

Analysis

Department of Administrative Services

Administrative Savings Statewide implementation Report

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Request: Acknowledge receipt of a report on implementation of 5% across-the-board reductions to specific administrative functions recommended in the Governor's Budget and included in 2013-15 legislatively adopted budgets.

Recommendation: Acknowledge receipt of the report.

Analysis: The Department of Administrative Savings (DAS) is submitting a report on implementation of 5 percent across-the-board reductions to all finance; information technology; human resources; accounting; payroll and procurement expenditures, as recommended in the Governor's Budget and adopted by the Legislative Assembly.

This initiative began when an executive branch requested budget note was included in the budget report for SB 5502 (2011), the 2011-13 budget bill for DAS. The budget report states that the following budget note was approved with the intent that the 10 percent reduction in administrative functions would result in a 10 percent reduction in costs:

The Department of Administrative Services shall develop a plan for reducing 2013-15 administrative functions (information technology, human resources, budgeting, accounting, etc.) across the Executive Branch of state government by 10%. The plan could include centralization of functions, efficiencies in processes, increasing risk tolerance or any other elements considered appropriate. The plan shall be developed with the participation of other state agencies and subject matter experts. The Department will present a progress report to the Joint Committee on Ways and Means during the 2012 Legislative Session. Agency budget requests for 2013-15 shall incorporate the recommendations of this plan.

The Department submitted a progress report to the Legislature during the February 2012 session as required by the 2011 budget note. The report summary dated January 30, 2012 stated:

The plan to address the reduction of administrative functions in the 2013-15 budget is in progress and on track to be included and reflected appropriately in the budget documents for next biennium. To date we have:

- Put in place structures and processes to complete activity in the requisite collaborative manner.
- Initiated the requisite baselining and definitional activity to identify, report, and monitor current cost factors associated with administrative functions.
- Begun development of process to evaluate, approve, implement, and monitor proposals for changes within the 2013-15 budget development review process.

DAS collected information on total estimated agency expenditures on finance, information technology, human resources, accounting, payroll, and procurement administrative functions. This information was used to develop package 091 for the Governor's Budget, which represented a 5 percent across-the-board unspecified reduction to targeted administrative functions. This reduction was included in the Governor's Budget recommendations for the 2013-15 biennium. The Legislative Fiscal Office (LFO) notes that no administrative reduction package was included in the 2013-15 Agency Request Budgets as required by the original budget note, and only a 5 percent package was included in the 2013-15 Governor's Budget, not a 10 percent package.

The current DAS report states that during the development of the Governor's Budget, there was a 10 percent "holdback" of administrative function expenditures, of which 5 percent was reinvested by the Enterprise Leadership Team in other areas of agency budgets. It should be noted that the 2011 budget note was unambiguous in its intent that this effort was to result in a 10 percent reduction in administrative costs. Furthermore, there was no allowance for reinvestment of administrative costs in the original budget note.

The 5 percent administrative reductions package was originally intended to act as a placeholder, with the stated intent that the executive branch would work on identifying specific reductions that would then be used to replace the unspecified reductions after the Governor's Budget was released and before the Legislature adopted budgets for the 2013-15 biennium. While DAS did begin a process to identify specific reductions, they were unable to complete this work before the end of the 2013 session. As a result the following direction was included in HB 5008 (2013), the omnibus budget bill, giving the executive branch more time to complete their work:

Another statewide adjustment, which is included in agency budget bills and not in House Bill 5008, affects most state agencies. Package 091 (Statewide Administrative Savings) is a placeholder for administrative efficiencies and associated budget reductions in finance, information technology, human resources, accounting, payroll, and procurement expenditures. The Subcommittee affirmed that the reductions, at \$62.0 million total funds, are permanent and ongoing as they reflect fundamental changes in business processes. The Department of Administrative Services (DAS) will continue to work on details of these reductions with agencies and report to the Joint Committee on Ways and Means during the 2014 session. Agencies should direct concerns regarding permanency or implementation of the reductions to DAS. The Department will include a plan for resolving any issues related to these reductions as part of its 2014 report.

DAS reports that the improving Government Steering Committee chartered a number of projects intended to create savings identified in package 091. However, as these projects were developed, a number of issues became apparent. Some of the savings from these projects would take longer to materialize than the current biennium. Some projects require upfront investments that would offset any short term savings this biennium, even if longer term savings were achieved. Another problem was that not all agencies would benefit equally from certain projects. Finally, it was noted that some projects would realize administrative savings in areas other than those identified in package 091.

DAS states that they realized these challenges made it unrealistic to identify specific reductions equal to the \$62 million in unspecified reductions included in agency budgets as recommended by the Governor. DAS reports that after consultation with LFO, they informed agencies the reductions would be treated the same as an across-the-board reduction and that specific reductions would need to be identified to replace unspecified cuts currently included in 2013-15 adopted budgets. State agencies were directed to work with their DAS and LFO analysts to identify reductions that ensure the package 091 adjustments get correctly reflected in the agency request budgets for the 2015-17 biennium. For some agencies this may involve moving reductions between appropriation lines, which will require budget adjustments be included in a 2014 session budget bill. Agencies were directed to keep these reductions limited to administrative functions, but some agencies may be required to cut program expenditures in order to implement specific reductions equal to those included in package 091.

The Legislative Fiscal Office recommends acknowledging receipt of the report.