HOUSE
RESEARCH
ORGANIZATION bill analysis | 4/10/2003

HB 906
Gallego
(CSHB 906 by Swinford)

SUBJECT: Limiting ratio of human resource personnel to other state agency staff

COMMITTEE: Government Reform — committee substitute recommended

VOTE: 6 ayes — Swinford, Gallego, Allen, Casteel, R. Cook, T. Smith

0 nays

1 absent — Callegari

WITNESSES: For — Chris Bowles, Experio Solutions, Inc.

Against — None

On — Susan Biles, Comptroller of Public Accounts; Kelli Vito, State Auditor's Office; Stephen Hosley, Applied Materials; Andrew Homer, Texas Public Employees Association; Michele Hendricks, Court Reporters Certification Board; William Calem, Small State Agency Task Force

BACKGROUND: As of the end of fiscal year 2002, Texas had the equivalent of 272,391 full-time state employees (FTEs), comprising 247,115 full-time employees, and 51,879 part-time employees. The total number of employees does not equal the total number of FTEs because two or more part-time employees might add up to one FTE.

Human resources (HR) offices in state agencies handle such areas as employee recruitment and selection, classification, benefits administration, and training.

The 73rd Legislature enacted HB 2626 by Black that created the Council on Competitive Government (CCG) to review state services and identify the most cost-effective and efficient providers of those services. A CCG review may result in reorganization within the same state agency, outsourcing of the service to a new state agency, or outsourcing of the service to a private provider. The CCG governing board consists of the governor, lieutenant governor, House speaker, comptroller, Texas Building and Procurement

Commission chairman, and Texas Workforce Commission labor representative.

DIGEST:

CSHB 906 would add Ch. 670 to the Government Code, requiring a state agency with more than 500 FTEs to have no more than one HR employee for every 100 staff members. The bill also would require the CCG to review the cost effectiveness of consolidating HR functions of state agencies with fewer than 500 FTEs or of contracting HR services out to private companies.

The bill would require that state agencies with more than 500 FTEs meet the 1:100 staffing ratio before September 1, 2003. The CCG would be required to conduct an initial feasibility study on the cost-effectiveness of consolidating HR functions or contracting with private entities by January 1, 2004.

If the CCG determined that contracting with a private entity was most cost effective, it would be required to issue requests for proposal to potential HR vendors and would determine which HR functions would be privatized and which would remain within the state agency. The bill also would require the state agency to pay for the private entity contract out of its HR budget.

Other provisions would allow a small- or medium-sized agency to appeal to the Legislative Budget Board (LBB) regarding CCG's decision to consolidate or outsource HR functions. If the LBB determined that it would not be cost effective to consolidate or contract for HR functions, it would grant a waiver to the agency.

CSHB 906 would not apply to a university system or a higher education institution defined in Education Code, sec. 61.003.

The bill would take effect September 1, 2003.

SUPPORTERS SAY:

CSHB 906 would reduce overstaffing of HR employees, particularly in large state agencies. Twenty-six state agencies employ 500 or more staff members, and these agencies combined have about 1,300 HR workers out of 78,900 total employees. The comptroller estimates that the average ratio of HR employees to other state employees is about 1:60, and that 19 of the 26 largest agencies have HR to staff ratios of less than 1:100.

The staffing ratios of one HR person per 100 employees is an accepted norm. During the past 26 years, the Bureau of National Affairs, a publisher specializing in legislative and regulatory issues, and the Society for Human Resource Management have conducted annual surveys of HR units in public, private, and nonprofit organizations. Their polling consistently has found the average HR to staff ratio ranges between 1:90 and 1:100. Both companies are highly regarded sources for business and public organizations and academic researchers.

Small and even medium-sized state agencies assign HR functions on a part-time basis to staff members who have other duties. HR administration ranges from compensation and benefits management to compliance with complex state and federal regulations and laws. A state auditor's report has identified weaknesses in tying state HR policies to broader management and strategic planning of the agencies. CSHB 906 would allow for a comprehensive review of HR management for small and medium-sized state agencies and help develop policies to improve administration of these critical functions.

Private entities, such as professional employer organizations (PEOs), should be allowed to offer their expertise to manage HR administration in state agencies. More than 2 million Americans work for companies managed by PEOs, and Texas already regulates and licenses these organizations. Private sector personnel management firms have expertise in compensation, insurance, workers compensation and other benefits management and in maintaining compliance with state and federal employment law. They could eliminate duplication of effort among state agencies, provide consistency in personnel administration, and provide objective resolution to such workplace issues as sexual harassment complaints. CSHB 906 would open the way for private sector solutions in state government.

This bill would provide nearly $31 million in general revenue savings for the next biennium that could be used for other worthy state projects. State agencies must accept innovation or offer their own suggestions on how to save taxpayer money and improve efficiency. The current budget crisis demands creative solutions and not a defense of the status quo.

OPPONENTS SAY:

There is nothing magical about the 1:100 ratio. Ratios can and do vary across and within industries and over the life spans of organizations. The Saratoga Institute, another respected HR consultant, has identified a recent trend toward lowering the ratio of HR to overall staff. Their research found the ratio among various organizations to be 1:93 in 1999, decreasing to 1:92 in 2000, and to 1:90 in 2001. Given the disagreement among experts in the field, no particular ratio should be required by statute.

CSHB 906 would not allow sufficient time to evaluate HR issues and would be too inflexible a mechanism to develop meaningful policies for smaller agencies. Some small agencies already have formed partnerships among themselves to handle HR management, in which each agency specializes in one aspect of HR management, such as compensation policy or training, and provides that service to its partners. Even smaller departments contract directly with larger agencies to handle their limited HR needs. The bill would raise the administrative costs of agencies without providing them additional benefits.

Privatization of HR functions would not necessarily save money or improve services. The private entities still would face the same difficulties managing a variety of small agencies or a series of departments and offices scattered throughout a large state. Outsourcing HR functions is far from the norm even in the private sector, with fewer than 5 percent of HR budgets devoted to outsourcing.

This bill would fail to treat all state agencies equitably. Universities and other institutions of higher education would be excluded from the bill, while large agencies would lack any means of appeal to be exempted from the September 1, 2003, deadline to reach the new ratio. Traditionally, the LBB has been reluctant to grant agencies waivers from strict budgetary policies. The bill also would not assure that agencies would receive sufficient resources to meet these new obligations.

Eliminating HR staffers would damage employee morale and undermine efforts to improve the professionalism of state HR administration. Cutbacks due to CSHB 906, as well as the appropriations process, would stymie efforts to link HR management to larger agency goals and strategic planning efforts.

**OTHER OPPONENTS SAY:**

CSHB 906 only would continue the piecemeal approach to HR management. The Legislature should create a centralized state HR office. Such offices have been successful in large urban Texas counties. These local governments share with the state the same kinds of challenges in managing fragmented executive departments headed by elected officials.

**NOTES:**

The committee substitute deleted a provision in the bill as introduced that would have required medium-sized agencies with fewer than 500 FTEs but more than 100 FTEs to meet the 1:100 ratio, either by themselves or following a CCG review of the cost effectiveness of outsourcing HR functions. The substitute differs from the original by allowing CCG to consider consolidation of small and medium-sized agency's HR functions with other state agencies as well as using private contractors, and providing an appeals process through the LBB.

The LBB estimates that this bill would save the state more than $15 million per year over the next five years, and that 529 positions would have to be eliminated across state agencies to meet the required staffing ratios.

Art. 9, sec. 12.08, a rider in CSHB 1 by Heflin, the general appropriations bill for fiscal 2004-05, is contingent on enactment of HB 906. The appropriations rider would reduce the biennial budget by $10.93 million in all funds by eliminating 291 FTEs, as well as a further reduction of $3.1 million in state retirement contributions and federal payroll taxes. As part of the rider, the Texas Department of Transportation would cut 120 FTEs at a savings of $4.83 million, including $3.35 million in revenues from other funds. Other reductions would include 71 FTEs at Texas Commission on Environmental Quality, 37 at Department of Human Services, and 21 at the Rehabilitation Commission.