

Agency: 110 Office of Administrative Hearings
Decision Package Code/Title: N2 ALJ Recruitment and Retention
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

The Office of Administrative Hearings (OAH) requests \$370,000 in FY2017 to provide for salary increases for frontline Administrative Law Judges (ALJs) to address urgent recruitment and retention problems. This request affects OAH ALJs who, but for their exempt civil service status, would have received regular step increases. The increased difficulty recruiting and retaining well-qualified judges jeopardizes the mission that OAH performs for the benefit of state agencies, businesses and the public.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
484-1 Administrative Hearings Revolving-State		370,000	370,000
Total Cost		370,000	370,000

Revenue

<u>Fund</u>	<u>Source</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
484 Admin Hearings Revol	0420 Charges for Services		370,000	370,000
Total Revenue			370,000	370,000

Package Description:

OAH requests funding of \$370,000 in FY2017 to acquire and retain well-qualified Administrative Law Judges who conduct hearings for individuals, families, businesses and referring agencies. The recruitment salary level for new judges would be set at \$80,000. Current non-supervising judges, half of whom make less than the recruitment target of \$80,000, would be given the higher of a five percent salary increase or the \$80,000 salary level on July 1, 2016. In subsequent years, non-supervising judges would receive a five percent salary increase on their OAH hire date in each fiscal year until reaching the OAH salary cap for ALJs (\$87,550 for all Line ALJs, and \$92,700 for Lead ALJs). The average salary for Line ALJs is currently \$77,420 and would increase by 1.8% to \$78,814 beginning July 1, 2016 due to the enacted statewide COLA.

Meeting OAH's mission depends upon the availability and competence of our ALJs. This request addresses the effects of the disparity caused by sustained salary freezes on our ALJs who, but for their exempt civil service status, would have received regular step increases.

This adjustment is necessary for the following reasons:

1. During the Great Recession OAH hired very well-qualified applicants at below current market rates. In the current improved economy and job market, hiring qualified applicants requires paying the new hires at rates higher than current experienced and proven judges receive.

2. Current OAH judges have fallen behind the pay level of comparable positions in other governmental agencies. Current ALJs who were here as of July 2007 have not had a salary increase up until the last 3% COLA in July 2015. As a group, relative to similar positions in other state agencies, OAH ALJs have had their salaries frozen for eight years while other state agencies' personnel with similar responsibilities in classified positions were able to receive periodic step increases.
3. External policies for exempt employees as well as OAH's central service model fee recovery funding structure did not allow OAH judges to receive regular increases to stay competitive.
4. OAH's recent recruitment of entry judges has an average starting salary of \$66,948. This is not competitive in the improved market for legal talent. For example, when the Board of Industrial Insurance Appeals (BIIA) hires new judges, including judges recruited from OAH, the starting salary is \$85,380.
5. Well-qualified, trained and experienced OAH judges find they can only receive a pay increase if they leave OAH to go to another state, local government, or federal agency. As leaving OAH becomes the path to catch-up with the years of salary freezes, turnover increases and morale suffers.
6. This increased turnover drives the need for more recruitment and reduces efficiency.

The result of this cycle continuing is that OAH and our client agencies will experience progressively declining quality and ultimately higher costs. This happens as less qualified new hires take longer to master the complex laws and regulations they apply in their case analysis, written orders and the challenging hearing management skills required of being an administrative law judge.

OAH ALJ's exempt status has contributed to this compensation problem but not because it is a flawed structural characteristic of OAH's legislative charter but because the way exempt status employment have been treated in the budget process. Indeed, the ALJ's exempt status is part of a deliberate legislative intent to further OAH's independence in judicial decision making in fact and appearance. When OAH was created in 1981, the Legislature structured OAH with features to foster independence by:

1. Establishing that OAH Judges are exempt from civil service.
2. Extending the rights of judges, unlike other state employees, to appeal employment termination directly to Superior Court.
3. Setting the Chief ALJ term to five years, deliberately not synchronized with the Governor's four-year term.
4. Limiting the Chief ALJ termination to a "for cause" standard.
5. Providing OAH with a dedicated account for funding its activities that serves to insulate OAH from client (state) agency budget decisions.

The single most important success factor for accomplishing OAH's mission is the quality of our judges. Beyond any other input (facilities, technology or support staff) OAH's mission is dependent upon our judges. A judge must possess the legal knowledge of the Administrative Procedure Act and multiple state agencies' laws and rules, and have the ability to conduct hearings with a demeanor and level of communication that provides access to justice for appellants. Appellants in hearings are often highly distressed and emotional and they are often representing themselves. They are also often not familiar with legal proceedings or the legal issues involved. The ALJ must have the skills to handle these situations while also complying with stringent legal requirements that are subject to further judicial scrutiny.

After the hearing, the judge must research, write and issue an order on the case that is professional and meets external and internal standards for quality, often with very short writing deadlines. Finally, in order to control costs, our judges are trained to conduct hearings in a way that makes efficient use of their time while providing the parties to the hearing an opportunity to be and to feel that they have had time to be heard.

Unlike many government business processes, the judge's performance during the conduct of a hearing is a singular exercise of professional talent and is the most important element in the customers' (i.e., the parties to the case) experience. An experienced OAH judge is able to strike the proper balance between the requirements of due process while efficiently managing their daily docket of cases.

OAH employs approximately 75 exempt non-supervising Administrative Law Judges who provide independent decisions to the public

regarding appeals from determinations made by state and local government agencies. Our ALJs' exempt status promotes public trust and confidence in their independence. Unfortunately, this exempt employment structure provides no regular, annual salary increases like those provided in the classified employment structure. Since 2007, the salaries of our exempt ALJs have remained the same and now that the economy is recovering, OAH is experiencing significant turnover.

Recruitment and Retention

OAH is experiencing a high rate of turnover in our ALJ positions. Between July 2014 through June 2015, 18, equal to 22% of ALJ's have left the agency. In the current quarter (July - September 2015,) an additional five ALJs have left which is a rate of 7% for the quarter and is equal to the turnover for the entire year during Great Recession year of 2010. ALJs who have left OAH stated in their exit interviews that salary was a key factor in their decision to leave.

OAH is behind the legal market for competitive salaries; more jobs are available in the current legal market than in the last five years of the Great Recession. OAH has not kept up with the competition and is now experiencing additional cost of re hiring including recruitment, training, and lost productivity.

Another factor causing our judges to exit is the opening of federal administrative law judge positions. A federal administrative law judge's entry annual salary for the Puget Sound region is \$128,997 while OAH ALJs entry average is \$77,420. OAH has been a virtual training ground for federal ALJ positions. As testimony to the value of OAH experience and training, thirteen OAH ALJs have been hired by the federal government since 2009. It is important to note that taking a federal position usually includes the disruption of relocating to other states.

At the state level, OAH is experiencing turnover of our judicial staff to other state agencies such as the Board of Industrial Insurance Appeals (BIIA). The classified structure used by BIIA and other state adjudicatory agencies provides predictable salary increases on an annual basis and were not subject to the statewide salary freezes for exempt employees from 2008 to June 2013. Classified staff in analogous positions, such as the BIIA industrial appeals judge positions, received annual step increases as they were not affected by the statewide salary freeze. This has caused several of our judges to leave OAH and move to BIIA because they can receive more pay and annual raises in their classified structure.

Of the 83 exempt judges that OAH employs, 75 are non-managerial and provide direct service to the public and our client agencies. The average tenure of these 75 employees is seven years of state service which means they are vested and have some incentive to continue their PERS 2 or 3 services. These employees would like to stay but know they are getting paid less than the average in similar local, state and federal positions. OAH stands to lose these highly skilled, trained staff and with them goes important knowledge of OAH business operations and the many complex laws and regulations which they apply in conducting hearings and resolving disputes in their written decisions.

The average annual salary of a non-managerial OAH judge is \$77,420 and the average salary for our recent entry-level ALJs is only \$66,948. An OAH exempt ALJ salary is much lower than similar judge positions, such as the state classified BIIA ALJ 3's is \$85,380 and \$91,956 for a BIIA ALJ4 and federal administrative law judges at \$128,997. UTC judges (whose workload used to be performed by OAH ALJs) are exempt but do not have the same rate and central service model limitations as OAH, have average salaries of \$96,667.

An indicator of the private market rate for adjudicative services is from the recent Health Benefits Exchange RFP for appeal adjudication. HBE is paying private sector attorneys to conduct administrative hearings almost three times (up to \$175 per hour) the rate paid to OAH ALJs even when OAH benefits are included. Significantly, two of the four current HBE "presiding officers" awarded contracts were former OAH judges.

OAH responded to the increased demand for our services from state and local agencies during the great economic recession by hiring ALJs during a time when legal talent was facing a tough job market. This allowed OAH to hire ALJs at lower than normal cost which saved the state money. Since the economic recovery, more jobs are available in the legal market and our greatly underpaid ALJs face a serious parity issue. Rather than experiencing additional turnover, OAH is asking for additional money to fund salary increases. These salary increases are minimal and comparable to civil service step increases at 5 percent each year.

Internal Equity and the Market for Qualified Judges

OAH's effort to reduce costs resulted in a practice of paying "market rates" for legal talent which has resulted in significant differences in pay for judges of equal quality. As with all markets, OAH would negotiate with applicants to accept lower pay during times when

the overall demand was less. Likewise, when demand is high, OAH must pay more to acquire well-qualified attorneys to become judges. The effect, over time, has been to create internal pay inequities where similarly or even less qualified judges are paid more than those hired during the Great Recession.

OAH's funding model, which requires rate approvals and central service model coordinated budget changes preclude OAH from funding efforts to resolve the inequity. The result is that some of the more experienced judges (who were hired during low-demand markets) find moving to other state agencies more attractive.

This decision package would set OAH on the path to reduce the degree of internal pay inequity among judges over time.

External Equity

OAH's pay is so low we cannot compete for judges with experience in the state, local or federal marketplace. Evidence of the inequity in pay and testimony to the quality of what it takes to be an OAH judge is the one-way flow of talented judges from OAH to other state and federal agencies. OAH has become a judge training program for other state agencies and the federal government.

In an equitable pay situation, OAH would be just as likely to recruit currently serving judges in other state agencies as would OAH judges would be likely to move to other state agencies. Exit interviews support this conclusion.

The result is a vicious cycle of turnover leading to inefficiency and reduced mission results. Because of the low-pay the cycle is:

1. OAH must recruit less experienced attorneys, usually without judicial experience, and this results in inefficiencies.
2. During the training period which is up to five years for a judge to be fully productive, depending upon caseload type, OAH experiences and the state pays for lower productivity by the trainee and the trainers (management).
3. This is made worse in tight markets when the pool of attorneys with judicially relevant experience is reduced, requiring a longer training period and lower productivity by the trainee and the trainers (management).
4. After training and reaching peak productivity with pay frozen and dissatisfaction rising with the internal inequities, judges look or are recruited for other jobs by other government agencies.
5. New vacancies result, beginning the cycle again.

Morale, while difficult to measure, is also a consideration and a window to understanding the nature of the job of the administrative law judge. OAH job entry and exit interviews show that the purpose of serving the public is one of the motivation factors for OAH judge recruitment and retention. However, while OAH may be able to attract legal talent at below the overall market rate because of the appeal of the mission, other government agencies can provide that same sense of public purpose in the delivery of justice but also have the ability to pay higher salaries and provide regular step increases. From a recent exit interview, OAH was told by a judge who left OAH for other state employment that even a modest salary increase would have kept the judge from looking for other work opportunities.

As we have learned through LEAN training, the issue OAH is facing is not about individuals but with the system. In this case, OAH's system of compensation and the state's funding model for the agency. This decision package is a means of changing the OAH system for the benefit of state agencies and the public within the framework of the state's funding model.

The OAH contact for this request is Larry Dzieza, Finance Director, and he can be reached at (360) 407-2717.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

We expect to reduce turnover and hire well-qualified judges which will allow us to maintain timely and quality decisions for the parties to the appeals.

The public has a right under law to be heard by a fair and impartial administrative hearing system that OAH provides. OAH builds public confidence in government by independently, fairly and timely applying the law. The 28 agencies we serve rely on OAH to provide expertise on over 210 programs regarding the Administrative Procedure Act (APA) and the applicable substantive law. This

service is provided directly by our highly trained and skilled Administrative Law Judges. In order to continue responding in a timely manner to this public right, we must be able to retain the current workforce and compete in the legal market. Our ALJ workforce adjudicates over 45,000 cases each year. When a seasoned ALJ exits, OAH loses the breadth and depth of their knowledge, which takes approximately three to five years for a new ALJ to acquire.

Without addressing this compensation issue we will see the exit of experienced and productive ALJs. This creates backlogs of unresolved cases for citizens and businesses as well as the agencies, many of which have timeliness targets required in federal law. Delays in processing cases can also have a negative revenue impact as recovery of state and federal dollars may be delayed or reduced, or the state is required to continue to pay benefits while appellants are awaiting their hearings. OAH is a value-driven agency, meaning that some agencies are not required to use OAH services. They choose to do so because of the value we offer for quality, timely and independent hearings. The value we offer will be diminished if we do not address the parity and retention issues.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This budget request implements the OAH Strategic Plan goals of "(1) strengthening public confidence in the administrative judiciary, (2) promoting efficiencies and increase customer value, and (3) enhancing accountability and quality of services." This package also supports the specific objective of "retain experienced, capable ALJ's familiar with diverse caseloads." Goal 3.1b, Strategic Plan for 2015-2021.

"Justice delayed is justice denied." OAH's customer value proposition will be diminished if OAH continues to see growth in the rate of turnover causing slower turnaround times for the participants (customers) in the hearings OAH holds to resolve a wide variety of disputes.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Goal 5's results of an efficient, effective and accountable government is supported when OAH can maintain a stable workforce of experienced ALJs to provide independent, fair and impartial hearings, resolving disputes when Washingtonians disagree with and appeal government actions that negatively affect their lives.

What are the other important connections or impacts related to this proposal?

Currently we bill our referring agencies at a rate of \$130.34 per hour worked by ALJs on their cases. The nominal impact to the referring agencies is an increase to the hourly billing rate by less than two percent (\$2.48) in the FY15-17 biennium. Although difficult to quantify, there are costs that will occur if the decision package is not funded due to the increased number of hours to complete cases when we are forced to rely on less experienced judges.

What alternatives were explored by the agency, and why was this alternative chosen?

OAH has tried alternatives to reduce turnover and increase our attractiveness to new hires by:

- Allowing work from home
- Flexible work schedules
- Education opportunities with in-house legal training and engagement in LEAN efforts
- Internal promotions

OAH has implemented process improvements, lower cost technologies, closed an office and reduced facility size but the savings were largely eliminated through budget changes and increased costs in other areas. Anticipated savings from potential operational efficiencies in the future will not be sufficient to address this salary issue.

OAH has achieved significant efficiencies that, had it not moved to a billable hour approach for funding, would have been available for salary increases. However, OAH's unique funding structure automatically passes efficiencies on to our client agencies such as the Employment Security Department. In addition, because the effect on fixed costs of fewer hours billed due to efficiencies and caseload reductions, the rate recovery and appropriations calculation actually reduces OAH's capacity beyond the efficiencies achieved.

For example, had OAH maintained the billing approach it had under during the first 30 years of operation, ESD would have paid a fixed amount for the assumed number of judges and support staff; OAH would not have been compelled to quickly adjust staffing levels downward. Prior to July 2013, ESD was billed a quarter in advance for a predetermined estimate of expenditures and OAH staffed accordingly. Instead, the "automatic" and transparent effect of the revised, current billable hours model meant that ESD has been receiving immediate benefits from lower billing amount and OAH had to reduce its staffing and other costs in an attempt to keep pace with the reduced revenues. Changing back to the old approach to billing state agencies would provide the capacity to fund salary increases but at a loss of transparency and confidence in OAH's management.

Evidence of OAH stepping up to the challenge of managing staffing under this new business dynamic, OAH has been able to meet and exceed ESD's federally required timeliness standards while reducing charges to ESD by millions of dollars.

Another alternative to this decision package is to release a portion of OAH's current appropriation that was not allotted.

What are the consequences of adopting or not adopting this package?

OAH's ability to meet its statutory mission is undermined when we are increasingly unable to hire well-qualified candidates and retain experienced ALJs because the salaries are too low to be competitive with other opportunities. The consequences are a higher rate of turnover, which results in lost productivity due to recruitment and the training required for new ALJs to become fully capable in the use of our systems and competent in many substantive areas of law. The average new ALJ takes three to five years to become fully trained in our major caseloads. Training a new ALJ includes (1) approximately 72 hours in the classroom attending formal in-house Continuing Legal Education courses accredited by the Washington State Bar Association, (2) 8-12 months of mentorship, and (3) concentrated time by supervising judges.

Although difficult to quantify, there are costs that will occur if the decision package is not funded due to the increased number of hours to complete cases when we are forced to rely on less experienced judges. Finally, there are statewide costs that come from results that are less timely and of lower quality.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

The salary and benefit increases were estimated based on the Salary Projection System baseline set in August of 2015.

We estimate a 1.9% (\$2.48 billable hour) increase in rates to cover this decision package.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

These costs are on-going and will carry forward into future biennia.

The total anticipated carry forward levels will average approximately \$572,000 per fiscal year.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages		307,700	307,700
B Employee Benefits		62,300	62,300
Total Objects		370,000	370,000

Agency: 110 Office of Administrative Hearings
Decision Package Code/Title: N3 Lease Cost - Consolidation
Budget Period: 2015-17
Budget Level: PL - Performance Level

Recommendation Summary Text:

The Office of Administrative Hearings (OAH) requests \$487,000 in FY2017 and ongoing increases of \$87,000 per year to fund the consolidation of the Tacoma office with the Olympia office and centralizing business processes from across the state to the Olympia area in order to reduce costs, achieve efficiencies and take advantage of new customer-facing technologies to keep pace with the expectations of hearing participants.

Timing for this package is driven by the lease schedules of existing facilities and the management focus on aligning facilities needs with the agency's strategic plan for controlling costs and improving services. The speed of realizing the benefits from the plan is dependent upon how fast OAH can eliminate the reliance on paper-based appeal processes, primarily for DSHS and HCA caseloads. OAH has already accomplished a completely digital process for the ESD caseload.

Fiscal Detail

Operating Expenditures	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
484-1 Administrative Hearings Revolving-State		487,000	487,000
Total Cost		487,000	487,000

Revenue

<u>Fund</u>	<u>Source</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
484 Admin Hearings Revol	0420 Charges for Services		487,000	487,000
Total Revenue			487,000	487,000

Package Description:

OAH requests funding of \$487,000 in FY2017 to consolidate the Tacoma Office hearing staff with the Olympia office and relocate the current Olympia Headquarters (HQ) staff to a new Olympia area location along with additional space that will allow the centralization in Olympia area for specific activities now performed in each individual office throughout Washington. Currently, the Olympia office houses both the HQ functions (IT, HR, Fiscal, Management etc.), hearing related staff (judges, supervisors and schedulers). This request proposes to consolidate specific support staff activities now performed in Olympia, Tacoma, Yakima, Seattle and Spokane offices. Those activities include receiving and processing incoming mail and faxes, incoming phone calls, intake and setup of new cases in the case management systems, the production (printing, addressing, inserting and mailing) of hearing notices and orders.

This will necessitate the acquisition of new headquarters and production activity space in the Olympia area. Moving costs and acquisition, design and furnishing of the new facility are part of this package.

This request is about creating the space needed for OAH's strategic plan to be implemented. That plan contains several key elements:

1. Leveraging technology to remove reliance upon paper. OAH, working closely with the Employment Security Department, has proven that this can be accomplished and result in efficiencies to both agencies.
2. Improving efficiency. Where paper production and mailing is required, consolidating the activity to take advantages of economy of scale and investment in cost-effective equipment (e.g., a machine driven folding and inserting of letters; single pass printing of addresses and postage).
3. Improving customer service. Enable new channels of service to appellants to post and receive hearing materials to a secure portal which will add convenience and save costs to appellants choosing this option and reduce workload on OAH and referring agencies.
4. Enabling a modern workforce. Facilitate a more flexible distribution of work among judges and locations by not requiring boxes of paper files to be received, transported and managed by judges at various locations. This will further facilitate a mobile workforce of judges that includes a smaller office footprint and commute trip savings.
5. Simplifying interactions with the public. Having one phone number and one mailing address for interacting with OAH will reduce confusion and errors in doing business with OAH.
6. Reducing costs. Downsizing of OAH facilities are expected as production related work shifts to a central location and workspaces and storage dedicated to managing paper is reduced.

As is appropriate for a six-year strategic plan, there are challenges that must be addressed in achieving these goals. Those challenges fall into the following categories:

Challenge: Redesigning external business processes

A major uncertainty affecting the speed in which the benefits of acquiring space for centralizing support activities can be realized is how quickly the conversion of paper to digital formats can be accomplished when that requires the acceptance and cooperation of referring agencies.

An example of this process challenge can be found in the DSHS Division of Child Support (DCS) caseload. The process today is built on the principle that DSHS's BOA requires OAH to transmit to them a paper version of the case record. This happens even though DSHS begins the process with electronic documents and eventually rescans the paper file sent to them by OAH into their own imaging system at the end of the process. The process is as follows:

1. OAH receives the case materials from DSHS in electronic form.
2. OAH prints out the documents DSHS sent electronically to begin building the paper folder containing the "case file" that DSHS expects to receive.
3. If additional hearing related documents from the parties are received by OAH in the course of the hearing, they are printed and added to the paper file.
4. The paper file is physically transported to the assigned judge. But if the assigned judge is not in Olympia or Seattle, the paper file is scanned and made available to the judge electronically.
5. The judge writes an order electronically, which is printed on paper and added to the file.
6. The case file is physically transported to DSHS's Board of Appeals (BOA).
7. DSHS's BOA receives the paper file and decides to take further action or consider the case completed.
8. When BOA determines the case is complete, BOA sends the paper files to a DSHS document imaging unit for reconversion into an electronic version.
9. The paper file is then shredded or stored as appropriate.

It is easily apparent from the above example that the requirement for paper files to be conveyed to DSHS from OAH results in multiple lost opportunities for efficiencies for both agencies.

In other agencies and, with variation among programs within a particular agency, similar challenges exist that require redesigning business processes in order realize the opportunities. Opportunities and dependencies are not limited to those which come from digital technology. Even a simple change like redirecting all mail to a central OAH address will require changes in other state agencies' forms and websites.

Collaboration and cooperation with OAH's referring state agencies will affect the speed of adoption of changes and the resulting space needs for OAH.

Challenge: Redesigning internal business processes

There are some advantages to centralizing production type activities that can occur by OAH changing its own internal business processes that would not affect or require the concurrence and cooperation of referring agencies. That said, any significant change in a business process brings with it complexities and risk that is common to change in general. Those risks include training, job classification considerations, general resistance to change, and integration with other internal business processes. A well-managed change in OAH processes will require time to implement. The following are some examples of changes that are more internally than externally focused. For example:

1. Investing in more automated printing, labeling, folding, and mailing machinery could be made cost effective without affecting the processes of other state agencies.
2. Redirecting all calls to a central call center.
3. Redirecting positions to establish more efficient processes with no customer down time.
4. Creating a portal for sharing documents with non-agency parties.

Many of the strategic changes OAH is pursuing will only be possible if OAH has the right facilities in which to house them.

Challenge: Dynamic Needs of OAH

OAH's management has long faced the challenge that comes from varying workloads resulting from changes in the economy and state programs. In the past, OAH's staffing would be relatively constant and what would flex would be the timeliness of getting the work done and the quality of the work produced. Under OAH's new billing approach (adopted in 2013-15) it is staffing levels that must flex in order to meet state program's legal requirements for timely hearings. Unfortunately, certain fixed costs, like capital facilities cannot be increased or decreased quickly. OAH generally enters into five year leases and any significant relocation comes with significant one-time move costs.

With OAH's strategic plan comes a challenge beyond fluctuating caseloads. The dynamic and transformative nature of technology will create effects on the way OAH conducts its operations across a variety of areas. As these changes are incrementally ramped-up, they will affect the physical space requirements. For example, as additional caseloads move to electronic formats, the amount of space needed for storing paper and files is gradually reduced, the number and size of printers in all offices may also be reduced, and the skills, location and number of support staff personnel will change. This first order change is followed by second order changes with potentially significant effects.

Service channels and efficiency are enhanced when the electronic format for documents are achieved. For example, it will enable the creation of hearing participant portals that will provide a secure way of exchanging documents electronically and thereby bypassing the need and cost of printing and mailing. As adoption of portal use will increase incrementally it is expected that eventually the space needed for the receipt of incoming mail, printing and outgoing mailing will lessen. Another second order effect will be freeing judges' work from physical locations across more caseload types, which will allow for more flexibility in assigning cases and may reduce the space needed and the way offices are assigned.

Unfortunately, state leased space acquisition practices are not designed to facilitate quick changes for state agencies whose facility needs fluctuate and are difficult to predict. As a result, this decision package requests slightly more space currently leased. This is because of two reasons. The first reason is it will take time to realize implement our strategic plan initiatives and fully realize the

benefits. The second reason is that some of space efficiencies from centralizing services will be realized in the Spokane and Seattle offices whose leases are not up for renewal until 2018 and 2019, respectively.

The OAH contact for this request is Larry Dzieza, Finance Director, and he can be reached at (360) 407-2717.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

We expect to:

- Reduce the number of hearing offices from five to four.
- Reduce the s/f cost for the Tacoma staff from \$24.00 to \$21.00
- Achieve efficiencies from centralizing production activities.
- Improve customer service benefits by providing a single phone number and single mailing address.
- Reduce cost for paper, postage and personnel.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

This budget request is essential to implement the OAH Strategic Plan Goal 1 to Strengthen public confidence in the administrative judiciary by making it easier for customers to transact business with OAH and Improve access for diverse populations. (Source: Strategic Plan for 2015-2021).

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Goal 5's results of an efficient, effective and accountable government is supported when OAH can improve service and control costs.

What are the other important connections or impacts related to this proposal?

Currently we bill our referring agencies a rate of \$130.34 per hour worked by ALJs on their cases. The nominal impact to the referring agencies is an increase to the hourly billing rate by 2.6 percent (\$3.45) in the FY15-17 biennium and less than a half percent (\$0.62) in subsequent biennia. Although difficult to specify the timing, the decision package will reduce OAH and client agency costs over time.

What alternatives were explored by the agency, and why was this alternative chosen?

OAH has sought alternatives to reduce facility costs and increase efficiency:

- Allowing more work from home; but without digitizing documents this is limited
- Flexible work schedules; office sharing has been implemented

- Consolidating HQ, Tacoma and Olympia operations into one building in the Olympia area; the one-time build-out costs, disruption to operations and the need for flexibility argued against this approach

Given the uncertainty and likely variation in the amount of space needed over time, one alternative is to only request space for the HQ function in order to permit the move from Tacoma to the Olympia area. This was not chosen as it would not provide space needed to fully optimize the benefits from consolidating certain support services activities.

What are the consequences of adopting or not adopting this package?

OAH remains in the Tacoma lease and experiences higher lease rates than in the Olympia area. The cost for equipment and space continues to be replicated in multiple offices foregoing economies of scale, cost-effective investments in more capable equipment that requires fewer staff to operate. The implementation of strategic initiatives is hindered and the opportunity to consolidate management is missed.

The window of opportunity to align facilities planning with OAH strategic planning is missed and will setback the opportunity to speed the improvement of business processes and reduce costs to Washingtonians and our referring agencies.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Costs for the combined HQ and services facility are estimated at \$21.00 per square foot for 9,713 square feet for a total cost of \$203,968 a year. In addition, \$400,000 of one-time costs are included for moving and office furnishings. It is also assumed that a reduction from the lease costs for the Tacoma office would offset the costs by \$116,520 per year.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Ongoing costs in future biennia are \$87,448 (\$203,968 new space - \$116,520 closed space in Tacoma). One-time costs are \$400,000 for moving and office furnishings.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
E Goods\Other Services		487,000	487,000