



## Legislative Fiscal Bureau

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September 4, 2019

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Section 16.004(20)(c) Report: Department of Administration, Division of Personnel Management Annual Report, 2019 -- Agenda Item II

Under s. 16.004(20)(c), the Department of Administration's Division Personnel Management (DPM) is required to prepare an annual report, and submit the report to the Joint Committee on Finance subject to a 14-day passive review process. The Division submitted the 2019 report to the Committee on July 5, 2019. On July 25, 2019, the Committee's Co-chairs informed DOA that an objection to the request had been raised. As a result, the request is currently before the Finance Committee under s. 13.10 of the statutes.

### **BACKGROUND**

Under the 2017-19 biennial budget act (2017 Act 59), DPM was required to provide human resources service and payroll and benefit services, beginning July 1, 2018, for all executive branch agencies except: (a) the Department of Employee Trust Funds; (b) the Department of Justice; (c) the Department of Public Instruction; (d) the Department of Military Affairs; (e) the State of Wisconsin Investment Board; (f) the Public Defender Board; (g) the University of Wisconsin System; and (h) the Technical College System Board. Prior to Act 59, human resource and payroll and benefit services were generally provided by staff in each agency according to DPM's guidance and delegated authority. Act 59 transferred 376.09 positions from the affected state agencies to DPM to allow the Division to centrally administer these functions. The consolidation of these services is known as shared services.

In conjunction with the shared services provisions in Act 59, DPM was required to prepare an annual report regarding: (a) information identifying the assessments that DOA intends to charge each shared services agency in the upcoming fiscal year; (b) the number of positions that DOA is using to administer human resource services and payroll and benefit services; (c) the number of vacant and filled positions that DOA no longer needs to administer human resource services and payroll and benefit services; (d) the cost savings to the state due to the administration of human resources service and payroll and benefit services by DOA; and (e) metrics evaluating the effectiveness of human

resource services and payroll and benefit services provided to shared services agencies by DOA in the previous fiscal year, as well as a comparison of the metrics for the previous fiscal year to similar metrics in previous reports. Statutes specify that the report be submitted to the Committee for review by April 15 of each year. If the Co-Chairs do not notify DOA that the Committee has scheduled a meeting for the purpose of reviewing the report within 14 working days after the date of the submission, DOA may provide the human resource services and payroll and benefit services as proposed in the report and may charge the assessments as proposed in the report. If within 14 working days after the date of the notification, the Co-Chairs notify DOA that the Committee has scheduled a meeting for the purpose of reviewing the report, DOA may provide the human resource services and payroll and benefit services proposed in the report and charge the assessments proposed in the report only upon approval of the Committee.

To further the administration of the shared services human resources, on January 18, 2018, the Governor issued Executive Order #272 (EO #272). The executive order created the Wisconsin Shared Services Executive Committee (SSEC) "for the purpose of establishing a governance model to ensure the creation and operation of enterprise human resource services and payroll and benefits services models, strategies, cost management methodology, direction, and standards for shared services agencies." The Executive Committee was made up of 11 voting members (the Secretary, Deputy Secretary or Assistant Deputy Secretary of 11 large state agencies) and two non-voting members (the Deputy Secretary of DOA and a senior administrator of DPM). Under EO #272, the SSEC was required to "establish a shared services business model that delivers customer-focused, cost-effective, efficient, timely, and high-quality human resources services and payroll and benefit services to all agencies."

## **REPORT TO THE JOINT COMMITTEE ON FINANCE**

On July 5, 2019, DPM submitted the human resources shared services report for fiscal year 2019. The report addresses each of the statutorily required areas as indicated below.

*Assessments (s. 16.004(20)(c)1.a.).* The Division of Personnel Management is authorized under s. 230.04(18) to: (a) provide any services and materials to agencies; (b) charge the agencies for providing the services and materials; and (c) establish a methodology for determining the costs of services and materials charged to state agencies. As required under statute, DPM's report to the Committee provides information identifying the assessments that DOA intends to charge each shared services agency in the upcoming fiscal year.

The total human resources assessment consists of two parts. The first is an assessment known as the "enterprise" assessment, which are costs associated with human resources activities such as classification and compensation, merit recruitment and selection, equity and inclusion, and employee management. These functions are provided by DPM to all executive branch agencies, and were provided by DPM's predecessor agency (the Office of State Employment Relations) on a PR (cost recovery) basis. The enterprise assessment is based on total enterprise costs divided proportionally among the agencies by the number of agency employees.

The second assessment is the "agency services" assessment. Activities supported by this assessment include payroll, benefits, leave management, and employee and supervisory based training. The assessment for 2018-19 was based on budgeted human resources costs in each agency

prior to the Act 59 consolidation of positions.

The Division of Personnel Management intends to administer shared human resources services on a "regional" basis with various groupings of agencies combined to compose a region. For 2018-19, two regions were created: Region 1 consisted of state agencies in the Hill Farms State Office Building (the Public Service Commission, DOA's Division of Hearing and Appeals (DHA), the Department of Financial Institutions, the Department of Safety and Professional Services, and the Department of Transportation); and Region 2 consisted of the statewide operations of the Department of Corrections. The general purpose for creating regions is to provide for more coordinated and efficient services across state agencies. In 2018-19, all other agencies not included in regions continued to be administered by DPM on an individual basis. [Note that, even prior to 2017 Act 59, a number of smaller agencies had human resource and personnel services provided by DOA: Office of Commissioner of Insurance; Educational Communications Board; Lower Wisconsin Riverway Board; Department of Tourism; Kickapoo Reserve Management Board; Labor and Industry Review Commission; Board on Aging and Long-Term Care; Board for People with Developmental Disabilities; District Attorneys; Elections Commission; Ethics Commission; Office of the Governor; Office of the Lieutenant Governor; Secretary of State; State Treasurer; and Judicial Commission.]

For 2019-20, DPM's report indicates that two additional regions will be created: Region 3 will consist of: DOA; the Department of Agriculture, Trade, and Consumer Protection; the Department of Children and Families; the Department of Natural Resources; and the Department of Workforce Development; and Region 4 consist of the Departments of Health Services, Revenue, and Veterans Affairs. The State Historical Society and State Fair Park would continue to be administered separately.

The proposed assessments for 2019-20 identified in the report are the same as the assessments for 2018-19. However, the intent of DPM is to base assessments on actual prior year costs for agencies assigned to specific regions and the current fiscal year's (2019-20) budgeted total. Detailed final 2018-19 costs associated with human resources have not yet been determined. Once these costs have been determined and regionalized, assessment levels by region could differ from the proposed assessments, and, therefore, impact individual agencies in a manner different from the proposed fees indicated. Further, while the 2017-19 biennial budget required a one-time lapse of \$2.8 million in 2018-19 associated with shared human resource services, 2019 Act 9 reduced DPM's budget by \$2.8 million PR and 41.34 PR positions annually on a permanent basis. The Act 9 reductions have not yet been factored into the 2019-20 assessment rates. The report to the Committee indicates that, as "additional estimations are available based on the implementation of Regions 3 and 4, DOA will provide updated FY20 assessments to the Joint Committee on Finance."

*Number of Positions and Position Vacancies (s. 16.004(20)(c)1.b. and c.).* According to the report, DPM's general program operations appropriation had 422.89 PR positions in 2018-19. Of these positions, 58.84 positions were vacant on June 8, 2019. [As of August 1, 2019, 62.84 positions were vacant.] The 2019 Act 9 reduction of 41.34 PR positions was not incorporated into DPM's position count.

*Cost Savings (s. 16.004(20)(c)1.d.).* As part of 2017 Act 59, DOA was directed to lapse \$2.8 million PR to the general fund in 2018-19 from DPM's general program operations appropriation.

Agency costs supported by federal revenues are required to be utilized for programmatic purposes. Since a portion of the lapsing amount was associated with revenue generated from federal funding sources and not used for program costs, DPM was also required to reimburse the federal government \$499,336. These transactions occurred on June 28, 2019.

*Metrics (s. 16.004(20)(c) I.e.).* The Division indicates that draft metrics associated with certain personnel transaction times were developed by the SSEC in 2018 and are now being finalized by the currently constituted SSEC. Metrics could establish measures related to items such as the timeliness of various aspects of the hiring process, the reclassification process, the complaint process, reviews of workplace disputes, and supervisory review of employee timesheets. The report indicates no comparison is provided in the 2019 report since 2018-19 was the first year of shared human resource services.

The report submitted by the Department contains the statutorily required elements under s. 16.004(20)(c)2. While the 2019-20 assessment structure identified in the report is identical to the 2018-19 structure, DOA indicates that it is in the process of revising the assessment based on: (a) actual 2018-19 costs for HR shared services; (b) the regionalization of most state agencies for human resources services; and (c) the 2019-20 and 2020-21 budget and position reductions included in the recently passed Act 9. The Department indicates that it will notify the Committee regarding assessments as additional estimations are available based on the implementation of Regions 3 and 4. If the Committee wishes, the report could be approved. [Alternative 1] Under this alternative, DOA would be allowed to assess agencies for HR shared services based on the Department's Act 9 2019-20 budget and organizational restructuring. Once DOA has revised the 2019-20 assessments, the Committee would be informed of, but not required to approve, the assessments.

While the report does contain the required elements, the actual assessment levels for 2019-20 have not yet been identified and the rates identified in the report will be modified during the fiscal year. Despite the Department's indication that it would inform the Committee of modifications to the assessments, DOA would not be required to inform the Committee. As such, the Committee could decide not to approve the report. [Alternative 2] Under this alternative, since statutes specify that "the department may provide the human resources services and payroll and benefits services proposed in the report and charge the assessments proposed in the report only upon approval of the committee," DOA would be required to submit a subsequent report identifying the assessments for 2019-20 in order to assess state agencies for HR shared services.

## **ALTERNATIVES**

1. Approve the Department of Administration's report to the Committee under s. 16.004(20)(c) related to the Division of Personnel Management's 2019 annual report, and the 2019-20 state agency assessments for human resource shared services.

2. Do not approve the Department of Administration's report to the Committee under s. 16.004(20)(c) related to the Division of Personnel Management's 2019 annual report, and the 2019-20 state agency assessments for human resource shared services.

BL/JR/lb