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Committee on Governmental Reform and Oversight

Senator Charles D. Williams, Chairman

RESTRUCTURING THE CAREER SERVICE SYSTEM: POLICY ISSUES FACING FUTURE GENERATIONS OF PUBLIC EMPLOYERS AND THEIR EMPLOYEES

SUMMARY

The Florida Career Service System is barely thirty years old but even in its youth it has undergone significant organizational change. Its future must be debated now in light of the progressive shift to contract vendors and temporary workers as well as the adoption of Performance-Based Program Budgeting [PB²]. All of these developments have altered traditional methods and expectations of public sector employment, as well as the customary occupations of public sector employees. Administrative support, service, paraprofessional, and technical occupations are in decline while professional, skilled craft, administrative and protective service professions are on the rise.

The report documents long-term changes to the state government workforce, identifies alternate approaches for the achievement of public goals, and recommends further workplace incentives to complement a nominal transformation of state government from a job-based to a performance-based enterprise.

BACKGROUND

The State of Florida as a public enterprise is barely 150 years old, but its modern organizational apparatus is even more recent. The whole notion of a workforce only emerged from federal initiatives of the Depression Era when the then State Welfare Board and Florida State Employment Service established the first merit systems. Succeeding studies culminated in the 1955 Legislature's enactment of Ch. 110, F.S., the precursor to the 1967 creation of the Career Service System. Today merit protections span several different chapters of Florida law and affect employment at all levels of government. These statutes provide employment preferences on the basis of designated status, coordinate multiple insurance

and retirement benefit systems, and integrate civil service protections with collective bargaining.

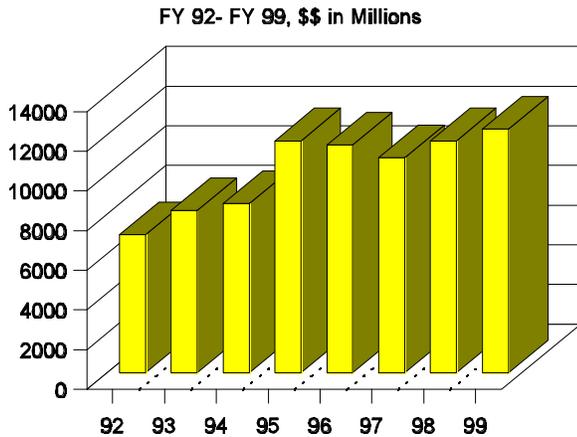
Originally assigned to the Department of Administration following a reorganization of state government in 1969, state-agency personnel matters have been assigned to its successor, the Department of Management Services [DMS], since 1992. It is this agency which manages the merit-based and exempt systems in the Executive Branch and acts as the employer for purposes of collective bargaining negotiations. But centralization of this activity is not total: DMS must deal with 7 separate personnel systems, encompassing twenty-seven different pay plans, spread among 10 collective bargaining units in 28 executive departments and other autonomous entities. Nominal structural centralization co-exists with managerial decentralization.

State government has experienced many attempts at infusing a business orientation to its public enterprise, from the first implementation of program budgeting in the 1960s through exploration of such techniques as Management by Objectives, Zero-Based Budgeting and Total Quality Management (TQM). These culminated in a statutory commitment to Program-Based Performance Budgeting in 1994. Concurrent with these trends has been a growing use of vendor services. There was only a 7% nominal employee job growth from 1993 through 1997. Yet contracted services, as represented by the *Special Category* appropriation, has exhibited sustained growth such that it is now 27% of the state operating budget. These issues were discussed in greater detail in a 1997 Senate Report, *Procurement and Contracting Reform*.

Notions of customer choice and responsiveness have permeated the public sector. This core feature of TQM

was reflected in the department's 1995 publication *Competitive Government*, which arrayed agency

Special Category Funds



services in comparison to both public and private sector competitors. In many respects this mirrors the contemporaneous changes in its federal counterpart agency, the Office of Personnel Management (OPM), and its attempted transformation of federal personnel management during the 1990s. The effective adoption of the nomenclature of this national change, whether by design or default, has also changed the role of the DMS from control to consultant, which it embodied in its own slogan "from regulator to resource" and which it communicated elsewhere as a reduction in force to 200 employees by the year 2000.

Service contracting has emerged as the dominant method of business for many state agencies - Juvenile Justice, Children and Families, and Elder Affairs - as it permits a tailoring of services to varying circumstances and geography without a significant investment in fixed costs or uncertain technology. As early as 1974 both newly created human services and state correctional agencies were charged with statutory imperatives to buy rather than build as part of their organizational charters. A Correctional Privatization Commission exists and the 1998 Legislature increased its commitment to contract management functions in the Department of Children and Families, in particular, by requiring specialized units and personnel training for the purchase of these services. Acting in the capacity as an informed, quality-assuring, service broker has become the new role for agencies managing entitlement programs.

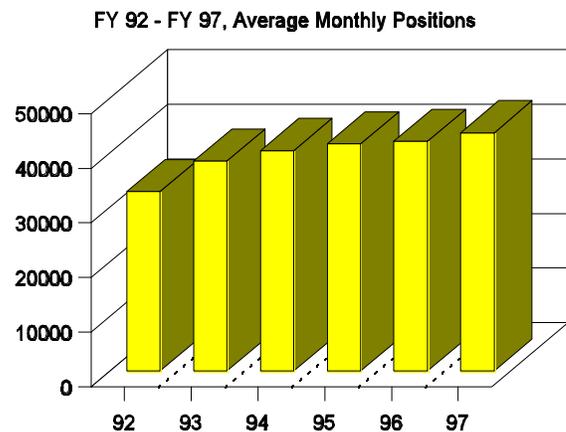
METHODOLOGY

This report represents a review of the historical underpinnings of civil service in Florida, derived from documents in the possession of the Department of Management Services. Additional materials were obtained through its counterpart federal agency, the Office of Personnel Management, with demographic and occupational information from the Florida Department of Labor and Employment Security and the Legislature's Office of Economic and Demographic Research. Lastly, the report also relies upon materials produced by the 1997 Workforce 2000 Commission and its study of the state personnel infrastructure and special runs from the proprietary system used to develop the General Appropriations Act.

FINDINGS

The state government workforce today bears little resemblance to that of just a few years ago. The children of WW II parents are reaching the end of their working careers, further encouraged by early retirement initiatives passed in 1997. At the same time a natural trough of hiring is occurring with work being shifted to outside contractors. Overall established position growth is running well under inflation, already at generationally low levels. In distinction to this suppression of established positions stands the growth in the use of temporary workers. Average monthly *Other Personal Services* [OPS] employment increased by nearly

Use of Temporary Labor

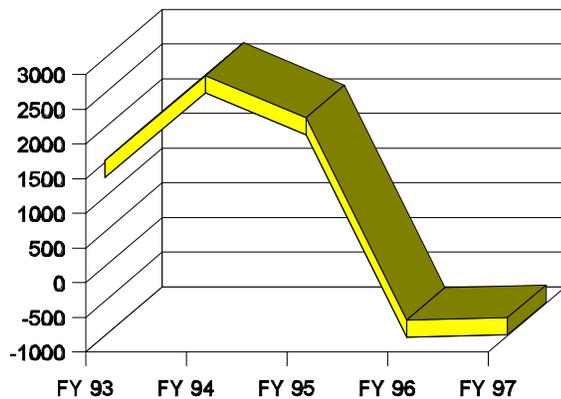


11,000 in the five years ending in 1997. In that year alone state agencies made nearly 523,000 decisions for such time-limited employment. OPS positions are not fixed by the Legislature, but, instead are created by the employing agency without state benefit coverage. Nearly three-quarters of these hires are concentrated in the state university system, where

9% of the total were student-based. Excluding lateral personnel actions there has been virtually no increase in Career Service hires since 1993 so that there is less than a 3% chance that *any* hiring decision results in the establishment of a new, permanent state job. OPS employment has increased its presence from 20% of the FTE workforce in FY 93 to 26% of the workforce only four years later. Career Service separation actions, as displayed above, now exceed appointments, resulting in further negative growth in the full-time, merit-based workforce. Yet employees seem reticent to invoke their

Career Service Mobility

Appointments Less Separations, FY 93 - FY 97



collective actions: only 5% of the largest employee group pays dues while another 20,000-member unit has never been organized.

The phenomenon of temporary employment is not unique to Florida state government. In its September 1998 listing of the State's top 200 companies, *Florida Trend* magazine reported nine Florida-based investor-owned companies in this business services category with annual revenues of \$7.5 billion. The "temp" and alternative employment phenomenon has become a prominent feature on the personnel landscape in both private and public settings. It will be further affected by pending federal pension legislation. Should such employees be given the option of participating in pension benefit programs through their staffing agent, the attractiveness of such an outsourcing option will be enhanced and may work to effectively supplant the use of benefit-less OPS employment.

The Florida Constitution provides a pre-eminent role for education and the preservation of the health and safety of the population, but it does not declare that the means of achieving these ends are inherently governmental. This becomes a singular point of departure for federal and state governments as an existing presidential

executive order precludes the use of contract vendors on projects dealing with exclusively governmental functions. Florida law provides no such restriction. The debate over permanent versus temporary employment reaches beyond state government. It is an issue which has been actively joined in the higher education community over the contentious issue of academic tenure. In the industrial workplace the outsourcing of subassembly components is an accepted, if even contested, method of doing business in an internationally competitive, price-sensitive market.

Total employee compensation systems have undergone a transformation as well. The State of Florida has a well-established history of being a parsimonious payer of wages but a generous payer of benefits. While in the median of salaries for the Southern states, benefit expenses approach 34% of Career Service wages; for many employed in high-risk occupations, total employer-paid benefit packages may easily exceed 50% of base salary. Only in 1998 will the state-administered, multi-employer Florida Retirement System (FRS) experience its own retirement of an unfunded pension liability that reached a high of some \$17 billion in 1991. That debt accumulated due to the payment of employees in benefits, the suppression of true payroll costs, and the assimilation of equally deficient systems. The impending retirement of the unfunded liability coincides with a remarkable, but still volatile, worldwide economic recovery in which the very nature of such benefit choices are being re-examined.

As a *defined benefit* system, the FRS offers each employee a guaranteed, inflation-adjusted pension with disability income protection in exchange for a lifetime of service. Such pension choices are fast disappearing in the benefit marketplace, replaced by *defined contribution* systems in which the employer guarantees no result, only a nominal payment to an employee account over which the employee bears full investment responsibility.

The changing nature of public employment extends from a decline in hiring and the altering of the benefit ethic to the whole notion of the purpose of the enterprise. The statutory adoption of PB² in 1994 brought with it an expectation that an agency's mission be made tangible and influence some broad public purpose, with appropriate rewards and sanctions distributed to those who participated in achieving desired results. As presently structured the PB² system has a number of gatekeepers, *none* of whom is part of the state personnel apparatus that can link all of the separate agency PB² activities into a comprehensive human resource activity. Measures are proposed by each agency, reviewed and submitted by the Governor, analyzed by a legislative

branch unit, approved by the Legislature and then implemented. Initially approved measures have focused on outputs rather than outcomes with a heavy emphasis upon efficiency over effectiveness. The human resource linkages have yet to be established, especially in the civil service managerial and supervisory positions tasked with the execution of these performance standards. If smaller is to be the hallmark of better then it opens to question how effectiveness can compete with efficiency in PB². The incentives approved thus far stress employer-based rewards and sanctions, and even the innovation monies authorized so far are at one-half of their prior year amounts.

The State of Georgia wrestled with the structural issue of merit protection by abolishing it in 1996 for newly hired employees. This may not be the most easily adapted alternative for Florida, given its unique constitutional heritage and the practicalities associated with the development of another body of labor relations law resulting from dissimilar agency personnel practices. And with no simultaneous shift to a performance-based environment or ownership interest in results, simply changing the silent understanding of guaranteed employment may be only symbolic. Disciplinary data also suggest that few grievances reach the highest levels of government action for decision and that probationary separations and outright dismissals have exhibited a cumulative 59% increase during the past five years. In the new performance environment it will likely fall upon those nearly 15,000 employees in supervisory or first line management positions to determine the essential success or failure of PB² in both a structural and operational sense. Yet cumulative state investment in training and staff development was \$41.1 million in FY 1997, only about .001 percent of the total state budget and a declining percentage of total salaries and benefits since the adoption of PB².

RECOMMENDATIONS

1. Managers must be held accountable for results and must be able to grant and withhold rewards, to employees and contract vendors alike, for program success and failure. **A reconsideration of the present structure of the Career Service System, which gives position protection to those most affected by change, is now warranted and should begin with the supervisory and managerial classes.**
2. **Prequalifying temporary employment firms for the provision of time- or task-specific activities could give current OPS workers some expectation of benefit coverage while permitting the employer to maintain a flexible mix of permanent and contracted employment.** It may further complement the shift to PB² by targeting a smaller workforce toward the achievement of outcomes instead of the maintenance of outputs.
3. The migration of state government positions to temporary employment and vendor services will demand stronger skill sets in remaining permanent employees as well as more stringent performance contracts. **There is reason to doubt this direction has been established. A progressive extension of the 1998 service contract training innovations to other agencies engaged in PB² is required. Training and staff development monies, the public sector's version of research and development in the private sector, should now be the first to be invested in a recovery rather than the first to be sacrificed in a recession.**
4. Private sector benefit systems are de-emphasizing employer benevolence in favor of greater employee responsibility. **Comparable public sector systems need to stress a reliance on employees' own skills, and the interdependence of their collective actions. A reconsideration of the total compensation policy of state government is warranted to complement the shift to PB².**

COMMITTEE(S) INVOLVED IN REPORT *(Contact first committee for more information.)*

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