ANALYSIS

Construction Contractors Board
Revenue, Staffing, and IT System Update

Analyst: Ben Ruef

Request: Acknowledge receipt of a report on revenue, new licensing system timeline, and agency-wide staffing needs.

Analysis: The Construction Contractors Board receives approximately 86% of its operating revenue from construction contractors licensing and fees. Due to uncertainty about declining licensing numbers and potential revenue impacts during the development of the 2021-23 legislatively adopted budget, the Construction Contractors Board (CCB) was directed to return to the Legislature during the 2022 legislative session to report on:

- Actual and projected revenues for the 2021-23 and 2023-25 biennium;
- An updated timeline and proposal for resourcing a new licensing system as a result of this revenue outlook; and,
- A comprehensive review of agency-wide staffing needs, to include an assessment of long-term budget and accounting needs.

The report provides updates on revenue projections as well as an estimated timeline for provisioning replacement of the agency's license system and a preliminary assessment of the agency's long-term staffing needs.

<u>Revenue</u>
The agency's 2019-21 revenue came in at $14,429,005 which is $336,615, or 2.3%, less than projected. According to the report this is not concerning due to license applications and license renewals remaining stable during the course of the biennium. Current biennium actual revenue through January 2022 totals $4,908,583 and is projected to come in $1.21 million over the level assumed in the 2021-23 legislatively adopted budget. This leaves the agency a projected ending balance of $4.5 million or approximately 6.2 months of operating expenses. The $4.5 million projected ending fund balance is approximately $1.8 million lower than the 2019-21 ending fund balance, indicating that expenses are outpacing revenues although this was anticipated and built into the budget. A licensing fee increase from $250 to $325 effective July 1, 2022 is expected to help bring revenue to a level that balances with expected expenses.

Due to economic uncertainty the agency has set an ending fund balance target of six months operating expenses. In addition, leadership has also set an additional savings goal of $750,000 which represents the estimated five-year cost of the new license system replacement. The current projected 2021-23 ending fund balance is about $560,000 short of this goal.

<u>Replacement Licensing System</u>
The agency's current license database is over 30 years old and unable to adapt to changing business needs due to the loss of the system's source code years ago. The agency's replacement licensing database information technology (IT) project received Stage Gate 1 certification from the Department of Administrative Services in February 2020. Work on Stage Gate 2 certification has begun with a

completion timeline goal of winter 2020. Funding for the IT project implementation remains uncertain because, as noted above, the ending fund balance needed to support the project is currently projected to be short of the savings goal. The agency's implementation completion goal is currently set for December 2024.

Agency Staffing Needs

The agency's staff to contractor ratio fell 23% from a high of 1 to 566 in 2007 to a ratio of 1 to 697 in 2022. In addition, the agency has been holding six positions vacant to help reach its financial goals for the biennium. Licensing, enforcement, contractor education, and administration are all affected by these reduced staffing levels. The agency is taking a wait and see approach with licensing staff levels in anticipation of efficiencies from the implementation of a new licensing database, although these efficiencies will not be realized for two years at the earliest.

Enforcement staffing has remained at the same level since 2015 despite industry growth. The agency has adapted to this workload growth using a combination of cross-training and assistance from the Department of Consumer and Business Services Building Codes Division. Education and outreach for contractors and consumers is provided by a small four-member team. The regulatory environment continues to grow more complex as do the educational needs of the agency's customers. The agency is struggling to keep up with these changes and has a long-term goal to add at least one staff member to this team.

Administration staffing is currently lacking in human resources, financial analysis, information services, policy, and legal support. Much of this is due to the agency holding six positions vacant since early 2020 to help fund the new licensing system IT project. As a temporary measure, some essential administrative responsibilities are being covered by other, non-administrative staff. Cognizant that this is not a sustainable practice the agency plans to fill the vacant administrative positions using a staggered approach.

Next Steps

The Construction Contractors Board has agreed to keep the Legislative Fiscal Office informed about financial status, progress on the new licensing system, and staffing challenges over the remainder of 2022. Updates on these issues will also be provided by the agency as part of its budget hearings during the 2023 legislative session.

Recommendation: The Legislative Fiscal Office recommends acknowledging receipt of the report.

Oregon
Kate Brown, Governor

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Senator Elizabeth Steiner Hayward, Co-Chair
Representative Dan Rayfield, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
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Dear Co-Chairs:

This report provides informational updates requested during authorization of the 2021-2023 Construction Contractors Board (CCB) budget. At the time of budget authorization, the agency highlighted the potential for ongoing revenue fluctuations as a key uncertainty for the current biennium. This uncertainty, coupled with prior biennia actions that negatively affected ending balance, caused the agency to defer needed investments in information technology (IT) and staffing. This report provides updates on revenue projections as well as an estimated timeline for provisioning replacement of the agency's license system and a preliminary assessment of the agency's long-term staffing needs.

Summary

CCB continues to prioritize sustainable financial administration – attempting to build ending balance to support long-term investments in information technology (IT) and staffing. The agency's financial status continues to be shaped by prior biennia decisions to reduce ending balance through temporary fee reductions rather than make needed investments. The ongoing economic impact of the pandemic continues to create uncertainty.

The agency does not request modification to its current budget. License system replacement and possible refinements to staffing, will be deferred until they can be financially justified.

Overview

At the time of budget authorization the legislature requested updates during the 2022 legislative session on the following financial and operational topics:

1. **Revenue Outlook:** Provide an update on actual revenues as well as updated projections for the duration of 21-23 and 23-25.
   Summary: Through most of 2019-2021 CCB experienced only slight decreases in revenue attributable to the pandemic. Beginning in July 2021, key revenue activities began to

decline slightly. Agency projections for 2021-2023 accounted for this potential decline and to-date the reductions have not fallen below agency projections. However, given the ongoing economic uncertainty, CCB will likely persist in a cautious approach to agency spending and revenue projection with the primary goal of building ending balance to the level that justifies much-needed long-term investment in IT and staffing.

2. **IT Investment – License System Replacement:** Provide an updated timeline and proposal for investment in a new license system.
Summary: Revenue uncertainty and the status of the agency's ending balance continues to defer a formal authorization request. However, the agency hopes to make a request during the 2023 legislative session. Notwithstanding the absence of a formal authorization request, the agency remains proactive in planning, research, analysis and related modernization efforts that will support a streamlined and successful implementation.

3. **Agency Staffing:** Provide an assessment of agency-wide staffing needs as well as any request for modification.
Summary: Revenue uncertainty will continue to defer immediate changes to staffing. The agency continues to hold some needed positions vacant in order to maintain ending balance in support of needed IT investment. However, the agency has conducted an analysis of long-term staffing needs. As part of the 2023-2025 budget process the agency may ask for some modifications to existing staffing that will staff the agency more appropriately in key areas (budget) and support license system replacement.

Revenue Outlook Update:
Request: Provide an update on actual revenues as well as updated projections for the duration of 21-23 and 23-25.

Updated revenue projections for 2021-2023 along with a preliminary range of projection for 2021-2023:

- 2021-2023 Agency Request Budget (ARB) Projection: $14.4 Million (April 2020)
- 2021-2023 Governor's Recommended Budget (GRB) Projection: $15.9 Million (September 2020)
- 2021-2023 Legislatively Adopted Budget (LAB) Projection: $15.9 Million (April 2020)
- 2021-2023 Actuals + Revised Projections: $17.11 Million (Actuals through November 2021)
- 2023-2025 Preliminary Projection: $16,262,852 -- $17,974,730 (+/- 5% from 21-23 projection)

The trajectory detailed above demonstrates that the initial dire projections at the onset of the pandemic did not transpire as immediately or as acutely as initially anticipated. The agency finished the 2019-2021 biennium only $250,000 under its initially projected revenue for the biennium. The two primary revenue activities, new license applications and license renewals, remained stable over the course of 2019-2021 (see below) and generally in line with prior years. The $250,000 gap in anticipated revenue is most likely attributable to anticipated growth that did not materialize, rather than substantial decline in key revenue activities. Through June of 2021 the economic impact of the pandemic on the construction industry did not appear to materialize, *at least in ways that could be directly seen in CCB's revenue.*

However, more recent months of activity indicate the potential for shrinking revenues as key economic drivers continue to negatively impact the development sector. Beginning in July, the broader economic factors impeding the development sector and construction industry (supply chain issues, material costs, labor shortages etc.) became slightly more evident in the agency's key revenue categories:

<u>Average License Renewals</u>

- July – December 2019: 83.9%
- July – December 2020: 82.9%
- July – November 2021: 78.4% (December data is preliminary due to renewal timelines)

<u>Average Monthly New License Applications</u>

- July – December 2019: 366
- July – December 2020: 351
- July – December 2021: 344

As noted, likely causes for the recent decline may be inflationary issues affecting cost and availability of materials across many sectors and labor cost and availability. More broadly the sense of economic uncertainty flowing from broader inflation as well as the likelihood of interest rate increases early in 2022 may cause additional reductions.

The relatively small decline in revenue activities has an outsized impact, given the decision by prior leadership to reduce ending balance through fee reductions rather than retain ending balance to support needed investments and to supplement revenue shortfalls during economic turmoil. As such agency leadership has been compelled to act more judiciously than might have otherwise been warranted if the agency had a more appropriate ending balance. This has been achieved by deferring the needed IT investment as well as deferring needed refinements to agency staffing (both detailed below).

The combined effect of these multiple factors on the agency's 2021-2023 ending balance is provided below:

- 2021-2023 ARB Projection: $1.73 Million (Less than 3 months operating balance)
- 2021-2023 GRB Projection: $2.59 Million (Approximately 4.2 months operating cash)
- 2021-2023 LAB Projection $2.243 Million (Approximately 4.0 months operating cash)
- 2021-2023 Actuals + Projections: $4.45 Million (Approximately 6.2 months operating cash)

The positive shift in projected ending balance is a combination of revenue continuing to run slightly ahead of the agency's conservative projections, as well as agency leadership's proactive effort to hold certain vacancies in order to build ending balance to the level that justifies investment in the new license system. However, it is important to view the projected ending balance in light of the potential for additional decline in revenue as well as the need to make significant investments in the agency's long-term stability.

Given the potential for additional decline in revenue, the agency believes that six months is an appropriate ending balance to maintain in order to reduce the potential for ongoing reductions.

Additional months of operating cash will be considered dedicated to the provisioning of the new license system (discussed below).

Current leadership has established a target of six months operating cash as well as $750,000, the estimated five-year cost of the license system replacement. This target amounts to $5,017,498. Based on current projections the agency is approximately $560,000 short of this target.

Conclusion: Revenue Outlook
Because the agency has been proactive in managing the circumstances noted above – holding vacancies to generate savings and being conservative in projecting revenue – no additional action is warranted based on this most recent data *at this time*. The agency will continue to closely monitor actual revenue and make modifications and adjustments as actual revenue supports the action. In the meantime, the agency continues to plan and prepare for needed investments in IT and staffing as noted below, so that the agency is ready to act when the investments can be financially justified.

License System Replacement Project Update
Request: Provide an updated timeline and proposal for investment in a new license system.

The combined effect of revenue uncertainty and prior biennia decisions to reduce ending balance through fee reductions necessitated temporary deferral of an essential IT investment – license system replacement. However, the agency remains proactive in planning, research, analysis and related modernization efforts that will support a streamlined and successful implementation.

Based on current projections as well as the progress to date, the agency has established the following *tentative* timeline for provisioning a replacement to the agency's current license system:

- Mid-to-late 2022: Complete Stage Gate 3 (allows budget authorization request)
- Early 2023: Request funding authorization
- Early 2023: Begin procurement process
- Late 2023: Award Contract
- Late 2023, Early 2024: Begin Implementation
- End of 2024: Complete implementation, ongoing operation and maintenance

Agency leadership has established a tentative ending balance target that will allow the agency to justify moving forward in a responsible manner. The target is to achieve six months operating cash as well as $750,000, the estimated five-year cost of system replacement. This amounts to approximately $5 million in operating cash (about $560,000 short of the current ending balance projection for 2021-2023).

The established target establishes an admittedly conservative approach to the replacement project. However, agency leadership believes the conservatism is warranted when considering all the circumstances. The approach is an attempt to balance the following:

- Potential for additional reductions in anticipated revenue;

- Desire to navigate additional reductions without making significant reductions to services;
- Ability to complete the project, once started, regardless of any additional economic decline.

The established target is a guideline, not a hard threshold. The attempt is to balance the agency's long-term priorities with current service demands. The timeline may be adjusted slightly to account for variables, including the legislative timetable and ability to request authorization.

The identification of the need to replace the agency's existing license system is not new. The agency's current license database is over 30 years old, antiquated and inefficient. The agency's 2017-2019 budget included funding for an analyst to scope the project in anticipation of replacement. However, delays, loss of staffing and then financial issues have all contributed to the ongoing delays. Balancing this long-term need with current financial realities is the key financial issue for the organization over the next five years.

Notwithstanding the financial uncertainty, the agency made significant progress on the planning and preparation during the 2019-2021 biennium, including:

- **Enhance the stability and security of existing infrastructure**: The agency has made considerable improvements over the past three years in stabilizing and upgrading its existing IT infrastructure.
- **Complete business Plan and justification**: The agency has completed the initial project justification. DAS/EIS has approved the agency's Stage Gate 1 business plan.
- **Ongoing streamlining and Modernization:** The agency continues to invest considerable time and effort in streamlining and modernizing existing processes to facilitate a more streamlined transition.
- **Ongoing research and planning:** the agency has done significant outreach to other similar agencies that have or are now going through the same process. The agency has benefitted significantly from the experience and work of other agencies and has incorporated this knowledge into our own planning effort.
- **Development of detailed system requirements:** This is one of the most labor-intensive aspects of the development of a license system request for proposals (RFP). The agency has already begun this process and is working closely with subject matter experts in each program. The agency is also benefitting from the outreach to other agencies in this regard – the agency does not need to reinvent the wheel.

<u>License System Replacement Conclusion</u>
The agency is working expeditiously to prepare and plan for the inevitable replacement with a focus on learning from the experiences of other agencies in order to avoid reinventing the wheel and to increase the likelihood of success. While the ultimate timing is still dependent on further financial clarity, the agency is confident that it is on the right track with respect to planning and preparation for this needed investment.

<u>Agency Staffing Needs Update</u>

<u>Request:</u> Provide an assessment of agency-wide staffing needs as well as any request for modification.

Several factors make an accurate assessment of the agency's long-term staffing needs difficult *at the present time*. These factors include:

- **Current financial retrenchment**: Until recently CCB had been in a functional hiring freeze since early 2020, holding approximately 10% of agency positions vacant (6 positions out of roughly 60 full-time permanent positions).
- **Desire to prioritize retaining ending balance to support IT investment**: Agency leadership made the strategic decision to prioritize replacement of the agency's license system by holding vacancies and building ending balance. This was not a reflection of long-term operational needs but the need to prioritize one investment over another.
- **Failure to keep pace with growth in industry**: The agency is currently staffed at a level that aligns with the low-ebb of the prior economic recession. The following table charts the downward shift in staffing to reflect the significant decline in contractors between 2007 and 2015, with no adjustment to reflect the growth since.

Year	Staff	Contractors
2007	80	45,299
2015	62	34,817
2019	61	40,588
2022	59	41,142

- **Potential for enhanced efficiency with new license system:** It is anticipated that the new licensing system will provide substantial improvements to the efficiency of agency operations that may obviate the need for additional staff to keep pace with industry growth.

Each of these factors have, to some extent, weighed on agency staffing decisions over the past two years and will continue to factor into any decisions to request adjustments to existing staffing. Notwithstanding these factors, the agency conducted an analysis of possible long-term staffing needs, which revealed several categories of potential need, summarized below:

- **Staffing needed to keep pace with growth in construction industry**: As outlined above, agency staffing has not kept pace with growth in the construction industry. The operational areas most affected by industry growth are licensing, enforcement and contractor education. These are the most likely areas to require augmented staffing to reflect industry growth. Summaries of actions taken to date and possible future staffing needs follow:
    1. **Licensing:** Licensing did receive one additional staff position in 2019 to reflect growth. Licensing is also the function that is most likely to experience significant increases in efficiency with the new license system. In addition, agency leadership has re-directed existing staff resources from IT to licensing to support ongoing process improvement and modernization (approved as part of 2021-2023 budget authorization).
    Likely Outcome: The agency does not anticipate any additional staff requests for licensing until after system replacement and subsequent reassessment of need.

2. **Enforcement:** The enforcement section has not increased in staffing since the 2015 reductions noted above. If the industry continues to grow, there will be a corresponding escalation in the agency's ability to provide statewide enforcement. However, the agency has made substantial increases to efficiency of enforcement operations through cross-training of field investigators to provide both investigation and mediation services. In addition, the agency is pursuing a revised Inter-Agency Agreement with Building Codes Division (BCD) to provide enforcement services at a more desirable rate that will provide additional revenue support for the enforcement program. These pro-active efforts have provided significant benefit to the program that have offset the inability to keep pace with industry growth.
   <u>Likely Outcome:</u> The agency anticipates the addition of staffing to support industry growth at some point. However, this will not take place until resources are sufficient to support the license system replacement as well as the increased staffing. Given the efficiencies noted above, it is anticipated that no more than two additional staff would be needed to keep pace with the current growth.

3. **Education:** Education is a small group, comprised of only 4 total staff responsible for providing education to all contractors as well as outreach and education to consumers. As contractor numbers increase and construction industry activity increases, the need for education to both consumers and contractors increases as well. In addition, the regulatory environment that contractors operate within grows more complex every day. As that occurs the demand on the education group to help contractors remain in compliance grows more complex as well.
   <u>Likely Outcome:</u> The agency has identified a long-term need for an education specialist with an understanding and background in the construction industry and the broader regulatory environment. This is a long-term need that will be prioritized below license system replacement and enforcement demands and may require changes to revenue in order to support the addition.

- **Staffing needed to increase subject-matter expertise in key areas**: Given the relatively small size of CCB, achieving the appropriate level of in-house expertise in key areas such as budget, human resource (HR), IT and legal expertise can be difficult. Agency leadership has identified this as a strategic priority and has already made some enhancements in this category that were approved during the 2021-2023 budget authorization. In most cases, this will not consist of addition of full new positions but refinements to existing positions through reclass or similar action.
  <u>Prior action</u>: During the 2021-2023 budget authorization the agency proposed and had approved two such changes. Both changes were financed by the agency using existing position resources. The first created a new HR specialist position, de-coupling the HR function from the existing budget manager position. This provided the agency with subject matter expertise in HR and greater flexibility in hiring a key leadership post. The agency also repurposed an existing IT position to better reflect the need for ongoing process optimization, improvement and modernization within the licensing program.
  <u>Existing Needs</u>: Two areas remain inadequately addressed to date, budget expertise and legal expertise. Of these two areas, budget expertise is the more acute need and will be

addressed first. The demand for in-house legal expertise is a longer term need and will be addressed at some later stage of organizational development.

The lack of appropriate budget expertise at the staff level is a serious issue and may have contributed to the misguided decision to reduce fees for two biennia in a row. Based on research and analysis of comparable budgets, the appropriate level of staffing for CCB's budget needs is a Fiscal Analyst 2.

Likely Outcome: The agency anticipates requesting authorization to re-class the existing Fiscal Analyst 1 position (currently vacant) to a Fiscal Analyst 2 position as part of the 2021-2023 budget authorization. At this point the agency will move to bring budget services back within the agency (beginning April 1, 2020, CCB commenced a service contract to receive budget services from DAS/SFS).

- **Specialized Expertise to support license system replacement**: As discussed above the agency hopes to be in a financial position to move forward with license system replacement within the next two years. The agency has conducted research and estimates a $750,000 five-year cost of replacement. Part of this replacement cost is the onboarding of staff with specialized expertise needed to support the implementation of the new system. Planning is currently underway and the agency has an approved Stage Gate 1 approved business plan with DAS/EIS. The agency is learning a great deal through outreach and engagement with sister agencies going through a similar process and anticipates that this research will inform the agency's ultimate request.

  Key areas of anticipated staffing include business system analysis, project management and temporary staffing to support the replacement project. The size, scope and duration of the position request will be shaped by the project itself. The agency hopes to know more in advance of 2023-2025 budget submission.

  Likely Outcome: the agency hopes to be able to support a request for license system replacement as part of 2021-2023 budget authorization. As noted, the full size and scope of the position component of this request will be determined based on significant and detailed research but is not defined at this time.

Conclusion Agency Staffing

The current period of economic uncertainty and the resulting necessity for artificially reducing staffing make full analysis of position needs difficult. The agency has been pro-active at managing within existing resources while attempting to limit impact to services. Nonetheless, the agency has identified several categories of position needs that through additional analysis could result in some request for modification to existing staffing during the 2023-2025 budget authorization.