

Colorado Legislative Council Staff Fiscal Note

**STATE
FISCAL IMPACT**

Drafting Number: LLS 15-0735
Prime Sponsor(s): Sen. Lambert
 Rep. Young

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Bill Status: Senate Appropriations
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BILL TOPIC: TRANSFER VOCATIONAL REHAB FROM DHS TO CDLE

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue		
State Expenditures	\$665,330	
General Fund	665,330	Potential increase.
FTE Position Change		
Appropriation Required: \$665,330 - Department of Labor and Employment (FY 2015-16)		

* This summary shows changes from current law under the bill for each fiscal year.

Summary of Legislation

The bill, **recommended by the Joint Budget Committee**, transfers the state's vocational rehabilitation programs from the Department of Human Services (DHS) to the Colorado Department of Labor and Employment (CDLE) beginning July 1, 2016. The bill outlines the terms of the transfer of the programs to the CDLE, including the transfer of existing employees, property, records, functions, and contracts that currently are part of the vocational rehabilitation programs in the DHS. The two departments are required to prepare a detailed transition plan by December 1, 2015, and present the results of the plan to the Joint Budget Committee and the relevant legislative oversight committees for each department. The transition plan must include any statutory changes or budgetary recommendations needed to effectuate the transfer of the vocational rehabilitation programs. The departments are required to incorporate stakeholder feedback and recommendations when developing the transition plan.

Background

The Division of Vocational Rehabilitation in the DHS provides work-related assistance to individuals with disabilities who have barriers to employment or independent living. Services are provided at 43 field and satellite offices located throughout the state. Rehabilitation counselors work with clients to assess their needs and identify appropriate vocational rehabilitation services. The division also administers state and federal grants to independent living centers that work to enable individuals with disabilities to live independently and to programs that serve elderly blind individuals. In FY 2014-15, the DHS was appropriated \$53.8 million and 231.2 FTE for the Division of Vocational Rehabilitation. Of this amount, \$43.9 million and 223.7 FTE are for the vocational rehabilitation programs transferred to the CDLE under the bill.

State Expenditures

The CDLE will have costs of **\$665,330 in FY 2015-16**, paid from the General Fund, to develop a transition plan and manage the transfer of vocational rehabilitation programs from the DHS. To plan for the transition, the CDLE will require a merger consultant and a project manager. Leased space, operating and capital expenses are also required for these staff. Costs for information technology services from the Office of Information Technology and legal services from the Department of Law are also anticipated. These costs are summarized in Table 1.

Table 1. Expenditures Under SB 15-239		
Cost Components	FY 2015-16	FY 2016-17
Merger Consultant and Project Manager	\$379,620	
Operating Expenses and Capital Outlay Costs	190,000	
Information Technology Costs	59,280	
Legal Services	18,902	
Centrally Appropriated Costs*	17,528	
TOTAL	\$665,330	

* Centrally appropriated costs are not included in the bill's appropriation.

Program costs. For FY 2016-17, the fiscal note assumes that the existing appropriations to the DHS for vocational rehabilitation (approximately \$43.9 million and 223.7) will be transferred to the CDLE, resulting in no net change in direct program costs.

Administrative costs. For FY 2016-17, the fiscal note also assumes that central administrative staff directly related to the administration of the vocational rehabilitation programs in the DHS will also be transferred to the CDLE (at least \$256,000 and 3.4 FTE); with no net change in costs to the state overall.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. Most centrally appropriated costs subject to this policy, such as employee insurance and supplemental employee retirement payments will transferred from the DHS to the CDLE and adjusted as necessary through the annual budget process, resulting in no net change in costs. Indirect costs, also subject to this policy, are discussed below.

Indirect costs. Indirect costs are central administrative and support service costs that cannot be attributed to a specific program or division. These costs are paid through indirect cost recoveries that are assessed on programs according to a cost recovery plan (in the case of the DHS, this is a federally approved Public Assistance Cost Allocation Plan). The fiscal note assumes that the bill reduces indirect cost recoveries paid using vocational rehabilitation funds in the DHS and that overall administrative costs in the DHS will be also be reduced following the transfer of a relatively large program such as vocational rehabilitation. Correspondingly, costs in the CDLE will increase, along with indirect cost recoveries from vocational rehabilitation funds.

Given that there are certain fixed costs to operate state agencies, the changes in indirect costs and recoveries in the two departments may not correspond exactly, and the funding sources for indirect cost recoveries may change. For the DHS, this could result in the need for additional General Fund appropriations to cover the loss of federal funds currently available from the vocational rehabilitation program. However, the fiscal note does not estimate or include these potential costs because they will depend on the transition plan developed under the bill and overall department needs unrelated to this bill. As with other centrally appropriated costs, it is assumed these costs will be addressed through the annual budget process.

Effective Date

The bill takes effect July 1, 2016, except that Sections 1, 12, 13, and 14 take effect upon signature of the Governor or upon becoming law without his signature.

State Appropriations

For FY 2015-16, the bill requires and includes an appropriation of \$665,330 General Fund to the CDLE, of which \$18,902 and an additional 0.1 FTE is reappropriated to the Department of Law, and \$59,280 is reappropriated to the Office of Information Technology.

Departmental Difference

The DHS estimates that it will require a General Fund appropriation of about \$1.0 million in FY 2016-17 to make up for lost federal funding through the vocational rehabilitation program that is currently used for indirect cost recoveries. While the fiscal note recognizes the potential need for additional General Fund for this purpose, this specific estimate is not included for several reasons. First, the DHS estimate assumes that indirect costs in the DHS will not change following the transfers of the vocational rehabilitation programs. The fiscal note disagrees with this and assumes that, by definition, there will be some reduction in centralized costs following the transfer of a large program. Second, this potential cost is better addressed through the annual budget process after thorough transition planning has been completed and while accounting for the overall needs of the DHS for the remaining programs.

State and Local Government Contacts

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Labor and Employment

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