

Fiscal Highlights

DHRM Proposal to Shift Costs - Brian D. Fay

Summary

At present, the Department of Human Resource Management (DHRM) is comprised of an appropriated line item and an internal service fund (ISF). DHRM is proposing to shift the majority of appropriated line item costs into the ISF and to increase rates accordingly.

Questions

There are three main questions the Legislature should address related to this proposal:

- How will this proposal impact state agencies?
- How will this benefit DHRM and the state as a whole?
- How will this impact the General Fund?

The Appropriated Line Item

The Department of Human Resource Management has a direct General Fund appropriation of \$2.6 million for FY 2015. These appropriations are used to fund the "big-picture" operations of the department.

Administration - \$0.7 million

The Administration program oversees the goals, plans, and implementation of policy for the entire department as well as statewide issues. Functions include workforce planning, training and development, employee relations, HR-related liability management, and statewide HR metrics and measures.

Policy - \$0.8 million

The Policy program provides oversight and development of the following functions: recruiting; selection; employee development; employee relations, fair employment practices, compensation and benefits, classification, diversity and liability prevention.

Information Technology - \$1.1 million

Information Technology provides the automated systems that comprise the enterprise Human Resource Management Information system. This system provides support to all agencies relative to employee recruitment, employment, pay, and all other employee related function.

The Internal Service Fund

Internal service funds operate like a business that serves state and other governmental agencies and receives funding through rates charged for specific services, in this case, HR and payroll services.

Unlike most state agencies, for which the legislative fiscal control of agency size and scope of operations comes through appropriations, legislative fiscal control of ISFs comes primarily through approval of rates, employee count, and capital outlay authority.

Advantages of an ISF include increased flexibility for the legislature to utilize a wider variety of funding sources (including federal funds and restricted accounts), increased efficiency due to consolidation of services, and more accurate accounting of the full cost of providing a service. Disadvantages include less direct legislative fiscal control and more complexity in reporting and terminology (hence

the possibility of receiving less scrutiny). Additionally, some agencies that use restricted funds for HR costs may not be able to increase their draw from these accounts and require additional General Fund appropriations.

By spreading the rates across various agencies and funding sources, over \$4.7 million of the \$12 million DHRM-ISF budget is collected from funding sources other than the General Fund. By transitioning the department administration, policy, and IT programs into the ISF, DHRM could allow the legislature to further reduce General Fund expenditures by between \$0.3 million and \$1 million annually.