

STATEMENT OF TRANSPORTATION SECRETARY FEDERICO PEÑA
BEFORE THE SUBCOMMITTEES ON CIVIL SERVICE
AND COMPENSATION AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES
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Chairpersons McCloskey and Norton, and members of the Subcommittees - Thank you for the opportunity to testify this morning on the Department of Transportation's (DOT) support for the Voluntary Separation Incentive Proposal as a cost-effective way to streamline the Department and make it a more effective organization.

At DOT, we have taken the President's challenge to reinvent Government very seriously including initiatives to reduce "red tape", and the bureaucracy associated with large administrative systems, to streamline our management and supervisory structure, to move employees from overhead functions into front-line service activities and to reduce the DOT civilian work force by 12 percent by FY '99. When I began this streamlining effort, the Department had a civilian work force of 70,419. By FY 1999, DOT's civilian work force will be reduced by 8,450 to 61,969.

Over the past several months, DOT has been engaged in a three-pronged effort to improve how we serve our customers, the American public.

One -- We have just completed a department-wide strategic planning effort. We have articulated our goals

and in doing so have identified the most essential work facing us. I believe we have developed a strategic plan which will allow us to better focus our energies and target our resources.

Two -- I have asked the modal administrators to review their organizations to identify areas where we can make significant positive change by eliminating non-essential work, streamlining activities, and consolidating programs. For example, each of the modal administrations has identified layers of the bureaucracy which can be eliminated. Maritime and the National Highway Traffic Safety Administration (NHTSA) have proposed elimination of most of their deputy positions. The Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) are both reviewing their field staffs to ensure that they can provide better service and be better partners with State and local governments. The DOT FY '95 budget will propose the consolidation of several staff functions. Throughout the Department we are developing improved systems to streamline acquisition, accounting and personnel functions so that we can reduce the number of people working in these areas. The budget also increased our research and technology efforts to help us both

meet our future transportation goals and better manage the Department.

Three -- I also assembled 16 employee teams to take a bottom-up look at what we do and ways we could do it better. These DOT Performance Review teams have identified over 350 recommendations which are being reviewed and implemented as appropriate. FTA, for example, has redesigned its grant process to more quickly get funding to its grant recipients and has filed notice in the Federal Register to eliminate several unnecessary requirements on its grantees. Both of these actions were part of the employee recommendations.

We are excited and challenged by our results to date. We are now ready to begin the harder implementation phase.

Foremost in our minds as we undertake streamlining is that the greatest resource the Department has is its work force. A dedicated and extremely competent group of men and women works hard everyday to ensure that the United States has a safe, technologically advanced and efficient transportation system that promotes economic growth and international competitiveness now and in the future, and contributes to a healthy and secure environment for us and our children.

I believe DOT will be a stronger, more efficient Department after we complete streamlining, but I cannot overstate the negative impact that the streamlining and reductions in our work force can have if it is not done well.

Without a full set of tools, including buy-out authority, as well as early-out authority, re-training and aggressive placement assistance, we will not be able to manage this "rightsizing," as the process is commonly known, in a productive and efficient way. These are tools employed by America's top private companies. If we are going to manage our effort to restructure the Department so it works better, reduces middle and senior management and excessive oversight functions while preserving vital front-line workers, then we need all the tools available to corporate America, including buy-out authority.

I know it can work. When I was Mayor of Denver, we had a similar plan. While the structure of the plan was somewhat different (we permitted the rule of 75, a combination of age and service) the result was quite similar to what we would like here, 825 were eligible to participate. We had needed at least 30 percent of those eligible to participate to get the savings we needed. We actually had 553 or 62 percent take advantage of the program which provided increased savings and gave us some management flexibility to restructure the city's work force.

In keeping with the spirit of NPR, I have laid out general parameters and asked each of our operating administrations to undertake a serious streamlining and reinvention planning effort which is fine-tuned to their unique work force issues and goals. Each administrator in turn has developed a plan that supports and recognizes the unique issues that face them, and that allows us to meet our 12 percent reduction goal while putting us in a better position to serve the American taxpayer. For example,

- o FHWA needs buy-out authority, in order to have sufficient flexibility to restructure FHWA to meet NPR goals and its changing mission and employee skill requirements as a result of the Intermodal Surface Transportation Improvement Act of 1991 (ISTEA).

- o FRA is re-engineering its safety program from one of watchers to one of problem solvers. In order to achieve this new approach, FRA must expand its capacity by providing training assistance, creative problem solving, better rulemaking and increased support of technological development. This will require a change in employees' skill sets. This will be done by both re-training the existing staff and hiring additional people with some of the skills and technology experience now unavailable to FRA. Buy-outs will provide flexibility to bring these new employees aboard without adversely impacting the

rest of the FRA work force.

- o The Federal Aviation Administration (FAA) plan protects its front-line safety sensitive positions including air traffic controllers and safety inspectors. By protecting 30,000 front-line safety positions, we will be increasing the overall need for reductions on the remaining work force to over 20 percent.

We continue to be dependent on the need for buy-out authority to help accomplish our reductions, provide flexibility to restructure our work force, and minimize the negative impact that would occur through reductions-in-force (RIFs). Without buy-out authority, several of the operating administrations including FAA, the U.S. Coast Guard (USCG) and the Office of Inspector General (OIG) will require RIFs to either fit within their budget levels for FY '95 or to make their share of the necessary cuts in full-time equivalent (FTE) and senior-level reductions for FY '95.

We seek your support for early approval of this authority. We have sought early out authority from OPM but that alone will not allow us to meet our FTE goals let alone provide sufficient flexibility for our restructuring initiatives. We are developing an out-placement and expanded retraining effort in order to assist employees. The average DOT attrition rates have fallen

off to below 2.8 percent for FY '94, in part because of the slow labor market in this area and in part because of employees' decisions to wait and see if their authority will be granted. USCG, for example, estimates that attrition alone will only reduce 5 of the 55 senior-level positions targeted for reduction. As we are all aware, many employees now eligible for early retirement are waiting, cutting normal attrition and putting us further and further behind our goal.

Without buy-out authority, the Department anticipates that through the remainder of FY '94 and FY '95 we will have to:

- o Freeze hiring in functions other than those most critical such as safety sensitive or research and development for at least two full fiscal years -- a situation that presents significant management problems, since attrition traditionally occurs at a greater rate in the lower grade levels not in the senior levels targeted by this streamlining effort. In fact, DOT's experience for FY '94 is 7.1 percent in the clerical grade levels with a drop to 1.8 percent in grades above GS-13 (including SES).

- o maintain current levels of FTEs dedicated to critical safety functions by allowing hiring in those positions -- and potentially increase the resources assigned to

critical functions such as aviation safety inspection which would require that we target even more reductions in other areas.

- o release one-quarter of our temporary employees. This is a population that represents more diversity than the permanent work force, tends to be lower grades, and represents a significant investment in our future work force. Over one half of DOT temporaries are in stay-in-school, co-op, or junior fellow programs -- this will result in a reduction of 500 FTEs and a significant loss of our work force diversity.

- o run RIFs to eliminate any remaining FTEs in FY '95. FAA estimates that as many as 800 employees could be affected by RIFs and the RIF level in the rest of the Department will be several hundred FTEs.

In addition, in order to meet the targets for reducing senior-level positions we need a reduction of over 700 encumbered or filled positions - or in human terms, 700 men and women by the end of 1995. Stated another way, we will eliminate approximately 8 percent of our senior-level positions within the next 18 months. Buy-out is absolutely essential to minimize the

necessity of RIFs in those senior levels. With the extremely low attrition rate in these levels, we will not be able to achieve this reduction without either an incentive for eligible employees to retire or RIFs. With a few exceptions, all the modes will require RIFs to reduce their senior ranks unless incentives are available.

RIFs would allow us to reach the numerical goal of reducing the senior-level positions, but in reality it will be a disaster. Not only would the Department experience disruption to services and declining employee morale, but RIFs in those senior-level positions would actually result in continuing the higher salaries of the senior-level individuals whose positions have been eliminated, while separating more junior, lower paid employees. The diversity gains that the Department has made in senior levels in the past four or five years would disappear and, because of seniority and veterans preference, women could drop so far down that they will be forced out. The result would simply be fewer employees at the senior levels and an even larger group of mid-level employees seeking advancement into the reduced senior levels, all without any significant dollar savings. In fact, the net effect will be a cost to DOT, particularly once you factor in the loss of morale and employee productivity which while never calculated are very real.

Based on our informal surveys, an additional advantage of buy-outs will be to give us the flexibility to better manage the organizational restructuring and reductions planned for the out-years. Without this authority we will:

- o be forced to continue hiring freezes for four more years. This would totally cripple our ability to manage change effectively. We would be left to react to individual employees decisions to leave and make incremental change whenever possible.
- o run RIFs in both FYs '98 and '99 to meet the target FTE levels if current attrition rates hold and we are unable to achieve significant reductions between now and then.
- o freeze all promotions above the GS-12 level until the number of senior-level employees falls below the proposed reduction.

This scenario is for the Department as a whole. When organizations such as FAA examine the impact of streamlining on their work force, the result is even more striking. As a consequence of protecting its safety sensitive positions, FAA anticipates that significant reductions will have to be made in several of the out-years.

Maintaining the Department in "RIF-readiness" for at least 3 of the next 5 years will have a tremendous negative impact on the remaining work force. The enormous disruption and loss of employee motivation and productivity could effectively prevent us from achieving our goals perpetuate "government as usual."

This completes my statement. I would be pleased to answer any of the subcommittees' questions.