oppaga

Special Review

March 2001 Report No. 01-13

Department of Transportation Can Expedite Its Proposed Staffing Reduction Plan

at a glance

The Department of Transportation plans to eliminate a total of 2,812 positions by June 30, 2005. However, the department could eliminate 2,515 positions by June 30, 2002, by privatizing 2,289 positions and eliminating 226 positions through process improvements and efficiencies. Private contractors are available to absorb the workload if the department expedites the privatization of its activities. Although the department's rate of attrition should enhance its ability to expedite its staffing reduction plan, layoffs would be necessary.

If the Legislature mandates expedited staff reductions, it will be important for the department to enhance its contract management activities. To reduce the impact on employees, the Legislature could consider authorizing department staff to bid to retain some services, and/or postponing layoffs until 2002, when the state's new portable pension plan becomes operational.

Purpose

In January 2001, the Office of the Speaker of the House of Representatives requested that OPPAGA conduct a study to examine the feasibility of expediting the Department of Transportation's (DOT) proposed staff reduction plan. This review focuses on answering two questions.

- Is it feasible to expedite the department's proposed staff reduction plan?
- What strategies can be used to effectively expedite the department's staffing reduction proposals?

We were not asked to examine the advantages and disadvantages of expediting the staffing reduction plan, or to estimate the potential cost impact of this action. We wish to acknowledge the assistance of DOT managers and staff who were cooperative and timely in providing information for our review.

Background

The Department of Transportation is responsible for coordinating the planning of a safe, viable, and balanced state transportation system serving all regions of the state. The department performs work activities in several areas, including construction engineering and inspection, highway and bridge maintenance, toll operations, public transportation, and right of way acquisition. The Legislature appropriated the department $4.2 billion for Fiscal Year 2000-01. As of February 2001, the department had 10,354 FTE positions. As part of the process for developing

Long Range Program Plans for Fiscal Years 2001-02 through 2005-06, state agencies were instructed by the Governor's Office of Policy and Budget to examine and provide the effect of reducing their workforces by 25% over a five-year period. In preparing workforce reduction estimates, agencies were to consider privatization, shifting services to the local level, and downsizing, primarily through attrition. The office's instructions also specified that state workers must have the opportunity to bid for services to be privatized.

Private contactors currently perform the majority of the department's activities. As shown in Exhibit 1, contractors perform all roadway construction activities and most design, inspection, planning, right-of-way, and maintenance.

Exhibit 1
The Department Already Contracts for the Majority of Its Program Activities

Activity	Percent of Budget Contracted (Fiscal Year 2000-01)
Construction	100%
Design	76%
Materials Testing/Research	0%
Inspection	72%
Planning	52%
Right-of-Way	76%
Public Transportation	0%
Maintenance	58%
Traffic Engineering	39%
Motor Carrier Compliance	0%
Tolls	34%

Source: Department of Transportation.

The department proposes eliminating 2,812 positions. This represents a 27% reduction in the department's workforce. The department plans to replace 2,289 of these positions through privatization and eliminate the remaining 523 positions through process improvements and efficiencies. Consistent with the Governor's Office of Policy and Budget's instructions, the department's plan covers a five-year period (see Exhibit 2).

Department managers told us they considered several factors in determining the timing of the proposed staff reductions. For example, they noted that the department plans to implement new, more efficient techniques for materials testing and consultant invoicing and payment over the next several years. They said they needed to retain employees who currently perform these activities for a period of time while they train a smaller number of employees who will perform the new procedures in the future. However, the department could not readily provide detailed schedules indicating when these efficiencies would be implemented or how many positions they would affect.

Department managers also proposed delaying some staff reductions because they wanted affected employees to be able to participate in the state's new defined contribution retirement program. [1] In addition, they proposed to allow employees participating in the DROP Program to remain with the agency and phase out these positions during the five-year period. [2]

DOT's Proposed Staffing Cuts Can Be Expedited——

It is feasible for the department to expedite its proposed staffing reductions and eliminate 2,515 positions by June 30, 2002. This includes 2,289 positions to be eliminated through privatization and 226 through process improvements and efficiencies. In reaching this conclusion, we considered several factors, including the availability of private contractors to do additional work, recommendations made

[1] The 2000 Florida Legislature established a new optional retirement program called a "defined contribution" plan by which retirees' benefits are based on the amount of investment earnings for contributions made on the employees' behalf. The retirement plan will be available to eligible employees beginning June 1, 2002.

[2] The Deferred Retirement Option Program (DROP) allows eligible employees to defer retirement benefits while continuing employment for a period up to five years.

Exhibit 2
The Department Proposes to Eliminate 2,812 Positions by Fiscal Year 2005-06

Activity	2001-02	2002-03	2003-04	2004-05	2005-06	Total Reductions	DOT Staff Remaining[3]
Efficiencies[1]	119	107	138	80	79	523	NA
Maintenance	181	113	180	116	94	684	2,308
Engineering/Inspection	67	38	50	41	35	231	1,000
Design	21	24	46	47	42	180	1,094
Testing	10	13	33	14	21	91	391
Right of Way	8	15	10	9	12	54	397
Tolls	179	74	311	60	272	896	260
Other[2]	41	27	31	37	17	153	1,667
Total	**626**	**411**	**799**	**404**	**572**	**2,812**	**7,117**

[1] "Efficiencies" represent positions eliminated. All other reductions shown will be replaced through private contracting.

[2] "Other" includes four programs and the executive offices that individually have made small position reductions.

[3] The DOT staff remaining column was calculated based on the total positions as of February 2001 (10,354) less the 2,812 reductions shown above, less 444 positions to be transferred to other agencies and 19 new positions to be added in 2001-02.

Source: Florida Department of Transportation.

in prior OPPAGA reports, and current position vacancies and attrition rates.

Private contractors can handle additional work. A major consideration in assessing the feasibility of expediting reductions in department staffing through privatization is the availability of private sector providers that can assume this workload. We contacted private sector businesses that currently provide services to the department in the areas of planning, design, construction engineering inspection, right-of-way acquisition, geo-technical services, maintenance, and toll collections. All of these contractors told us that their companies could handle more work if additional department activities were outsourced. Accordingly, we determined that expediting DOT staffing reductions would be feasible.

OPPAGA has recommended expedited privatization of toll collection operations. Although we were not charged with assessing the advantages and disadvantages of expediting DOT's planned staffing reductions, we note that this action would also be consistent with OPPAGA's prior recommendations. In a 1999 review of the Toll Operations Program, OPPAGA recommended that the department not delay full privatization of all toll collector positions. We estimated that eliminating all of the department's toll collector positions immediately could reduce the program's cost by an estimated $2 million. [3]

The department's attrition rate may aid in expediting staffing reductions. Attrition is the normal reduction of an agency's workforce caused by employees leaving the organization due to reasons such as retirement or resignation. Most of the positions the department proposes to eliminate are already vacant due to attrition. Of the 626 positions proposed for reduction by June 30, 2001, 462 (74%) are vacant positions.

Nearly 1,000 staff are expected to terminate from the department annually, resulting in an average monthly attrition rate of 83 positions. The effect of attrition can be illustrated by the department's recent proposal to increase its initial staff reduction plan by 60 more positions (from 566 to 626). These 60 positions became vacant because attrition was higher than expected, especially for maintenance employees.

[3] *Justification Review of the Toll Operations Program*, OPPAGA Report No. 99-08, September 1999.

Strategies for Effectively Expediting Reductions —

A primary consideration in expediting the department's staffing reduction plan and increasing privatization is ensuring that service quality is maintained. An important consideration for the department in developing its reduction plan was the desire to minimize the effect on current employees. We identified several strategies that could help ensure achievement of these goals.

Contractor performance

The department needs to closely monitor contractor performance and ensure that service quality is maintained.[4] This can be accomplished in two ways. First, the department's contracts must clearly define the contractors' responsibilities, include service quality performance measures, and impose penalties for non-performance. Second, the department must have personnel with sufficient expertise to effectively manage the contracts and monitor performance.

It is vital that the department retain enough highly qualified staff to manage and oversee contractor performance.[5] If the department expedites its staff reduction plan, it will need to train remaining employees in contract management or hire employees with these skills.

The need for the department to employ additional contract management staff may be somewhat mitigated if the department expands the use of certain contracting practices. For example, the department is presently pilot testing the use of "asset management," an approach for contracting highway maintenance work that has the potential to reduce the need for contract manager positions. To illustrate, in July 2000, the department awarded a contract to a single firm to perform maintenance on 253 miles of Interstate 75 between Miami and Ocala instead of using its former practice of having the work performed by multiple contractors. Since there is only one contractor, the department may need fewer staff to monitor contractor performance. The department plans to award similar contracts to manage non-interstate segments of the state highway system in rural and urban areas. If these pilot projects prove to be successful, and the department expands asset management throughout the state, the department may need fewer contract managers for overseeing its maintenance contracts.[6]

Strategies for minimizing effect on current employees

A key department concern in implementing its proposed staffing reductions is minimizing effects on its current employees. In September 2000, the department Secretary sent employees a letter in which he stated a commitment that they will be treated fairly in the staffing reduction plan and that the reductions would primarily be made through the normal rate of attrition with potential layoffs in the area of toll operations. However, if the staffing reduction plan were expedited, reductions would likely have to be accomplished through layoffs. The department is concerned that substantial layoffs could have several adverse effects, such as reducing the morale of the remaining department employees. Another concern is that the state may have to pay for unemployment compensation or public assistance until the former employees find new jobs.

However, our review of privatization efforts in Florida and other states identified several strategies that could be used to mitigate these effects, including those discussed below.

1. **Consider allowing employees to become eligible for the new retirement program or**

[4] See *Assessing Privatization in State Agency Programs*, OPPAGA Report No. 98-64, February 1999.

[5] Using the U.S. Office of Management and Budget's methodology, OPPAGA estimates that the department could need 46 additional contract managers to carry out its plans for increasing privatization of services.

[6] KPMG estimated that between 62 and 68 contract management positions could be eliminated with expanded use of asset management contracts. See *Organizational and Operational Review of the Florida Department of Transportation Prepared For and in Consultation with the Florida Transportation Commission*, KPMG, January 2001.

offer early retirement benefits. As noted previously, department managers told us that a major reason why they proposed delaying some staff reductions until Fiscal Year 2003-04 was that they wanted affected employees to be able to participate in the state's new defined contribution retirement program. If this is a concern for the Legislature, it may want to postpone employee layoffs needed to expedite the staffing reductions until after June 2002 when the new defined contribution plan becomes operational. Thus, reductions in Fiscal Year 2001-02 would be carried out as originally planned, with the remaining expedited cuts occurring in Fiscal Year 2002-03 when employees would be able to benefit from the portability of the new defined contribution plan.

The Legislature also could consider providing an additional year or two of service credit to employees within reach of retirement age. [7] Our research determined that other governmental entities have sometimes offered public employees financial incentives to voluntarily leave their positions, such as crediting employees with additional years of service toward their retirement. [8]

2. **Require contractors to give department employees right of first refusal for employment.** A strategy often used by public agencies to reduce the effect of privatization on employees involves encouraging or requiring contractors to offer first consideration for employment openings to qualified government workers. [9] The department could include provisions in its contracts to require contractors to give such consideration to its employees. This practice is already being used with the department's contract for toll collection services, which includes a provision requiring the vendor to interview displaced state career service employees before filling position vacancies.

3. **Provide training to assist laid-off employees in finding new jobs.** Former department employees who are laid off by staffing reductions could be provided with training to help them acquire or upgrade their skills, and assist them in obtaining other jobs.

Managed Competition. When implementing the expedited staffing reductions, the Legislature should consider authorizing department employees to bid to retain services. Under this approach, referred to as "managed competition," department employees would submit bids and compete with private firms for the provision of services. [10] If the in-house proposals submitted are the lowest and best bid for the service, the department employees would continue to perform the activity but be limited to the price specified in their bid.

The Governor's Office of Policy and Budget's guidelines for introducing competition in government services provides that state agency privatization efforts must allow current state workers to bid for services. [11] When governmental agencies have been placed in a competitive situation, they have frequently improved their performance, streamlined their operations, and under-bid private vendors.

The use of managed competition also can lead to staff reductions. This can be illustrated by the case of the City of Indianapolis, in which city employees determined that they could not be competitive with private vendors in providing road maintenance services because of high managerial costs. As a result, many of the city's maintenance supervisory staff were laid off so that the front-line workers could be more

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[7] The Florida Retirement System is a "defined benefit" plan. Under a defined benefit plan, the employer guarantees a certain level of retirement benefits based on formulas that take into account a member's years of service, salary level, and age at retirement.

[8] *Workforce Reductions: Downsizing Strategies Used in Selected Organizations*, United States General Accounting Office, GGD 95-54, March 13, 1995.

[9] *Privatization and Public Employees: Guidelines for Fair Treatment*, Reason Foundation, September 1993, p. 7.

[10] *Privatization: Lessons Learned by State and Local Governments*, United States General Accounting Office, GAO/GGD-97-48, March 1997, p. 46.

[11] *Guidelines for Introducing Competition into Government Services,* Executive Office of the Governor, Office of Policy and Budget, August 2000, pp. 1,8.

cost competitive with private contractors. As a result, the city workers won the contract.

To implement managed competition, the department would need to train its employees in how to structure bids, develop business plans, and prepare a bid package. The department is currently seeking legislative authorization to implement this approach.

Expediting staff reductions due to efficiency improvements. As mentioned earlier, the department considered several factors in determining the timing of the proposed staff reductions, including plans to implement new, more efficient techniques for materials testing and consultant invoicing and payment. Although the department has proposed eliminating 523 positions as a result of efficiencies (see Exhibit 2), it could not readily provide information on how these efficiencies would be implemented.[12] Thus, we were unable to determine if any of the staff reductions scheduled to occur between Fiscal Years 2002-03 and 2005-06 due to these efficiency improvements could be expedited. The department should make this information available to the Legislature to assist it in determining whether staffing reductions resulting from the adoption of these new techniques can be expedited.

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[12] Of the 523 total positions the department plans to eliminate through efficiencies, 119 would be eliminated by June 30, 2001, and the remaining 404 would be eliminated during Fiscal Years 2002-03 through 2005-06.

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John W. Turcotte, OPPAGA Director

Agency Response

Florida Department of Transportation

JEB BUSH
GOVERNOR

THOMAS F. BARRY, JR.
SECRETARY

March 2, 2001

Mr. John W. Turcotte, Director
Office of Program Policy Analysis
and Government Accountability
111 West Madison Street, Room 312
Tallahassee, Florida 32399-1475

Dear Mr. Turcotte:

Thank you for the opportunity to respond to the preliminary findings and recommendations of your special review entitled *Department of Transportation Can Expedite Its Proposed Staffing Reduction Plan.*

Your report indicates the department could expedite our planned agency reduction by eliminating 2,515 positions by June 30, 2002. As we understand the report, you were not asked to examine the advantages and disadvantages of this approach, or to estimate the potential cost impact. We also understand the primary factor used to make the determination this acceleration was feasible was the testimony of current DOT contractors they could handle more work. Within this limited definition, it is technically possible to accomplish this acceleration. We question the desirability of the approach and the adequacy of the results.

Our plan, which proposed the reductions over five years, assumes we will be modifying and improving current ways of doing business. We need to make changes, in consultant plan reviews, administrative processes, environmental streamlining, contract management techniques, and other areas to make the reductions true improvements. For the higher level of contracting to be of benefit, it must be coupled with improved consultant management techniques. These take time to develop and implement in an orderly fashion. Many employees will need to be trained in project management, which takes time and experience.

Some of the out-year planned reductions are related to the results of pilot efforts planned in the early years. In maintenance, for example, the type of maintenance contracting to be used is based on further experience gained as we go along. Will additional asset management contracts generate the same cost savings as expected on the first? Will the experience continue to be satisfactory? Will contracting our shop activities work well? We plan to take things a step at a time to make sure we know what we are doing. With the requirement to reduce 2,515 positions in 14 months, we will have time to do nothing

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other than issue and award hundreds of contracts using whatever existing techniques we have available.

In many of the areas we are proposing increased contracting, we project little if any cost savings. Often we are pursuing the initiative for other desirable project delivery features. This accelerated delivery of the reduction plan could very easily undermine whatever cost savings were to be derived. The results could easily be a reduction of service to the public.

Both the Governor and Department management have continuously stated agency reduction activities would be based on attrition to the extent possible. This was a critical factor in employees coming forward and participating openly in developing ways we can improve our programs. We have worked very hard at overcoming institutional resistance to change and in developing leadership credibility within the agency. Your report indicates it is feasible to accomplish the reduction of 2,515 positions by June 30, 2002. To accomplish this, we will have to layoff approximately 1000 employees in a 14-month period. This can have a devastating effect within an agency, which impacts not only those who are terminated, but also the morale and dedication of those who are left. We have used your recommended strategy of requiring the contractor to give department employees right of first refusal for employment, and are pursuing legislation that would allow managed competition; but think these will have limited impact in this short time frame.

While we understand your report only dealt with the technical feasibility of the acceleration, we don't think we can respond without addressing our perception of the relative merits. We think the acceleration will have serious negative effects on the department and our programs, and could jeopardize our commitment to the Governor, the Legislature and the people of Florida regarding delivery of Mobility 2000. DOT is currently a well-functioning agency meeting our goals annually and receiving good to excellent grades from the Transportation Commission. It is not clear what benefit would be gained by accelerating the plan, but we believe there is much to lose.

Sincerely,

/s/
Thomas F. Barry , Jr., P.E.
Secretary

TFB:s