

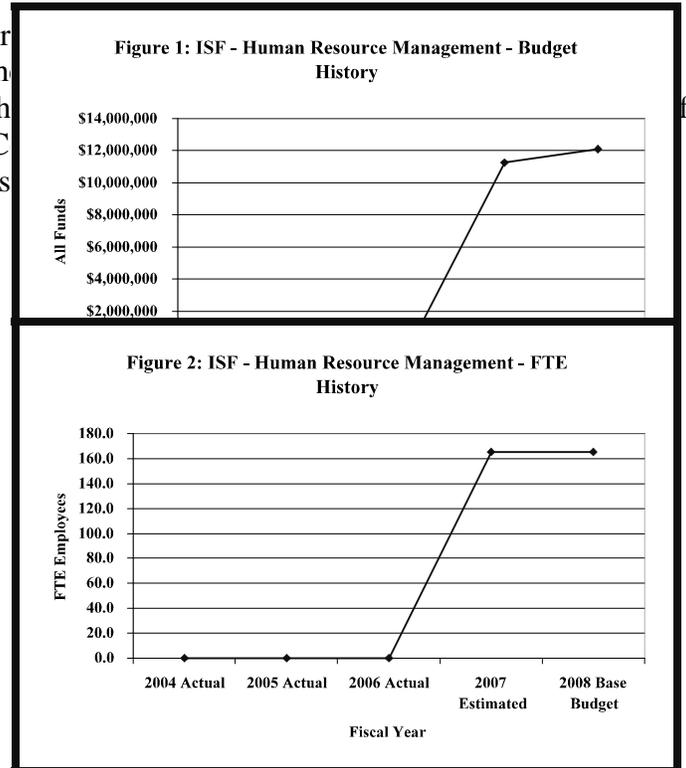
SUMMARY

The Department of Human Resource Management (DHRM) Internal Service Fund (ISF) was established by House Bill 269 in the 2006 General Session, effective July 1, 2006. Internal Service Funds employ business practices to provide a service or product for other state and governmental agencies. Typical services include large functions that can be centrally administered.

Upon establishing the ISF, DHRM consolidated all human resource management functions. Most HR staff in the "field" worked for the agency where they may remain in the same location. The consolidation should be a significant effort, particularly in rural or otherwise remote locations. Centralized coordination over HR functions. The ISF has two programs

- Field Services
- Payroll Field Services (optional)

ISSUES AND RECOMMENDATIONS



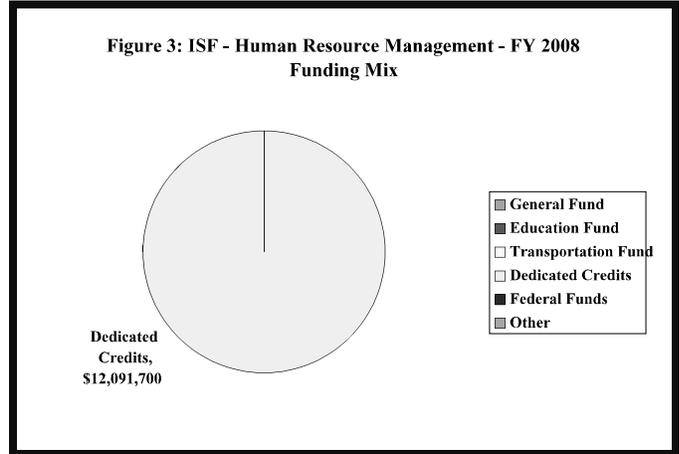
FY 2007 rates didn't include compensation package This current year, FY 2007, is the first year of operation for the DHRM ISF. The rates for FY 2007 were calculated and approved by the 2006 Legislature by dividing the total budgets for HR services and payroll services by the total number of customer agency FTE. This resulted in a Field Services annual rate of \$520 per FTE and a Payroll annual rate of \$130 per FTE.

Rates were calculated based on the best information available at the time; however, the COLA salary increase and benefit adjustments for FY 2007 were set by the Legislature after the DHRM rates were calculated, so the impact of the compensation package wasn't added to the rates. This is expected to result in a net loss of \$811,300 to DHRM in FY 2007. The funding for these pay and benefit increases was given by the Legislature to the customer agencies because, at that time, these positions remained agency positions. Therefore the customer agencies have the funding but don't have the expense, since they no longer have the people. In order to correct the imbalance, the Analyst recommends the Legislature authorize a rate increase for DHRM in FY 2008 without providing additional funding to the customer agencies.

More information on rates is shown on page 2. Rate Change for FY 2008

In accordance with UCA 63-38-3.5, the following fees are proposed for the services of the Department of Human Resource Management in FY 2008:

	FY 2007 Current	FY 2008 Proposed	FY 2008 Revenue Difference	# Units	Change
Field Services (per actual FTE)	520.00	561.25	41.25	19,690	812,200.00
Payroll Field Services (per actual FTE)	130.00	130.00			



Wait before making additional rate adjustments

A rate increase in FY 2008 will help recoup losses from the compensation package in FY 2007, but will not necessarily cover compensation package increases in FY 2008. At some point the agency will have to adjust sufficiently so their future rate is sufficient to cover future estimated costs. However, the Analyst recommends waiting at least one year before making more rate adjustments. Having one or two years of net operating results should be helpful in calculating rates because results will be actual, not estimated. Further, it gives the agency time to implement efficiencies which may help recoup first year losses.

FTE Increase

The Department of Alcoholic Beverage Control (DABC) has requested that DHRM take on their payroll function. As such, it will be necessary for DABC to transfer a half-FTE employee to DHRM, and for DHRM to increase their authorized FTE level by 0.5 in FY 2008 and 0.25 in FY 2007. The Analyst recommends

approval.**ACCOUNTABILITY DETAIL**

Ratio of HR field staff to agency staff

The ratio of HR field staff to agency employees should be kept as low as possible while still delivering quality service. The current ratio is 1:145. This and other performance measures will be developed and tracked as the program matures.

Intent Language review

The Legislature approved creation of the ISF but wanted to ensure it would be revenue neutral and wouldn't increase the size of state government. Therefore, in allowing DHRM to consolidate all HR employees statewide under its organization, the 2006 Legislature adopted the following intent language (Senate Bill 4, 2006 G.S.):

It is the intent of the Legislature that for each full-time equivalent position filled in the Department of Human Resource Management internal service fund at least one position will be vacated and eliminated elsewhere in state government.

DHRM reports that all of the personnel in the DHRM ISF were transferred from other state agencies. Statute prohibits an agency from performing human resource functions without the consent of the DHRM Executive Director.**BUDGET DETAIL**The Field Services program is the primary program for delivery of services to state agencies. This program delivers frontline services in major functional areas including recruitment, training and development, classification, management of grievances and application of DHRM policies. The DHRM administrative staff (appropriated budget) sets the guidelines for Field Services, evaluates their performance and governs their workload. The Payroll Field Services program is optional for agencies that wish to purchase payroll administration rather than use internal staff. Payroll work is cyclical and agency staff assigned to it normally performs other functions as well. Fewer agencies than originally estimated are using the service right now.

Budget Recommendation for FY 2008 and FY 2007:

- Estimated revenues of \$12,091,700
- Rates as presented on page 2
- Base FTE of 165.6, plus another 0.5 FTE for FY 2008 and 0.25 FTE for FY 2007. The FTE growth in DHRM will come from a commensurate reduction in DABC.

- No authorized capital outlay

LEGISLATIVE ACTIONThe Analyst recommends the Legislature adopt:

1. Estimated revenues of \$12,091,700
2. Rates as presented on page 2
3. Base FTE of 165.6
4. Another 0.5 FTE for FY 2008 and 0.25 FTE for FY 2007
5. No authorized capital outlay

CAPITAL FACILITIES AND GOVERNMENT OPERATIONS

BUDGET DETAIL
TABLE

ISF - Human Resource Management						
Sources of Finance	FY 2006 Actual	FY 2007 Appropriated	Changes	FY 2007 Revised	Changes	FY 2008* Base Budget
Dedicated Credits - Intragvt Rev	0	11,279,800	0	11,279,800	811,900	12,091,700
Total	\$0	\$11,279,800	\$0	\$11,279,800	\$811,900	\$12,091,700
Line Items						
ISF - Human Resource Management	0	11,279,800	0	11,279,800	811,900	12,091,700
Total	\$0	\$11,279,800	\$0	\$11,279,800	\$811,900	\$12,091,700
Categories of Expenditure						
Personal Services	0	10,277,800	397,800	10,675,600	35,900	10,711,500
In-State Travel	0	33,800	(15,900)	17,900	0	17,900
Out of State Travel	0	0	52,100	52,100	0	52,100
Current Expense	0	464,400	372,200	836,600	0	836,600
DP Current Expense	0	373,500	126,200	499,700	0	499,700
Other Charges/Pass Thru	0	100,000	(100,000)	0	0	0
Total	\$0	\$11,249,500	\$832,400	\$12,081,900	\$35,900	\$12,117,800
Other Data						
Budgeted FTE	0.0	165.6	0.0	165.6	0.0	165.6
Retained Earnings	0	0	(802,100)	(802,100)	(26,100)	(828,200)

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.