
Temporary Hourly Employees at the City of Palo Alto

Policy Brief
October 2004

In 1994, following a comprehensive organizational review commissioned by the City of Palo Alto, the City Manager found one of the major problems in the City's organization to be the overuse and misuse of temporary hourly employees. "A number of [temporary hourly] positions have continued on a year-to-year basis, and need to be made permanent for reasons of efficiency and equity," she concluded. "Hourly positions which are performing the same duties as regular positions and remain in the budget year after year, can not be viewed as 'temporary' and therefore are recommended for conversion."

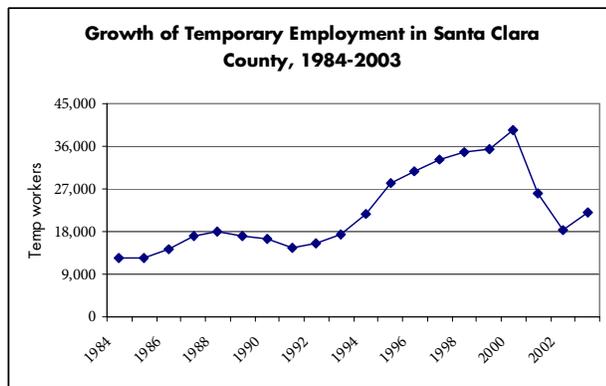
Fast-forward to 2004. The City employs over 350 temporary hourlies and is spending more

on temps each year, while reducing permanent positions. Many of today's hourlies have been working for the City since before the 1994 study came out – ten, fifteen, even twenty years as a "temporary" worker, doing the same work as permanent employees but with no health benefits, no time off and no job security. And the February 2004 City Auditor's Report once again recommends that "Human Resources should clarify City policies regarding the appropriate uses of hourly employees, and establish standard definitions and practices for hiring and monitoring temporary employees." A decade later, the City has made little if any progress in fixing its system of temporary employment.

Key Findings

- **Growth of Temp Work.** As of July 2004, the City employed 364 temps. Budgeting for temps has grown by 40% in the past 4 years.
- **Most Temp Jobs Not Temporary.** The average temporary hourly employee has worked for Palo Alto for 3 years and 2 months. Six percent of temps have worked for the City for over 10 years -- some more than 20 years. Virtually all temps are engaged in work that is ongoing and long-term.
- **Urgent Need for Health Coverage.** Although regular workers receive full health benefits, the City offers no health coverage to its temps. As a result, 39% of temps are uninsured, with many more underinsured. The temps ranked health benefits as their single most important workplace issue.
- **Cost to City and Community.** The growing use of hourly temps has led to inefficiency, raising costs for the City. And uninsured or underinsured temp workers must turn to public programs, clinics, or emergency rooms, at a cost to taxpayers that may total hundreds of thousands of dollars each year.
- **The County Offers a Model.** In the mid-1990s, Santa Clara County faced similar challenges emerging from temporary work. In cooperation with workers, the County has successfully reformed its system to largely eliminate misclassification of permanent jobs as temporary and to move towards equity for temps. Palo Alto should look to the county as a model for reforming its own organization.

This brief summarizes the current state of temp workers at the City of Palo Alto and presents the findings from a new survey of Palo Alto temps. Based on these findings, it offers recommendations for reform, including a profile showcasing how another large public employer, the County of Santa Clara, has taken steps to address its use of temp workers. This research and analysis is part of Working Partnerships USA's ongoing study of contingent and temporary work in Silicon Valley.



The Growth of Contingent Work

Contingent workers – including temporary, contract, free-lance and part-time workers – are becoming an increasingly large and permanent part of the American labor force. This trend began in the 1970s, when employers began to outsource and eliminate permanent, full-time jobs that were not considered part of their “core competency”. As part of the drive for flexibility, employers turned to contingent workers to replace these permanent positions; by some estimates, 30% of the American workforce is now contingent. And it continues to grow.

Contingent employment is more widespread and increasing more quickly in Silicon Valley than in the country as a whole; over 40% of the

workforce is in some sort of contingent work relationship. Temporary workers such as those employed by Palo Alto are one of the fastest growing forms of contingent work. The number of temporary employees in Santa Clara County more than tripled between 1984 and 2000, growing more than twice as fast as the overall labor force.

Temporary work can generate benefits for both employers and employees, letting workers test out a new job, or allowing employers to fill a short-term position. But the shift from permanent to temporary jobs also comes with serious costs. Temps have disproportionately low earnings and access to benefits; they are hardest hit by job and income insecurity. Some of these problems are caused by the temporary industry's structure and the failure of employment law to adapt to the changes in work arrangements. But others stem from certain employers' abuse of temporary work.

Rather than using temp workers to fill positions that are actually temporary, these employers take positions that have been or could be permanent and fill them with temps – either hiring a succession of temporary workers, or keeping one temporary employee in the same position for years. These “permatemp” workers are denied benefits, job security, and other advantages of permanent work. Ultimately, this practice is costly for employers, workers, and the community. For employers, it increases turnover and training costs and reduces morale, leading to inefficiency; and the community is often left paying the bill for health care, unemployment benefits, and other supports for permatemps.

Palo Alto Temporary Hourly Workers: Background and Survey

The City employs three types of temp workers: “temporary limited hourly employees”, who can work no more than 1,000 hours per year, but are often rehired year after year; “temporary exempt hourly employees”, temps in certain classifications whose hours are unlimited, but who can work for no more than five years (aka “PERS exempt”); and a small number of retirees employed as temporary hourlies, who are limited to 960 hours per calendar year.

As of July 2004, employees actively working for the City included 8 hourly retirees, 28 temporary exempt hourlies, and 328 temporary limited hourlies, totaling 364 temp workers. (Only those employees who worked at least 4 hours in the previous quarter are considered active.) Of these, at least 77 are summer seasonal workers hired in June 2004 for jobs such as lifeguard. Since many summer seasonals are students, their employment situations and concerns tend to be different from other temporary workers, and they are therefore excluded from most of the subsequent discussion.

Out of these roughly 300 non-summer-seasonal hourlies, SEIU 715 surveyed 110 workers about their job characteristics and workplace concerns. The survey revealed that most temps would prefer regular positions and are concerned about their lack of health coverage and paid time off. Detailed results follow.

Permanent Work

Although all the workers surveyed are temporary hourly employees, only 2% hold

positions that are short-term or project-based. The remaining 98% are in jobs that involve ongoing and long-term work. The vast majority of hourlies clearly do not fit into any reasonable definition of “temporary workers”.

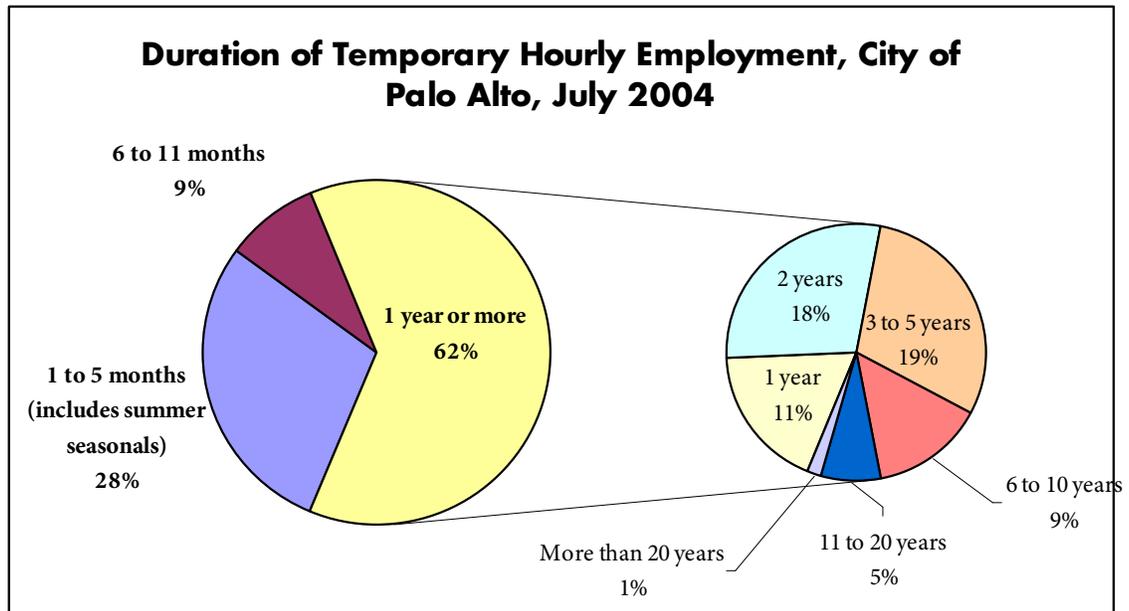
Including all active temporary hourly employees, the average hourly has worked for the City for 38 months – more than three years. Sixty-two percent of hourly temps have been with the city for a year or more, 17% for five years or more, and 3% for fifteen years or more.

If we exclude most summer seasonal workers, the remaining temps have worked at the City for an average of nearly four years, and eight out of ten have been with the City for a year or more. Several of these “temporary” employees have been working for Palo Alto for more than twenty years!

The disadvantages of temporary jobs at Palo Alto include not just lack of benefits and job security, but also a cap on the number of hours one is allowed to work. Except for a handful of exempt hourlies, most temps are limited to 1,000 hours per year. As a result, the average hourly employee surveyed worked just 22.4 hours per week for Palo Alto, and only a quarter of workers had a full-time schedule.

Although many temps would prefer a stable permanent schedule, most cannot get as many hours as they would like due to the nature of their jobs combined with the 1,000-hour cap. “I don’t know how many hours I’m going to be assigned to work each week. This is difficult because my family’s needs may not be met as a result,” explains a temp working at Cubberly Community Center. Some employees are forced to find a second job elsewhere so they can support themselves and their family.

The 1,000-hour rule was designed for positions that were actually temporary; now that temps are being used for ongoing work, the limitation does not function as intended and is not always followed.



According to the City Auditor’s Report, as of Feb. 2004, 21% of limited hourlies (74 out of 368) had exceeded their 1,000 hour limit for that year, yet another indication that these workers are not short-term but long-term employees whose continuing services are vital to the City.

Perhaps the most telling statistic comes from the workers themselves: 84% of hourly workers surveyed would prefer a permanent job. “I have worked in the Palo Alto schools and parks for 3 years,” a Parks and Golf hourly worker said. “I keep coming back hoping to have the opportunity to become permanent.”

Health Insurance

The City offers no health coverage to its temporary hourly workers. As a result, 39% of the workers surveyed are uninsured. The remaining 61% secure coverage through a spouse or family member, through a second job, through a public program such as Medi-Cal, or by purchasing individual insurance.

Those who do have health coverage pay a high price. Workers with individual coverage pay an average \$185 per month. For family coverage, the average is \$395 per month, with close to a third of respondents (29%) paying over \$500 per month. For these workers, health care costs can add up to \$6,000 or more each year. In addition, even those who reported coverage may have only catastrophic health insurance, leaving them unable to access preventative or primary care.

Regular employees, by contrast, have their choice of several health plans all fully paid by the City – so virtually all full-time permanent workers have health insurance. Temps may be working side-by-side with permanent employees doing the same work, but their paycheck is effectively cut by hundreds of dollars each month because they do not qualify for health coverage. “For my family of four,” says a temp who has held his position for ten years, “I pay \$704 a month for health insurance. Our services generate revenue for the city,

revenue that was more than projected. Yet the city chooses not to provide us with any benefits.”

Palo Alto hourly workers overwhelmingly regard health benefits as the most important current workplace issue. When asked to rate the importance of workplace health benefits on a scale of 1 (not important) to 5 (very important), 69% of workers gave health benefits a 5. The average rating for health benefits was 4.43, higher than any other issue.

Health coverage of Palo Alto temporary hourly workers	
With no health insurance	39%
With health insurance	61%
No monthly payments	3%
\$1 - \$100 / month	11%
\$101 - \$200 / month	25%
\$201 - \$500 / month	12%
\$501 - \$1,000 / month	8%
More than \$1,000 / month	1%
Importance of health benefits to temporary hourly workers	
5: Very important	69%
4	13%
3: Important	12%
2	4%
1: Not important	1%

Paid Time Off

Temporary hourly workers at Palo Alto generally do not accrue paid time off, no matter how many years they have worked for the City. This means no pay on holidays and no vacation time to spend with their families; it also means that hourly workers may be forced to come to work sick.

Consequently, paid time off is one of hourly workers' top workplace concerns, second only to health care. On a scale of 1 to 5, the workers surveyed gave sick leave an average rating of 4.25, while rating paid holidays at 4.08 and paid vacation at 4.08. Three-quarters of all workers reported that sick leave was “very important,” giving it a rating of 4 or 5.

Said one hourly employee, “I’ve worked . . . for the last 10 years as a ‘temporary’ employee without a sick day, or a vacation day. We just want the same respect the regular employees get.”

Retirement

The majority of workers (57%) said they were satisfied with the current deferred compensation retirement plan, though a significant minority were not satisfied. Desired changes include more information on the plan and where money is invested, more investment options or more control over payments and investments, and ability to participate in CalPERS.

Training

Although lack of proper training is a common problem among temporary workers, it does not appear to be an issue for most Palo Alto hourly workers, perhaps because most of them are in fact long-term workers who have been on the job for several years. Nearly all workers surveyed (87%) reported that they have received adequate training to perform their job. Yet temps would like to have access to additional training opportunities that would help them advance; 77% expressed interest in cross-training for promotional opportunities.

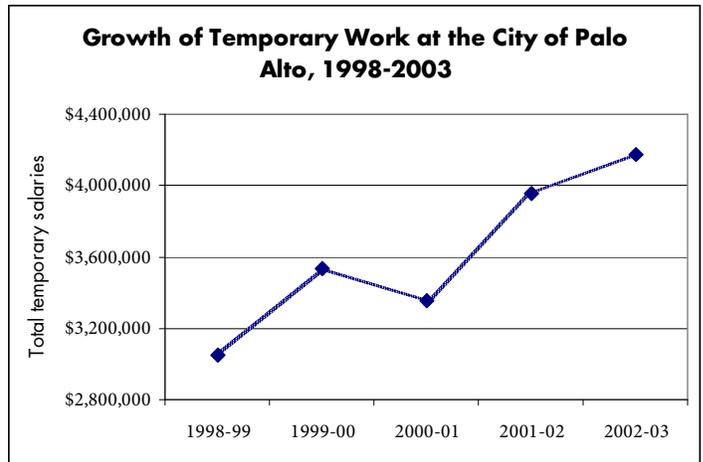
Wages

Sixty-nine percent of temporary hourly workers were satisfied with the current pay schedule, although a number felt a need for a night differential and/or bilingual pay, both of which can be earned by regular workers but not by temps. Workers also brought up the lack of cost of living increases, higher rates for overtime, nights, weekends and/or holidays, and the lack of pay increases or promotional opportunities once one reaches the top of one's pay scale.

The Cost of Temporary Work

Palo Alto's system of temporary employment creates costs for both the City itself and for the broader community. The City's use of temporary hourly workers has been steadily increasing; according to the City Auditor's 2004 report, in FY2002-03 the City spent \$4.2 million on temp salaries, an increase of 40% from 1998-99. Not only has the City been increasing the amount it budgets for temp work, but temporary salaries have gone over the amount budgeted every year. These cost overruns have also been increasing, from an overrun of \$341,337 in 1998-99 to \$894,729 in 2002-03.

The substitution of temporary for permanent employee often creates more problems than it solves for an employer; high turnover, increased training and recruitment costs, challenges in managing a temporary workforce, and lower morale caused by job insecurity and second-class status all lead to inefficiency. Turnover alone costs employers thousands of dollars per lost employee, even for entry-level service workers. The City recognized as early as 1994 that its temporary worker policy creates inefficiencies when too many jobs become



temporary or when temps are used for ongoing work.

In their 1994 organizational review of the City, Hughes, Heiss & Associates found that "Part-time, temporary employees who have been fully trained and assigned to specific programs are terminated or no longer assigned to programs before they reach 1000 hours of service. . . . These trained employees cannot continue working because of this policy. As a result, new employees are hired or trained for these programs or positions are not filled until the next fiscal year when prior employees can be re-hired." Looking in particular at the Recreation, Open Space, and Sciences Division, which employs more temps than any other division, Hughes & Heiss found that "Constant turnover requires the continual training of temporary clerical support personnel. . . . Part-time, temporary personnel who are assigned to the front counter are often in different job classes and at different salary rates making it difficult to assign work tasks." These discoveries contributed to the 1994 recommendations that temps engaged in ongoing work be converted to regular employees – a recommendation that is even more urgent today.

Taxpayers Pick Up the Tab

When an employer denies its workers health coverage, job security, or living wages, the community and taxpayers must pick up the slack. The City of Palo Alto's exclusion of more than 300 temp workers from its health plan means that these workers are either receiving coverage through a family member (thus forcing another employer to subsidize the City), have purchased individual insurance (whose cost is out of reach for most), are covered by a public program, or rely on clinics and emergency rooms. The latter two options are both paid for by tax dollars.

The cost of public health coverage (Medi-Cal, Healthy Families, or Healthy Kids) averages \$146/month for an adult and \$83-\$103/month for a child. If even 20% of Palo Alto's 300 temp workers have their children enrolled in Healthy Families, the cost to taxpayers would be about \$144,000 each year. Add to this the cost of public health services for the 39% of temps who are uninsured – estimated at \$667 per person per year – and the total rises to \$222,000 annually (in this hypothetical situation). Other social costs are harder to measure, such as the strain on overcrowded emergency rooms, the financial pressures on hospitals now seeing a larger and larger proportion of uninsured or underinsured patients, or the future costs of temps and their families being unable to access preventative care.

Best Practices: Temporary Employment at Santa Clara County

How can a large public employer such as Palo Alto effectively address the issue of temporary work? A model can be found in the practices

adopted by the County of Santa Clara, which faced a similar problem of growing use of temporary employees who in reality held permanent positions.

From 1996 to 1999, Santa Clara's use of temps (called "extra help" workers by the County) increased by 33%. More than 1,000 extra help temps worked side by side with full-time permanent workers, often doing the same job but with no benefits or job security. Many had been working in the same "temporary" position for years.

In the late 1990s, temporary and permanent workers at the County both challenged this system, arguing that many employees were wrongly classified as extra help. "Extra help" workers organized and successfully petitioned to join the union to which the permanent workers belonged. Once organized, temporary workers negotiated with the County to reform its approach to temp work. As a result, three hundred of the misclassified temp workers had their jobs immediately converted to full-time permanent positions.

For those positions that were truly temporary or intermittent, the County created a program to better manage intermittent work. The HR department now works with individual employees to help them assemble full-time employment if desired, moving them from one short-term assignment to the next. Although the assignments are still temporary, the workers are now closer to permanent, with better job security, overtime and bilingual pay, and the opportunity to accrue benefits based on years of service. The County benefits from savings in recruitment and training and a higher-quality, more motivated workforce.

Finally, the County phased in a cap on intermittent workers, reducing the “extra help” hours permitted each year to 15% below 1999 levels. This cap has helped to prevent further misclassification of workers and encouraged departments to reduce intermittent work in favor of creating permanent jobs.

In short, Santa Clara’s plan for addressing temporary work rests on three legs: (1) converting long-term ongoing positions from temporary to permanent, (2) for legitimate temporary work, enabling intermittent employees to qualify for benefits, overtime, and representation, and helping them string together temporary jobs; and (3) setting goals to gradually reduce temporary employment in favor of creating permanent jobs.

The program still faces challenges, chief among them the lack of a path to permanent work for the remaining temps, as well as no paid time off for temp workers. Nevertheless, Santa Clara County has made a great deal of progress in restructuring its approach to temporary workers, improving both organizational efficiency and equity. Palo Alto should look to Santa Clara’s reforms as a potential model for its own temporary employment system.

Recommendations

The City of Palo Alto’s misuse of temporary employment has persisted for more than ten

years, creating insecurity for hourly workers, inefficiency in the City’s organizational structure, and costs to the community. It is clear that the City needs to change. Based on the reforms enacted by Santa Clara County and similar initiatives across the country, the following changes in Palo Alto’s temporary employment practices are recommended:

- **End misuse of temporary hourly employment.** All hourly employees whose work is ongoing and long-term should be immediately converted to regular permanent employees. The temporary hourly classifications should be used only for work that is truly temporary.
- **Establish equity between temporary and permanent workers.** Denial of health coverage, paid time off, and other benefits to hourly employees has created two classes of employees at Palo Alto. The City should work with hourly employees to develop a benefits package that meets their needs and reflects their service to the City.
- **Create a path to permanent employment.** Develop a process, in conjunction with the temporary hourly employees, to enable hourly employees to convert to permanent employment if desired once they have worked for a certain minimum time period.

Working Partnerships USA was formed in 1995 as a collaboration among community-based organizations to develop institutional and public policy responses to the negative impacts of the Silicon Valley’s new economy on working families. We endeavor to accomplish our mission both by bringing a wider range of voices to the table in discussions of economic development, workforce development and employment policy, and by designing programs to reduce inequity and improve security and quality of life for working families in the New Economy.