FINAL REPORT OF THE GOVERNOR'S STUDY GROUP ON EFFICIENCY IN STATE GOVERNMENT

November 8, 2023

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I. Introduction

In January 2023, Governor Kay Ivey issued Executive Order No. 727 establishing the Governor's Study Group on Efficiency in State Government. This document contains the final report of the Study Group as required by paragraph 2 of that order.

Executive Order 727

Executive Order No. 727 defines "efficiency" as "achieving maximum productivity with minimum wasted effort or expense." With that definition in mind, the order makes two observations about how to potentially improve efficiency among the more than 150 executive-branch entities within Alabama state government. First, it notes that some of these entities may be performing unnecessary work or work that duplicates the work of another entity. Second, it notes that achieving efficiency requires a highly competent, highly adaptable state-agency workforce.

The purpose of the Study Group is to "produce detailed and accurate findings" concerning these two aspects of government efficiency. Specifically, the Study Group was tasked with determining "(a) the need for consolidation or elimination of state executive-branch entities and (b) the need for improvements in the way the State recruits, retains, compensates, and supervises its employees."

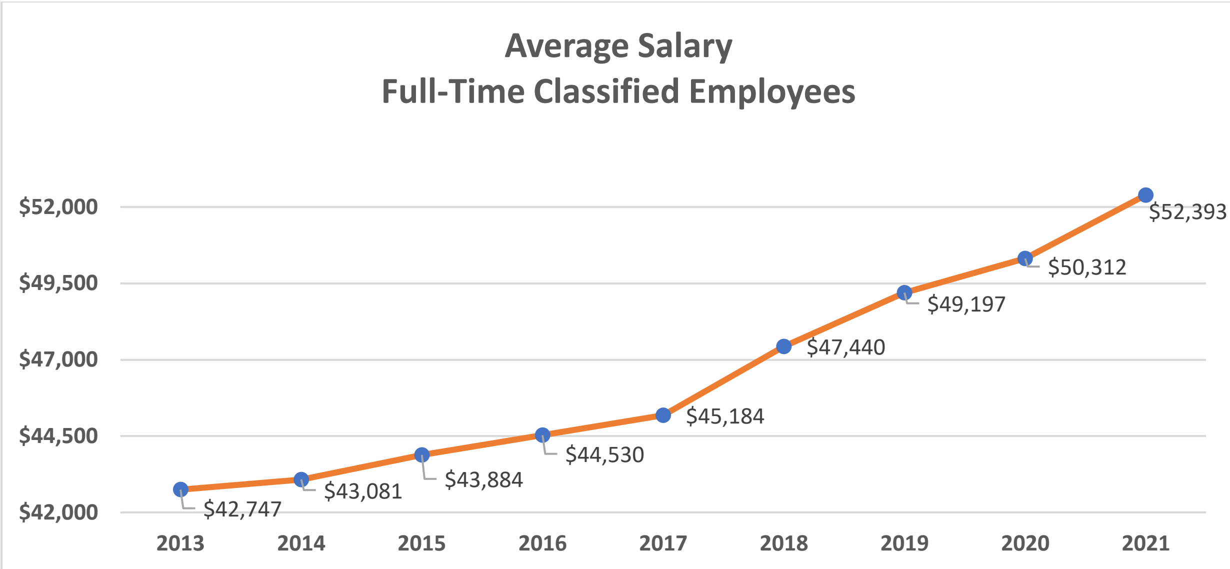
Executive Order No. 727 requires a final report containing these findings to be submitted to the Governor by December 15, 2023.

Work of the Study Group

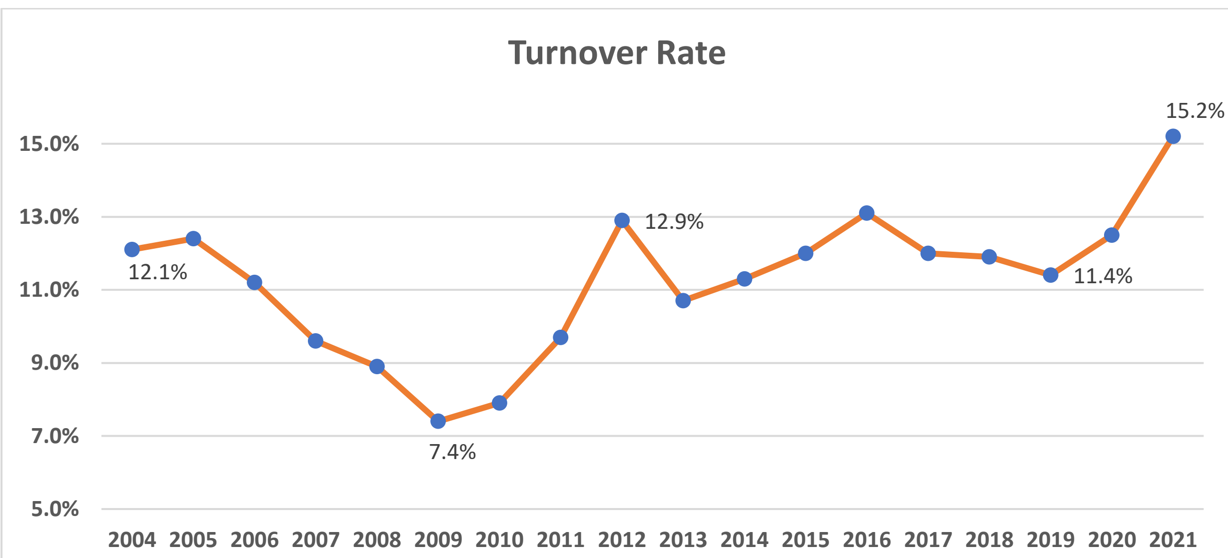
The Study Group began its work by holding a meeting of the entire study group in February 2023. At this initial meeting, the chairman divided the group into two subcommittees: a subcommittee on state employment and a subcommittee on consolidation and elimination of state executive-branch entities. These subcommittees continued work throughout the year by researching their respective areas and best practices in other states and hearing from people with knowledge in their respective fields. Subcommittee speakers included people with knowledge in occupational licensing and regulatory boards and a national expert in the consolidation of state agencies. Each subcommittee held five meetings. The entire study group met three times and held public hearings at one of these meetings where interested parties were given the opportunity to voice their opinions to the Study Group.

II. State Employment Subcommittee

As of fiscal year-end 2021, there were 29,373 individuals employed by the State of Alabama, down from 30,293 at fiscal year-end 2020. The average age of those employees was 46, and nearly 31% of those employees were retirement eligible within 5 years. The average salary for full-time classified employees was $52,393, up 4.1% from 2020, and up 22.6% since 2013.



Even while average salaries have been increasing, with fewer employees on the payroll, workloads for remaining employees have increased. As a result, state agencies have experienced higher overall turnover. The turnover rate (total separations excluding part-time, temporary and unclassified exempt employees) in 2021 was 15.2%, its highest point in nearly two decades.



Nationwide, an increased number of employees are leaving the workforce as a whole, and, while the number of open positions continues to grow, the number of candidates seeking to fill those positions continues to decrease. In addition, those seeking employment have evolving preferences and expectations when it comes to compensation, benefits, and opportunity for development and advancement. While private-sector employers maintain the ability to shift focus quickly, such as increasing compensation levels during times of high inflation or streamlining the hiring process when new hires are in high demand, it can be more difficult for public-sector employers to adapt as efficiently.

Historically, public-sector positions have offered the sought-after advantages of job security, stability, generous benefits and defined pensions which translated to long-term employment with a single employer for many. However, today, in addition to job flexibility, many individuals seeking employment are more interested in a sense of purpose and the potential for development and advancement.

Traditional methods of recruiting and retaining productive employees may no longer be successful, and new, innovative strategies may be necessary to attract candidates capable of being hired for many hard-to-fill positions. While this is an issue that is affecting public-sector hiring nationwide, the committee looked at current obstacles facing Alabama agencies related to recruitment, hiring and retention and endeavored to formulate creative and innovative ways to address these challenges.

The Efficiency Study Group makes the following recommendations to improve the way the State recruits, retains, compensates, and supervises state employees:

A. Independent, comprehensive review of state employment policies

There should be a comprehensive review of the State of Alabama's current policies and procedures governing state employment. This review should be periodic and identify steps that can be taken to incorporate a modernized approach to recruiting, retaining, compensating, and supervising qualified candidates for state employment. An independent outside firm should be hired to conduct a wide range of consulting services to include analysis and evaluation of the following:

- Current structure and governance of the state merit system;
- Existing recruitment and retention efforts;
- Current application, onboarding, and hiring processes;
- Existing compensation and benefits to determine overall competitiveness;
- Existing practices when it comes to supervising state employees and how they compare to other states and public entities; and
- Best practices used in other States.

B. State-employee recruitment media campaign

The State could engage in a statewide media campaign highlighting state employment. While job fairs and visiting schools and colleges can be effective, a state-wide media effort would reach a wider scope of interested individuals. The variety of state jobs, as well as emphasizing available employee benefits, might generate more applicants and a wider applicant pool for state agencies.

C. Compensation and benefits

1. Offer paid parental leave.

The State should offer parental leave to employees that includes paid, guaranteed time off in connection with the birth or adoption of a child. This is offered by many private employers, other states, and the federal government and could make state government more competitive and attractive to younger prospective employees seeking to start a family.

2. Allow three- or four-step pay increases.

Agencies could be allowed to grant a three- or four-step pay increase for employees who are promoted to a higher job classification. (Each step amounts to a 2.5% pay increase.) Such a change could incentivize current employees to accept higher levels of responsibility, allowing the State to make greater use of these employees' expertise and institutional knowledge.

3. Increase accrual of sick leave.

Currently, state employees accrue four hours and twenty minutes of sick leave every pay period. This could be increased to six hours a pay period.

4. Pay time-and-a-half for overtime work.

State agencies could be allowed the flexibility to pay all FLSA non-exempt employees time-and-a-half. This change would allow agencies to pay other FLSA non-exempt employees overtime rather than requiring them to accept compensatory time. Currently, agencies must receive State Personnel Board approval on a classification-by-classification basis to pay overtime. Unlike other state employees, law enforcement officers currently may receive paid overtime for the first 8 hours of overtime each week. This recommendation would provide that same benefit to all FLSA non-exempt employees.

5. Offer tuition reimbursement.

State agencies could be allowed to reimburse the cost of tuition and books for employees attending school if the class or degree would serve a public purpose and be a benefit to the agency. Currently, the State can only provide payments for tuition if the student/employee is not receiving course credit. If an employee had his or her tuition paid for by the State, the employee should be required to work for the State for a certain amount of time or be required to pay the tuition back.

6. Front load annual leave.

The State could front-load annual leave. This would be particularly beneficial for new employees. In the private sector, many employees provide two weeks of leave upon starting employment. In the state system, employees with less than five years of state service accrue four hours and twenty minutes of annual leave per pay period. This amount increases based on years of service with the State. Some states and local entities advance this leave, with the employee agreeing to pay back the leave if leaving state service without the leave being recouped. As the leave is accrued, it will be offset to the amount advanced.

7. Subsidize active and dependent insurance coverage.

The State could pay all or part of active and dependent insurance coverage. In the past, the State Port Authority paid all dependent care insurance coverage for its employees. Currently, the Port Authority covers a partial amount of the dependent care premium that would otherwise be covered by the employee based on the employee's salary. Some non-state agencies that participate in the State's retirement system cover all insurance costs for their employees, and some private sector employers have this option. This could be a tiered benefit based on pay scale.

8. Reinstitute biweekly pay periods.

The State payroll system could return to biweekly payments, which would be consistent with most other states. Currently, the State uses semi-monthly pay periods. Semi-monthly pay periods do not present a problem for FLSA exempt employees. However, a semi-monthly pay period is very difficult to administer when it involves the accumulation of overtime compensation for FLSA non-exempt employees.

With a semi-monthly pay period, the standard FLSA workweek often crosses two pay periods and, on occasion, three pay periods, requiring overtime in the last split workweek to be delayed until the following payday. Some pay periods cover from 72 to 96 hours during a semi-monthly period. The fluctuation of hours in each pay period also requires the employees' hourly rate to fluctuate each pay period, resulting in a concept referred to as "bank and borrow." However, the overtime paid to employees is standardized for every pay period. These concepts are often confusing and frustrating to employees and less efficient to agencies using non-standard work schedules such as the Department of Corrections, the Alabama Law Enforcement Agency, the Department of Mental Health, and the Department of Youth Services.

While every 11 years, a 27th pay period is inevitable, legislation can move the pay period into the next fiscal year, which has been accomplished in the past when employees were paid biweekly. This recommendation would require legislation.

D. Retirement benefits

1. Return to Tier I retirement for all employees.

The State could allow all employees to be eligible for Tier 1 retirement. Currently, only people employed by the State prior to January 1, 2013, are eligible for Tier 1 retirement. Under Tier I, members are eligible for full retirement after 10 years of state service and reaching the age of 60 or after 25 years of state service, regardless of age. Under Tier II, members are eligible for full retirement after 10 years of state service and reaching the age of 62.

The State is losing employees to local governments and non-state entities that are eligible to participate in the state's retirement system with the option of Tier I retirement. Some local governments that participate in Tier I are paying the extra 2.5% into retirement for its employees (employees pay 5.0% rather than 7.5%). Making Tier I retirement available for all employees could make state employment more attractive and may reduce the number of state employees leaving state service for entities that offer Tier I retirement.

2. Establish a five-year vesting period for Tier II employees.

If returning to Tier I retirement for all employees is not an option, the State could offer a five-year vesting period for Tier II employees. Many employees do not foresee working anywhere for 10 years, so the appeal of retirement is not nearly what it used to be.

3. Provide an employer match for deferred compensation plans for Tier II employees.

If returning to Tier I retirement cannot be accomplished, the State could offer an employment match deferred compensation program for Tier II employees, such as through a 401(a) plan (similar to a 401(k) plan, but for government and nonprofit employees). Many private companies offer an employer match for a deferred compensation plan or IRA. The State previously provided a 401(a) match for employees based upon the State's 457 Deferred Compensation Plan.

4. Allow "phased" retirement.

The State could offer a phased retirement program that would allow retiring employees to work on a part-time basis for a limited period of time. The retiring employee would be able to work part-time while receiving pay and retirement benefits. The employee would also be able to receive additional service credit towards full retirement. The federal government has a similar program called "Phased Retirement." In this status, the retiring employee works on a part-time basis for a limited period of time.

III. Consolidation and Elimination Subcommittee

The Study Group identified numerous inefficiencies in the way state government currently operates, from duplication of certain services to the continuation of outdated processes. These inefficiencies can be both costly and time consuming. Additionally, as the needs of the People of Alabama and state government change, some state boards, agencies, and commissions may become obsolete, in which case they should be eliminated, or perform duplicating functions, in which case they should be consolidated. The State may also be regulating certain fields or professions where no public benefit is gained from state regulation. The benefits to consolidating and eliminating some of the State's executive-branch entities include reducing the size of state government, potentially saving taxpayer funds, increasing efficiency and accountability, and reducing unnecessary red tape and regulatory restrictions on citizens and industries. The Study Group identified numerous opportunities for consolidation and elimination that could benefit the public.

A related concept is that of accountability. In our system, accountability occurs when government works for officials who are elected by the People. This kind of accountability naturally leads to efficiency because of the incentives elected leaders face to be responsive to the public. For this reason, proper measures must also be in place to ensure that state executive-branch entities are sufficiently accountable to the People through elected officials.

The Efficiency Study Group makes the following recommendations to address efficiency and accountability in state government:

A. Proposals primarily to enhance efficiency

1. Eliminate state executive-branch entities whose missions are obsolete.

State executive-branch entities whose mission or purpose are obsolete or no longer consistent with the needs of the public should be eliminated. Additionally, the public may be better served with the deregulation of certain industries, in which case those boards should be eliminated. When determining which executive-branch entities should be eliminated, factors that should be considered include whether the benefit to the public, rather than licensees, outweighs the costs to the public and the State and whether another entity is already performing a similar task and could efficiently take on the roles of the eliminated entity.

2. Consolidate certain health and human services into the Department of Human Resources.

a. Transfer the duties of the Department of Child Abuse and Neglect Prevention to the Department of Human Resources.

The Alabama Department of Child Abuse and Neglect Prevention promotes the prevention of the maltreatment of children while the Alabama Department of Human Resources (DHR) investigates, reports, and appropriately ensures the safety of children. DHR already provides the capabilities to disseminate information and resources as displayed in the Child Care Quality Enhancement Training. Since the Department of Child Abuse and Neglect Prevention provides grants to programs who educate against child abuse and neglect, DHR can continue this effort as this department already applies and monitors grants for protective services projects. Transferring the duties of the Department of Child Abuse and Neglect to DHR could allow the State to continue to prevent the maltreatment of children while saving resources and reducing costs.

b. Transfer the duties of the Department of Senior Services to the Department of Human Resources.

The Alabama Department of Senior Services administers programs for seniors, individuals with disabilities, and caregivers. It is recommended that the duties and responsibilities of the Alabama Department of Senior Services be transferred to the Alabama Department of Human Resources (DHR). Merging these agencies could save the state administrative costs as both administer related programs such as abuse prevention, nutrition, and disability-related programs. DHR has the capabilities to manage programs funded by federal sources. Both of these agencies have the majority of their budget sourced by federal funding for federal-related programs such as Supplemental Nutrition Assistance Program (SNAP), Medicaid Waiver Services, elderly programs related to the Older Americans Act, and individuals with disabilities assistance programs.

3. Merge the Historic Blakeley Authority, the Alabama Historic Ironworks Commission, and the St. Stephens Historical Park into the Department of Conservation and Natural Resources (DCNR).

The Department of Conservation and Natural Resources currently supervises and protects many state parks located throughout Alabama. The purpose of the Historic Blakeley Authority is to establish, preserve, and maintain as a state historic park roughly 3,800 acres in Baldwin County. The purpose of the Alabama Historic Ironworks Commission is to preserve, restore, maintain and promote as state parks, the land and relics of the Tannehill and Brierfield Furnaces. The St. Stephens Historical Park is designated to preserve the history of Alabama by maintaining the remains of the original town of St. Stephens and the Territorial Capital of Alabama. Each of these missions align with the mission of DCNR, and efficiencies could be realized by such a merger.

4. Require electronic forms of payments to minimize fraud and costs

a. **Require all payments of $1,000.00 or greater issued to any entity (other than individuals) in the STAARS system, be made electronically, via ACH.**

b. **Require any respondent to a state-issued solicitation, or request for proposal (RFP), to agree to accept payments by ACH and include in all state contracts.**

Payment fraud is becoming ever more prevalent across the U.S. and a serious threat for all organizations. According to the 2023 Association for Financial Professionals Payments Fraud and Control Report (the nation's industry report that measures this data), 63% of the payments fraud activity is done through checks as compared to just 30% through Automated Clearing House (ACH) transactions. Electronic payment methods not only decrease the amount of potential fraud organizations may experience but also greatly increase payment efficiency and cost savings for all those involved. For these same reasons, the Social Security Administration began requiring recipients to receive benefits electronically in 1999.

Many state agencies continue to use antiquated methods of issuing payments to vendors, other state agencies and citizens when more efficient and safer options have been available since the implementation of the STAARs system almost a decade ago. The State printed, issued, and mailed 1,275,000 paper warrants in FY22. There is currently no requirement to use a particular method of payment.

In summer 2022, one agency experienced attempted check washing fraud of $635,677 of state funds. From the time the checks were written to their arrival at their final destination in another city, they were handled by numerous individuals – thus providing many opportunities for theft. If the agency had initiated these payments electronically from one bank account directly to another, the opportunity for fraud would have been greatly diminished, virtually nonexistent.

5. Reform state workforce structure and consolidate workforce boards.

The federal Workforce Innovation and Opportunity Act (WIOA) is the primary federal law that supports state workforce development activities, and it does so through the allocation to states of federal funds. Program year 2021 is the most recent comprehensive data set with information on each of the four titles. For program year 2021, Alabama received federal funds of $12.16 million for adult programs, $15.76 million for dislocated workers, and $12.51 million for the youth program, for a combined total of $40.4 million. For $40.4 million, only 4,191 individuals completed training and only 2,902 individuals received a credential at an average cost of $14,000 per credential earned.

a. **Reduce overhead and administration costs by reducing the number of state career centers.**

Administration costs represented 57.6% of Alabama's WIOWA allocation for 2021, which suggests that too much of Alabama's WIOA funding is being used to support administration and overhead costs. Since 2018, Alabama's Title I WIOA programs have suffered a budget decrease of approximate 38%. Career center staff in each region have only been reduced between 5% and

15%. A plan should be developed to reduce staff levels and leases to a level that is commensurate with the cuts Alabama's WIOWA programs have recently sustained. For example, there may not be enough foot traffic in the brick-and-mortar career centers to justify the investment in commercial real estate leases and supporting staff. It is recommended that Alabama move to more of a "one-stop shop" concept with a collection of services using larger physical assets of partner agencies, such as community colleges or DHR offices, using modern technology and ways of serving the public. This concept would more efficiently use funds and better serve the intended audience.

b. Combine the State Workforce Development Board and the Alabama Workforce Council.

Currently, there are two separate workforce development entities – the State Workforce Development Board, which oversees WIOA funding, and the Alabama Workforce Council, which is charged with setting workforce development policy. Merging the two entities would ensure that employer-driven policies properly align with funding initiatives. Moreover, the merged Alabama Workforce Development Board could be given a mandate to improve performance through increased performance targets; increased levels of funds dedicated to training; greater transparency and efficiency in Career Center budgets; integration of technology and a common intake process for the Career Centers; collection of WIOA core and partner programs at one stop centers; and an integrated marketing plan. The local WIOA boards receive the federal funding and the Regional Workforce Councils have very little in the way of resources. The seven local WIOA boards and the seven Regional Workforce Councils could also be merged to support this structure.

c. Create a single state workforce agency to manage Title I and Title III WIOA programs.

Alabama is one of only five states that has two state workforce agencies managing WIOA Title I and III. In Alabama, the Alabama Department of Commerce manages Title I and the Alabama Department of Labor manages Title III. Moving to a single state workforce agency would ensure that Alabama's Title I and Title III WIOA programs are managed by the same agency. It would also ensure that uses of these funds are better aligned in a single state workforce development strategy. Alabama law (section 25-2-26) designates ADOL as the fiscal agent and grants manager for Wagner-Peyser and the Unemployment Compensation Trust Fund. Moving Title I and Title III WIOA programs to one state workforce agency would require legislation.

6. Transfer the Drycleaning Trust Fund to the Alabama Department of Environmental Management.

The Alabama Drycleaning Trust Fund is a self-insurance program for the benefit of participating businesses to remediate past contamination caused by drycleaning contaminants. The Alabama Department of Environmental Management (ADEM) functions as the State's environmental regulatory agency. ADEM currently provides technical assistance to the Trust Fund.

B. Proposals primarily to enhance accountability

1. Require all executive-branch agencies to seek traditional legislative appropriations.

For many occupational licensing and regulatory boards, current law includes a standing appropriation to the board of any revenues generated from license fees and, significantly, the collection of civil penalties. This arguably creates an incentive for the boards to seek as many penalties as possible. To increase accountability, and reduce incentives to over-penalize licensees, occupational licensing and regulatory boards could be required to go before the Legislature annually to seek traditional appropriations.

2. Clarify lines of authority and oversight within the executive branch.

Over the years, numerous state agencies in the executive branch have been established without making clear the proper lines of authority and oversight to elected officials. In many cases, this has been done to provide input from subject-matter experts and leaders from industries and the private sector—for example, by giving appointed boards certain oversight powers or by giving private interests a role in selecting appointees to these boards. This input is valuable and benefits state government, but it sometimes operates to reduce accountability to leaders elected directly by the People. The Legislature could explore ways to clarify agency accountability to the elected leadership of the executive branch while retaining the valuable input and guidance that comes from involving private-sector leaders in running state government.

3. Establish a state agency to perform the administrative functions of certain occupational licensing and regulatory boards.

The Governor's Study Group on Efficiency in State Government identified various ways to increase the accountability and efficiency of the State's occupational licensing and regulatory boards. The Study Group determined that making changes to the organization of these boards should be a priority. The Study Group reviewed occupational licensing and regulatory boards by analyzing each board's purpose, structure, funding, and budget, as well as sunset reports provided by the Examiners of Public Accounts. This review found numerous opportunities for increased efficiency and accountability.

The Study Group spoke with individuals who have knowledge and experience in reforming state occupational licensing and regulatory board systems. This included a review of other states that have undertaken similar efforts in this area. Finally, the Study Group held a public hearing where it heard from interested parties and stakeholders.

It is recommended that a cabinet-level agency be established with a director being appointed by the Governor to develop a plan to consolidate the administrative duties of occupational licensing and regulatory boards such as, but not limited to, accounting, personnel, legal, IT, investigative, and general board administration responsibilities.

When determining which boards should be consolidated into this agency, factors to consider could include the board's annual revenues, lack of accountable state employees, and current accountability and responsiveness to the public. Additionally, for any boards that are not initially consolidated into the agency, the Legislature's Sunset Committee could be allowed to consider whether to consolidate additional boards into the agency when the board is up for its sunset review.

Respectfully submitted,

Young Boozer
Chair

Members of the Governor's Study Group on Efficiency in State Government

State Treasurer Young Boozer, Chair

State Employment Subcommittee

State Comptroller Kathleen Baxter, Chair
Senator Clyde Chambliss
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State Personnel Director Jackie Graham
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**Advisory Capacity*