FLORIDA TRANSPORTATION COMMISSION

Earl Durden, Chairman ♦ James W. Holton, Vice Chairman ♦ Janet Watermeier, Secretary
C. David Brown, II ♦ Sidney Calloway ♦ Heidi Eddins ♦ Gasper Lazzara ♦ Bob Namoff ♦ David A. Straz, Jr.

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Florida Department of Transportation

Executive Compensation Study

A REPORT BY
THE FLORIDA TRANSPORTATION COMMISSION

March, 2004

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Gasper Lazzara
R. M. "Bob" Namoff
David Straz

Jeb Bush
Governor

March 26, 2004

Honorable Jeb Bush
Governor
The Capitol
Tallahassee, Florida

Dear Governor Bush,

On March 23, 2004, the Florida Transportation Commission (FTC) completed its Executive Compensation Study of the Florida Department of Transportation (FDOT). The Commission conducted this study for the purpose of determining the extent of compensation disparity existing between executive level management working for the FDOT and comparable jobs in other public transportation agencies or private corporations. The FTC conducted the study, in part, because of anecdotal evidence suggesting that over the last few years the FDOT was losing executive level personnel to the private sector at accelerated rates.

The compensation data indicates that FDOT personnel earn anywhere from 30 to 85 percent of their counterparts in the private sector. It is expected that when one chooses a profession in the public sector compensation will not be at the same rate that could be earned if working for a private company. Many people are willing to forgo the monetary rewards of the private sector in order to serve the public good. However, in many cases, FDOT executive level managers earn less than their counterparts in the public sector as well. This is especially evident with the Secretary of the Department of Transportation.

The Secretary of Transportation administers a department with a $6.3 billion budget. In return, the Secretary receives approximately $121,400 in compensation. By comparison, the president of an engineering firm in the private sector earns an average of $255,676. Although public servants typically earn less than their private sector counterparts, the spread has become significant. On the public sector side, the Secretary's salary ranks 12th in comparison to his counterparts in the 14 southern state DOTs, most of which manage a program less than half the size of Florida's. We also examined the compensation earned by the executive directors of 28 public agencies that operate transportation facilities in Florida and found that the Secretary of Transportation ranks 21st by comparison.

FDOT employees occupying the positions included in our study represent the most experienced and talented managers within the Department and by definition are the key to the success of Florida's transportation system. Private sector firms are able to hire away top Department personnel without dramatically altering their own pay structures. In essence, this situation often leads to private sector firms "bargain hunting" by recruiting highly experienced FDOT personnel at rates where they would ordinarily only be able to recruit less experienced and qualified personnel. Based on interviews conducted during the course of this study, private sector firms have been successful in recruiting away higher level FDOT

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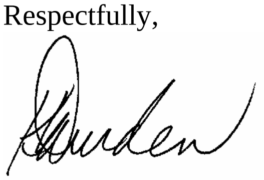
employees by offering substantially higher compensation. This has been particularly true in the District Offices. Over the past five years, 39 employees occupying 68 director level positions included in our study have left the Department, most for private sector engineering firms.

Given their level of responsibility and the impact that decisions FDOT executive level managers make have on the economic health of Florida, it is in the State's best interest to ensure that qualified experienced personnel occupy these positions. While FDOT had been able to attract and retain quality personnel in the past, it is no longer able to do so without making some structural changes regarding compensation issues. A large number of firms in the private sector are willing and able to pay above the FDOT pay scale, especially when they are receiving talented, experienced and connected people in return.

In order to create a workforce that is smaller and more efficient, we must improve our compensation levels. If we don't increase compensation to a level commensurate with an employee's level of responsibility, then we will continue to lose some of our best and brightest people.

We hope this evaluation will assist you and your staff when you consider how to reach the administration's goal of having a small, efficient, well compensated and experienced state workforce. If you have questions, need additional information or wish to discuss any part of this study, please let me know. Your consideration of our recommendations will be greatly appreciated.

Respectfully,



Earl Durden, Chairman
Florida Transportation Commission

cc: Honorable Jim Sebesta, Chairman,
Senate Transportation Committee
Honorable Daniel Webster, Chairman
Senate Appropriations Subcommittee on Transportation and Economic Development
Honorable David Russell, Chairman,
House Transportation Committee
Honorable Randy Johnson, Chairman,
House Appropriations Subcommittee on Transportation and Economic Development
Honorable Andy Gardiner, Chairman
House Subcommittee on Transportation Systems
Mr. Jose Abreu, Secretary of Transportation
Mr. Mike Hansen, Director,
Office of Policy and Budget, Governor's Office
Mr. Jim St. John, Division Administrator,
Federal Highway Administration

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EXECUTIVE SUMMARY

The Florida Transportation Commission (FTC), working with MGT of America Inc. (MGT), conducted this executive compensation study for the purpose of determining the extent of compensation disparity existing between executive level management working for the Florida Department of Transportation (FDOT) and comparable jobs in other public transportation agencies or private corporations. The FTC conducted the study, in part, because of anecdotal evidence suggesting that over the last few years the FDOT was losing executive level personnel to the private sector at accelerated rates.

Listed below are the primary survey findings:

- In comparison to both the public and private sectors, the State of Florida's broad banding ranges are sufficiently wide enough to accommodate substantial increases in compensation to the FDOT's executive level management positions.
- FDOT executive level managers earn considerably less than their counterparts in the private sector. On average, executive level managers in the Central Office earn approximately 60 percent of their private sector peers, while those working in the District offices earn approximately 69 percent.
- When compared to the private sector salary mean, FDOT executive level managers earn from 30 to 85 percent of the total compensation earned by their peers in the private sector.
- FDOT executive level managers earn less than their counterparts in the public sector as well.
- The Secretary of Transportation's salary ranks 12th in comparison to his counterparts in the 14 southern state DOTs, most of which manage a program less than half the size of Florida.
- When compared to the compensation earned by the executive directors of 28 other public transportation agencies in Florida, the salary of the Secretary of Transportation ranks 21st.
- The Secretary of Transportation earns less than 13 out of 26 heads of other state agencies in Florida, even though the Department of Transportation has the third largest budget and third largest number of employees.

FDOT has a fundamental choice to make regarding its compensation philosophy. It can continue to pay people with great responsibility an average wage, and watch as these employees leave for salaries more in line with their responsibilities, or it can act now to bring salaries more into line with the responsibility levels of the incumbents and hope to retain them with the increased pay and bonus program recommended by this study. The exodus of key managers, particularly at the District level, is not likely to end until FDOT can offer these employees a total compensation package more consistent with the market levels for positions with the same level of expertise and responsibility.

MGT also reviewed existing pay for performance systems in place at the state and federal levels. As a result of this review, MGT believes that a pay for performance system should be implemented for FDOT managers.

As a result of our analysis, the following recommendations are provided:

RECOMMENDATION 1:

The Secretary of Transportation should receive an immediate salary increase to $180,000.

Rationale: Quite simply, the Secretary of Transportation is grossly under compensated. The level of responsibility for this position would indicate that the incumbent should earn a much higher base salary. An increase in salary to $180,000 is approximately 70 percent of the average private sector compensation and would bring the Secretary's compensation more in line with those of other public sector transportation agencies in Florida. This level of compensation is warranted based on both the level of job responsibility and external market considerations and will set the right precedent for the future of the Department.

RECOMMENDATION 2:

FDOT should request from the Department of Management Services (DMS) that base pay rates be increased on a sliding scale up to 20 percent for all executive level managers.

Rationale: An increase in base pay ranging up to 20 percent will move senior managers closer to a pay level commensurate with their responsibilities without putting Assistant Secretaries too close to the proposed Secretary level (see Recommendation 1). In combination with potential pay-for-performance bonuses, the advantages offered by the State Retirement System and benefit programs should be enough to maintain existing personnel and attract new employees to the Department.

RECOMMENDATION 3:

The FTC, in conjunction with the Department of Management Services and legislative budget committees should explore the implementation of a pay-for-performance bonus system. Bonuses should be tied to clearly articulated performance goals established by the FTC and should range from 10 to 20 percent of total executive compensation.

Rationale: As indicated in Chapter 4.0, pay for performance plans are common in the private sector and gaining in popularity in the public sector. Research indicates that employees at the upper echelons within organizations ordinarily have more of their salaries “at risk” than do employees further down in the hierarchy. A pay for performance approach, with compensation levels tied to the accomplishment of clearly articulated goals, is one of the most effective means for encouraging active management toward organizational goals. The size and distribution scheduling of this additional compensation is somewhat dependent on the availability of funding, but a multi-tiered bonus approach is considered to be preferable to an “all or nothing” system.

1.0 INTRODUCTION

The Florida Department of Transportation (FDOT) has approximately 8,045 positions and 7,455 employees statewide and a multi-billion-dollar budget to serve the State’s 17 million residents and 71.5 million annual visitors. In addition to being responsible for the State’s highway system, FDOT administers grants and provides support for:

- 743 Aviation facilities;
- 26 Fixed-route Transit Systems;
- 14 Seaports; and
- 2,871 Railway Miles.

In accordance with legislative mandates, FDOT is a decentralized agency. The Central Office, located in Tallahassee, is responsible for policy, procedure and quality assurance. Oversight is provided by the Florida Transportation Commission (FTC).

FDOT has seven district offices and a Turnpike Enterprise. A District Secretary manages each of the seven districts, while an Executive Director manages the Turnpike Enterprise. FDOT's district offices and Turnpike Enterprise are responsible for building and maintaining the State’s 40,829 lane miles and 6,265 bridges. The typical district has a division for Administration, Planning and Production, and Operations. Also, each district has a Public Information Office and General Counsel Office that report to the District Secretary.

For FY 03/04, FDOT has been appropriated $6.25 billion and the Department has awarded an average of $1.5 billion worth of construction contracts for the past five years. FDOT is a trust funded state agency. Funds from user fees such as highway fuel taxes, aviation fuel taxes, and motor vehicle license fees are deposited into the State Transportation Trust Fund and used to pay for the Department's operations. State law requires the department to develop a five-year work program. In compliance, FDOT has a $26.2 billion five-year work program.

MGT of America Inc. (MGT) was commissioned in September 2002 by the FTC to help determine the extent, if any, of compensation disparity existing between senior management personnel working for the FDOT and comparable jobs in other agencies or corporations. Primarily, MGT's role was to determine the existing private sector market rate for those transportation managers with advanced work experience, knowledge and responsibility. MGT examined information from a variety of sources to ensure that the results were not artifacts produced from exaggerated data outliers. Where multiple sources provided consistent results, the evidence is particularly conclusive. Concurrently, Commission staff examined compensation levels in other public transportation agencies for the same purpose.

The FTC commissioned the study, in part, because of anecdotal evidence suggesting that over the last few years the FDOT was losing executive level personnel primarily to the private sector at accelerated rates. While some turnover can be expected within any organization, excessive turnover among senior management can cripple an organization’s long term planning and lead to a situation where the logical chain of succession becomes disrupted and extended executive searches become commonplace. Given the long-term nature of many of FDOT’s projects, a certain amount of continuity is required for effective management. Therefore, the FTC sought to conduct an examination of the current labor market for senior transportation managers and recommendations for how to address any problems FDOT may have in relation to that market.

This study is organized into five chapters. In addition to this short introductory chapter, the report also includes a brief methodology (Chapter 2.0), and our summary findings (Chapter 3.0). Chapter 4.0 contains a brief discourse on pay for performance plans while Chapter 5.0 integrates the previous chapters by providing the report’s conclusions and recommendations.

2.0 METHODOLOGY

MGT of America, Inc., (MGT) staff coordinated with the Florida Department of Transportation (FDOT) and the Florida Transportation Commission (FTC) to determine the positions for evaluation and structure that would be most beneficial to survey for a comparative analysis. Exhibit 2-1 shows the FDOT executive level positions for which the evaluation was conducted. For the most part, the positions were chosen based on their level of responsibility, presumed marketability to the private sector and requirement or preference for an engineering background.

EXHIBIT 2-1
SURVEY POSITIONS

CENTRAL OFFICE POSITIONS	DISTRICT POSITIONS
Secretary of Transportation	District Secretary
Assistant Secretary for Transportation Support	District Director of Development (Production)
Assistant Secretary for Transportation Policy	District Director of Operations
Assistant Secretary of Intermodal Systems Development	District Designer of Planning and Programs
Comptroller	District Director of Support (Administration)
Director of Motor Carrier Compliance	District Construction Engineer
Director, Office of Administration	District Consultant Management Engineer
Director, Office of Design	District Design Engineer
Director, Office of Financial Development	District Land Surveyor
Director, Office of Work Program	District Maintenance Engineer
Director, Office of Policy Planning	District Materials Engineer
Director, Office of Right of Way	District Planning Manager
Highway Operations Director	District Public Transportation Manager
Director, State Maintenance Office	District Right of Way Administrator
Director, State Materials Office	District Traffic Operations Engineer
Director, State Construction Office	
Public Transportation and Modal Administrator	
State Highway Engineer	
Manager, Rail Office	
Manager, Seaport Office	
Manager, Systems Planning Office	
Manager, Transit Office	
Manager, Transportation Statistics Office	
State Estimates Engineer	
State Roadway Design Engineer	
State Structures Design Engineer	
State Surveyor	
State Traffic Operations Engineer	
Manager, Aviation Office	
Manager, Project Management & Research	
State Safety Engineer	
Manager, Engineering CADD Systems Office	
Manager, Environmental Management Office	
State Specifications Engineer	

A variety of approaches to analyzing compensation equity exist. However, a single optimal analytical tool has not been found. For this reason, the best approach to compensation equity studies is one that employs multiple techniques. One of the great advantages to utilizing multiple tools is the ability to draw on the specific strengths of various combinations of techniques to identify inequities and their root causes. In essence, the strengths of various tools can be combined when utilizing a multifaceted approach in order to address the possible shortcomings of individual measurement tools. Such an approach increases the validity of the research enterprise.

We utilized a system of comparative analysis based on salary survey data to provide a composite picture of the managerial compensation market in the engineering field. A compensation survey was developed and sent to both private and public sector organizations that engaged in significant engineering operations.

Lacking survey responses from the private sector, in large part due to their lack of interest in participating, MGT used a variety of secondary data resources recommended by the FTC. Several of those publications include the 2003 National Society of Professional Engineers (NSPE) compensation survey, the Engineers' Salaries 2002: Special Industry Report (American Association of Engineering Societies Inc.), and the 2002 Executive Engineering Compensation Survey (Dietrich). The Dietrich survey provided salary information for thousands of private sector executive level managers in the engineering field and is widely considered to be the most comprehensive survey of its type. By aligning the FDOT executive level positions with the survey information, MGT was able to compare existing FDOT salary data with salary data from managers of comparable experience and grade in the private sector.

An attempt was also made to gather compensation data by surveying a number of public sector transportation agencies. Again, due to a lack of respondents, additional data was collected from other sources to compile sufficient comparative data. Supplemental data was compiled using the 2003 American Association of State Highway and Transportation Officials (AASHTO) Salary Survey and through telephone surveys with 15 state departments of transportation, 18 toll and turnpike authorities, 30 Florida operators of other transportation facilities, such as airport, seaport, and transit authorities, and 24 Florida county governments. This data was used to compare existing FDOT salary data with salary data from managers of comparable experience and grade in the public sector.

As seen in Chapter 3.0, the surveys demonstrated fairly consistent results, providing for a higher level of confidence in the results.

3.0 COMPENSATION FINDINGS

3.1 Introduction

This chapter presents the findings related to executive compensation of selected Florida Department of Transportation (FDOT) executive level positions gathered through the salary review, executive compensation best practices research as it would apply to the study's needs, a review of similar surveys that have been conducted by reputable firms for a number of years, and compensation data gathered from public transportation agencies. MGT of America, Inc., (MGT) staff coordinated with the FDOT and the Florida Transportation Commission (FTC) to determine the positions for evaluation and structure that would be most beneficial to select for a comparative analysis to the private sector.

Exhibits 3-1 and 3-2 provide the current salaries for the reviewed Central Office positions and current salary averages for the District Office positions (most of the district positions have more than one incumbent). Based on the salary data presented, the following is known:

- The average actual salary for the evaluated Central Office executive level management positions is $100,930;
- The highest salary for the evaluated Central Office positions is for the Secretary of Transportation, who earns $121,400. In contrast, the lowest salary of the evaluated Central Office positions is for the State Estimates, Safety and Specifications Engineers, and the Manager of the Engineering CADD Systems Office, who earn $91,255;
- The average minimum pay band salary for the evaluated Central Office executive level management positions is $40,234 while the average maximum pay band salary for these positions is $160,935;
- The average actual salary for the evaluated District Office executive level management positions is $94,291;
- The highest salary for the evaluated District Office positions is the district secretaries who earn an average of $118,548. In contrast, the lowest salary of the evaluated District Office positions is the district planning managers, who earn an average of $85,551;
- The average minimum pay band salary for the surveyed District Office positions is $36,949 while the average maximum pay band salary for these positions is $147,795.

EXHIBIT 3-1
CURRENT SALARIES FOR CENTRAL OFFICE POSITIONS

CENTRAL OFFICE POSITIONS	ANNUAL MIN	ANNUAL MAX	CURRENT SALARY	PERCENT ABOVE MIN	PERCENT BELOW MAX
Secretary of Transportation	$65,490	$261,961	$121,400	85.4%	115.8%
Assistant Secretary for Transportation Policy	$54,575	$218,300	$120,492	120.8%	81.2%
Assistant Secretary for Transportation Support	$54,575	$218,300	$119,400	118.8%	82.8%
Assistant Secretary of Intermodal Systems Develop.	$54,575	$218,300	$108,613	99.0%	101.0%
State Highway Engineer	$45,479	$181,917	$108,613	138.8%	67.5%
Public Transportation and Modal Administrator	$45,479	$181,917	$107,060	135.4%	69.9%
Director of Motor Carrier Compliance	$45,479	$181,917	$103,900	128.5%	75.1%
Director, Office of Design	$45,479	$181,917	$103,508	127.6%	75.8%
Director, Office of Right of Way	$45,479	$181,917	$103,508	127.6%	75.8%
Highway Operations Director	$45,479	$181,917	$103,508	127.6%	75.8%
Director, State Maintenance Office	$45,479	$181,917	$103,508	127.6%	75.8%
Director, State Materials Office	$45,479	$181,917	$103,508	127.6%	75.8%
Director, State Construction Office	$45,479	$181,917	$103,508	127.6%	75.8%
Comptroller	$45,479	$181,917	$101,465	123.1%	79.3%
Director, Office of Administration	$45,479	$181,917	$101,465	123.1%	79.3%
Director, Office of Work Program	$45,479	$181,917	$101,465	123.1%	79.3%
Director, Office of Financial Development	$45,479	$181,917	$100,240	120.4%	81.5%
Director, Office of Policy Planning	$45,479	$181,917	$99,436	118.6%	82.9%
Manager, Systems Planning Office	$31,774	$127,095	$99,436	212.9%	27.8%
Manager, Transportation Statistics Office	$31,774	$127,095	$99,436	212.9%	27.8%
Manager, Environmental Management Office	$31,774	$127,095	$99,436	212.9%	27.8%
State Roadway Design Engineer	$31,774	$127,095	$96,360	203.3%	31.9%
State Structures Design Engineer	$31,774	$127,095	$96,360	203.3%	31.9%
State Surveyor	$31,774	$127,095	$95,747	201.3%	32.7%
State Traffic Operations Engineer	$31,774	$127,095	$95,747	201.3%	32.7%
Manager, Project Management & Research	$31,774	$127,095	$95,747	201.3%	32.7%
Manager, Rail Office	$31,774	$127,095	$93,432	194.1%	36.0%
Manager, Seaport Office	$31,774	$127,095	$93,432	194.1%	36.0%
Manager, Transit Office	$31,774	$127,095	$93,432	194.1%	36.0%
Manager, Aviation Office	$31,774	$127,095	$93,432	194.1%	36.0%
State Estimates Engineer	$31,774	$127,095	$91,255	187.2%	39.3%
State Safety Engineer	$31,774	$127,095	$91,255	187.2%	39.3%
Manager, Engineering CADD Systems Office	$31,774	$127,095	$91,255	187.2%	39.3%
State Specifications Engineer	$25,419	$101,677	$91,255	259.0%	11.4%
Average	$40,234	$160,935	$100,930	150.9%	59.5%

EXHIBIT 3-2
CURRENT SALARY AVERAGES FOR DISTRICT OFFICE POSITIONS

DISTRICT OFFICE POSITINS	ANNUAL MIN	ANNUAL MAX	CURRENT SALARY	PERCENT ABOVE MIN	PERCENT BELOW MAX
District Secretary*	$54,575	$218,300	$118,548	117.2%	84.1%
District Director of Development	$45,479	$181,917	$101,806	123.9%	78.7%
District Director of Operations	$45,479	$181,917	$103,062	126.6%	76.5%
District Director of Planning and Programs	$45,479	$181,917	$97,402	114.2%	86.8%
District Director of Support	$45,479	$181,917	$89,962	97.8%	102.2%
District Construction Engineer	$31,774	$127,095	$96,015	202.2%	32.4%
District Consultant Management Engineer	$31,774	$127,095	$88,379	178.1%	43.8%
District Design Engineer	$31,774	$127,095	$94,462	197.3%	34.5%
District Land Surveyor	$31,774	$127,095	$86,036	170.8%	47.7%
District Maintenance Engineer	$31,774	$127,095	$93,766	195.1%	35.5%
District Materials Engineer	$31,774	$127,095	$90,364	184.4%	40.6%
District Planning Manager	$31,774	$127,095	$85,551	169.2%	48.6%
District Public Transportation Manager	$31,774	$127,095	$85,946	170.5%	47.9%
District Right of Way Administrator	$31,774	$127,095	$90,120	183.6%	41.0%
District Traffic Operations Engineer	$31,774	$127,095	$92,945	192.5%	36.7%
Average	$36,949	$147,795	$94,291	155.2%	56.7%

*Includes Executive Director of Turnpike Enterprise

3.2 Private Sector Survey Results

Central Office

The collection of accurate private sector salary information is a difficult task since providing this data can put private sector firms at a competitive risk within the market place. For this reason, MGT utilized secondary data recommended by the FTC to make comparisons. The data provided for this comparison comes from several sources. These sources include the *2002 Executive Engineering Compensation Survey*[1], the *2003 National Society of Professional Engineers (NSPE) Income and Salary Survey Report*[2] and the *2002 Engineers' Salaries: Special Industry Report*[3].

[1] *2002 Executive Engineering Compensation Survey*, 2002, D. Dietrich Associates Inc.
[2] *NSPE Income and Salary Survey Report 2003*, 2003, Watson Wyatt Data Services
[3] *Engineer' Salaries 2002: Special Industry Report,* 2002, American Association of Engineering Societies Inc.

MGT compared the FDOT positions with the comparable positions included in the publications listed above. Exhibit 3-3 shows the compensation salary comparisons for the positions at the FDOT Central Office and their corresponding positions in the *2002 Executive Engineering Compensation Survey*. The tables refer to two measures of central tendency known as the mean and the median. The mean is the mathematical average, calculated by taking the sum of all observations and divided by the number of observations. The median is the mid-point value at which half of all observations are above and half below the indicated value.

Typically, base pay is only one component of total cash compensation in the private sector. There are bonuses and other cash incentives offered in the private sector that are non-existent in most public agencies. When the total cash compensation picture in the private sector is examined, the picture becomes very clear why private sector engineering firms are able to lure experienced FDOT executive level managers away from the Department. As seen in the exhibit, FDOT Central Office employees earn, on average, only 60 percent of what their peers earn in the private sector (mean). When compared to the salary median, these employees fair marginally better, earning 68 percent of the median compensation. The data also reveal:

- When examining total compensation data, none of the Central Office executive level managers earn more than the private sector salary mean or median.
- When compared to the mean, Central Office executive level managers earn from 30 to 85 percent of total compensation earned by their peers in the private sector.
- When compared to the mean, eight of 34 positions (23.5 percent) earn less than 50 percent of the total compensation earned by their counterparts in the private sector.

EXHIBIT 3-3
FDOT CENTRAL OFFICE POSITIONS
COMPENSATION COMPARISON TO PRIVATE SECTOR PEERS

FDOT		PRIVATE SECTOR			DEPARTURE	
FDOT CENTRAL OFFICE POSITION	INCUMBENT SALARY	CORRESPONDING PRIVATE SECTOR TITLE	TOTAL COMPEN-SATION MEAN	TOTAL COMPEN-SATION MEDIAN	FDOT SALARY AS % OF PRIVATE SECTOR MEAN	FDOT SALARY AS % OF PRIVATE SECTOR MEDIAN
Secretary of Transportation	$121,400	President*	$255,676	$193,500	47.5%	62.7%
Assistant Secretary for Transportation Policy	$120,492	Executive Vice President	$358,678	$241,700	33.6%	49.9%
Assistant Secretary for Transportation Support	$119,400	Executive Vice President	$358,678	$241,700	33.3%	49.4%
Asst Secretary for Intermodal Systems Development	$108,613	Executive Vice President	$358,678	$241,700	30.3%	44.9%
State Highway Engineer	$108,613	Senior Vice President	$253,309	$239,478	42.9%	45.4%
Public Transportation and Modal Administrator	$107,060	Senior Vice President	$253,309	$239,478	42.3%	44.7%
Director of Motor Carrier Compliance	$103,900	Senior Vice President	$253,309	$239,478	41.0%	43.4%
Director, Office of Design	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Director, Office of Right of Way	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Highway Operations Director	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Director, State Maintenance Office	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Director, State Materials Office	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Director, State Construction Office	$103,508	Vice President of an Operating Unit	$156,875	$145,000	66.0%	71.4%
Comptroller	$101,465	Financial Executive	$225,726	$159,500	45.0%	63.6%
Director, Office of Administration	$101,465	Vice President of an Operating Unit	$156,875	$145,000	64.7%	70.0%
Director, Office of Work Program	$101,465	Vice President of an Operating Unit	$156,875	$145,000	64.7%	70.0%
Director, Office of Financial Development	$100,240	Vice President of an Operating Unit	$156,875	$145,000	63.9%	69.1%
Director, Office of Policy Planning	$99,436	Vice President of an Operating Unit	$156,875	$145,000	63.4%	68.6%

FDOT		PRIVATE SECTOR			DEPARTURE	
FDOT CENTRAL OFFICE POSITION	INCUMBENT SALARY	CORRESPONDING PRIVATE SECTOR TITLE	TOTAL COMPEN-SATION MEAN	TOTAL COMPEN-SATION MEDIAN	FDOT SALARY AS % OF PRIVATE SECTOR MEAN	FDOT SALARY AS % OF PRIVATE SECTOR MEDIAN
Manager, Systems Planning Office	$99,436	Manager/Director of Operating Units	$117,600	$111,000	84.6%	89.6%
Manager, Transportation Statistics Office	$99,436	Manager/Director of Operating Units	$117,600	$111,000	84.6%	89.6%
Manager, Environmental Management Office	$99,436	Manager/Director of Operating Units	$117,600	$111,000	84.6%	89.6%
State Roadway Design Engineer	$96,360	Manager/Director of Operating Units	$117,600	$111,000	81.9%	86.8%
State Structures Design Engineer	$96,360	Manager/Director of Operating Units	$117,600	$111,000	81.9%	86.8%
State Surveyor	$95,747	Manager/Director of Operating Units	$117,600	$111,000	81.4%	86.3%
State Traffic Operations Engineer	$95,747	Manager/Director of Operating Units	$117,600	$111,000	81.4%	86.3%
Manager, Project Management & Research	$95,747	Manager/Director of Operating Units	$117,600	$111,000	81.4%	86.3%
Manager, Rail Office	$93,432	Manager/Director of Operating Units	$117,600	$111,000	79.4%	84.2%
Manager, Seaport Office	$93,432	Manager/Director of Operating Units	$117,600	$111,000	79.4%	84.2%
Manager, Transit Office	$93,432	Manager/Director of Operating Units	$117,600	$111,000	79.4%	84.2%
Manager, Aviation Office	$93,432	Manager/Director of Operating Units	$117,600	$111,000	79.4%	84.2%
State Estimates Engineer	$91,255	Manager/Director of Operating Units	$117,600	$111,000	77.6%	82.2%
State Safety Engineer	$91,255	Manager/Director of Operating Units	$117,600	$111,000	77.6%	82.2%
Manager, Engineering CADD Systems Office	$91,255	Manager/Director of Operating Units	$117,600	$111,000	77.6%	82.2%
State Specifications Engineer	$91,255	Manager/Director of Operating Units	$117,600	$111,000	77.6%	82.2%
Average	$100,930		$169,639	$147,722	59.5%	68.3%

*Note: The mean and median compensation levels for the President in the private sector is less than the mean and median compensation levels for the Executive Vice President and Senior Vice President due to there being more data available for the President level position. That is, almost every engineering firm participating in the surveys has a President, regardless of the size of the firm. Only the largest engineering firms also have an Executive Vice President and/or a Senior Vice President. It stands to reason that these two positions in large engineering firms would be compensated at a higher level than that of a President of a small engineering firm.

The figures shown in Exhibit 3-3 illustrate why FDOT is losing employees to the private sector with increasing frequency. Employees make career choices based on a number of factors, including base pay, benefits, job satisfaction, location, etc. They also take into consideration the salary additives that are increasingly common in the private sector. In the private sector, base pay becomes a smaller part of total compensation the higher one works up the corporate ladder. To lure FDOT employees to the private sector, companies are offering higher base pay amounts, but they are supplementing these salaries with potentially lucrative variable pay that is often tied to performance. In conjunction with signing bonuses (frequently used but not included in the comparison in Exhibit 3-3), the offer is often simply too good for FDOT employees to pass up. This is particularly true for employees that will earn substantially more pay in the private sector while shouldering less responsibility.

District Offices

Exhibit 3-4 shows the base salary comparisons for District Office executive level positions vis-à-vis their counterparts in the private sector. When the total compensation picture is examined, compensation levels for district level employees are well below their private sector peers. On average, district level executives earn 69 percent of private sector compensation when compared to the means and 73 percent when compared to the medians.

EXHIBIT 3-4
FDOT DISTRICT OFFICE POSITIONS
COMPENSATION COMPARISON TO PRIVATE SECTOR PEERS

FDOT		PRIVATE SECTOR			DEPARTURE	
FDOT DISTRICT POSITIONS	AVERAGE CURRENT SALARY	CORRESPONDING PRIVATE SECTOR TITLE	TOTAL COMPEN-SATION MEAN	TOTAL COMPEN-SATION MEDIAN	DOT SALARY AS % OF PRIVATE SECTOR MEAN	DOT SALARY AS % OF PRIVATE SECTOR MEDIAN
District Secretary	$118,548	Senior Vice President	$253,309	$239,478	46.8%	49.5%
District Director of Development (Production)	$101,806	Vice President of an Operating Unit	$156,875	$145,000	64.9%	70.2%
District Director of Operations	$103,062	Vice President of an Operating Unit	$156,875	$145,000	65.7%	71.1%
District Director of Planning and Programs	$97,402	Vice President of an Operating Unit	$156,875	$145,000	62.1%	67.2%
District Director of Support (Administration)	$89,962	Vice President of an Operating Unit	$156,875	$145,000	57.3%	62.0%
District Construction Engineer	$96,015	Manager of an Operating Unit	$117,600	$111,000	81.6%	86.5%
District Consultant Management Engineer	$88,378	Manager of an Operating Unit	$117,600	$111,000	75.2%	79.6%
District Design Engineer	$94,462	Manager of an Operating Unit	$117,600	$111,000	80.3%	85.1%
District Land Surveyor	$86,036	Manager of an Operating Unit	$117,600	$111,000	73.2%	77.5%
District Maintenance Engineer	$93,766	Manager of an Operating Unit	$117,600	$111,000	79.7%	84.5%
District Materials Engineer	$90,766	Manager of an Operating Unit	$117,600	$111,000	76.8%	81.4%
District Planning Manager	$85,551	Manager of an Operating Unit	$117,600	$111,000	72.7%	77.1%
District Public Transportation Manager	$85,946	Manager of an Operating Unit	$117,600	$111,000	73.1%	77.4%
District Right of Way Administrator	$90,120	Manager of an Operating Unit	$117,600	$111,000	76.6%	81.2%
District Traffic Operations Engineer	$92,945	Manager of an Operating Unit	$117,600	$111,000	79.0%	83.7%
Average	$94,291		$137,121	$128,632	68.8%	73.3%

District Secretaries are furthest from their private sector peer salary levels, while District Construction Engineers are the closest.

The figures in Exhibit 3-4 reflect a similar trend to the one seen for Central Office FDOT personnel. When examining the total compensation earned by their peers in the private sector, district executive level managers are compensated well below private sector levels.

3.3 Public Sector Analysis

The FTC contracted with MGT for the purpose of determining the extent, if any, of compensation disparity existing between executive level management personnel working for the FDOT and comparable jobs in the private sector. Primarily, MGT's role was to determine the existing private sector market rate for those FDOT managers with advanced work experience, knowledge and responsibility. MGT found that when compared to its private sector peer group, FDOT executive level mangers are grossly under compensated. In some cases they make as little as 30 percent of the compensation earned by their peers in comparable jobs in the private sector. It is well understood that when people choose a profession in the public sector they will not be compensated at the same rate they could earn in the private sector. Many people are willing to forgo the monetary rewards of the private sector in order to serve the public good. However, data shows that, in many cases, FDOT executive level managers earn less than their counterparts in the public sector as well; especially in the case of the Secretary of the Department of Transportation.

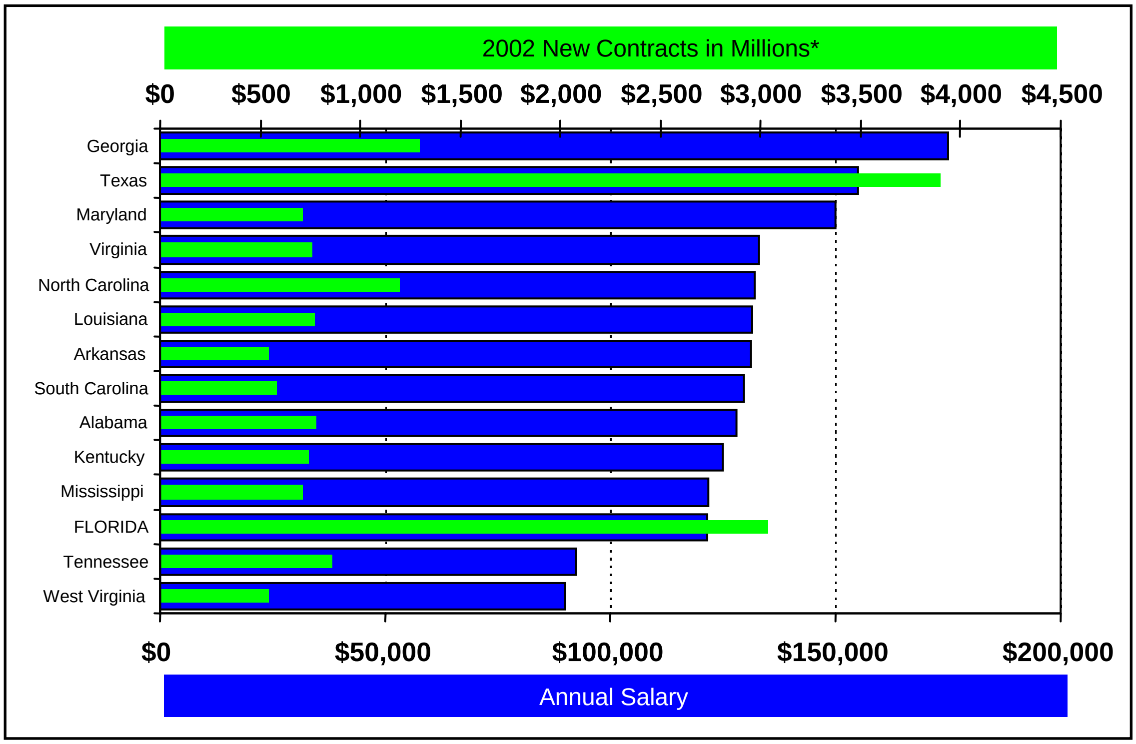
Commission staff obtained compensation data from a number of public sector organizations, including other state departments of transportation, operators of transportation facilities throughout Florida and across the United States, and county governments in Florida. Our objective was to mirror the comparison MGT made between FDOT managers and their peer group in the private sector. However, with the exception of the position of the chief executive officer, i.e., the department secretary, it was difficult to make a one to one comparison of FDOT executive management positions with similar positions in other public agencies. We found that no two state departments of transportation are organized alike; nor are other agencies that operate transportation facilities organized similar to the FDOT. It is difficult to match levels of responsibility between them. In cases where a one to one comparison was difficult, we made certain assumptions in regards to level of responsibility based on the placement of the position in the organization. As discussed, the position within FDOT with the greatest number of matches was the Secretary of Transportation. Therefore, the basis of the public sector analysis is focused on the Secretary.

The Secretary of the Florida Department of Transportation is responsible for managing an agency comprised of approximately 7,500 employees with a budget of approximately $6.3 billion. The FDOT is recognized nationally as an innovative leader in addressing the transportation needs of the citizens and businesses of Florida. If FDOT were a private business, it would be the largest engineering firm in the Southeast and, certainly, one of the largest in the country.

The Secretary earns $121,400 annually. By comparison, the president of a large engineering firm in the private sector earns an average of $255,676. Again, it is not expected that the Secretary, as a public employee, should earn the same as his counterparts in the private sector. However, given the level of responsibility and the impact the Department has on the economic well-being of Florida, the Secretary of the Department should earn as much or more than his public sector peers.

Compensation data was collected from 45 state departments of transportation (DOTs) across the country with supplemental data obtained from every state DOT in the south. In comparison to his counterparts in the other state DOTs, Florida's Secretary of Transportation ranks 21st in compensation. When examining just the southern states, which historically have some of the lowest salaries in the country, the Secretary's salary ranks 12th in comparison to his counterparts in the 14 southern state DOTs, most of which manage a program less than half the size of Florida (see Exhibit 3.5).

Exhibit 3-5
Southern DOT Budgets and CEO Salaries

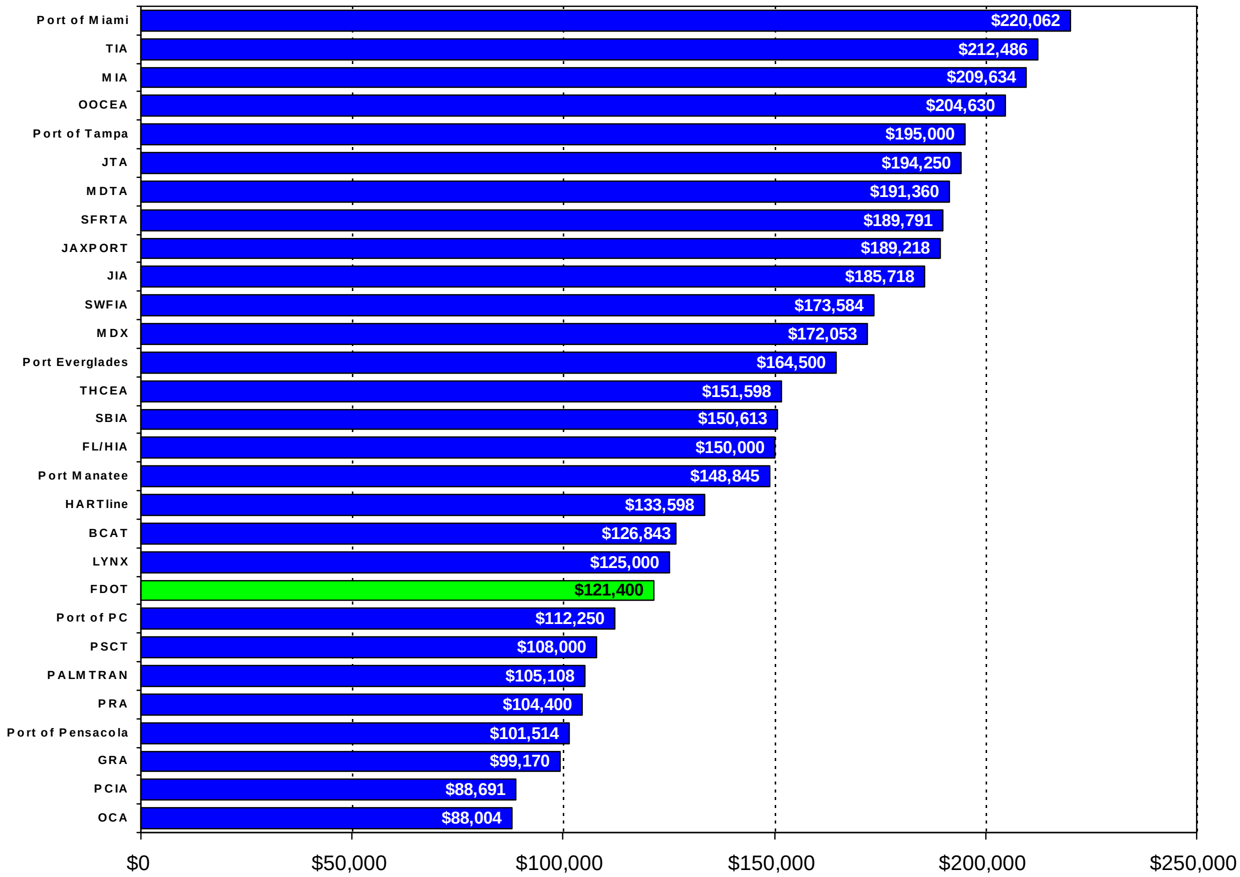


*2002 new contracts awarded for highways, bridges, airports, rail, and seaports as reported by the American Road and Transportation Builders Association.

Besides earning a salary which ranks below average compared to his peers in other states, the Secretary of FDOT also ranks near the bottom when compared to the directors of agencies who operate other transportation facilities in the state of Florida. Compensation data was obtained from 28 agencies throughout Florida that operate seaport, airport, public transit and toll facilities. We examined the compensation earned by the executive directors of these agencies and found that the Secretary of Transportation ranks 21st by comparison (see Exhibit 3.6). We also received compensation data from 21 counties in Florida and found that the Secretary ranks 19th when compared to the salary levels of the 21 county managers and even discovered that five county public works directors out of 11 from which we received compensation data earn a salary greater than the Secretary of FDOT.

Exhibit 3-6

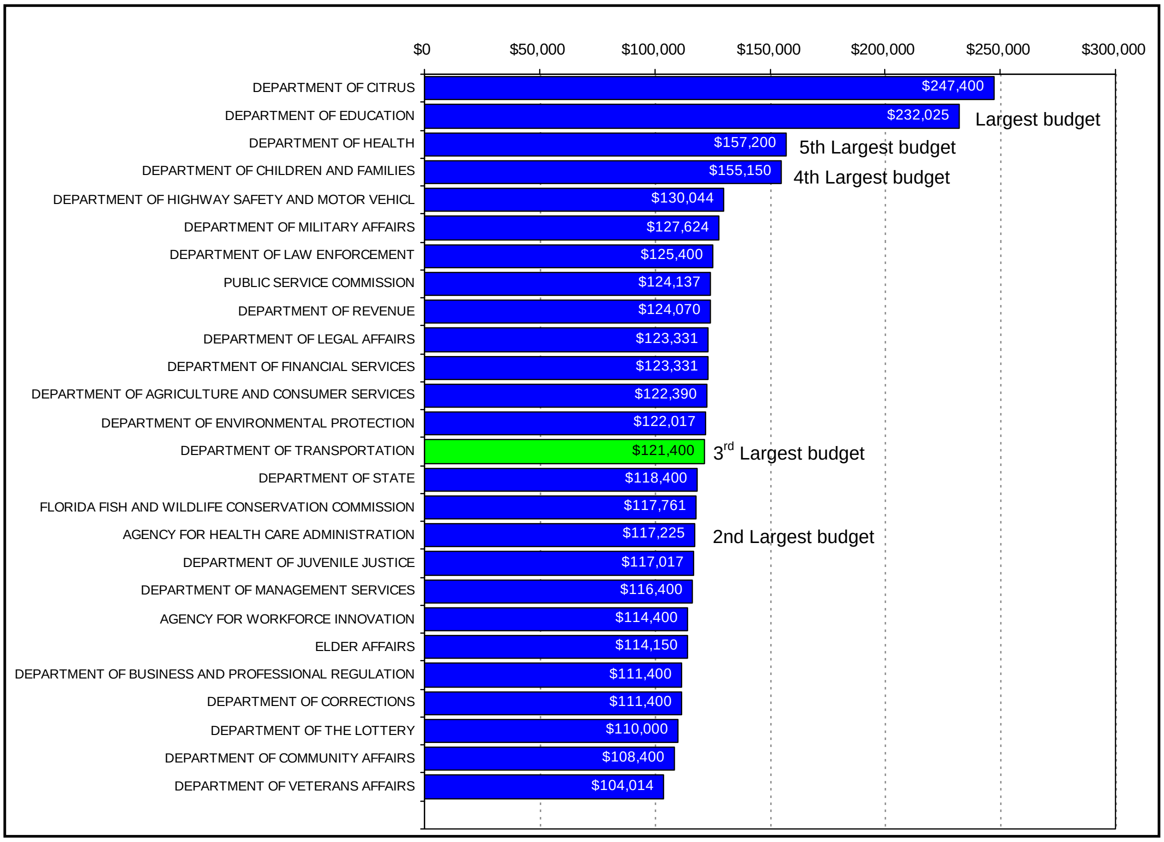
Chief Executive Officer Salaries for Florida's Transportation Facilities



Finally, we compared the salary earned by the Secretary of Transportation to that earned by the secretaries/executive directors of other state agencies in Florida. We found that out of 26 agencies reviewed, 13 of the agency heads are compensated at a higher rate than the Secretary of Transportation even though the FDOT has the third largest budget behind the Department of Education and the Agency for Health Care Administration. (See Exhibit 3.7.) The Secretary of Transportation also manages a larger number of personnel than any other agency with the exception of the Departments of Corrections and Children and Families.

Exhibit 3.7

State of Florida Agency Head Salaries



Quite simply, the Secretary of Transportation is grossly under compensated. The level of responsibility for this position would indicate that the incumbent should earn a much higher base salary. An increase in salary is warranted based on both the level of job responsibility and external market conditions and will set the right precedent for the future of the Florida Department of Transportation.

The results aren't much different when comparing other executive level positions within FDOT to their public sector peers. Even though we did discover that managers, other than the Secretary of Transportation, within FDOT compare favorable with their peers in other state departments of transportation, they do not compare favorably to their peers in Florida. With few exceptions, FDOT managers are compensated less than their peers who operate airport, seaport, transit, and toll facilities in Florida.

3.4 Anecdotal Evidence

To fully understand the implications of the salary data provided in the previous sections, it is useful to examine where former FDOT employees are going when they leave the department and what type of compensation they are receiving when they do. Based on turnover analysis, the following table shows the number of upper management, district personnel that have left FDOT for higher paying jobs in the private and public sectors. The vast majority has left for jobs in the private sector, predominantly with private sector consulting firms.

DISTRICT SEPARATIONS FOR HIGHER COMPENSATION

DISTRICT	NUMBER OF SEPARATIONS FOR HIGHER COMPENSATION
One	7
Two	3
Three	3
Four	7
Five	6
Six	5
Seven	7
Turnpike Enterprise	9
Total	45

The significance of the previous table is that the Districts have lost 45 high–ranking managers within the past five years based solely on compensation concerns. The separations listed above do not include other managers that have recently left the Department for other reasons such as retirement or promotion.

The remainder of this section highlights some of the anecdotal evidence obtained during the process of the compensation review. While these examples may not be fully reflective of everyone's experience when they leave FDOT, they do illustrate a trend that is taking place within the labor market.

- **District Five** – A highly placed manager was earning $85,000 with the Department. He left for the private sector where he received a raise to $120,000 in base pay. At roughly the same time, another highly placed manager, who was earning $82,000 with the Department, left for a private sector job paying $110,000. Finally, another key manager, earning $80,000 per year, left for another public agency, where she earned $105,000.

- **District Six** - Recently, two highly placed employees in District Six left FDOT for other public sector employment in Miami. One employee was making $74,000 and took a job with the Miami-Dade County Government for over $100,000. At roughly the same time, another employee, who was earning approximately $65,000 per year, left for the Miami-Dade Expressway Authority. This employee received a salary increase to $112,000. District Six also lost three high-ranking managers to the private sector. The first was earning $81,000 with FDOT and left for a job paying $150,000. The second was earning $84,825 with the Department and took a job that paid $225,000 in compensation, a company car, cell phone and an expense account. Another employee, in the Deferred Retirement Option Program (DROP) program, left the program early and received a raise from $90,000 to $104,000. While this increase was not as large as some of the others, this employee will still get to draw FDOT retirement at the same time.
- **Turnpike Enterprise -** One Director was earning approximately $100,000 from FDOT. This employee left FDOT to take a job with a private sector consulting firm for approximately $160,000 per year.

Compensation driven turnover is not confined to the District offices. It is also occurring at the Central Office. Within the past five years, six high ranking managers have left for private sector consulting firms, seven have joined the DROP program, two left at the end of the DROP program and two have retired after 30 years of service. While some turnover in senior management is inevitable in any agency, the turnover at the upper reaches of FDOT, in combination with the accelerated turnover at the Districts, is presenting the Department with a potentially serious leadership vacuum that could threaten the viability of the Department's mission. Some of the turnover that has already occurred includes:

- A Director recently left FDOT to become an office manager in a private consulting firm. This employee was earning approximately $100,000 per year supervising over 200 employees. The job in the private sector paid a base salary of $125,000. In addition, the employee received a significant signing bonus, car, annual bonuses, country club membership and profit sharing.
- Another high ranking official was earning $93,000 from FDOT. He left for a compensation package valued at $150,000 per year.

- The last two FDOT Secretaries left the Department before reaching 30 years. Regardless of why they left the Department, both left for much higher paying jobs in executive management with private sector consulting firms.

The situation at the Central Office has worsened within the last two to three years. Several executive level managers, who might have otherwise stayed with FDOT, entered the DROP because they were not going to benefit as much from the normal 2-3% cost of living increases at FDOT as they would from higher compensation elsewhere. Additionally, other managers that have entered the DROP program have not stayed the full five years because of substantially better offers from private sector consulting firms.

The salary situation ripples below the level of senior management. It is becoming more commonplace for mid-level managers, four or five ranks below the Secretary, to leave for compensation packages greater than that earned by the Secretary. In the past, managers with 15-25 years of experience would have been groomed for senior management positions. Today, many of these managers are leaving for the private sector. The result is a potentially serious leadership vacuum. The loss of institutional memory, and disruptions in the existing career ladder, has led to more instability.

While in the past it was unusual to lose managers with more than 10 years experience, today it is not uncommon to lose managers with 15-25 years of experience. Having an employee fully vested in the Department's retirement plan is no longer a guarantee that the employee will remain with the Department. These employees realize they can earn more in the private sector, and they regularly interact with the engineering firms that can compensate them at much higher levels. Eventually, the Department will need to either respond to the current situation, or face the prospect of having less qualified personnel in senior management positions.

3.5 Conclusion

The Florida Department of Transportation is unique among public agencies. Most governmental agencies provide a service to the public. Not only does the FDOT provide a service, but it also produces a tangible product in the form of roads, bridges, seaports, airports, and public transit systems. The work unique to producing these products requires a highly skilled workforce. The FDOT is primarily composed of professionals in the form or engineers, architects, planners, surveyors, etc. These are professionals with highly marketable skills; skills that are sought after not only in the private sector, but in the public sector as well.

The private and public sector salary data indicates serious discrepancies between FDOT and its peers. The comparison between private sector compensation data and the selected FDOT positions revealed the differences in compensation are very dramatic. The analysis shows an average differential of 40 percent from the mean and 32 percent from the median for Central Office executive level managers and an average of 31 percent below the mean and 27 percent below the median for District Office executive level managers.

The results of our analysis are mixed somewhat when comparing FDOT Executive level management positions with their public sector peers. With the exception of the Secretary of Transportation, FDOT executive level management positions compare favorably to their peers in other state departments of transportation. However, when compared to their peers in other transportation agencies within Florida, FDOT management positions are compensated at a much lower rate.

As the anecdotal summaries allude to directly, the differentials are having an impact on the retention of senior managers. If this trend is not reversed, it is feasible that the Florida Department of Transportation will suffer considerably in the future from a lack of managerial talent and institutional knowledge as leaders in the Department move on to better and more lucrative opportunities.

4.0 PAY-FOR-PERFORMANCE

4.1 Introduction and Market Trends

The number of organizations using pay-for-performance compensation structures has been noticeably increasing over the past decade. More and more organizations are embracing the pay-for-performance concept as a method of increasing productivity, enhancing employee morale, and building support for the realization of a continuous improvement-centered method of management. Approximately 83 percent of private organizations possess some form of pay for performance. Moreover, the use of variable pay programs grew by 10 percent between 2000 and 2001.

Pay-for-performance compensation systems tie compensation directly to an organization's specific mission, goals, and management objectives. Through variable pay awards, organizations require that employees' performance show merit each evaluation period in order to receive additional pay. The levels of compensation vary based on some measure of performance that is tied to the individual, unit, or organization. Effective pay-for-performance systems enable an organization to objectively and systematically rate employee performance, while providing the tools necessary to take that performance level and equate it to compensation actions. In essence, these systems are designed to:

- attract quality employees with an effective performance management system;
- recognize the efforts and contributions of current staff;
- reward staff with compensation directly linked to performance;
- motivate desired performance throughout the organization;
- orient staff towards goal achievement;
- align shareholder, management, and employee interests;
- retain key employees through the use of competitive compensation programs; and
- control recurring compensation costs.

In order to ensure that performance is enhanced, organizations match measurable and controllable performance goals and evaluation mechanisms with the organization's objectives. Different pay-for-performance system approaches may be appropriate according to the employee level within the organization, from executives to clerical labor. Nevertheless, it is critical that the implementation of pay-for-performance be part of an overall performance management system. Key elements of a performance management system include the following:

- a formal compensation philosophy statement;
- salary administration program;
- job evaluation system;
- performance appraisal system; and
- rewards programs.

Compensation systems with a pay-for-performance component generally consist of two components: performance measurement and compensation methods. Each component should be defined to meet needs dependent on the organizational culture, strategic plan, and industry characteristics. For the performance measurement component to be effective, a system must be developed that ties an organization's short and long-term strategic objectives to its performance measures. These measures can be classified into distinct categories that focus employees on the most important activities, including financial and non-financial indicators such as product quality. Performance measures should also be focused on individual and group performance.

In pay-for-performance systems, the overall compensation method is composed of a fixed base salary and a variable pay component. The most commonly used variable pay methods are:

- Stock options-the quantity and strike price are typically based on a percentage of value added as determined by the performance measurement system;
- Bonuses-one-time cash awards for extraordinary accomplishments or other profit-related distributions; and

- Gain sharing-distribution of a portion of profits to employees based on performance versus plan.

As with any compensation system, some shortcomings exist in a pay-for-performance approach that must be taken into account when designing the structure. A few drawbacks of such systems include:

- requires considerable effort to install and monitor;
- are based on a foundation of trust and credibility between management and employees;
- requires an accurate and well-accepted performance evaluation system; and
- eliminates length of service as a significant pay determinant, which may negatively impact the concept of loyalty.

A variety of pay-for-performance methods may be used in attempting to eliminate some of these problems or concerns, particularly when productivity and profitability are suffering and qualified and valuable employees are being recruited by competitors in the market area. Although no perfect pay-for-performance system has been devised to date, a combination of the following may provide a suitable solution for some related issues that surface:

- develop a market driven compensation structure;
- provide salary increases to qualified employees directly tied to performance;
- reward high achievers with a greater increase than average performers;
- provide top performers with an additional lump sum increase;
- award incentives to qualified employees based on departmental performance;
- provide incentives tied to results that exceed stated goals;
- define incentive awards based on job level and individual performance;
- maximize award levels;
- determine awards by combination of department and individual performance;
- individual job performance must be satisfactory in order to be eligible;
- job levels established based on competency statements;

- adopt a formal compensation philosophy as a baseline for salary administration;
- design a salary structure to cover management positions;
- develop an annual incentive plan tied to organizational performance;
- prepare job summaries based on market analysis;
- develop salary ranges for all employee groups;
- develop salary administration policy to ensure consistency;
- develop bonus program to enhance overall compensation package;
- increase management salaries to reflect market analysis;
- develop two separate incentive plans covering management and remaining staff; and
- develop communication tools to improve overall morale.

4.2 Review and Evaluation of Selected Pay-for-Performance Plans in Use

This section reviews the status of pay-for-performance plans in several jurisdictions: the federal government, the State of Texas, the State of California, the State of Georgia, and the State of Florida. Some of these systems have encountered problems in implementation and have achieved various levels of effectiveness. Nevertheless, the cross-section provides a strong indication of the characteristics and details of some of the major public pay-for-performance plans and programs.

Federal Government

The Government Performance and Results Act (GPRA) of 1993 began efforts to institutionalize performance management throughout the federal government by requiring U.S. government agencies to develop strategic plans and measure progress in meeting mission goals through the measurement and monitoring of performance goals. This requirement was intended not only to measure overall agency performance and effectiveness but also to encourage agencies to reward the performance of executive staff in improving agency performance. To give agencies the capability to reward executive staff performance, the GPRA gave federal agencies the flexibility to waive limitations on compensation or award raises in return for achieving performance goals.

However, most agencies have not linked senior executive performance ratings to results their agencies achieve under plans developed under GPRA requirements. Many agencies have not developed this important link to encourage agencies to improve their performance under GPRA, according to the Office of Personnel Management. Also, the Assistant Director for Performance and Compensation Systems Design at OPM has said "agencies often fail to distinguish executives who are merely meeting performance goals from those who are exceeding goals." A letter from the OPM Director also said that "nearly 84 percent of federal executives received the highest performance ratings in FY 2001." Additionally, no comprehensive guidelines exist to instruct the agencies on how to allocate executive awards and improve the performance of their agencies. This decision is left to each agency.

State of Texas

The Texas Legislature authorizes Enhanced Compensation Awards through the General Appropriations Act, a biennial budget bill passed by the legislature. Under the Appropriations Act, "an agency that has successfully met or exceeded established performance measures may enhance compensation for employees who directly contributed to such improvements. Only classified employees are eligible for enhanced compensation, and this award shall not exceed 6.8 percent of an employee's annual base pay."

The performance targets set in the Appropriations Act are based on agency performance history. Agencies are required to set performance goals, objectives and strategies for state budgeting under performance budgeting and planning requirements passed in 1991 and 1993.

It must be noted that Texas State government has no civil service system, has no collective bargaining requirements, does not have a centralized human resources office, and does not offer seniority-based or cost-of-living pay raises. These characteristics allow state agencies to put systems and requirements in place that may not be possible in other states.

State of California

The State of California allows department directors to award cash bonuses to supervisors for “outstanding job performance.” The system gives a great deal of discretion to department directors to determine what constitutes outstanding job performance and who will receive the bonuses. Up to 6 percent of a department’s supervisors may receive a bonus in any given year. Bonuses range from $250 to $750, depending on the total number of bonuses awarded in an agency.

As in other states with significant union presence and a civil service system, pay for performance concepts are not viewed favorably because they differentiate pay for some employees.

State of Georgia

The State of Georgia began implementing a new performance management and compensation plan, known as Performance PLUS, at the beginning of FY 2002. This new plan was a change from a previous performance management and compensation plan known as GeorgiaGain. The previous effort of performance pay was put in place in conjunction with a massive reform of the state’s personnel management system that included a phase-out of its civil service system. The changes to the system allowed agencies more flexibility in managing personnel. However, employees were not happy with the GeorgiaGain program, perceiving it to be unfairly administered and ineffective in providing the necessary motivation to employees to improve performance.

The Performance PLUS system provides a lump-sum bonus to employees who “Exceed Expectations” in their performance evaluations. The lump sum is an amount equaling 2 percent of the employee’s salary. The lump-sum bonus is in addition to the 2.25 percent increase for all employees who receive at least a “Meets Expectations” rating in their performance evaluation.

State of Florida

Title X, Chapter 110 of the 2002 Florida Statutes establishes the payment of bonuses to State of Florida employees. The amount of employee bonuses is dependent on the amount of money the legislature appropriates. Bonuses can be given to no more than 35 percent of each agency's total authorized positions. That requirement may be waived by the Governor's office "upon a showing of exceptional circumstances." (See Exhibit 4-2) The statute establishes a set of criteria that employees must meet to be eligible.

Exhibit 4-1 summarizes the characteristics of each pay-for-performance plan. As this exhibit summarizes, some plans are more fully developed than others are.

EXHIBIT 4-1
CHARACTERISTICS OF SELECTED PAY-FOR-PERFORMANCE PLANS

PLAN FEATURES	FEDERAL GOVERNMENT	STATE OF FLORIDA	STATE OF TEXAS	STATE OF CALIFORNIA	STATE OF GEORGIA
Who Is Eligible	Senior Executives	All Employees	All Classified Employees	Agency Supervisors	All Employees
Amount	Not determined	Dependent on legislative appropriation	Up to 6.8 % of employee's base pay	Range from $250 to $750 depending on number given	Lump sum equaling 2 percent of the employee's salary
Criteria	If used, would be linked to agency performance	Employees must demonstrate commitment to agency mission by reducing burden on clients served, improving service, producing results, working to improve service No more than 35% of agency staff may receive bonuses	Employees must directly contribute to success of agencies in exceeding performance measures	Must achieve "outstanding job performance" System gives discretion to department directors to determine what constitutes outstanding job performance Up to 6% of agency directors may receive bonuses	Employees must "Exceed Expectations" in their performance evaluations Bonus is in addition to 2.25 percent increase for all employees who receive at least a "Meets Expectations" rating in their performance evaluation

EXHIBIT 4-2
FLORIDA STATUTE: TITLE X, CHAPTER 110, SECTION 110.1245
BONUS PAYMENTS AND OTHER AWARDS

Bonus Payments:
In June of each year, bonuses shall be paid to employees from funds authorized by the Legislature in an appropriation specifically for bonuses. Each agency shall develop a plan for awarding lump-sum bonuses, which plan shall be submitted no later than September 15 of each year and approved by the Office of Policy and Budget in the Executive Office of the Governor. Such plan shall include, at a minimum, but is not limited to:

(a) A statement that bonuses are subject to specific appropriation by the Legislature.
(b) Eligibility criteria as follows:

1. The employee must have been employed prior to July 1 of that fiscal year and have been continuously employed through the date of distribution.

2. The employee must not have been on leave without pay consecutively for more than 6 months during the fiscal year.

3. The employee must have had no sustained disciplinary action during the period beginning July 1 through the date the bonus checks are distributed. Disciplinary actions include written reprimands, suspensions, dismissals, and involuntary or voluntary demotions that were associated with a disciplinary action.

4. The employee must have demonstrated a commitment to the agency mission by reducing the burden on those served, continually improving the way business is conducted, producing results in the form of increased outputs, and working to improve processes.

5. The employee must have demonstrated initiative in work and have exceeded normal job expectations.

6. The employee must have modeled the way for others by displaying agency values of fairness, cooperation, respect, commitment, honesty, excellence, and teamwork.

(c) A periodic evaluation process of the employee's performance.
(d) Peer input to account for at least 40 percent of the bonus award determination.
(e) A division of the agency by work unit for purposes of peer input and bonus distribution.
(f) A limitation on bonus distributions equal to 35 percent of the agency's total authorized positions. This requirement may be waived by the Office of Policy and Budget in the Executive Office of the Governor upon a showing of exceptional circumstances.

Other Awards:
Each department head is authorized to incur expenditures to award suitable framed certificates, pins, and other tokens of recognition to retiring state employees whose service with the state has been satisfactory, in appreciation and recognition of such service. Such awards may not cost in excess of $100 each plus applicable taxes.

Each department head is authorized to incur expenditures to award suitable framed certificates, pins, or other tokens of recognition to state employees who have achieved increments of 5 years of satisfactory service in the agency or to the state, in appreciation and recognition of such service. Such awards may not cost in excess of $100 each plus applicable taxes.

Each department head is authorized to incur expenditures not to exceed $100 each plus applicable taxes for suitable framed certificates, plaques, or other tokens of recognition to any appointed member of a state board or commission whose service to the state has been satisfactory, in appreciation and recognition of such service upon the expiration of such board or commission member's final term in such position.

Evaluation of the Pay-for-Performance Plans

To be the most effective, a pay-for-performance plan should have several key characteristics:

- it should be relatively easy to administer;
- its costs should be manageable for the agency implementing the plan and predictable from year to year;
- it should be designed to motivate eligible employees appropriately to improve their performance; and
- it should be easy to communicate to employees.

Exhibit 4-3 rates the plans based on these characteristics. The plans are rated high, medium or low; the more desirable a plan's characteristics, the higher the rating.

EXHIBIT 4-3
RATINGS OF KEY CHARACTERISTICS OF PAY-FOR-PERFORMANCE PLANS

PLAN CHARACTERISTICS	FEDERAL GOVERNMENT	STATE OF TEXAS	STATE OF CALIFORNIA	STATE OF GEORGIA	STATE OF FLORIDA
Ease of Administration	Low	High	Low	High	Medium
Manageability and Predictability of Costs	Low	High	High	High	Low
Effectiveness of Motivational Features	Low	High	Low	High	Medium
Ease of Communication	Low	High	Medium	High	High

- The federal government's plan is rated low on all characteristics because most agencies have not even begun to implement pay-for-performance plans, set amounts or percentages of pay as payment goals, provide clear motivational goals for employees, or communicate plans to employees.
- Texas' plan is rated high in all categories. It is easy for an agency to administer because its criteria are clear and predictable, its costs are predictable and manageable since it is limited to a set percentage of an employee's salary, it motivates employees to help an agency exceed its performance goals, and it is easy to communicate.
- California's plan is rated low in its ease of administration because the vagueness of it allows very broad and discretionary interpretation of 'outstanding job performance' of agency supervisors. It is rated high in the predictability and manageability of its costs, since there are dollar limits set from $250 to $750 per supervisor, with a limit of six percent of all supervisors receiving the bonus per year. The plan

is rated low in motivational effectiveness because of the wide latitude agency directors have in defining ‘outstanding performance. The plan is given a medium rating in ease of communication, again because of the vagueness of how ‘outstanding performance’ might be defined from agency to agency.

- Georgia’s plan is rated high in all categories. It is easy to administer because its criteria are clear and predictable, its costs are predictable and manageable since it is limited to a set percentage of an employee’s annual salary, it motivates an employee to provide quality work that exceeds expectation, and it is easy to communicate.
- The State of Florida’s plan is rated medium in ease of administration because, though it is fairly clear-cut in terms of what is expected of employees, the lack of predictability of actual amounts available for payment presents a problem to agencies trying to administer the plan. This also accounts for the low rating in manageability and predictability of program costs. Florida receives a medium rating in its effectiveness in motivating employees because of the unpredictability of the amount of bonus money available. Florida receives a high rating in the plan’s ease of communication since its criteria are quite straightforward.

4.3 Conclusion

When considering the issue of pay for performance, the private sector has typically been ahead of the public sector in pay for performance implementation. One reason for this is the ability to tie compensation to profit-related goals. Such goals are more difficult to define in the public sector, where profit is not the primary concern. However, within the transportation arena, the Turnpike Enterprise is an especially good place to implement a pay for performance plan. After the Lottery, The Turnpike Enterprise is the second largest revenue generator for the State of Florida. In many ways it runs like a private enterprise in that it has revenue targets, variable expenses and a certain degree of decision making autonomy that is greater than most Departments. Although a pay for performance plan should be implemented for the FDOT executive grades throughout, the potential for success is greater for the Turnpike Enterprise than anywhere else. FDOT should proceed with a pay for performance plan for the Turnpike Enterprise before moving on to the remainder of venues covered by FDOT.

The State of Florida does have certain performance measures in place, typically tied to Department or Division goals. In some cases, pay could be tied to the attainment of these performance goals, especially for those managers with functional responsibility over these units. However, since these measures were not specifically created for a pay for performance system, the Department would be better served by having the FTC establish pay for performance measures.

In developing a pay-for-performance system for its employees, the Florida Department of Transportation should establish plan features and characteristics that are similar to those used in Texas and Georgia. It should be noted, however, that unlike Florida, neither Texas nor Georgia have a civil service system in place. Any plan the agency develops will have to take into account civil service rules and regulations.

The agency should establish a plan that has pay amounts that are predictable and manageable. This will help in managing, and communicating the plan as well as motivating employees. When employees know the potential bonus they can receive and are clear about how they can achieve bonuses, they will be better motivated to perform at a higher level. Predictability in pay amounts should also help the agency in managing the plan since they will have predictable amounts to disburse.

Since such a plan would be different from pay-for-performance plans in place in other Florida State agencies, it would require special allowances from the executive branch and possibly from the legislative branch as well. But such a plan with features of the Texas and Georgia plans would provide appropriate motivation to DOT employees and encourage them to perform at superior levels.

The best method for developing a pay-for-performance system is to employ a pilot at FDOT that can be implemented and evaluated over the next few years in order to measure the marginal return on investment. The pilot should include all management personnel and tie directly to the goals and outcomes of the Department and office (unit).

The pilot should be evaluated after implementation to determine its effectiveness and a decision made on the future structure.

5.0 CONCLUSIONS AND RECOMMENDATIONS

A review of the compensation information contained in Chapter 3.0 indicates that Florida Department of Transportation (FDOT) personnel earn anywhere from 30 to 85 percent of their counterparts in the private sector. When computing average total compensation of private sector peers, the gap between FDOT compensation and the market place becomes very clear. On average, central office executive level managers are compensated at approximately 40 percent less than their private sector peers, while district office executive level managers possess an approximately 28 percent gap. It is expected that when one chooses a profession in the public sector they will not be compensated at the same rate they could earn if working for a private company. Many people are willing to forgo the monetary rewards of the private sector in order to serve the public good. However, as reported in Chapter 3.0, in many cases, FDOT executive level managers earn less than their counterparts in the public sector as well.

These employees represent the most experienced and talented managers within the Department and by definition are the key to the success of Florida's transportation system. Private sector firms are able to hire away top Department personnel without dramatically altering their own pay structures. In essence, this situation often leads to private sector firms "bargain hunting" by recruiting highly experienced FDOT personnel at rates where they would ordinarily only be able to recruit less experienced and qualified personnel. Based on interviews conducted during the course of this study, private sector firms have been successful in recruiting away higher level FDOT employees by offering substantially higher compensation. This has been particularly true in the District Offices.

The previous discussion is not meant to imply that employment with FDOT is without its own advantages. Typically, FDOT employment is considered more stable than employment in the private sector and is less prone to the vagaries of the business cycle that buffet many private sector firms. Additionally, FDOT benefits are considered to be comparable, and sometimes superior, to benefits offered in the private sector. A key benefit that many of the more tenured professionals value is the State's retirement system, which typically requires less employee contribution than many plans offered in the private sector.

Typically, benefits in the public sector comprise 30 to 32 percent of total compensation. At FDOT, the percentage is estimated at about 30 percent. In the private sector, benefits usually comprise only about 24 percent of total compensation. In addition to standard benefits, it is not uncommon in the private sector for high level executives to receive additional perks. While our research shows that these perks are usually only reserved for the highest management levels, they typically average about five to eight percent of total compensation. These perks do not include executive bonuses, which in some cases rival base compensation levels.

Obviously, employment decisions vary by individual and are made based on a host of factors. Such factors include compensation, benefits, job satisfaction, loyalty, autonomy, job security, location and numerous other factors. The majority of positions covered in this study are high level executive positions, with many of the incumbents in their peak earning years. For many, the decision becomes a cost/benefit calculation involving a choice between substantially higher salaries in the private sector and greater job security/retirement potential at FDOT. The recent surge in executive compensation witnessed in the late 1990s has tipped the calculation in many cases toward the private sector. Disparities in base pay levels and potential bonus earnings is making it increasingly illogical for highly experienced personnel to remain in the public sector and threaten to leave a void in the FDOT senior leadership ranks.

Although these points are important to consider for comparison purposes, it is critical to understand the scope of responsibility that most FDOT managers possess. The decisions made by senior executives at FDOT affect substantial amounts of money.

As seen in Exhibit 5-1, if FDOT was a private sector organization, it would have the eighth highest revenues of all Florida businesses.[i]

EXHIBIT 5-1
STATE OF FLORIDA
COMPARISON OF HIGHEST GROSSING REVENUE PRIVATE ORGANIZATIONS AND THE FLORIDA DEPARTMENT OF TRANSPORTATION

TOP 9 FLORIDA COMPANIES			
RANK	**COMPANY**	**2001 REVENUES (In Thousands)**	**EMPLOYEES**
1	AutoNation, Inc.	$19,989,300	30,000
2	Publix Super Markets	$15,300,000	121,500
3	Tech Data Corp.	$17,197,511	8,600
4	Winn-Dixie Stores, Inc.	$12,903,373	119,000
5	Office Depot, inc.	$11,154,081	45,000
6	FPL Group, Inc.	$8,475,000	9,757
7	JM Family Enterprises, Inc.	$7,800,000	3,500
8	FDOT	$6,100,000	9,621
9	Lennar Corp.	$6,029,301	7,728

The Secretary of Transportation administers a department with a $6.3 billion budget. In return, the Secretary receives approximately $121,400 in compensation. Although public servants typically earn less than private sector employees, it is doubtful if the CEO of any of the other firms listed would work for the salary earned by the Secretary of Transportation. The same is true for others within FDOT's executive ranks. Given the high dollar amounts over which senior managers have discretion, it is in the State's best interest to ensure that qualified personnel occupy these positions. While FDOT had been able to attract and retain quality personnel in the past, it is no longer able to do so without making some structural changes regarding compensation issues. A large number of firms in the private sector are willing and able to pay above the FDOT pay scale, especially when they are receiving talented, experienced and connected people in return. This is one of the reasons that, from an anecdotal standpoint, recruiting is becoming difficult in the Districts. District managers have frequent interaction with private sector engineering firms, and through these contacts learn of higher paying opportunities elsewhere. In conjunction with the lower salaries earned in the Districts, it is not surprising that many higher level managers are opting for the private sector, where compensation is greater and responsibility is often less.

Based on the preceding discussion, and the results displayed in Chapter 3.0, the State has a fundamental choice to make regarding its compensation philosophy. It can continue to pay FDOT executive level managers with great responsibility a below average wage, and watch as these employees leave for salaries more in line with their level of responsibility, or it can act now to bring salaries more into line with market levels and hope to retain them with the increased pay and bonus program recommended below.

The following recommendations are made concerning the compensation and classification structure for executive level positions within FDOT.

RECOMMENDATION 1:

The Secretary of Transportation should receive an immediate salary increase to $180,000 to bring it more in line with market levels.

Rationale: Quite simply, the Secretary of Transportation is grossly under compensated. The level of responsibility for this position would indicate that the incumbent should earn a much higher base salary. The private sector survey mean for the equivalent of this position is $255,676 in total compensation and many of the firms included in this survey are much smaller in size in comparison to the budget and number of employees in the Department of Transportation. An increase in salary to $180,000 is approximately 70 percent of the average compensation in the private sector and would bring the Secretary's compensation more in line with those of other public sector transportation agencies in Florida. This level of compensation is warranted based on both the level of job responsibility and external market considerations and will set the right precedent for the future of the Department.

RECOMMENDATION 2:

FDOT should request from the Department of Management Services (DMS) that base pay rates be increased on a sliding scale up to 20 percent for all executive level managers.

Rationale: An increase in base pay ranging up to 20 percent will move senior managers closer to a pay level commensurate with their responsibilities without putting Assistant Secretaries too close to the proposed Secretary level (see Recommendation 1). Increases ranging up to 20 percent of current base pay for all of the 48 FDOT positions included in our analysis would have a minimal impact on the Department's salary budget. The Department's current salary budget is approximately $390 million. Raising the base salary of all 48 positions to the maximum of 20 percent (and including an increase for the Secretary to $180,000) would raise the salary budget by less than four tenths of one percent, an increase of about $1.5 million. Given that FDOT executive level managers currently operate below their public sector peers and substantially below total compensation in the private sector, this step is critical. In combination with potential pay-for-performance bonuses, the advantages offered by the State Retirement System and benefit programs, should be enough to maintain existing personnel and attract new employees to the Department.

RECOMMENDATION 3:

The Florida Transportation Commission (FTC), in conjunction with DMS and legislative budget committees should explore the implementation of a pay-for-performance bonus system. Bonuses should be tied to clearly articulated performance goals established by the FTC and should range from 10 to 20 percent of total executive compensation.

Rationale: As indicated in Chapter 4.0, pay for performance plans are common in the private sector and gaining in popularity in the public sector. Research indicates that employees at the upper echelons within organizations ordinarily have more of their salaries “at risk” than do employees further down in the hierarchy. A pay for performance approach, with compensation levels tied to the accomplishment of clearly articulated goals, is one of the most effective means for encouraging active management toward organizational goals. The size and distribution scheduling of this additional compensation is somewhat dependent on the availability of funding, but a multi-tiered bonus approach is considered to be preferable to san “all or nothing” system.

[i] The comparison is based on private firms only. If other state departments were included, then Florida Department of Education would be larger than FDOT.

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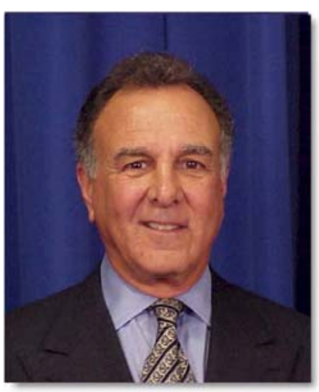

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