

March 11, 2016

The Honorable Ty Masterson, Chairperson  
Senate Committee on Ways and Means  
Statehouse, Room 545-S  
Topeka, Kansas 66612

Dear Senator Masterson:

**SUBJECT:** Fiscal Note for SB 494 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 494 is respectfully submitted to your committee.

SB 494 would require state educational institutions and the State Board of Regents to consolidate their respective payroll files and process payroll utilizing the system of payroll accounting designated by the Director of Accounts and Reports. The Board of Regents would be required to manage the consolidation process and change of payroll accounting. The Secretary of Administration would be required to adopt rules and regulations necessary to effectuate the provisions in the bill. The bill would require the consolidation and change of payroll accounting to be complete by July 1, 2016.

The Kansas Statewide Efficiency Review conducted by Alvarez & Marsal includes an estimated cost-savings of approximately \$165,000 from streamlining university and Kansas Board of Regents payroll systems with the database used by the Department of Administration, Statewide Human Resource and Payroll System (SHARP). The report indicates the recommendation would serve to better utilize State Employee Health Plan (SEHP) staff, decrease enrollment and deduction errors, and increase administrative efficiency.

Currently, each regent university and the Department of Administration operate under a Memorandum of Agreement established during the implementation of SHARP in 1995. The agreement requires each university to calculate pay for its respective group of employees; supply the payroll and accounting information via interface files to the Department on an established schedule in order to maintain payroll balances; issue employee payroll; remit payroll withholdings and voluntary deductions; establish payroll accounting transactions; and complete required reporting such as the issuance of federal W-2 and 1042-S forms. Each university also supplies human resources data via interface to SHARP; maintains responsibility for any

international employment tax requirements; and maintains authority over the procurement, implementation, customization, maintenance, and upgrade of its human resources and payroll system to meet unique employee and program needs.

The Department provides notification of changes to federal or state laws, policies, and programs that will affect the calculation of pay or reporting of payroll deductions or employer contributions so that the required changes can be implemented in the regent systems.

The Department of Administration indicates that the consolidation required with the enactment of SB 494 would increase its fee fund expenditures by approximately \$6.3 million to hire a minimum of 6.00 FTE positions and implement the provisions outlined in the bill. In consultation with the Office of the Revisor, the Department produced its estimate with the understanding that the intent of the bill is to consolidate regent payroll with the State of Kansas payroll system so that a single SEHP deduction file can be submitted to Department for processing all SEHP deductions from payroll. In addition, the Department's estimate was prepared based on the clarification provided that regent agency payroll would be processed in both SHARP and the state's accounting database known as the Statewide, Management, Accounting and Reporting Tool (SMART), including regent employees human resource and time reporting data.

In addition to hiring 6.00 FTE positions to address issues and maintain and upgrade SHARP, the Department's estimate includes costs for outside consulting assistance for approximately 18 to 24 months to execute a detailed project plan; increased database storage; increased fees for Oracle software licensing; increased hardware capabilities; training for transitioning regent staff; and developing and modifying outbound interfaces and reports.

The Board of Regents indicates that it already uses SHARP, but that each of the six university's payroll systems is tied to other university accounting, grant and student information systems on each campus, designed specifically to provide adequate reporting for both state auditing and federal compliance reasons. In addition, the Board indicates the universities' systems are used for more than just payroll and position management to meet specific needs such as time and leave reporting for a variety of projects (which includes specific reporting for federal grants, the Integrated Postsecondary Education Data System, Affirmative Action, etc.); performance reviews for all employees, including two campuses that have faculty unions; unique employment issues with student employees; and paying nine-month appointment faculty over 12 months.

The Board indicates that one university is currently under a \$2.0 million contract for a payroll system; another is under contract for a new accounting and human resource package system in excess of \$2.0 million; and a third is currently in year two of an Enterprise Resource Planning software maintenance agreement and would continue to pay annual maintenance of \$500,000 for the remaining ten-year agreement. SB 494 would require each university to abandon these projects and incur additional costs of approximately \$1.5 to \$6.0 million at each of the six universities for conversion. In addition, the Board indicates it is unlikely the

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consolidation could be complete by July 1, 2016, as a recent merger of payroll systems between the University of Kansas and University of Kansas Medical Center took several years, staffing resources, and additional funding. However, the Board indicates it is unable to provide a precise estimate of the full fiscal impact until further extensive study is given. Any fiscal effect associated with SB 494 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Kelly Oliver, Board of Regents  
Colleen Becker, Department of Administration