attachments to support the action.
- Change Ohio Admin. Code § 5101:6-5-02, entitled “Denial and Dismissal of a State Hearing”. Currently this rule allows for a dismissal of the state hearing if the individual that requested the hearing signs a written withdrawal of their request for state hearing and that written statement of withdrawal is received by the Bureau of State Hearings prior to or on the date that the hearing is scheduled. The recommended change to the rule would reduce the effort required for the individual that requested a state hearing to call and dismiss their hearing by withdrawal over the

phone. This eliminates the need for the individual to fax or visit the county office to submit their withdrawal, and ensures more accurate disposition reports for the Bureau of State Hearings. This rule change also benefits the county, since it is not necessary to complete an appeal summary for withdrawn cases.

Data from our best practices county, Summit, shows that when they implemented a process similar to the Conciliation Process, they experienced a 75 percent reduction in the number of hearings requiring preparation and going to a hearing (see appendix E). Counties implementing the Conciliation Process should experience a significant reduction in the number of cases that they need to prepare for hearing. This preparation includes completing the appeal summary form, JFS 04069, and attaching all relevant documents used when taking the action being appealed or needed to support the action and sending it either by fax, mail or scanning and e-mailing it to the assigned hearing section.

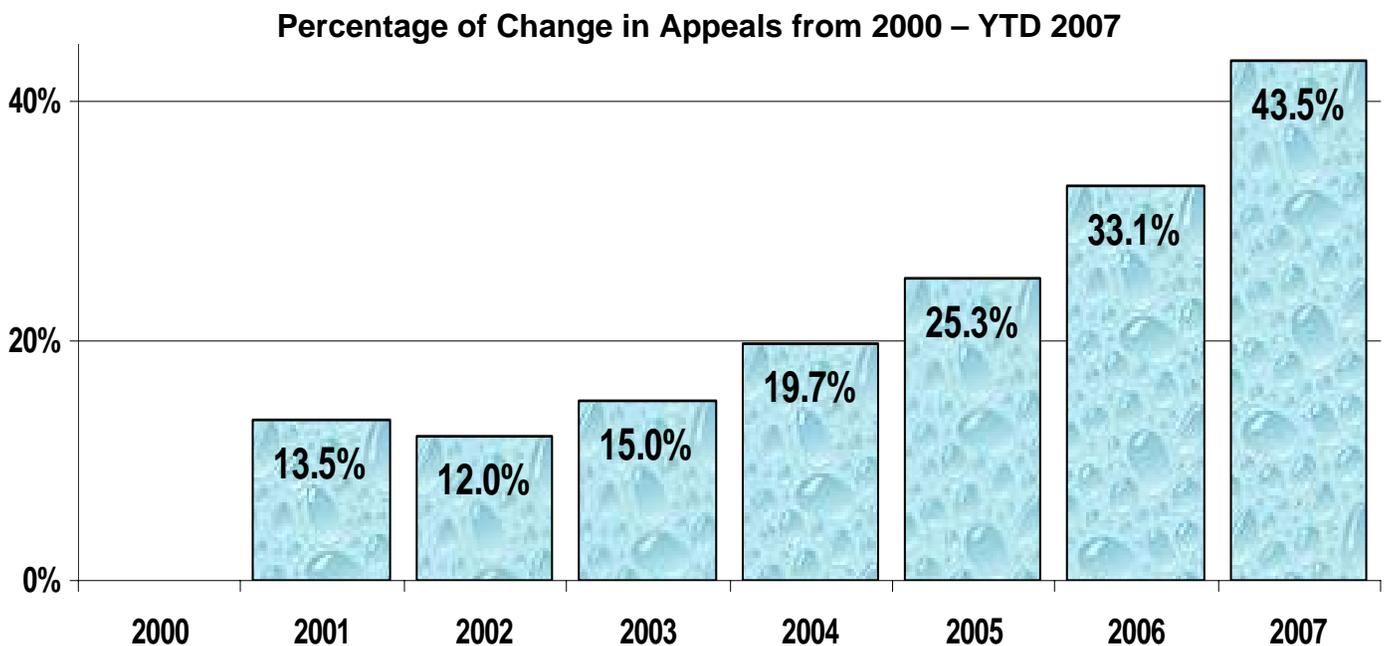
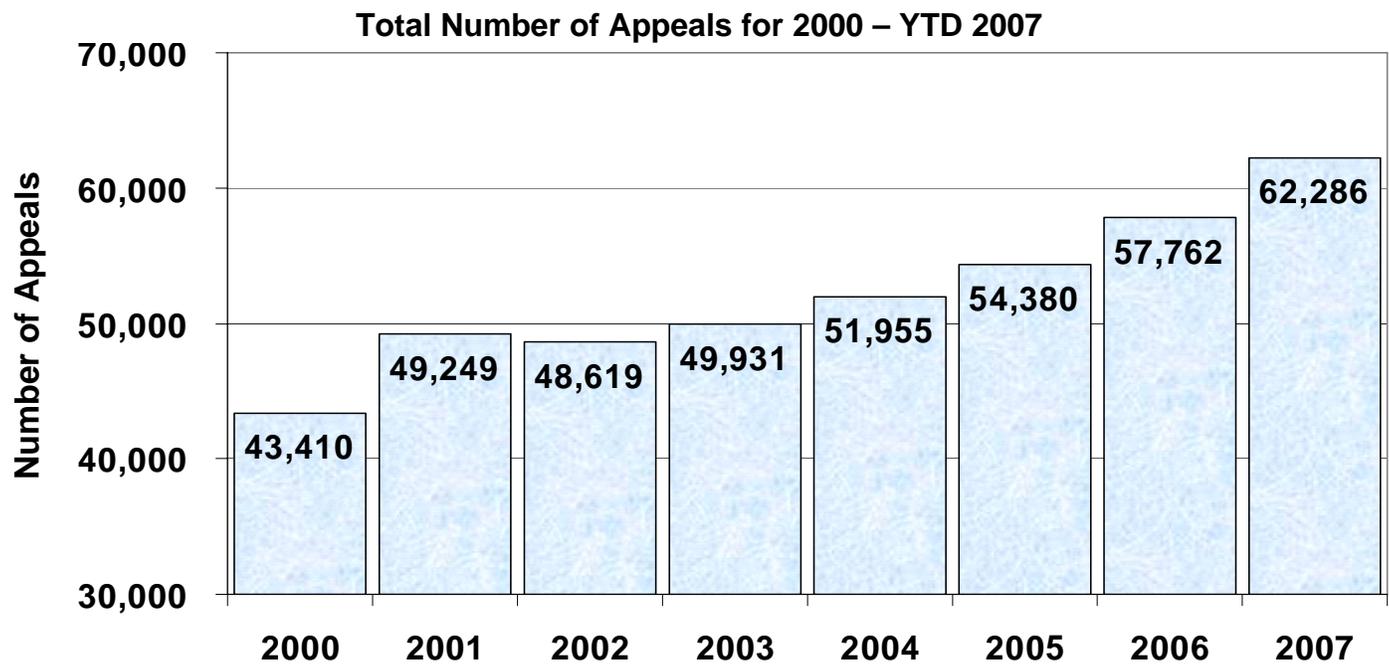
According to the data the workgroup collected (see appendix C), the easiest hearing issue case preparation takes a minimum two hours to complete. If a county had 100 hearing requests a month, and implemented the Conciliation Process as successfully as Summit County, they would reduce the number of hearing requests needing case preparation by 75 percent. This represents a savings of 150 employee-processing hours and the associated costs to copy and supply the appeal summary (see appendix G). While each county is different, implementing the Conciliation Process will decrease the number of cases a county needs to prepare for hearing, resulting in time and cost savings for every county and the Bureau of State Hearings.

Other benefits of this implementing the Conciliation Process include: promoting better agency/client communication, improving customer service, resolving issues sooner, building client trust, providing time for agency workers to complete actual resolution activities and the agency and state conducting fewer hearings.

Appendix A – Baseline data analysis

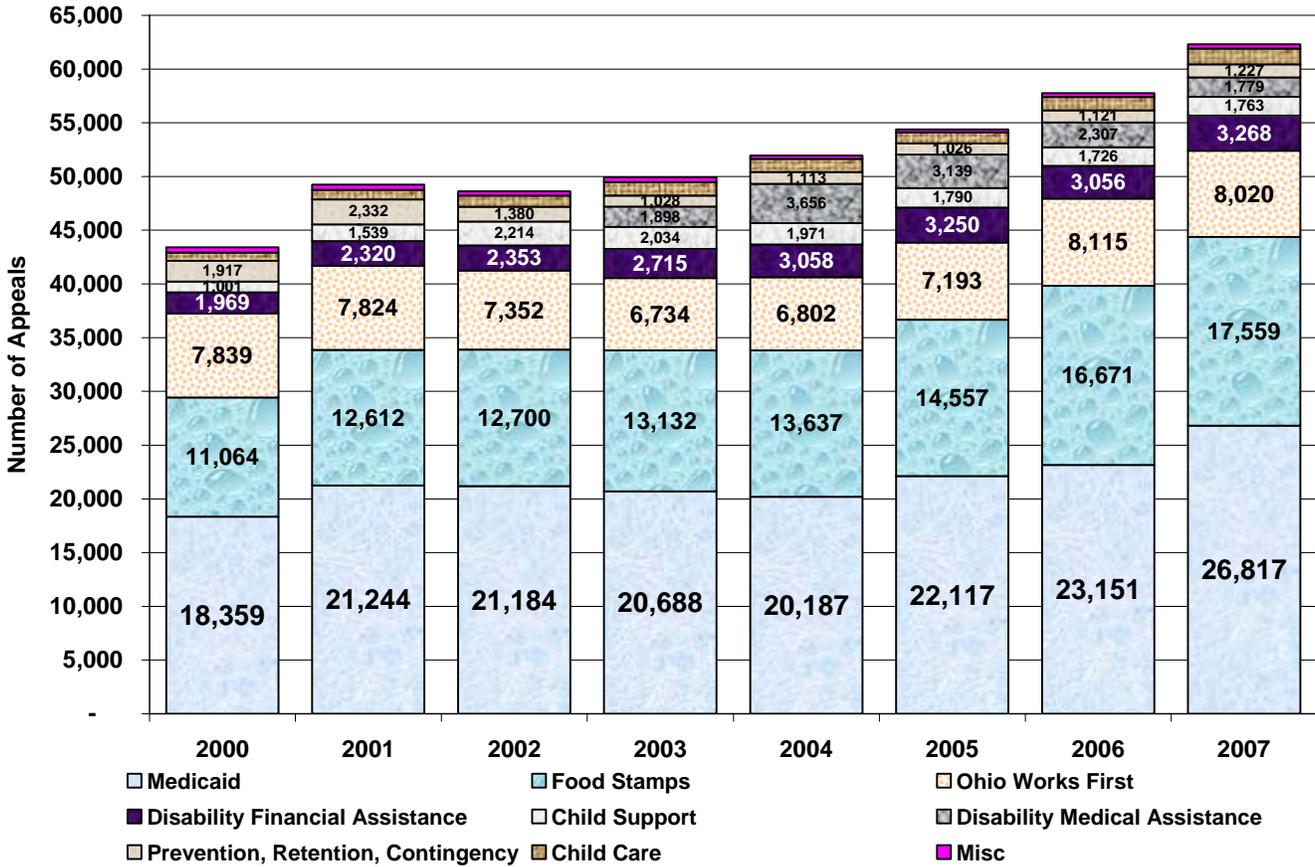
The Bureau of State Hearings shared baseline data concerning the current state of the process at the kickoff meeting. The data pictured below showed:

- Over the last eight years, the number of hearing requests has grown from 43,410 in 2000, to 62,286 in 2007. This represents an increase of 43.5 percent.
- The majority of hearing requests deal with Medicaid, Food Stamps, and Ohio Works First issues.
- While staffing has remained relatively flat, the number of appeals received continued to increase.

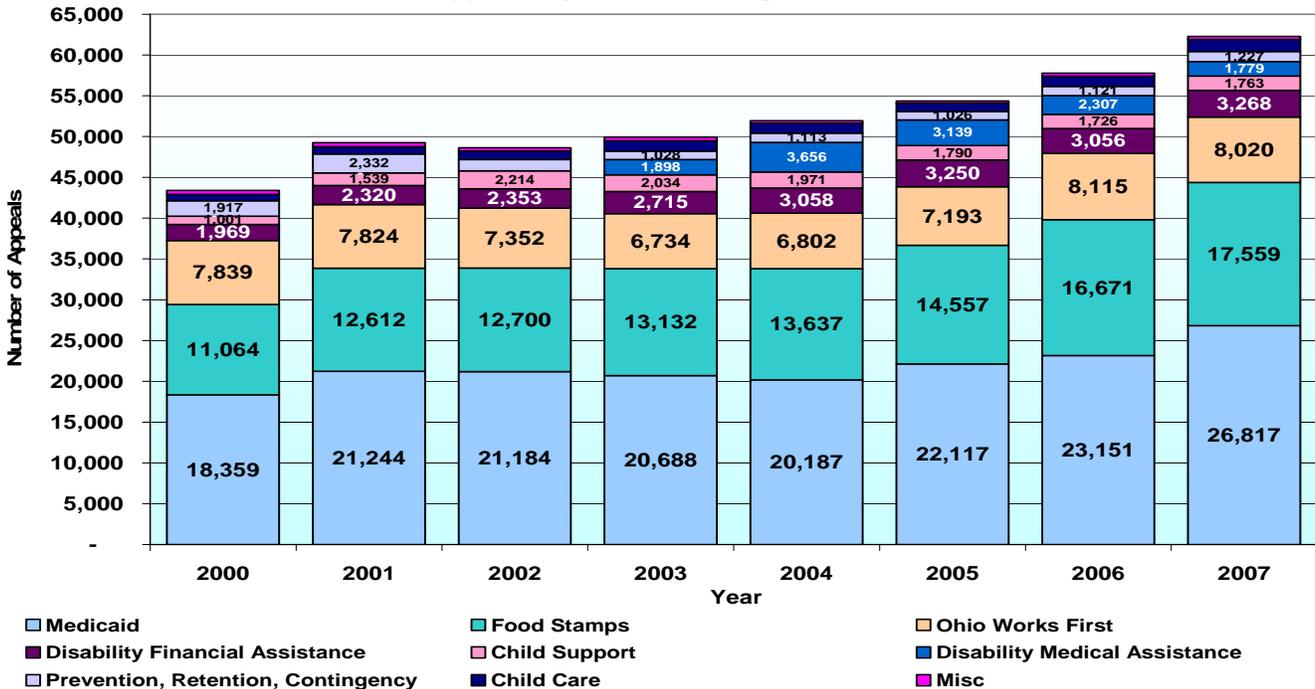


Appendix A – Baseline data analysis – [Pick a color chart to print](#)

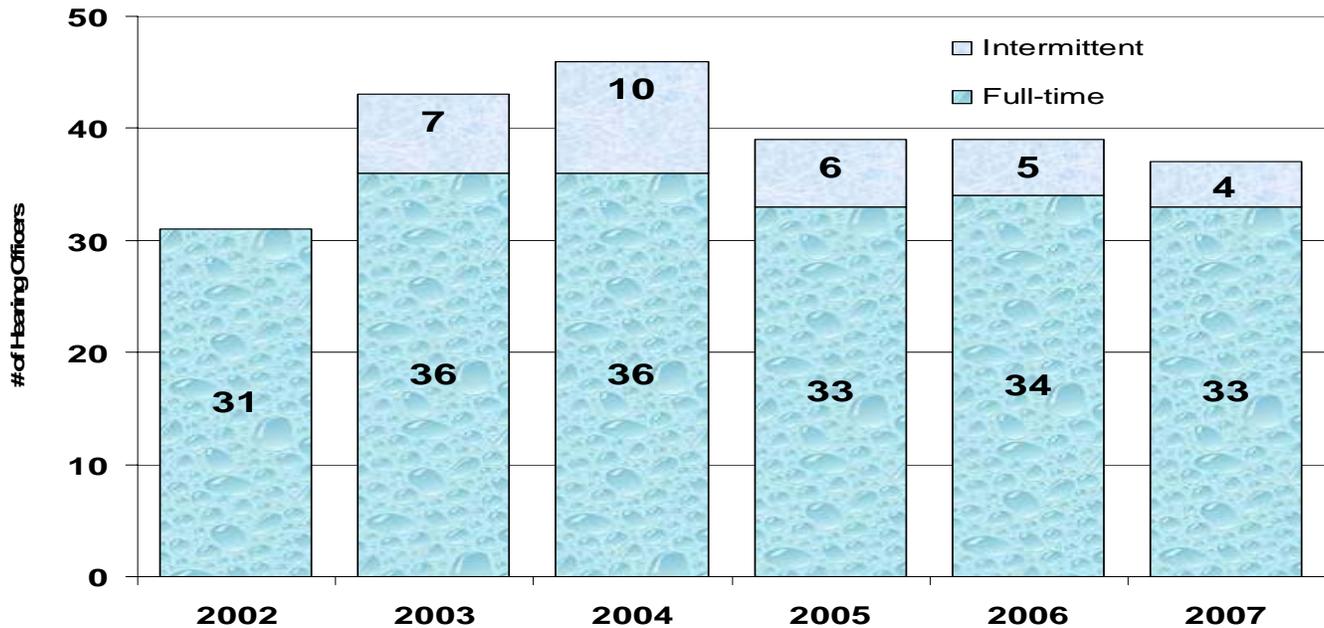
Appeals by Year and Program Area



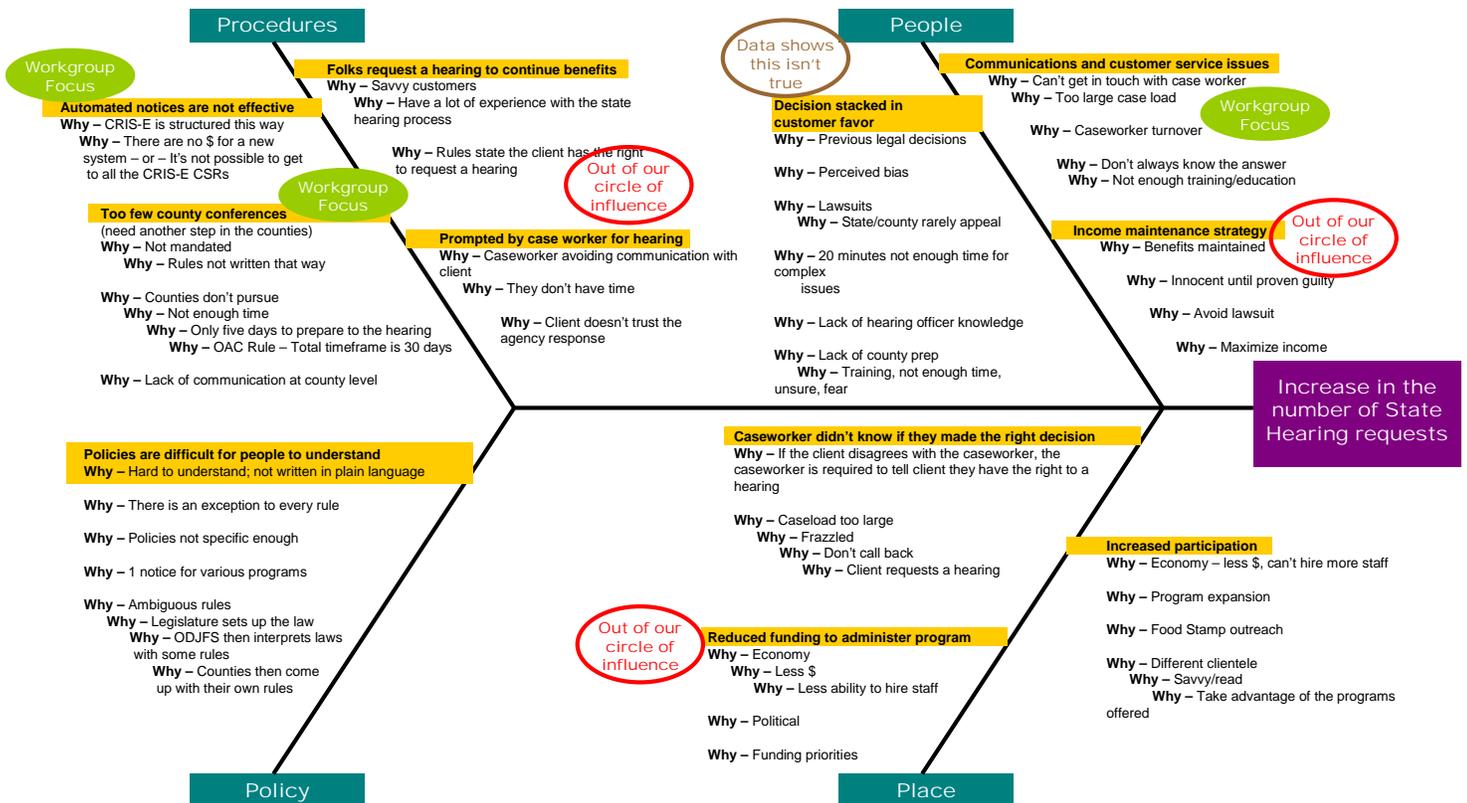
Appeals by Year and Program Area



### Hearing Officers for 2000 – YTD 2007



### Appendix B – Fishbone/Cause and Effect Diagram



### Appendix C – Time Study

The workgroup conducted a time study to find out how much staff time was used to prepare for a hearing. The charts below show that preparing for a basic hearing takes approximately 2.3 hours; preparing for an average hearing takes 3.3 hours; and preparing for a complex hearing takes staff approximately 4.7 hours. The workgroup also listed the various types of hearings and categorized them into basic, average, and complex.

#### State Hearing Time Study Summary

<b>County Hearing Activities in Minutes</b>	<b>Basic Hearing</b>	<b>Average Hearing</b>	<b>Complex Hearing</b>	<b>Average Total Minutes Per Activity</b>
Assigning Cases	3.0	2.8	3.7	3.2
Taking hearing request	4.9	6.7	7.6	6.4
Tracking hearing request	5.0	5.8	6.0	5.6
<b>Hearing Request Intake Time</b>	<b>12.9</b>	<b>15.3</b>	<b>17.3</b>	<b>15.5</b>
Writing Summary	12.3	25.0	52.8	30.0
Document Search & Copy Time	17.6	26.3	33.8	25.9
Hearing prep time	18.8	30.0	34.2	27.7
<b>Appeal Summary Time</b>	<b>48.7</b>	<b>81.3</b>	<b>120.8</b>	<b>83.6</b>
*Staff Scheduling (Calculated by using the # of minutes needed to schedule divided by the # of hearings per week.)	10.8	11.7	10.8	11.1
Compliance Monitoring	15.8	20.4	28.3	21.5
Minutes for the Hearing	18.3	29.2	50.0	32.5

State Hearings Statewide Workgroup Recommendations

Scanning decision & compliance	3.2	4.0	3.5	3.6
Labeling scan pages	2.1	2.2	4.1	2.8
Writing compliance	14.2	20.5	30.8	21.8
Tracking compliance	9.2	13.3	15.8	12.8
<b>Hearing &amp; Compliance Time</b>	<b>73.6</b>	<b>101.3</b>	<b>143.3</b>	<b>106.1</b>
<b>Total Minutes per Activity</b>	<b>135.2</b>	<b>197.9</b>	<b>281.4</b>	<b>205.2</b>

\* Averages were used when ranges were provided

<b>Basic Hearing</b>	<b>Average Hearing</b>	<b>Complex Hearing</b>
<b>2.3 hours</b>	<b>3.3 hours</b>	<b>4.7 hours</b>
<b>Type of Hearings</b>	<b>Type of Hearings</b>	<b>Type of Hearings</b>
Spend down Mass change Rules FS allotment Income change Policy disagreement Reapplication failure Prior authorization OCS case closure	Sanctions Work activity sanction Child support sanction PRC Child care Back dating of Medicaid eligibility Citizenship Child Support AAR admin adjustment review denial	Hardship Long-term care Waiver Transfer of resources Over-payment DDU Resources / trust Child support - arrearages distribution Work activity sanctions Adoption assistance Any case with advocate – attorney Citizenship

Appendix C – Time Study

**Basic / Easy Hearing**

<b>County Hearing Activities in Minutes</b>	Cleveland	Greene	Lucas	Mont	Portage	Union	<b>Avg Total Minutes</b>
Assigning Cases	5.0	2.0	1.0	5.0	0.0	5.0	<b>3.0</b>
Taking hearing request	5.0	3.0	1.0	5.0	7.4	8.0	<b>4.9</b>
Tracking hearing request	5.0	2.0	0.0	10.0	4.8	8.0	<b>5.0</b>
<b>Hearing Request Intake Time</b>	<b>15.0</b>	<b>7.0</b>	<b>2.0</b>	<b>20.0</b>	<b>12.2</b>	<b>21.0</b>	<b>12.9</b>
Writing Summary	10.0	15.0	7.0	4.0	20.0	17.5	<b>12.3</b>
Document Search & Copy Time	45.0	15.0	0.0	10.0	17.8	17.5	<b>17.6</b>
Hearing prep time	45.0	10.0	0.0	0.0	25.2	32.5	<b>18.8</b>
<b>Appeal Summary Time</b>	<b>100.0</b>	<b>40.0</b>	<b>7.0</b>	<b>14.0</b>	<b>63.0</b>	<b>67.5</b>	<b>48.7</b>
*Staff Scheduling (Calculated by using the # of minutes needed to schedule divided by the # of hearings per week.)	5.0	0.0	0.0	60.0	0.0	0.0	<b>10.8</b>
Compliance Monitoring	30.0	10.0	20.0	5.0	14.8	15.0	<b>15.8</b>
Minutes for the Hearing	15.0	40.0	10.0	15.0	0.0	30.0	<b>18.3</b>
Scanning decision & compliance	5.0	3.0	5.0	3.0	3.0	0.0	<b>3.2</b>
Labeling scan pages	0.0	3.0	5.0	2.0	2.4	0.0	<b>2.1</b>
Writing compliance	20.0	15.0	10.0	5.0	20.0	15.0	<b>14.2</b>
Tracking compliance	10.0	0.0	0.0	20.0	25.0	0.0	<b>9.2</b>
<b>Hearing &amp; Compliance Time</b>	<b>85.0</b>	<b>71.0</b>	<b>50.0</b>	<b>110.0</b>	<b>65.2</b>	<b>60.0</b>	<b>73.6</b>
<b>Total Minutes per Activity</b>	<b>200.0</b>	<b>118.0</b>	<b>59.0</b>	<b>144.0</b>	<b>140.4</b>	<b>148.5</b>	<b>135.2</b>

\* Averages were used when ranges were provided

Appendix C – Time Study

**Average Hearing**

<b>County Hearing Activities in Minutes</b>	Cleveland	Greene	Mont	Portage	Summit	Union	<b>Avg Total Minutes</b>
Assigning Cases	5.0	2.0	5.0	0.0	5.0	0.0	<b>2.8</b>
Taking hearing request	7.0	3.0	5.0	7.4	7.5	10.0	<b>6.7</b>
Tracking hearing request	5.0	2.0	10.0	4.8	5.0	8.0	<b>5.8</b>
<b>Hearing Request Intake Time</b>	<b>17.0</b>	<b>7.0</b>	<b>20.0</b>	<b>12.2</b>	<b>17.5</b>	<b>18.0</b>	<b>15.3</b>
Writing Summary	15.0	20.0	5.0	40.0	32.5	37.5	<b>25.0</b>
Document Search & Copy Time	50.0	20.0	15.0	22.8	20.0	30.0	<b>26.3</b>
Hearing prep time	60.0	20.0	0.0	60.2	7.5	32.5	<b>30.0</b>
<b>Appeal Summary Time</b>	<b>125.0</b>	<b>60.0</b>	<b>20.0</b>	<b>123.0</b>	<b>60.0</b>	<b>100.0</b>	<b>81.3</b>
*Staff Scheduling (Calculated by using the # of minutes needed to schedule divided by the # of hearings per week.)	5.0	0.0	60.0	0.0	5.0	0.0	<b>11.7</b>
Compliance Monitoring	45.0	20.0	5.0	14.8	22.5	15.0	<b>20.4</b>
Minutes for the Hearing	30.0	60.0	30.0	0.0	25.0	30.0	<b>29.2</b>
Scanning decision & compliance	5.0	3.0	3.0	3.0	10.0	0.0	<b>4.0</b>
Labeling scan pages	0.0	5.0	2.0	2.4	4.0	0.0	<b>2.2</b>
Writing compliance	25.0	15.0	8.0	60.0	0.0	15.0	<b>20.5</b>
Tracking compliance	15.0	5.0	20.0	25.0	0.0	15.0	<b>13.3</b>
<b>Hearing &amp; Compliance Time</b>	<b>125.0</b>	<b>108.0</b>	<b>128.0</b>	<b>105.2</b>	<b>66.5</b>	<b>75.0</b>	<b>101.3</b>
<b>Total Minutes per Activity</b>	<b>267.0</b>	<b>175.0</b>	<b>168.0</b>	<b>240.4</b>	<b>144.0</b>	<b>193.0</b>	<b>197.9</b>

\* Averages were used when ranges were provided

Appendix C – Time Study

**Complex Hearing**

<b>County Hearing Activities in Minutes</b>	Cleveland	Greene	Lucas	Mont	Portage	Union	<b>Avg Total Minutes</b>
Assigning Cases	5.0	2.0	5.0	10.0	0.0	0.0	<b>3.7</b>
Taking hearing request	10.0	3.0	5.0	10.0	7.4	10.0	<b>7.6</b>
Tracking hearing request	5.0	2.0		10.0	4.8	8.0	<b>6.0</b>
<b>Hearing Request Intake Time</b>	<b>20.0</b>	<b>7.0</b>	<b>10.0</b>	<b>30.0</b>	<b>12.2</b>	<b>18.0</b>	<b>17.3</b>
Writing Summary	20.0	30.0	120.0	7.0	80.0	60.0	<b>52.8</b>
Document Search & Copy Time	60.0	20.0	0.0	30.0	47.8	45.0	<b>33.8</b>
Hearing prep time	75.0	25.0	0.0	0.0	70.2	35.0	<b>34.2</b>
<b>Appeal Summary Time</b>	<b>155.0</b>	<b>75.0</b>	<b>120.0</b>	<b>37.0</b>	<b>198.0</b>	<b>140.0</b>	<b>120.8</b>
*Staff Scheduling (Calculated by using the # of minutes needed to schedule divided by the # of hearings per week.)	5.0	0.0	0.0	60.0	0.0	0.0	<b>10.8</b>
Compliance Monitoring	60.0	30.0	45.0	5.0	14.8	15.0	<b>28.3</b>
Minutes for the Hearing	45.0	120.0	60.0	45.0	0.0	30.0	<b>50.0</b>
Scanning decision & compliance	0.0	5.0	10.0	3.0	3.0	0.0	<b>3.5</b>
Labeling scan pages	0.0	5.0	15.0	2.0	2.4	0.0	<b>4.1</b>
Writing compliance	35.0	20.0	20.0	15.0	80.0	15.0	<b>30.8</b>
Tracking compliance	25.0	10.0	0.0	20.0	25.0	15.0	<b>15.8</b>
<b>Hearing &amp; Compliance Time</b>	<b>170.0</b>	<b>190.0</b>	<b>150.0</b>	<b>150.0</b>	<b>125.2</b>	<b>75.0</b>	<b>143.4</b>
<b>Total Minutes per Activity</b>	<b>345.0</b>	<b>272.0</b>	<b>280.0</b>	<b>217.0</b>	<b>335.4</b>	<b>233.0</b>	<b>281.5</b>

\* Averages were used when ranges were provided

## Appendix D – Possible changes to the Self-Mailer

### **Clarifying reason for request**

- Some agencies are free standing such as child support. On the mailer, the client marks child support when there is no issue with the child support agency. They confused child support with childcare. Form needs to be redesigned.
- Put program selection box instead of line of why hearing is being requested.
- If boxes are to remain, we would like room for customer's explanation.
- Please have an area where the client must list, even a few words, why they are requesting the state hearing. A lot of times, especially the elderly, it's misunderstood (by check boxes) they must check an area. If there was an area for them to list "why" they are requesting the hearing – once received at the bureau, the bureau could see the client just misunderstood, therefore cutting down on scheduling!
- Self-mailer should include client's written reason for a hearing.
- Add section for why they want the request. If we know, maybe we can avoid the hearing
- Add section for reason for request.
- Rather than check box, put in a text box for an explanation of the reason for the request similar to the hearing request form.
- Something on the self-mailer pre-typed with common reasons for hearings so they can check one or more.
- Specific reason for request and category.
- More specific information as to the reason for the hearing.
- Need specific reason for hearing.
- Space for clients to write the reason for the request.
- Customer to provide specific program and reason for request.

### **Additions/changes to form**

- Reverse the order for county conference request and state hearing request.
- Need box for interpreters (language and deaf).
- The customer should have a way to request a block time and a specific day for a hearing that would be best for them. Example: 8 a.m. – 12 p.m. or 1 p.m. – 5 p.m. on M, T, W, R, F.
- Need box for – if action is other than the notice date.
- Add – Have you requested a county conference?

- Need comment box for more detailed information.

**Hearings are optional – Are you sure you want one**

- Put a disclaimer on the notice that you don't need to return the mailer if you don't want a hearing.
- Make it very clear that this is a state hearing request, and completing this form is OPTIONAL (we have too many people that fill it out because they think they have to).
- Self-mailer should contain instructions to only return self-mailer if they want a hearing. Sometimes clients misunderstand this.
- Are you really going to attend a hearing if it is scheduled? Or are you just calling a hearing to continue benefits?
- Make the notice more "user friendly" so the customer knows what they are doing and what they are asking for. Customers are confused, which causes more appeals than necessary.
- Redesign the self-mailer so that the customer understands what he/she is signing up for. Explain they will be responsible to attend a hearing and provide why they believe the decision was not correct.

**Miscellaneous**

- For the CRIS-E notice redesign workgroup (I'm sure they already know this): improving the automation of notices and the notices themselves will reduce the number of state hearing requests (i.e. An individual gets, for example, three notices denying three categories of Medicaid along with one approval letter approving one category of Medicaid)
- Why do these mailers come to the county? And when they do, couldn't we email these mailers to BSH? Tried this and the request was never opened! So, trying to reduce paper wouldn't it be beneficial to email these?
- Need a "weeding out" procedure for requests – Identify if a legitimate request or not
- Attach denial to state hearing request. i.e. Denial prints on same page as request
- Have hearing officers by specialized in programs

**Appendix E – Benchmark Data**

The workgroup was looking for examples of different ways to conduct the hearing process, and were surprised to find a best practice in our own state. Summit County has implemented a process where a unit of three, call each client on the schedule to try to solve their issue prior to hearing. The data below gives a snapshot of the impact this process has on the number of hearing held.

Summit County Hearing Activity Data

Summit County Hearing Activity	Hearings Scheduled (Total Count)	Resolved		Summaries Written		Hearings Held	
		#	% of total	#	% of total	#	% of total
11/12/07-11/16/07	56	44	78.6%	12	21.4%	3	5.4%
1/21/08-1/25/08	46	33	71.7%	13	28.3%	6	13.0%
1/28/08-2/1/08	45	34	75.6%	11	24.4%	4	8.9%
2/4/08-2/8/08	35	29	82.9%	6	17.1%	2	5.7%
2/11/08-2/15/08	55	44	80.0%	8	14.5%	3	5.5%
2/18/08-2/22/08	59	37	62.7%	13	22.0%	9	15.3%
<b>Total # of Hearings</b>	<b>296</b>	<b>221</b>	<b>74.7%</b>	<b>63</b>	<b>21.3%</b>	<b>27</b>	<b>9.1%</b>

**Appendix F – Force Field Analysis**

The workgroup developed a force-field analysis to identify and address any issues that might hamper the implementation of the new conciliation process, and what issues may positively impact the new process.

(-)
<ul style="list-style-type: none"> <li>• Potential of conflict of interest</li> </ul>

<ul style="list-style-type: none"> <li>• Potential cost to counties</li> <li>• Reviewing the work I think is correct may be hard to do</li> <li>• Confusing to client due to lack of trust</li> <li>• If client shows, the case will still have to be heard to ensure due process rights</li> <li>• Worker not knowing that there was an error and not learning from mistakes</li> </ul>
<p><b>Giving more time for the county to contact the client prior to the hearing (county conference)</b></p>
<ul style="list-style-type: none"> <li>• Savings to county with reduced paperwork – save Forest</li> <li>• Reduces error rates</li> <li>• Improves customer service</li> <li>• Improves quality of appeals summaries</li> <li>• Client receives contact/help</li> <li>• Identify trends and training needs</li> <li>• Use issues to improve knowledge of case workers so they do not continue to make the same errors</li> <li>• Increases county control over the outcome/resolution</li> </ul>
<p>(+)</p>

Appendix G – Cost Savings

Some counties create paper reports and appeal summaries that need to be sent to their assigned state hearing officer. The average cost to create a file is \$1.23. There may also be the cost of long-distance telephone calls that are made to the client that average \$0.01 per call. All of these costs would be reduced with the implementation of a new process.

**Average Statewide Material Cost per Hearing for Calendar Year 2007**

Supply Item	Unit Cost	Units per Hearing	Cost per Hearing	Total Number of Hearings in 2007	Total Material Cost for 2007 Hearings	Possible Material Savings with 75%* Less Hearings
Paper	\$ 0.06	21	\$ 1.25	62,286	\$ 77,857.50	\$ 58,393
Avg Long-Distance Calls	\$ 0.01	1	\$ 0.01	62,286	\$ 622.86	\$ 467
Avg Overnight Postage	\$ 1.17	1	\$ 1.17	62,286	\$ 72,874.62	\$ 54,656
<b>Total Cost</b>	<b>\$ 1.24</b>	<b>23</b>	<b>\$ 2.43</b>	<b>62,286</b>	<b>\$ 151,354.98</b>	<b>\$ 113,516</b>

\* 75 % of hearings could be avoided by performing the resolution activities identified in the new process

**How Much of California's Budget is Personnel Costs?** »

« **Unions and America's Ills** »

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# California's State AND Local Government Personnel Costs

Last week CIV FI posted an analysis, "**How Much of California's Budget is Personnel Costs?**" that estimated about two-thirds of California's state budget covers state employee compensation expenses. This was in response to a widely quoted estimate that the number was only about 12%. Due to the huge disparity in these claims, and the implications having the correct number may have on the debate over public employee compensation, I decided to dig a little deeper.

For expert information, I talked with two individuals at the **California Office of Legislative Analyst**, Jason Sisney, the Director of State Finance, and Nick Schroeder, Public Employment and Fiscal Oversight. Both of them confirmed that state government employees compensation consumes about 12% of the state general fund budget. But the devil is in the details.

Probably the best source for information on state expenditures in California is available at "**California Budget Information**," produced by the state Dept. of Finance. Using this data, and corroborating this data with other sources, this post will produce another, more in-depth estimate of what percentage of the state budget is consumed by personnel expense, as well as what percentage of state and local budgets combined are consumed by personnel expenses. Both Sisney and Schroeder, who ought to know, stated that arriving at a meaningful figure is "nearly impossible," but they agreed with the rough percentages that will be arrived at in this analysis.

Beginning with how much state employees make in average salary; sources of information include the following:

State Finance Department: **Personnel Years and Salary Cost Estimates, 2009-2010**, which shows 345,777 full-time state employees in that year, collectively paid \$23,104,763,000 in that year, which averages \$66,820 each. This does not include benefits.

U.S. Census Bureau: **California State Government Employment Data, March 2008**, which shows 338,725 full-time employees who were collectively paid in that month \$2,002,723,495, which averages \$70,950 per year each, not including benefits. This page includes important additional information, the "full-time equivalent" number of part-time employees, 48,212, collectively making an additional \$2,798,685,61, which averages \$58,050 each. Using this data, the composite average of full-time plus full-time equivalent employees working directly for the state of California is \$68,102 per year for 393,989 employees, which costs \$26.8 billion per year. What about benefits?

To reprise the data presented in our last post, the overhead rate we used came from a 2010 study entitled "**The Truth about Public Employees in California: They are Neither Overpaid nor Overcompensated**," from the Institute for Research on Labor and Employment at the University of California, Berkeley. In this study, the authors found "Public employers underwrite 35.7% of employee compensation in benefits." If 35.7% of compensation is in the form of benefits, this means 64.3% of compensation is in the form of wages. To develop an overhead rate, you would determine what percentage 35.7 is of 64.3, i.e., the value of state employee benefits is equal to 55.5% of their compensation. This means total state worker compensation is \$26.8 billion plus 55.5% of that number (\$14.9 billion), which equals \$41.7 billion.

What percentage of the total state budget does this represent? Here the numbers become even more subjective, because the state budget includes vast categories of "pass throughs" which are monies not used by the state, but passed on to local governments and agencies. A breakdown of the major categories of state revenues can be found at the Dept. of Finance's "**Chart B, Historical Data, Budget Expenditures**," where for the 2009-2010 year they report total revenue of \$206.1 billion, breaking down into \$87.2 billion into the General Fund, \$23.5 billion into "Special Funds," \$6.3 in Bond Funds, and 89.1 of

## Federal Funds.

When speaking with Jason Sisney at the California Dept. of Finance, he claimed that virtually 100% of the Bond Funds and Federal Funds were pass-throughs to local governments and agencies, and that about 70% of the General Fund are passed through to local governments and agencies. This leaves between 30% of the General Fund and 100% of the Special Funds to pay for state employees, i.e., \$49.7 billion. *Using these numbers, state employee compensation consumes 84% of the state revenues that are retained by the state and not passed through to local governments.*

To remain fair, the amount that employee overhead truly costs the state is debatable. One may argue it is overstated here, since it is applied to full-time equivalent figures for part-time employees. But typically part-time state employees accrue benefits at the rate they work; if they work 50% of the time, for example, their pension benefits accrue at half the rate they might accrue if they were working full time. One may also argue the Berkeley study was estimating an overhead rate of 37.5%, not that benefits consume 37.5% of compensation – which is what they said. But even if that is the case, realistic reductions to the estimated long-term returns on pension funds will pump that overhead rate right back up from 37.5% to 55.5%. More detailed analysis of overhead rates for California's state and local employees can be found in the post "[Calculating Public Employee Benefit Overhead.](#)"

While this analysis attempts to estimate the percent of state spending consumed by employee compensation, the discussion would not be complete without at least considering what costs the state imposes on taxpayers by virtue of better-than-market benefits that are so-called soft costs. For example, if the state did away with the "9/80" program, a benefit that is, after all, unheard of by the ordinary private sector worker, how many fewer bureaucrats (40% of the state workforce) could they hire? The 9/80 program essentially provides state bureaucrats with an extra 26 days off per year, which means if all of them got this benefit and it were eliminated, the state could eliminate 10% of their bureaucrats, or 4% of the entire state workforce. This is just one example of hidden costs of staggering magnitude.

Since such a high percentage of state revenues are passed directly through to the local governments and agencies in California, what percentage of their spending is to compensate local government employees? This is a very difficult question to answer, since there are over 400 incorporated cities, 58 counties, and countless administrative districts for, for example, K-12 schools and public utilities. But let's try:

The average local government worker, using the Census Bureau as the source; [Public Employment Data 2008, Local Governments](#), indicates 1,451,619 (full time equivalent) local government workers made on average \$64,285 per year, which totals \$93.3 billion. Add 55.5% benefits overhead to that amount and you have a total of \$145.1 billion in local government employee compensation per year in California. How much did local governments spend?

For this data it is again necessary to rely on census data, referencing compilations put together by analyst Chris Cantrill on the website [USGovernmentSpending.com](#). His chart (click the tab "Local"), [Local Government Spending California](#), 2009 estimate, shows local government spending totaling \$270 billion. This suggests that spending for employees in local governments in California, on average, consumes about 54% of the total local government budgets.

With respect to local government, however, a collective figure can be quite misleading. At the county level where social services agencies issue direct payments to needy citizens, or in the case of public utilities and construction projects where there is substantial allocations for capital investments, the percentage of funds allocated to employee compensation may be relatively minute. In smaller incorporated cities, on the other hand, the percentage of funds used for employee compensation may be 90% or more.

Readers are invited to review these calculations and the underlying assumptions. But given California's state and local governments combined spend nearly \$200 billion per year to compensate state and local workers, a discussion of whether or not their compensation might be reduced to market rates is not only relevant from the standpoint of fairness, but may also be a meaningful option towards reducing budget deficits.

## Share and Enjoy:

February 17th, 2011 | Tags: [California Dept. of Finance](#), [California Personnel Years and Salary Cost Estimates](#),

[California State Government Employment Data, How Much of California's Budget is Personnel Costs?](#) | Category: [Finance](#)

## 1 comment to California's State AND Local Government Personnel Costs

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Charles

[February 19, 2011 at 2:20 am](#)

If you could prove that California State employees salary and benefits were a large part (or even most) of the budget, then what?

Services are administered to the public by public employees and people cost money.

The State is not selling 2X4's to the public.

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Office Space In Columbus



## Find Office Space In Columbus For Rent:

With a **14.57% vacancy rate**, and at an average cost of **\$18.59 per square foot** to rent office space in Columbus - in its Central Business District, there is almost no new construction underway in the area. With less than 26,000 square feet expected to become available as a result of current projects, many businesses are leasing up the best deal they can in [Columbus Ohio](#). The main emphasis of the Columbus city government is to make existing properties more attractive, through both the revitalization of the buildings and the addition of many amenities, such as parking garages, landscaping, admin support, furnished options (like executive suites) and increased residential areas - all of which can help the local commercial real estate industry balance itself out. We also have good rates on office spaces in available in [Cincinnati](#) and [Cleveland](#).

## Commercial Development and Columbus Economy:

Among the projects currently underway is Columbus Commons. This multi-acre park is situated on the site of the former City Center, which was demolished to make way for it. One-third of the area is being reserved for future development as the market demands, and the balance is being landscaped to provide a "green" area in the heart of the city. The park is scheduled to open in 2011. There are also plans to connect downtown Columbus, OH to the Scioto River by means of a winding park named the Scioto Mile. All of this new development will help steady the office space lease and rental market in Columbus. This will offer free Wi-Fi, benches, fountains, picnic tables, and include the renovation of Bicentennial Park, which will add a stage and restaurant to the area. Other options to consider are monthly lease options, serviced units, and larger business park listings. Also underway is the construction of a 500 room hotel adjacent to the Convention Center. A \$160 million dollar investment, it is expected to open in 2012 under the Hilton flag while a 900 car parking garage is also being constructed next to it. You can find more commercial news on [many other cities here](#).

## Columbus Population, Stats, and Commercial News:

Columbus, the capital of Ohio and the largest city in the state, has a current population of approximately 755,000, an increase of around 6% since 2000. The population is young, with an average age of 30.6. The city is one of the major centers for insurance, with over 70 companies represented, but state and local government are still the major providers of jobs in the area. The current unemployment rate for Columbus is 8.2%, as compared to the Ohio

state average of 10.4. Even with all these numbers, the prices of Columbus office spaces is still not cheap in 2009. The city has a low cost of living (82.1% of national average) but a relatively high crime rate (668 versus a national rate of 320). Job loss rates are lower than most cities in Ohio (1.2%), and the city is one of a handful in which private sector jobs are increasing faster than government positions.

With its rich history, Columbus offers many attractions to residents and visitors. One of the most interesting spots is the German Village, located several blocks south of the Capitol. Covering more than 200 acres, it has been restored and has local area features like beer gardens, restaurant and bakeries, and homes and residents. The Columbus Zoo, which opened in 1927, is famous for its successful breeding programs. In 2004, voters passed a ten year, \$180 million expansion project. Plans include the construction of a hotel next to the zoo. The [city of Columbus](#) also boasts three restored theaters that serve the entertainment scene. The Palace Theater, which originally opened in 1926, now houses the city's opera company, while the Ohio Theater is home to the symphony and the ballet. The Southern Theater after being closed for two decades, reopened after a \$10 million renovation.

**Disability  
Determination  
Consolidation Study  
Council  
Final Report**

**December 30, 2005**

**Ohio Department of Job and Family Services  
Office of Ohio Health Plans**

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## 1) Overview

### a) House Bill 66 Charge:

Amended Substitute House Bill 66 (Section 206.66.46) required a study of the processes used by governmental entities that administer “programs or services for which disability is an eligibility requirement.” The stated purpose of this study was to examine the feasibility of combining the disability determination functions within a single agency and to examine potential advantages or disadvantages of consolidating these functions.

In compliance with HB 66, the Ohio Department of Job and Family Services (ODJFS) convened representatives of county departments of job and family services (CDJFS) and the Rehabilitation Services Commission (RSC) to examine these issues. In addition, ODJFS invited representatives of the Disability Medical Assistance council to participate in order to provide continuity with that group’s discussions related to improving the number of and speed with which DMA enrollees complete a Medicaid disability determination.

### b) Executive Summary of Recommendations:

After extensive review, the members of the Study Council agree that Ohio could benefit from increased coordination of current administrative processes used to determine the presence of a disability for enrollment into several public programs for which a disability is required. These programs include: Ohio Medicaid; Disability Financial Assistance (a state only financial aid program) and; Supplemental Security Income and Social Security Disability Income (both federally administered financial aid programs.)

The Council recommends that Ohio can reduce some of the current administrative duplication without a total consolidation of disability determination functions under a single governmental agency. This recommendation is made because it is less costly and does not require changing current eligibility criterion for any of these programs, specifically Ohio Medicaid.

The Council recommends utilizing the existing process and infrastructure of the RSC to perform the vast majority of disability determinations for Ohio Medicaid. Under this model, Medicaid applicants would still apply at their county department of job and family services. However, if applicants are seeking Medicaid enrollment as a disabled person, they would also be required to apply simultaneously for SSI or SSDI through the Rehabilitation Services Commission either via one of SSA’s 57 field offices or on-line via the World Wide Web. By filing what is effectively a dual application, RSC would perform the disability determination process for Medicaid applicants just as they currently perform them for SSI and SSDI applicants.

Ohio Medicaid could accomplish this change quickly and easily by simply utilizing the same disability determination and medical release of information forms that are currently used by Social Security. Thus, Medicaid applicants would apply simultaneously for SSI/SSDI and Medicaid, but the process of applying for and determining their disability would only occur once.

County departments of job and family services and ODJFS would retain the intake and enrollment functions for Medicaid. RSC would make the determination of disability status for Medicaid. As the single state Medicaid agency, ODJFS would retain the final eligibility determination for Medicaid, including both financial eligibility as well as disability status. However, CDJFSs would

be relieved of most of the administrative and financial burden of scheduling medical testing for Medicaid applicants who allege to have a disability.

The benefits of this consolidated process are:

- An estimated \$2 million in cost savings to ODJFS and county departments of job and family services;
- Applicants will have a single disability application form, a single release of information, and a single disability determination process for Medicaid and SSI or SSDI.
- Duplicate administrative functions will be eliminated for collection and review of medical documentation and determination of the presence of a disability;
- The process can be implemented within approximately 18 months and will build upon existing process improvements already underway within ODJFS Office of Ohio Health Plans.

The Council has recommended this streamlined process rather than a total consolidation because of the prohibitive costs of contracting the disability determination work with RSC. RSC’s estimated start-up cost of taking on this responsibility, \$4.2 million, would include establishing a stand alone unit to process Medicaid applications. The ongoing operating cost of outsourcing this function to RSC is estimated to be \$15 million annually. In contrast, the Council’s recommended streamlining option will cost ODJFS approximately \$10 million annually as compared to the current \$12 million annual cost.

Another option that was discussed by the Council was changing Ohio’s current Medicaid financial eligibility status so that it was the same as that for Supplemental Security Income. This option describes the change from Ohio being a “209(b)” state to becoming a “1634” state. (See pages 9 to 10 below for more information on this scenario.) The Council reviewed research performed by the Lewin Consulting Group for the Ohio Commission to Reform Medicaid on this subject. Although changing Ohio’s Medicaid financial eligibility might result in some administrative savings, those savings would be dwarfed by the simultaneous increased caseload costs of purchasing health care for thousands of newly eligible Medicaid enrollees. Thus, the Council rejected this option because of the significant increased costs associated with it.

**c) Council Meetings and Membership:**

The council held six formal meetings from August through December. As outlined in HB 66, the council included representatives as follows:

Study Council Chairman		<b>Anthony Trotman, ODJFS</b>
County Department of Job and Family Services Representatives	3	<b>Karen Conklin, Butler County</b> <b>Candy Nelson, Washington County</b> <b>Karen Fuseck, Cuyahoga County</b>
Rehabilitation Services Commission	1	<b>Erik Williamson, Bureau of Disability Determination</b>
Ohio Department of Job and Family Services	8	<b>Mary Haller, ODJFS Representative to the DMA Council</b> <b>Mary Mynatt, Cynthia Afkhami, Lorin Ranbom</b> <b>Michael Moore, Cheryl Lo, Tonya Wingate</b> <b>Malcolm Johnson, Ohio State University - Master of Public Health Intern</b>
Representative of the Disability Medical Assistance (DMA) Council	1	<b>Robin Harris, Ohio United Way</b>

## 2. Background

### a) Impetus for Studying Disability Determination in Ohio:

In its final report, the Ohio Commission to Reform Medicaid recommended to consolidate the disability determination processes that currently exist for Ohio Medicaid and Social Security Disability/Supplemental Security Income. The Commission report asserted that, because RSC conducts more disability determinations than ODJFS, RSC could perform Medicaid determinations more efficiently and inexpensively than ODJFS.

The Commission estimated that this proposed administrative consolidation would save Ohio \$46.9 million the first year and \$51.3 million the second year. Although the Disability Determination Council did agree with some of the Commission's findings, the group could not recreate any scenario under which the considerable amount of savings estimated by the Commission would come to fruition. The Disability Determination Council's recommendations do project some financial savings of about \$2 million. (Refer to the Recommendations Section of this report for details of the savings estimated by consolidating some of the disability determination activity associated with Medicaid, SSI and SSDI.)

In addition to the recommendations of the Ohio Commission to Reform Medicaid, another body also recommended improved efficiencies in the determination of disability associated with applications for Medicaid. HB 66 created the Disability Medical Assistance (DMA) Council charged with advising ODJFS in the ongoing management of the program. In its deliberations, the DMA Council recognized that about one third of enrollees in that program have applied for Medicaid and are awaiting the determination of whether or not their disability meets the criterion for Medicaid eligibility. Because DMA is a state-only funded program with very limited resources, the DMA Council recognized that improving the Medicaid disability determination process would benefit DMA enrollees reducing the amount of time they were waiting for the outcome of their Medicaid eligibility determination. Therefore, the recommendations to improve the efficiency of Ohio's disability determination process will also benefit Ohio's DMA program.

### b) Programs Requiring a Disability Determination in Ohio:

Three major public benefit programs require eligible applicants to provide medical evidence that they have a significant disability. All programs share the commonality of "means testing" i.e. applicants must prove that they have very limited amounts of income and resources. These programs are:

1. **Medicaid** – Federal and State funded health care services for uninsured low income individuals. Health care services are the only benefit provided. To receive Medicaid coverage as a person with disabilities, individuals must:
  - Apply for and meet the financial income and resources eligibility tests for Ohio Medicaid;
  - Allege a disability;
  - Document their disability via medical tests which use the same disability standard as that used by Social Security;
  - Undergo a disability determination by the ODJFS Disability Determination Unit within the Office of Ohio Health Plans; and,
  - Applicants are required by the Ohio Administrative Code to apply for Social Security Disability or Supplemental Security Income (SSI).

## **2. Social Security Disability Insurance (SSDI)**

A health care and cash benefit managed by the Federal Social Security Administration (SSA) to which certain applicants are entitled if they have:

- Worked and paid into the Social Security system a sufficient number of calendar quarters and;
- Become sufficiently disabled to meet SSA's definition of disability.

SSDI provides applicants monthly cash payments. It also entitles applicants to health care coverage through the Federal Medicare program.

**3. Supplemental Security Income (SSI)** – This cash benefit is intended for those disabled individuals who have not worked and paid into Social Security. SSI is a “needs based” program meaning eligible applicants must have very low levels of income and resources. Ohioans enrolled in SSI may also be eligible for health care through Medicaid. Ohio does not automatically “deem” SSI enrollees as eligible for Medicaid as the state has maintained a slightly lower income eligibility threshold than Social Security does for SSI. Therefore, SSI enrollees who want Medicaid health care coverage must apply separately for Medicaid at a county department of job and family services.

In Ohio, the Bureau of Disability Determination (BDD) within the Ohio Rehabilitation Services Commission is the entity authorized by the Social Security Administration to determine eligibility, including SSDI and SSI disability determinations.

- Applicants must apply in person at the SSA Field Office, or online on the SSA website and then present any documentation they have of their disability.
- If existing medical evidence is not sufficient to make a decision, BDD makes arrangements with medical professionals to perform additional medical testing.
- Currently, no formal interface exists between ODJFS and Rehabilitation Services Commission's Bureau of Disability Determination.

c) Comparison of Current Disability Determination Programs and Processes:

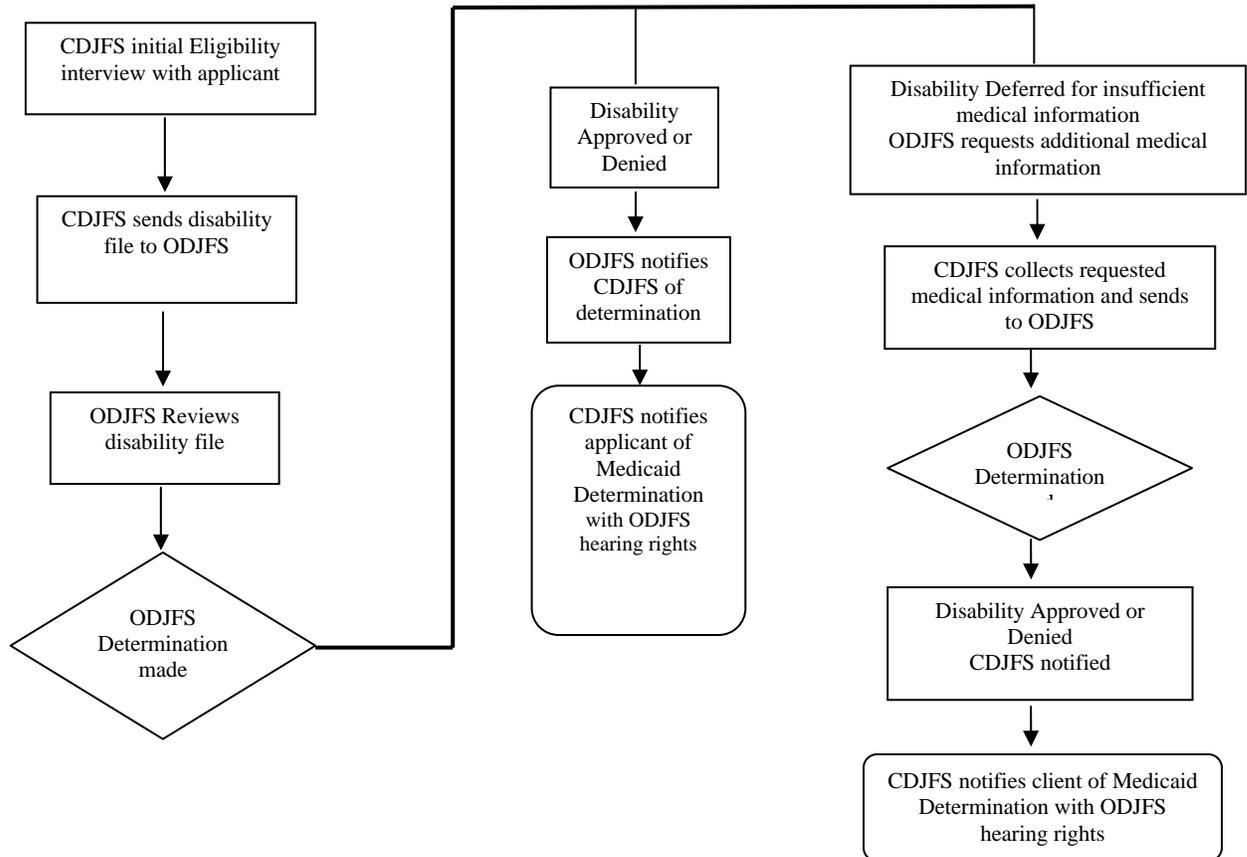
	<b>Supplemental Security Income</b>	<b>Social Security Disability Income</b>	<b>ODJFS Medicaid</b>
<b>Benefit Type</b>	Cash benefit + possible Medical care through Medicaid		Medical care
<b>Application Method</b>	Apply on line or at SSA Field Office	Apply on line or at SSA Field Office	Apply at County JFS; application sent to ODJFS for disability determination
<b>Disability Definition</b>	“Disability” defined as the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which could be expected to last for a continuous period of not less than 12 months.		
<b>Medical Evidence Funding</b>	Required medical exams/tests performed by physicians and psychologists are <b>funded by Social Security</b>	Required medical exams/tests performed by physicians and psychologists are <b>funded by Social Security</b>	Required medical exams/tests performed as arranged by CDJFS and <b>paid for out of County funds.</b>
<b>Quality Assurance</b>	RSC and SSA Regional Office Sampling of cases 97.5% accuracy rate		Quality assurance is performed however, accuracy rate not available until paperless system implementation
<b>Re-determination Timeframe</b>	Re-determination of disability must be performed 1 to 7 years.		
<b># Applications Reviewed, 2005</b>	183,779 (SSI & SSDI combined)		30,213
<b># and Percentage of Applications Approved/ Denied</b>	43, 923 - 23.9% approved 136, 915 - 74.5% denied 2,941 - 1.6% no decision		14, 985 - 49.6% approved 9,034 - 29.9% denied 6,194 - 20.5% no decision*
<b>Average Time to Issue a Decision</b>	97.1 days**	94.6 days**	145 days**
<b>Staff to # applications reviewed ratio</b>	1 employee: 300 cases		1 employee: 286 cases***

\*Cases deferred from ODJFS to CDJFS due to insufficient medical evidence.

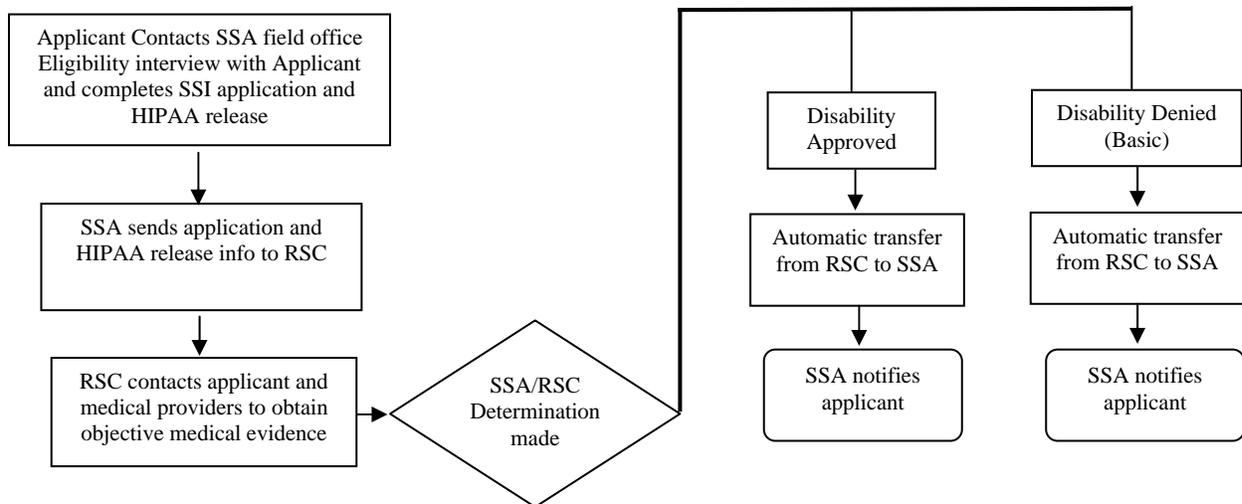
\*\*The variance between RSC and Ohio Medicaid processing time is due to the time required to compile medical evidence. RSC has agreements with medical providers to obtain medical evidence, while CDJFS/ODJFS does not have access to this type of provider network.

\*\*\*This assumes 1 CDJFS FTE per county and 20.5 ODJFS FTE's.

## Current Medicaid Disability Determination Process



## Current RSC Disability Determination Process



#### **d) Ohio's Current Medicaid Eligibility Standard – “209(b)” versus “1634”:**

Two distinct decisions must be made in order to determine whether an applicant for Ohio Medicaid is eligible as a person who is “aged, blind or disabled.” In order to be enrolled in Medicaid as a disabled person, the answers to both of the following questions must be yes:

- 1) Is the person's income and resources less than the state imposed limit of \$525 in income and \$1500 in resources as of State Fiscal Year 2005? <sup>1</sup>
- 2) Does the person have a medically documented illness or medical condition that is disabling enough to prohibit them from working and is expected to result in death or last for at least 12 months?

Ohio Medicaid's financial eligibility threshold is slightly more conservative (i.e. requiring lower income and resources) than that used by most other states who use the same standard as the Federal Supplemental Security Income (SSI) program which provides cash benefits to people who are low income and disabled. In the parlance of the Social Security Act, Ohio has chosen to use a Medicaid eligibility standard as outlined in section 209(b) while most other states have chosen a standard outlined in section 1634.

There are pros and cons associated with both of these eligibility standards. For example, states with a 1634 status simply accept the Social Security Administration's eligibility determination for SSI as their eligibility determination for Medicaid. Therefore, their administrative costs for eligibility determination and enrollment are minimized because these functions are being performed by another governmental entity.

However, the benefit of lower administrative costs must be compared to the cost of providing health care to an additional number of enrollees with serious, chronic, and expensive health care needs. The Lewin Group studied the cost/benefit of changing Ohio's Medicaid eligibility standard for the Ohio Commission to Reform Medicaid. Their report presented three scenarios in which Ohio would hypothetically change its Medicaid eligibility standard to match that of the SSI program. Each of the three scenarios would increase overall Medicaid enrollment and two would increase Medicaid costs. The scenario that estimated reduced costs was only able to achieve them by cutting 23,465 disabled people from current Medicaid rolls and assuming that new applicants would not choose to shelter their income via a federally allowable “Miller trust.” <sup>2</sup> By remaining a “209(b)” Medicaid state, Ohio has also maintained some administrative duplication in determining Medicaid eligibility versus SSI. However, Ohio has also foregone the health care costs of adding anywhere between 8,620 and 33,397 disabled Ohioans to the Medicaid rolls.

The members of the Disability Determination Study Council reviewed the Lewin Report in detail and concluded that the administrative savings gained from changing Ohio's Medicaid eligibility standard to match that of SSI would not outweigh the added cost of increased caseload and health

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<sup>1</sup> The standard for married couples is \$904 and \$2250

<sup>2</sup> See pages 11-18 of the Lewin report: [http://www.ohiomedicaidreform.com/pdf/The\\_Lewin\\_Group\\_Medicaid\\_1634\\_Conversion\\_Final\\_Report.pdf](http://www.ohiomedicaidreform.com/pdf/The_Lewin_Group_Medicaid_1634_Conversion_Final_Report.pdf) for more information

care costs among this most expensive Medicaid population. Therefore, the Study Council sought a solution that would maximize administrative efficiency utilizing existing eligibility standards.

### **e) Caseload Growth Trends in Ohio Medicaid and SSI:**

Ohio Medicaid has experienced significant growth in the Medicaid Aged, Blind, and Disabled (ABD) caseload from September 2000 to June 2005. Growth is noted in all ABD eligibility categories including: those over the age of 65 years; working aged adults with disabilities or who are legally blind; the Medicare buy-in population; and, people with disabilities who are spending down to meet the eligibility financial standards.

The most notable increase has been the working aged adults with a disability who are not receiving Medicare. This group accounts for 54 percent of the growth during the time period studied. Within this group, adults age 50 to 64 years, account for 26 percent of the growth. Dually eligible individuals, those receiving both Medicaid and Medicare, under the age of 65 years are the second largest growth group accounting for 25 percent of the growth.

This suggests there are more working aged adults, especially those in the 50 to 64 year age group, meeting both the financial and disability standards of eligibility than 5 years ago. It could also suggest that more individuals of working age are disabled, unemployed, or working for lower wages than in previous years.

Ohio's SSI caseload has also grown ; from 1990 to 2004 the number of Ohio enrollees in SSI has grown by 57 percent. While state law currently requires Medicaid applicants to also apply for SSI, data is not available to confirm if cases have been processed in each entity.

### **f) Relevant Information from Other States:**

Council members obtained information from Medicaid programs in Virginia, Oklahoma and North Carolina. These states were selected as examples of options that Ohio might choose in terms of improving its Medicaid disability determination processes.

#### **Virginia:**

Virginia retains a Medicaid financial eligibility standard different from that used by the Social Security Administration for SSI, under the 209 (b) status. Virginia Medicaid outsourced this function to Disability Determination Services, the state agency responsible for determining eligibility for SSI and SSDI. Medicaid eligibility is approved when SSI disability benefits are approved. If the applicant is denied SSI benefits, applicants can appeal for "Medicaid only" disability benefits. The Medicaid agency then determines disability based on information from the initial disability application (SSA-3368 form).

#### **North Carolina:**

North Carolina mirrors the Federal SSI program and automatically enrolls all SSI eligibles into the Medicaid program, under the 1634 status. North Carolina pursued this Medicaid eligibility change a number of years ago in order to expand Medicaid enrollment into Medicaid among their disabled population. North Carolina has a single entity performing disability determinations for all three programs: Medicaid, SSI and SSDI. This function is housed within the Division of Vocational Rehabilitative Services.

North Carolina handles administrative appeals for SSI and SSDI separately from appeals for Medicaid. An applicant who has been denied SSI benefits can appeal to the state Medicaid agency to seek a Medicaid only benefit.

**Oklahoma:**

Oklahoma maintains oversight for Medicaid disability determinations within the single state Medicaid agency, as a 209(b) state. By consolidating the Medicaid disability determination within the state’s Social Security disability determination process it improved efficiencies and reduced costs.

In Oklahoma, individuals applying for Medicaid and alleging a disability are referred to the SSA. If the Social Security determination unit is unable to determine a disability for SSI, then the case is transferred to the state Medicaid agency. In most cases, the SSA approval is upheld and the applicant is Medicaid eligible. If the applicant is denied SSI disability benefits, they will also be denied coverage for Medicaid, provided that their medical condition has not worsened since the SSI denial. The Medicaid agency then determines the presence or absence of a disability based on the medical summary.

**3. Recommendations for Ohio’s Medicaid Disability Determination Process**

**a) Council Recommendations:**

Based on the charge of HB66, the Council considered several options to improve efficiency and reduce duplication. Below are the recommendations of the Ohio Disability Determination Council which do not require changes to the current eligibility criteria.<sup>3</sup>

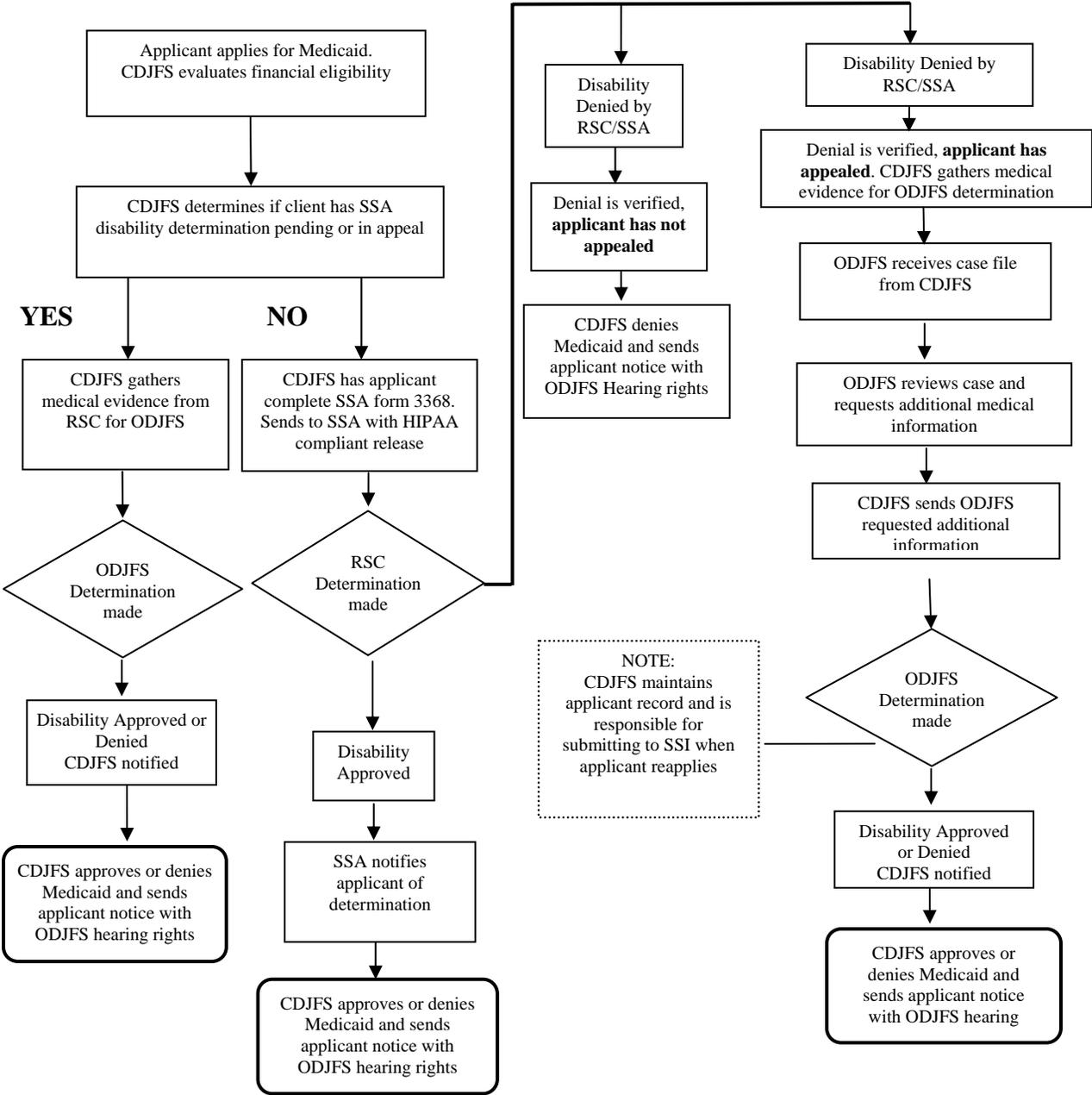
1. Applicant applies for Medicaid through the existing application process at their CDJFS. The CDJFS reviews the application, determines financial eligibility, and enters the case into the electronic data system.
2. CDJFS completes and sends the SSA application and the Health Insurance Portability Accountability Act (HIPAA) compliant release to the SSA Field Office.
3. CDJFS upholds SSA/RSC’s disability determination approvals and denials. If an SSA/RSC determination is unavailable or an applicant requests an appeal, CDJFS will gather the medical evidence for ODJFS to make a disability determination.
4. CDJFS submits emergency cases to SSA Field Office for expedited review. Depending upon what is needed in the case, RSC’s turn-around time for emergency reviews is typically under 20 days.

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<sup>3</sup> This is mentioned in reference to the recommendation of the Ohio Commission to Reform Medicaid which recommended the consolidation of disability determination and recommended that Ohio change Medicaid eligibility from its current 209(b) state to the 1634 status. The Council reviewed the OCRM report related to this debate and determined that although changing to a 1634 state might save minimal administrative costs, it would result in significant added caseload costs. Thus the Council chose to adopt recommendations that maximized administrative efficiency without incurring added caseload costs.

5. CDJFS retains presumptive decisional authority to award emergency benefits.
6. SSA, RSC and ODJFS establish an interagency agreement to share clinical data and Medical Technical Advisor training.
7. ODJFS continues paperless system implementation for retained disability determinations.
8. Ohio adopts a statutory change to accept HIPAA compliant releases signed by claimants for up to one year from the date signed and that one free copy of medical records be provided to RSC/BDD.

**Recommended Medicaid Disability Determination Process  
Process for New Applications Only**



**b) Rationale for Recommendations:**

The recommended changes in the Medicaid disability determination process improve efficiency and eliminate redundancy by consolidating Ohio’s disability determination process within RSC. This prevents approximately 11,181 duplicate determinations and is estimated to reduce ODJFS and CDJFS administrative costs by an estimated \$2 million annually. This can be accomplished without changing current Medicaid eligibility standards.

ODJFS must retain capacity to conduct 19,819 state only reviews (e.g. Alien Emergency Medical Assistance and Disability Financial Assistance). The CDJFS/ODJFS cost to process these determinations is estimated to be \$10 million.

These recommended changes improve the timeframes within which disability determinations are completed. Since RSC’s process is completely integrated, some of the fragmentation of the 88 county CDJFS system is streamlined. The Council anticipates that the recommended changes will reduce disability determination turnaround time, and eliminate ODJFS deferrals on the determinations processed by RSC.

Finally, to make the process more efficient the Disability Determination Study Council recommends Ohio adopts a statutory change to accept the SSA application form and HIPAA compliant releases signed by claimants for up to one year from the date signed and that one free copy of medical records be provided to RSC/BDD.

**c) Implementation Process and Timeframe:**

The Council’s recommended timeline to accomplish these changes is at least 18 months. This does not include the system development timeframe. The following is a high level summary of the recommended implementation. Note that some of these activities could run concurrently.

<b>Activity</b>	<b>Total Duration</b>	<b>Comments</b>
Communication and input from key stakeholders in the disability advocacy community	6 months	Necessary to address concerns that will arise in proposing this change and consider modifications suggested by the advocacy community.
ODJFS Rule Revisions	6 months	Revision of OAC 5101:1-39-03
Statutory Changes	6 months	Maintain a HIPAA complaint release form for up to one year One free copy of medical records for RSC
SSA/RSC System Interfaces Project Plan	3 months	
SSA/RSC System Interfaces Development	TBD	Dependencies: <ol style="list-style-type: none"> <li>1. Resources and programming specifications</li> <li>2. Paperless system implementation at ODJFS.</li> <li>3. Interface cost estimates</li> <li>4. System Programming resources</li> <li>5. SSA Agreement</li> </ol>
CDJFS Training	3 months	

## 4) Next Steps

### a) Review and Continue Process Improvements Already Underway

In late 2004, Ohio Medicaid undertook a complete redesign of the Ohio Medicaid Information Technology System. This extensive project, called MITS, contained a focus on process improvements in the existing Medicaid disability determination. In fact, Disability Determination was determined so important that it was prioritized as an area for immediate process improvements rather than awaiting the full implementation of MITS in 2008. ODJFS hired Deloitte Consulting (via a competitive bid process) to outline both short and long term recommendations for Ohio's Medicaid disability determination process. Following is the progress to date on these recommendations.

#### *Short Term Recommendations*

1. **Effective 2/1/05, retain (at ODJFS) deferred disability determination cases rather than sending them back to County Departments of Job and Family Services.** The benefit of this is to alleviate mailing paper files back and forth due to incomplete medical information. This saves time, staff administrative work, and postage. It also helps to facilitate a quicker turnaround of the applicant's disability determination. The only instances of case files being returned to Counties is for those cases that have been held for 90 days or more. These cases will be sent back with a letter requesting further follow up.
2. **Effective 3/1/05, Establishment of a Case Tracking System** - The ODJFS Disability Determination Unit has implemented a database (in Microsoft Access) tracking system that allows ODJFS to track case status, case outcomes and hearing status. This system was designed to temporarily track information until a workflow documentation system could be implemented. The system enables staff to generate reports on:
  - a. The number of deferrals, denials, and approvals by county;
  - b. Case status within the unit,
  - c. The type of denial and approval. (e.g., "blindness")

Utilizing this database, ODJFS sends counties status reports on cases and requests for additional information needed to process cases.

3. **Improving MTA (Medical Technical Advisor [physician]) Contracts** - ODJFS will be developing new performance requirements to improve the rate of physician review, and is reviewing the performance standards required by RSC in their review process. Due to the length of current contracts, these performance standards should be in place by SFY 2007. However, we have begun work with physicians to expedite their review process.
3. **Changes to the ODJFS CRIS-E system** – Effective 12/05 ODJFS changed the view screens used by CDJFS workers that are necessary to complete the disability determination review. We estimate that this change will save approximately 12 hours per week for the Disability Determination Unit and allow us to process 50 additional cases each week.
4. **Training** – Quarterly training sessions have already occurred with CDJFS workers to communicate these changes. In addition, ODJFS staff are pursuing opportunities to share training materials and information from RSC.

5. **Quality Assurance Review of Disability Determination of Cases** – ODJFS’s Disability Determination Unit is reorganizing in order to devote staff to conduct quality assurance activities aimed at improving the quality, consistency and timeliness of reviews. ODJFS has implemented phase 1 of this two phase process.
6. **Staffing** - In order to continue progress to improve processing timeliness, ODJFS has reviewed staffing levels and has instituted the following changes:
  - a. A nurse manager position was created to develop quality programs and a administrative manager was hired to manage the FileNet system.
  - b. Two additional full time nurse reviewers were hired to increase the number of case reviews completed annually.
  - c. Current temporary reviewers are able to continue into the next fiscal year.
  - d. 8 additional temporary clerical staff assist with support functions as needed over the next fiscal year.
  - e. An analyst position was filled to assist in case processing, data management and system maintenance.
  - f. The area also seeks replacement staff to maintain the case processing time while permanent staff are out on disability leave.

### ***Long Term Recommendations***

1. **Implement an Electronic Data Management System (EDMS)** – Deloitte Consulting recommended that ODJFS institute an electronic data management system to automate some of the overwhelming amount of paper and manual staff work in the current Ohio Medicaid disability determination process. Based on 30,000 reviews, ODJFS annually spends an estimated \$18,000 on paper, \$24,900 on postage, \$600,000 in internal labor costs (15,000 hours of staff reviewer time), and \$513,000 in physician contractor fees (9,900 hours of review time) to process these determinations. (Note: this does not include mail room labor costs.) ODJFS’s goal in undertaking this is not only to automate this heavily manual process, but also to develop systems that are aligned with the broader Medicaid Information Technology System design and in line with industry standards.

In pursuit of this goal, an EDMS system was recommended, FileNet, as the IT solution that best meets these requirements. ODJFS is in the process of purchasing this hardware. The solution is capable of accepting images from those CDJFS’s that have current imaging systems, as well as imaging paper records received from the majority of CDJFS’s. This solution along with MITS IT infrastructure changes will move us forward to eliminating rework, improving timeliness of the determination process, and improve both CDJFS and OHP effectiveness in serving our shared customers. System design, development and implementation have just begun and will continue through SFY 2006. .

Electricity cost rises for 2010

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AEP in second year of 3-year rate plan, but central Ohioans still paying less than others

Sunday, January 10, 2010 3:34 AM

By [Dan Gearino](#)

THE COLUMBUS DISPATCH

### Comparing prices

A look at the average prices for electricity from Ohio's major suppliers in 2008.



Sources: Public Utilities Commission of Ohio, Energy Information Administration  
THE COLUMBUS DISPATCH

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- [Electricity cost rises for 2010](#)
- [AEP leader prepares for successor, changes in emission laws and technology](#)

American Electric Power rates are rising in the new year, but they remain the lowest in Ohio -- even if they don't seem that way to some.

"This is a whole heck of a lot more than I want to pay," said Elizabeth Isett of Whitehall. Her AEP bill for December was \$101.

What she doesn't know is that electricity costs less in central Ohio than in Cincinnati or Cleveland. And it's even less expensive in Westerville, a suburb with its own utility.

Ohio's average price is below the national average.

AEP's prices are on the rise, however. The Columbus-based utility has entered the second year of a three-year rate plan, which will lead to a projected increase of about \$6 per month for customers and a slightly larger increase in 2011.

"For over a century, AEP Ohio has been proud to be a low-cost provider of electricity for our customers," said Joe Hamrock, president and chief operating officer of AEP Ohio, in a statement.

The current price changes can be attributed to a long list of factors, including power sources and the vagaries of each company's structure. Future prices also will be shaped by new regulations, such as a federal proposal to regulate carbon emissions.

AEP has two operating companies in the state: Columbus Southern Power, which serves central Ohio, and Ohio Power, which serves parts of southern and eastern Ohio.

Statistics for 2008, the most recent year for which numbers are available, show that Ohio Power had the state's lowest price, an average of 8.01 cents per kilowatt-hour, according to regulatory disclosures. Columbus Southern was second-lowest, at 9.55 cents. That led to a typical monthly bill of \$80 and \$96 respectively, based on monthly usage of 1,000 kilowatt-hours.

"Historically, the reason Ohio Power's rates are lower is their fleet of plants," said Tammy Turkenton, chief of accounting and electricity for the Public Utilities Commission of Ohio. "They don't have nuclear generation. They have base-load coal plants."

Coal plants are relatively inexpensive to operate but also are major carbon emitters. Nuclear plants are much more expensive, but also have much lower emissions.

The 2008 prices were before the rate change, approved last spring by the PUCO. The plan calls for Columbus Southern customers' rates to rise 7 percent for 2009, and 6 percent for 2010 and 2011. For Ohio Power customers, increases were pegged at 8 percent in 2009, 7 percent in 2010 and 8 percent in 2011.

For 2011, the typical monthly bill will be a projected \$115 for Columbus Southern and \$100 for Ohio Power. That will be a monthly increase of \$19 and \$20 respectively, compared with 2008 prices. If you add up all the affected households, it translates to more than \$12 million in monthly increases for each operating company.

The projected dollar figures are based on a *Dispatch* analysis. AEP has not offered its own estimate because of the many unknowns that might affect future rates, including potential action by regulators and lawmakers.

The worst news for customers will arrive in 2012, said Ohio Consumers' Counsel Janine Migden-Ostrander. She has been critical of a provision of the rate plan that says AEP can defer certain fuel costs, plus interest. The rule will take effect if AEP's fuel costs from 2009-11 turn out to be greater than the amount assumed in the rate increase. Customers will pick up the tab, although it's too early to predict how much that might be.

"Most customers don't understand that tomorrow, they're going to pay the full fuel costs," she said.

Migden-Ostrander, the state's consumer advocate on utility issues, has been critical of many aspects of AEP's pricing and operations. She thinks the size of the rate increases is much larger than can be justified.

Hamrock, AEP Ohio's president, said his company remains "committed to finding the least-cost and most reliable supply options for our customers, while providing new and innovative tools to actively manage their energy use."

AEP isn't alone in raising its rates. Ohio's three largest power companies filed new rate plans last year in accordance with a new state energy law.

The state's most expensive power has been provided by First Energy, the Akron-based utility with three operating companies: Toledo Edison was highest, with 11.14 cents in 2008, followed by Cleveland Electric Illuminating Co., with 10.87 cents, and Ohio Edison in northeastern Ohio, with 10.24 cents.

First Energy customers have paid a premium for the company's reliance on nuclear power plants.

That leaves two other companies, Dayton Power & Light and Cincinnati Gas & Electric, whose prices are in the middle, between the lows of AEP and the highs of First Energy.

In 2006 and 2007, the rankings were almost identical to 2008, with AEP the lowest and First Energy the highest. However, in 2004 and 2005, Cincinnati Gas & Electric, which is owned by Duke Energy, edged out Columbus Southern as the second lowest. Ohio Power remained the lowest.

The figures were provided by the Public Utilities Commission of Ohio and the federal Energy Information Administration.

But those are the prices of investor-owned utilities. Ohio has more than 100 other power companies, including city-run utilities and electric cooperatives. Some of those companies offer prices that are better than the larger companies.

Westerville, which has the largest city-run power company in central Ohio, charged 8.84 cents, lower than any of the investor-owned companies except for Ohio Power.

"It comes down to local control and not-for-profit rates," said Andrew Boatright, Westerville's electric utility manager.

Isett, the AEP customer, wishes her utility was a nonprofit. AEP had \$1.3 billion in profit in 2008, for its operations across 11 states. She thinks the company is healthy enough to hold the line on rate increases.

When told that AEP's rates are among the lowest in Ohio, she said her main concern is how her costs are rising.

"I have never thought, 'Whoa, my electric bills are low,' " she said. "Nobody thinks that."

[dgearino@dispatch.com](mailto:dgearino@dispatch.com)

AEP can defer some fuel costs until 2012. Customers will pick up the tab, although it's too early to predict how much that might be.

- 
- AEP chief stepping down next year D1

**Table 5.6.B. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, Year-to-Date through January 2011 and 2010**  
(Cents per Kilowatthour)

Census Division and State	Residential		Commercial <sup>1</sup>		Industrial <sup>1</sup>		Transportation <sup>1</sup>		All Sectors	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>New England</b>	<b>16.09</b>	<b>16.55</b>	<b>14.61</b>	<b>14.8</b>	<b>12.92</b>	<b>13.08</b>	<b>8.09</b>	<b>9.26</b>	<b>14.89</b>	<b>15.17</b>
Connecticut	18.03	19.14	16.02	16.54	14.11	15.12	11.07	11.39	16.8	17.6
Maine	15.78	15.44	13.16	12.9	9.8	10.86	--	--	13.5	13.55
Massachusetts	14.8	15.56	14.35	14.47	13.58	13.4	6.44	8.02	14.27	14.55
New Hampshire	16.34	15.79	14.31	14.18	12.85	12.79	--	--	15	14.69
Rhode Island	16.21	15.42	13.25	13.51	11.98	12.39	13.62	13.1	14.41	14.2
Vermont	15.79	14.77	13.75	12.99	9.97	9.48	--	--	13.7	12.94
<b>Middle Atlantic</b>	<b>15.06</b>	<b>14.46</b>	<b>13.35</b>	<b>13.31</b>	<b>8.81</b>	<b>7.89</b>	<b>12.46</b>	<b>12.47</b>	<b>13.24</b>	<b>12.88</b>
New Jersey	16.14	15.88	13.29	14.01	12.04	9.78	11.1	12.68	14.33	14.33
New York	17.4	17.08	15.59	15.22	9.56	9.3	13.7	13.84	15.76	15.39
Pennsylvania	12.62	11.72	9.82	9.77	8.15	7.13	9.61	7.72	10.5	9.89
<b>East North Central</b>	<b>10.63</b>	<b>10.2</b>	<b>9.03</b>	<b>9.01</b>	<b>6.37</b>	<b>6.41</b>	<b>6.95</b>	<b>6.97</b>	<b>8.83</b>	<b>8.69</b>
Illinois	10.41	9.93	8.08	8.49	6.33	6.85	6.77	6.74	8.43	8.56
Indiana	9.35	8.48	8.55	7.98	6.14	5.71	8.96	8.4	7.92	7.33
Michigan	12.16	11.41	9.62	9.41	7.11	7.15	9.8	10.67	9.9	9.55
Ohio	10.13	10.24	9.32	9.56	5.9	6.22	8.11	9.75	8.64	8.86
Wisconsin	12.4	11.86	10.11	9.55	7.03	6.45	--	--	9.99	9.47
<b>West North Central</b>	<b>8.83</b>	<b>8.04</b>	<b>7.42</b>	<b>6.86</b>	<b>5.67</b>	<b>5.36</b>	<b>6.3</b>	<b>5.83</b>	<b>7.57</b>	<b>7.02</b>
Iowa	9.45	8.67	7.29	6.9	5.03	4.78	--	--	7.27	6.86
Kansas	9.35	8.61	7.94	7.3	6.33	5.76	--	--	8.1	7.49
Minnesota	10.35	9.51	8.08	7.62	6.22	6.22	7.56	7.73	8.4	7.97
Missouri	8.16	7.17	6.93	6.15	5.26	4.82	5.36	4.42	7.27	6.46
Nebraska	7.72	7.22	7.32	6.86	5.53	5.06	--	--	6.94	6.51
North Dakota	6.92	6.81	6.59	6.35	5.57	5.2	--	--	6.46	6.26
South Dakota	8.24	7.72	7.29	6.88	6.31	5.56	--	--	7.58	7.08
<b>South Atlantic</b>	<b>10.55</b>	<b>9.92</b>	<b>9.35</b>	<b>8.57</b>	<b>6.58</b>	<b>6.54</b>	<b>9.35</b>	<b>8.8</b>	<b>9.57</b>	<b>9</b>
Delaware	13	12.68	10.99	11.29	10.05	9.44	--	8.68	11.77	11.58
District of Columbia	13.62	13.29	13.18	13.19	8.09	9.4	12.03	11.23	13.15	13.08
Florida	11.57	9.48	9.96	7.59	8.94	7.84	8.96	4.31	10.79	8.69
Georgia	9.8	9.12	9.68	8.9	6.34	6.24	7.24	6.93	9.07	8.49
Maryland	13.39	14.16	11.62	11.59	8.84	9.74	9.43	9.13	12.31	12.71

North Carolina	9.48	9.49	7.75	7.9	5.77	5.94	6.76	7.13	8.41	8.51
South Carolina	10.23	10.07	9.12	8.81	5.71	5.69	--	--	8.65	8.55
Virginia	9.64	10.01	7.51	7.76	6.59	6.91	7.34	7.68	8.5	8.82
West Virginia	8.78	8.19	7.75	7.25	5.74	5.72	10.07	9.77	7.67	7.28
<b>East South Central</b>	<b>9.57</b>	<b>8.7</b>	<b>9.55</b>	<b>8.78</b>	<b>5.91</b>	<b>5.44</b>	<b>12.9</b>	<b>9.5</b>	<b>8.34</b>	<b>7.66</b>
Alabama	10.44	10.02	10.31	10.07	6.03	5.64	--	--	8.9	8.67
Kentucky	8.65	7.75	7.96	7.18	5.09	4.85	--	--	6.95	6.34
Mississippi	9.71	9.01	9.64	9.06	6.35	5.93	--	--	8.64	8.12
Tennessee	9.49	8.19	10	8.74	6.87	5.95	12.9	9.5	8.99	7.8
<b>West South Central</b>	<b>9.81</b>	<b>10.09</b>	<b>8.41</b>	<b>8.77</b>	<b>5.59</b>	<b>6.05</b>	<b>9.67</b>	<b>9.81</b>	<b>8.2</b>	<b>8.67</b>
Arkansas	7.77	8.42	6.84	7.59	5.05	5.8	10.46	10.26	6.68	7.45
Louisiana	7.94	8.11	7.99	8.11	5.08	5.92	7.92	8.73	7.05	7.46
Oklahoma	8.06	7.54	7.11	6.82	5	4.68	--	--	7	6.65
Texas	10.96	11.27	8.85	9.31	5.93	6.36	9.93	9.97	8.92	9.46
<b>Mountain</b>	<b>9.63</b>	<b>9.5</b>	<b>8.09</b>	<b>7.99</b>	<b>5.43</b>	<b>5.63</b>	<b>8.46</b>	<b>8.12</b>	<b>7.94</b>	<b>7.93</b>
Arizona	9.84	9.58	8.6	8.43	5.94	5.98	--	--	8.69	8.55
Colorado	10.4	10.3	8.31	8.13	6.28	6.47	8.93	8.62	8.6	8.57
Idaho	7.83	7.75	6.45	6.54	4.5	4.73	--	--	6.57	6.6
Montana	9.08	8.45	8.74	7.98	5.56	5.68	--	--	8.05	7.58
Nevada	11.61	12.05	9.17	9.92	5.57	6.29	8.04	9.31	8.57	9.19
New Mexico	9.77	9.65	8.21	8.09	5.45	5.8	--	--	7.98	8.04
Utah	8.17	8.07	6.56	6.41	4.44	4.4	7.89	7.27	6.49	6.41
Wyoming	8.33	8.03	7.28	7.1	4.99	4.9	--	--	6.26	6.11
<b>Pacific Contiguous</b>	<b>12.16</b>	<b>12.14</b>	<b>10.81</b>	<b>10.68</b>	<b>8.88</b>	<b>7.16</b>	<b>7.96</b>	<b>8.4</b>	<b>11</b>	<b>10.62</b>
California	15.3	15.69	12.26	12.18	9.42	9.5	7.98	8.46	12.94	13.08
Oregon	9.19	8.35	7.97	7.35	5.31	5.72	7.16	6.8	8.04	7.51
Washington	8.02	7.63	7.47	7.13	9.51	4.21	8.67	7.24	8.23	6.66
<b>Pacific Noncontiguous</b>	<b>23.78</b>	<b>21.77</b>	<b>21.44</b>	<b>19.22</b>	<b>21.41</b>	<b>18.7</b>	<b>--</b>	<b>--</b>	<b>22.25</b>	<b>19.94</b>
Alaska	16.61	16.01	14.69	13.4	15.25	14.3	--	--	15.54	14.57
Hawaii	30.13	26.71	28	24.73	23.8	20.36	--	--	27.19	23.77
<b>U.S. Total</b>	<b>10.99</b>	<b>10.56</b>	<b>9.88</b>	<b>9.63</b>	<b>6.73</b>	<b>6.53</b>	<b>10.52</b>	<b>10.49</b>	<b>9.62</b>	<b>9.34</b>

[1] See Technical notes for additional information on the Commercial, Industrial, and Transportation sectors.

Notes: • See Glossary for definitions. • Values for 2009 are final. Values for 2010 are preliminary estimates based on a cutoff model sample. See Technical Notes for a discussion of the sample design for the Form EIA-826. • Utilities and energy service providers may classify commercial and industrial customers based on either NAICS codes or demands or usage falling within specified limits by rate schedule. • Changes from year to year in consumer counts, sales and revenues, particularly involving the commercial and industrial consumer sectors, may result from respondent implementation of changes in the definitions of consumers, and reclassifications. • Retail sales and net generation may not correspond exactly for a particular month for a variety of reasons (i.e., sales data may include imported electricity). • Net generation is for the calendar month while retail sales and associated revenue accumulate from bills collected for periods of time (28 to 35 days) that vary dependent upon customer class and consumption occurring in and outside the calendar month. • Totals may not equal sum of components because of independent rounding.

Source: U.S. Energy Information Administration, Form EIA-826, "Monthly Electric Sales and Revenue Report with State Distributions Report."

## How to Calculate Overheads

Overhead, overhead cost or overhead expense refers to all current expenditure incurred by a business in order to operate a business. This is also known as Operating Expenditure like rent, gas, electricity, wages etc. The term overhead is generally used in group expenses which are important for the ongoing performance of the business, but it cannot be immediately linked with the products or services being offered. As for example, overhead do not generate profit directly. This article will tell you how to calculate overheads.

Overhead expenditure is the total costs on the income statement excluding direct materials, direct labor & direct expenses. Overhead expenses contain [accounting](#) fees, advertising, depreciation, rent, [insurance](#), interest, legal fees, repairs, supplies, taxes, telephone bills, travel and utilities expenses.

Overhead can be categorized under four headings:

- Functional classification
- Classification on the nature of expenditure
- Element-wise classification
- Classification on behavior of expenditure

The word 'overhead' when mentioned, is generally linked with business. Families and individuals have overhead costs also. A family's overhead costs or an individual's overhead costs are in fact more expansive than a business's overheads. For personal overhead, items like entertainment costs, [credit](#) card costs are taken. Your personal overhead costs are those costs which you pay on a monthly basis and do not differ in a significant amount. If you know your monthly overhead then it can help you in setting a budget for yourself or your family which will be based upon how much income you carry in monthly when compared with your monthly overhead. In this article you will learn how to calculate your overheads easily.

### Steps to calculate overhead

- Find out what your monthly average gas bills and electricity bills are. These can be in different bills or in one combined bill. Add up the entire amount you have paid for gas bills and electricity in the last one year. Divide the total amount of these bills by 12 (number of months per year). You will get the average [electric and gas](#) bill per month.
- Compute your average monthly water bill in the same method in which you have calculated your average monthly gas and electric bills in step one. It will be better to calculate an average over 12 months for the utilities as the costs differ from month to month.
- Collect your credit card bills for the previous year for those credit cards on which you owe money. Sum up the total amount you have paid every month for all of your cards. Divide this amount you have obtained now by 12. From this you will have your monthly average credit card expenditure.
- Compute your known fixed cost like car payments, day care costs, rent payments and automobile gas expense for duration of one month. This expenditure is your known monthly expenditure.
- Fix a budget for expenditure. For example, set your budget for your grocery purchases, and your entertainment expenses. This will be your expected monthly budgeted expenditure.
- Sum up together your average monthly gas and electric bills, your average monthly water bill, your known monthly expenditure, your average monthly credit card cost and your monthly budgeted expenses. This total expenditure is your personal or your family's overhead costs which needs to be considered in your budgeting on a monthly basis when you are determining your own or your family's monthly budget.

### Tips and warnings

- The simplest method to decrease your monthly overhead is to decrease your food, gas or entertainment cost. These are those items on which you have more control over than your utility, rent and credit card bills.
- If you are using overhead for a personal or family budget then it is safer to overestimate your overhead than what the actual figure is. Underestimating your monthly overhead will result in your family spending more money on purchasing those things that are not important than your budget can pay for.

This is how you can compute your overhead. I hope this article would have proved useful to you.

Related Tags: calculating overheads, calculate overheads, overheads calculation, HOW TO CALCULATE OVERHEADS, steps in calculation of overheads, STEPS OF CALCULATING OVERHEAD COST, steps of determining overhead costing, steps to calculating overhead cost

## How to Calculate Variable Cost

**Variable costs** are those expenses which change in proportion to the activity of business. The total sum of marginal costs for overall units produced is called the **variable cost**. It is important to know how to calculate variable cost and this article will give you the steps for its calculation.

**Fixed cost** and variable cost are two component of the total cost. **Direct costs** can easily be associated with a particular cost object. However, all variable costs are not direct costs. For example, variable manufacturing overhead costs are those variable costs which are indirect costs. Sometimes variable costs are called unit level costs as they vary with the number of unit produced.

For example, let's take raw materials and its packaging. If you wish to get more output then you have to give more input and you have to buy more packaging to distribute your product. To find out the variable cost, you need to add up each variable cost in your production. If you want to **run a business**, you must know the variable cost per unit of each good produced.

Steps to calculate variable cost

- Find out the list of your variable costs and determine the time period for which you want to do the calculation. For example, assume you are managing a production plant which has the cost of direct labor (workers working in plant), raw materials and **packaging materials**. You have to look at the variable cost each month.
- Compute the price of each of your variable costs. The prices of your variable costs are their prices. In the same example, let us assume the wages paid for direct labor are Rs 1000, the price paid for packaging is RS 1000 and raw materials are of Rs 1000.
- Add each variable cost.

$\text{Rs } (1000 + 1000 + 1000) = \text{Rs } 3000$

Rs 3000 is your total variable cost for the month.

- The variable costs of the time period taken earlier should be divided by the total number of products produced during the period. Let us assume that the total number of products produced is 10000 and each of the variable cost is Rs 1000 here so  $\text{Rs } 1000 / \text{Rs } 10000 = 0.10$ .
- Now you can see here that each variable cost contributes 10 paisa to every rupee of your total per unit cost. In total, variable costs contribute for 10 paisa for each rupee you spend.

This calculation is used in break even analysis which is used to measure the profitability of a business.

Related Tags: how to calculate variable cost, calculating variable cost, how to calculate variable costs, calculate variable costs per month, how to change variable cost, how to calculate fix and variable cost, how to compute standard variable cost per product, how to calculate variable production cost?

# On Cost Analysis Comparisons: Government In-house Provision vs. Contracting Out

Richard D. Young

## *Introduction*

Most managers have no idea what their products and services really cost. At best, conventional cost accounting is marginally relevant to decisions about operations and management. At worst, it distorts reality and causes dysfunctional decisions.<sup>1</sup>

Kehoe et al.

*Activity-based Management in Government*

Due to fiscal constraints and the opposition to new taxes, state governments are increasingly looking for cost-efficient and -effective ways to provide public services and products.<sup>2</sup> Contracting out, the most pervasive form of privatization,<sup>3</sup> is today one such well-established way to provide governmental services.

The rationale for contracting out state government services is primarily cost savings. But there are other reasons as well. These include managerial flexibility, service quality, and speedy implementation.<sup>4</sup>

All states use contracting out for a wide-range of services, to a lesser or greater degree. In a 2002 survey conducted by the Council of State Governments, 12 states were found to contract out most often.<sup>5</sup> These states included Arizona, Connecticut, Indiana, Massachusetts, Minnesota, Missouri, North Carolina, Oklahoma, Virginia, Washington, Wisconsin, and Wyoming.<sup>6</sup>

In order to make informed decisions about whether to provide a service in-house or contract out, state government officials must analyze or compare costs in a valid way. To do this, state governments must establish structured and accurate cost analysis methods or models. One generally accepted approach is activity-based costing.

In this brief paper, activity-based costing (ABC) will be examined as a tool for determining whether cost savings will result from contracting out vs. in-house provision of governmental services. The meaning and importance of ABC, therefore, will be discussed initially. Next, a discussion comparing costs between in-house provision and contracting out will be examined. Finally, some common mistakes associated with such cost comparisons will be touched upon.

Thus one aim of this paper is to provide a succinct discussion of *why* valid cost analysis is important to public decision making with regard to using in-house (government) or

contract (private) service provision. Another intent is to provide a concise discussion of *how* to compare costs between in-house and contracted out services.

### *Activity-based Costing*

Research shows that most governments, especially state governments, have little or no knowledge (or data) of how much it costs, for example, to inspect an elderly residential facility, patch up a road surface, or counsel a troubled student. Indeed, the full and accurate costs of providing state governmental services is generally unknown since most states do not use accounting systems to capture “real” costs. Traditional accounting methods, which are typically used by state agencies and departments, only give the costs associated with broad categories such as “personnel,” “supplies and equipment,” and other such “line-item” expenditures. These agency-wide or programmatic costs do not reflect what it costs to deliver a distinct service unit or activity. As Governor Mark Sanford of South Carolina has remarked, “These expenditures reveal little about the actual activities that the people of South Carolina are purchasing or the benefits that they are receiving for their tax dollars.” Thus, without clear cut and detailed activity data and associated costs, public administrators and officials are in the dark as to the true costs of governmental services or products.

Further, without full cost accounting data, it is difficult or impossible to answer such questions as follows:

- Is this state governmental service (activity) of good value? Is it cost-efficient and –effective?
- Are the costs associated with this service competitive? In other words, can this service be provided by the private sector (contracted out) cheaper?
- Is this service even desirable or needed by the public (stakeholders)?

Activity-based costing (ABC) is the generally acknowledged approach to pin down the *full* costs—direct and indirect or overhead—associated with delivering a public service or product. ABC is defined as “an accounting method(s) that identifies, describes, assigns costs to, and otherwise details the activities of an organizational unit.”<sup>7</sup> Sometimes alternately called a “full-cost accounting system,” ABC defines a unit of work, its inputs (resources) and outputs (outcomes or results), and all related costs, usually expressed as “cost per unit data.”

**Figure 1. Traditional vs. Activity Accounting Approaches  
--Tax Processing Division--**

Traditional Line Item Accounting		Activity-based Costing	
Salaries	\$500,000	Prepare work plans	\$30,000
Telecommunications	100,000	Facilities and personnel planning	30,000
Enforcement expenses	50,000	Mail receipt and sorting	50,000

Facilities	30,000	Document and data preparation	180,000
Travel	20,000	Data entry	40,000
		Document and security control	130,000
		Data reconciliation	90,000
		Taxpayer file maintenance	110,000
		Refund requests/correspondence	40,000
<b>TOTAL</b>	<b>\$700,000</b>	<b>TOTAL</b>	<b>\$700,000</b>

Source: Kehoe, J. et al. (1995). *Activity-based management in government*. Washington, DC: Coopers & Lybrand, p. 19.

The definition of an “activity” is critical to ABC. Though the literature indicates some nuances in the meaning of a state agency or departmental activity, the states of South Carolina and Washington have established a widely accepted definition of the term. These states define an activity as follows:

An activity identifies a specific problem that needs addressing and explains how it is addressed by an agency function or operation. An activity is something an organization does to accomplish its goals and objectives. An activity consumes resources and produces a product, service, or result. One way to define activities is to consider how agency employees describe their jobs to their families and friends. On behalf of the state’s citizens, we basically want to know, “What do you do? For whom? Why is it valuable?” Activity descriptions tend to be better than program descriptions at revealing the nature and purpose of the work state government performs.<sup>8</sup>

Given this definition of an activity, the State of Washington—for example—defines one its “activity units” in the following way:

**Early Childhood Education and Assistance**

In FY 2005, approximately 68% of all three- and four-year olds were technically designated as “unready” in skills and behaviors to begin kindergarten. Many of these children live in households below established federal poverty income levels. In order to address this problem, the Early Childhood Education and Assistance Program (ECEAP) was established by in FY 2001 by RCW 28A.215 and is a comprehensive school-readiness program for three- and four-year-old children and their families living in poverty or otherwise at risk of failure in school. ECEAP’s value or purpose is to ensure all children are ready to succeed in school, regardless of family income or other historic barriers to achievement. Children receive early learning services in literacy, language, math, science, health, medical linkages, and social and emotional development. Since

parents are children’s first and most important teachers, ECEAP offers family support services to encourage parent involvement, provide education in child development, health and nutrition, and enable family self-sufficiency. ECEAP’s 33 public and private community contractors design services within flexible program standards to fit the specific needs and resources of their service area. The Department of Public Instruction monitors contracts to ensure compliance with statewide standards, and provides technical support, training and development to contractors.

**Agency:** 350 – Department of Public Instruction

**Strategy Category:** Provide for school ready kids and families

**Budget:**   **FY 2005**           **Total** \$26,277,000  
                  **FY 2006**           **Total** \$26,306,000

**Expected Results:**

5,804 children and their families will receive comprehensive early-learning services to prepare them for success in school and in life.<sup>9</sup>

Again, ABC provides detailed and useful data as to the complete cost of an activity and its results or benefits. With regard to *cost*, ABC provides the total amount of resources, measured in dollars, spent to deliver a service or make a product. And as to *benefit*, ABC provides the outcome or results, related to dollars, as tied to an activity, process, service or product.<sup>10</sup>

Technically, ABC can even be more refined than the definitions provided above. In Figure 2, it is illustrated how a government agency or department might use ABC to determine activity costs and associated outputs, cost per units, etc. of “receiving and processing fee payments.” The detail here is exhaustive, but the advantage is a full and clear understanding of costs of a process and its related activities.

**Figure 2. Receiving and Processing Fee Payments  
--Annual Passes for State Parks--**

<b>Activity</b>	<b>Output</b>	<b>Annual Volume Measure/Quantity</b>	<b>Cost per Unit</b>	<b>Total Cost</b>
Accept fee payment	Accepted fee	150,000	\$1.00	\$150,000
Processing of payments by agency	Processed payments	150,000	.05	7,500
Processing of returned checks	Bad checks processed	1,500	25.00	37,500
Daily closeout and review of	Daily fees checked	1,320	3.00	3,960

collectors				
Consolidate and deposit receipts	Deposited receipts	220	2.00	440
Review and transfer funds	Transferred funds	3	250.00	750
Prepare account memo	Report	3	80.00	240
Reconcile accounts	Balanced account	3	250.00	750
TOTAL				\$201,400
Cost per payment received and processed				\$1.343

Source: Kehoe, J. et al. (1995). *Activity-based management in government*. Washington, DC: Coopers & Lybrand, p. 109.

Additionally, it should be noted that Figure 2 sums up or captures all costs associated with the fee process including facilities, administration, etc. under the various “activities” which are broken out. Hence every activity is clearly indicated along with its associated costs, outputs, and cost per unit. Also, the final cost of receiving and processing payments for annual park passes is clearly shown (\$201,400) and the final cost per unit is indicated (\$1.34 per fee received and processed).

Hence, ABC provides decision makers—governors, legislators, public officials and administrators—with valuable and important information and data. Detailed cost data are significant in that they give decision makers the opportunity to make optimal choices about how to allocate limited resources. ABC data also permit decision makers to streamline, re-engineer, and restructure state agency operations and processes to produce the maximum results at the best cost. And, equally important, ABC assists decision makers to compare, in a valid way, in-house service provision costs to the costs associated with contracting government services privately.

### *Comparing Costs between In-house and Contracted Services*

As stated earlier, to make knowledgeable decisions as to use in-house services or to contract out (public vs. private service provision), it is necessary to make valid cost comparisons.<sup>11</sup> The comparison of costs of in-house and contract provision is somewhat complex and often problematic. One common problem is the underestimation of costs. Often indirect and overhead costs are not fully considered, and at times, conversion and tax expenditure costs (special tax privileges and tax and regulatory exemptions) are not factored in as they should be. Another problem often associated with in-house vs. contract service provision is the absence of consistent and structured cost analysis methodologies. Many state governments, for instance, use cost analysis methods that are not comprehensive, reliable, and/or well thought-out. This is due generally to inexperience or unfamiliarity with accepted activity-based cost methodologies.

This section discusses a systematic method for state governments to make cost comparisons for deciding between public (in-house) vs. private (contract) service

provision.<sup>12</sup> To do this, the determination of total costs associated with in-house service provision will be reviewed. After this discussion, the determination of total costs of contract service provision is examined. Lastly, the actual comparison between the full costs of in-house vs. contract service will be addressed.

### *The Determination of Total Costs Associated with In-house Service Provision*

The total cost of in-house provision of a state governmental service or activity comprises all *direct* costs along with all *indirect* costs (a proportional share of agency or departmental overhead costs). The equation is thus: Direct costs + portion of associated indirect costs = Total in-house costs.

**Figure 3. The ABC Formula\***

$\text{Total Costs} = \text{Direct Materials Costs} + \text{Allocable Other Overhead} + \text{Activity Costs}$ <p style="margin: 0;">↓</p> $\text{Direct Labor} + \text{Service Overhead} + \text{Administrative Overhead}$ <p style="margin: 0;">With little allocable overhead remaining.</p>
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

\*Note: “An ABC system reorganizes the overhead, adding general and administrative overhead to the extent possible, such that most of the overhead and labor costs are absorbed into the cost of activities.”  
Source: Keller, J. (1997). *Activity-based costing and management tools in government and the private sector*. Altamonte Springs, FL: Institute of Internal Auditors, p. 8.

Direct costs are those costs that are entirely (100%) connected with a “targeted” service or activity. These include, for example, all salaries, wages, and fringe benefits. Direct costs also include rent, utilities, supplies, materials, travel, copying or printing, telecommunications, and any other costs used exclusively to provide the service or activity. Additionally, direct costs would include interest costs (interest on capital items that are financed such as buildings and vehicles), pension costs (regardless if fully funded by the government or not), and facility or equipment costs (depreciation should be considered for these capital costs).<sup>13</sup>

Indirect costs or overhead costs are expenditure items that contribute to the targeted service or activity and at least one other service or activity. In other words, indirect expenses provide a share or portion (< 100%) of an activity’s costs. These could be, of course, a proportional share of personnel costs or other costs (rent, utilities, supplies, etc.).<sup>14</sup>

Indirect costs are normally allocated by one of three methods. These are:

- Allocating by the number of FTEs in each activity (assuming that indirect costs are proportional to the number of employees).
- Allocating by the total dollars budgeted for each activity (assuming indirect costs are proportional to the budget of the targeted service).

- Allocating by one or more bases that serve as good surrogates for the costs caused by each activity, e.g., rent costs by the number of square feet.<sup>15</sup>

### *The Determination of Total Costs of Contract Service Provision*

By definition, the total costs of contract service provision are calculated by adding together contractor costs, administration costs, and any related conversion costs. From this sum, any off-setting revenues<sup>16</sup> are subtracted. Thus, the equation is as follows: Contractor costs + administration costs + one-time conversion costs (amortized) – off-setting (new) revenues = Total contract costs.<sup>17</sup>

Contractor costs are fairly straightforward. They are the costs a contractor pays to provide a service or activity. They include all personnel costs, materials and supplies, rent, equipment, etc. Normally, contractor costs are clearly identified in an RFP.

Contract administration costs, on the other hand, are elusive and difficult to calculate precisely. Contract administration costs include all actions taken by the contractor from the beginning to end of a contract. These costs include, for example, preparation of the RFP, procurement, contract negotiations, change orders and contract amendments, invoicing, and monitoring and oversight.<sup>18</sup>

One way to compute contract administration costs is fairly subjective and based on prior contractual experiences. The literature states that the cost of contract administration usually is within the range of 10 to 20%. Generally, the percentage of contract administration costs for *smaller* contract amounts is nearer to the high end or 20%, and contrarily, the percentage of administration costs for *larger* contract amounts is nearer the 10% range. Further, if contract monitoring is to be the primary responsibility of a state agency, department or other governmental unit, contract administration costs should be less.

Another way to compute contract administrative costs is to utilize the formula developed by the U.S. Office of Management and Budget. The formula was developed by extensive research by a well-known major accounting firm, Peat, Marwick and Mitchell. (This computation formula or method [OMB Circular No. A-76 Revised – Attachment C – Calculating Public-Private Competition Costs] can be found at [http://www.whitehouse.gov/omb/circulars/a076/a76\\_rev2003.pdf](http://www.whitehouse.gov/omb/circulars/a076/a76_rev2003.pdf)).

Finally, one-time conversion costs are an integral part of contracting out. These are usually associated with personnel-related items (unemployment compensation, severance pay, etc.), material-related costs (transfer of property and equipment), and various other costs (penalty fees related to ending leases, costs associated with unused facilities and equipment).<sup>19</sup>

*The Comparison between the Full Costs of In-house vs. Contract Service*

Given the discussion above, the remaining cost comparison format (or analysis) is reasonably clear-cut. Several states have developed cost comparison formats or methods to make full assessments between the costs of in-house vs. contract services. Virginia’s Commonwealth Competition Council<sup>20</sup> has developed a much touted cost analysis format. (This computation or analysis format [Public/Private Performance Analysis Submittal] can be found at <http://www.vipnet.org/ccp/pppa.pdf>).

Figure 4 illustrates a common cost comparison format (analysis) for determining between in-house vs. contract services. The comparison format is essentially self-explanatory. However, it should be noted that special emphasis should be given to one-time conversion costs and off-setting revenues. The reasons for this special emphasis are twofold: Mainly, that *accurate* cost data here will aid significantly in the decision making process by providing for 1) “full costs” and, additionally, allow for 2) a “level playing field” for comparative purposes.

**Figure 4. Cost Comparison Analysis Format**

Dept:		Date:				
Service or Activity:		Prepared by:				
Performance Periods						
In-house Performance Costs	1 <sup>st</sup> (A)	2 <sup>nd</sup> (B)	3 <sup>rd</sup> (C)	4 <sup>th</sup> (D)	Total	Ref. #
1. Direct Personnel Costs						
2. Direct Non-personnel Costs						
3. Overhead Costs						
4. Depreciation or Use Allowance						
5. Total In-house Costs						
Contract Performance Costs						
6. Contractor Costs						
7. Contract Administration Costs						
8. Conversion Costs						
9. Off-setting Revenues						
10. Total Contract Costs						
Decision						
Cost Comparison		$\frac{\text{Total In-house Costs (Line 5, Column D)}}{\text{Total Contract Performance Costs (Line 10, Column D)}} = \text{_____}\%$				
Cost Comparison Decision (Check one)						
Accomplish in-house? <input type="checkbox"/>			Accomplish by contract? <input type="checkbox"/>			
Footnote Where Supporting Information Can Be Found:						

Source: Martin, L. (1993, March). “How to compare costs between in-house and contracted services.” How-to Guide No. 4. pp. 16-17.

Further, two additional things should be noted in the cost analysis in Figure 4. These include performance periods and the cost-comparison ratio.

Performance periods for four intervals are included. This is intended to allow for a better understanding of the cost savings over time due to, for example, conversion costs associated with contracting out. Also, a performance timeline—broken up into distinct periods—will permit an understanding of cost fluctuations due to changes in resource costs related to personnel, supplies, equipment, and so on.

The cost-comparison ratio is simply the ratio of total in-house costs to total contract costs. The significance of this cost-comparison ratio (expressed as a percentage) is based generally on the experiences of federal, state and local governments with contracting out. It is held by many governmental experts and practitioners that a threshold of 10% in cost savings should be achieved to warrant contracting with a private provider. Though an arguable precept, the rationale is that the cost savings must be sufficient enough to outweigh the “upheaval associated with any changeover.”<sup>21</sup>

### *Common Cost Analysis Mistakes*

The discussion thus far has stressed the importance of calculating the *full* costs of both in-house service provision (i.e., by a state agency, department or unit) and contracting out that service. By doing so, within the context of a proper cost analysis, a precise and justifiable cost savings can be determined. As mentioned or alluded to previously in this paper, there are however common mistakes made in determining full costs. These common mistakes include 1) cross-subsidizing, 2) disregarding the allocation of overhead, 3) failing to capture capital depreciation or replacement costs, 4) discounting the cost of debt or interest, and 5) excluding or underestimating costs.<sup>22</sup> The following narrative provides a checklist for identifying these frequent and recurring mistakes.

- *Cross-subsidizing* are any costs associated with a targeted government service or activity borne by some other in-house unit. Private contractors often point out that these costs are ignored in RFPs offered by in-house entities.
- The failure again to fully allocate indirect or *overhead costs* is a common mistake in the cost analysis of competing in-house vs. private bids. All overhead should be accounted for in such instances, including personnel costs, facilities, and so on.<sup>23</sup>
- All capital items (e.g., buildings, vehicles, special equipment, etc.) should be depreciated. Schedules and formulas for *the depreciation of capital assets* exist in abundance. In all cases, acceptable methods should be used to calculate depreciation costs.
- *Interest* on any relevant debt should be calculated, as appropriate. Interest costs or payments are often not factored into the full costs of a service or activity.
- *Failure to include certain special costs* (e.g., under-funded pensions, legal costs, etc.) is a common mistake in cost analysis (comparisons) between in-house provision and contracting out. Even when included, certain costs are frequently underestimated.

## Conclusion

Faced with ever-increasing needs and limited resources, state governments are searching for ways to balance budgets and provide essential public services. To do this, many state officials are using privatization when and where appropriate. The principal aim of such efforts is cost savings and the means—i.e., the particular form of privatization used—is usually contracting out.

Activity-based costing is an effective way to analyze or compare in-house vs. contract provision of governmental services. ABC provides ample details on the full resources used to produce a service output or result and further permits useful data on per unit costs. Armed with this detailed information, decision makers can ascertain true cost savings and even streamline processes or activities.

Cost analysis comparisons to privatize or not must be valid. This paper presents the fundamental framework for making such comparisons. Readers—especially government officials and administrators—are encouraged to think about competitive sourcing or privatization and to research more fully those sound and proven methods used to compare costs and achieve savings.

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## Endnotes

<sup>1</sup> Kehoe, J. et al. (1995). *Activity-based management in government*. Washington, DC: Coopers & Lybrand, p. 25.

<sup>2</sup> See Eggers, W. (1993, January). "Rightsizing government: Lessons from America's public-sector innovators." How-to Guide No. 11. Retrieved November 9, 2004 from <http://www.rppi.org/htg11.pdf>.

<sup>3</sup> The contracting out of specified governmental functions is the most frequently used form of privatization. For example, as regards state correctional services or functions, the GAO reports that "contracting out occurs in 92.09% of the cases vis-à-vis other forms of privatization." Other functional areas of state government which most often utilize contracting out—as opposed to other forms of privatization such as grants and subsidies, vouchers, etc.—include general administrative services (91.67% of the time), transportation (83.51%), education (81.29%), and social services (71.32%). It should be acknowledged also that state facilities associated with computer data centers as well as park and recreational facilities are regularly contracted out to private firms. See U.S. General Accounting Office. (1997, March).

*Privatization: Lessons learned by state and local governments*. Washington, DC: Author, pp. 22-23.

<sup>4</sup> Some experts believe "managerial flexibility" and "speedy implementation" are often vehemently opposed to as acceptable methods of privatization, particularly by local government officials and administrators. Berger, A. (2004, December 10). Written comments.

<sup>5</sup> On average, at least 6% of services were contracted out by each of 12 states.

<sup>6</sup> Chi, K., et al. (2003, October). *Privatization in state governments; Trends and issues*. Lexington, KY: Council of State Governments, p. 1.

<sup>7</sup> Op. cit., Kehoe et al, p. 6.

<sup>8</sup> South Carolina Office of State Budget. (2004, August 9). "An instructional guide for developing agency activity inventory database." Columbia, SC: Author, p. 1.

<sup>9</sup> State of Washington. (2004). "Agency activity inventory." For student achievement result area. See <http://www.ofm.wa.gov/budget/activity/activitydetail/agencyactivityinventorybyresult/studentachievebyresult.htm#genapporrt>.

<sup>10</sup> Op. cit., Kehoe et al, p. 26.

<sup>11</sup> Obviously cost is one criterion in making such comparisons, and typically is considered to be the foremost rationale for considering and using private providers. However, service quality, operational flexibility or lack of red tape, speedy implementation, increased innovation, and increased support from political leadership are other reasons frequently mentioned in the literature.

<sup>12</sup> This section is based on a paper authored by: Martin, L. (1993, March). "How to compare costs between in-house and contracted services." How-to Guide No. 4. Retrieved November 11, 2004 from <http://www.rppi.org/htg04.pdf>.

<sup>13</sup> Ibid., p. 3.

<sup>14</sup> It should be noted that Kehoe et al (1995) defines overhead in a slightly different manner: "Overhead, also known as indirect costs, these are costs that cannot be assigned exclusively to any particular product, project, process, or activity. In traditional cost accounting, overhead includes most support services. ABC takes a much narrower view of overhead and strives to include only *organizational activities* in it. Organizational activities are done to support an entire organization, e.g., preparing a strategic plan."

<sup>15</sup> Op. cit., S. C. Office of State Budget, p. 3.

<sup>16</sup> "An 'off-setting revenue' is any new or enhanced revenue stream (income, sales, property taxes, etc.) that occurs as a result of contracting out." See Op. cit., Martin, p. 10.

<sup>17</sup> Op. cit., Martin, p. 5.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., p. 9.

<sup>20</sup> See <http://www.vipnet.org/cc/home.htm>.

<sup>21</sup> Op. cit., Martin, p. 18.

<sup>22</sup> The Reason Foundation. (2004). "Avoiding managed competition pitfalls." Retrieved November 12, 2004 from

[http://www.privatization.org/database/practicesandstrategies/managed\\_competition\\_pitfalls.html](http://www.privatization.org/database/practicesandstrategies/managed_competition_pitfalls.html).

<sup>23</sup> See earlier discussion in this paper regarding in-house overhead costs.

## Topics

## Overhead Costs

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## Overhead Costs

Knowing the overhead costs definition is essential for all people engaged in accounting related jobs. In this article, along with the overhead costs examples, let us discuss about the manufacturing overhead costs in detail.

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Any business needs sufficient capital for smooth operation. The capital is invested by the businessmen with a hope of getting superior returns in the future. All the expenses required for running a business successfully can be included in the overhead costs. There are different types of overheads which need to be considered while calculating the total costs or cost of sale of goods. The aim of any businessman is to reduce the costs wherever possible to increase the profit margins. The overheads costs definition states that overhead is the sum total of all the indirect material, indirect wages and indirect expenses used by the business firm. Knowing the various overheads is essential if you wish to know [how to prepare a cost sheet](#) as they need to be added to get your final costs. In the next few paragraphs, we shall know how to find overhead costs for small businesses and various types of overheads.

### Calculating Different Types of Overheads

In the overhead costs, what we should first consider are the factory overheads. The factory overheads are the expenses incurred to run the factory on a daily basis. The lighting costs, cost for power, fuel costs, [insurance](#) money for the factory, rent paid for using factory, cost of factory machines, salaries paid to factory workers, wages paid are the contents of the factory overheads. If these factory overheads are added to the prime cost, then what you get is the factory cost.

For considering the total overhead costs in [accounting](#), what you also take into account are the office and administration overheads. These are all those expenses involved in the functioning of the office and administration of the company. The office and administration overheads can include expenses to maintain the office building, expenses made on stationery, office lighting expenses, salaries to employees such as junior level workers and managers and the director's fees. If you add the office and administration overheads to the factory cost, you will be getting the total cost of production of goods.

The next type of overhead costs are the selling and distribution overheads which are the expenses incurred on marketing of the products produced by the company. It has been observed that these expenses form a large chunk of the total expenses due to the rising competition and the more efforts taken by corporations to outdo each other. The postage expenses, carriage outward, advertising expenses, transportation expenses and marketing expenses are included in the selling and distribution overheads. When the selling and distribution overheads are added to the cost of production, you will get the total costs.

Overhead costs calculation helps you to determine the net profit earned by the company. When the total costs which are calculated by adding up all the overheads are subtracted from the total sales, you get the net profit earned during a particular period. The formula for net profit calculation is given below.

$$\text{Total Sales} - \text{Total cost} = \text{Net profit}$$

The net profit is a far more important concept than the gross profit as it helps the shareholders or the stakeholders know the profitability of the company and its ability to generate free cash flows. For the overheads cost calculation a simple method used is to first multiply the total labor hours by the average wage of labor and add the overhead expenses to it. When the overhead cost is divided by the average of the number of units, you will get the overhead cost per unit.

This explanation of the overhead costs will help you to know all your expenses and adopt strategies to keep them in check. The [balance sheet](#) of your firm can strengthen by [cost control strategies](#). Think over it and act smartly. Good luck!

By [Charlie S](#)

Published: 12/27/2010

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**Average Hourly Wage Calculation for the Fiscal Year 2010 Wage Index (Using Cost Reporting Periods Beginning Between 10/1/05-9/30/06)**

\*Fields in bold and blue are calculated fields

Provider Information	
FI	
Provider #	
FYB	
FYE	

**Work Sheet S-3, Part II**

Total Salaries	
line 1/col. 3	

Other Wages & Related Costs	
line2/col. 3	0
line3/col. 3	0
line4.01/col. 3	0
line5/col. 3	0
line5.01/col. 3	0
line6/col. 3	0
line6.01/col. 3	0
line7/col. 3	0
line8/col. 3	0
line8.01/col. 3	0

<b>Sub-Tot-A</b>	<b>Sub-Tot-A = line2+line3+line4.01+line5+line5.01+line6+line6.01+line7+line8+line9</b>
line9/col. 3	0 8.01
line9.01/col. 3	0
line9.02/col. 3	0
line9.03/col. 3	0
line10/col. 3	0
line11/col. 3	0
line12/col. 3	0
line13/col. 3	0
line14/col. 3	0
line18/col. 3	0

<b>Sub-Tot-B</b>	<b>Sub-Tot-B = line9+line9.01+line9.02+line9.03+line10+line11+line12+line13+line14+line18</b>
	0

Overhead Contract Labor Salaries	
22.01/col. 3	0
26.01/col. 3	0
27.01/col. 3	0

<b>Sum of Overhead Contract Labor Salaries</b>	<b>Worksheet S-3, Part II, sum of lines 22.01, 26.01, and 27.01/col. 3</b>
	0

<b>Sub Total Salaries</b>	<b>Sum of lines 1, 22.01, 26.01, and 27.01/col.3</b>
	0

<b>Adjusted Salaries</b>	<b>Adjusted Salaries= Sub Total Salaries - Sub-Tot-A + Sub-Tot-B</b>
	0

Total Paid Hours	
line1/col. 4	

Other Paid Hours	
line2/col. 4	0
line3/col. 4	0
line4.01/col. 4	0
line5/col. 4	0
line5.01/col.4	0
line6/col. 4	0
line6.01/col. 4	0
line7/col. 4	0
line8/col. 4	0
line8.01/col. 4	0

<b>Sub-Tot-C</b>	<b>Sub-Tot-C = line2+line3+line4.01+line5+line5.01+line6+line6.01+line7+line8+line9</b>
line9/col. 4	0 8.01
line9.01/col. 4	0
line9.02/col. 4	0
line9.03/col. 4	0
line10/col. 4	0
line11/col. 4	0
line12/col. 4	0

<b>Sub-Tot-D</b>	<b>Sub-Tot-D = line9+line9.01+line9.02+line9.03+line10+line11+line12</b>
	0

Overhead Contract Labor Hours	
22.01/col. 4	0
26.01/col. 4	0
27.01/col. 4	0

<b>Sum of Overhead Contract Labor Hours</b>	<b>Worksheet S-3, Part II, sum of lines 22.01, 26.01, and 27.01/col.4</b>
	0

<b>Sub Total Hours</b>	<b>Sum of lines 1, 22.01, 26.01, and 27.01/col.4</b>
	0

<b>Adjusted Hours</b>	<b>Adjusted Hours = Sub Total Hours - Sub-Tot-C + Sub-Tot-D</b>
	0

Work Sheet S-3, Part III	
Total Overhead	
line13/col. 3*	
line13/col. 4*	

Calculations	
<b>rev_hrs</b>	<b>rev_hrs = Sub Total Hours - (S-3, Part II, Col. 4: Line2+line3+line4.01+line5+line5.01+line6+line6.01+line7) + S-3, Part III line13, col. 4</b>
<b>ex_rate</b>	<b>ex_rate = (S-3, Part II, Col. 4: line9 +line8.01)/rev_hrs</b>
<b>exohsal</b>	<b>exohsal = ex_rate * S-3, Part III line13/col. 3</b>
<b>exohhrs</b>	<b>exohhrs = ex_rate * S-3, Part III line13/col. 4</b>
<b>oh_rate</b>	<b>oh_rate = (S-3, Part III line13/col. 4 - S-3, Part II/col. 4: line 22.01 - line 26.01 - line 27.01) / ((rev_hrs - line 22.01 - line 26.01 - line 27.01 - line 8 - line 8.01) + (S-3, Part III line13/col. 4 - line 22.01 - line 26.01 - line 27.01))</b>
<b>ohwrc</b>	<b>ohwrc = (S-3, Part II, Col. 3: line13 + line14 + line18) * oh_rate</b>
<b>exohwrc</b>	<b>exohwrc = ohwrc * ex_rate</b>
<b>revised_wages</b>	<b>revised_wages = adjusted_salaries - (exohsal + exohwrc)</b>
<b>inflation_factor</b>	<b>factor for adjusting to midpoint of cost report year</b>
<b>inflated_wages</b>	<b>inflated_wages = revised_wages * inflation_factor</b>
<b>revised_hours</b>	<b>revised_hours = adjusted_hours - exohhrs</b>

<b>Unadjusted Average Hourly Wage</b>	<b>Unadjusted Average Hourly Wage = inflated_wages/revised_hours</b>
	0

\*Note: Beginning with the FY 2008 wage index, Worksheet S-3, Part III line 13, columns 3 and 4 for Total Overhead should also include the subscripted lines 22.01, 26.01, and 27.01.

**Spreadsheet for Proposed FY 2010 Calculation of Provider Occupational Mix AHW**

**You Must Fill Out the AHW Calculator Tab Before Filling Out the Occupational Mix Calculator**

Fields in **PINK** are filled in by the provider from the provider's occupational mix spreadsheet

Fields in **GREEN** are filled in from IPPS wage index Web Site or Federal Registers

Fields in **BOLD and/or Blue** are calculated fields--DO NOT ENTER any information here

Provider Information	
Provider Number	
FI #	
Occ Mix Begin Date	#REF!
Occ Mix End Date	#REF!

	step 1	step 2	step 3	step 5	step 6	in step 7		
	Provider Occ Mix Hours	Provider Occ Mix Salaries	Provider % by Subcategory	FY 2010 Proposed National AHWs by Subcategory	Provider Adjusted AHW	Proposed FY 2010 National Adjusted Nurse AHW	Nurse Occ Mix Adjustment Factor	Provider % by Total
RN	0	0	0.00%	\$36.071788464	0			
LPN and Surgical Technicians	0	0	0.00%	\$20.882610908	0			
National Nurse Aides, Orderlies, and Attendants	0	0	0.00%	\$14.619113985	0			
Medical Assistants	0	0	0.00%	\$16.486068445	0			
<b>Total Nurse Hours and Salaries</b>	<b>0</b>	<b>0</b>			<b>0</b>	<b>\$30.482374867</b>	<b>0.0000</b>	<b>0.00%</b>
ALLOTHER	0	0			step 4			0.00%
<b>TOTAL</b>	<b>0</b>	<b>0</b>						

**Wage Data from Cost Report**

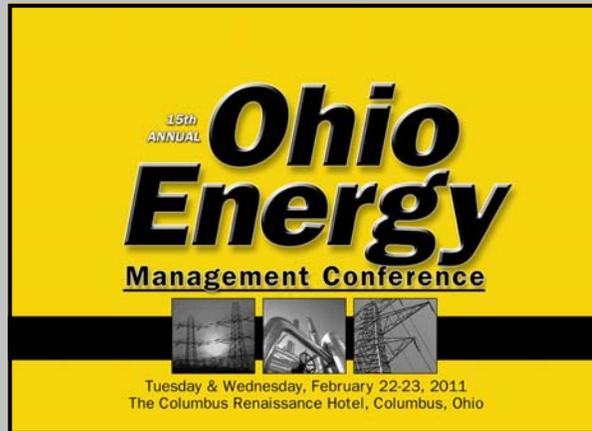
<b>Wages (From S-3, Parts II and III)</b>	<b>\$0</b>	(These are inflated wages, from cell B99 from AHW calculator).
<b>Hours (From S-3, Parts II and III)</b>	<b>0</b>	(Revised hours from cell B100 from AHW calculator).
<b>Unadjusted AHW</b>	<b>0</b>	(Should match AHW in cell B103 from AHW calculator).

<b>Nurse Occ Mix Wages</b>	<b>\$0</b>	step 7
<b>All Other Unadjusted Occ Mix Wages</b>	<b>\$0</b>	step 7
<b>Total Occ Mix Wages</b>	<b>\$0</b>	step 8
<b>Final Occ Mix Adjusted AHW</b>	<b>0.00000000</b>	step 8

**Midpoint of Cost Reporting Period for FY  
2010 Final Rule**

<b>After</b>	<b>Before</b>	<b>Adjustment Factor</b>
3/14/2006	4/15/2006	1.03269
4/14/2006	5/15/2006	1.02936
5/14/2006	6/15/2006	1.02613
6/14/2006	7/15/2006	1.02298
7/14/2006	8/15/2006	1.0199
8/14/2006	9/15/2006	1.01688
9/14/2006	10/15/2006	1.01391
10/14/2006	11/15/2006	1.01098
11/14/2006	12/15/2006	1.00808
12/14/2006	1/15/2007	1.00526
1/14/2007	2/15/2007	1.00257
2/14/2007	3/15/2007	1
3/14/2007	4/15/2007	0.99745

# Ohio Energy



## Workshop D

Major New Environmental  
Regulations Impacting Midwest  
Power Generators & The  
Impact on Natural Gas &  
Electricity Prices

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Tuesday, February 22, 2011  
10:45 a.m. to Noon

## **Biographical Information**

**Daniel P. Black, Manager, Sustainable Energy, Delta Energy LLC**  
**2674 Federated Blvd., Columbus, OH 43235**  
**614.339.2313      dblack@deltaenergyllc.com**

Dan has more than 20 years of combined energy and environmental management experience in the chemical, oil and gas, environmental consulting and state government areas. As the manager of Delta Energy's sustainable energy service, Delta Green, Dan monitors emerging environmental legislation to help energy consumers thoroughly understand the potential impacts to their business. Delta Green's focus is helping customer determine practical steps that can be taken to use less energy and also lower-emissions energy sources, while maintaining profitability. Dan holds a Bachelor of Sciences in Geosciences from Pennsylvania State University.

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# ***The Impact of Emerging Environmental Regulations on Future Energy Prices***

**February 22, 2011**

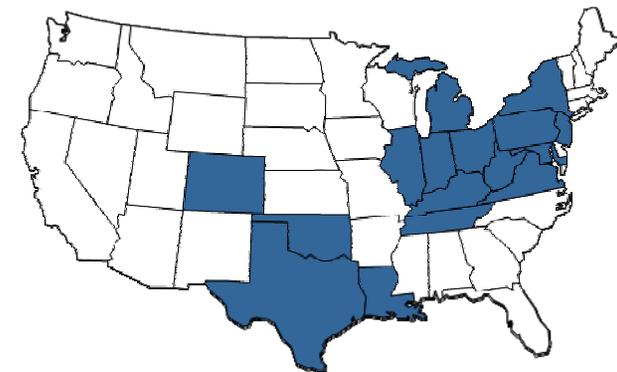
## ***The Impact of Emerging Environmental Regulations on Future Energy Prices***

- Delta Energy Overview
- Regulatory Drivers of Coal to Natural Gas Switch
- Market and Societal Drivers
- Current National Power Generation Fuel Mix
- Coal to Gas Volume Switch Projections
- Natural Gas Demand Impacts
- Natural Gas Price Impacts
- Natural Gas vs. Coal Economics
- U.S. Shale Gas Plays

# Delta Energy

- Comprehensive energy management services
  - Focus on industrial & large commercial clients
  - International capabilities (North & South America & Europe)

- 
- Natural gas supply
    - Active with industrials, commercials, utilities, marketers & producers in 16 states



# Delta Energy

- Outsourced energy procurement services
- Customizes services for clients with complex needs
- Team formed & began serving clients in 1997
- Became “Delta Energy” in 2003
- 60+ Dedicated experts with diverse energy backgrounds in the utility, producer & industrial sectors
  - Average 12+ years of energy industry experience
- Superior pipeline & utility expertise & strong industry relationships provide ability to identify innovative energy procurement & risk management options

# Some of Our Clients

## Serving Nearly 60 Multi-Facility, Industrial & Large Commercial Clients

- Manage \$4 Billion in Annual Energy Spend
- Serve Nearly 50 Fortune 500 Accounts, Including:



**HONDA**



# Drivers of Coal to Gas Switch

- **Regulatory - Air**

- USEPA's Sulfur Dioxide Final Rule
  - August 2010; 2013 – Sulfur Dioxide Monitors Required to be In-Place
- USEPA's Proposed Greenhouse Gas (GHG) Emissions Tailoring Rule
  - January 2011 for Large Facilities
  - Impacts Best Available Control Technology Standards
  - Significant Litigation Pending – Both Environmentalists & Industry
- USEPA's Ozone Transport Rule
  - Est. 2012 Compliance
- USEPA's Proposed Clean Air Mercury Rule
  - Est. Early 2011



# Drivers of Coal to Gas Switch

- **Regulatory – Water & Waste**



- USEPA’s Proposed Coal Combustion Byproducts Regulations
  - Rule Expected 2012; Compliance Period 2013-2017
- USEPA’s Cooling Water Intake Regulations – 316(b)
  - Draft Regulations Expected Early 2011; Compliance Expected Mid-2012
- Office of Surface Mining Proposed Water Quality Standard Regulations
  - Final Regulations Expected During 2011

# Other Coal Headwinds

- **Market**

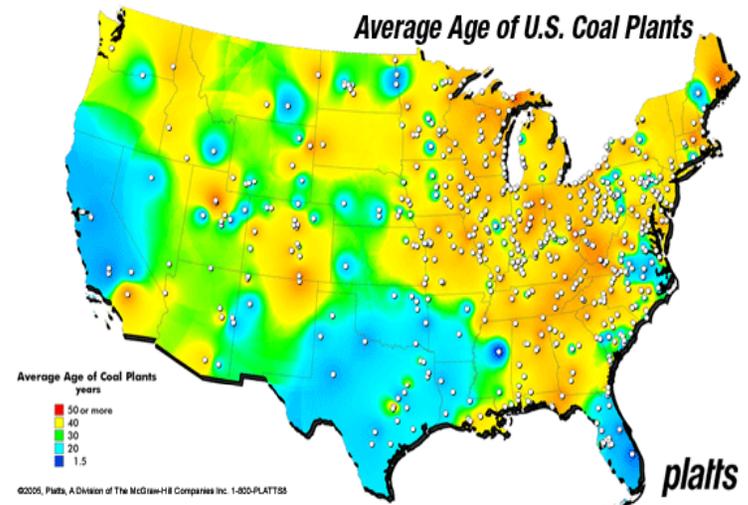
- Aging Coal-Fired Power Infrastructure

- Smaller (<200 MW) & Older (>35 Years) Plants are Most Vulnerable

- Historically Low Natural Gas Prices

- Recently Discovered Gas Reservoirs

- Marcellus (PA, WV, MD); Utica (OH)

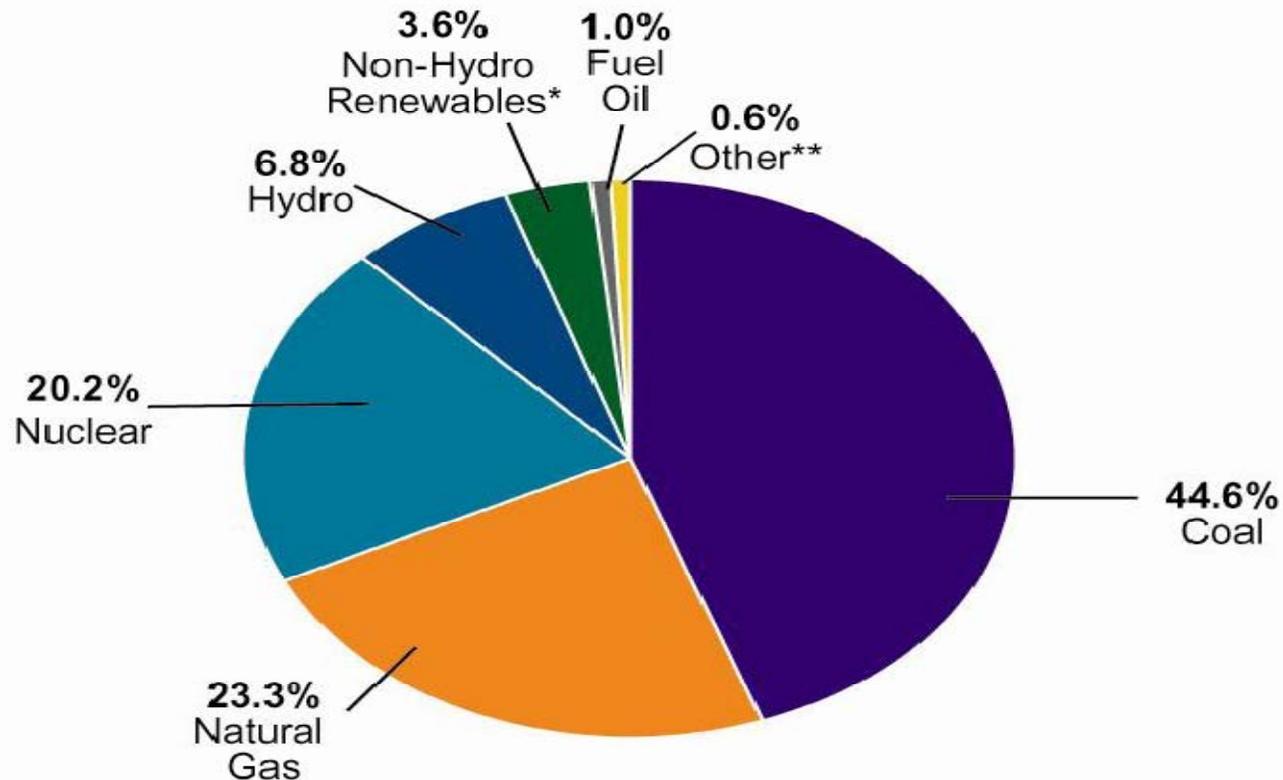


# Other Coal Headwinds

- **Societal / Other Regulatory**
  - Miner Safety Issues – e.g., Sago, WV
  - Mountaintop Mining Opposition
    - EPA Revocation of US Army Corps Permit
  - Investor/Activist Pressure on Banks and End-Users
    - Energy & Carbon Surveys from Standard & Poors
    - SEC Climate Change Disclosure Requirements – Public Companies
  - Litigation by Environmental Groups
  - Carbon Regulation? – Unlikely Near-Term; Uncertain Long-Term



# Current Power Generation Fuel Mix



\*Wind, solar, geothermal, trash-burning, etc.

Source: Edison Electric Institute, 2009 national fuel mix

## **Coal Generation Capacity Fuel Switching Projections (Through 2020)**

- Barclays – 11% - 17%
- Bernstein Research – 14% - 22%
- Black & Veatch – 16%
- Wood Mackenzie – 20%
- Credit Suisse – 18 - 22%
- Industrial Info Resources – 12%
- Deutsche Bank – 28%
- Other sources – 18 - 30%

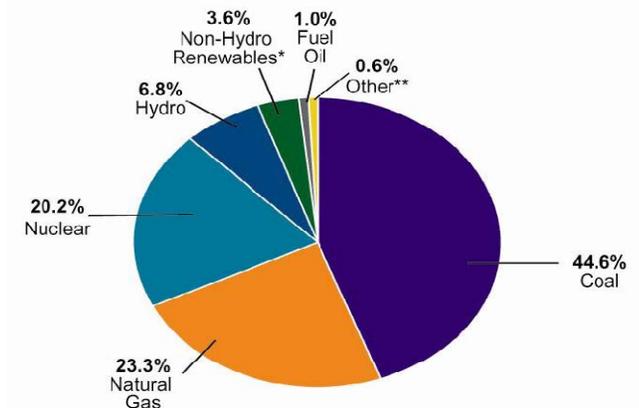


# Natural Gas Demand Impacts

## Current Power Generation Natural Gas Demand

- 18.75 Bcf/d Average March '09 Through March '10
- In General, 9-12 GW of Coal-Fired Generation = 1 Bcf/d
- Power Generation % of Total Monthly Natural Gas Demand
  - Winter – 20.53%
  - Summer – 37.48%
- Heat Load Drives Overall U.S. Natural Gas Demand
  - Winter – 81.72 Bcf/d
  - Summer – 55.83 Bcf/d
- Average Power Generation Natural Gas Demand
  - Winter – 16.78 Bcf/d
  - Summer – 20.93 Bcf/d

**NOTE: Data from RBS Sempra Commodities natural gas monthly**



# Natural Gas Demand Impacts

## Estimate of Future (2015-2020) Power Generation Natural Gas Demand

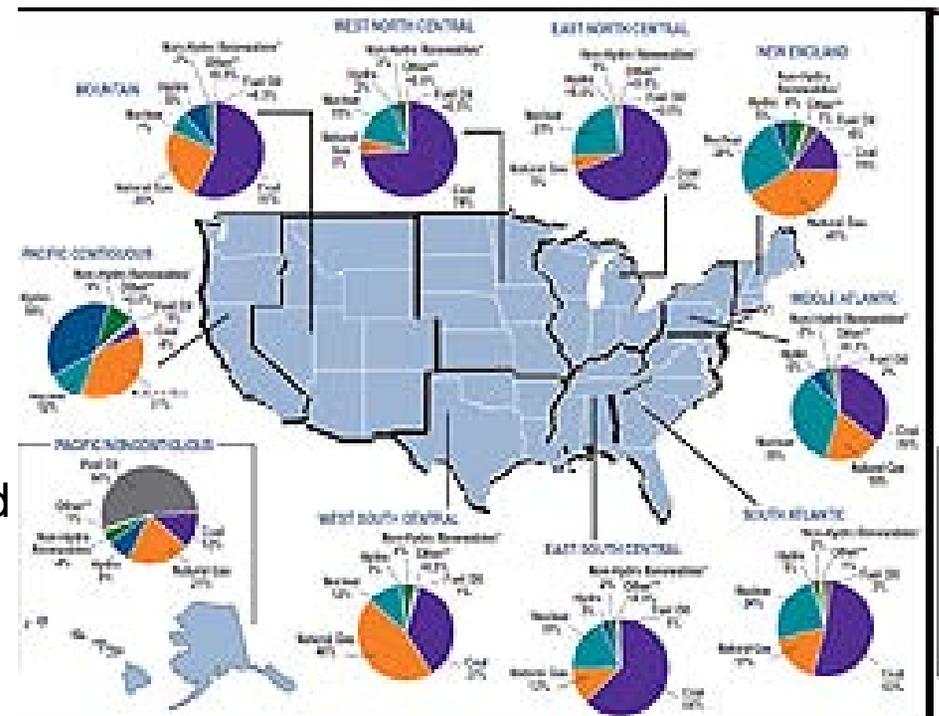
- Impact will likely vary seasonally:
  - Winter – incremental demand range: 2.35 – 5.03 Bcf/d
    - 2.9% to 6.2% increase
  - Summer – incremental demand range: 2.93 – 6.28 Bcf/d
    - 5.2% to 11.2% increase

**NOTE:** Data used from RBS Sempra Commodities natural gas monthly

# Natural Gas Price Impacts

- INGAA estimates 50 GW coal retirement in near-term, concentrated in WI, IL, MI, IN, OH, KY, TN, MS & AL
- Both national and local impacts, concentrated in Midwest (regions with large, purple pie pieces)
- Price impacts will vary seasonally, matching normal Summer and Winter gas contracts
- Bigger impact to summer prices likely due to power generation cooling demand

INGAA = *Interstate Natural Gas Association of America*



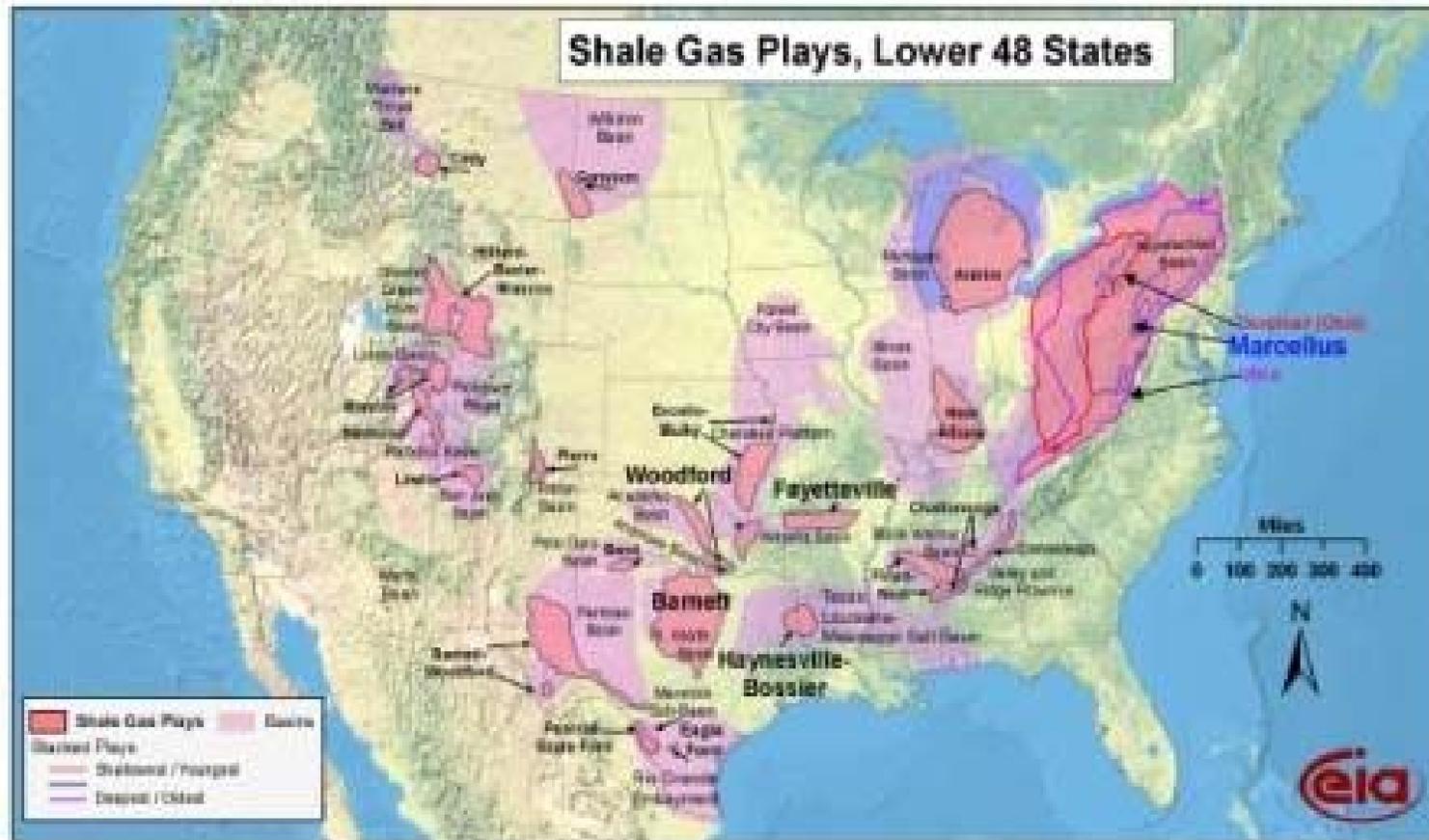
## **Natural Gas vs. Coal Economics**

- **New Coal-Fired Power Plant is ~3-4 Times the Cost of Comparable Combined-Cycle Natural Gas Power Plant**
- **Future Fuel Costs Uncertain**
  - Natural Gas Demand Projections Could Translate to \$8 Gas by 2020
- **Current Fuel Parity Estimates Put \$4/mmbtu Gas = Coal**
  - Fuel-Switching @ Dual-Fuel Generation Plants Occurs at ~\$4

## **Natural Gas vs. Coal Economics**

- **Shale Gas Economics Will Drive Long-Term Gas Generation Prospects**
  - Production Rates
  - Number of Shale Gas Plays Throughout North America
  - Production Life of Shale Gas Assets
  - Accessibility of Shale Gas Plays to Gas Transportation Assets

# U. S. Shale Gas Plays



Source: Energy Information Administration based on data from various published studies.  
Updated: March 10, 2010

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