

Governor's Reorganization Plan

Number One

May 2011

TO UNIFY AND STREAMLINE THE CALIFORNIA STATE PERSONNEL SYSTEM



Reorganization of the
State Personnel Board and the
Department of Personnel Administration

Governor's Reorganization Plan Number One

REORGANIZATION OF THE STATE PERSONNEL BOARD AND THE DEPARTMENT OF PERSONNEL ADMINISTRATION

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The California Department of Human Resources (CalHR)

INTRODUCTION

California state government could not operate without hard-working employees. Unfortunately, due to the bifurcated personnel system, our own bureaucracy makes it difficult to recruit, hire, promote, classify, discipline, train, and reward those employees. It is time to remedy the procedural and organizational problems that confound our system and create one unified state Department of Human Resources.

We currently have two personnel organizations, the State Personnel Board (SPB) and the Department of Personnel Administration (DPA), with overlapping jurisdictions that cause the human resource system to be increasingly complex and dysfunctional. SPB has authority under Article VII of the State Constitution to oversee the merit principle. Its responsibilities currently include civil service examinations, probationary periods, the formal establishment of job classifications, and discipline. DPA is responsible for all other personnel management functions including pay, day-to-day administration of the classification plan, training, benefits, all other conditions of employment, and collective bargaining.

Study after study point out that the state's personnel management system with its redundant responsibilities is outmoded, inefficient, unresponsive, and lacks the organizational focus necessary for the management of an effective public service.¹ It wastes money and is a bureaucratic impediment to implementing reforms that would make all state agencies more effective in serving the public. The State of California can no longer afford disjointed, duplicate, and wasteful programs. It is in the public's interest for economy and efficiency in government to consolidate the human resource management functions performed by SPB and DPA into one Department of Human Resources (CalHR).

It is also in the public interest to accomplish this reorganization while preserving the merit principle in state government as required by Article VII of the State constitution.

¹ In 1995 and 1999, the Little Hoover Commission urged that management authority over the personnel system be organized under a single entity. In 1995 the Legislative Analyst highlighted urgent changes necessary to reform the state's civil service system. In 2005 the California Performance review further recommended that the operations of the State Personnel Board and the Department of Personnel Administration be combined.

A UNIFIED HUMAN RESOURCE DEPARTMENT

By consolidating DPA and SPB into one Department of Human Resources, the state personnel system will be streamlined into functionally integrated programs that will end duplicative and disjointed processes which are neither efficient nor cost effective.

Currently, departments are forced to ping pong between DPA and SPB in a number of areas, which frustrates and complicates efforts to operate efficiently. For example, a department planning a reorganization of internal programs must consult with both DPA and SPB on classification, status, and layoff issues; with DPA on pay, labor relations, and all terms and conditions of employment; and with SPB on selection, promotional relationships, and transfer determinations. A unified personnel department would provide "one stop" assistance for departments, eliminating the laborious process of being shuffled between two different departments.

But more importantly, consolidating all day to day operational personnel management jobs in one agency will create an organization with the resources that can begin to exercise leadership to accomplish long overdue reforms necessary to restore quality to public service. Some of these, as recommended by both the Legislative Analyst and the Little Hoover Commission, include:

- more delegated decision-making to line agencies under a system of unified oversight, transparency and accountability;
- creating more effective programs to recruit, conduct examinations and select qualified employees;
- a re-emphasis on basic skills training, employee development and better supervisory training to improve the quality of public service; and
- improved employer-employee relations and processes to resolve disputes and discipline.

THE CALIFORNIA GOVERNMENT REORGANIZATION PROCESS

In 1967 the Legislature statutorily recognized the Governor's authority to reorganize the executive branch by using the "executive reorganization" process. That process is spelled out in Government Code sections 12080 - 12081 and begins with the Governor's submittal of a reorganization plan to the Legislative Counsel for drafting into bill language, and to the Little Hoover Commission, which examines the plan and reports its recommendations to the Legislature. Thirty days after submission to the Little Hoover Commission, the Governor may submit the plan to the Legislature.

The plan becomes effective on the 61st calendar day of continuous session of the legislature after the date on which the plan is submitted to the Legislature or at a later date identified by the plan. The plan goes into effect unless either house passes a resolution disapproving the reorganization plan within the 60-day calendar period. Actual statutory language to enact the reorganization is processed in the following year, but the reorganization is effective even without the statutes being on the books.

Under Government Code Section 12080.1, the Governor from time to time shall examine the organization of all agencies and determine what changes are necessary to accomplish one or more of the following purposes:

- a) To promote the better execution of the laws, the more effective management of the executive and administrative branch of the state government and of its agencies and functions and the expeditious administration of the public business;
- b) To reduce expenditures and promote economy to the fullest extent practicable consistent with the efficient operation of the state government;
- c) To increase the efficiency of the operation of the state government to the fullest extent practicable;
- d) To group, consolidate and coordinate agencies and functions thereof as nearly as possible according to major purposes;
- e) To reduce the number of agencies by consolidating those having similar functions under a single head and to abolish such agencies or functions thereof as may not be necessary for the efficient operation of the state government; and
- f) To eliminate overlapping and duplication of effort.

Consolidating the State Personnel Board and the Department of Personnel Administration will achieve the above purposes.

Under Government Code Section 12080.3, the plan may change the name of any agency affected by the reorganization and provide for the appointment of a department head. This plan will change the name of the Department of Personnel Administration to the Department of Human Resources. Statutes which apply to the Department of Personnel Administration will continue to be administered unchanged.

The California Constitution, Article VII, Sections 2 and 3, provide for a State Personnel Board. Under this reorganization plan, the State Personnel Board will retain its constitutional role as an independent and objective merit oversight organization to ensure that the values and principles upon which state civil service was founded are upheld. Except for staff necessary to hear discipline and perform necessary policy and oversight work for the Board itself, staff doing day-to-day administrative staff work will be transferred to the new Department of Human Resources.

An important element of this reorganization plan, which is required to achieve the projected savings, is to combine DPA and SPB by co-locating the two departments. This has already been approved by the Legislature and can be found in the bill passed for the FY10/11 Budget, SB 699:

The DGS, with the consent of the DPA and SPB, may enter into a lease, lease-purchase agreement, or lease with an option to purchase for a build-to-suit facility for the co-location of DPA and SPB in the Sacramento area subject to DOF approval of the terms and conditions of the agreement.

The executive reorganization plan process was established for instances like this – when there is a need for rapid executive action and for general agreement on key issues.

EXISTING ORGANIZATIONS

The State Personnel Board

The State Personnel Board was constitutionally created in 1934 to administer the civil service system and ensure that state employment is based on merit and free of political patronage. Article VII of the California Constitution created the SPB and grants it authority to “enforce civil service statutes.” It also provides for a 5-member board to be appointed by the Governor and approved by the Senate for 10-year terms. Additionally, the Constitution states that the board shall appoint an executive officer.

Article VII of the California Constitution states:

Section 1:

(b) In the civil service permanent appointment and promotion shall be made under a general system based on merit ascertained by competitive examination.

Section 3:

(a) The board shall enforce the civil service statutes and, by majority vote of all its members, shall prescribe probationary periods and classifications, adopt other rules authorized by statute, and review disciplinary actions.

(b) The executive officer shall administer the civil service statutes under rules of the board.

Following enactment of the Dills Act, the governor reorganized the State's personnel system in 1981 by creating the Department of Personnel Administration. This transferred to DPA the SPB functions related to the administration of salaries, hours, training, performance evaluations, layoffs, grievances, and other personnel matters related to terms and conditions of employment. A subsequent reorganization act in 1984 transferred operational responsibility for managing the Classification Plan to DPA because of the interdependence of classification and compensation issues. SPB retained its constitutional role of approving classes and prescribing probationary periods.

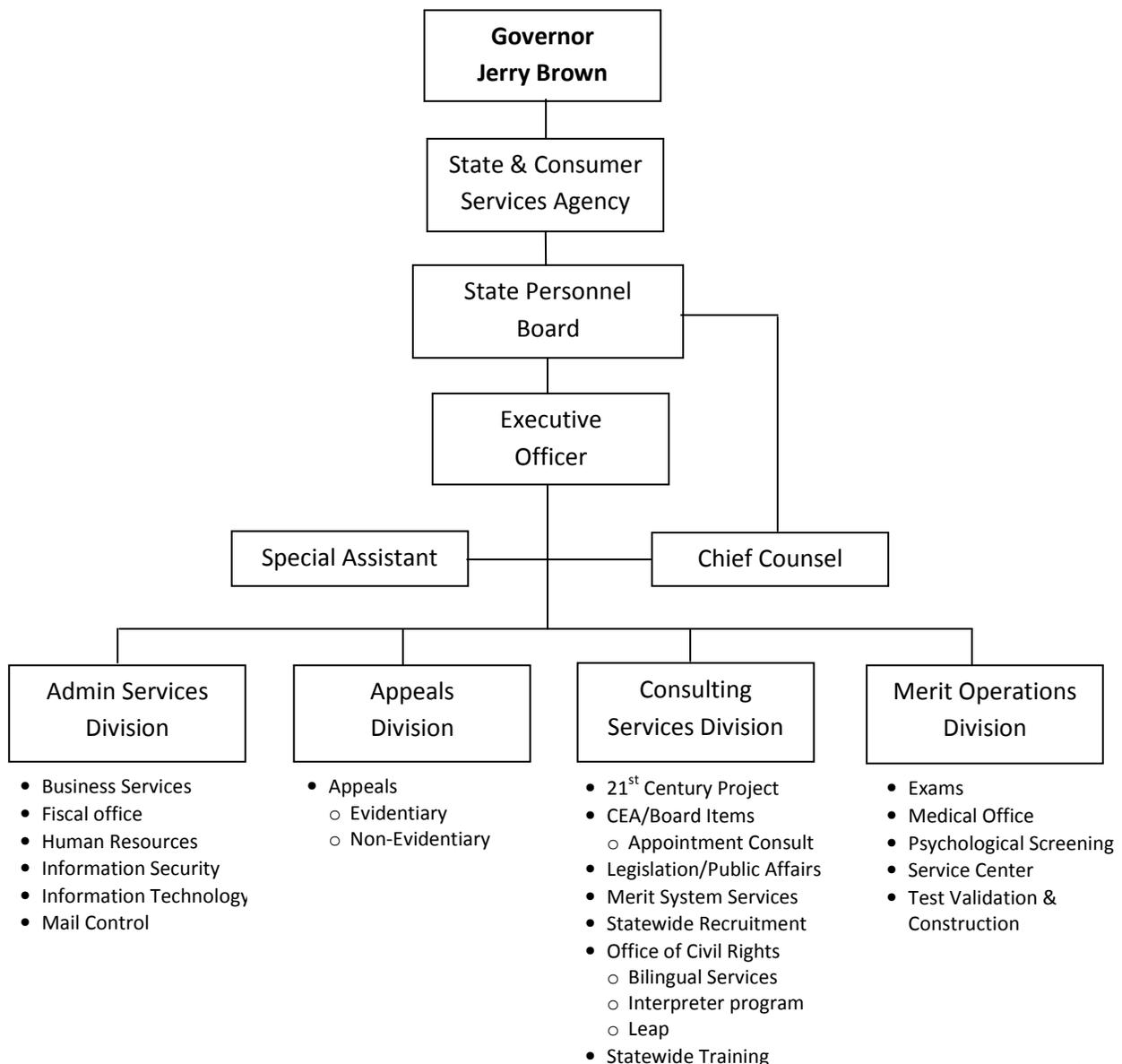
While SPB has independent constitutional authority, it is now administratively under the umbrella of the State and Consumer Services Agency. It does the following:

- establishes civil service job classifications;
- determines minimum qualifications and probationary periods;
- provides leadership on statewide recruitment and ensures selection is by competitive examination;
- reviews cases of employee discipline, merit issue appeals, whistleblower retaliation complaints, and personal services contracts;
- provides consultation services to state departments on merit system issues;

- hears complaints of discrimination in state employment;
- administers statutory requirements under the Dymally-Alatorre bilingual services program, the state interpreter program, and merit system services program for counties receiving federal health and human services funding;
- administers medical and other psychological screening of new hires; and
- provides leadership and support to departments on equal employment opportunity.

SPB's proposed budget for FY 11/12 includes 181 authorized positions. It is located at 801 Capitol Mall in Sacramento. This building is overdue for a retrofit but plans are currently suspended due to the budget shortfall.

Current Organizational Chart



The Department of Personnel Administration

Governor's Reorganization Plan No. 1 of 1981 established DPA to represent management in the collective bargaining relationship and to administer all salary and non-merit aspects of the personnel management function.

Governor's Reorganization Plan No. 1 of 1984 transferred the day-to-day administration of the position classification and position allocation functions from SPB to DPA.

DPA administers all terms and conditions of employment for state employees and represents the Governor as the "employer" in all matters pertaining to California State employer-employee relations and collective bargaining. DPA reports directly to the Governor's Office. It is responsible for:

- formulating human resources policy and advising the Governor on statewide HR issues;
- the administration of salaries, wages, and other compensation;
- the administration of employee leave programs;
- contracting and administration of dental, vision, and other benefit programs;
- the administration of the classification plan and allocation of positions;
- administering the Savings Plus (457 and 401k plans), Alternate Retirement, and Part-time, Seasonal and Temporary retirement programs;
- employee training, performance, and development;
- negotiating labor agreements with state employee unions, implementing their terms, and adjusting employee grievances; and
- providing for supervisory employer-employee relations.

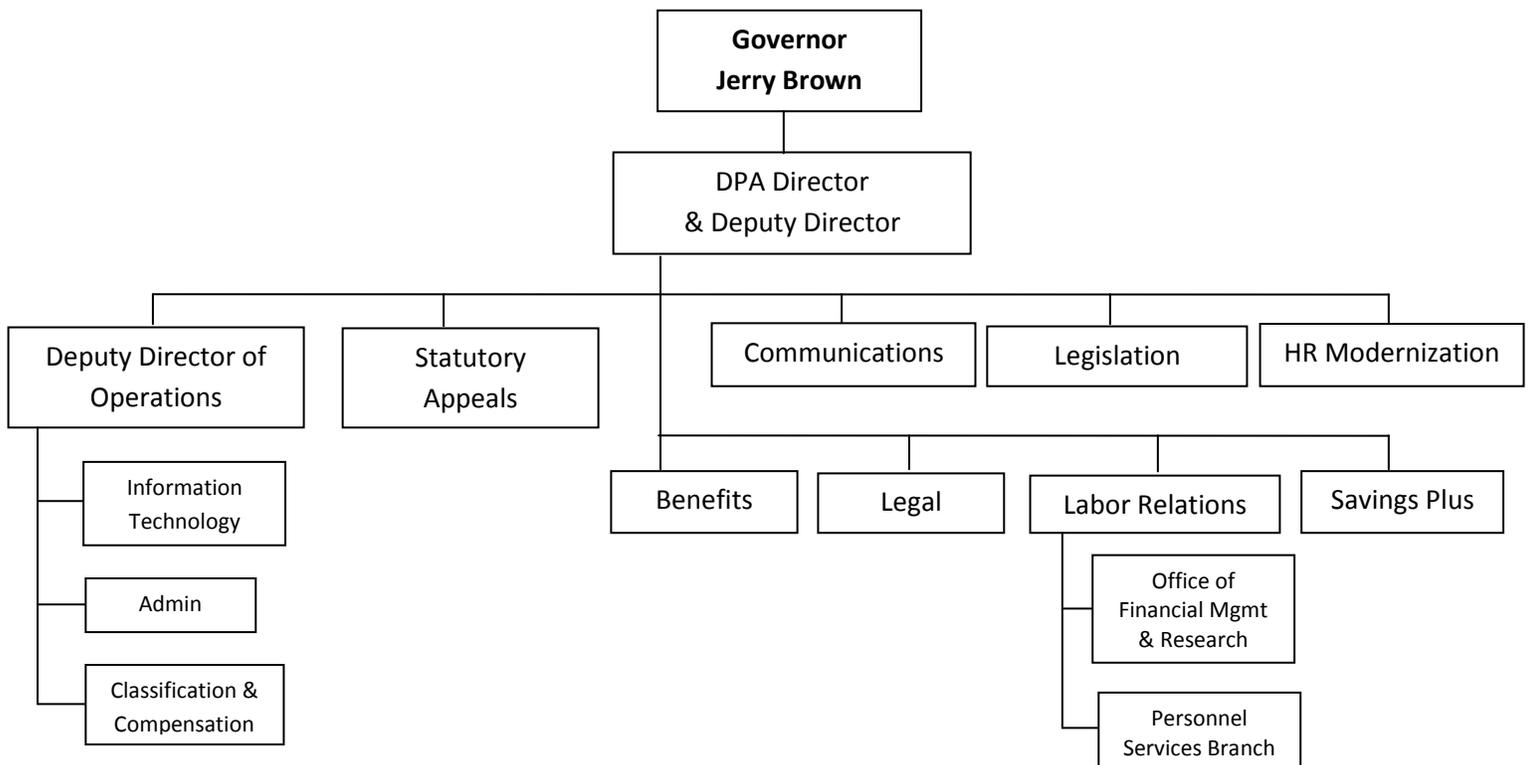
DPA operates under the following laws and regulations:

- Govt. Code sections 19815 through 19999.7 (established DPA and describes most of its functions)
- Govt. Code sections 3512 through 3524 (known as "Ralph C. Dills Act," governs collective bargaining in State government's executive branch)
- California Code of Regulations, Title 2, sections 599.600 through 599.995 (provides regulatory detail on DPA programs).

The current location for DPA is at 1515 S Street, North Building, in Sacramento. DPA also leases space across the street (on the other side of 15th) for the Benefits and Savings Plus divisions. The FY 10/11 Budget (SB 699) provides for the Department of General Services to enter into a lease for a facility for the co-location of DPA and SPB, subject to legislative approval. The proposed budget for FY 11/12 includes 246 authorized positions.

The Department of Personnel Administration

Current Organizational Chart



MAKING THE CASE FOR REORGANIZATION

The idea of a unified human resource organization is not new. This reorganization plan is consistent with numerous recommendations of other studies on organizational personnel management and the need for civil service reform in California.

In 1995 the Little Hoover Commission made recommendations to streamline and improve the State's personnel functions². The Commission came to the conclusion that significant reforms were needed if California government was going to "respond effectively and efficiently to the changing needs of a growing population." It offered eight findings and recommendations to improve the civil service system. The first was to eliminate the overlap and redundancy between SPB and DPA, and consolidate personnel management authority to one entity.

Again in 1995³ the Legislative Analyst's office stated, "The Legislature should begin fundamental rethinking or reinvention of the state civil service system in order to make it again serve the state, its employees and the public," and made numerous recommendations that would affect the programs of both the SPB and DPA.

In 1997 the California Research Bureau issued a report⁴ stating, "The Department of Personnel Administration and the State Personnel Board (SPB) have overlapping responsibilities... Reengineering the state's management functions might be a place to start 'reinventing' California state government."

In 1999 the Little Hoover Commission again came out with a report recommending civil service reform⁵. Here are several excerpts from that report:

California's executive branch departments are laboring under a personnel system that is increasingly complex and dysfunctional. Public agencies do not have the capacity to recruit, select, train and manage the workforce needed to transform good policy into good programs.

The costs are high: in resources consumed by the internal machinations of a sluggish personnel bureaucracy, and more importantly, in the lost opportunities to efficiently provide high-quality public services.

The Little Hoover Commission still believes that reforming the State's human resource infrastructure is a bedrock concern. In virtually every program reviewed by this Commission in recent years, progress has been muted by the limited

² See *Too Many Agencies, Too Many Rules: Reforming California's Civil Service*, Little Hoover Commission, Report #133, April 2005.

³ See *Analysis of the 1995-96 Budget Bill: Reinventing the State Civil Service*, Legislative Analyst's Office, February 22, 1995

⁴ See *Flattening organizations; Practices and Standards*, California Research Bureau, California State Library, September 1997.

⁵ See *Of the People, By the People: Principles for Cooperative Civil Service Reform*, Little Hoover Commission, Report #150, January 1999

ability of state managers to get the right people in the right place, with the right skills and incentives to do the job.

The State needs a coordinated personnel infrastructure.

But the two-tiered personnel paradigm has not functioned as smoothly as policy makers had intended... the procedures for accomplishing routine personnel tasks have become convoluted. The roles and responsibilities of personnel agencies have become confused.

At a time when public organizations need to adapt to changing demographics and public priorities, new technologies and economies of scale, the State's system for providing and managing human resources has proven to be antiquated and intransigent.

In 2005 the California Performance Review⁶ made various recommendations to improve the State's personnel system. Some of them were:

- Consolidate the functions of DPA and the non-constitutionally mandated functions and staff of SPB into a single entity.
- Plan for and manage the workforce requirements on an enterprise-wide basis.
- Reestablish college recruitment programs.
- Create a central online training portal for state employees.

Again, in 2005 the Little Hoover Commission issued another report⁷ urging changes be made to improve the ability of state departments to recruit, hire, develop, manage and compensate state employees. It cited "calcified personnel practices" and "training and development that are afterthoughts" as reasons why the system is engineered for failure. Finally in March 2011, the Little Hoover Commission recommended that this Administration consider abolishing the State Personnel Board completely.

The reorganization does not propose to abolish the State Personnel Board. It is created by the Constitution, and a Governor's Reorganization Plan may not change the Constitution. But it does recognize that California's system has become burdened with excessive rules and processes that work against the original objectives of efficiency and merit. During these tough budget times the State must do everything possible to become more efficient, effective and competitive.

And that was the goal of a joint project started in 2008. After years of discord between the two organizations, DPA and SPB joined forces, with the support of the Legislature, to create the Human Resource Modernization project (HR Mod). The HR Mod project has made some

⁶ See *California Performance Review Report, 2005* (www.cpr.ca.gov).

⁷ See *Managing the State Workforce to Improve Outcomes*, Little Hoover Commission, Report #181, June 2005.

improvements to the personnel system already, especially in the areas of exams and training. However, this project was a stop gap measure and some of the same coordination problems between the agencies still exist, with some departments complaining that there is now yet a third entity overseeing the state's personnel management system.

It is time to implement the obvious and consolidate the state's two personnel agencies, streamline the functions, reorient the objectives and create a modern, fully functional human resource organization.

THE NEW ORGANIZATION

Effective July 1, 2012, the Department of Personnel Administration and the State Personnel Board will be merged to create a new organization named the California Department of Human Resources (CalHR). It will be created by transferring the day-to-day staff operations of SPB and DPA into one consolidated agency. The new organizational structure will result in the transfer of all functions and the authority associated with them to the new department, except for the limited constitutional responsibilities of the State Personnel Board. This means:

- The Department of Personnel Administration will cease to exist and all 246 positions will be transferred to the Department of Human Resources (CalHR).
- There will be a Director of Human Resources appointed by the Governor and confirmed by the Senate. The authority of the DPA director is transferred to the CalHR director. The new department will report to the Governor.
- State Personnel Board staff -- except the staff necessary to hear appeals of employee discipline, other merit appeals, whistleblower retaliation and personal services contract appeals, advise the Board on merit policy, and perform necessary audits of merit system compliance in the line agencies -- will be transferred to the Department of Human Resources (CalHR).
- The State Personnel Board (Board) will continue as an independent 5-member Board within CalHR appointed by the Governor and serving 10-year terms to hear merit system appeals and focus its programs on oversight of the merit principle. It will retain its constitutional role of approving classes, prescribing probationary periods, hearing merit system and disciplinary appeals and performing other duties associated with upholding the merit principle. In addition, it will retain authority to appoint an Executive Officer. CalHR will provide administrative and staff support to enable SPB to accomplish its mission.
- Employees of CalHR will retain all their previous civil service status and seniority earned in their previous agencies.
- Appeals of discrimination in state employment that are not based on violations of the merit principle will be transferred to the Department of Fair Employment and Housing. (For example, general complaints of discrimination would go to DFEH; appeals of an examination result based upon gender, race, etc. would continue to be heard by the SPB.) Statutes of both DPA and SPB will be revised to reflect the new organization.
- Staff consolidated under this proposal will be located at one site. Following adoption of this reorganization plan, DPA and SPB will work with the Department of General

Services under authority specified above and begin the process of moving staff to one location, with a goal of co-location by July 1, 2013.

- The Department of Finance will designate a new department code for the Department of Human Resources (CalHR). All budget items from DPA and SPB will be transferred to the new department effective July 1, 2012. The Board will have a designated program number under CalHR for its independent budget items, including staff.
- This reorganization shall have NO effect on the Legislature, its employees, its personnel management practices, compensation, benefits, retirement, or other conditions of legislative employment.
- The Department of Finance will assist CalHR to review the staffing needs of the new organization to eliminate duplicate functions, excess levels of management, supervisory, and administrative staff following the consolidation. The goal will be to reduce staff following the consolidation by 15-20% provided that sufficient staff resources remain in place to allow major reforms that will create savings in the line departments.
- The Department of Finance will ensure that savings anticipated by this reorganization are realized by reducing the number of authorized personnel through a new PY cap for both organizations to reflect anticipated staff reductions achieved through efficiencies. Since many of the savings cannot be realized until both agencies are co-located, these savings may be spread out between FY 2012/13 and 2013/14.
- For budgetary and accounting purposes, the provisions of this act shall become effective on July 1, 2012. All appropriations of the Department of Personnel Administration and the State Personnel Board established prior to the effective date of this act shall continue in existence until reverted, and all transactions attributable to these appropriations shall be treated as activities of the Department of Personnel Administration and the State Personnel Board respectively. In the event of any uncertainty or disagreement, the Department of Finance shall make the final determination of the budgetary and accounting transactions that are required to carry out the provisions of this act.

What Stays the Same

Functional units from within DPA that will stay intact for the most part include: the Labor Relations Division to negotiate and administer labor agreements with the employee unions; the Benefits Division, which administers employee benefits and allowances; the Savings Plus Program (401k and 457 programs), and the Legal Division, which represents the State as an

employer in litigation, arbitration, and other employment disputes. Executive staff support functions such as Legislative Analysis and Communications shall also be retained.

Functional units within SPB that will remain as staff under the Board itself are the Executive Officer, Appeals Division, and Legal Division. The Board will also retain a policy support staff and an audit function over the merit system, which will review items such as how departments conduct civil service examinations. The size of audit staff shall be determined following a review by the Office of Statewide Audits and Evaluation of the Department of Finance which shall analyze the workload and audit needs for both the State Personnel Board as well as the new Department of Human Resources and make recommendations on appropriate staffing levels and the assignment of personnel years to each entity.

Further internal and organizational consolidations may also occur in order to achieve greater efficiencies once this Governor's reorganization plan is implemented.

Summary of What Will Change

- The Administration Division staff and IT staff of both DPA and SPB will be transferred to CalHR. These groups will provide staff support for both CalHR and the Board. Duplicate functions will be eliminated.
- A new division within CalHR will be created with the working title of "Personnel Management" and the following functions will be transferred to this division:
 - Classification and Compensation, currently a DPA division, as well as staff from SPB who perform similar functions for the Board to exercise its constitutional oversight role.
 - Personnel Services Branch, currently a unit under the Labor Relations Division, that provides consulting services on the administration of salary, overtime and other payroll statutes and regulations.
 - Compensation Research, currently part of a unit under the Labor Relations Division, which conducts salary and benefit surveys.
 - Recruitment, Selection, and day-to-day examination consultation issues currently done by staff of SPB.
 - Appointment issues, such as appointment legality, limited term, temporary and emergency appointments, and hiring above minimum, that are currently shared between both agencies.
- A new division within CalHR will be created, with the working title "Statewide Services" and the following functions will be transferred to this division:

- Benefits, currently a DPA division, will continue to administer dental, vision, workers compensation, employee assistance, travel and per diem rules, and other employee benefit programs.
 - Savings Plus (457 and 401k plans), Alternate Retirement, and Part-time, Seasonal and Temporary retirement programs, currently a DPA division.
 - Training and Employee Development, previously under SPB and HR Modernization.
 - Workforce Planning, previously under DPA.
 - Management and Supervisory Programs, including administration of the CEA program.
- Consulting Services, a division of SPB: Staff will be transferred to the appropriate divisions of Statewide Services and Personnel Management based on function. This program includes civil rights, training, LEAP, bilingual, interpreter program, and merit system services.
 - Merit Operations, currently a division at SPB: Staff will be transferred to Statewide Services and the Personnel Management divisions based on function, except for staff necessary to audit departmental compliance with the merit system. This is primarily the examination services staff who administer statewide exams and exams on behalf of line agencies.
 - Appeals of discrimination in state employment that are not based on violations of the merit principle will be transferred to the Department of Fair Employment and Housing.
 - HR Modernization will be abolished as a separate program or division and its management and supervisory staff will be reduced, but its general goals and objectives will remain, refocused to reflect current needs, and incorporated into CalHR as part of its overall operating mission.

Further Explanation of New Divisions

Personnel Management Division

This division will house and combine units from DPA and SPB. Under this new division, previously bifurcated units dealing with classification, compensation, selection and testing will be integrated and become responsible for streamlining the processes to improve services to departments related to these functions. The major responsibilities of this division will be to:

- Establish performance measures and “best practices” for personnel offices and programs in the line agencies, standards for delegation of authority to the line

agencies, and review departmental personnel performance and compliance with best practices and standards.

- Work with the line agencies to establish, modify, and abolish classifications. This will include all staff work necessary to support the Board in the exercise of its constitutional responsibilities. In particular, the objectives of the classification plan will be to continue to abolish redundant classifications, consolidate and streamline existing classifications and update them to reflect new skills, knowledge, abilities, and competencies.
- Provide consultation and direction to line agencies on human resources management issues such as performance evaluation, training and development assignments, and establish uniform discipline procedures and requirements consistent with the State Personnel Board's constitutional authority, and other personnel management practices and regulations.
- Establish a more formal delegation system for the personnel offices of the line agencies to implement "best practices;" allocate positions to classifications; administer salary, pay rules, overtime, and other working-condition issues and oversee their implementation; and audit and report results to ensure compliance and quality.
- Perform salary, benefit, and other compensation surveys to be used in collective bargaining negotiations to determine competitive levels of compensation with both public and private industry.
- Administer all discretionary salary statutes, rules and labor contract provisions governing specialty pay differentials, overtime, and other allowances.
- Administer statutes and collective bargaining provisions governing leave accounting, overtime, and hours of work.
- Administer the layoff process including seniority determinations, demotional patterns, restrictions of appointment, and reinstatement.
- Oversee the development of examination plans under policy direction of the State Personnel Board, administer statewide or other departmental exams as requested under standards established by the SPB, including the performance of staff work necessary for the Board to carry out its constitutional responsibilities in setting selection policies.
- Develop and administer formal recruitment programs integrated with examinations, workforce planning and compensation determinations.

- Administer transfer and personnel management rules as established by the State Personnel Board.
- Exercise leadership to eliminate outmoded or redundant personnel rules, streamline processes and give management the skills necessary to carry out their missions.

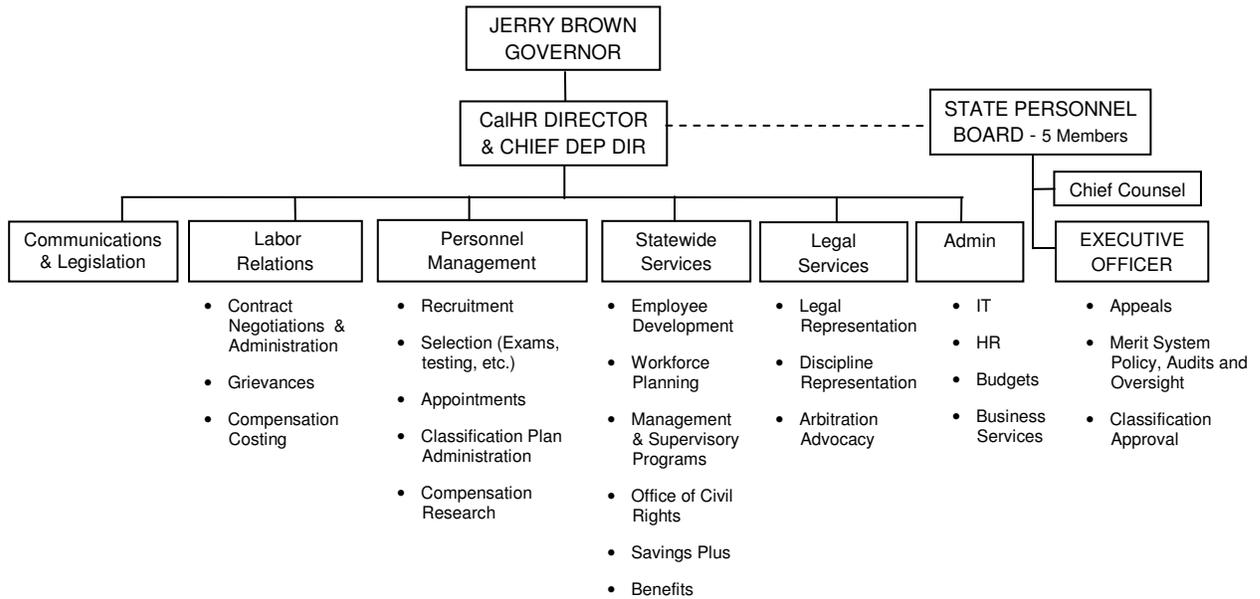
Statewide Services Division

This division will be responsible for overseeing statewide services and support programs that apply across the board to all departments and all state employees. The major responsibilities of this division will be to:

- Establish and administer dental, vision, insurance, employee assistance and other benefit programs for state employees.
- Administer Savings Plus (401k and 457), Part-Time, Seasonal and Temporary (PST), and Alternate Retirement programs.
- Administer medical and dependent reimbursement accounts (Flex-Elect) under IRS regulations.
- Administer travel, relocation, and per diem rules for state employees.
- Administer medical and drug screening and drug testing programs for applicants and existing employees.
- Provide policy research and advice on health benefit administration and retirement programs.
- Revitalize the state's employee development program by combining training personnel from both the State Personnel Board and Human Resources Modernization Project to standardize and modernize the delivery of core training through automation and partnerships with local community colleges.
- Provide statewide consulting services to departments to assist in succession planning and forecasting employee vacancies, and determine recruitment and employee development strategies to address issues created by increased retirements and the need to recruit new qualified staff.
- Provide a greater focus on personnel issues related to the recruitment, selection and compensation for executives, CEAs, managers and supervisors. In particular, combining the two departments will eliminate the need for line agencies to secure two separate approvals from two different agencies for high-level management and CEA allocations.

Proposed Organization Chart

The proposed organization chart for the new Department is as follows:



Retaining the Merit System

This reorganization does not propose to eliminate any aspect of the merit system nor the State Personnel Board. The SPB and its role is established by the Constitution and this reorganization does not – cannot – change that. Rather, it is designed to permit the State Personnel Board to focus on the policies necessary to implement the merit principle and carry out the specific requirements of the Constitution while allowing one agency to concentrate on implementing the day-to-day personnel management activities in a coordinated manner. The State Personnel Board will continue to:

- Have the final authority in the establishment of all job classifications.
- Have the final authority in determining the minimum qualifications to perform a job in a classification.
- Have the final authority in establishing policies for civil service examinations to select qualified employees for a classification.
- Prescribe the probationary period for a classification.
- Determine the conditions under which jobs may be contracted out and hear all appeals of departmental decisions.
- Oversee statutes and regulations that govern employee discipline and render final administrative decisions.
- Hear all whistleblower retaliation complaints.
- Hear all other merit system appeals that deal with selection and appointment.

Consequently the Board will retain its existing Appeals Division and legal staff, as well as sufficient staff to advise the Board on policy and perform merit system audits to ensure departmental compliance with Board policies.

The Department of Finance, Office of State Audit and Evaluation (OSAE), shall determine the appropriate level of audit staff necessary to remain at the State Personnel Board to assure appropriate audit levels of the state merit system, and the number of staff to be transferred to CalHR to carry out the purposes of this reorganization.

Staffing Issues and Employee Considerations

Employees of the Department of Personnel Administration will be transferred to CalHR. They will retain all existing civil service status and shall secure the ability to transfer or be transferred

to vacant jobs for which they are qualified that remain at the State Personnel Board in order to accomplish staff reductions or achieve efficiencies required by this reorganization.

Employees of the State Personnel Board, except as noted, will transfer to CalHR and shall also retain all existing civil service status and shall also retain the ability to transfer or be transferred to any vacant job for which they are qualified that remain at the State Personnel Board in order to accomplish staff reductions or achieve efficiencies required by this reorganization.

To the extent feasible given the existing conditions of the state budget, there will be no layoffs, and positions abolished or reduced under this reorganization shall be done through attrition, provided they are accomplished prior to July 1, 2013. This may require employees to accept voluntary transfers to other classifications in lieu of layoff, voluntary or involuntary transfers to other jobs in existing classifications, placement on the State Restrictions of Appointments List, or other administrative actions. Personnel in "surplus" positions as a result of the reorganization will be given first call on vacancies within the new organization.

Incumbents in CEA positions eliminated as part of this reorganization may be given a 20-day notice of termination and retain the right of return to their former civil service status.

This does not preclude other reductions directed by the administration or authorized by the Legislature to achieve budget reductions necessary to balance the state budget.

All personnel working for the Department of Human Resources shall be excluded from collective bargaining under the Ralph C. Dills Act.

Estimated Initial Positions Savings from the Reorganization

The proposed consolidation is estimated to result in a 15-20% reduction of staff between SPB and DPA. Initial savings will be derived from the following efficiencies:

- Eliminate duplicate administrative functions such as budgets, personnel, facilities and information technology personnel.
- Eliminate, reduce, or reclassify redundant levels of management and supervisory staff and "flatten" the organization to increase span of supervision.
- Eliminate or combine communication, legislation and clerical support functions.
- Streamline, re-prioritize, and eliminate redundant processes as a result of the consolidation (for example, consolidating the CEA review process at one agency or automating processes such as seniority calculations).

- Further efficiencies are anticipated and will be obtained as a result of the co-location of staff and future program changes which will reduce the administrative burden to line departments.

The Department of Finance will assist in reviewing the staffing needs of both the Department of Human Resources and the State Personnel Board as this reorganization plan is implemented. To ensure efficiencies and savings are realized, the Department of Finance will reduce the number of authorized personnel (establish a new PY cap) for both organizations to reflect anticipated staff reductions due to efficiencies. Since many of the savings cannot be realized until both agencies are co-located, these savings may be spread out between FY 2012 and 2013. The Director of CalHR and Executive Officer of the State Personnel Board will determine how to achieve these reductions.

A full 20% PY reduction would yield savings of approximately \$5.8 million using the \$90,000 average cost per PY used by the Department of Finance.

Future Savings and Program Direction

Once in place, it is anticipated that further savings and efficiencies can be achieved in the line agencies.

Many states and the federal government have a merit oversight board to oversee the merit principle and ensure positions in the civil service are not filled by political patronage. However, California's bifurcated organization of day-to-day administration of human resources activities is out of the ordinary for states of similar size and complexity. This reorganization addresses the dual approach, creates a single body with authority over the state's HR governance and administration, while retaining the actual State Personnel Board to ensure merit oversight.

Providing a single HR Department will open the door for California to reap the benefits of a single state employer; providing more exact governance, with a goal to improve services for all departments. It is this simple formula that will accomplish the biggest HR cost savings to the state – in all of the more than 195 state departments, agencies, boards and commissions:

- Create clear, easy to follow, less bureaucratic rules and processes that should reduce workload in the line agencies or provide for more efficient use of resources.
- Maximize the creation and use of web-based systems to provide information to line agencies and reduce paperwork.
- Create uniform statewide training for basic skills and mandatory training delivered electronically over the Web or through web-based applications.
- Improve management flexibility through creation of mandatory placement system of staff during economic downturn and program reductions, and abolish unnecessary positions while preserving priority public services.

- Automate and improve the grievance procedures and review levels and distribution of Labor Relations staff statewide.
- Establish systems to control payroll costs by better tracking of position allocations to identify the fiscal impact of misallocations and correct them.
- In short, there will no longer be two bureaucracies with conflicting rules, sometimes conflicting advice, and often redundant requirements that should yield significant if yet unquantifiable savings or efficiencies.

Key to achieving savings – as recommended by the Little Hoover Commission and the Legislative Analyst – will be to delegate appropriate responsibility to the line agencies to speed decision making and make the system more adaptable. The missions of CalHR and the State Personnel Board would be refocused to establish clear policies; provide consultation, assistance and greater oversight; and hold agencies more accountable in the process. Delegation would be withdrawn for agencies that do not adhere to policy goals.

The new Department of Human Resources created by this reorganization will be charged with identifying and implementing efficiencies to be achieved in the line agencies that will contribute toward meeting statewide budgetary reductions and reporting these achievements to the Department of Finance and the Legislature.

There are more than 2,900 positions performing personnel, labor relations and training services at all departments. Each 1% of savings would result in \$2.6 million in improved efficiencies or reduction in staff.

Effect on Collective Bargaining and Labor-Management Cooperation

This reorganization will neither expand nor diminish current rights held by both labor and management under the Ralph C. Dills Act. That Act already prohibits any negotiations that contravene the merit principle.

Office Space

The new department will require sufficient space for consolidation of all staff of the current DPA and all staff of the SPB. Under the current FY 10/11 budget, the Department of General Services has been authorized to explore alternatives for co-locating the two agencies. Among various options, the most cost effective is to relocate all staff not associated with the constitutional mandates of the SPB to the current location of DPA. This option will require that the Department of Corrections and Rehabilitation vacate two floors at 1515 S Street, where DPA now uses approximately one floor. This option is in line with anticipated reductions at CDCR which should free up some space at this location. This will allow the appropriate SPB staff to move into the new CalHR location and provide sufficient space for DPA staff currently residing across the street from the main office in a small building now leased by DPA at 1800

15th Street to move in. Additionally, this will give sufficient square footage for CalHR to provide statewide training resources to all departments.

Initial moving costs to accommodate this consolidation will be ONE TIME costs that would easily be recovered within a year or two by efficiencies created by the consolidation.

The Department of Finance and the Department of General Services will be charged with assisting in developing the most cost-effective relocation that will provide for this consolidation.

Conclusion and Next Steps

This reorganization is long overdue. The benefits are manifest and will result in greater value delivered to the public and line agencies. The organizational plan outlined above should be viewed as a first, but significant, step toward making government more efficient and better able to serve the public.

Upon acceptance by the Little Hoover Commission and the Legislature, the two agencies will begin to:

- Work with the Department of General Services to identify office space solutions.
- Work with the Legislative Counsel to draft the statutory language necessary to give full statutory effect to this reorganization.
- Identify an "Implementation Team" consisting of DPA and SPB staff to oversee the implementation of this reorganization plan.
- Create a "users group" of department personnel staff to assist the Implementation Team with issues arising from this plan.
- Work with the Department of Finance and the State Controller's Office to resolve the staffing, budgetary, and accounting issues identified in this plan.
- Provide periodic updates to the Administration as may be required for successful implementation.

The Administration urges the Little Hoover Commission and the Legislature to accept this plan under the statutes permitting such reorganizations.