

Sharing State Government Productivity Earnings Tax Savings "Dividends" for Employees and Taxpayers Alike

INCENTIVES FOR GOOD GOVERNMENT

Objective: *To increase productivity and agency performance by rewarding productive employees and providing managers with incentives in the budget process to implement change.*

Outcome: *To ensure that the benefits of productive savings are shared among the three major affected segments: employee/manager, taxpayer and a more productive future work environment. Accordingly, taxpayer savings and "dividends" will not only help create a "corporate culture" to economize (reversing the current culture) but will also provide the seed corn to ensure needed capital is re-deployed for continuous productivity enhancements.*

1. REVERSION RECOVERY REWARD (unnecessary spending/year-end stockpiling)

The Reversion Recovery Reward Program would pay bonuses to state employees for cost saving actions that reduce the expenditure of funds in the current fiscal year. Typically, agencies spend the full amount of their appropriations in order to limit the amount of unspent funds that revert at the end of the fiscal year. This may include year-end "stockpiling" of supplies, purchases of computers, furniture, travel, office equipment and other such expenditures of questionable need. The current expenditure control system fails to provide incentives not to spend funds. The Reversion Recovery Reward Program would provide the necessary incentives to encourage savings.

The major points of the program are:

1. Only certain appropriation categories would be eligible for the program. These would include; Expenses, Other Personal Services (OPS), Operating Capital Outlay (OCO) and Special Categories.
2. All employees would be eligible. Realized savings could be rewarded to an individual for a specific recommendation or action, or to employees within an organizational unit for group actions that result in savings.
3. Actions that produce recurring savings would be **rewarded at 5 percent of**

the savings to an maximum of \$10,000 (first-year only). Nonrecurring would be rewarded at **2.5 percent of the savings to a maximum of \$5,000 (first-year only).**

4. All rewards would be paid in the form of a one-year "bonus" and not included in the employee(s) annual base salary.

5. The amount of the savings (including the bonus amount) would automatically be deducted from the appropriation category where the savings was earned with a corresponding deduction in the budget issue base (for recurring savings) for the next fiscal year.

6. Savings would be verified/approved by the agency head, the Governor's Office of Planning and Budgeting and the Auditor General.

2. PRODUCTIVITY ENHANCEMENT PROGRAM (1/3,1/3,1/3)

The Productivity Enhancement Program is designed to increase employee productivity through the elimination of vacant positions, reallocation of workload and shared savings with employees and the State. The program would be voluntary, in that management and all employees in the participating section would agree to the terms of the program. It is imperative that all employees be fully informed on the benefits of the program and how it would be implemented.

The basic concepts of the program are:

1. Vacant funded (authorized) positions within an organizational unit (usually at the section level) of an agency would be deleted.

2. Based on a plan developed jointly by the employees and management within the affected agency unit, the workload of the deleted positions would be reallocated to the remaining employees within the unit.

3. **One-third of the salary and benefits** (excluding health insurance) of the deleted position(s) would be **reallocated to the employees within the unit who are assuming the increased workload**. The reallocation could be on the basis of a uniform percentage increase to the base salary of each employee; a uniform dollar amount increase (per capita) for each employee, or other such method that is fair and equitable. An important requirement of the reallocation is that the salary increases must be reallocated where earned, and only to the affected employees (a salary increase for a manager would be inappropriate unless they assume a portion of the reallocated workload).

4. **One-third of the salary and benefits** (excluding health insurance) cost of the

deleted position(s) **would be used to purchase productivity enhancing technology, or other productivity enhancing tools** , for use within the affected unit. This may include, but not limited to, personal computers, computer software, copy machines, calculators, automated filing systems, etc. Important considerations are: (1) must be coordinated with the overall agency technology plan, (2) must directly enhance the work processes of the affected employees, and (3) must be a nonrecurring expenditure.

5. **The remaining one-third of the salary and benefits** (including the full cost of the health insurance) cost of the deleted position(s) **would revert to the State**

EXAMPLE OF PRODUCTIVITY ENHANCEMENT PROGRAM IMPLEMENTATION

1. EXISTING SECTION IN AGENCY X

POSITION #	JOB TITLE	FILLED/ VACANT	ANNUAL SALARY	BENEFITS @20%	HEALTH INSURANCE	TOTAL SALARY BENEFIT COST
001	SECRETARY I	F	\$25,000	\$5,000	\$2,000	\$30,000
002	CLERK I	F	18,000	3,600	2,000	23,600
003	CLERK II	F	20,000	4,000	4,000	28,800
004	CLERK II	F	20,000	4,000	2,000	26,000
005	CLERK II	F	20,000	4,400	4,000	28,000
006	ACCOUNTANT I	F	25,000	5,000	2,000	37,000
007	ACCOUNTANT II	F	28,000	5,600	4,000	37,600
008	ACCOUNTANT III	F	30,000	6,000	4,000	40,000
009	CLERK I	V	18,000	3,600	2,000	23,600
010	ACCOUNTANT I	V	25,000	5,000	2,000	32,000
	TOTAL		\$229,000	\$46,200	\$28,000	\$303,200

2. PRODUCTIVITY ENHANCEMENT PROGRAM POSITION DELETIONS AND REALLOCATION

009	CLERK I	V	\$18,000	\$3,600	\$2,000	\$23,600
010	ACCOUNTANT I	V	25,000	5,000	2,000	32,000

A. ONE-THIRD DELETED SALARY AND BENEFIT COST
\$21,200
B. TECHNOLOGY ENHANCEMENT COST AFTER 1ST YEAR
\$17,200
TOTAL
\$38,400
C. EFFECTIVE SAVINGS: \$38,400/\$55,600
69%

In the example, deleting two positions results in an average salary increase of 9.25% to the participating employees. In addition, the state would save \$21,200 the first year; increasing to \$38,400 in the second and succeeding years (recurring savings). Assuming this program was implemented on a statewide basis, for every one percent implementation rate (1200 positions deleted from a total Career Service workforce of 120,000), **the state could save more than \$35.8 million within a two year period**, and every year thereafter (deletions produce recurring savings). As annual participation increases, the savings would multiply.

Certain conditions would have to be in place before the Productivity Enhancement Program could be implemented. These include an accurate measurement of the workload within the participating unit. This is necessary to set a "base level" of work for comparison purposes. Pre and post workload levels would be determined when additional positions would be necessary (change in mission, normal growth, etc.). However, it would be appropriate to restrict the addition of new positions for normal growth for a fixed period of time (3 - 5 years), or until the per employee workload increased by some minimum percent (25%).

In addition, paid overtime to meet normal workload would be prohibited as well as "shifting" pre-participation tasks and responsibilities to other areas. It is recommended that a performance evaluation be conducted in the participating unit periodically to ensure that work standards are maintained and employee workload is within the appropriate range.

In summary, the Productivity Enhancement Program is a "win - win" situation. Employees assume additional work, but are given the tools to better perform their tasks, salaries are increased, and the State saves money - everyone benefits.

3. PRODUCTIVITY BONUS PROGRAM (process improvements)

The Productivity Bonus Program would reward employees who develop cost effective methods for the provision of services and the operations of state government. It is process oriented. The major points of the program are:

1. All employees would be eligible. Realized savings would be rewarded to an individual for specific recommendations.

2. Savings must be recurring and realized within two years.
3. Savings would be paid in the form of a bonus and not included in the employees' annual base salary.
4. **The bonus paid would equal 5 percent of the second year recurring savings (to a maximum of \$25,000)**, net of any new investment costs of implementation.
5. In order to facilitate the implementation of the program, **it is recommended that the state fund a "seed capital" fund of \$10 million** . The fund would be used for any new investment required to begin a cost saving process. Repayment to the fund of any investment made would be required before the payment of the Productivity Bonus.
6. Savings would be verified/approved by the agency head, the Governor's Office of Planning and Budgeting and the Auditor General.

4. REWARD MANAGEMENT EFFICIENCY INITIATIVES (performance agreement/annual review)

The success of any productivity enhancement initiative is directly linked to management's commitment to its successful outcome. **It is incumbent on management to buy into the concept that "more efficient is better" as opposed to the traditional "bigger is better."** Senior management in state government should be required to develop a Productivity Improvement Plan as part of an annual performance agreement. Annual reviews of senior management performance should heavily weight the success, or lack thereof, of productivity improvement in an agency. **Success should be rewarded, failure would require corrective action.**

Florida TaxWatch stands ready to assist the Governor and the Legislature in implementing these structured innovations to increase the cost-effectiveness of our state government. We will work to see that they are done properly and work well for the people of Florida for years to come.

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