



The frustrated Terminator: the State of California and temporary IT employees

On 31 July 2008, Arnold Schwarzenegger, the Governor of the State of California, signed executive order S-09-08, ordering State departments and agencies to immediately suspend all personal service contracts, effectively terminating about 22,000 temporary, student, and seasonal workers. The order also halted all hiring, transferring, and promoting of State employees. Finally, the order cut the pay of about 200,000 State workers to \$6.55¹ per hour, the Federal minimum wage.² Terminating the temporary workers would save \$28.5 million per month, and cutting pay rates would save up to \$1.2 billion per month.³

The Governor's actions came nearly one month after the 1 July deadline imposed by the State's constitution for adopting a balanced budget, which had to be approved by a two-thirds majority in the State's legislature. Such delays were not unusual; only four times in the past 20 years had California actually met the deadline.⁴ However, the impasse in 2008 seemed likely to be more difficult to resolve than usual. The gap between revenue and expenses was \$15 billion, and the State relied heavily on property taxes, which were reduced as a result of a foreclosure crisis that had hit California harder than any other state. Democrats, who held a majority, but not a two-thirds majority, in the legislature, proposed raising taxes by \$10 billion, while Governor Schwarzenegger and his fellow Republicans wanted to close the gap by borrowing against future sales of tickets in the state lottery.⁵ While the dispute continued,

This case was written by Professor Michael Vitale, Monash University. It has been prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a managerial situation.

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¹ All financial figures in this case are stated in US dollars.

² Governor of the State of California, Executive Order S-09-08, 31 July 2008, <http://gov.ca.gov/executive-order/10333> visited 8 January 2009

³ John Wildermuth and Matthew Yi, "Schwarzenegger to Cut Most California State Workers' Pay to Minimum Wage?", *San Francisco Chronicle*, 24 July 2008, <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/07/23/BAFJ11UH46.DTL&tsp=1> visited 8 January 2009

⁴ Jennifer Steinhauer, "California Embroiled in a Fight Over the Budget," *The New York Times*, 14 August 2008, http://www.nytimes.com/2008/08/15/us/15calif.html?_r=1 visited 6 January 2009

⁵ Wildermuth and Yi, *op cit*

cash was running low; the State needed to have \$2.5 billion on hand at any given time to cover expenses, but was projected to have only \$1.8 billion by the end of September.⁶

On 4 August, California State Controller John Chiang refused to follow the Governor's order, saying that it would take at least six months to reconfigure the State's payroll system to issue cheques at \$6.55 per hour. The system was written in COBOL, a programming language first introduced in 1959 and no longer widely taught. The California payroll system had been maintained largely by retired workers who had been hired back as temporary employees, and therefore among those terminated on 31 July.⁷

Chiang, an elected official and a Democrat, said he would ignore the Executive Order and continue to issue full paychecks to State employees. He disputed the legal reasoning on which the order to reduce pay was based, and noted that even if the changes to the payroll system were eventually made, it would then take nine to ten months to issue back pay from the date a budget was approved, as the Governor had promised to do.⁸ In response, Schwarzenegger filed suit against Chiang, although the possible outcomes of this action were unclear.⁹

The State of California payroll system

Immediately after making his announcement, Chiang was summoned before a Senate hearing to explain the situation. "In 2003, my office tried to see if we could reconfigure our system to do such a task," Chiang told the hearing. "And after 12 months, we stopped without a feasible solution." Chiang described the payroll system as a "computing relic on [a] par with vacuum tubes and floppy disks."¹⁰ He noted that an August 2007 pay raise had involved months of planning, followed by months of manual processing of more than 20,000 errors.¹¹ Fred Klass, chief operating officer of the State Department of Finance, told the hearing, "We have not been provided with the evidence that would show us that this [change to \$6.55 per hour] is an impossibility, nor does it answer the question of why aren't we working on this for next time."¹²

"It's an example of a number of computer systems in which the state made a large investment decades ago and has been keeping it going the last few years with duct tape," said Michael Cohen, from the Legislative Analyst's Office, describing the payroll system. David Farber, a computer science professor at Carnegie Mellon University, said using COBOL was roughly equivalent to having "a television with vacuum tubes." "There are no COBOL programmers around anymore," Farber continued. "They retired centuries ago. It's old technology, and you can't find a repairman who knows how to fix it. It's also a neat way of figuring how not to get your salary cut."¹³

⁶ Wildermuth and Yi, *op cit*

⁷ Kevin Yamamura, "California state computers can't handle pay cut, controller says," *The Sacramento Bee*, 5 August 2008, www.sacbee.com/capitolandcalifornia/story/1132588.html visited 6 January 2009

⁸ Yamamura, *op cit*

⁹ Steinhauer, *op cit*

¹⁰ Kamamura, *op cit*

¹¹ Gina Kim, "Some question if computer is to blame in California minimum wage standoff," *The Sacramento Bee*, 18 August 2008, <http://www.sacbee.com/111/story/1164723.html> visited 8 January 2009

¹² Yamamura, *op cit*

¹³ Jess Mckinley, "In California, Retro-tech Complicates Budget Woes," *The New York Times*, 5 August 2008, <http://www.nytimes.com/2008/08/06/us/06computer.html> visited 8 January 2009

By 2008, COBOL use had declined substantially from its peak in the 1970's, and the language had acquired a negative image. One website called it "the most reviled programming language ever created," quoting a distinguished computer scientist as saying, "The use of COBOL cripples the mind; its teaching should, therefore, be regarded as a criminal offense." The website quoted another well-known computer scientist as saying, "As a programming tool, it has roughly the sex appeal of a wrench."¹⁴ Those younger programmers who had heard of COBOL at all tended to share these views, and it was increasingly difficult to find and hire employees to put aside more modern languages to program in an older one. Organisations with large COBOL systems had come to depend increasingly on contractors, including retired employees, to maintain software that was essential to their daily operations.

Chiang's staff noted that the age of the system, which was designed more than two decades ago, was also a problem. Since then, hundreds of layers of complexities had been added to comply with changing state and federal laws, pay scales, and state administrative rules.¹⁵ Chiang's office had developed and implemented a plan, called the 21st Century Project, for completely redoing the payroll system. Scheduled to go live starting in late 2009, the project carried a current price tag of \$177 million, more than double the original estimate. In the meantime, changing salaries meant picking through ten of thousands of lines of COBOL code to find and replace the salary for each individual job classification.

The outcome

On 16 September 2008, the California Legislature approved a budget for the fiscal year that had begun on 1 July. The budget gap was closed by requiring individuals and businesses to make earlier and larger tax payments, as well as by borrowing against future state lottery revenue. Schwarzenegger threatened to become the first Governor in modern history to veto a budget, and a few days later the Legislature backed down, approving a revised budget that replaced the earlier and larger tax payments with higher penalties for businesses that underpaid their taxes.¹⁶ Governor Schwarzenegger signed the \$103.4 billion budget on 24 September; the pay cuts that he had ordered a few months earlier had not taken effect, but a hearing on their legality was scheduled for February 2009.

By early November, six weeks after the budget had been signed, economic conditions had deteriorated to the point that the State was facing a deficit of \$11 billion for the 2008 – 2009 fiscal year. Governor Schwarzenegger ordered the Legislature into special session to consider ways of closing the gap; he proposed an increase in the sales tax and increases in alcohol taxes and vehicle license fees, as well as spending cuts of \$4.5 billion.¹⁷ Although Schwarzenegger warned that without action the State would run out of money in February, the special session ended without an agreement.

On 1 December the Governor declared a fiscal emergency and called another special session of the legislature. Acting under his emergency powers, on 19 December Schwarzenegger

¹⁴ Michael Swaine, "Is your next language COBOL?", *Dr Dobbs Journal*, 18 September 2008, <http://www.ddj.com/database/210602491> visited 8 January 2009

¹⁵ Kim, *op cit*

¹⁶ Jennifer Steinhauer, "In California Budget Deal, a Savvier Schwarzenegger Emerges," *The New York Times*, 19 September 2008, <http://www.nytimes.com/2008/09/20/us/20calif.html> visited 9 January 2009

¹⁷ Michael Marois, "California Budget Deficit Balloons to \$11.2 Billion," *Bloomberg*, 6 November 2008, <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=agnciRhMB9po> visited 8 January 2009

directed all state workers to take two days of unpaid leave per month beginning 1 February 2009, and ordered all state agencies to cut their budgets by 10 percent through layoffs, staff reductions, and other measures. State agencies were forbidden to hire contractors or consultants after 1 January 2009.¹⁸ On 22 December the Professional Engineers in California Government filed a lawsuit, claiming the Governor could not change workers' salaries without a negotiation, and the state's largest labour union filed an unfair labour practice charge with the State Public Employment Relations Board.¹⁹

As 2009 began, Democrats in the State Legislature proposed a plan to reduce the deficit by \$18 billion, but Governor Schwarzenegger vetoed the plan, saying it did not include enough spending cuts. Republican lawmakers and taxpayer groups had filed suit against the Democratic plan, which had not passed the Legislature with a two-thirds majority. "Everyone makes New Year's resolutions," Schwarzenegger told reporters during a news conference. "So here's a chance to say, 'Let's start a new year here. We have a huge budget deficit. We have three weeks before we go off the cliff [by laying off workers] and before we have to hand out those IOUs [by issuing promissory notes]. Let's do it.'"²⁰

Discussion Questions

1. In the wake of Controller Chiang's response, Arnold Schwarzenegger received a good deal of criticism; one web site nominated him as "Moron of the Day".²¹ What is your view of the Governor's actions?
2. How did the State of California – the home of Silicon Valley – find itself in such a dilemma with regard to its payroll system? What could have been done to avoid this outcome? Why was it not done?
3. What issues with regard to the management of temporary employees does the case raise? In the California situation, how could these issues have been dealt with more effectively?

¹⁸ Governor of the State of California, Executive Order S-16-08, 19 December 2009, <http://gov.ca.gov/index.php?executive-order/11310/> visited 8 January 2009

¹⁹ Associated Press, "Union Challenges Schwarzenegger's Furlough Plan," <http://cbs5.com/local/california/furlough.challenge.2.893168.html> visited 8 January 2009

²⁰ Steve Lawrence, "Schwarzenegger to restart stalled budget talks," *The Guardian*, 8 January 2009, <http://www.guardian.co.uk/world/feedarticle/8212026> visited 9 January 2009

²¹ <http://weathereye.wordpress.com/2008/12/04/todays-moron-gov-arnold-schwarzenegger-terminator/> visited 8 January 2009