



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 1, 2005

Joint Committee on Finance

Paper #112

Consolidation of State Procurement, Human Resources, and Payroll Services (DOA -- Transfers to the Department)

[LFB 2005-07 Budget Summary: Page 36, #2; Page 40, #4; Page 41, #5; Page 67, #22 and 23; Page 104, #5 and #6; Page 123, #8; Page 147, #7; Page 148, #8; Page 166, #4 and #5; Page 314, #13; Page 336, #6; Page 394, #6; Page 411, #5; Page 418, #6; Page 422, #5; Page 433, #5 and #6; Page 455, #5; Page 464, #9 and #10; and Page 508, #3]

CURRENT LAW

Procurement. The Department of Administration (DOA) has broad authority related to procurement. Generally, DOA purchases materials, supplies, equipment, personal property, contractual services, and related items for an executive branch agency, unless the Department delegates procurement authority to the state agency. Where delegation is made, DOA must require the agency to adhere to all current law procurement requirements and procedures. Except for the University of Wisconsin System, DOA may not delegate the authority to enter into any procurement contract relating to information technology or telecommunications without the review and approval of the specific contracts by DOA. The legislative and judicial branches have independent procurement authority but may request the assistance of DOA in procurement matters.

Generally, procurements must be awarded to the lowest responsible bidder. For purchases that will cost more than \$25,000, DOA must either solicit sealed bids or engage in electronic reverse bidding [where a vendor may see the lowest current bid for a products and enter a lower bid]. The Department may determine simplified procedures for transactions of less than \$25,000. With respect to most procurement requirements, they may be waived by the Governor if it is determined that the procurement is in the best interests of the state or an emergency exists.

If the Secretary of DOA determines that competitive sealed bidding is not practical or not advantageous for the state, the Department may solicit competitive sealed proposals, under which the Department may seek competitive bids and then further negotiate the specifics of the contract through an evaluation committee. Single-source or noncompetitive purchases may also be used, when it is determined that it is in the state's best interest to do so.

DOA may assess any state agency to which it provides procurement services for the cost of those services. The Department may also identify savings realized by the state agency as a result of DOA's procurement services and assess the agency for not more than the amount of the savings identified by DOA. These charges are credited to DOA's PR-funded procurement services appropriation.

Human Resources and Payroll. The Office of State Employment Relations (OSER), attached administratively to DOA, is responsible for the state's duties in regards to the state's civil service system, including rule-making and policy direction for functions such as recruitment, examination and selections, classification, compensation, labor management, collective bargaining, affirmative action and other functions related to state personnel management and employee relations.

DOA currently maintains systems for financial management (WiSMART), position control, and payroll administration (Central Payroll System) These systems provide a degree of centralized support to state agencies. For most human resource and payroll services, however, state agencies generally employ individuals to provide such services either as part of other administrative duties (for smaller agencies) or as a sole responsibility (for larger agencies).

GOVERNOR

Procurement. Provide \$837,900 PR and in 2005-06 and \$1,117,200 PR in 2006-07 and 15.5 PR positions annually under DOA's procurement services appropriation to consolidate state procurement operations from various state agencies in DOA. In addition to DOA, 12 other state agencies are affected by the consolidation of state procurement services initiative, beginning in 2006-07.

In nine of the 12 affected state agencies a total of \$940,200 (\$359,100 GPR, \$99,100 FED, \$269,000 PR, and \$213,000 SEG) would be reallocated from 14.85 deleted positions (5.05 GPR, 1.5 FED, 5.25 PR and 3.05 SEG) and placed in unallotted reserve in 2006-07. These reallocated funds would then be available to the affected agencies beginning in 2006-07 to pay DOA charges relating to procurement services. The reallocated funding amounts and position reductions in 2006-07 are identified below by agency and fund source.

<u>Agency</u>	<u>Reallocated Funding</u>	<u>Deleted Positions</u>	<u>Fund Source</u>
GPR Funding			
Educational Communications Board	\$61,600	-0.90	GPR
Public Instruction	111,400	-2.00	GPR
Revenue	<u>141,100</u>	<u>-2.15</u>	GPR
GPR Subtotal	\$314,100	-5.05	
FED Funding			
Commerce	\$28,900	-0.50	FED
Public Instruction	<u>70,200</u>	<u>-1.00</u>	FED
FED Subtotal	\$99,100	-1.50	
PR Funding			
Agriculture, Trade and Consumer Protection	\$56,000	-1.00	PR
Commerce	103,800	-1.70	PR
Educational Communications Board	6,900	-0.10	PR
Financial Institutions	33,600	-0.50	PR
Insurance	47,900	-0.80	PR
Public Defender	29,500	-0.60	PR
Revenue	20,800	-0.30	PR
Tourism	<u>15,500</u>	<u>-0.25</u>	PR
PR Subtotal	\$314,000	-5.25	
SEG Funding			
Revenue	\$213,000	-3.05	SEG
Total Reallocation	\$940,200	-14.85	

In the following three state agencies \$1,317,900 (\$857,300 GPR, \$75,700 FED, \$54,300 PR, and \$130,600 SEG) and 23.1 positions (16.0 GPR, 1.5 FED, 3.65 PR, and 1.95 SEG) related to procurement would be deleted entirely in 2006-07. As a result, no funding would be shifted to unallotted reserve in these state agencies.

<u>Agency</u>	<u>Deleted Funding</u>	<u>Deleted Positions</u>	<u>Fund Source</u>
GPR Funding			
Corrections	-\$869,000	-14.50	GPR
Military Affairs	<u>-88,300</u>	<u>-1.50</u>	GPR
GPR Subtotal	-\$957,300	-16.00	
FED Funding			
Military Affairs	-\$75,700	-1.50	FED
PR Funding			
Veterans Affairs	-\$154,300	-3.65	PR
SEG Funding			
Veterans Affairs	<u>-\$130,600</u>	<u>-1.95</u>	SEG
Total Amounts Deleted	-\$1,317,900	-23.10	

Expenditures for procurement and purchasing services in DOA are funded from charges to

state agencies for the services provided by DOA. Under the bill, the expenditure authority for DOA's procurement services appropriation would be increased by \$837,900 PR in 2005-06 and by \$1,117,200 PR in 2006-07, for a biennial total of \$1,955,100 PR. A total of only \$940,200 in 2006-07 would be reallocated within nine state agencies to pay service charges to DOA associated with the consolidation of procurement and purchasing services initiative.

The Governor estimates that the procurement consolidation initiative would result in lapses and transfers to the general fund of \$5,000,000 in 2005-06 and \$22,082,800 in 2006-07.

Human Resources and Payroll. Provide \$508,700 PR in 2005-06 and \$678,300 PR in 2006-07 and 8.0 PR positions annually under DOA's materials and services to state agencies appropriation to consolidate human resources and payroll benefits operations from various state agencies in DOA.

In addition to DOA, 10 other state agencies would be affected by the consolidation of state human resources and payroll benefits initiative beginning in 2006-07. In seven of these 10 state agencies, a total of \$1,182,100 (\$139,900 GPR and \$1,042,200 PR) would be reallocated from 15.85 deleted positions (1.85 GPR and 14.0 PR) and placed either in the agency's supplies and services line or in unallotted reserve in 2006-07. The reallocated funding would be available to the affected agencies beginning in 2006-07 to pay DOA charges relating to human resources and payroll benefits operations. The reallocated funding amounts and position reductions in 2006-07 are identified below by agency and fund source.

<u>Agency</u>	<u>Reallocated Funding</u>	<u>Deleted Positions</u>	
GPR Funding			
Educational Communications Board	\$30,800	-0.60	GPR
Tourism	<u>109,100</u>	<u>-1.25</u>	GPR
GPR Subtotal	\$139,900	-1.85	
PR Funding			
Financial Institutions	\$234,000	-3.00	PR
Educational Communications Board	10,200	-0.20	PR
Insurance*	293,600	-4.00	PR
Public Service Commission	252,000	-3.00	PR
Regulation and Licensing*	152,600	-2.00	PR
State Fair Park	<u>99,800</u>	<u>-1.80</u>	PR
PR Subtotal	\$1,042,200	-14.00	
Total Reallocation	\$1,182,100	15.85	

*Amounts in these agencies are reserved in the supplies and services line rather than in unallotted reserve.

In the following three state agencies \$365,900 (\$229,500 GPR, \$7,700 FED, \$64,600 PR, and \$64,100 SEG) and 5.1 positions (2.83 GPR, 0.17 FED, 1.1 PR, and 1.0 SEG) related to human relations and payroll benefits operations would be deleted entirely in 2006-07. As a result, no

funding would be reallocated to unallotted reserve or to supplies and services.

<u>Agency</u>	<u>Funding</u>	<u>Positions</u>	
GPR Funded			
Agriculture, Trade and Consumer Protection	-\$37,900	-0.83	GPR
Revenue	<u>-191,600</u>	<u>-2.00</u>	GPR
GPR Subtotal	-\$229,500	-2.83	
FED Funded			
Agriculture, Trade and Consumer Protection	-\$7,700	-0.17	FED
PR Funded			
Agriculture, Trade and Consumer Protection	-\$23,000	-0.50	PR
Commerce	<u>-41,600</u>	<u>-0.60</u>	PR
PR Subtotal	-\$64,600	-1.10	
SEG Funded			
Revenue	-\$64,100	-1.00	SEG
Total Amounts Deleted	-\$365,900	-5.10	

Expenditures for human resources and payroll benefits services in DOA are funded from charges to state agencies for services provided by DOA. Under the bill, DOA's expenditure authority under its appropriation for materials and services to state agencies would be increased by \$508,700 in 2005-06 and \$678,300 in 2006-07, for a biennial total of \$1,187,000 PR. A total of \$1,182,100 in 2006-07 would be reallocated within seven state agencies to pay service charges to DOA associated with the consolidation of human resources and payroll services.

The Governor estimates that the human resources and payroll consolidation initiative would result in lapses or transfers to the general fund of \$571,800 in 2006-07.

DISCUSSION POINTS

Procurement Consolidation

1. *Conversion of DOA's Procurement Services Function to a Fee-Based Operation.* Provisions of 2001 Wisconsin Act 16 (the 2001-03 biennial budget act), converted the operation of DOA's Bureau of Procurement from GPR funding to PR funding. Act 16 also authorized DOA to identify savings that are realized by a state agency to which the Bureau of Procurement has provided purchasing services and to assess the agency for not more than the amount of the savings identified by DOA.

2. It was anticipated that the assessments made by DOA would be sufficient to support the agency's new PR-funded procurement operations. In the event that agencies' procurement-related savings were insufficient to fund DOA's charges for services, Act 16 also created GPR, PR and SEG supplemental appropriations to supplement agency budgets for the amount of the DOA

charges that could not be funded from actual procurement savings. Supplementations were available only to those state agencies with purchase order activity of \$100,000,000 or less during the preceding fiscal year.

3. The GPR-funded procurement supplements annual appropriation has base level funding of \$161,100 GPR. The PR- and SEG-funded procurement supplements appropriations are sum sufficient appropriations, funded from the appropriate agency PR or SEG account. In the last three fiscal years, these appropriations have incurred no expenditure activity. The Committee has recently acted to delete this base level funding of \$161,100 GPR annually [see Paper #585].

4. *2003-05 Biennial Budget Legislative Initiative on Procurement.* In the 2003-05 biennial budget bill, the Legislature adopted a provision relating to the implementation of IT management systems for executive branch state agencies. One of the functions of that system was to manage statewide procurement. The principal features of that legislative initiative were the following:

- The Secretary of DOA was directed to issue RFPs for all of the following types of management systems: (a) a performance-based budgeting system; (b) a single web-based accounting system; (c) a single web-based electronic procurement system; (d) a single human resource system capable of processing all personnel information and payroll transactions and providing information to all employee's regarding their benefits and services; and (e) an internet portal.

- The Secretary of DOA was directed to determine the savings and efficiencies that would be result from implementing these system and incorporate those projected savings in the 2005-07 biennial budget. Where the systems could be implemented without statutory changes, the Secretary was directed to implement them; otherwise the Secretary was directed to submit any necessary statutory modifications as part of the 2005-07 biennial budget bill.

- DOA was authorized to implement a data warehouse system for executive branch agencies.

- The Secretary of DOA was directed to implement an integrated procurement system with such features as: (a) centralized order processing; (b) invoice aggregation by state agency; (c) a budget management interface to identify and prevent budget overruns; and (d) order entry accessibility by electronic data input, internet, fax or telephone. The Legislature's proposal would have required executive branch state agencies to convert to this new procurement system by July 1, 2005. Further, six months after implementing the system, the Secretary of DOA was directed to delete 88.0 FTE procurement-related executive branch state agency positions and lapse the associated non-FED funded salary and fringe benefits amounts to the general fund.

5. The Governor subsequently vetoed all of these provisions (except for the provision authorizing DOA to implement a state government-wide data warehousing system for executive branch agencies).

6. Against the backdrop of the earlier conversion of DOA's procurement services function to a fee-based operation by the 2001-03 biennial budget, and the Legislature's subsequent position adopted in the 2003-05 biennial budget to establish a consolidated, integrated procurement system and also to delete agency procurement personnel following the implementation of that system, the Governor has proposed the current procurement consolidation initiative in AB 100. Many of the elements of the current consolidation proposal are consistent with these earlier actions.

7. *The Current Procurement Initiative.* The *Budget in Brief* indicates that under the proposed initiative in AB 100, DOA would reduce the amount of procurement authority delegated to state agencies. Under current law, DOA already has the authority to revoke or limit any procurement authority previously delegated to a state agency. Upon implementing these changes, DOA would seek to aggressively negotiate more statewide procurement contracts to reduce commodity unit costs on a variety of items and then increase the volume of products purchased through such negotiated contracts ["strategic sourcing"]. The Department believes that by projecting the total amount of certain major commodities that would be purchased each year by the state and then grouping all of these products under a single bid, vendors would be more likely to offer the commodities at a lower unit cost, due to the state's increased purchasing volume.

8. While no changes to current law are required to permit DOA to undertake any of the above procedures, the bill does include the following budgetary or statutory modifications that would affect executive branch state agency procurement operations:

- First, the bill would authorize the deletion of 37.95 (all funds) positions in twelve agencies and would create 15.5 PR positions in DOA related to procurement.
- Second, the bill would require the lapse or transfer to the general fund of \$35.5 million during in the 2005-07 biennium and an additional lapse or transfer of \$110 million in the 2007-09 biennium from allocations for human resources and payroll functions, server and network support and purchasing and procurement functions. Of these amounts, DOA estimates that over \$27 million during the 2005-07 biennium and potentially \$100 million during the 2007-09 biennium would be generated from amounts that otherwise would have been expended for executive branch state agency purchasing.

9. DOA has indicated that the centralization of procurement staff would enable the development of greater efficiencies in operating the new procurement system and would ensure that state agencies take maximum advantage of procurements from the state contracts that reflect the benefits of strategic sourcing. DOA procurement officials believe that maintaining current highly delegated, state agency purchasing practices tends to create pockets of inefficient and more costly purchasing methods. Further, if lower-cost, standardized state contracts were not uniformly used by state agencies, this would decrease the state's ability to leverage price reductions from vendors based on the state's potential high-volume buying power.

10. *Potential to Realize Procurement-Related Savings.* As noted above, a considerable portion of the anticipated lapses and transfers to the general fund assumed under the bill during the 2005-07 biennium and for the ensuing 2007-09 biennium have been identified as being generated

from procurement-related savings and procurement cost increases foregone.

11. Within the last six months, DOA has had the benefit of two consultant studies that have addressed various aspects of centralizing of state agency procurement and related services. The first study (entitled *Enterprise Resource Planning System Feasibility Study*, prepared by Salvaggio, Teal & Associates) addressed the development of integrated administrative management systems and examined ways in which an updated system could be used to more efficiently serve the state's procurement and human resources needs. The second study (prepared by Silver Oaks Solutions) addressed the potential for realizing procurement savings based on a statewide strategic sourcing approach to contracting.

12. The first study was a cost/benefit analysis for an agency-wide enterprise resource planning (ERP) system. The purpose of the study was to review the feasibility of implementing an integrated state government-wide IT system for financial management, human resources, payroll administration, and other general administrative business activities. In general, this initiative has been included in the Governor's 2005-07 biennial budget recommendations and includes many of the concepts that were previously agreed to by the Legislature during its 2003-05 biennial budget deliberations.

13. The report noted that currently the state has no integrated, state government-wide procurement, asset management, or human resources systems in place, a condition that adversely affects the state's ability to operate in the most cost-effective manner.

14. Among the report's principal recommendations were that the state should consider the following:

- Implementation of a statewide enterprise resource planning system in which all state agencies would be required to participate.
- Improvements to the procurement, financial management and human resource functional areas in conjunction with establishing the enterprise resource planning system.
- The requirement that all agencies, including the UW System, to be included in the "E-Procurement" and strategic sourcing portions of the procurement projects.
- Use of a "strategic sourcing" system to project the state's total need for specific commodities and services and generate reduced contract costs based on the bidding of those commodities and services.

15. The report projected that developing the entire enterprise resource planning system would take 11 years at a potential cost of \$135 million over the period, but would result in net cost savings of \$513 million. [These cost and savings projections are reviewed in more detail in Paper #107].

16. In January, 2005, Silver Oak Solutions completed the second study. That study was

a multi-year assessment of the potential fiscal implications of DOA's strategic sourcing procurement initiative. The study attempted to identify the savings that might accrue to the state's purchasing function over the near term using more uniform contracts where specific commodities and services might be bid on a statewide basis.

17. The consultant's assessment identified certain types of commodities and services that were more susceptible to generating significant savings to the state, if the state resorted to a strategic sourcing procurement strategy. The various types of commodities and services could be rank-ordered in terms of their overall potential for savings, and the state could then proceed to implement the new procurement procedures for these types of supplies and services in successive implementation "waves." It is anticipated that strategic sourcing contracts for various groups of commodities and services would be phased-in sequentially during the course of the first one or two biennia for all executive branch agencies.

18. Based on the completion of the first four implementation waves during the 2005-07 biennium, the consultant estimated that potentially \$65.3 million (all funds) could be saved over the course of the biennium by executive branch agencies.

19. Table 1 summarizes these estimated savings by state agency. The consultant utilized state agencies' 2003-04 procurement spending, doubled this amount to obtain an approximation of biennial procurement spending, and then projected potential savings based on the specific mix of agency commodities and services purchased. In general, the projected annual savings by agency range between 1% and 3% of each agency's procurement activity.

20. Because it is expected that the revised contracting procedures would be successively phased-in during the biennium, additional savings would be realized in the following biennium. DOA estimates that perhaps \$100 million could be lapsed or transferred to the general fund during the 2007-09 biennium from total procurement savings of \$115 million.

TABLE 1

Estimated Biennial Procurement Expenditures and Potential Savings by Agency

<u>Agency</u>	<u>Procurement Spending Based on WiSMART Amounts</u>	<u>Estimated Biennial Savings</u>
Administration	\$161,359,300	\$3,365,900
Agriculture, Trade and Consumer Protection	20,125,300	320,400
Arts Board	565,800	5,200
Board on Aging	69,900	5,100
Child Abuse and Neglect Prevention Board	218,600	6,100
Commerce	7,191,400	165,800
Corrections	383,571,300	10,820,800
Educational Communications Board	12,536,000	85,100
Elections Board	944,800	8,900
Employee Trust Fund	5,674,200	46,200

<u>Agency</u>	<u>Procurement Spending Based on WiSMART Amounts</u>	<u>Estimated Biennial Savings</u>
Employment Relations Commission	\$172,100	\$10,400
Ethics	201,400	3,300
Financial Institutions	3,305,300	90,000
Governor's Office	366,700	30,100
Health and Family Services	371,322,100	8,347,000
Higher Education Aids Board	65,200	10,800
Historical Society	5,567,600	216,400
Insurance Commissioner's Office	5,784,100	74,400
Investment Board	3,868,700	26,200
Justice	16,814,600	462,500
Lieutenant Governor's Office	\$63,300	\$2,700
Lower Wisconsin Riverway	14,500	1,100
Military Affairs	10,730,800	306,800
Miscellaneous Appropriations	820,500	7,000
Natural Resources	130,754,000	2,744,300
Office of State Employment Relations	813,300	5,100
Personnel Commission	700	0
Public Defender	67,591,100	612,000
Public Instruction	66,773,000	995,800
Public Lands Board	732,100	7,400
Public Service Commission	2,623,100	10,700
Regulation and Licensing	3,683,900	74,400
Revenue	36,300,200	1,167,000
Secretary of State	92,100	7,000
State Fair Park	23,187,400	455,900
Technical College System Board	1,377,300	555,500
Tobacco Control Board	1,104,600	15,000
Tourism	14,543,400	294,500
Transportation	148,202,300	4,265,700
Treasurer	16,390,000	7,400
University of Wisconsin	\$1,252,863,200	\$24,342,300
Veterans Affairs	16,485,000	356,100
Workforce Development	<u>150,809,100</u>	<u>4,916,800</u>
Executive Agencies Total	\$2,945,679,500	\$65,250,900
Circuit Court	2,318,100	90,700
Court of Appeals	857,800	88,100
Legislature	8,571,700	461,700
Supreme Court	<u>12,371,700</u>	<u>90,500</u>
Legislative and Judicial Agencies Total	\$24,119,300	\$731,000
All Agencies Total	\$2,969,798,800	\$65,981,900

21. While the general fund would be expected to benefit during the 2005-07 biennium from the procurement savings-related required lapse and transfers, it is also anticipated that state agencies would also realize certain savings, as identified in Table 2.

TABLE 2

**Potential State Agency Procurement Savings
(2005-07 Biennium)**

Estimated Executive Branch Agency Savings	\$65,250,900
Offsets for:	
General Fund Lapses and Transfers	27,100,000
Procurement IT Systems and Implementation	11,273,400
UW System Appropriation Reduction	10,000,000
Non-Lapsing FED Funds	7,300,000
Ongoing Operating Costs	<u>3,150,000</u>
Subtotal of All Offsets	\$58,823,400
Estimated Remaining Agency Savings	\$6,427,500

22. The potential procurement-related savings in the 2005-07 biennium for executive branch agencies identified in Table 2 (\$65,250,900), would be subject to the following offsets: (a) \$27,100,000 representing the required procurement-related lapses and transfers under the bill; (b) \$10,000,000 representing a \$5 million annual reductions already applied to the UW Systems operating budget in connection with the projected supplies and services procurement savings under this initiative; (c) \$11,273,400 representing the implementation costs of the first four "waves" of the initiative (\$8,260,000) and estimated master lease-related costs incurred in connection with the installation of the procurement management system (\$3,013,400); (d) \$7,300,000 representing an amount equivalent the estimated federal funds portion of the required lapses and transfers that must be refunded to the federal government; and (e) \$3,150,000 representing ongoing operational costs incurred by DOA in connection with the initiative.

23. The resulting \$6,427,500 represents the estimate of aggregate savings that might accrue to all executive branch agencies in connection with these procurement-related efficiencies. Such savings are based on current estimated procurement cost reductions, net of all known expenditures and other lapse or transfer allocations during the next biennium. Whether agencies would actually realize this level of additional base level savings would depend on the state's success in achieving the overall level of procurement cost reductions, as estimated in the consultant's study. Further, if the Governor's other consolidation initiatives fail to produce the savings anticipated under the bill, the Secretary of DOA could presumably increase the amount of any procurement-related lapses or transfers that exceeded \$27,100,000 in order to achieve the \$35.5 million total biennial lapse amount required under the bill.

24. While there are likely to be near-term savings under the Governor's proposal, the greatest savings from the procurement consolidation initiative will tend to be realized during the first few fiscal years following the implementation of the initiative. As procurement savings are generated (and lapsed or transferred to the general fund) subsequent standard budget adjustments each biennium would be expected to remove the amount of the savings from agency base budgets. In future biennia, therefore, there will likely be declining elasticity in agencies' remaining supplies and serviced budgets, and smaller and smaller savings are likely to be generated thereafter. At the same time, agencies will continue to incur ongoing (and potentially increasing) costs from DOA for the operation of the consolidated procurement enterprise.

25. Proponents of the procurement consolidation initiative would cite the significance of savings that the state could realize as a result of the project, the development of centralized purchasing expertise and contract management at DOA, and the development of an integrated system that would interface budget and accounting systems.

26. Inasmuch as DOA already possesses the current law authority to implement much of the initiative, other than the consolidation of state agency procurement positions and the lapse or transfer of the identified procurement-related savings, the Committee could approve the Governor's recommendation. Further, it may be noted that the current initiative contains many of the elements of a similar type of initiative that was approved of by the Legislature during its deliberations on the 2003-05 biennial budget.

27. Nonetheless, it is unclear the degree to which the cost elements associated with the development of the procurement initiative are the same as or are in addition to the costs associated with the IT system consolidations and funding addressed in Papers #107 and #111. Accordingly, if the Committee chooses to approve the Governor's procurement consolidation recommendations but also chooses to delete near terms implementation funding at this time for DOA business management IT systems [see Paper #107], the Department could submit the necessary budget detail regarding the procurement-related system development costs when it submits a s. 16.515 request for implementation funding in 2005-06 for the business management IT systems.

28. Finally, with respect to the procurement consolidation initiative, DOA believes that the strategic sourcing of statewide commodity contracts will likely insure lower costs for many basic products used by state agencies. However, for many of these types of products, potential vendors would most likely need a statewide distribution system to supply the state's needs. Consequently, under the consolidated procurement system, there is the potential that local or regional suppliers may be at a disadvantage in participating in the state's revised procurement program. Further, a number of state agencies have raised the concern that specialized procurement expertise relating to the unique needs of certain agency programs or missions may be compromised if the state's purchasing function is increasingly centralized in DOA. If the Committee believes that these types of concerns might outweigh the presumed benefits of the consolidation, it could choose to deny the Governor's recommendation.

Agency Procurement Consolidation Implementation Issues

29. Since the introduction of AB 100, DOA has advised that there are several errors with respect to implementing the Governor's intent in connection with the procurement consolidation initiative. If the Committee chooses to support the Governor's procurement consolidation initiative, it may also wish to adopt the following modifications to reflect the Governor's intent.

- The bill would delete, rather than transfer to supplies and services funding, \$88,800 GPR and \$75,700 FED in 2006-07 under the Department of Military Affairs (DMA). DOA has now advised that \$88,300 GPR and \$75,700 FED in 2006-07 should be restored to DMA's supplies and services line in order to fund potential DOA costs for procurement services provided to DMA.

- DOA also advises that only 3.0 FTE procurement positions (1.05 PR and 1.95 SEG) in 2006-07 in the Department of Veterans Affairs (DVA) should have been deleted. The bill would delete 5.6 FTE procurement positions (3.65 PR and 1.95 FED). Consequently, DOA requests that 2.6 PR positions in 2006-07 be restored to DVA. Further, \$47,500 PR and \$130,600 SEG would be added and budgeted in unallotted reserve relating to the 1.05 PR and 1.95 SEG positions in 2006-07 that would still be deleted. The funding in unallotted reserve would be available to DVA to fund procurement-related services provided by DOA.

30. DOA has also indicated that it was the Governor's intent to delete the current law authority of the UW System to purchase IT and telecommunications equipment and services independently of DOA procurement authority. DOA has now advised that the success of the proposed consolidation of procurement services requires the inclusion of DOA oversight of UW System IT and related purchases. DOA has stated that it believes the UW System will achieve additional procurement savings under the IT contracts negotiated by DOA and that buying power represented by the UW System will help DOA to leverage additional savings for the rest of state government.

31. The UW System disputes DOA's claim. The University has stated that both the UW System and DOA as separate procurement authorities already have sufficient purchasing volume to achieve low-cost bids for the state. Further, certain existing discounts that are available to educational institutions may not continue to be available to the state, if the University's IT procurement needs are subsumed under DOA's statewide procurement system.

32. The UW System also believes that contracts offered through DOA could lack the flexibility to allow campuses to determine the type of IT systems best suited for specific institutions. The UW System also advises that long-term contracts, as they might apply to IT procurements, may be less expensive initially, but that being locked into a multi-year contract commitment could be costly in the long-term as technology advances and the cost of operating systems drops dramatically as newer systems are developed.

Human Resources and Payroll Services

33. The Department of Administration estimates that the human resources staffing

consolidations will result in net savings of \$571,800 (all funds) in 2006-07. These savings are estimated to result from the difference between the salary and fringe benefits provided to DOA in 2006-07 (\$610,300) compared to amounts shifted to various agencies' supplies and services or unallotted reserve lines (\$1,182,100). However, it may be noted that the new DOA human resources and payroll personnel are actually authorized beginning in 2005-06 at a budgeted cost of \$508,700. There would be no offsetting agency funding shifts in that fiscal year. Consequently, for the entire fiscal biennium, agencies would be required to provide \$1,187,000 to DOA for human resources costs and an additional \$571,800 to be lapsed or transferred to the general fund. However, amounts transferred from salaries and fringe benefits to supplies and services or unallotted reserves would total only \$1,182,100 to fund these additional costs.

34. The *Budget in Brief* indicates that the goal of this consolidation initiative is to centralize and standardize human resources and payroll services for state agencies. The intended goal is have larger state agencies operate at a level of one human resources staff person to approximately every 100 agency employees. For smaller state agencies, the goal is to consolidate the human resources functions under DOA to insure that, in the aggregate, a comparable human resources staffing ratio is achieved for these agencies.

35. Table 3 summarizes the current human resources staffing ratios in the six largest state agencies (other than the UW System and the UW Hospitals and Clinics Board).

TABLE 3

Current Human Relations Staffing Ratios in the Largest State Agencies

<u>Agency</u>	<u>Current Ratio</u>
Administration	1:126
Corrections	1:83
Health and Family Services	1:74
Natural Resources	1:100
Transportation	1:74
Workforce Development	1:100

36. The Executive Budget Office indicates that it believes the higher ratios of human resources personnel for the Departments of Corrections (1:83), Health and Family Services (1:74), and Transportation (1:74) are appropriate given the higher amounts of shift work, overtime scheduling, sick leave, and volume of employee grievances in those agencies. The remaining three large state agencies (DOA, DNR and DWD) all have human resources staffing ratios that are consistent with the target ratios described above, and these agencies were not subject to additional human resources staffing reductions under the bill.

37. However, for three other large agencies (the Departments of Agriculture, Trade and Consumer Protection; Commerce; and Revenue) DOA's review of human resources staffing ratios determined that in these three agencies the staffing ratios did not conform to the target of one human

relations position to approximately 100 agency employees. Consequently, human relations positions and funding were reduced in these agencies. The current human resources staffing ratios and those under the Governor's recommendation are shown in Table 4 for these three agencies.

TABLE 4

**Human Resources Staffing Ratios in Three Large State Agencies
Subject to Position Reductions**

<u>Agency</u>	<u>2004-05</u>			<u>2006-07</u>		
	<u>Human Resources</u>	<u>FTE</u>	<u>Employees Per HR Staff</u>	<u>Human Resources</u>	<u>FTE</u>	<u>Employees Per HR Staff</u>
Agriculture, Trade and Consumer Protection	8.00	608.94	76.1	6.50	493.92	76.0
Commerce	5.10	442.00	86.7	4.50	385.65	85.7
Revenue	14.00	1,192.85	85.2	11.00	1,042.08	94.7

38. Due to various other position deletions and transfers being recommended under the bill, the ratio of human resources personnel to other agency staff in 2006-07 would stay approximately the same as the ratios shown for the base year (2004-05). In comparing the human resources staffing ratios for these three agencies where human relations position reductions have been made, it may be noted that the current ratios for all three exceed those for DHFS and DOT, which were not subject to a human resources position reduction. However, if human resources positions deleted by the bill were restored to DATCP, Commerce, and DOR, the human resources staffing ratios in these agencies would be 1:62 in DATCP, 1:76 in Commerce and 1:74 in DOR, which would be significantly below DOA's target ratio of 1:100.

39. In addition, the Governor's recommendation would delete human relations and payroll services position authority under several smaller state agencies and would transfer these functions to DOA. DOA, in turn, would provide these services to the smaller state agencies, each of which would be billed for such services.

40. Table 5 shows the current number of human resources personnel currently authorized at these smaller state agencies, the current number of authorized staff in each agency, and the current ratio of human resources staff to agency employees.

TABLE 5

Current Human Resources Ratios at Smaller State Agencies Subject to Position Reductions

<u>Agency</u>	<u>2004-05</u>		
	<u>Human Resources</u>	<u>FTE</u>	<u>Employees Per HR Staff</u>
Educational Communications Board	1.60	71.00	44.4
Financial Institutions	3.00	154.00	51.3
Commissioner of insurance	4.00	131.00	32.8
Public Service Commission	3.00	180.50	60.2
Regulation and Licensing	2.00	126.00	63.0
State Fair Park	1.80	30.20	16.8
Tourism	1.25	53.45	42.8

41. Currently, the Department of Administration is authorized 1,007.38 (all funds) positions, including 8.0 human resources personnel. The Department also indicates that currently it provides human resources services for personnel in a variety of small agencies (the Board on Aging and Long-Term Care, the Board of Commissioners of Public Lands, the Elections Board, the Ethics Board, the Office of the Governor, the Office of the Lieutenant Governor, the Judicial Commission, the Office of State Employment Relations and the District Attorneys function). Currently, an additional 561.4 FTE positions are associated with these agencies, resulting in a ratio of one DOA human resources officer for every 196.1 FTE employees. The Governor's recommendation would add the human resources-related responsibilities of the seven agencies listed in Table 5 to DOA as well as 8.0 additional human resource positions. These modifications would provide DOA with a human resources staff to employees ratio of 1:144.5. [This ratio includes action by the Committee retaining the District Attorney function at DOA.]

42. The Department indicates that providing centralized human resources services to these smaller agencies would improve the uniformity of the services received and strengthen adherence to statewide human resources and payroll policies and guidelines. The Governor's recommendations would be expected to generate efficiencies in the operation of the human resources and payroll functions of state government that would, in turn, contribute to ongoing cost savings. However, at this juncture, these savings are likely to be relatively modest. The Committee could conclude that the increased rationalization of the human resources and payroll function and the resulting efficiencies are desirable, and it could approve the Governor's recommendation.

43. Alternatively, it could be argued that agencies would be reliant on DOA for all processes from hiring to firing and that no in-house services may be available in smaller agencies to handle conflicts before there is an escalation to grievance stages. It could also be argued that under the Governor's various consolidation initiatives, while greater efficiencies would undoubtedly occur, agencies would be increasingly reliant on DOA support to carry out a variety of functions. If the Committee concludes that this type of change would be undesirable, despite the opportunity for cost savings, it could delete the Governor's recommendation relating to the consolidation of human resources and payroll functions.

ALTERNATIVES

A. Procurement

1. Approve the Governor's recommendation to: (a) provide \$837,900 PR and in 2005-06 and \$1,117,200 PR in 2006-07 and 15.5 PR positions annually under DOA's procurement services appropriation to consolidate state procurement operations from various state agencies in DOA; (b) reallocate \$940,200 (\$399,100 GPR, \$99,100 FED, \$269,000 PR and 213 positions) from 14.85 (5.05 GPR, 1.5 FED, 5.25 PR, and 3.05 SEG) deleted positions to unallotted reserve; (c) delete \$1,317,900 (\$957,300 GPR, \$75,700 FED, \$154,300 PR and \$130,600 SEG) and 37.95 (21.05 GPR, 3.0 FED, 8.9 PR, and 5.0 SEG) positions in 2006-07 for the transfer of procurement services responsibilities in various agencies to the Department of Administration; and (d) estimate lapses and transfers to the general fund of \$5,000,000 in 2005-06 and \$22,082,800 in 2006-07.

2. *In addition to Alternative A1*, modify the Governor's recommendation by restoring \$88,300 GPR and \$75,700 FED in 2006-07 in the Department of Military Affairs for supplies and services related to charges from the Department of Administration for procurement services.

<u>Alternative A2</u>	<u>GPR</u>	<u>FED</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$88,300	\$75,700	\$164,000

3. *In addition to Alternative A1*, modify the Governor's recommendation by: (a) restoring \$106,800 PR and 2.6 PR positions in 2006-07 under the Department of Veterans Affairs; and (b) providing \$47,500 PR and \$130,600 SEG in 2006-07 in unallotted reserve to fund procurement-related services provided by DOA.

<u>Alternative A3</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$154,300	\$130,600	\$284,900
2006-07 POSITIONS (Change to Bill)	2.60	0.00	2.60

4. *In addition to Alternative A1*, delete the University of Wisconsin's authority to independently procure information technology and telecommunications equipment and services. *[This provision would allow the Department of Administration to determine whether to act as the procurement agent for the UW System or delegate that authority to the agency.]*

5. Delete the Governor's recommendation.

<u>Alternative A5</u>	<u>GPR-REV</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 REVENUE (Change to Bill)	-\$27,082,800					
2005-07 FUNDING (Change to Bill)		\$957,300	\$75,700	-\$1,800,800	\$130,600	-\$637,200
2006-07 POSITIONS (Change to Bill)		21.05	3.00	-6.60	1.95	19.40

B. Human Resources and Payroll

1. Approve the Governor's recommendation to: (a) provide \$508,700 PR in 2005-06 and \$678,300 PR in 2006-07 and 8.0 PR positions annually under DOA's materials and services to state agencies appropriation to consolidate human resources and payroll benefits operations from various state agencies in DOA; (b) consolidate state human resources and payroll benefits operations in seven state agencies, by reallocating \$1,182,100 (\$139,900 GPR and \$1,042,200 PR) from salaries and fringe benefits to supplies and services and unallotted reserves and deleting 15.85 positions (1.85 GPR and 14.0 PR) in 2006-07; (c) deleting \$365,900 (all funds) and 5.10 FTE positions from three state agencies in 2006-07; and (d) estimate lapses and transfers to the general fund of \$571,800 in 2006-07.

2. Delete the Governor's recommendation.

<u>Alternative B2</u>	<u>GPR-REV</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 REVENUE (Change to Bill)	- \$571,800					- \$571,800
2005-07 FUNDING (Change to Bill)		\$229,500	\$7,700	- \$1,122,400	\$64,100	- \$821,100
2006-07 POSITIONS (Change to Bill)		4.68	0.17	7.10	1.00	12.95

Prepared by: Darin Renner