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FEDERAL DOWNSIZING

Observations on Agencies' Implementation of the Buyout Authority

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OBSERVATIONS ON AGENCIES' IMPLEMENTATION OF THE BUYOUT AUTHORITY

Summary of Statement by
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To help federal agencies in their downsizing efforts, a provision of the Federal Workforce Restructuring Act of 1994 (P.L. 103-226) allowed non-Defense executive branch agencies to pay buyouts of as much as $25,000 to employees if they met certain requirements. According to the latest Office of Management and Budget (OMB) data, non-Defense agencies expect to pay about 37,000 buyouts by the end of fiscal year 1995. Defense agencies, which are covered under a separate buyout authority enacted in January 1993, expect to pay about 69,000 buyouts by the end of fiscal year 1995. The buyouts generally helped agencies eliminate staff thereby reducing the need for involuntary reductions-in-force. Nearly 40 percent of the non-Defense buyouts were paid to those employees in overhead positions such as personnel, budget, procurement, and accounting. About 70 percent went to mid- to upper-level employees.

The strategy used to implement the buyout authority was based on the goals of the National Performance Review (NPR). To ensure that agencies' downsizing efforts were consistent with NPR's goals, the President directed federal agencies to submit streamlining plans to OMB. Each plan was to be assessed by OMB according to a checklist of critical factors. OMB said that the quality of the plans played an important role in OMB's decisions to approve or disapprove agencies' buyout requests.

Four major agencies that offered buyouts--Education, Justice, Energy, and the Environmental Protection Agency--were also authorized staff increases. Agency officials said that they used the buyout authority to reduce staff in areas where mission priorities had changed.

Agencies reported experiencing different effects from the workforce reductions. Some agencies said that they were dealing successfully with reduced staff by using automation more extensively and/or redeploying staff. Other agencies said they experienced adverse effects such as reduced service to the public, backlogged work, and lost expertise.

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to present our observations on the way federal agencies have used the buyout authority enacted under the Federal Workforce Restructuring Act of 1994 (P.L. 103-226). We have been monitoring federal downsizing efforts since the act's inception; our statement today is the latest in a series of briefings and testimonies designed to keep Congress fully informed of the progress being made in reducing the size of the federal workforce.

At your request, our statement will provide information on

-- the results of the buyouts,

-- the management strategy used to implement the buyout authority,

-- the restructuring plans developed by those agencies that offered buyouts while also being authorized staff increases,

-- the effects on agencies of the workforce reductions, and

-- restructuring initiatives at the Department of State.

We obtained information on the results of the buyouts and the management strategy used to implement them by interviewing officials from the Office of Management and Budget (OMB) and the Office of Personnel Management (OPM), and by reviewing the statistics and documents they provided. Data on individual agencies were obtained by interviewing agency budget and personnel officials and by examining budget documents and streamlining plans. We also used the results of surveys of major non-Defense agencies we performed in August 1994 and February 1995. According to OPM data, the agencies in our surveys made more than 95 percent of the nearly 15,100 buyouts reported by non-Defense agencies in fiscal year 1994.

Given that federal downsizing efforts are still in process, our observations today should be considered preliminary. Although the governmentwide authority for non-Defense agencies to offer buyouts expired on March 31, 1995, the full effects of these reductions will not be apparent for some time. Moreover, plans to reduce the size of the federal workforce still further are under consideration, making it premature to draw any final conclusions.

We will be preparing a comprehensive report on federal downsizing for issuance to the Subcommittee this fall. In the interim, we would like to highlight the successes and potential problems arising from agencies' use of the buyout authority so that any buyout legislation that might be proposed in the future can be evaluated in light of these experiences.

BACKGROUND ON THE BUYOUT PROGRAM

The Federal Workforce Restructuring Act of 1994 (P.L. 103-226) requires the federal government to reduce its workforce by 272,900 full-time equivalent (FTE) positions between 1993 and 1999.[1] To accomplish this downsizing while minimizing reductions-in-force (RIFs), the act allowed non-Defense executive branch agencies, with OMB approval, to pay buyouts to employees who agreed to resign, retire, or take voluntary early retirement by March 31, 1995, unless deferred by the head of the agency, but no later than March 31, 1997. The Department of Defense, although subject to the act's governmentwide FTE ceilings, has the authority to offer buyouts through September 30, 1999, under separate legislation enacted in January 1993.

RESULTS TO DATE OF THE BUYOUTS

Demographic Data on the Buyouts

According to the latest OMB data, non-Defense agencies expect to pay 36,835 buyouts between March 1994 and the end of fiscal year 1995. The Department of Defense expects to pay 68,837 buyouts by the end of fiscal year 1995.

Most of the demographic information reported thus far on the buyouts is for fiscal year 1994. As more comprehensive data become available, we will include it as part of the longer-term study we will be preparing for the Subcommittee. Until then, the latest demographic information we were able to obtain from OPM includes the following facts:

-- As of March 7, 1995, 43 non-Defense agencies reported paying buyouts in fiscal year 1994 and/or fiscal year 1995.

-- Of the fiscal year 1994 buyouts paid by non-Defense agencies, 38.3 percent went to employees in overhead positions, such as general administration, personnel, budget, accounting, and supply; 69.4 percent went to mid- to upper-level employees (grades GS-11 to GS-15, SES, and blue collar supervisors).

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[1]According to OMB guidance, an FTE or work year generally includes 260 compensable days, or 2,080 hours. These hours include straight-time hours only and exclude overtime and holiday hours.

-- In fiscal year 1994, males received 62.9 percent of the buyouts, while females received 37.1 percent. Minorities received 23.7 percent of the buyouts, compared to 76.3 percent for nonminorities.

Table 1 shows selected characteristics of three categories of employees who received buyouts in fiscal year 1994--those who were eligible for regular optional retirement, those who retired early, and those who resigned.

Table 1: Characteristics of Employees Who Received Buyouts in FY 1994

Characteristic	Eligible for optional regular retirement	Retired early	Resigned
Percentage of total buyouts	52.5%	39.5%	8.1%
Average age	59.9	54.1	41.6
Average grade level (GS)	11.6	11.1	9.0
Average amount of buyout payment	$24,435	$24,861	$13,691

Source: OPM.

Agencies Reported That Buyouts Mitigated RIFs

The results of our August 1994 survey of 34 non-Defense agencies showed that buyouts nearly eliminated the need for RIFs at these agencies in fiscal year 1994. Of the 32 agencies responding to this item on our questionnaire, only 2 reported that they had RIFed employees in fiscal year 1994. Nine agencies reported that, were it not for the buyouts, RIFs would have been necessary in fiscal year 1994. Eight of the nine estimated that they would have RIFed a total of nearly 2,800 employees in fiscal year 1994 without the buyout authority. (One agency did not estimate the size of its potential RIF.) Moreover, according to 12 agencies, without the buyouts, they would probably have needed to RIF a total of over 8,000 workers in fiscal year 1995.

Buyouts Are Generally Less Costly Than RIFs

RIFs can be costly. When agencies RIF employees, they are required to make severance payments that can be as much as 1 year's salary at the level immediately prior to separation. For example, a full year's salary in severance pay could be received by a 50-year old employee making $50,000 with around 18 years of service. By contrast, buyout payments under the Workforce Restructuring Act for this or any other employee could not exceed $25,000. Moreover, OPM data show that buyouts can be more cost-effective than RIFs, especially when a higher-graded employee displaces a lower-graded employee--a common occurrence during a RIF.

RIFs can be costly in nonfinancial ways as well. The involuntary nature of RIFs, their widespread impact, and regulations that limit agencies' control over who is ultimately separated, can disrupt agency operations and affect employee morale. Buyouts, on the other hand, enable agencies to better manage their downsizing. For example, the results of our February 1995 survey of 28 non-Defense agencies showed that 25 agencies were targeting their workforce reductions toward specific positions in fiscal year 1995. The most frequent targets (those identified by 14 or more agencies) included headquarters staff, supervisors and managers, employees in grade levels 14 and above, regional office staff, and employees in occupational series that included such fields as acquisition, personnel, accounting, and budgeting. As part of our longer-term study for the Subcommittee, we will examine governmentwide buyout data to determine whether buyouts were actually made in these targeted positions.

Further control over separations is provided by the Workforce Restructuring Act, which, as noted above, allows agencies to defer separating those employees whose services will be temporarily needed to ensure the performance of an agency's mission. These deferred buyouts must be taken no later than March 31, 1997. According to OMB data, over 6,200 additional non-Defense employees are expected to take deferred buyouts in fiscal years 1996 and 1997.

MANAGEMENT OF THE BUYOUT AUTHORITY

The strategy used to implement the buyout authority was based on the goals of the National Performance Review (NPR). These goals included a reduction in "overhead" staff by 50 percent (including supervisors, personnel specialists, budget specialists, acquisition specialists, and accountants and auditors) and an increase in the supervisor-to-staff ratio from 1:7 to 1:15 by the end of fiscal year 1999.

So that agencies would accompany their downsizing with management reforms consistent with the NPR's objectives, the President directed each federal agency to submit a streamlining plan to OMB. Through a series of detailed memos and bulletins, OMB provided the heads of executive agencies with information on how to prepare these streamlining plans. OMB officials said the quality of the plans played an important role in OMB's decisions to approve or disapprove agencies' buyout requests.

In September 1994, OMB issued internal guidance to its reviewers on how to evaluate agency streamlining plans. OMB instructed them to ensure that each streamlining plan made sense programmatically, met FTE guidance, and was based on sound analysis. Further, if an agency was not meeting one or more of the NPR goals, reviewers were to ensure that the agency justified its reason for not meeting these goals and explained what it was doing instead to streamline and improve program performance.

The guidance also contained a checklist of critical factors that were to be considered when reviewing the streamlining plans. Assessments of the streamlining plans for each major agency were to be included in passbacks to agencies and in the budget presentations to the President.

While the administration was initially disappointed with the quality of many of the streamlining plans, OMB officials told us that their quality has improved. Since final data on agencies' use of the buyouts are not yet available, it is too early to tell conclusively whether agencies are following their streamlining plans when implementing the buyout authority or whether targeted populations actually received buyouts.

FOUR AGENCIES THAT HAVE INCREASED IN SIZE USED THE BUYOUT AUTHORITY AS A RESTRUCTURING TOOL

Most federal agencies that offered buyouts in fiscal years 1994 and 1995 are planning to reduce their staffing levels from the 1993 enacted base through fiscal year 1996. Nevertheless, data from OPM and the President's fiscal year 1996 budget show that four large agencies that offered buyouts--the Departments of Education, Energy, Justice; and the Environmental Protection Agency (EPA)--were expected to receive staffing increases through fiscal year 1996. (See table 2.)

Table 2: Planned FTE Additions and the Number of Buyouts Offered at Agencies Experiencing Staff Increases

Agency	FTE increases, FY 1993 base[a] through FY 1996	Number of buyouts granted during FY 1994 and FY 1995[b]
Education	Less than 50	812
Energy	200	3,000 (est.)
Justice	9,800	730
EPA	300	638

[a]According to OMB, the fiscal year 1993 enacted base is the FTE level estimated by the previous administration in its final budget. OMB uses this as the starting point for calculating FTE reductions under the Federal Workforce Restructuring Act.

[b]Includes deferred buyouts.

Source: OMB data and agency interviews.

Staffing levels have increased in these agencies due generally to shifts or increases in agency missions as a result of new programs mandated by the administration or Congress. At Energy and EPA, the increase is also the result of an effort to convert work performed by contractors to work performed by federal employees. The following summary, based on interviews with agency officials, our review of the President's fiscal year 1996 budget, agency streamlining plans, and other agency documents, describes the new mission priorities at the four agencies and the role that buyouts played in meeting them. (We did not verify the information provided by agencies.)

Department of Education

According to an agency official, the 100 additional FTEs expected between the fiscal year 1993 base and the fiscal year 1996 FTE estimate are to go to several new programs. Most of these FTEs will be used to support the Direct Student Loan Program.

The Education official said that the agency hoped to use the buyout authority to achieve a better staff skill mix and to reallocate resources within the agency. The buyouts also helped the agency reduce its upper-level grades (GS-14 through SES) by 10 percent. The official explained that Education did not target its buyouts to the overhead positions cited by NPR but noted that these positions will probably be reduced in later years. In general, those individuals who took buyouts were either replaced by lower-graded employees or not replaced at all. About 800 buyouts were approved by the agency.

Department of Energy

According to agency officials, the increase in FTEs is due in large part to the pilot project Energy has entered into under the Government Performance and Results Act to identify contractor work that can be performed more economically by in-house employees. Under an agreement with OMB, Energy has studied its contractor workforce and concluded that 1,600 contractor positions could be performed better by civil servants. The additional FTEs are in the program areas of Environmental Management and Environmental Safety and Health. Other FTE increases have been responses to increased mission responsibilities in its energy efficiency programs. Defense-related programs, particularly the nuclear energy programs, are being de-emphasized.

According to Energy officials, the goals of the buyout program were to mitigate the need for RIFs in those parts of the organization that were downsizing; increase the supervisor-to-employee ratio; cut the ranks of overhead positions; reduce the number of employees in grades 14 and above; and improve the skill balances in various skill programs.

Energy officials maintained that before the buyouts the supervisor-to-staff ratio was about 1:4.5 and that this ratio increased to 1:7 following the buyouts. About 40 percent of the buyouts went to supervisors. While Energy has achieved reductions in occupations targeted by NPR, agency officials said that they must maintain or even increase control in such areas as procurement and personnel, where new demands to manage the streamlining effort have created more extensive work for human resource managers.

According to agency officials, while final buyout figures are not yet available, about 1,000 buyouts had been granted as of March 31, 1995. These employees have already left the government. In addition, 2,000 more deferred buyouts have been granted. About 400 of these individuals are expected to leave the agency this fiscal year, with the remainder separating in fiscal years 1996 and 1997.

Earlier this month, Energy announced a major downsizing initiative intended to trim more than 3,700 jobs over the next 5 years, with half of the reductions taking place in the next 2 years. Agency officials expect more than 60 percent of the cuts to come from headquarters operations.

Department of Justice

Budget documents show that FTE increases were requested at the Department of Justice to support staffing needs in response to congressional initiatives. Over 75 percent of the FTE increases from fiscal year 1994 through fiscal year 1996 are devoted to programs in support of the Violent Crime Control and Law Enforcement Act of 1994, the Bureau of Prisons, and the Immigration and Naturalization Service. Included in the staff needs are the hiring of additional U.S. Marshal deputies and Drug Enforcement Administration agents; 1,700 new immigration agents, officers, and other staff to support the Border Control Strategy; and additional staff for two new federal prisons and the expansion of five existing prisons to handle the anticipated increase in inmate population.

Although Justice is experiencing a significant increase in mission responsibilities as a result of these congressional actions, agency officials told us that they elected to use the buyout authority to target reductions in supervisory and administrative positions. They explained that these reductions were possible as a result of Justice's reinvention and reengineering efforts. In addition, they noted that the use of buyouts helped Justice improve its diversity profile. Buyouts were not used for the direct mission support functions in divisions that are increasing, such as the Bureau of Prisons. Most buyouts have focused on administrative support functions and on supervisory levels.

Environmental Protection Agency

EPA has been criticized for its reliance on the contractor workforce to perform many functions. To correct this situation, the agency has embarked on a project to convert contractor FTEs to in-house FTEs. According to agency officials, about 900 contractor FTEs will be converted. This effort, the officials say, will strengthen research programs, eliminate contractor access to confidential business information, increase EPA control over Superfund cost recovery information, and enhance in-house capabilities in regulatory and policy development processes.

According to agency officials, additional staff were also requested to respond to increasing mission requirements, particularly in the environmental cleanup area. Increased emphasis on congressionally mandated requirements for the Clean Air Act and additional research on global climate change have necessitated additional staff.

According to EPA officials, the agency used the buyout authority to target its supervisors and managers as opposed to the specific occupations cited by NPR. Reducing their corps of personnel, budget, and acquisition experts, they said, did not make sense given the workload and expertise needed to redesign administrative processes and streamline the organization. They told us the present personnel officer-to-staff ratio is 1:100, while the goal recommended by OPM is 1:65. Further, according to these officials, similar reductions in acquisition specialists would not make sense when the agency is trying to improve its control over the contractor workforce.

In targeting the buyouts to supervisors and managers, however, EPA did not get the response it wanted. While EPA's plan was to use up to 80 percent of its total buyouts for managers and supervisors in order to flatten the organization and increase the supervisory span of control, in actuality, only 20 percent of the buyouts went to such individuals. EPA officials believe this occurred because the maximum amount of the buyout was insufficient to attract many applicants in the higher-level management positions, unless they were already contemplating retirement. Moreover, they said that EPA has a relatively young workforce. Nevertheless, agency officials noted that EPA was still able to use the results of its buyout program to flatten the agency in that it reassigned some of the remaining supervisors and managers to nonsupervisory slots vacated by the buyouts in critical line functional areas.

AGENCIES REPORT DIFFERENT IMPACTS FROM THE WORKFORCE REDUCTIONS

Because agencies are continuing to downsize, it is too early to say conclusively how they are compensating for reduced staff or how their productivity has been affected. In our contacts with agencies, some reported maintaining or improving services by initiating reinvention efforts, while others said they were experiencing adverse effects. Some examples of each situation are presented below. In considering these reported successes and shortcomings, it is important to note that our information is preliminary. Moreover, this information was obtained primarily from headquarters officials, and a different picture may emerge as we contact line employees, union officials, and field staff as part of our longer-term effort.

Some Agencies Said They Were Coping Successfully With Staff Reductions

Several agencies we contacted told us they were using a variety of strategies to cope with the workforce reductions. These strategies included restructuring work, using automation more extensively, and redeploying staff. For example, headquarters officials from the Department of the Interior told us that the agency has reduced its personnel staff by about 860 positions, or about one-half. To maintain personnel services, the human resource office has "reinvented" its mission so that the personnelists now act as consultants to agency managers, while the managers are being given the authority to develop position descriptions, advertise positions, rate and rank employees, and make hiring selections. Personnel specialists in this environment serve as advisors. We were also told that agency managers can draw upon a new computer database of position descriptions to help in creating the position descriptions they need.

With regard to other agencies, the Federal Aviation Administration said that it was replacing certain written certification tests with computer-assisted examinations, thus allowing field staff to be redeployed to other, more essential line activities. Likewise, as a result of automation, the Bureau of the Census said it was improving its procurement activities.

Some Agencies Have Reported Adverse Effects of Workforce Reductions

In reviewing the effects of the buyouts, we were told of several instances of how downsizing had adversely affected agencies. Most of these appeared to result from agencies trying to do the same or more work with fewer people.

For example, representatives of a regional office of the U.S. Fish and Wildlife Service (FWS) described a number of adverse effects of downsizing at its various program offices. In the Federal Aid Program office, officials noted that the office is now staffed at 12 FTEs, which is 5 FTEs fewer than they considered optimum for program effectiveness and productivity. As a consequence, they said that the office now has a skeleton workforce that is unable to perform many auditing and monitoring functions. The officials were concerned that the staff reductions could result in misuse of federal funds. At other offices, FWS representatives noted that service to the public has declined significantly, reports and correspondence receive less review and are often delayed, and vendors receive payments more slowly. Less quantifiable impacts reported include loss of expertise, lower morale, and the cascading of work onto other employees.

Another concern that has been raised is the backfilling with contract personnel of postions vacated through buyouts. While it is still too early to tell the extent that this may be occurring, we found such backfilling had already taken place at NASA's Lewis Research Center. The Center reported that 18 of the 199 employees that received buyouts in fiscal year 1994 returned to

Lewis as employees of service contractors. All but one received the maximum allowable buyout of $25,000, and 5 of the 18 returned within a week of leaving the agency. NASA officials told us that there exists no legal or contractual authority for the Center to interfere with the contractors' decisions to hire the former employees rather than other individuals with the same skills. Nevertheless, to avoid an appearance of impropriety, the Center director has recently stopped the practice of using contractors to fill positions vacated by civil servants.

While our review thus far suggests that the outsourcing of work previously done by civil servants is not a pervasive problem, we are concerned that this practice could become more widespread in the future, especially as agencies downsize in the face of steady or increasing workloads. In such situations, any savings realized from buyouts would be offset by contracting costs.

Another problem we noted is the contracting out of work without adequate cost comparisons. Section 5(g) of the Workforce Restructuring Act prohibits an increase in the procurement of service contracts as a result of buyouts, unless a cost comparison shows that such contracts are to the financial advantage of the government. The absence of cost comparisons makes it impossible to determine whether such outsourcing is beneficial. To date, we have found isolated instances of contracting activities that occurred without the benefit of cost comparisons. In the case cited above, for example, officials from NASA's Lewis Research Center told us that cost comparisons were not necessary because the former employees were hired under task orders of an existing contract, and thus section 5(g) of the Workforce Restructuring Act did not apply.

THE DEPARTMENT OF STATE'S USE OF BUYOUTS

State Department officials reported to us that 736 buyouts have been granted during fiscal years 1994 and 1995. About 72 percent of these have gone to civil service employees, with the remaining 28 percent going to Foreign Service employees. Department officials told us that 212 of the 736 represent delayed buyouts, with separations scheduled to occur through March of fiscal year 1997.

According to Department officials, the use of the buyout authority has been very successful and will enable the Department to reduce the number of supervisors and managers by about 130 by the end of fiscal year 1995, a reduction of about 5 percent from the fiscal year 1993 total. In addition, we were told that buyouts have been useful in reducing the number of personnelists at State by about 4 percent over the same period.

Congress is considering legislation that would consolidate the State Department with the United States Arms Control and Disarmament Agency, the United States Information Agency, and the Agency for International Development. According to the Secretary of State, the proposed consolidation would eliminate duplicate international operations among these agencies and reduce staffing levels by an additional 500 FTEs. A provision of the proposed legislation authorizes these agencies to provide buyouts to employees eligible for retirement, with separation dates for buyout takers generally running through January 30, 1997, or until the particular agency is abolished.

Department officials told us they have not yet developed firm projections on possible reductions to State's workforce or the number of buyouts that may be required to implement any consolidation plan.

OBSERVATIONS

The buyout program authorized by the Workforce Restructuring Act has helped agencies meet their workforce reduction goals while reducing the need for costly and disruptive RIFs. While agency officials described both positive and negative impacts from the buyouts, their full effect will not be apparent for some time. Since further cuts in the federal workforce are anticipated, adequate strategic and workforce planning will be essential if agencies with fewer employees are to maintain--and even increase--their productivity and performance levels.

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This concludes my prepared statement. I would be pleased to answer any questions you or members of the Subcommittee may have.

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