

**Minutes of the
Free Market Protection and Privatization Board**

Thursday, November 13, 2014 - 2:00 p.m.

Room 20, House Building

State Capitol Complex

Members present:

Kimberley Jones (Chair), Brian Gough (Vice Chair), Sen. Howard Stephenson, Sen. Karen Mayne, Rep. Johnny Anderson, Thomas Bielen, Russell Anderson, Bob Myrick, Jacquie Nielsen, Louenda Downs, LeGrand Bitter

Members absent:

Rep. Lynn Hemingway, Randy Park, Manuel Torres, Al Manbeian, Rick Jones, Steve Fairbanks

Staff present:

Cliff Strachan, Governor's Office of Management and Budget (GOMB)

Note: Additional information including related materials provided at the meeting and an audio recording of the meeting can be found at <http://gomb.utah.gov/operational-excellence/privatization-board/> and the Utah Public Meeting Notice Website (<http://www.utah.gov/pmn>).

1. Welcome and Introductions

Brian Gough chaired the meeting.

Rep. Lynn Hemingway, Randy Park, Manuel Torres, Al Manbeian, Rick Jones, and Steve Fairbanks were excused. Kim Jones participated via telephone.

2. Public Comment (10 minutes)

3. Board Business/Minutes

a. Minutes from October 9, 2014

Motion: Thomas Bielen moved to approve the minutes of the October 9, 2014 meeting. CARRIED

b. Privatization Process Advisory Committee

Mr. Strachan noted process workbook are not available today but the materials provided for the Commercial Activities Inventory portion of the meeting will illustrate the survey questionnaire for the board. UDOT has identified a project to test both tiers of the survey.

3. Commercial Activities Inventory (CAI)

a. Division of Finance: Office of State Debt Collection (OSDC)

Richard Beckstead and John Reidhead presented an overview of the unit within the Division of Finance (which is itself a division within the Department of Administrative Services). Their presentation described the office's function, its accounts receivable inventory by agencies served, and how it manages its debt collections. They noted that the agency outsources about 97% of its collections activities, much of that through seven private sector vendors who are on a five-year contract beginning May 2013.

b. Division of Finance: Payroll

John Reidhead and Mark Austin presented on the Payroll unit and its function which is to pay wages and benefits to over 21,000 state employees. In the context of the TCO study to be discussed later in the meeting, they talked about the computer systems in place, its core was built in 2003 with a maintenance program that keeps it up to date. The maintenance costs about \$250,000 per year on an initial investment of \$5 million. Payroll is separate from DHRM because of the state's complicated accounting needs. Mr. Reidhead noted that he researched and could not find any other state with a privatized payroll service.

When asked, Mr. Reidhead said with current costs it makes no sense to change the payroll system but if it were time to upgrade or change out the system, then they might look to private sector solution.

c. Department of Human Resource Management (DHRM)

Debbie Cragun and Wendy Peterson described the agency and its functions, and presented its strategic roadmap. The agency serves state employees of the executive, legislative, and judicial branches but there are no public or higher education employees served. DHRM's work is based on three pillars: 1) bring employees in, 2) support them, and 3) help them as they leave. They discussed ERIC, CPM, leadership courses, administration of benefits, the need to comply with the ACA, appropriate labor relations issues and investigations of human resource matters. They mentioned GOMB's Operational Excellence initiatives which include consolidating HR technician transactions and refining recruitment activities.

Referencing the human resource information systems (HRIS) as a critical system for it contains information and data for all state employees present and past. The Department of Technology Services (DTS) built what DHRM has and last year said the system is at risk and needs to be updated or rebuilt. The agencies are engaged in a process to determine what the system needs to do now and in the future. A request for information was done over the summer, which has been reviewed with DTS. One board member inquired about data safety, which is why DTS recommended updating or rebuilding the HRIS. Another board member requested a progress report on the self service project in about two months.

DHRM is working on changes to Field Offices, specifically customizing approaches to fit needs. It also needs to update the compensation system to address job categories where employees are being lost to the private sector because of large differences in compensation by sector. A board member suggested getting legislative help to provide flexibility with these hot spots.

4. Review Privatization of an Activity

a. Total Cost of Ownership Study re Payroll and Human Resource Management

Don Glade of Sourcing Analytics (via web and telephone) presented an overview of the report and its results. A total cost of ownership (TCO) approach captures related costs, not just in the key departments but wherever they exist. By this method, human resource management (including payroll administration) costs the state about \$23 million per year.

The TCO study looked at costs for payroll, time and labor, human resources administration, recruiting and onboarding, compensation, performance management, and learning management for all state agencies served by DHRM and the Payroll unit of Division of Finance, and determined those costs on a Per Employee Per Year (PEPY) basis.

The study found that payroll costs are cost efficient (about the 78th percentile against a database of 800 entities considered to be within a peer group) and that if there is any room for improvement it is in time and labor management, especially where managerial oversight relies on manual process. No specific recommended changes.

It also found that time and labor and HR administration were a little more difficult to separate as cost factors because of the way the state systems are structured. However, overall, combining the PEPY for payroll, time and labor, and HR administration arrived at a total PEPY of \$472 versus \$510 for a peer group of employers with more than 10,000 employees.

Mr. Glade's conclusions are that the state's big costs are in field labor and that the likeliest cost improvements are to be made there. He noted that improvements to self services (such as the creation of ERIC a few years ago and current proposals to improve managerial self services through the HRIS project) will provide the best results, even if some of those results are only found as productivity gains (i.e., managers and employees spending more of their time doing their jobs and not as much employee related administration).

He also suggested that if a broad system redo is in the works that the state should consider combining all HR and payroll functions and see what the market can provide.

b. Property Damage Subrogation Request for Information

Mr. Strachan reported on the results of the request for information. The RFI asked for respondents to share information, best practices, etc. and to respond to 11 questions covering scope of services, process development, monitoring, documentation, reporting, processes, data protection, insurance and licensing, payments, and qualifications. Four firms responded.

Representatives from UDOT, Risk Management, State Office of Debt Collection, Purchasing, GOMB, and Salt Lake County reviewed the materials and discussed next steps. That group is preparing an outline for a pilot project which will be presented at the December board meeting. It is anticipated that the outline will define needs and limitations to the pilot project and identify a path forward. If the board supports the project as outlined, the request is for recommendation(s) from the board.

Mr. Strachan discussed the benefits of a pilot project versus a Request for Proposals.

5. Review Issues Concerning Agency Competition with the Private Sector

a. Competition Review Advisory Committee

Mr. Strachan indicated that he will be scheduling a meeting of the committee for December to review the materials and results of review of Aspire, the State Office of Education's student information system.

6. Other Business/Adjourn

Motion: Louenda Downs moved to adjourn. CARRIED

Scheduled Board meetings:

- Thursday, December 11, 2014 at 2 pm in 20 House Building
- Thursday, January 8, 2015 at 2 pm in 20 House Building