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BILL ANALYSIS

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House Bill 5190 (Substitute S-1 as reported)
Sponsor: Representative Philip J. LaJoy
House Committee: Employment Relations, Training and Safety
Senate Committee: Local, Urban and State Affairs

Date Completed: 3-15-04

RATIONALE

The executive branch of Michigan's State government currently has 20 separate offices of human resources: one within each department. Many of those offices have staff members performing duties also performed by personnel in other human resource offices within the executive branch. Some people believe that the State could see significant cost savings if it were to consolidate all of the executive branch's human resource activities into one, centralized office. Those suggesting the new office contend that, in addition to producing savings by eliminating redundant staff, consolidating all of the individual human resources offices would result in reduced overhead due to the sharing of office space and resources.

CONTENT

The bill would create the "Consolidated Human Resources Operations Act" and create within the Department of Civil Service a new "Office of Human Resource Operations" with the responsibility for leading efforts to consolidate and reorganize all State human resource operations within the executive branch. The bill provides that, upon completion of the consolidation and reorganization, all human resource operations authority, duties, functions, personnel, equipment, and budgeting resources in the executive branch, including payroll and benefit administration, would have to be conducted in the Office.

Under the bill, "executive branch" would be defined as the executive branch of the State government, excluding the Department of the Attorney General and the Department of State.

Within 120 days after the bill's effective date, the State Personnel Director would have to hire an executive director of the proposed Office with expertise in human resource operations, who would serve under the Personnel Director. The executive director would have to create, develop, and implement a business plan and otherwise assist the Office in consolidating and reorganizing all human resource operations in the executive branch into the Office by September 30, 2004. The business plan would have to outline and describe the duties, responsibilities, authority, powers, functions, personnel, equipment, and budgetary resources involved in the human resource operation of the executive branch as they would be consolidated and reorganized into the Office, and specifically describe how redundancies would be eliminated and how efficiencies would be increased. The business plan also would have to include a timetable for the consolidation and reorganization as well as an organizational chart of the human resource operations in the executive branch as consolidated and reorganized into the Office.

By September 30, 2004, the Office of Human Resource Operations would have to do all of the following:

- Develop standard operating procedures and policies that all executive branch human resource employees would have to follow as they conducted their human resource activities.
- Develop service-level agreements within the executive branch to ensure quality human resource services.

- Determine the true costs of providing human resource services before the consolidation and reorganization.
- Determine the true costs of human resource services after the consolidation and reorganization.

All executive branch departments and State agencies would have to cooperate with the Office in completing its mission of providing quality human resource services.

The executive director of the Office would have to provide progress reports to the House Employment Relations, Training and Safety Committee and the Senate Government Operations Committee every three months until the consolidation and reorganization were complete, then every six months for the next 18 months. The progress reports would have to indicate the total savings achieved; the reduction in State employees, if any; and the current status of human resource services in the Office.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would establish one Office of Human Resource Operations for the executive branch, which would be more cost effective than 20 separate offices are. According to proponents of the bill, the savings from the change would be from 10% to 15%, using a conservative estimate. There are no concrete numbers on how much the executive branch presently is spending on human resource administration, but consolidation reportedly should save the State at least \$7 million to \$10 million annually.

The new Office would continue to provide the same level of personnel services for all executive branch employees, providing them with "one-stop shopping" for their human resource needs, rather than requiring each employee to go to his or her own, individual human resources (HR) office. In addition, the bill would promote statewide uniformity by requiring the Office to develop standard operating procedures and policies, which evidently do not exist at this time. Moreover, the bill recognizes that some

State departments have unique responsibilities and may require specialists in different areas. The bill would accommodate diversity among departments by requiring the Office to develop service-level agreements within the executive branch.

Opposing Argument

The creation of the new Office is unnecessary because the executive branch already has begun the process of looking for cost savings through a Civil Service initiative begun under the previous administration, referred to as the Optimization plan. The study showed that work currently being done in multiple departments could be centralized to reduce redundancies. Work to consolidate HR offices and eliminate redundant positions is already under way. For example, a new centralized call center for human resource questions is expected to eliminate 110 full-time equated (FTE) positions in individual offices and replace them with 30 in the call center. The changes will result in \$2 million annual savings in 2005, and, over a five year period, savings are expected to total \$24 million.

Likewise, since the State Personnel Director is already looking into additional areas of cost savings, it would be redundant to create a new position to perform the same task.

Response: The new Office would build on the already-existing Optimization program.

Opposing Argument

It would be inappropriate to exclude the Department of the Attorney General and the Department of State from the purview of Office of Human Resource Operations. Although Article V, Section 21 of the State Constitution requires the Attorney General and the Secretary of State to be elected, Section 2 requires all executive and administrative offices and functions within the executive branch to be allocated among not more than 20 principal departments; the only exceptions apply to the Offices of the Governor and Lieutenant Governor and the governing bodies of higher educational institutions. The Departments of Attorney General and State are within those 20 principal departments, and their employees are members of the Classified State Civil

Service. Furthermore, while singling out the Departments of Attorney General and State, the bill would infringe upon the constitutional authority of the Governor by providing in statute for the consolidation of executive branch HR offices. Under Article V, Section 2, the Governor has the prerogative to "...make changes in the organization of the executive branch or in the assignment of functions among its units which he [or she] considers necessary for efficient administration".

Response: The Governor still would have the constitutional authority to make changes through executive order.

Opposing Argument

Proponents of the bill are touting the potential cost savings of creating the new office but have produced no data from the business world demonstrating that consolidation actually would save money.

Response: The Office of Human Resource Operations would be responsible for establishing a baseline for the Office's spending and reporting on the cost savings achieved through the consolidation, so the impact of these changes could be determined.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The Governor's FY 2004-05 budget recommendation includes a Human Resources Optimization proposal that would use the Human Resources Management Network (HRMN)¹⁾ to consolidate and standardize the processing of certain routine transactions and services for State employees.²⁾ The centralized Human Resource Service Center would be housed in the Department of Civil Service and technical maintenance provided by the Department of Information Technology. The Governor's budget proposal includes a net reduction of \$2 million and 70 FTE positions related to the Optimization Project. First-year savings before start-up costs resulting from the initial consolidation would be approximately \$5.1 million. The Department of Civil Service appropriation for the Human Resources Optimization Center would total 30.0 FTEs/\$2 million, and the appropriation for the Department of Information Technology would be 4.0 FTEs/\$1,070,900. The consolidation effort also envisions the

centralization of other human resource functions, such as classification and pay adjustments, that would result in the elimination through attrition over five years of an additional 70.0 FTEs, resulting in additional savings of \$4 million annually.

House Bill 5190 (H-1) would require the consolidation and reorganization of all human resource operations in the executive branch, with the exception of the Department of Attorney General and the Department of State, into the proposed Office of Human Resource Operations. The extent to which this requirement could achieve savings beyond the level being pursued by the current administration is not determinable. Certain functions, while consolidated under one office, might still have to be housed in individual departments. Pursuant to Section 504 of Public Act 161 of 2003 (FY 2003-04 General Government appropriation bill), the Department of Civil Service compiled a report regarding human resource offices for all executive branch departments. According to the report, human resource office appropriations in FY 2002-03 included 541.0 FTE positions and \$39.0 million.

¹⁾HRMN is the Statewide integrated payroll, personnel, and benefits system.

²⁾Budgets excluded from this proposal include the Department of Attorney General, the Department of State, the Legislature, and the Judiciary.

Fiscal Analyst: Bill Bowerman

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.