

Issue Brief – Human Resource Management ISF

NUMBER CFAS-06-12

SUMMARY

House Bill 319, 2005 General session, essentially did two things to the Department of Human Resource Management (DHRM):

1. Changed the department to a division within the Department of Administrative Services, effective July 1, 2006. However, House Bill 269 in the 2006 General Session may reverse this action and keep the agency as a department.
2. Consolidated all human resource management functions statewide by taking existing HR staff located in other state agencies and making them employees of DHRM. All of their functions will now be provided centrally.

FINANCIAL ISSUES

Consolidation of all HR functions into the new agency brought up the question of funding. Namely, how to fund employees that were formerly in agencies with general funds, school funds, restricted funds, dedicated credits, and federal funds, now that they work for a General Fund agency? The fiscal note on H.B. 319 stated that the consolidation would be revenue neutral. Shifting all the costs to the General Fund was not a viable alternative.

The total human resource and payroll budget to be transferred to DHRM is approximately \$11.3 million. The existing funding source ratios are approximately 59% General Fund, 5% school funds, 9% Transportation Fund, 21% federal funds, and 5% restricted funds.

The proposed solution is to create an internal service fund (ISF) within DHRM. This way, non-state funds can continue to be appropriated to the customer agencies, which can in turn use those funds to pay a rate for services provided by DHRM. House Bill 269 will attempt to establish an internal service fund in DHRM.

DHRM would continue to receive a direct appropriation for its statewide administrative functions, as it does now.

TWO PROGRAMS

Since payroll is cyclical, the person performing it normally performs other functions as well. Some agencies have consolidated their payroll and other human resources functions into one cost center, while other agencies maintain payroll with accounting. Rather than force agencies to make “payroll” an HR function, the current proposal is not to require the transfer of payroll functions as part of the human resource consolidation. However, agencies will have the option of purchasing payroll services from DHRM.

As proposed, then, DHRM ISF will have two programs:

1. Human Resource Field Services
2. Payroll Field Services

METHODOLOGY

Over the interim GOPB and DHRM worked with state agencies to determine people to be transferred, rates to be charged and budget impacts. Some negotiation had to occur in determining which positions to transfer. The basic criteria for determining whether an employee should be transferred was if the position was budgeted as an HR position or the employee otherwise focused on HR work.

In calculating a rate, the cleanest basis for the rate was the actual number of FTE (by hours worked) in the agency. Making each agency a separate cost center with its own rate was considered, but in a standardized service environment the higher administrative costs would have exceeded the benefits.

The rate was then calculated by taking the burdened (including non-labor costs such as travel, training, office equipment, supplies, insurance, etc.) budgets of all employees currently performing HR work and dividing it by the total actual FTE. (Some small agencies have small HR budgets, such as the Capitol Preservation Board where 0.4 FTE is spent on HR issues. In these cases no people were transferred but the costs were counted.) This resulted in a statewide average cost of \$520 per year per FTE for HR

management, and \$130 per year per FTE for payroll management. These are the proposed rates.

Since the \$520 per year per FTE is a statewide average, some agencies are currently paying more and

some are paying less. The impact to each agency was calculated by taking the difference in the cost of the new rate and the positions currently budgeted.

The following table shows the rate impacts by agency.

Agency	FY05	FTE to	HR Rate	Payroll	Total	Budget Impact*		Total
	Adjusted	Transfer	at \$520	Rate at	From	State	Non-State	
	FTE	to DHRM	per FTE	\$130/FTE	Rates	Funds	Funds	Impact
Capitol Pres Board	3.4	0.0	\$1,800	\$400	\$2,200	\$2,200	\$0	\$2,200
Treasurer	22.6	0.0	\$11,800		\$11,800	\$7,600	\$4,200	\$11,800
Governor's Office	154.0	1.0	\$79,600		\$79,600	\$27,000	\$0	\$27,000
Attorney General	399.8	1.0	\$207,400	\$51,800	\$259,200	\$175,400	\$0	\$175,400
State Auditor's	41.2	0.0	\$21,400		\$21,400	\$21,400	\$0	\$21,400
Administrative Services	449.3	4.0	\$231,600	\$57,900	\$289,500	(\$83,500)	(\$70,900)	(\$154,400)
Technology Services	249.3	1.0	\$129,100		\$129,100	\$7,100	\$3,500	\$10,600
Tax Commission	846.9	7.0	\$436,700	\$109,200	\$545,900	\$60,200	\$12,400	\$72,600
Career Service Review Brd	2.0	0.0	\$1,000		\$1,000	\$1,000	\$0	\$1,000
Human Resource Mgt	30.9	1.0	\$15,500	\$3,900	\$19,400	(\$75,600)	\$0	(\$75,600)
Navajo Trust Admin	11.1	0.0	\$5,800	\$1,400	\$7,200	\$0	\$0	\$0
Public Safety	1,182.9	7.0	\$611,500		\$611,500	\$101,700	\$40,700	\$142,400
National Guard	245.8	2.0	\$126,800		\$126,800	(\$17,200)	\$0	(\$17,200)
Human Services	4,728.9	54.8	\$2,430,600	\$607,600	\$3,038,200	(\$138,500)	(\$121,700)	(\$260,200)
Health	1,281.6	8.0	\$662,300		\$662,300	\$28,100	\$36,900	\$65,000
Medical Ed Council	8.0	0.0		\$1,000	\$1,000	\$1,000	\$0	\$1,000
Public Ed Brd of Ed/Rehab	702.6	5.0	\$362,800	\$90,700	\$453,500	\$15,300	\$35,700	\$51,000
Public Ed Sch Deaf/Blind	354.9	3.0	\$183,000		\$183,000	\$0	\$0	\$0
Corrections	2,335.9	21.0	\$1,203,700		\$1,203,700	(\$257,300)	\$0	(\$257,300)
Envirommental Quality	405.9	4.0	\$209,000	\$52,200	\$261,200	(\$19,900)	(\$3,800)	(\$23,700)
Trust Lands	68.4	1.0	\$35,000		\$35,000	\$0	(\$39,700)	(\$39,700)
Natural Resources	1,293.4	10.5	\$667,100		\$667,100	\$28,400	\$0	\$28,400
Agriculture	210.8	2.0	\$108,600		\$108,600	(\$14,400)	\$0	(\$14,400)
Public Lands Policy Office	7.0	0.0	\$3,600		\$3,600	\$2,200	\$1,400	\$3,600
Workforce Services	1,997.5	13.8	\$1,031,600		\$1,031,600	(\$1,600)	(\$6,600)	(\$8,200)
Alcoholic Beverage Ctrl	342.9	1.0	\$177,800		\$177,800	\$0	\$80,600	\$80,600
Labor Commission	117.3	0.0	\$61,000		\$61,000	\$41,100	\$19,800	\$60,900
Commerce	253.1	1.0	\$131,100	\$32,800	\$163,900	\$0	\$87,500	\$87,500
Financial Institutions	46.5	0.0	\$24,200		\$24,200	\$0	\$24,200	\$24,200
Insurance	74.7	1.0	\$38,300	\$9,600	\$47,900	\$4,900	\$0	\$4,900
Public Service Commission	14.7	0.0	\$7,600		\$7,600	\$0	\$7,600	\$7,600
Community and Culture	197.8	2.0	\$101,800	\$25,500	\$127,300	(\$33,200)	\$0	(\$33,200)
Transportation	1,776.4	13.5	\$916,700		\$916,700	\$0	(\$52,700)	(\$52,700)
Total	19,857.5	165.5	\$10,235,800	\$1,044,000	\$11,279,800	(\$116,600)	\$59,100	(\$57,500)

* Budget Impact = Difference between cost of transferred FTE and proposed DHRM rates

BUDGET RECOMMENDATION FOR FY 2007

The Analyst recommends the following budget actions for the DHRM ISF for FY 2007. These are initial rates that will surely need to be refined in the future.

HR Field Services ISF

- Estimated revenues of \$10,235,800
- An annual rate of \$520 per actual FTE
- 145.8 FTE
- No Authorized Capital Outlay

HR Payroll Services ISF

- Estimated revenues of \$1,044,000
- An annual rate of \$130 per actual FTE
- 19.8 FTE
- No Authorized Capital Outlay